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PRESS RELEASE

Analysis of policies for restoring sound Belgian public finances
(Article in the June 2015 Economic Review)

As in almost all advanced countries, the financial crisis and subsequent economic recession led to a large increase in general government deficit and debt levels in Belgium. The Belgian government has responded by devising strategy in order to return to sustainable financial conditions by eliminating its budget deficit and by attempting to get its debt ratio back on a downward track.

The article compares the fiscal consolidation efforts currently underway in Belgium with two earlier periods of fiscal consolidation, the first in the 1980s and the second in the 1990s.

Starting in 1982 and ending in 1987, the first period saw a recession coupled with major imbalances in the Belgian economy, including a sizeable public sector borrowing requirement. In a rigorous restructuring exercise, the government of the day slashed spending and slightly increased revenues.

The second period, from 1993 to 1998, also started off with a recession. Consolidation during this time was mainly underpinned by higher revenues, as well as lower interest charges. In addition, robust policies were put in place to reduce the debt ratio.

The third restructuring period started in 2011, in the aftermath of the financial and economic crisis. At the start of this particular fiscal consolidation revenues were up, but by 2015 the emphasis had shifted to cutting expenditure. Lower interest rates helped interest charges to come down further.

Analysis shows that all three of these fiscal consolidation periods started when economic activity was low, and that they also all involved structural reforms. Competitiveness was rebuilt and employment stimulated, with special attention devoted to the financial sustainability of social protection, more specifically in the shape of the approval of pension reforms.

Fiscal consolidation efforts in the ongoing period are relatively subdued compared with the previous two. However, the current fiscal consolidation programme is up against more challenging conditions such as weaker potential growth, heavy fiscal and parafiscal pressures, a low level of government investment and the increase in costs associated with an ageing population. The ongoing consolidation will require additional measures in order to achieve a structurally balanced budget.

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