

Fiscal consolidation

Belgium as a member of the European
Union

OECD – 26 september 2023

Kingdom of Belgium



- Federal Constitutional Monarchy
- Surface area: 30 515 km²
- Population: 11,5 million inhabitants
- 51 247 \$(USD) GDP per capita
- Brussels capital of the European Union
- **European Union** founder member since 1957



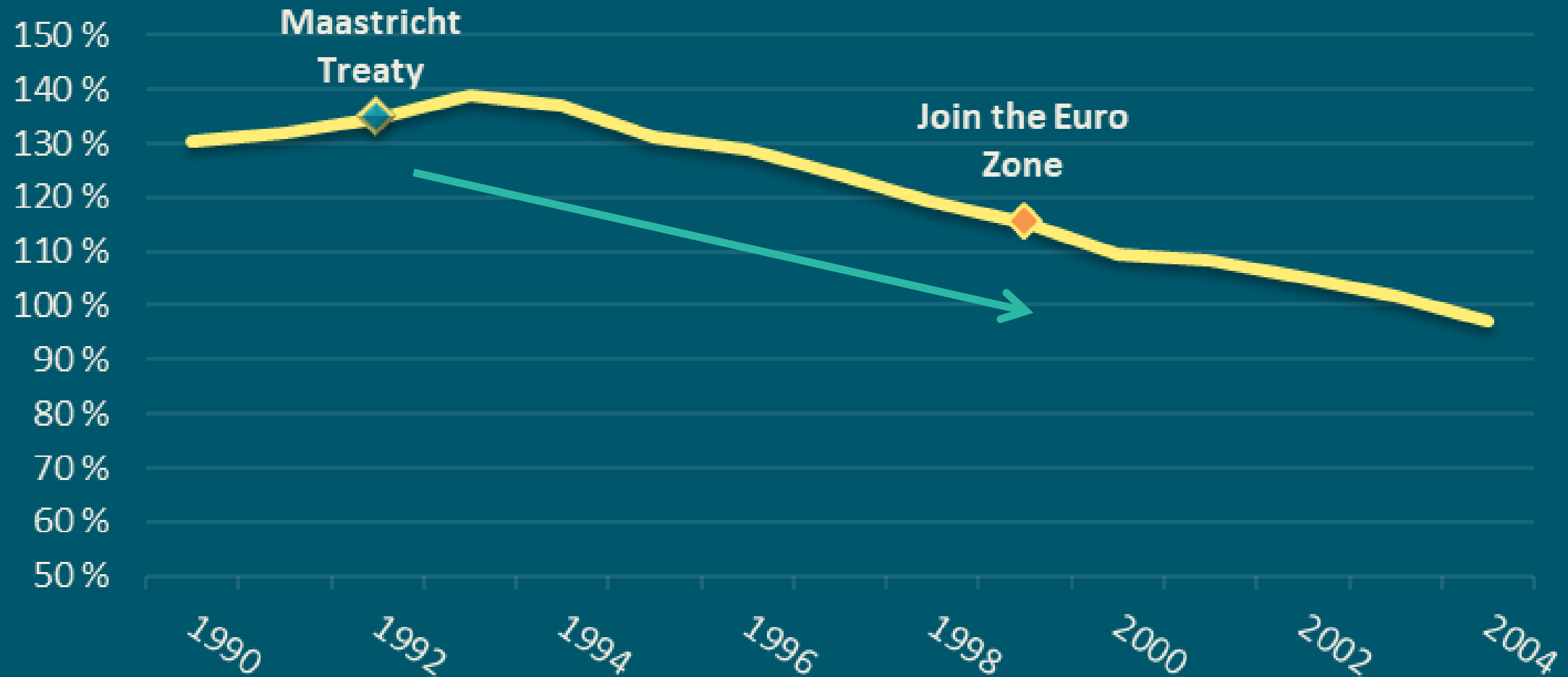
Maastricht Treaty

1992

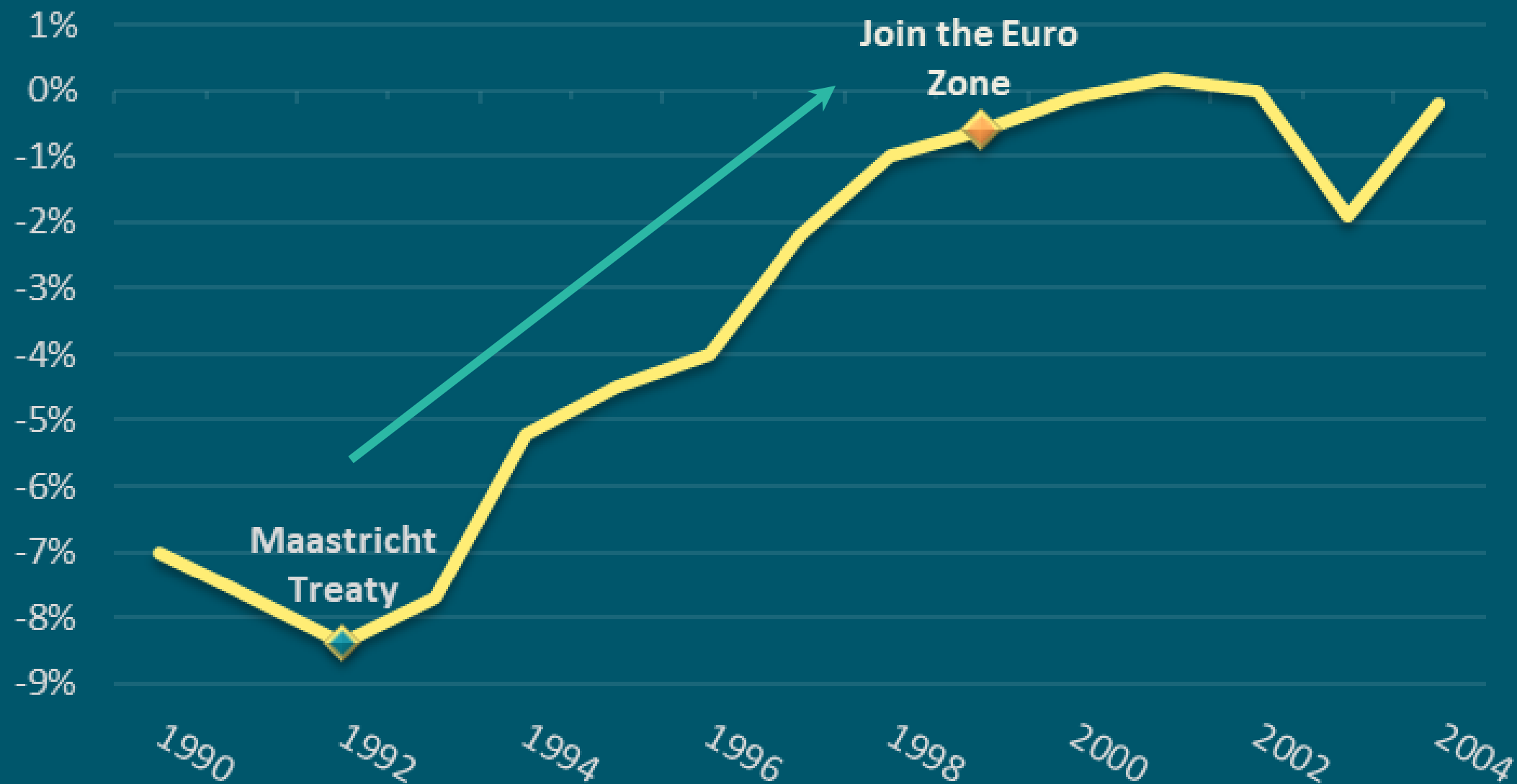
Maastricht Treaty (1992)

- Establishment of the European Union
- Foundation of the Euro (€)
 - Established the European Central Bank (ECB) and the European System of Central Banks
 - Main objective : maintain **price stability**
- Quantitative convergence criteria
 - General government deficit < 3% GDP
 - Debt ratio < 60% GDP
- Stability and Growth Pact (1997)
 - Budgetary monitoring
 - Excessive deficit procedure

Belgium's gross public debt in % of GDP



Belgium's public deficit in % of GDP



Conclusions Maastricht Treaty

- Quantitative convergence criteria → Clear Objective
 - Real and quick results
- Weakness: One shot and non structural measures
- Seen as a society project
 - Social concensus on the necessity to join the Euro Zone
 - Budgetary efforts better accepted by the citizens



Financial crisis – Sovereign debt crisis

2008-2012

Major impact on Belgian economy

Financial Crisis

- Failure of two main banks : Dexia and Fortis
- Public help for banks amounted up to 10% of the GDP
- Belgium's GDP **-2%** in 2009

Sovereign debt crisis

- Greece's difficulties to repay its debt obligations
 - Sovereign debt downgraded to "junk status" by international credit rating agencies
- Fear of excessive sovereign debt
 - → Higher interest rates for Eurozone
 - → Harder to finance debt and deficit
- Highlights of the European Union weaknesses
 - Loss of confidence in European businesses and economies
 - Fear of a collapse of the euro and a financial contagion
 - Pro-cyclical measures → Austerity in low growth period

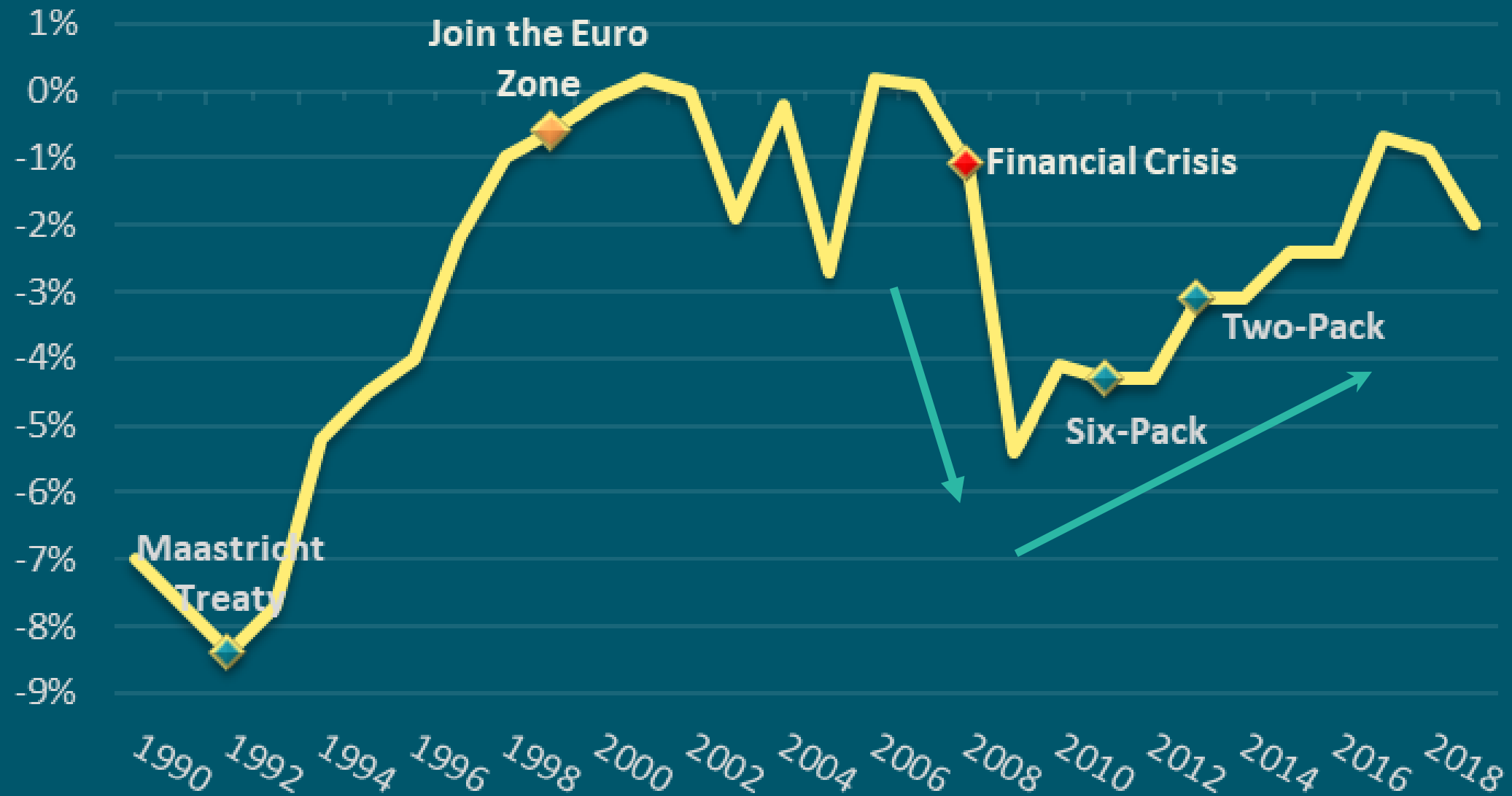
Following the economic and financial crisis, stricter monitoring mechanisms are put in place

- Six-Pack (2011): enhancing budgetary surveillance and installing macro-economic surveillance
 - Stronger surveillance
 - Medium-term budgetary objectives (MTOs)
 - Annual reduction of excess debt
 - Analysis of macro-economic situation by means of a scoreboard
 - Fines when the rules are violated
 - National budgetary frameworks have to be put in place
- Two-Pack (2013) : strengthening surveillance of budgetary policies in the euro area and closer monitoring of member states in financial difficulties
 - Euro area Member State must present draft budgets to the Commission
 - Commission can request a revision of the draft budget
 - All budgets must be based on independent forecasts

Belgium's gross public debt in % of GDP



Belgium's public deficit in % of GDP



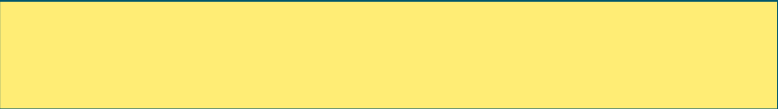
Conclusions Six-Pack, Two-Pack

Benefits

- Clarifying budgetary rules (one-offs,...)
- Stricter monitoring
- Help to prevent any budget slippage

Disadvantages

- Less clear objective : Medium-term budgetary objectives (MTOs)
- Less understandable for citizens
- Need of interpretation (structural, relevant factors ...)



Covid-19 crisis

2020

Activation of the general escape clause

- The Stability and Growth Pact (SGP) includes a general escape clause that can suspend the enforcement of the fiscal rules in exceptional times
- It allows the member States to deviate from the medium-term budgetary objective (MTO) or from the appropriate adjustment path towards it
- In application since March 2020 due to the pandemic
 - Purchase of vaccines, masks, medical equipment, ...
 - Temporary unemployment benefit
 - Bridging rights for the self-employed
 - Testing

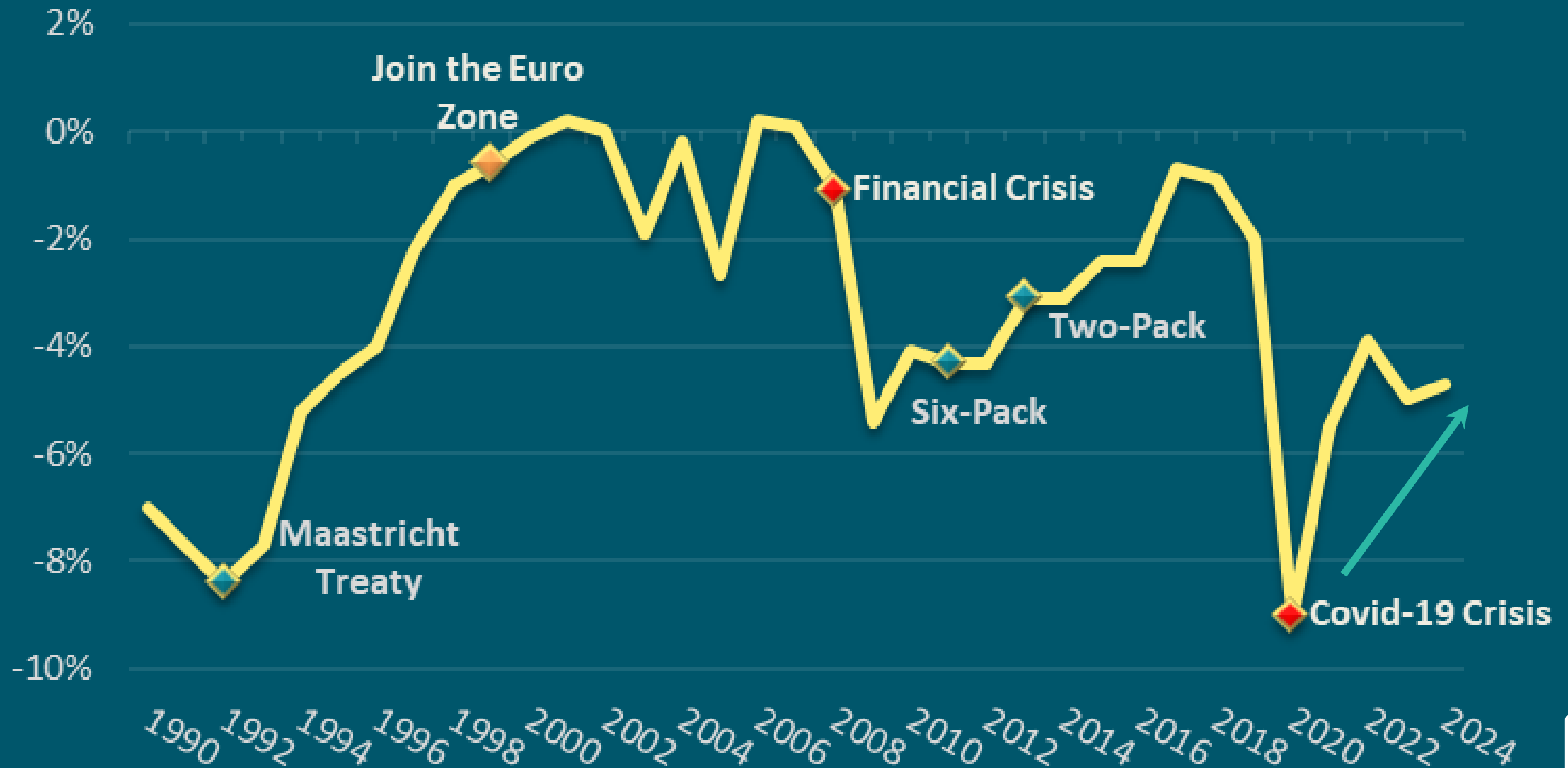
Activation of the general escape clause

- Extended to 2023 due to the economic consequences of the Russian war against Ukraine
 - Refugees inflow
 - Energy price crisis
 - Skyrocketed inflation (peak at 12.3% in October 2022)

Belgium's gross public debt in % of GDP



Belgium's public deficit in % of GDP



Conclusions Covid-19 Crisis and future

- Resilient economy
- Hard to keep budget under control in crisis period
- Hard to go back on a strict budgetary norm
- 2024: End of the general escape clause
 - ➔ Back to business as usual
 - Need to achieve the Medium-term budgetary objectives (MTOs)


Possible Economic Governance Review

Shortcomings

- Insufficient differentiation among member states despite different fiscal positions, sustainability risks, ...
- Pro-cyclical national fiscal policies
 - Fiscal buffers are build in wrong times
- Complexity of EU fiscal rules (multiple indicators, unobservable variables, undermining transparency, ...)

Review

- Keep the quantitative convergence criteria (Deficit < 3% GDP, Debt <60% GDP)
- Changing the path to meet the convergence criteria
 - Shifts from improving the structural balance to limiting expenditures
 - Medium-term net expenditure path anchored on debt sustainability
- Strengthening Independent Fiscal Institutions
- Intensifying of investments and reforms



Long term Challenges : Ageing population

Urge to take action

- Study Committee on Ageing
 - Budgetary and social consequences of ageing
 - Estimate the evolution of total social expenditure up to 2070
 - Total social expenditure by the Belgian public authorities rises from 25.7% of GDP in 2022 to 29.9% of GDP in 2070, i.e. a budgetary cost of ageing of **4.2** percentage points of GDP between 2022 and 2070

Past Pension Reforms

- Alignment of retirement age for men and women
- Stricter conditions to access pension
 - Increasing the legal retirement age from 65 year to 67 years in 2030
 - Increasing minimum career from 35 years to 42 years
- Stricter conditions to access early retirement benefit
 - Increasing minimum age to 63 years
- Various measures will reduce the cost of ageing by 2.1% of GDP by 2060

New Pension Reform

- In the context of the European Recovery and Resilience Fund (RRF) set up in response to the covid crisis, a pension reform was worked out in Belgium
- Various measures will reduce the cost of ageing by 0.5% of GDP by 2070 (amounting to €3 billions) while increasing the minimum pension
- One of the key measures includes a “pensions bonus” for later retirement. This measure should encourage older workers to remain active
- Another measure is the capping of the so-called “perequation” (=a mechanism that allows civil servants' pensions to rise along with the wages of civil servants)

Conclusion

- Keep it simple
- Make Fiscal Consolidation appealing for citizens

Thank you for your attention

Any question ?