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PRESS RELEASE

The economic recovery plans

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The financial crisis which began in 2007 and worsened dramatically in the autumn of 2008 culminated in the most serious global economic recession of the post-war period. The seriousness of the crisis and the sheer scale of the risk that it could turn into a protracted global depression prompted economic policy-makers to take swift and resolute action. Thus, governments and central banks took various measures to support the financial sector, which was in danger of collapse. These measures aimed to protect deposits and avert a looming credit famine. In parallel with these measures, monetary policy was eased significantly throughout the world, a move made possible by the sharp downward revision of inflation forecasts. On the fiscal policy front, numerous countries devised economic recovery plans which, together with the impact of the automatic stabilisers, were intended to counteract falling demand. This article discusses these recovery plans.

In line with the European Economic Recovery Plan approved at the European Council on 11 and 12 December 2008, the governments of most EU Member States have taken significant steps to boost economic activity. According to the latest information from the EC, this total support for economic activity in the EU, including the effect of the automatic stabilisers, is expected to come to around 5 p.c. of GDP in 2009 and 2010 together. The impact of the recovery measures for the EU as a whole is estimated at 1.1 p.c. of GDP in 2009 and 0.7 p.c. in 2010, considerably less than in the United States, where the cumulative cost to the budget of these measures is likely to reach 5.4 p.c. of GDP over 2009 and 2010. In the US, however, the impact of the automatic stabilisers on economic activity is smaller than in the EU.

Comparison of the fiscal policy responses in terms of both the scale of the plans and the mix of measures reveals notable differences between EU Member States. The differences in the scale of the recovery plans are in line with the European Economic Recovery Plan's recommendation for the initial budget position of each country to be taken into account when devising national plans. As far as content is concerned, the recovery plans feature a very broad range of measures. They are nevertheless fairly evenly balanced between revenue and expenditure.

Of course, the aims of these recovery plans are very laudable, but the question is whether they are really achievable. While the measures implemented may indeed attenuate the economic recession in the short term, their effect is uncertain and could be relatively limited. The recovery plans cannot have the optimum short-term impact on economic growth unless certain conditions are met, the most essential of which is the need to avoid any doubts over the long-term sustainability of public finances.

Taking account of initial budget positions which were already rather weak in some cases, many countries are faced with a very sharp deterioration in the state of their public finances, not just because of the impact of the economic recovery plans, but also because of the relatively strong effect which the economic recession is exerting via the automatic stabilisers. It therefore seems that most European countries, including Belgium, no longer have any scope to adopt effective additional recovery measures. Against this background, it is now absolutely essential to draw up clear and reliable strategies heralding a return to sound and sustainable public finances.

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