Belgian Public Finances: Prospects and Challenges

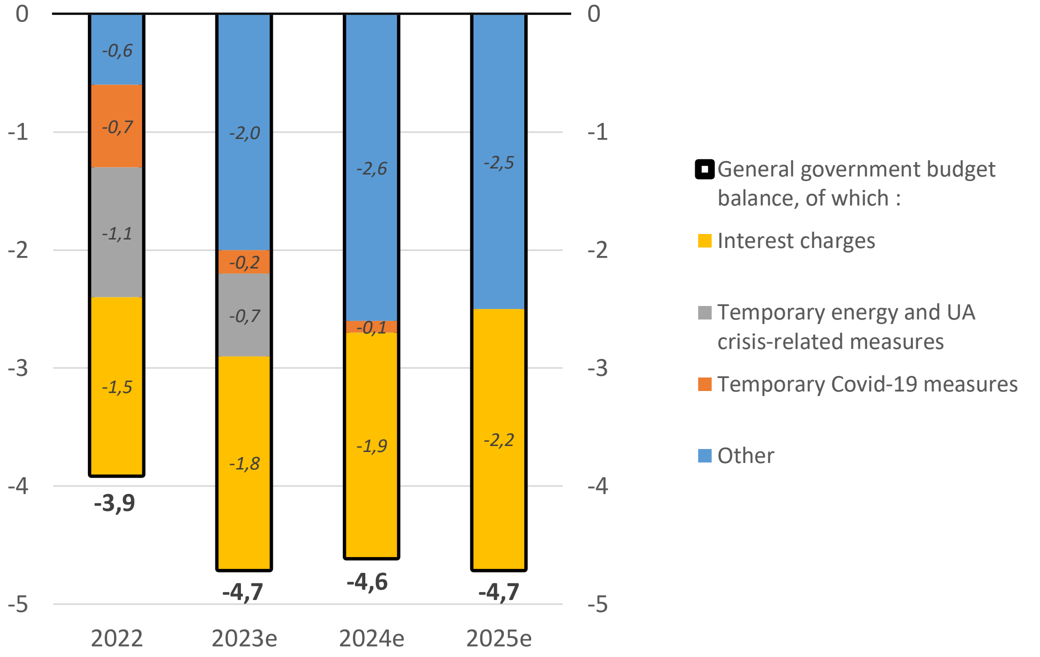
Stefan Van Parys

CCE.CRB - Debat, 19 June 2023

Budget deficit remains structurally high and debt to GDP ratio is on a rising path

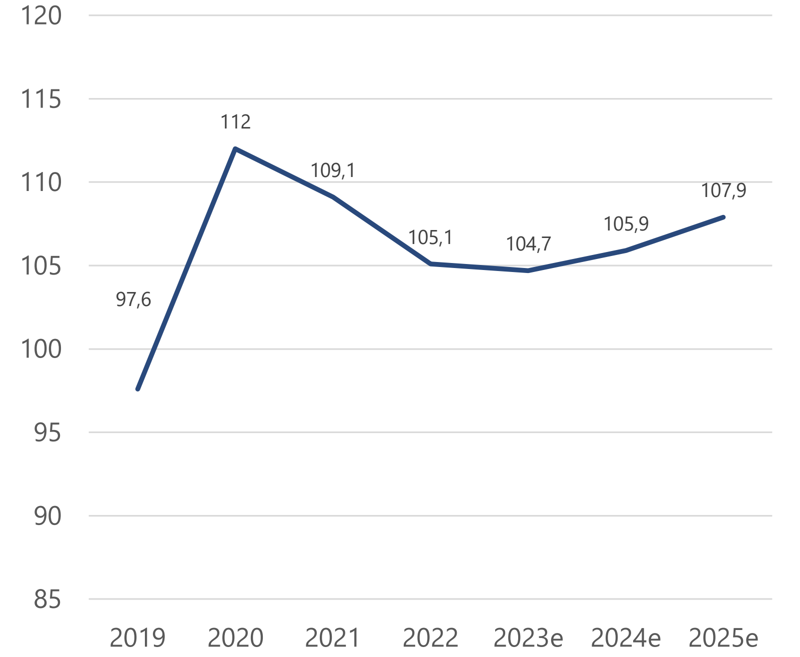
Budget balance

(% of GDP)



Public debt

(% of GDP)

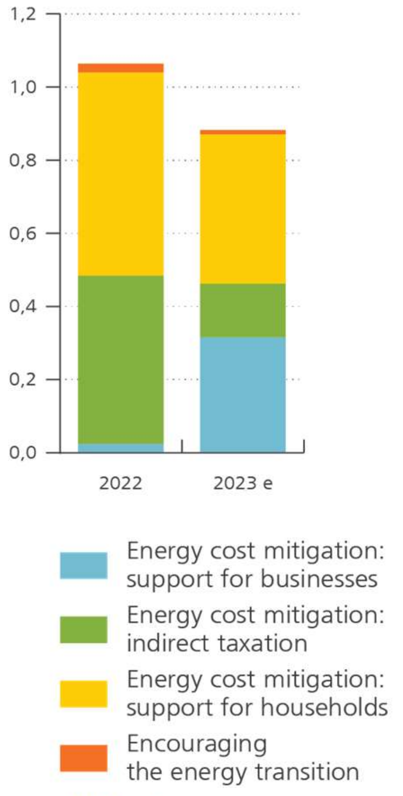


Sources: NAI and NBB.

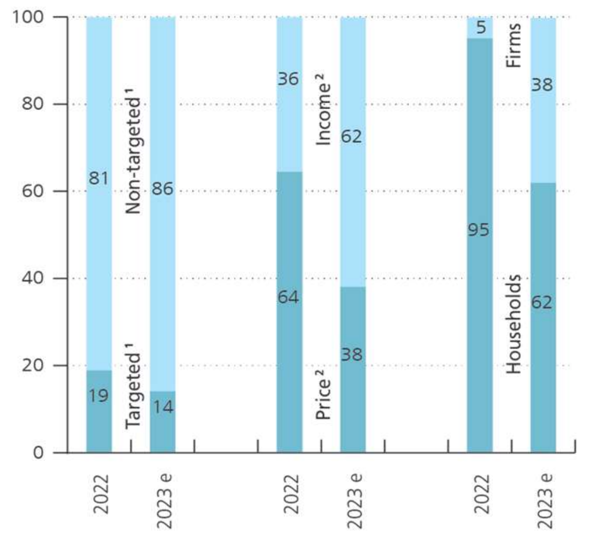
[1] These figures do not take into account the implicit deficit of, on average, 0.4% of GDP annually over the period 2021-2026 due to debt financed grants to EU Member States from the NGEU programme.

Substantial, mostly non-targeted measures taken in response to energy crisis

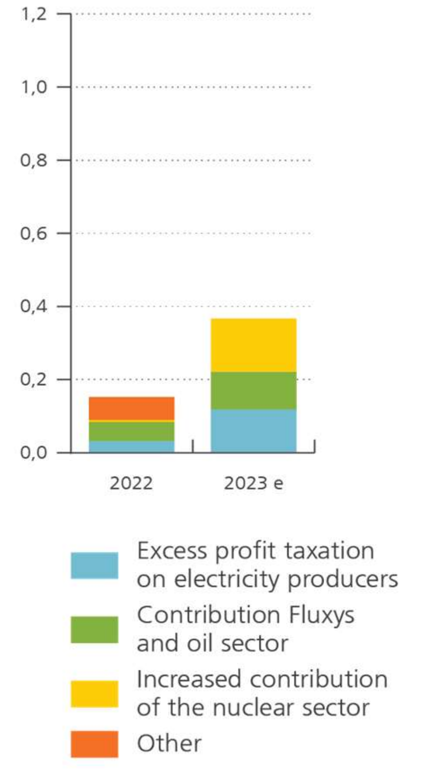
Temporary support measures related to the energy crisis
(% of GDP)



Decomposition of temporary measures taken in response to the energy crisis
(% of total)



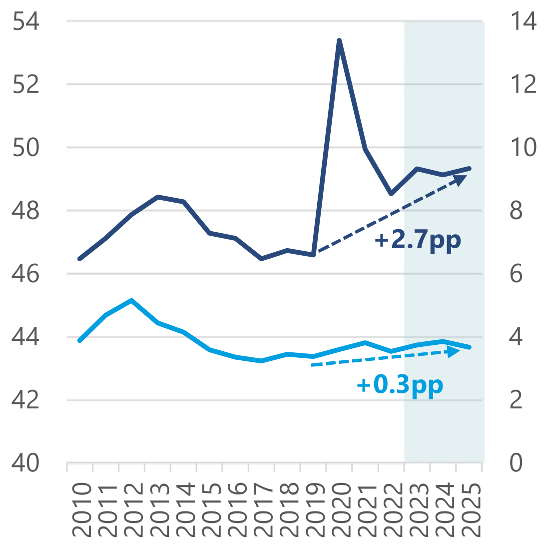
Financing measures
(% of GDP)



Sources: Communities and Regions, FPS Policy & Support, FPS Finance and NBB.

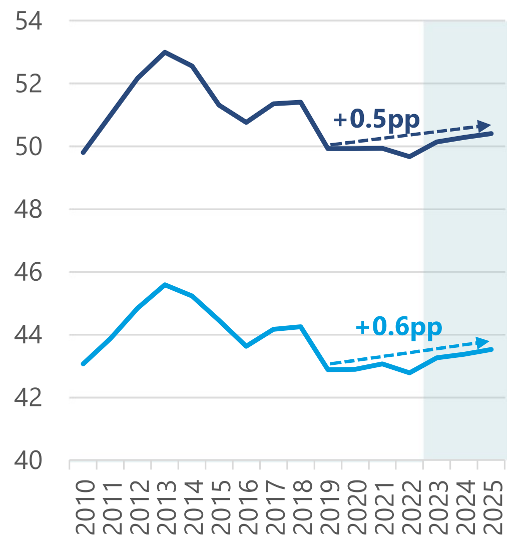
The primary budget deficit remains high due to a sharp increase in current expenditure[1]

Primary expenditure
(% of GDP)



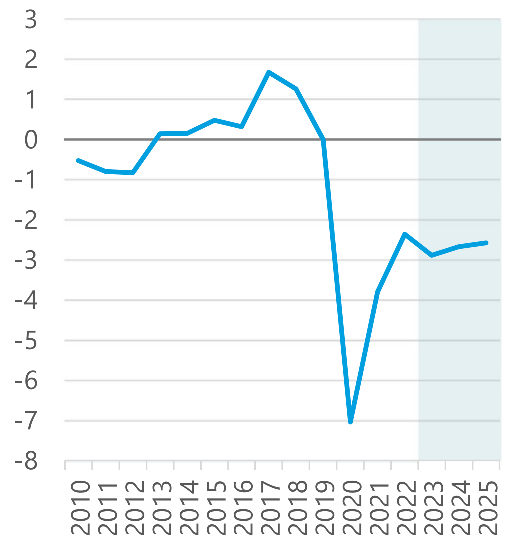
Current expenditure
Capital expenditure (secondary y-axis)

Revenue
(% of GDP)



Total revenues
Revenue from taxes and social contributions

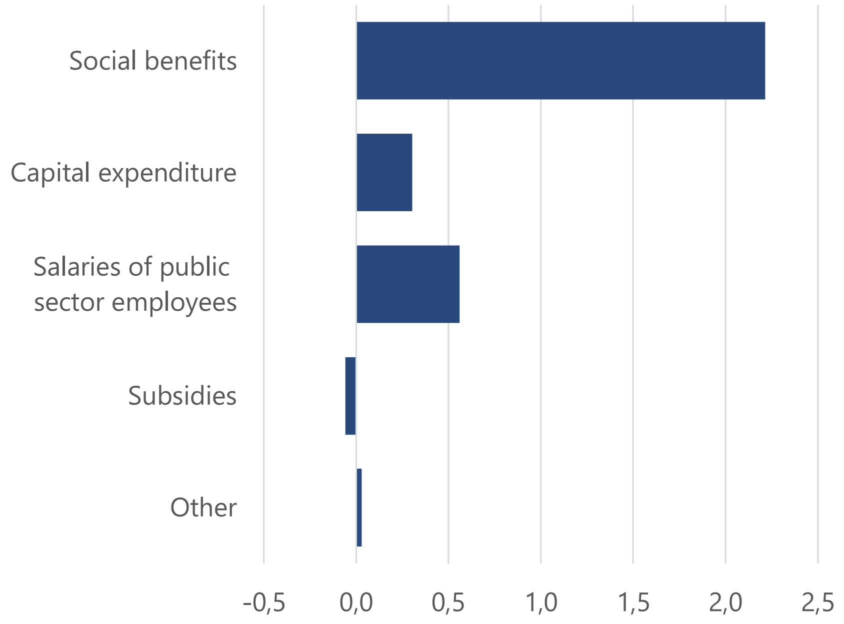
Primary balance
(% of GDP)



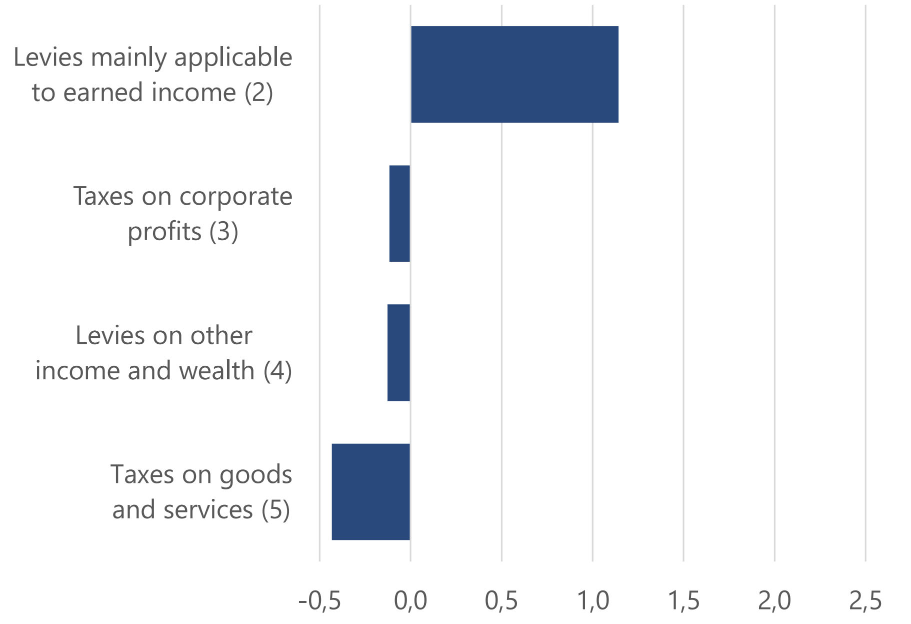
Sources : NAI and NBB.
[1] The figures relating to the period 2022-2025 are taken from the Bank's June 2023 macroeconomic projections, which cover the period until 2025.

The strong increase in social benefits is a key factor explaining primary expenditure growth[1]

Expected change in primary expenditure 2019-2025
(in percentage points of GDP)

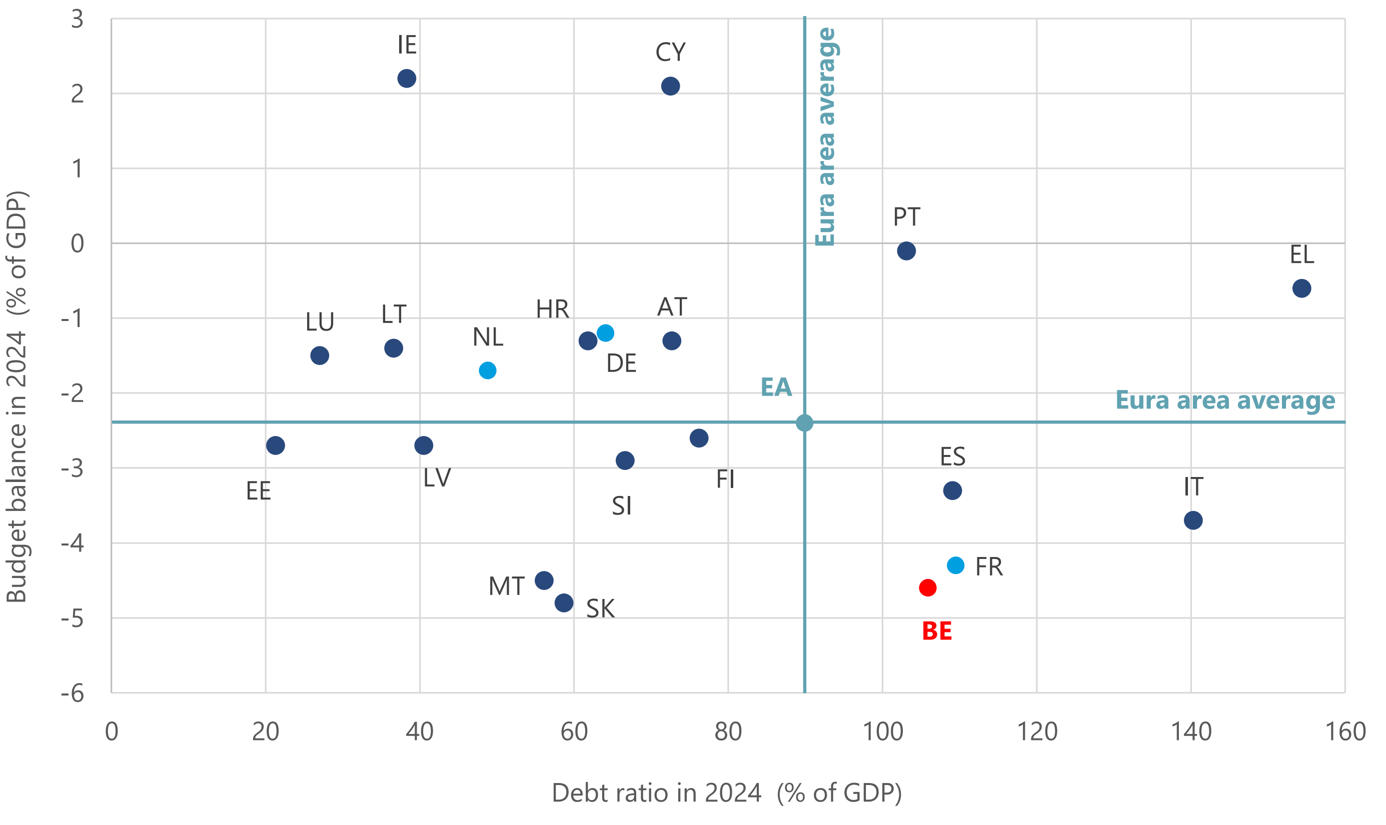


Expected change in revenue from taxes and social contributions, 2019-2025
(in percentage points of GDP)



Sources : NAI and NBB.
1 The figures relating to the period 2022-2025 are taken from the Bank's June 2023 macroeconomic projections, which cover the period until 2025.
2 These include personal income tax and social security contributions. Personal income tax mainly consists of taxes withheld from earned income, advance tax payments, tax assessments and surcharges on personal income tax. Social security contributions include the special social security contribution and contributions of those not in work.
3 Mainly advance tax payments, tax assessments and corporate withholding tax.
4 Mainly withholding tax payable by individuals, property tax (including proceeds from surcharges), inheritance tax and registration duties.
5 The main revenue categories are VAT and excise duties.

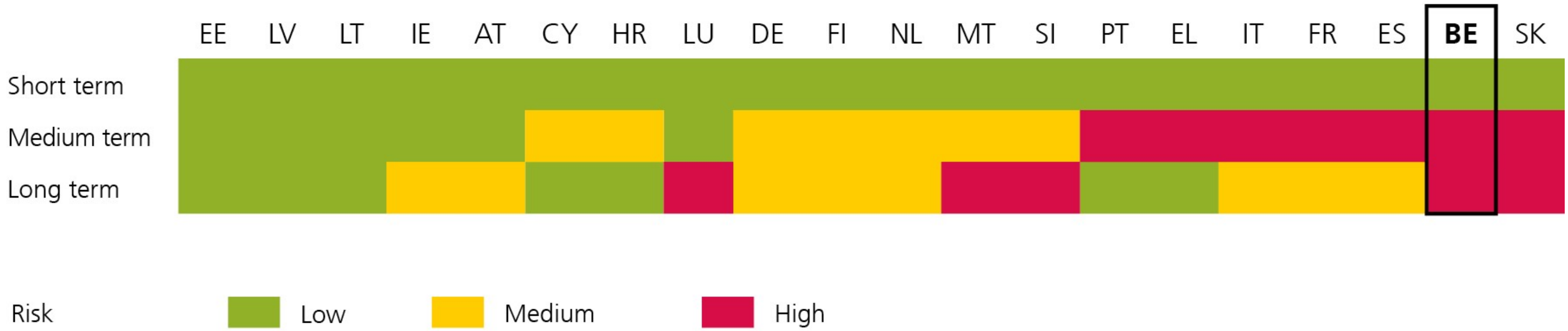
Both debt ratio and the budget balance are structurally high in Belgium



Sources: EC and NBB.

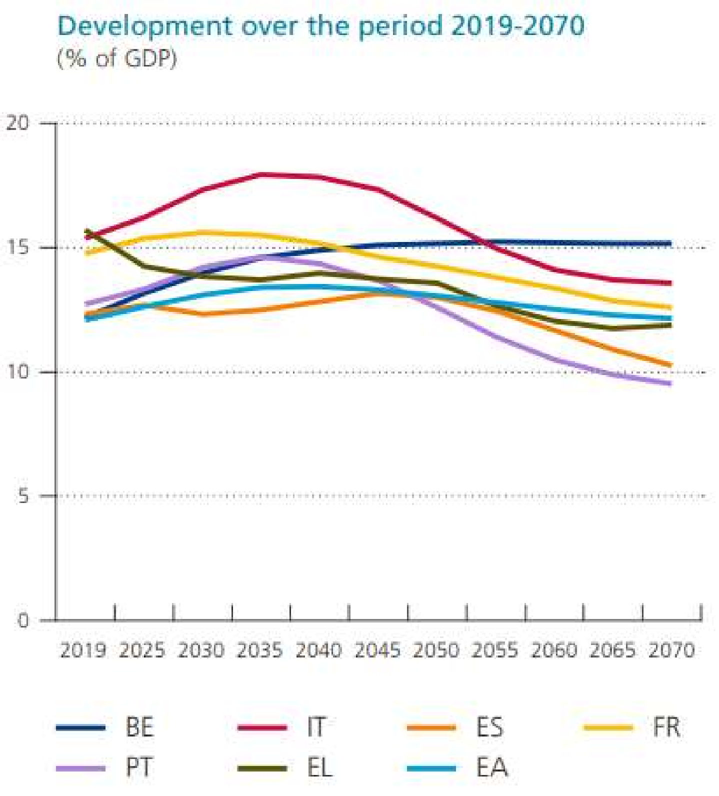
The future sustainability of Belgian public debt is under pressure

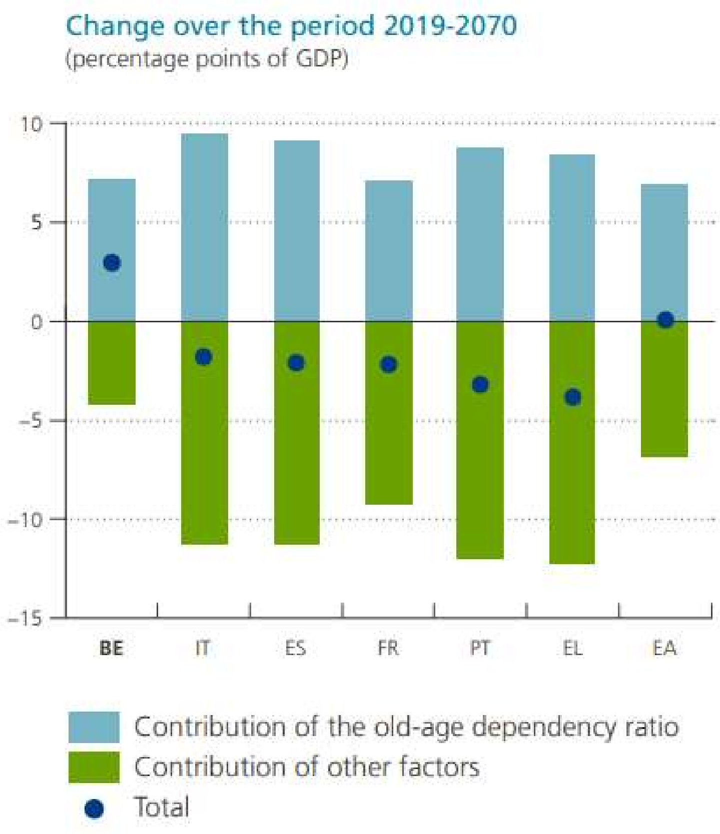
Risks to the sustainability of public debt according to the European Commission



Source: EC (based on Spring 2023 forecast).

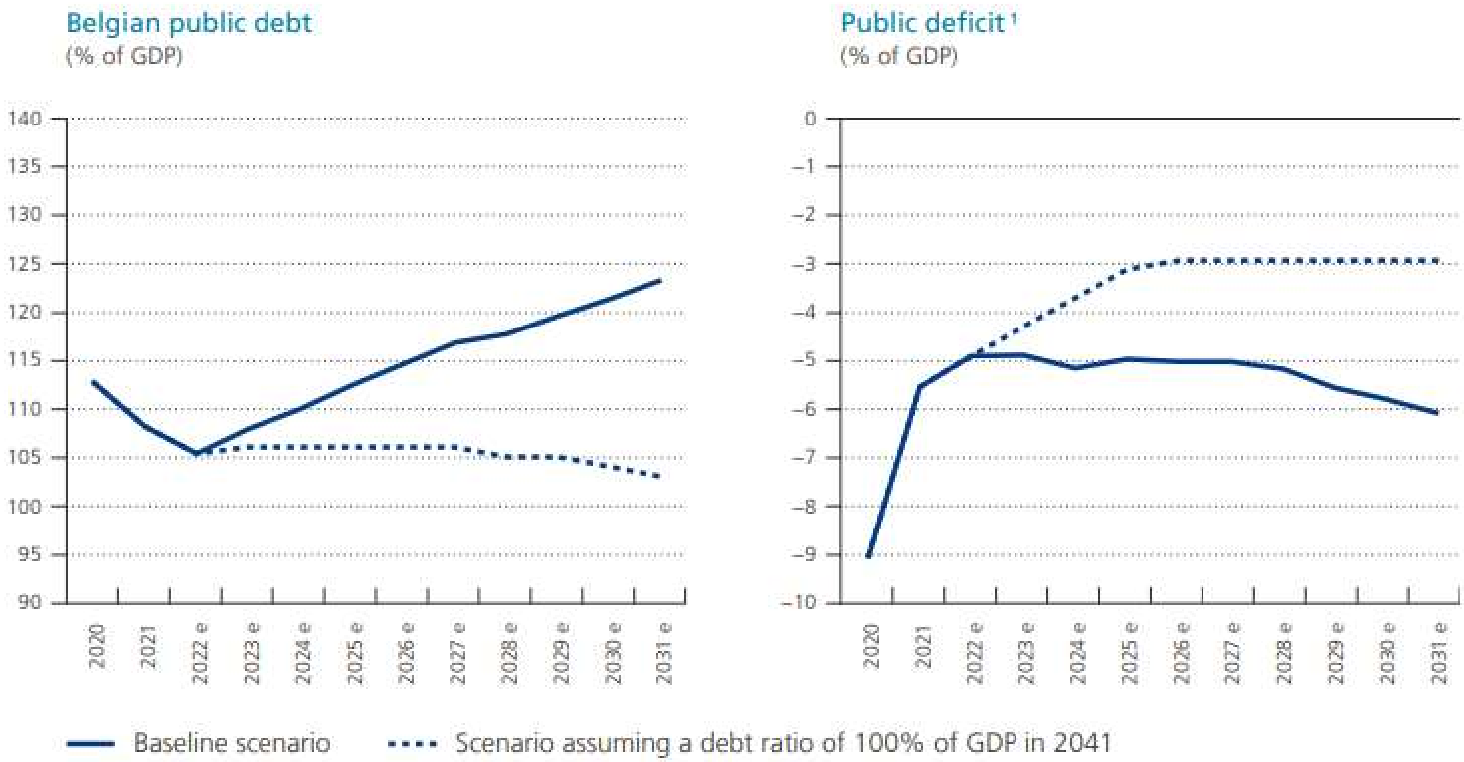
Public pension spendings are expected to increase strongly in the future





Source: EC.

At unchanged policy, the public debt ratio will continue to rise



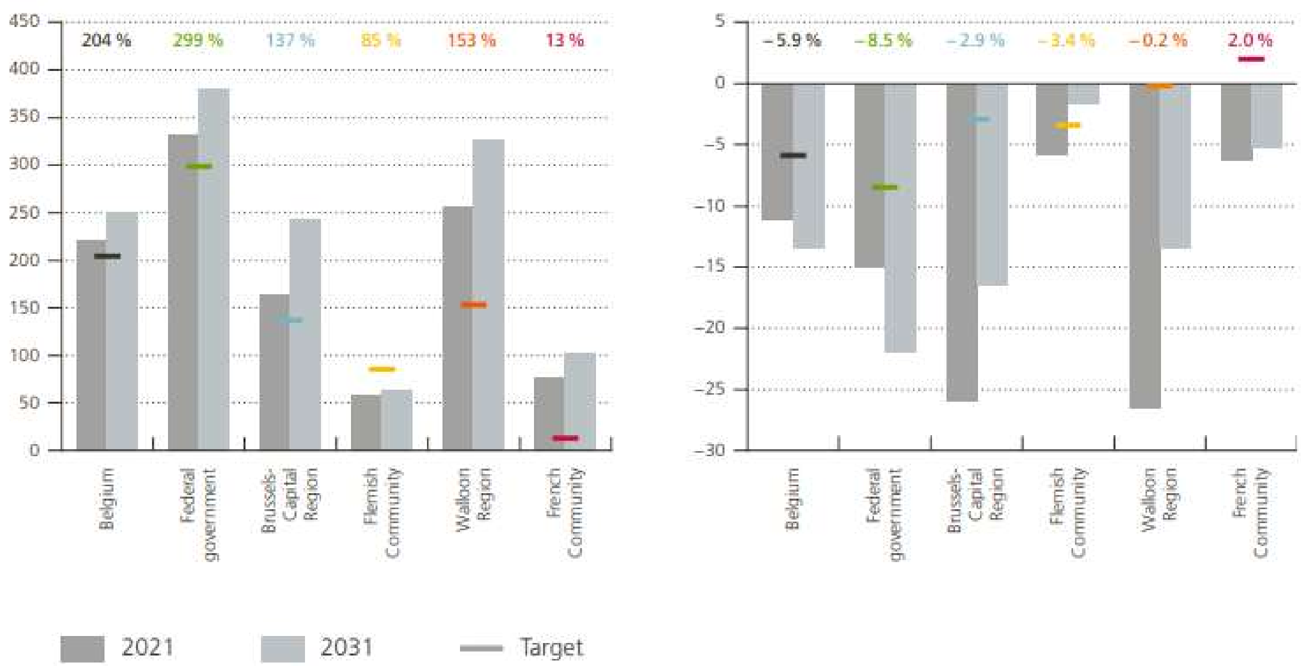
Sources: FPB, NAI & NBB.

[1] The baseline scenario is based on the June 2022 projections of the Federal Planning Bureau so as to be consistent with the regional projections used in the following slide. The public deficit for 2022 came in better than the Planning Bureau's June 2022 estimate. According to the Bank's June 2023 projections, the public deficit over the period 2023-2025 is expected to be slightly better (around 4.7% of GDP) than what the FPB projected last year. But overall, and in line with the alternative scenario, an additional annual fiscal effort of 0.6 percentage point of GDP would still be required over the period 2023-2026 to push the public deficit to below 3% of GDP, i.e. the level at which the debt will reach 100% of GDP in 2041. An effort of 0.6 percentage point is consistent with the guidelines in the "preventive arm" of the Stability and Growth Pact.

Substantial efforts by almost all entities will be required to reduce the public debt to 100% of GDP in 20 years

Public debt and debt target
(% of disposable revenue)

Public deficit and budget balance target
(% of disposable revenue)



Sources: FPB & NBB.
Note: the budget balance target indicates the budget balance required in 2031 to bring the debt ratio back to the debt target by 2041, as indicated in the left-hand panel. For more details on the analysis, see [How sustainable are the finances of the federal government, the regions and the communities in Belgium? | nbb.be]

BanqueNationaleBank DE BELGIQUE VAN BELGIË
Eurosystem

European Commission's fiscal guidance for 2024-2026

- March 8: EC Fiscal Policy guidelines for 2024:
  - Member States are invited to include in their Stability and Convergence Programmes how their fiscal plans will ensure the **respect of the 3% of GDP deficit reference value, by the end of the period covered by the Programme (2026)**, as well as **plausible and continuous debt reduction**, or for debt to be kept at prudent levels, **in the medium term**.
  - The EC will propose to the Council to **open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023**, in line with existing legal provisions.
- April 26: EC Legislative proposals for reform of the EU economic governance framework:
  - For Member States (MS) with public debt above 60% of GDP or a government deficit above 3% of GDP, the EC will propose a country-specific technical trajectory for net expenditure covering a minimum adjustment period of 4 years … **by the end of the adjustment period, the government deficit is to be brought and maintained below the 3% of GDP reference value in the absence of further budgetary measures over a 10-year period**.
- May 24: EC Country specific recommendations:
  - Ensure prudent fiscal policy, in particular by **limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 2%**. This corresponds to a **fiscal effort of 0.7 percentage point of GDP** in terms of the structural balance.
  - Preserve nationally financed **public investment**; strengthen efforts to improve the efficiency of **long-term care**; pursue the **reform of the taxation and benefits system**; review tax expenditures.

EC legislative proposals on new EU economic governance framework have possibly important implications for Belgium's Independent Fiscal Institutions

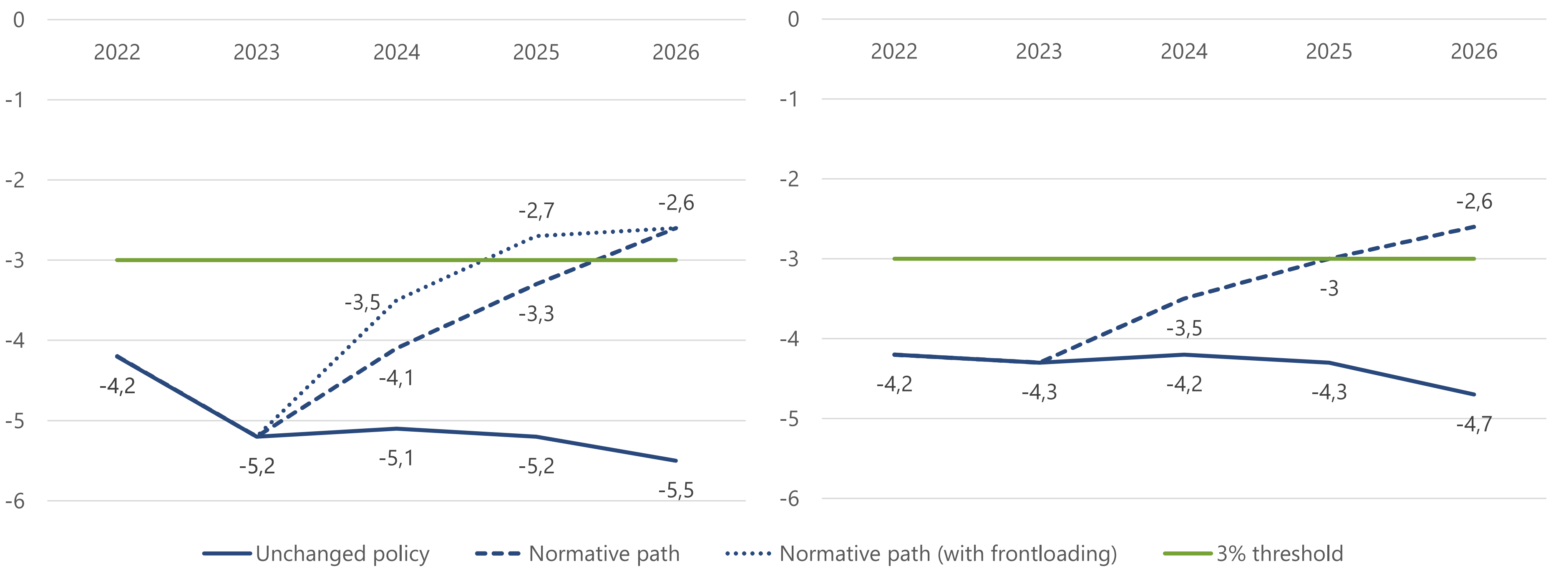
- Member States will propose in **national medium-term fiscal-structural plans** their **net expenditure trajectory**. This will be the **single operational indicator** used for fiscal surveillance.
- An expanded role of IFIs:
  - Producing the annual and multiannual macroeconomic and budgetary forecasts underlying the government's medium-term planning or **endorsing those used by the budgetary authorities**
  - Producing debt sustainability assessments underlying the government's medium-term planning or **endorsing those provided by the budgetary authorities**
  - Producing assessments on the impacts of policies on fiscal sustainability and sustainable and inclusive growth or **endorsing those provided by the budgetary authorities**

  ⇒ For Belgium, this would substantially increase the tasks and responsibilities of the IFIs (FPB and HCF)

Structural balance – HCF normative paths towards 3% nominal deficit by 2026

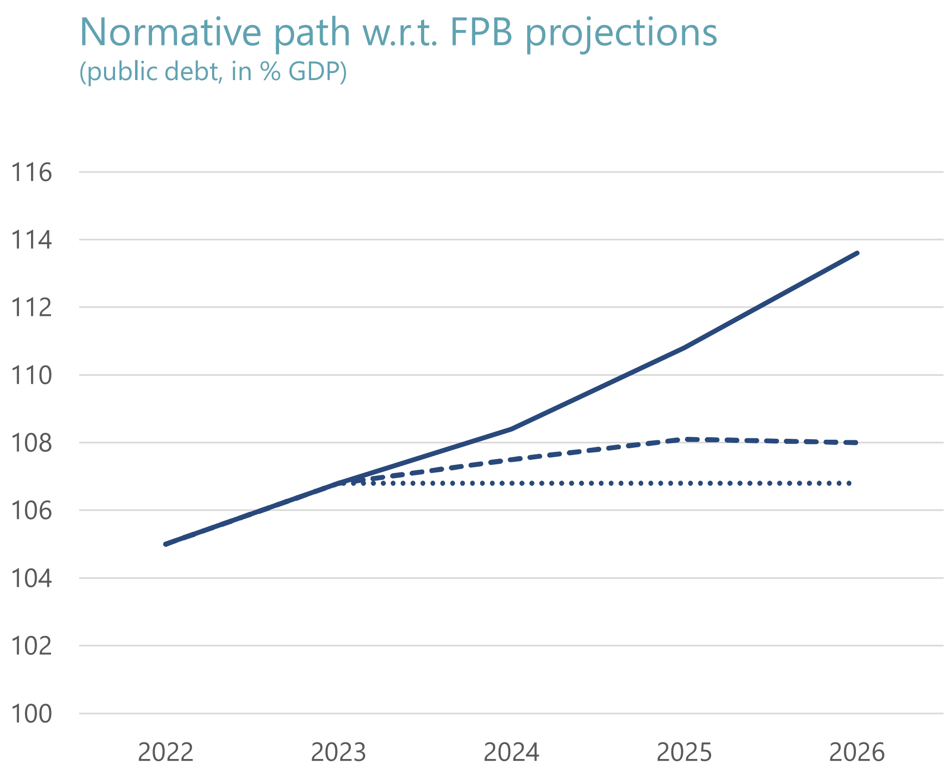
Normative path w.r.t. FPB projections
(in % GDP)

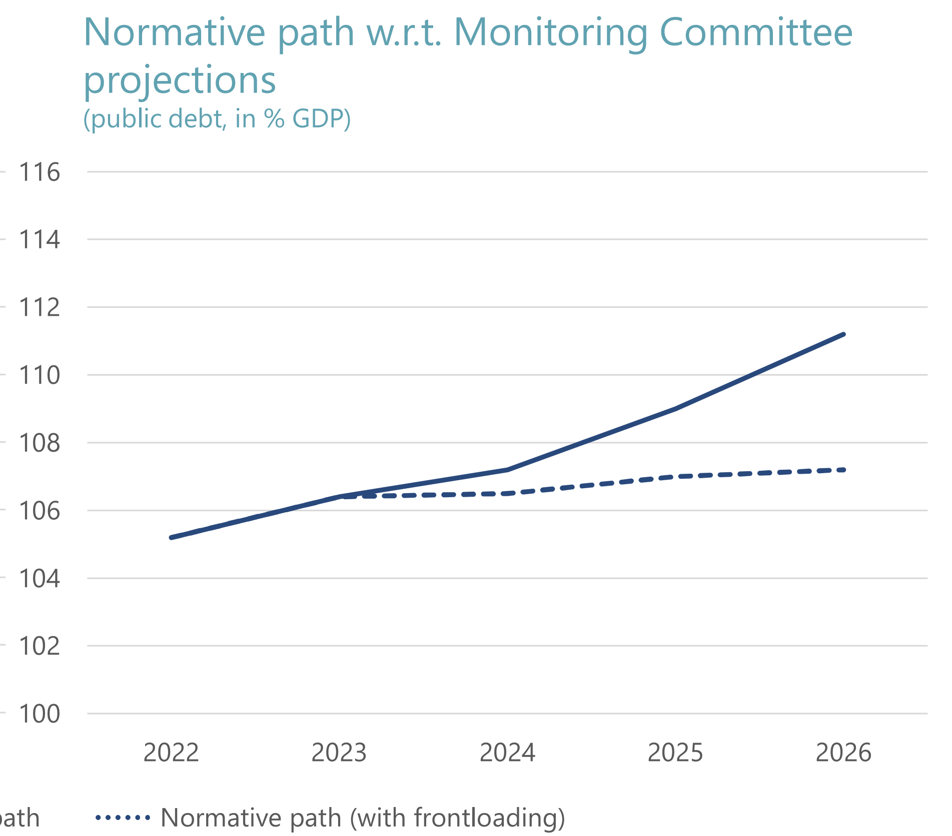
Normative path w.r.t. Monitoring Committee projections
(in % GDP)



Source: HCF.

Indebtedness – HCF normative paths for stabilizing the debt ratio by 2026





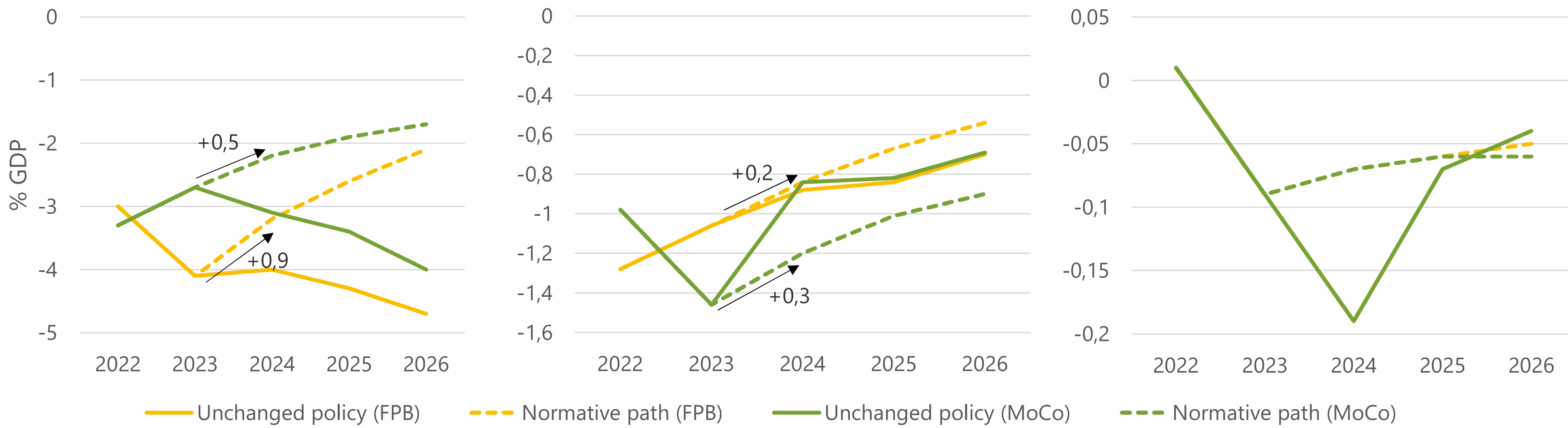
Source: HCF.

Structural balance – HCF normative paths towards 3% nominal deficit by 2026

Federal government and social security

Communities & regions

Local authorities



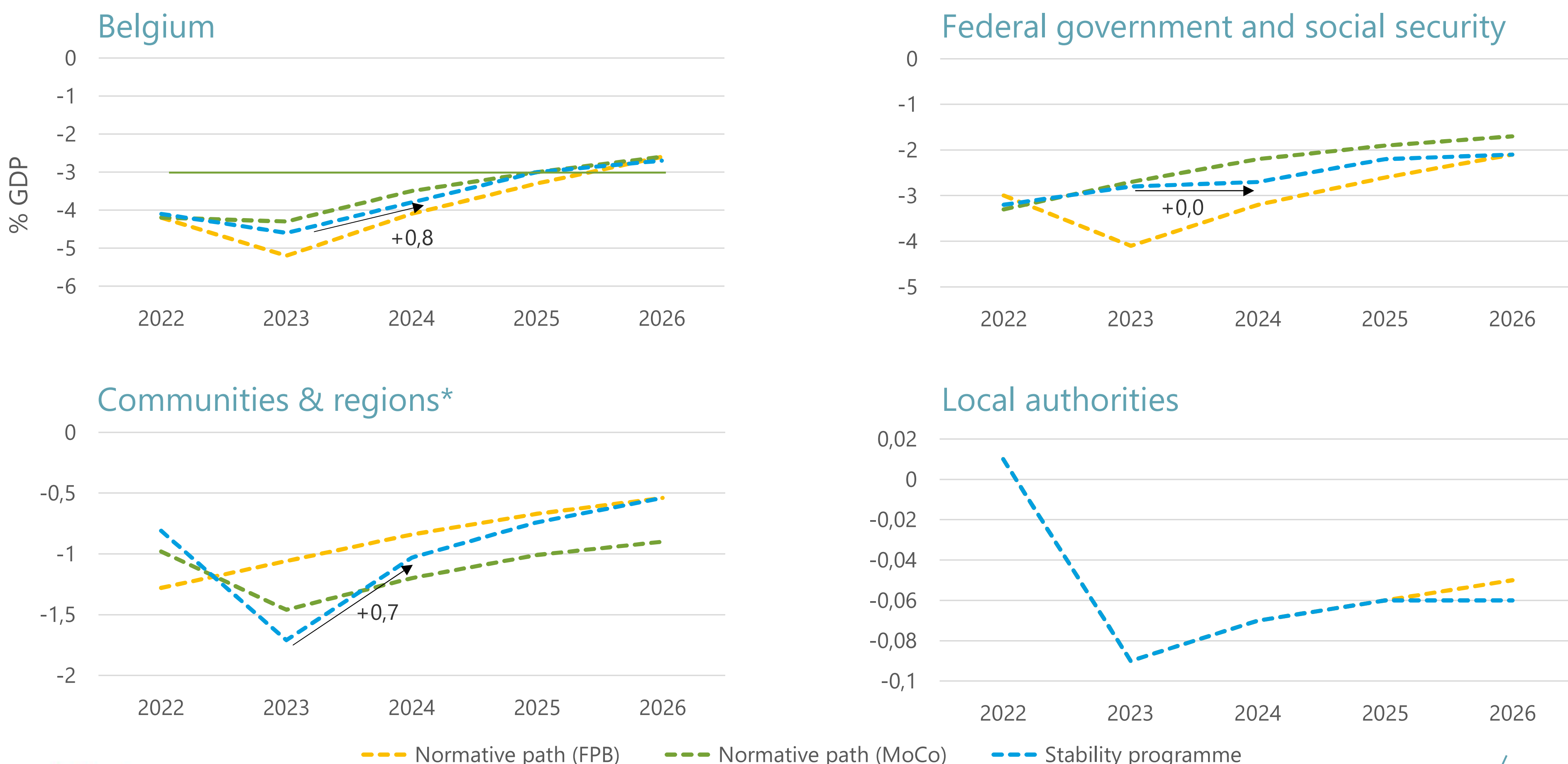
Breakdown of effort according to share in 2023 structural deficit:

	Fed. gov. and SS	**C&R**	**Local**
FPB	78%	20%	2%
MoCo	63%	34%	2%

Source: HCF.

BanqueNationaleBank DE BELGIQUE VAN BELGIË Eurosystem

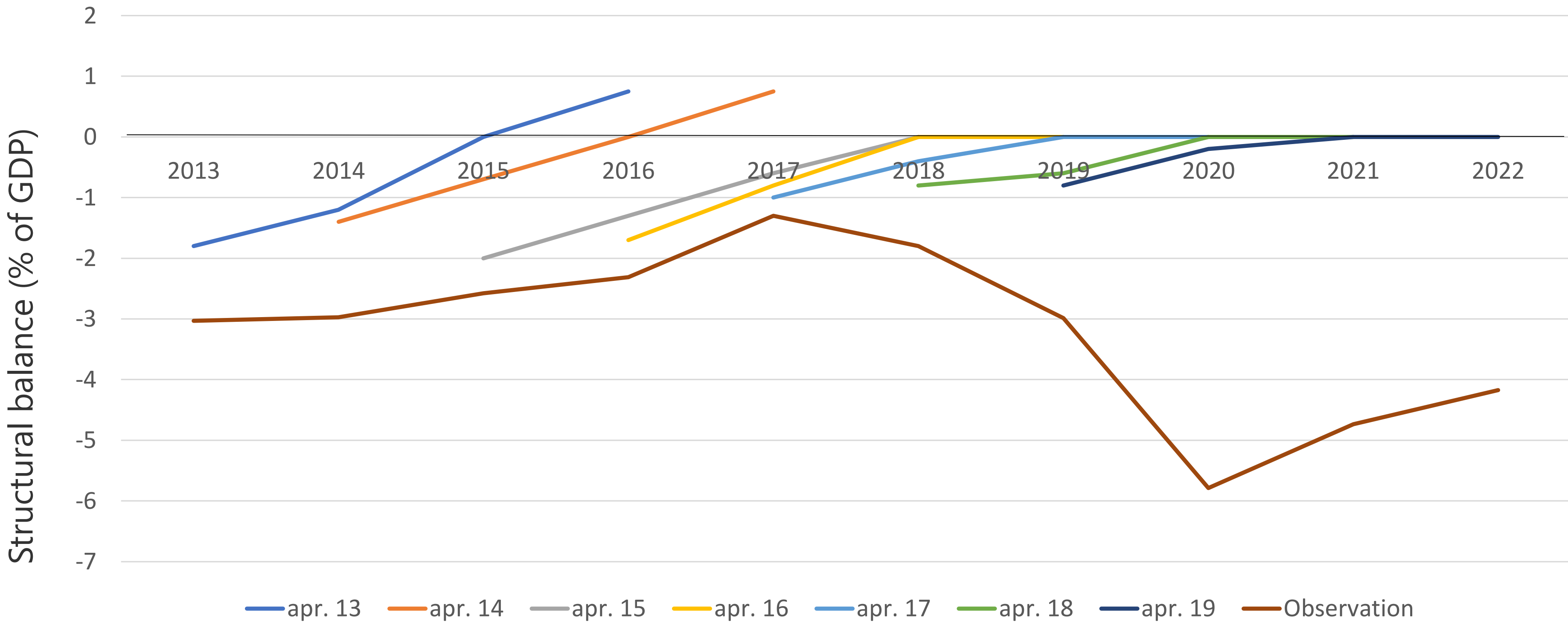
Structural balance – HCF normative paths vs. stability programme



* By deduction: the stability programme contains no normative paths for individual communities and regions

Source: HCF.

The objectives set out in successive stability programmes have been systematically missed



Source: EC, NBB.

Conclusion

- Belgium's budget deficit is close to 5% of GDP and widening; the public debt ratio is on a structurally upward path
- The worsening of the budget balance since 2019 is primarily driven by the rise in current primary spending; ageing costs will keep on pushing current spending in the coming decades

⇒ Belgian public finances face high sustainability risks in the medium and long run

- In order to bring public finances back on a sustainable path, substantial fiscal efforts by almost all government entities are required
- Budgetary surveillance by the EC and the HCF will be re-activated from 2024 onwards
- In order to stabilise the debt ratio and to avoid an excessive deficit procedure, the budget deficit needs to be brought down below 3% of GDP by 2026

⇒ Given Belgium's track record in meeting budgetary targets, this requires a massive mind shift

Thank you for your attention !

BanqueNationaleBank
DE BELGIQUE VAN BELGIË
Eurosystem