COUNCIL OPINION

of 9 March 2004

on the updated Stability Programme of Belgium, 2004 to 2007

(2004/C 68/03)

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 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 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, although possibly optimistic in 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.

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 balanced budget target for 2004 relies on one-off measures amounting to 0,7 % of GDP, including proceeds from a tax regularisation operation 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 calculations 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 2004-2006 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, given the still high debt ratio, Belgium still presents some risks of long-term imbalances, linked to the consequences of ageing, especially for health care expenditure. 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, in line with the Broad Economic Policy Guidelines, the existing government strategy to reduce the debt, improve labour participation, increase the effective retirement age, maintain efforts to finance the Ageing Fund and pursue the reform of the pension systems, should be strengthened in order to cope with the budgetary implications of population ageing.

[1] OJ L 209, 2.8.1997.

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 recommendation to limit the increase in real expenditure in Entity I (Federal Government and Social Security) to 1,5 %.

COUNCIL OPINION

of 9 March 2004

on the updated Stability Programme of Portugal, 2004-2007

(2004/C 68/04)

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 9 March 2004 the Council examined the 2003 update of the stability programme of Portugal which covers the period from 2004 to 2007. The updated programme was submitted in December 2003 and largely complies with the data requirements of the revised 'Code of conduct on the content and format of stability and convergence programmes'. However, information notably on expected privatisation revenue would have been desirable.

On 5 November 2002, the Council decided that an excessive deficit existed in Portugal and issued a recommendation requesting Portugal to bring this situation to an end by 2003 at the latest.

The medium-term budgetary consolidation strategy of the 2003 update of the stability programme is similar to that adopted in the previous update. It is centred on three axes: 1. a comprehensive programme of structural reforms with a particular incidence in areas that bear directly on public finances, such as public administration, health-care, and education; 2. a sustained policy of curbing government consumption via wage moderation and a quasi-employment freeze; and 3. a gradual improvement in productivity and competitiveness to be fostered, inter alia, by a substantial cut in the corporate tax rate. In addition, the adoption in 2002 of a Budgetary Framework Law ('Lei de Estabilidade Orçamental') is expected to have reinforced fiscal coordination between different government levels. As a consequence, the Portuguese authorities project that the implementation of this medium-term adjustment strategy will bring about a cumulative decline by 3.2 percentage points in the government primary expenditure-to-GDP ratio over the period 2004 to 2007, partly offset by lower tax revenue to the amount of 0.7 percentage points of GDP.

The budgetary consolidation strategy adopted by the Portuguese authorities appears to be economically sound. In fact, an adjustment strategy that relies on expenditure restraint rather than on tax increases is considered to improve the confidence of private economic agents, thereby supporting growth over the medium-term. Moreover, such a strategy should secure a lasting improvement in public finances, and prevent the emergence of major imbalances in the private sector of the economy.

The 2003 update projects real GDP to increase by 1,0 % in 2004, after having declined by an estimated 0,8 % in 2003. For the period from 2005 to 2007, real GDP growth is estimated to average by 2,75 % per year. Employment growth is expected to pick up from 0,4 % in 2004 to 1,3 % on average in the period from 2005 to 2007. Declining from 3,3 % in 2003, HICP inflation is expected to stabilise at 2 % throughout the period from 2004 to 2007. The macroeconomic scenario underlying the update seems realistic, notably because the ongoing correction of major imbalances is about to be completed; moreover, it incorporates an element of prudence that could absorb moderate unfavourable shocks. The 'caution bias' is built around two assumptions: 1. an average growth rate only 0,25 of a percentage point above the figure projected for the EU as a whole, a plausible deviation for a catching-up country; and 2. constant export market-shares, in spite of the expected moderate gains in (labour) productivity and a significant deceleration in wage growth, in line with the Commission's Autumn 2003 forecast.

([1]) OJ L 209, 2.8.1997.