mination the medium-term structural challenges to public finances from pension and other age-related budgetary expenditures. Recent government proposals to promote the expansion of funded pension provisions go in the right direction but would not eliminate the need to reexamine the parameters of the present system. A timely reassessment of the parameters of the pension system would allow the expected increase in the ratio of pension expenditures to GDP to be contained. The Council further encourages the Italian government to pursue with vigour its privatisation programme and to enhance the structural reforms of labour and product markets and of the public administration, which are all needed in order to foster competition and efficiency and revitalise the Italian economy.

COUNCIL OPINION

of 28 February 2000

on the updated stability programme of Belgium for the period 2000 to 2003

(2000/C 98/03)

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 coordination of economic policies [1], 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 28 February 2000 the Council examined the 1999 update of the stability programme of Belgium which covers the period 2000 to 2003. The Council notes with satisfaction that the general government deficit for 1998 was substantially lower than that estimated in the initial stability programme and that budgetary adjustment continued in 1999 despite a slowdown in economic activity and extra expenditure related to unforeseen events; the debt ratio was reduced by 6,3 percentage points during the last two years to an estimated 114,9 % of gross domestic product (GDP) at the end of 1999. The Council considers that the updated programme is consistent with the Broad Economic Policy Guidelines.

The budgetary projections of the updated stability programme are based on a prudent macroeconomic scenario assuming real GDP growth of 2,5 % per year for 2000 and 2001 and a trend GDP growth rate of 2,3 % for the following years. The Council considers that the GDP growth projections of the updated programme are likely to correspond to the lower limit of a range of probable macroeconomic projections; as a consequence, the Council expects that, in the event of stronger growth, the budgetary outcomes will be better than projected in the updated programme, particularly in 2000.

The Council notes the intention of the Belgian government to advance, compared to the initial programme, the target of balanced government accounts to 2002, and to achieve a budget surplus in 2003; it commends the commitment of the Belgian authorities to seek better budgetary results in 2000 than those projected in the updated programme; such a development would facilitate achieving a debt ratio close to 100 % of GDP in 2003, as projected in the programme. The Council considers that the underlying budgetary position of the general government since 1999 provides a safety margin against breaching the 3 % of GDP deficit threshold in normal circumstances, thus fulfilling the Stability and Growth Pact requirements; however, the Council takes the view that the improvement of the fiscal position envisaged in the programme is necessary in order to allow a steady decline of the still high debt ratio and to create room for the announced reform of income taxation.

The Council welcomes the renewed commitment in the 1999 update to maintain high primary surpluses as a central element of the fiscal consolidation strategy in Belgium; this strategy has proved its crucial role in advancing budgetary adjustments in the recent past and is considered essential in consolidating progress made in this area and ensuring a continued reduction of the debt ratio. The Council considers that a growth in primary expenditure of 1,5 % per year, in real terms, is appropriate in order to achieve the targeted primary surplus and encourages the Belgian Government to implement it with rigour.

The Council notes that a key objective of the updated programme is to achieve a substantial increase in the employment rate in Belgium and to enhance economic efficiency by means of a package of reforms and policy measures; in this context, the Council welcomes the decision of the government to strengthen the effort towards reducing overall tax burden, in particular on labour. In the vein of its opinion on the initial stability programme [2], the Council encourages the Belgian Government, within the expenditure limits fixed by the programme, to give priority to government investment in order to improve infrastructure and the productive potential of the economy; it invites the government to provide, in future updates of its stability programme, projections on main categories of government expenditure, notably government investment.

The Council welcomes the cooperation agreement under which budgetary objectives, within a medium-term time horizon, will be fixed for all levels of government in Belgium as an important element enhancing transparency and credibility of the updated stability programme.

(1) OJ L 209, 2.8.1997, p. 1.

(2) OJ C 124, 5.5.1999, p. 4.