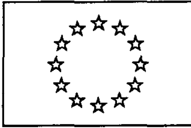


COMMISSION OF THE EUROPEAN COMMUNITIES

Brussels, 15.1.2002
SEC(2002) 36 final

RESTRICTED

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, 2002-2005

(presented by the Commission)

Ce document a été déclassé

LE: 15-11-2006

EXPLANATORY MEMORANDUM

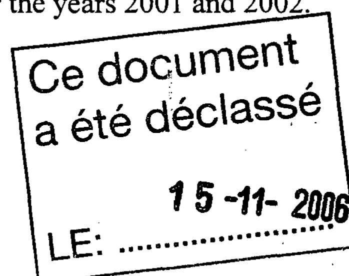
Council Regulation (EC) No. 1466/97, on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies[1], stipulated that countries participating in the single currency were to submit stability programmes to this Council and the Commission by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

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

According to the Regulation, the updated stability programmes, to be presented annually, may be examined by the Council in accordance with these same procedures. The first update of the stability programme was submitted to the Commission on 24 December 1999. The second update was submitted to the Commission on 22 December 2000.

Belgium submitted its present, 2001 updated stability programme, covering the period 2001-2005, on 30 November 2001. The Commission services have carried out a technical evaluation of this updated programme, which warrants the following assessment.

> Economic activity was particularly dynamic in Belgium in 2000, real GDP growth reaching 4%, while the general government accounts turned into a small surplus of 0.1% of GDP. Buoyant activity was reflected in strong employment creation reaching 1.6%; however, inflationary pressures emerged due mainly to increased energy prices. In sharp contrast with views prevailing at the end of 2000, economic performance in 2001 weakened significantly, reflecting the abrupt downturn in the external environment. The 2001 update of the stability programme projects real GDP growth at 1.1% in 2001 and 1.3% in 2002.
>
> In such a deteriorated economic context, the 2001 update envisages to temporarily suspend in 2001 and 2002 the budgetary adjustment path projected in the previous update: it stresses that maintaining the budgetary objective previously set for these years – a government surplus of 0.4% of GDP and 0.3% of GDP respectively – would imply an unsustainable pro-cyclical budgetary tightening. According to latest data, a general government surplus of 0.2% of GDP (including the receipts from UMTS licences) is registered in 2001, while the debt ratio is expected to reach 106.9% of GDP. In 2002, the Belgian authorities have decided to aim at achieving a government balance, while the government debt ratio should be lowered to 103.3% of GDP. According to the 2001 update, this temporary departure from the previously projected path for the nominal balance would be justified by the loss of 2.6 percentage points of real GDP growth over the years 2001 and 2002.



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1 OJ L 209, 2.8.1997
2 OJ C 124, 5.5.1999

During the period from 2003 and 2005, the budgetary objectives of the 2000 update are expected to be resumed, the Belgian authorities affirming their unabated commitment to reducing the government debt in the medium term, while preparing for necessary reforms and the ageing population costs. In fact, assuming that a sustained economic recovery will be registered from the second quarter of 2002, the 2001 update projects real GDP growth at 3% in 2003; then, real GDP growth is projected to reach 2.5% in 2004 and to be at trend in 2005, estimated at 2.4%. Under these basic macroeconomic assumptions, the update expects that the government balance would resume its previously projected path, a surplus increasing from 0.5% of GDP in 2003 to 0.7% of GDP in 2005. The government debt ratio is expected to decline by almost 18 percentage points of GDP during the period 2002-2005 and to reach 88.6% of GDP in 2005 as projected in the previous update.

The budgetary projections included in the 2001 update for the period to 2005, comply with the requirements of the Stability and Growth Pact of close to balance or in surplus. In addition, they provide sufficient margins to avoid exceeding the 3% of GDP throughout the period to 2005.

From the cyclical adjustment of the medium-term budgetary projection included in the 2001 update it results that the temporary break in the medium term budgetary adjustment does not impart any negative lasting effect: in cyclically-adjusted terms, the deviation from balance in the government accounts does not exceed acceptable limits, (a tolerance margin of 0.5% of GDP) in 2001 and 2002, the most critical years; moreover, the primary balance, even in cyclically adjusted terms, does not depart from 6% of GDP in each year of the period, only decreasing somewhat in 2004 and 2005. Yet, the resumption in 2003 of the budgetary adjustment path projected in the previous update critically depends on the assumption of a very robust economic recovery, materialising as from the second quarter of 2002, a condition which still seems surrounded by uncertainty. Typically, in the Commission Autumn forecasts, the projected strength of the recovery in 2002 is moderate, leading to lower real GDP growth in 2003 on yearly average. On the whole, it seems that any negative departure from the rather optimistic macroeconomic scenario expected in the course of 2002 in the update might endanger not only the results in that year but also the budgetary adjustment in the medium term.

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This risk is explicitly acknowledged in the 2001 programme update, which identifies the conditions necessary to achieve the budgetary objectives; among these it is stressed that the strength and timing of the economic recovery in 2002 will be crucial; furthermore, developments in tax revenues in the last quarter of 2001 are considered to be determinant in the calculation of budgetary revenues in 2002.

In the past, the Belgian budgetary strategy has relied on the achievement of large government primary surpluses, reaching more than 6% of GDP per year in recent times; such a policy has been successfully implemented and has underpinned a remarkable budgetary consolidation and debt reduction. The 2001 update is built around the same strategy and the Belgian authorities are committed, according to the 2001 update, to allocate any budgetary bonus from stronger than expected real GDP growth to improving the government balance, however, no alternative scenario is provided in case economic conditions would be disappointing. Moreover, it must be pointed out that a decline in the primary surplus is projected over the period from 2000 to 2005, reaching 0.7 percentage points of GDP, compensated by the reduction in interest payments.

The previous update had set a rule for primary expenditure increase in Entity I (federal government and social security) limited to 1.5% in real terms, meant at ensuring spending control. This rule – not even a binding norm in itself – has disappeared in the 2001 update: the 1.5% increase in primary expenditure is only considered as a medium-term objective concerning expenditure in the area of federal government competence. It is not specified whether the social security is included or not in this area. Were the 1.5% medium term objective to be only concerning strictly defined federal government expenditure, then a large part of spending in Entity I, namely the buoyant social security spending, would be subject to no clearly defined binding rules. Taking into account the on-going difficulties in limiting expenditures in this sector, in particular health care expenses and the prospect of increasing unemployment costs, the absence of any explicit commitment concerning the social security sector would singularly reduce the effectiveness of the programme.

Among the quantified conditions identified for the achievement of the budgetary objectives, the 2001 update mentions the degree to which Entity II (Regions, Communities and Local Authorities) will respect the budgetary targets agreed in December 2000. Apart from the fact that Regions and Communities are expected to receive less important transfers in 2002, as the level of contributions will depend on the low economic performance of the year 2001, the respect of the targets from Entity II seems all the more uncertain as there is no formal commitment from local authorities to do so.

The 2001 updated programme provides an overview of structural reforms and policy measures planned. Reducing the tax burden is a central objective of the government. In total, the reduction in taxes will amount to 1% of GDP over the period 2002-2005. The 2001 update contains a comprehensive section on the long-term sustainability of public finances. The key challenge will be to sustain large primary surpluses over the long run in order to meet the budgetary costs of ageing populations. The budgetary resources to be allocated annually to the "ageing fund" are identified, but not the amount, and the pension reform is limited until now to supplementing the statutory pensions on a sector-based level.

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.

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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, 2002-2005

THE COUNCIL OF THE EUROPEAN UNION,

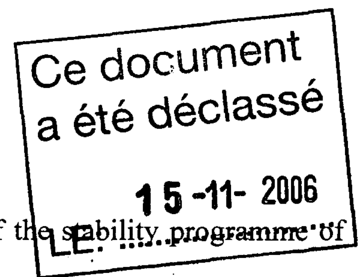
Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies[3], 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 [22 January 2002] the Council examined the 2001 update of the stability programme of Belgium, which covers the period 2002-2005.

In 2000, real GDP growth was particularly strong, reaching 4%, driven by domestic demand and buoyant exports; the general government accounts reached a surplus of 0.1% of GDP ahead of schedule, while the government debt was reduced by 5.7% percentage points to 109.3% of GDP. In 2001, the economy suffered from the general economic slowdown and real GDP growth decelerated to 1.1%. The initial general government budgetary target, a surplus of 0.4% of GDP (including the receipts from the UMTS licences) could not be met in 2001, but a surplus of 0.2% of GDP was achieved; the government debt ratio is expected to decline to 106.9% of GDP.

The 2001 updated stability programme is based on a macroeconomic scenario assuming a sustained economic recovery from the second quarter of 2002; real GDP growth is not expected to exceed 1.3% in 2002. Real GDP growth is projected to accelerate in 2003 returning to potential in the final years of the programme. Due to the 2001-2002 economic slowdown the updated programme targets a general government balance in 2002 instead of a surplus of 0.3% of GDP which was projected in the previous update; then, from 2003, the budgetary adjustment path is expected to be resumed, a government surplus of 0.5% of GDP being forecast for 2003, increasing to 0.7% of GDP in 2005. The government debt is projected to decline to 88% of GDP in 2005 as expected in the previous update.

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3 OJ L 209, 2.8.1997

The Council considers that the temporary departure from the budgetary adjustment path projected in the 2000 update is not significant and can be justified by a cumulated loss in real GDP growth reaching 2.6 percentage points over the years 2001 and 2002. The Council notes that such departure was also made possible because the Belgian government accounts had reached a surplus in 2000. The Council considers, however, that a balanced fiscal position should be achieved in 2002. The Council notes, moreover, that returning to the course outlined in the 2001 update of the stability programme from 2003 critically depends on macroeconomic assumptions entailing significant downward risks. The Council urges the Belgian government to ensure that the previously projected budgetary adjustment path is resumed in 2003. Given the still very high level of the government debt and in view of the challenges in the long term induced by the ageing population, the Council recommends that all additional revenues which might stem from better than expected real GDP growth are allocated to debt reduction, recommendation already made in its previous opinion[4].

The Council notes with satisfaction that the projected general government accounts remain close to balance or in surplus throughout the period of the programme and are therefore in conformity with the requirements of the Stability and Growth Pact.

The Council considers that clear binding norms for expenditure control are instrumental for the budgetary adjustment. The Council therefore regrets that the implicit norm for the increase in primary expenditure in real terms for Entity I (Federal government and social security) included in the 2000 update of the stability programme has been abandoned. The Council notes that achieving government primary surpluses above 6% of GDP per year has been particularly appropriate in the case of Belgium, taking into account that the government debt is still at a very high level; therefore, the Council recommends that such a high level of primary surpluses is maintained throughout the period to 2005 and that strict budgetary surveillance of all parts of government is enforced, particularly in the social security sector and in Entity II.

The Council notes that the programme does not provide more detailed projections of revenues and expenditures, in particular government investment expenditures, as it was recommended in its Opinion of 12 March 2001[5]; in addition, separate accounts for Federal government and social security were not provided as required under the Code of Conduct for assessing general government budgetary developments.

The Council welcomes the structural reforms envisaged in the 2001 update, particularly the tax reforms aimed at reducing the tax burden and increasing employment as well as the policies aimed at ensuring the long-term sustainability of public finances.

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[4] OJ C 109, 10.4.2001
[5] OJ C 109, 10.4.2001