

COUNCIL OPINION
of 14 February 2006
on the updated stability programme of Belgium, 2005-2009

(2006/C 55/07)

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:

- (1) On 14 February 2006 the Council examined the updated stability programme of Belgium, which covers the period 2005 to 2009.
- (2) In Belgium, real annual GDP growth over the last decade has been close to 2 % on average, slightly above the euro area average. However, the employment rate is low (around 60 %) and unemployment is characterised by significant regional disparities and a high level of long-term unemployment. Since 2000, Belgium has maintained a budgetary position at or around balance.
- (3) In its opinion of 17 February 2005, the Council endorsed the budgetary strategy presented in the 2004 update of the stability programme of Belgium.
- (4) As regards budgetary implementation in 2005, the Commission services' autumn 2005 forecast projects a balanced general government budget for 2005, which is in line with the target in the previous update of the stability programme, despite significantly lower GDP growth. However, the statistical recording of some one-off transactions still has to be clarified with Eurostat and might lead to a large one-off increase in the 2005 deficit outcome ⁽²⁾ thus having no negative impact on the budgetary outcome in the 2006-2009 period.
- (5) The 2005 update of the programme broadly follows the model structure and data provision requirements for stability and convergence programmes specified in the new code of conduct ⁽³⁾.
- (6) The macroeconomic scenario underlying the programme envisages that real GDP growth will pick up from 1,4 % in 2005 to 2,2 % on average over the rest of the programme period. Assessed against currently available information, this scenario appears to be based on plausible growth assumptions. The programme's projections for inflation also appear realistic.

⁽¹⁾ OJ L 209, 2.8.1997, p. 1. Regulation as amended by Regulation (EC) No 1055/2005 (OJ L 174, 7.7.2005, p. 1). The documents referred to in this text can be found at the following website:
http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm

⁽²⁾ For the time being, the reorganisation of the Belgian railways, which increased government debt by 2,5 % of GDP, has been treated without direct impact on the government deficit, while the securitisation of tax arrears in 2005 (0,2 % of GDP) has been recorded as deficit reducing.

⁽³⁾ The programme does not have a separate section on institutional features of public finances, but some information on these issues is provided in other sections. It also has gaps in the compulsory data and does not provide all optional data prescribed by the new code of conduct.

- (7) The budgetary strategy outlined in the programme aims at keeping a balanced general government position until 2006 and at building up surpluses afterwards (up to 0,7 % of GDP by 2009), in order to maintain the debt ratio on a downward trend. After a gradual decline from 7,2 % of GDP in 2001, the primary surplus should stabilise just above 4 % of GDP from 2007 onwards. The programme foresees a decrease in the government revenue (mainly as a result of a reduction of the tax burden on labour), but this is more than compensated by a cut in the expenditure ratio (mainly interest expenditure). The new update largely confirms the budgetary strategy outlined in the previous programme against a broadly similar growth outlook.
- (8) Over the programme period, the structural balance (i.e. the cyclically-adjusted balance net of one-off and other temporary measures) calculated according to the commonly agreed methodology is planned to improve by almost 1 % of GDP. The authorities set the medium-term objective (MTO) for the budgetary position at a structural surplus of 0,5 % of GDP and aim at achieving this position by 2007. As the MTO is more demanding than the minimum benchmark (estimated at a deficit of around 1 % of GDP), its achievement should fulfil the aim of providing a safety margin against the occurrence of an excessive deficit. The MTO can be considered appropriate under the current assessment, as it lies within the range indicated for euro area and ERM II Member States in the Stability and Growth Pact and the code of conduct and is more demanding than implied by the debt ratio and average potential output growth in the long term.
- (9) The budgetary outcome is not without risk and could thus be worse than projected in the programme, especially in 2006 and 2007. While the macroeconomic scenario can be considered plausible and the government has recently introduced new measures to better control health-care expenditure, for 2006, the tax revenue envisaged in the programme could be slightly optimistic. As to the expenditure projections, though based on plausible macroeconomic assumptions, they do not seem to provide a buffer against possible adverse developments. For 2007 the programme does not explain how it will compensate for the expiration of one-off and other temporary measures. However, it should be acknowledged that the Belgian authorities have in the recent past demonstrated a strong commitment to achieving their balanced budget targets.
- (10) In view of this risk assessment, the budgetary stance in the programme may not be sufficient to ensure that the programme's MTO is achieved by 2007 as envisaged in the programme. However, as stated above, the programme's MTO is more demanding than required by the Stability and Growth Pact. The budgetary strategy seems sufficient to achieve a budgetary position in structural terms that can be considered as appropriate under the Pact throughout the programme. In addition, the budgetary stance in the programme seems to provide a sufficient safety margin against breaching the 3 % of GDP deficit threshold with normal macroeconomic fluctuations throughout the programme. As for the adjustment path towards reaching the MTO, although the average annual improvement in the structural balance is small, the pace of adjustment towards the ambitious MTO can be considered as broadly appropriate, except in 2006 when the structural balance is planned to deteriorate by 0,4 % of GDP.
- (11) The debt ratio is estimated to have reached 94 % of GDP at the end of 2005, far above the 60 % of GDP Treaty reference value. The programme projects the debt ratio to decline by 16 percentage points of GDP over the programme period, to less than 80 % of GDP. The evolution of the debt ratio might be less favourable than projected in the programme if downside risks materialise. Nevertheless, the debt ratio seems to be sufficiently diminishing towards the reference value and approaches it at a rapid pace. With regard to the sustainability of public finances, Belgium appears to be at medium risk on grounds of the projected budgetary costs of ageing populations and considering the need to sustain high primary surpluses for a prolonged period of time ⁽¹⁾. The current level of gross debt, while declining, remains well above the reference value and the steady reduction of

⁽¹⁾ Details on long-term sustainability are provided in the technical assessment of the programme by the Commission services (http://europa.eu.int/comm/economy_finance/about/activities/sgp/main_en.htm).

the debt ratio foreseen in the update is necessary. The Belgian strategy of putting longer-term concerns at the heart of fiscal policy, including by reducing debt, will undoubtedly alleviate sustainability risks and the 'ageing fund law' reinforces the political commitment by setting legally binding budgetary targets. Furthermore, recent measures aimed at increasing the effective retirement age and the employment ratio should contribute positively to sustainability. However, the current budgetary position may not be sufficient to cover fully the substantial increase in expenditure due to ageing populations, underlining the importance of maintaining large primary surpluses in the coming years.

- (12) The envisaged measures in the area of public finances are broadly consistent with the broad economic policy guidelines included in the integrated guidelines for the period 2005-2008. In particular, the debt ratio is being reduced at a satisfactory pace and some reforms are being undertaken to improve the sustainability of the social security system. However, the deterioration of the structural balance in 2006 is not fully in line with the integrated guideline that calls for taking all necessary corrective measures to achieve the MTO.
- (13) The National Reform Programme (NRP) of Belgium, submitted on 26 October 2005 in the context of the renewed Lisbon strategy for growth and jobs, identifies the following challenges with significant implications for public finances: (i) to support employment by reducing the tax burden on labour, and (ii) to keep the general government budget close to balance and to start building up surpluses from 2007 onwards, in order to maintain the debt ratio on a downward trend. However, the budgetary implications of the actions outlined in the NRP are not sufficiently specified in the budgetary projections of the stability programme. Measures in the area of public finances envisaged in the stability programme seem to be broadly in line with the actions foreseen in the NRP.

In view of the above assessment, the Council is of the opinion that, overall, the budgetary position is sound and the continued debt reduction from its still high level envisaged in the programme provides an example of fiscal policies conducted in compliance with the Pact. The reliance on one-off measures at the beginning of the period underlines the need for front-loaded structural consolidation. The Council invites Belgium to consider measures to avoid a deterioration of the structural balance in 2006 and to implement the required measures to reach the ambitious budgetary targets in subsequent years.

Comparison of key macroeconomic and budgetary projections

		2004	2005	2006	2007	2008	2009
Real GDP (% change)	SP Dec 2005	2,6	1,4	2,2	2,1	2,3	2,2
	COM Nov 2005	2,6	1,4	2,1	2,0	n.a.	n.a.
	<i>SP Dec 2004</i>	2,4	2,5	2,5	2,1	2,0	n.a.
HICP inflation (%)	SP Dec 2005	1,9	2,9	2,8	2,0	1,9	1,7
	COM Nov 2005	1,9	2,7	2,6	1,9	n.a.	n.a.
	<i>SP Dec 2004</i>	1,9	2,0	1,8	1,8	1,8	n.a.
Output gap (% of potential GDP)	SP Dec 2005 ⁽¹⁾	-0,2	-0,8	-0,6	-0,6	-0,5	-0,4
	COM Nov 2005 ⁽²⁾	-0,1	-0,8	-0,8	-1,0	n.a.	n.a.
	<i>SP Dec 2004 ⁽¹⁾</i>	-0,8	-0,5	-0,2	-0,4	-0,5	n.a.
General government balance (% of GDP)	SP Dec 2005	0,0	0,0	0,0	0,3	0,5	0,7
	COM Nov 2005	0,0	0,0	-0,3	-0,5	n.a.	n.a.
	<i>SP Dec 2004</i>	0,0	0,0	0,0	0,3	0,6	n.a.

		2004	2005	2006	2007	2008	2009
Primary balance (% of GDP)	SP Dec 2005	4,8	4,3	4,1	4,2	4,1	4,1
	COM Nov 2005	4,8	4,4	3,8	3,4	n.a.	n.a.
	<i>SP Dec 2004</i>	4,9	4,5	4,4	4,5	4,7	<i>n.a.</i>
Cyclically-adjusted balance (% of GDP)	SP Dec 2005 ⁽¹⁾	0,1	0,4	0,3	0,6	0,8	0,9
	COM Nov 2005	0,1	0,4	0,1	0,0	n.a.	n.a.
	<i>SP Dec 2004 ⁽¹⁾</i>	<i>0,5</i>	<i>0,3</i>	<i>0,1</i>	<i>0,5</i>	<i>0,9</i>	<i>n.a.</i>
Structural balance ⁽²⁾ (% of GDP)	SP Dec 2005 ⁽⁴⁾	n.a.	0,0	- 0,3	0,4	0,7	0,9
	COM Nov 2005 ⁽⁵⁾	- 0,6	0,0	- 0,4	0,0	n.a.	n.a.
	<i>SP Dec 2004</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>
Government gross debt (% of GDP)	SP Dec 2005	94,7	94,3	90,7	87,0	83,0	79,1
	COM Nov 2005	96,2	94,9	91,1	88,1	n.a.	n.a.
	<i>SP Dec 2004</i>	<i>96,6</i>	<i>95,5</i>	<i>91,7</i>	<i>88,0</i>	<i>84,2</i>	<i>n.a.</i>

Notes:

- (¹) Commission services' calculations on the basis of the information in the programme.
(²) Based on potential growth of 2,0 %, 2,1 %, 2,1 % and 2,3 % respectively in the period 2004-2007.
(³) Cyclically-adjusted balance (as in the previous rows) excluding one-off and other temporary measures.
(⁴) One-off and other temporary measures taken from the programme (0,4 % of GDP in 2005 and 0,6 % in 2006; all deficit-reducing). The figures for the one-off measures from 2007 onwards (0,2 % in 2007, 0,1 % in 2008 and 0,0 % in 2009) were provided by the Belgian authorities after the submission of the programme with the caveat that they 'should be considered as assumptions and do not prejudice any decision by the Belgian authorities'.
(⁵) One-off and other temporary measures taken from the Commission services' autumn 2005 forecast (0,4 % of GDP in 2005 and 0,5 % in 2006; all deficit-reducing).

Source:

Stability programme (SP); Commission services' autumn 2005 economic forecasts (COM); Commission services' calculations.