

Financieel Forum Antwerpen

20.04.2023



How sustainable are the finances of the federal government, the regions and communities in Belgium?

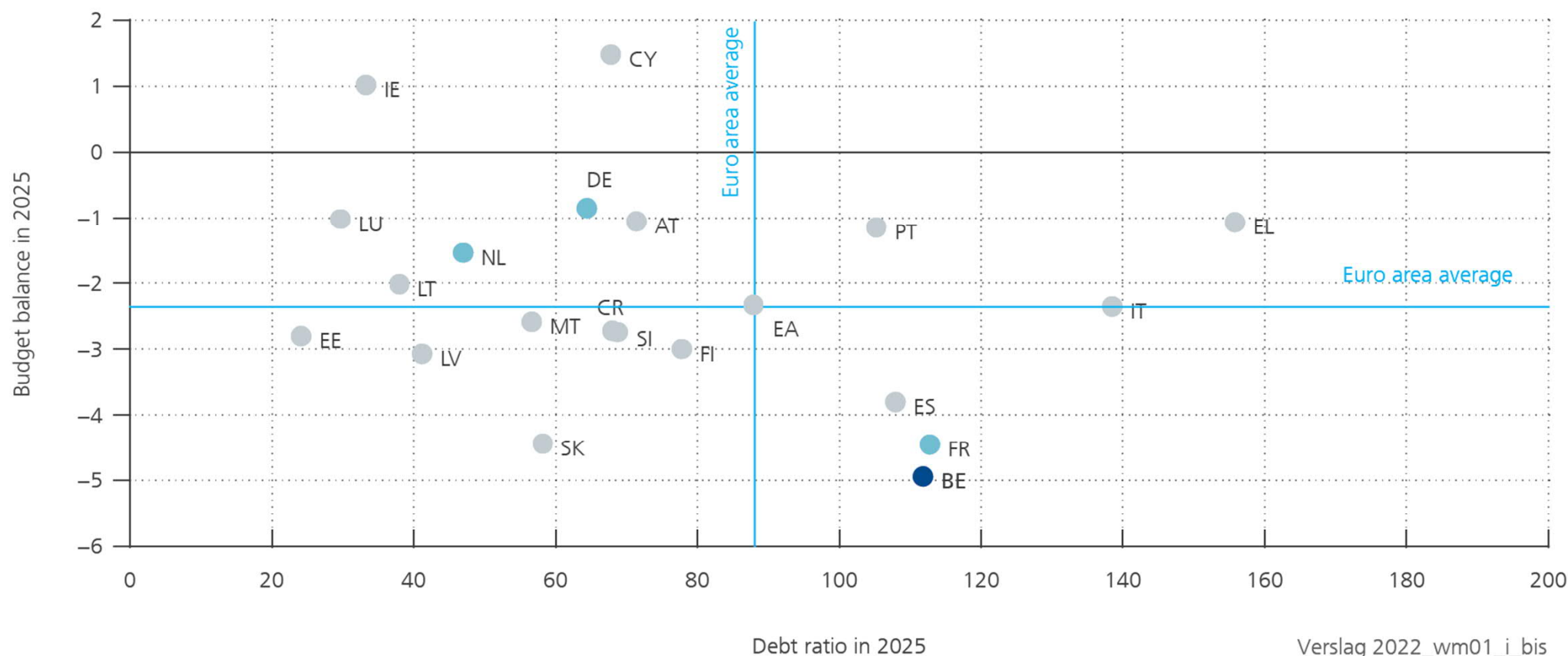
David Cornille, Marjolein Deroose, Hervé Godefroid,
Wim Melyn, Pierrick Stinglhamber and Stefan Van Parys

20 April 2023

Belgian debt ratio and budget deficit are amongst the highest in the euro area

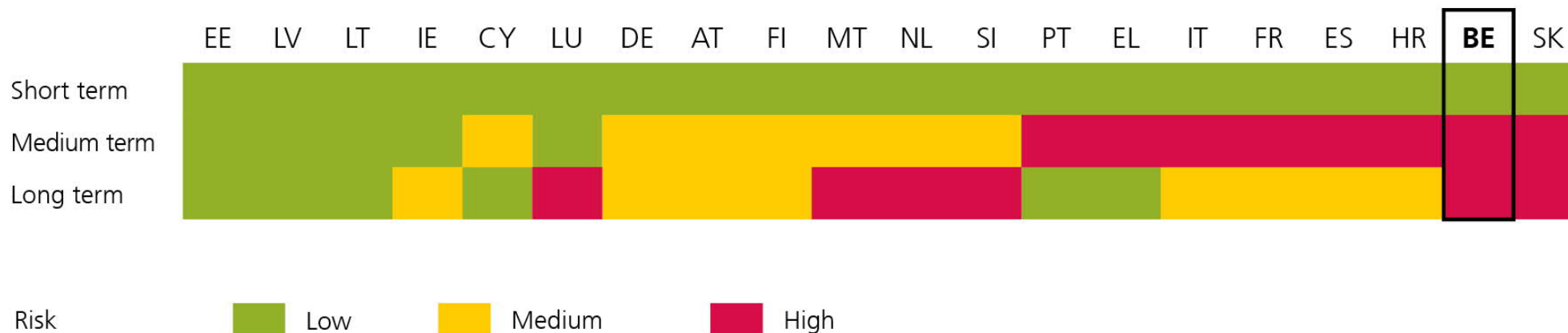
General government debt ratio and budget balance in 2025

(in % of GDP)



The future sustainability of Belgian debt is under pressure

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



A background image of a financial candlestick chart with a blue overlay. The chart shows price fluctuations over time, with a white line connecting the closing prices. Some numerical values are visible on the chart, such as 4547.31 and 4544.95.

1

Main characteristics and fiscal outlook of the government entities

2

Debt sustainability analysis

3

Towards public debt of 100% of GDP in 20 years

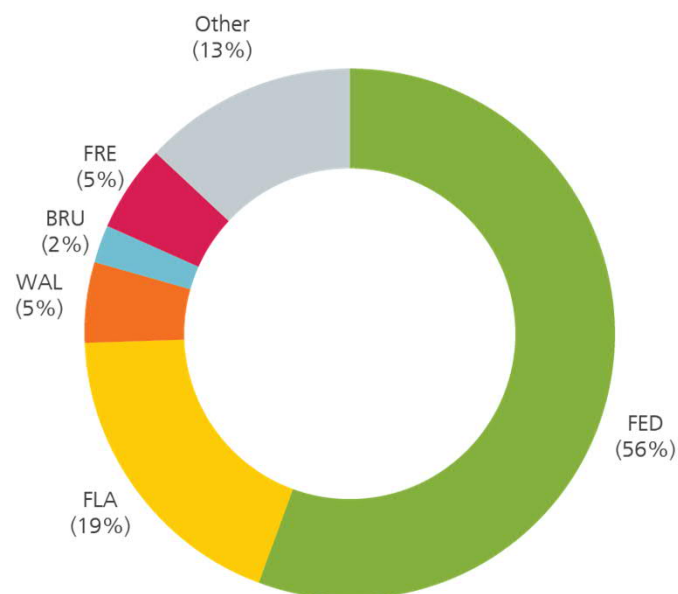
4

Conclusion

Belgian public debt is overwhelmingly concentrated at the federal level

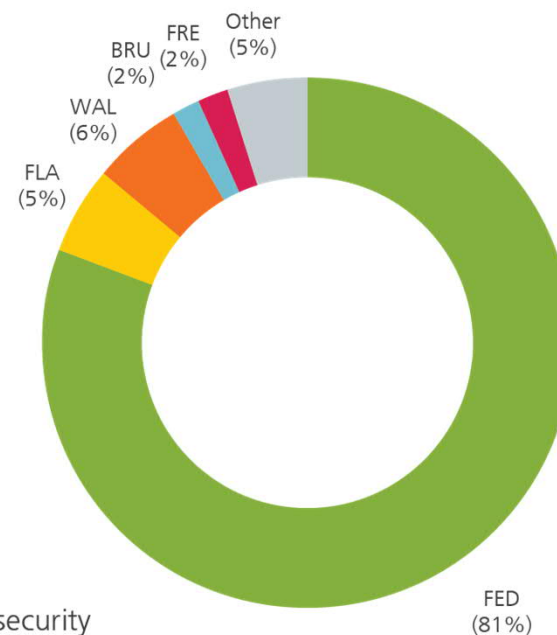
Half of public spending is at the federal level

(share of entities in total final public spending in Belgium, 2021)



The bulk of public debt is at the federal level

(share of entities in total public debt in Belgium, 2021)



FED: Federal government and social security

FLA: Flemish Community

WAL: Walloon Region

BRU: Brussels-Capital Region and Common Community Commission

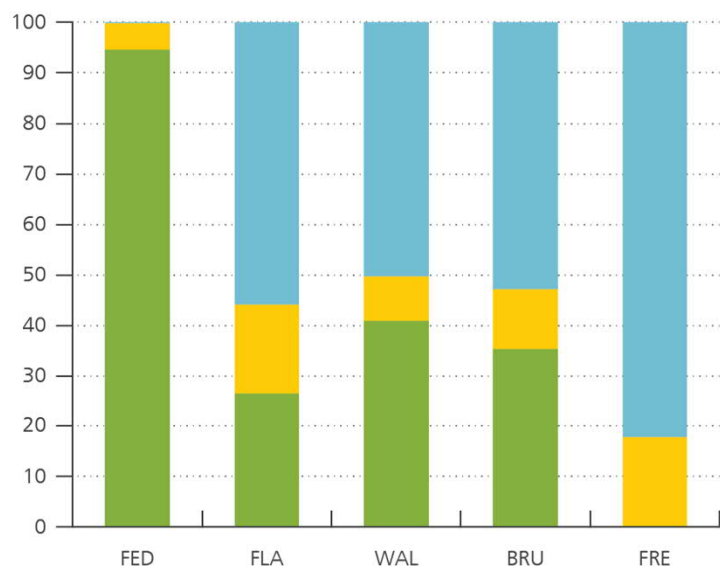
FRE: French Community

Other: (mainly) Local government

Sources of revenue and types of spending differ between government entities

Government revenue

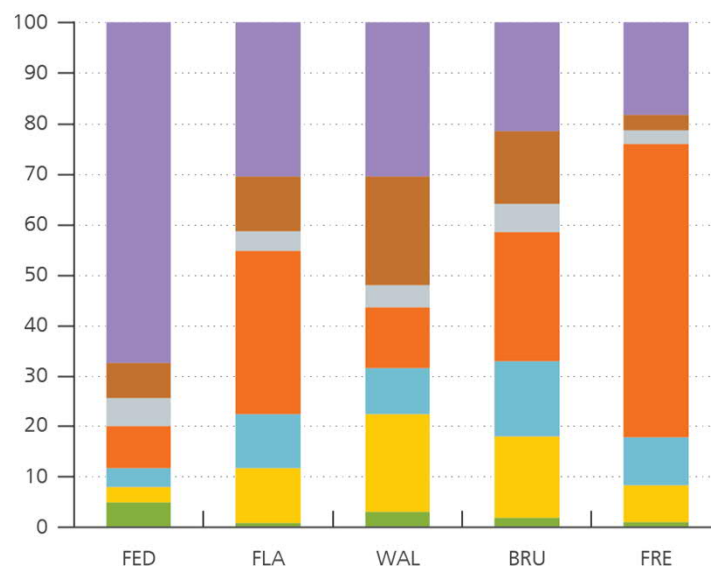
(% of total, 2021)



- Fiscal and parafiscal revenue
- Non-fiscal and non-parafiscal revenue
- Transfers received from other public administrations

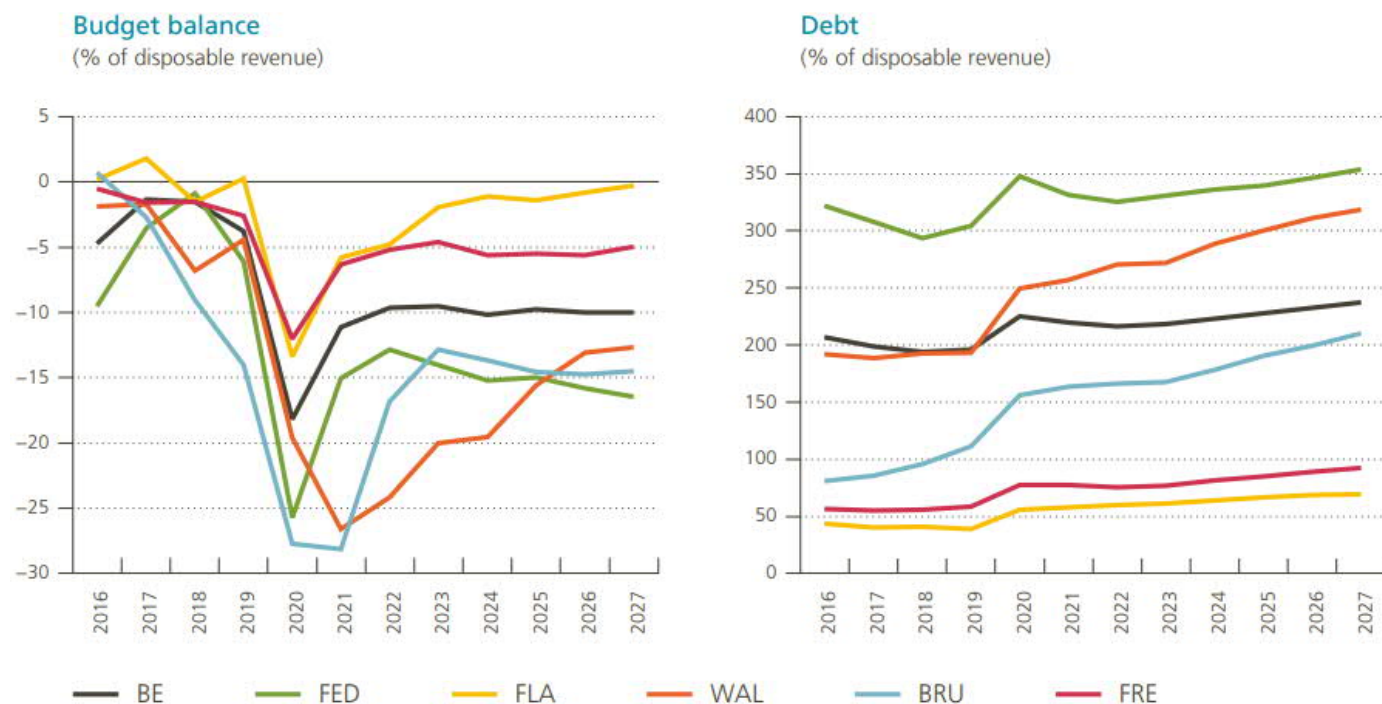
Government spending

(% of total, 2021)



- Property income (interest charges)
- Gross capital formation (investment)
- Intermediate consumption
- Employee compensation
- Other transfers
- Subsidies
- Social benefits

Since the COVID-19 crisis, debt ratios have been rising but are not equally under control in all government entities



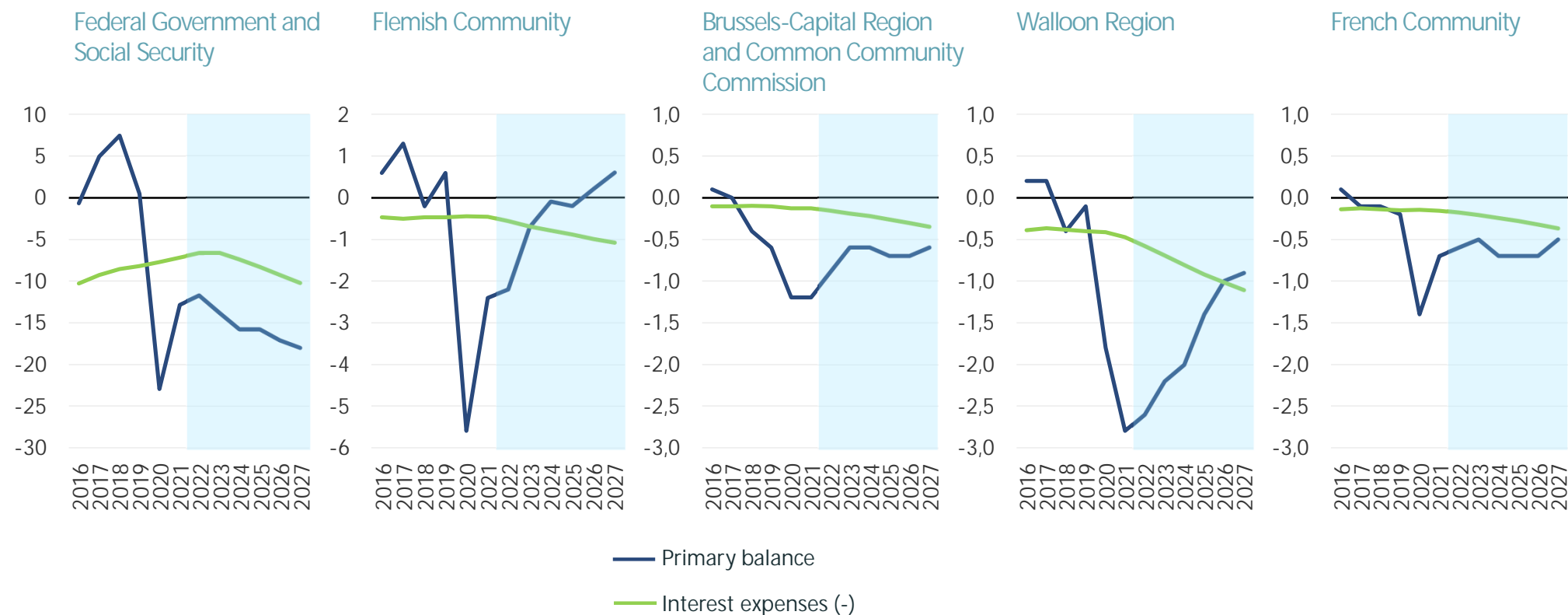
To increase comparability across entities, budget balance and debt are expressed as a share of disposable revenue, a proxy for their financial resources:

$$Disposable\ revenue_{entity} = Revenue_{entity} - Transfers\ paid\ to\ other\ entities$$

$$Revenue_{BE} = \sum_{entities} Disposable\ revenue_{entity}$$

The fiscal outlook at unchanged policy of the government entities is heterogeneous

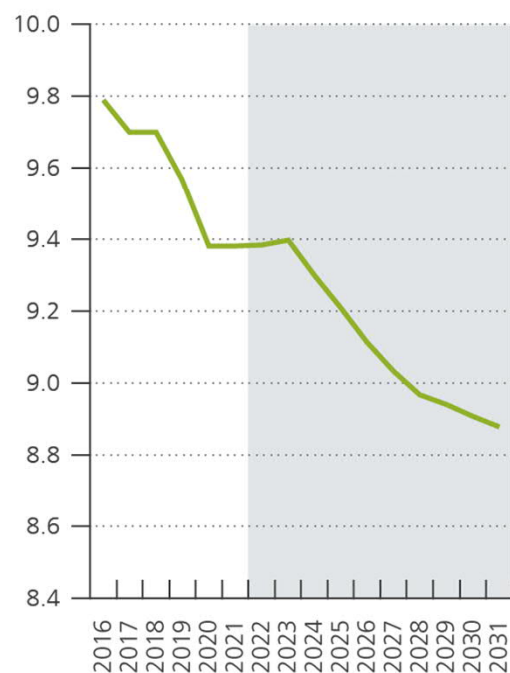
(in € billion)



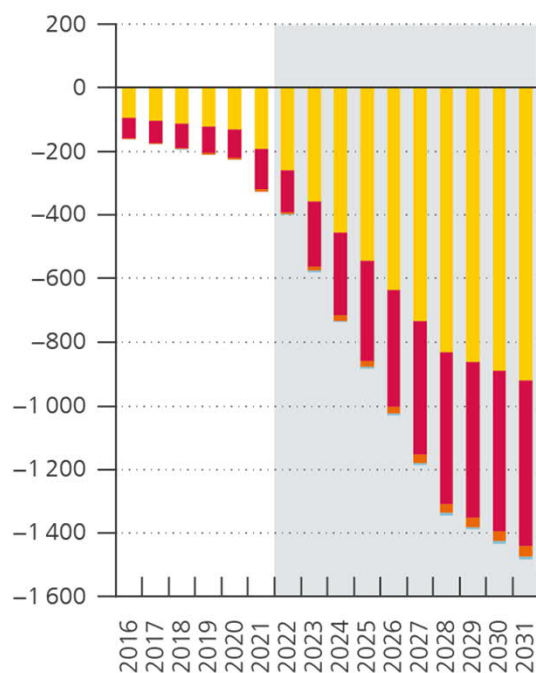
Downward trend in transfers from the federal government to federated entities

(Special Finance Act)

Incomplete linkage of transfers to GDP growth
(Grants, % of GDP)



Increase of the contribution to cover pension liabilities
(in € million)



Phasing out of the transition mechanism
(in € million)



Flemish Region
French Community

Walloon Region
Brussels-Capital Region



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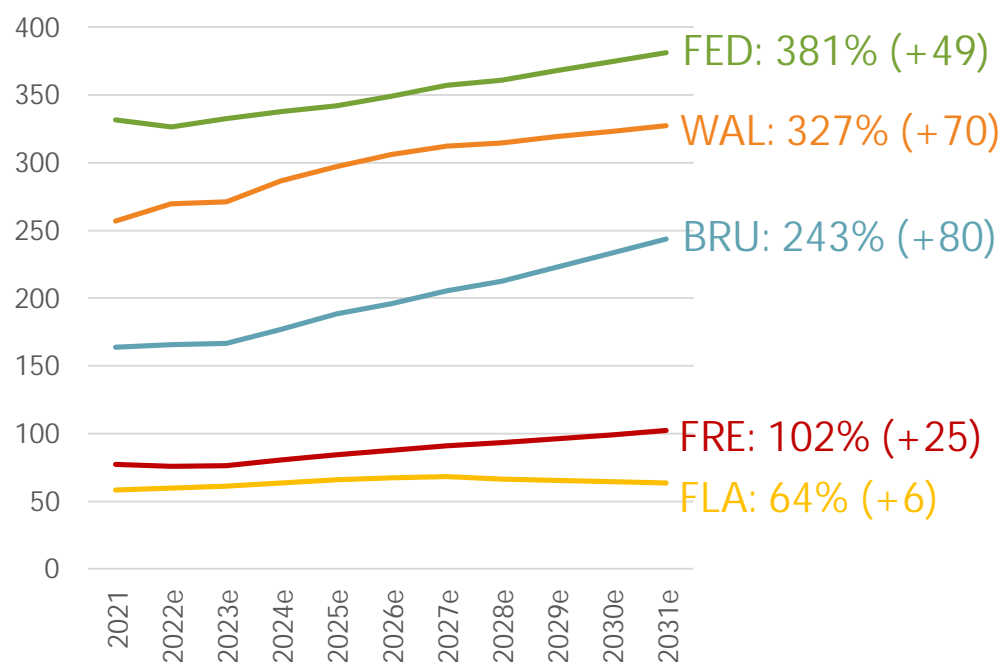
Conclusion

Assessing the debt sustainability of individual government entities

BASELINE

Government debt ratio

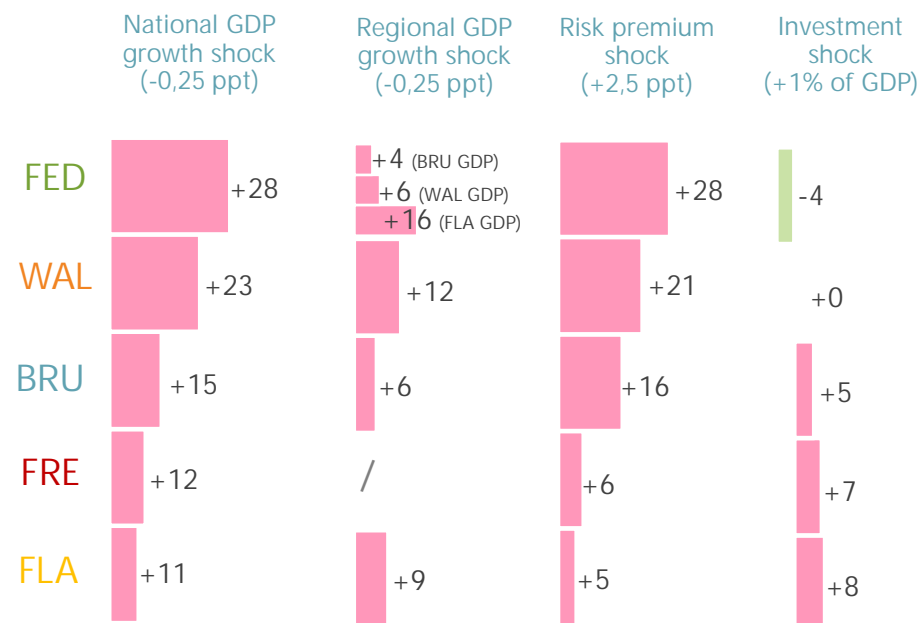
(% disposable revenue, (difference to 2021 in ppt))



ALTERNATIVE SCENARIOS

Difference to the baseline in 2031

(in ppt)

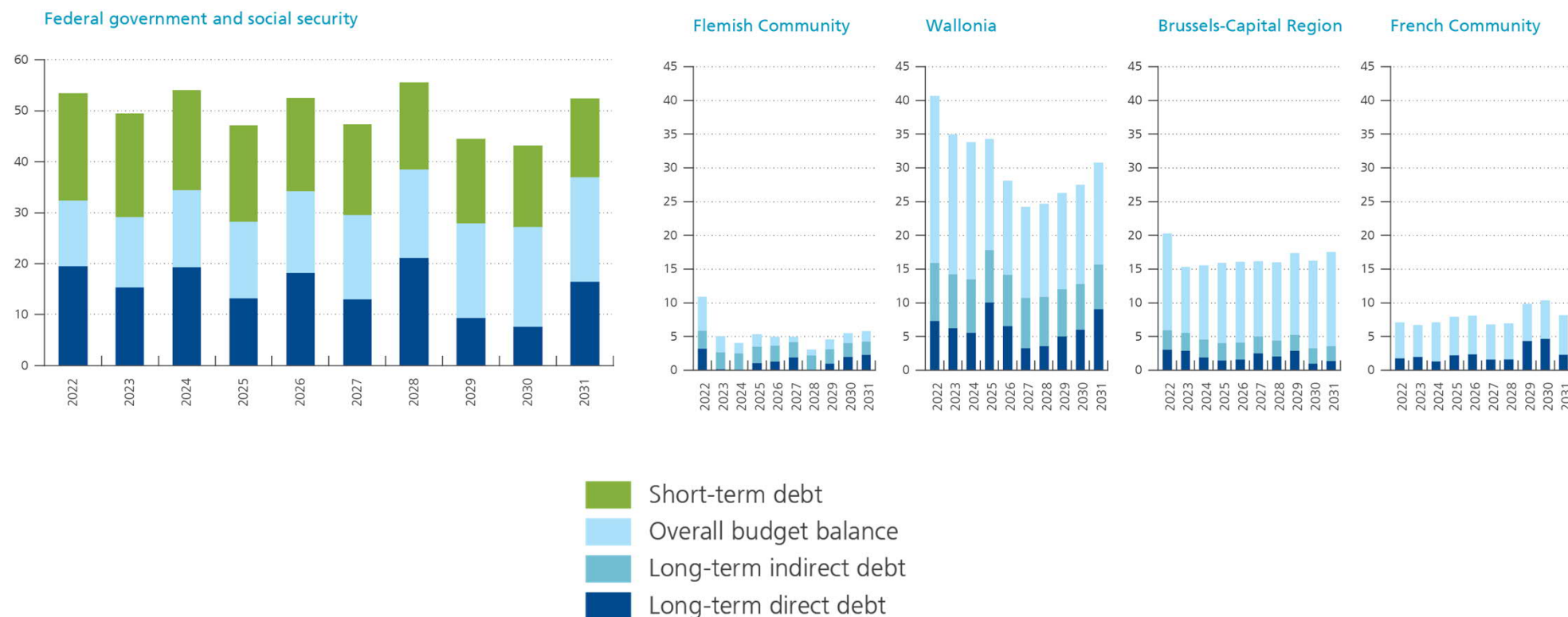


Source: NBB.

1 The baseline scenario reflects the Federal Planning Bureau's 2022-2027 macroeconomic and fiscal projections, except for government interest payments which were calculated based on the implicit interest rates on debt and the market interest rates on Belgian government bonds over May 2022. Beyond 2027, macroeconomic projections were taken from the Study Committee on Ageing's 2022 Report. The primary balance-to-national GDP ratio was kept constant as from 2028, to which the cost impact of population ageing (as projected by the Study Committee on Ageing) was added. Stock-flow-adjustments were set to zero.

Short term risks: gross financing needs differ across government entities

(as a % of disposable revenue)



Except for the Flemish Region, the debt ratings of the regions and communities in Belgium are less favourable than those of the federal government

Long-term rating

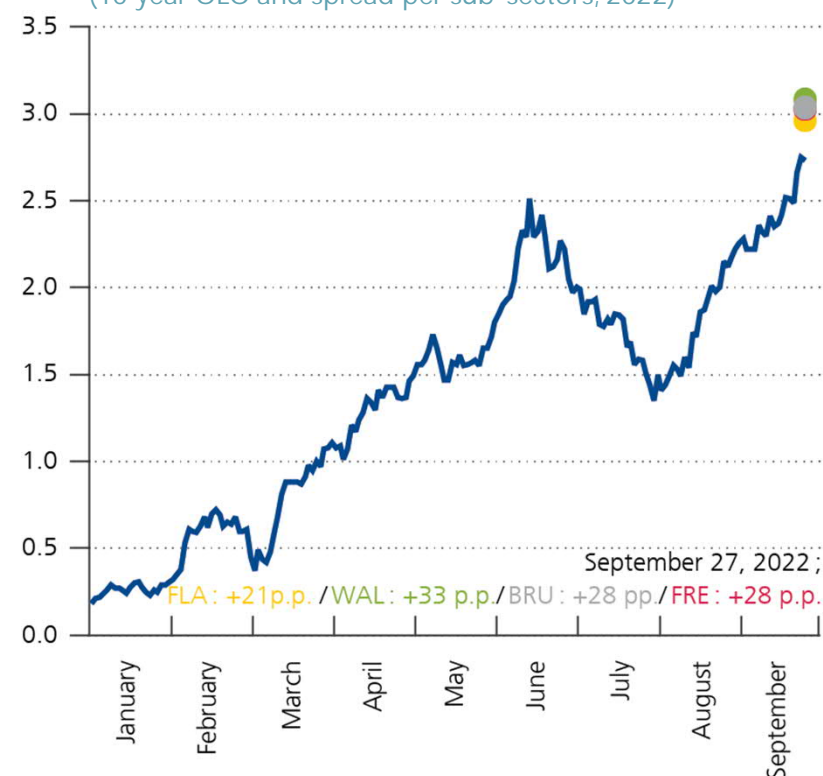
(based on latest available evolution for each sub-sector)

Standard & Poors		Moody's		Fitch Ratings		
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term	
AAA	A-1+	AAA	P-1	AAA	F1+	Optimal security
AA+		AA1		AA+		
AA		AA2		AA		
AA-		AA3		AA-		
A+	A-1	A1		A+	F1	Good quality at lower average quality
A		A2		A		
A-	A-2	A3	P-2	A-	F2	
BBB+		BAA1		BBB+		
BBB	A-3	BAA2	P-3	BBB	F3	
BBB-		BAA3		BBB-		
BB+	B	BA1	NOT	BB+	B	
BB		BA2	PRIME	BB		
BB-		BA3		BB-		
B+		B1		B+		Speculative
B		B2		B		
B-		B3		B-		
CCC+	C	CAA		CCC	C	Extremely speculative
CCC		C				
CCC-						
D		/		DDD		In default
				DD		
				D		

Stable outlook for all ratings, except BRU and FED (Fitch) negative

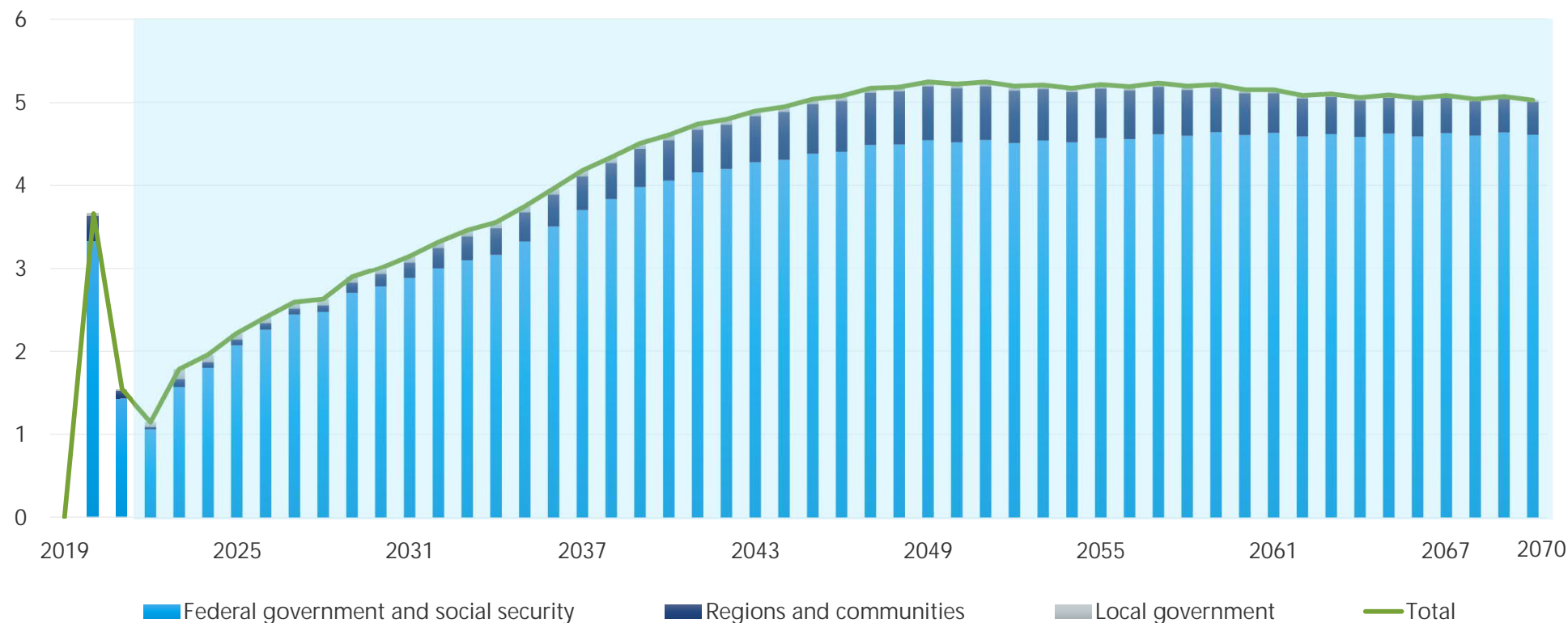
Long-term interest rate

(10 year OLO and spread per sub-sectors, 2022)



Long term risks: ageing costs are mainly situated at the federal level

(change in social benefits in percentage points of GDP compared to 2019)



A background image of a financial candlestick chart with a blue overlay. The chart shows price fluctuations over time, with a white line representing a moving average. Some numerical values are visible on the chart, such as 4547.31 and 4544.95.

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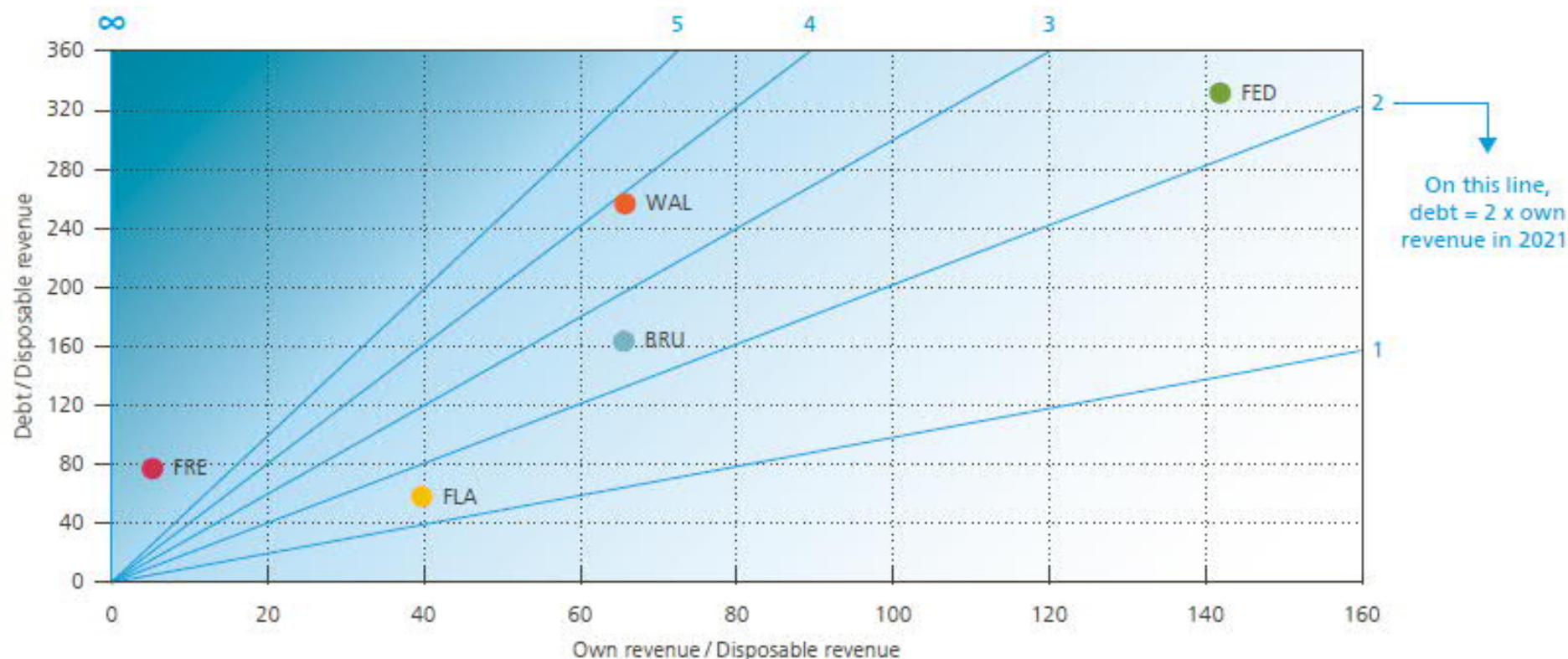
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Towards public debt of 100% of GDP in 20 years

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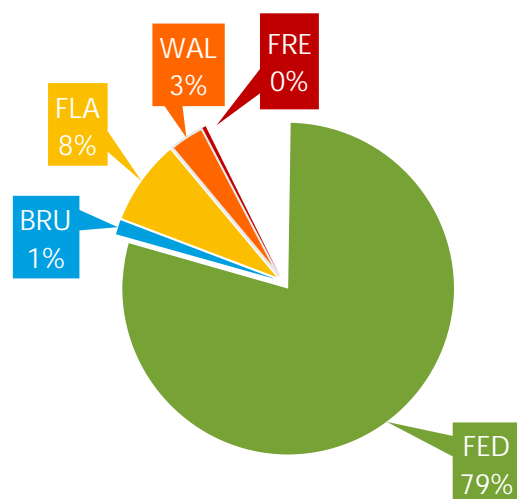
Conclusion

Federal government has highest debt ratio but also highest degree of revenue autonomy

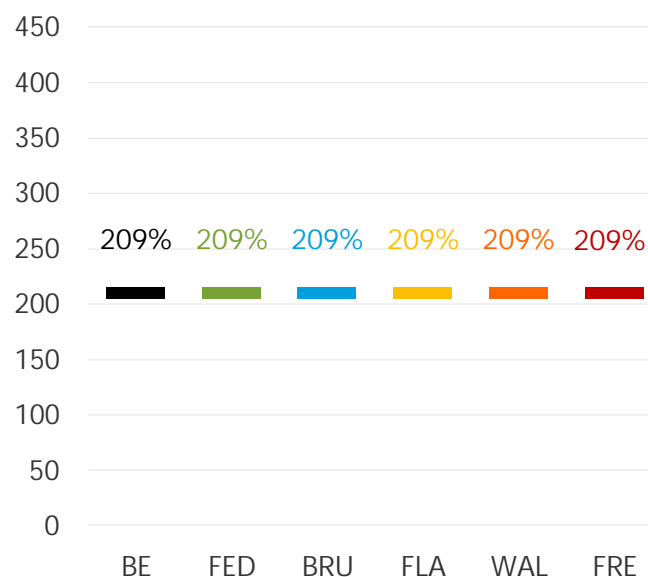


How to distribute a 100% debt-to-GDP norm for Belgium? A possible avenue

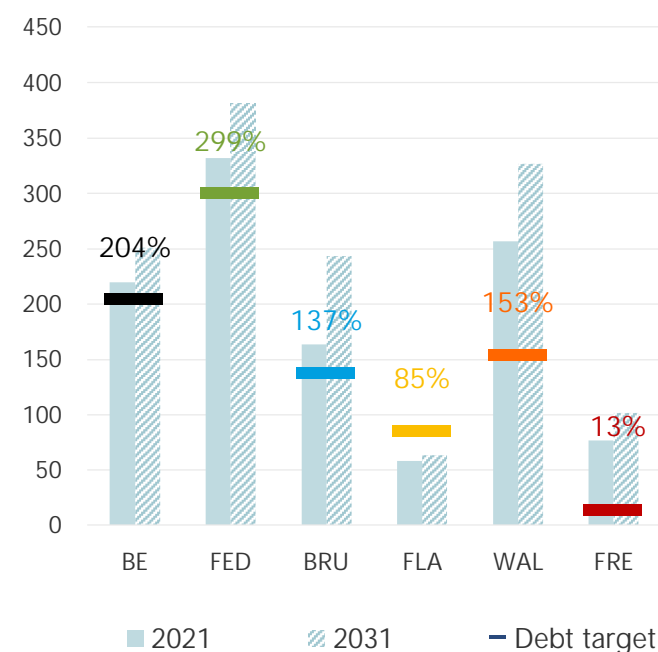
Distribution of a 100% debt-to-GDP norm for Belgium
(distribution key: share in 2016 own revenue)



Debt norm
(in % of 2016 own revenue)

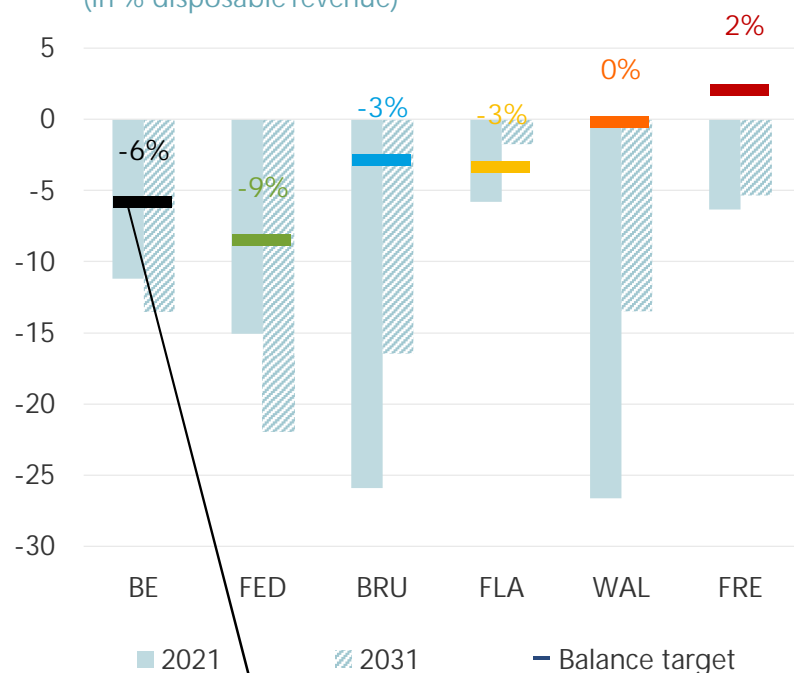


Distance to debt target
(in % of disposable revenue)



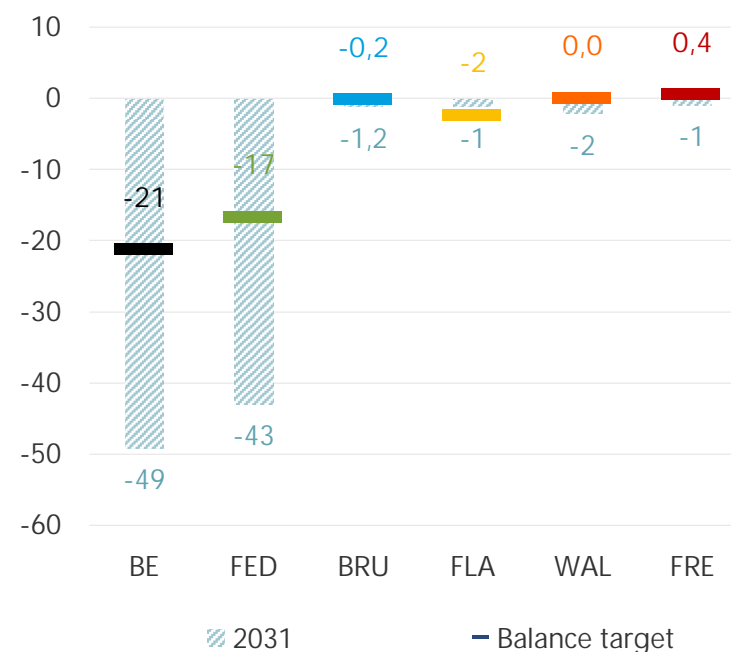
Fiscal effort required to stabilize Belgian public debt at 100% of GDP by 2041

Distance to budget balance target
(in % disposable revenue)



Budget balance required to stabilize
Belgian public debt at 100% of GDP
(or 204% of disposable revenue by 2041)

Distance to budget balance target in 2031
(in € billion)



A background image of a financial candlestick chart with a blue overlay. The chart shows price fluctuations over time, with a white line representing a moving average. Numerical values like '4547.31' and '4514.95' are visible on the chart.

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Conclusion

- Public debt has risen substantially in all government entities in recent years
- At unchanged policy, debt dynamics are not under control in the medium run, except in FLA
- Transfers from the federal government to the regions and communities are growing slower than GDP
⇒ regions and communities need to keep their primary expenditures in check to reduce budget deficits
- A decline in Belgian GDP growth will increase the debt ratio more in entities with higher debt levels (FED, WAL, BRU)
- A decline in regional GDP growth will have a more limited impact on regional debt ratio's due to the solidarity embedded in the Special Financing Act
- An interest rate shock will again be most damaging to those entities with the highest debt ratios (FED, WAL, BRU)
- Debt-financed public investment should be highly productive, with fiscal multipliers far above one, so as not to enhance debt sustainability risks
- Regions and communities face less favourable ratings and financing conditions than the federal government, except for FLA
- Ageing costs considerably increase the federal government's long term sustainability risks
- Substantial consolidation efforts are needed to only bring the Belgian debt ratio down to 100% of GDP

Thank you

How sustainable are public finances
of the federal government and the
regions and communities in Belgium?

21 December 2022

Annex

Primary deficit is projected to increase primarily driven by current expenditure

FEDERAL GOVERNMENT AND SOCIAL SECURITY

Primary balance

(in € billion)



— Primary balance
 2016 primary balance,
 constant relative to nominal
 potential GDP

Revenue

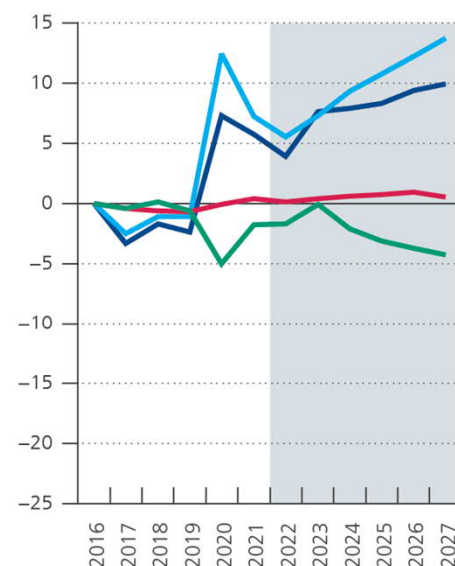
(deviation from the trend based on
 nominal potential GDP since 2016,
 in € billion)



— Total
 — Fiscal and parafiscal
 — Non-fiscal and non-parafiscal
 — Transfers from other
 public administrations

Primary expenditure

(deviation from the trend based on
 nominal potential GDP since 2016,
 in € billion)



— Total
 — Current
 — Capital
 — Transfers to other
 public administrations

Primary deficit is projected to disappear gradually under the impulse of a lower growth in primary expenditure than revenue

FLEMISH COMMUNITY

Primary balance

(in € billion)



— Primary balance
2016 primary balance,
constant relative to nominal
potential GDP

Revenue

(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Fiscal and para-fiscal
— Non-fiscal and non-para-fiscal
— Transfers from other
public administrations

Primary expenditure

(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Current
— Capital
— Transfers to other
public administrations

Primary deficit is projected to decrease at first, and then to stabilize as revenue and primary expenditure would expand at a similar pace

BRUSSELS CAPITAL REGION AND COMMON COMMUNITY COMMISSION

Primary balance
(in € billion)



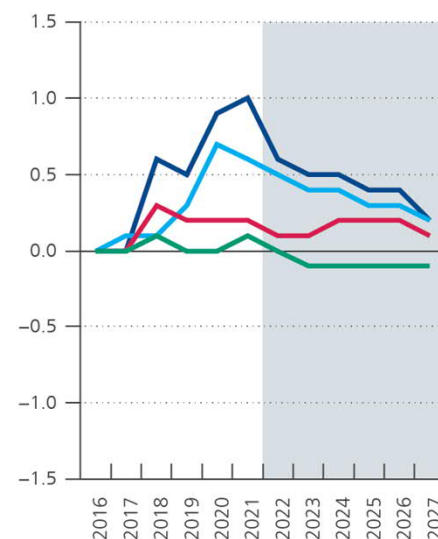
— Primary balance
2016 primary balance,
..... constant relative to nominal
potential GDP

Revenue
(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Fiscal and para-fiscal
— Non-fiscal and non-para-fiscal
— Transfers from other
public administrations

Primary expenditure
(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Current
— Capital
— Transfers to other
public administrations

Deficit reduction gradual and incomplete as revenue remains lower than primary expenditure

WALLOON REGION

Primary balance

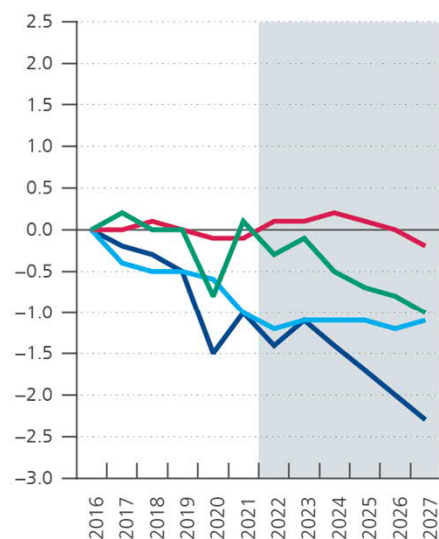
(in € billion)



— Primary balance
2016 primary balance,
constant relative to nominal
potential GDP

Revenue

(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Fiscal and parafiscal
— Non-fiscal and non-parafiscal
— Transfers from other
public administrations

Primary expenditure

(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Current
— Capital
— Transfers to other
public administrations

A persistent deficit is expected in the coming years as revenue and primary expenditures are expected to decline at a similar pace

FRENCH COMMUNITY

Primary balance
(in € billion)



— Primary balance
..... 2016 primary balance,
constant relative to nominal
potential GDP

Revenue
(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Fiscal and parafiscal
— Non-fiscal and non-parafiscal
— Transfers from other
public administrations

Primary expenditure
(deviation from the trend based on
nominal potential GDP since 2016,
in € billion)



— Total
— Current
— Capital
— Transfers to other
public administrations

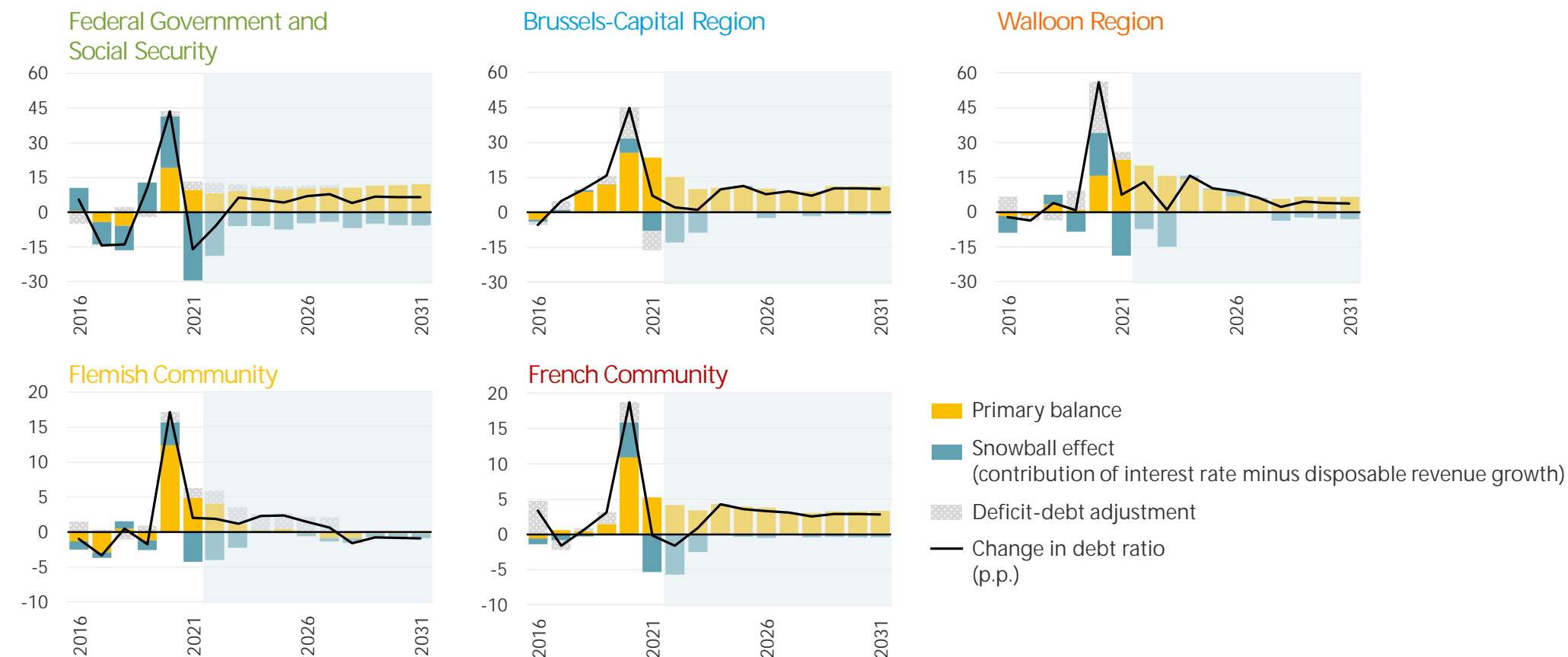
Medium term risks: assessing the sustainability of public finances under 4 alternative scenarios

	Baseline	Symmetric GDP scenario	Asymmetric GDP scenario	Interest rate scenario	Investment scenario
Belgian real GDP growth	Until 2027 projections FPB, afterwards Study Commission on Ageing	-0.25pp from 2023		=	Baseline nominal GDP growth + Δ inv
Regional real GDP growth	/	/	3 subscenarios -0.25ppt from 2023	/	/
Public investment exp.	Until 2027 projections FPB, afterwards inv-to-GDP ratio constant	=	=	=	investment-to-GDP ratio up from 3% in 2024 to 4% in 2030
Primary balance	Until 2027 projections FPB, afterwards pb-to-GDP ratio constant + ageing costs	+ impact Δ GDP	+ impact Δ regional GDP	=	+ impact Δ inv & Δ GDP
Interest charges	Own calculations: refinanced and new debt financed at market rates	=	=	+250 bp from 2023	=

Primary deficits will continue to push up debt in the baseline scenario

Drivers of the change in the debt ratio

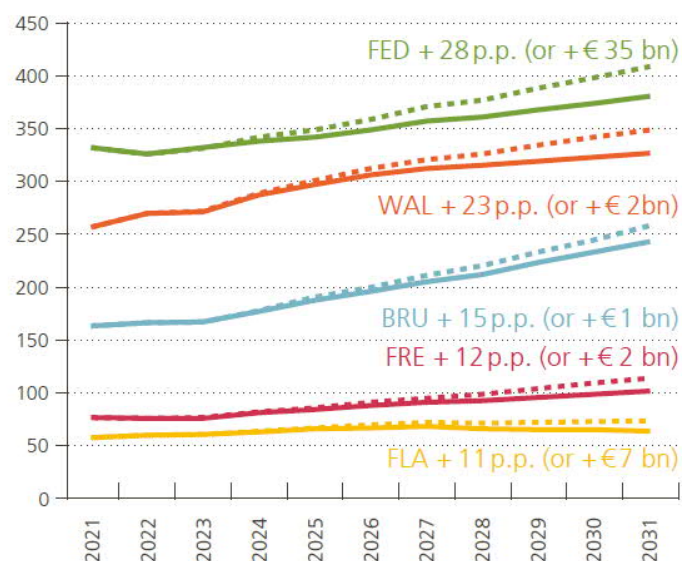
(as a % of disposable revenue)



An adverse national GDP shock worsens all debt paths significantly, while the impact of an adverse regional GDP shock is cushioned^{1,2}

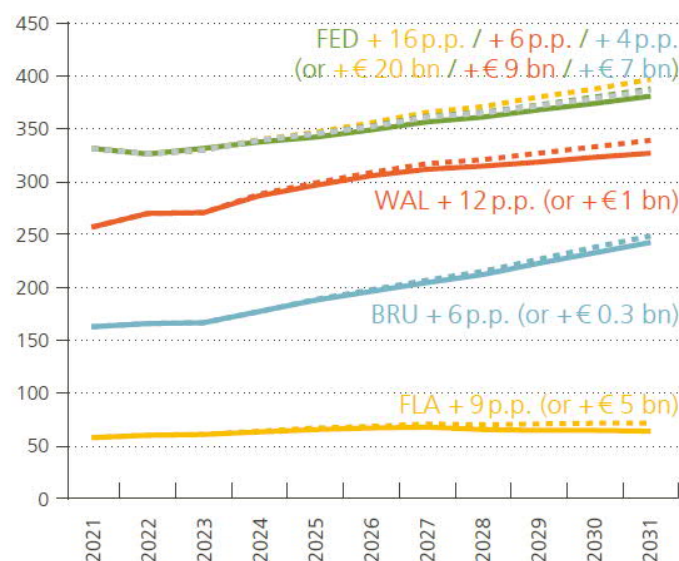
Symmetric GDP shock

(government debt as a % of disposable revenue)



Asymmetric GDP shock

(government debt as a % of disposable revenue)



— Baseline - - - - Scenario

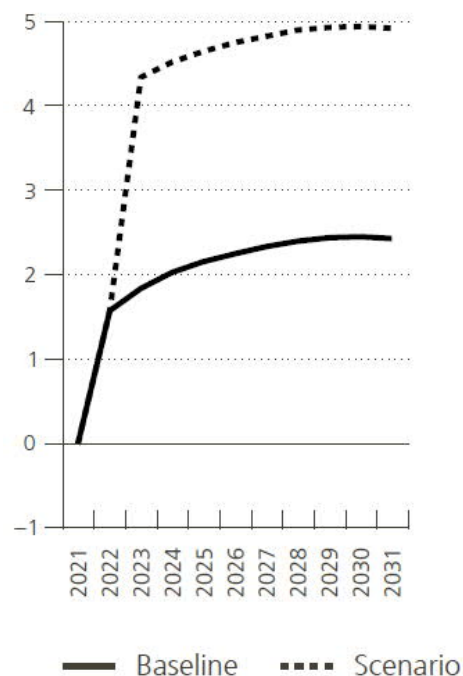
Source: NBB.

¹ The baseline scenario reflects the Federal Planning Bureau's 2022-2027 macroeconomic and fiscal projections, except for government interest payments which were calculated based on the implicit interest rates on debt and the market interest rates on Belgian government bonds over May 2022. Beyond 2027, macroeconomic projections were taken from the Study Committee on Ageing's 2022 Report. The primary balance-to-national GDP ratio was kept constant as from 2028, to which the cost impact of population ageing (as projected by the Study Committee on Ageing) was added. Stock-flow-adjustments were set to zero.

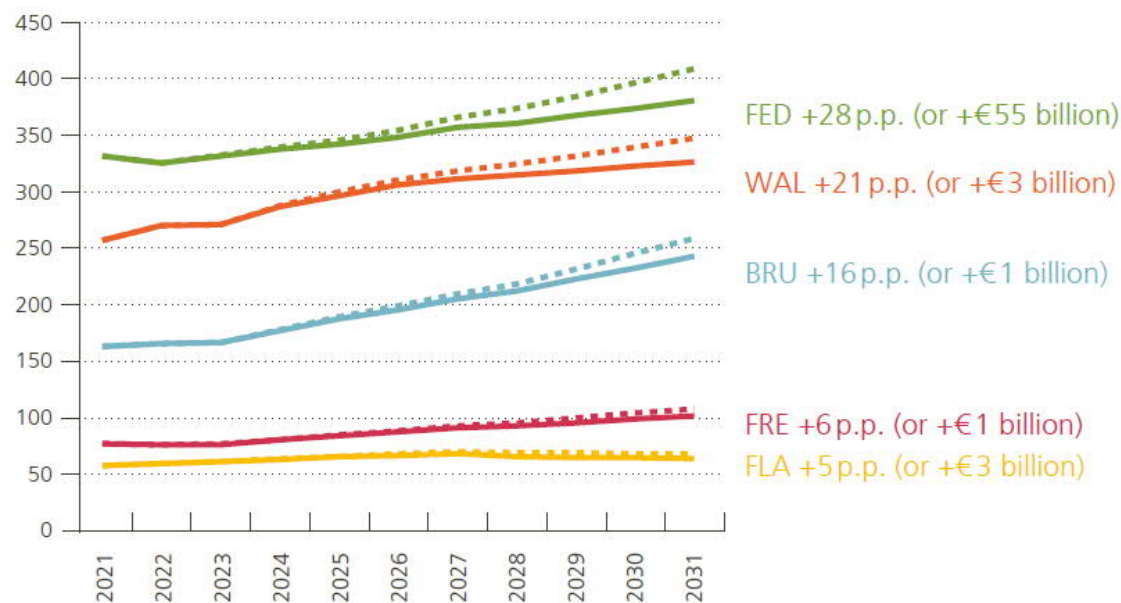
² The symmetric GDP shock scenario assumes that Belgian real GDP growth declines by 0.25 p.p. per year as from 2023 with the shock affecting all regions symmetrically. In contrast, the asymmetric GDP shock scenario assumes that regional real GDP growth declines by 0.25 p.p. per year as from 2023 with the shock hitting the three regions in turn. The primary balances are affected through entity-specific revenue and expenditure elasticities (GDP effect) and a related change in Special Financing Act transfers.

A continued rise in interest rates will significantly raise public debt projections for all entities¹

250 bp increase in interest rates as from 2023
(10y Belgian OLO rate, %)



Risk premium shock
(government debt as a % of disposable revenue)

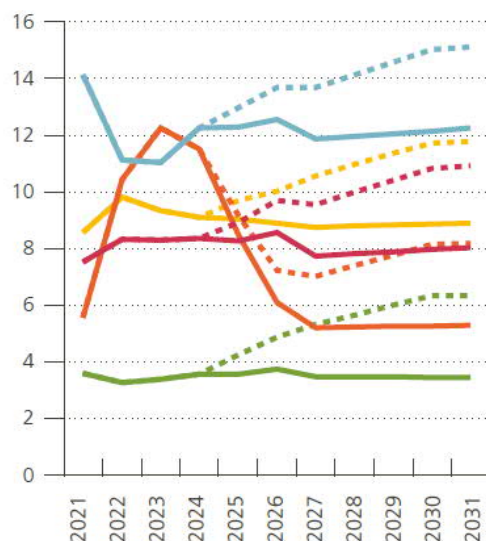


Source: NBB.

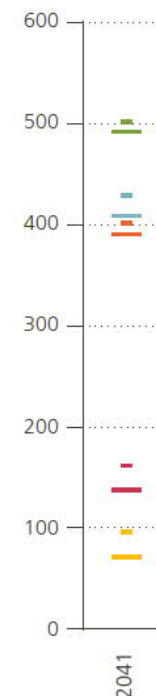
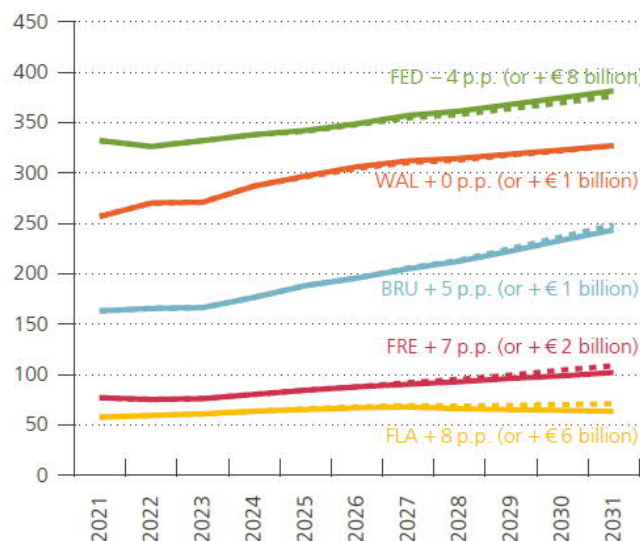
¹ The baseline scenario reflects the Federal Planning Bureau's 2022-2027 macroeconomic and fiscal projections, except for government interest payments which were calculated based on the implicit interest rates on debt and the market interest rates on Belgian government bonds over May 2022. Beyond 2027, macroeconomic projections were taken from the Study Committee on Ageing's 2022 Report. The primary balance-to-national GDP ratio was kept constant as from 2028, to which the cost impact of population ageing (as projected by the Study Committee on Ageing) was added. Stock-flow-adjustments were set to zero.

The increase in debt due to additional public investment expenditure is initially softened by the improvement in Belgian GDP^{1,2}

Public investment expenditure
(as a % of baseline disposable revenue)



Investment shock
(government debt as a % disposable revenue)



— Baseline - - - - Scenario

Source: NBB.

¹ The baseline scenario reflects the Federal Planning Bureau's 2022-2027 macroeconomic and fiscal projections, except for government interest payments which were calculated based on the implicit interest rates on debt and the market interest rates on Belgian government bonds over May 2022. Beyond 2027, macroeconomic projections were taken from the Study Committee on Ageing's 2022 Report. The primary balance-to-national GDP ratio was kept constant as from 2028, to which the cost impact of population ageing (as projected by the Study Committee on Ageing) was added. Stock-flow-adjustments were set to zero.

² The investment scenario assumes that public investment expenditure increases from 3% of GDP in 2024 to 4% in 2030. The short- and long-term investment multiplier equals one. The primary balances are affected through the increase in public investment expenditure, entity-specific revenue and expenditure elasticities (GDP effect) and a related change in Special Financing Act transfers.



Het belang van gezonde overheidsfinanciën

NBB & Financieel Forum Antwerpen

20 april 2023



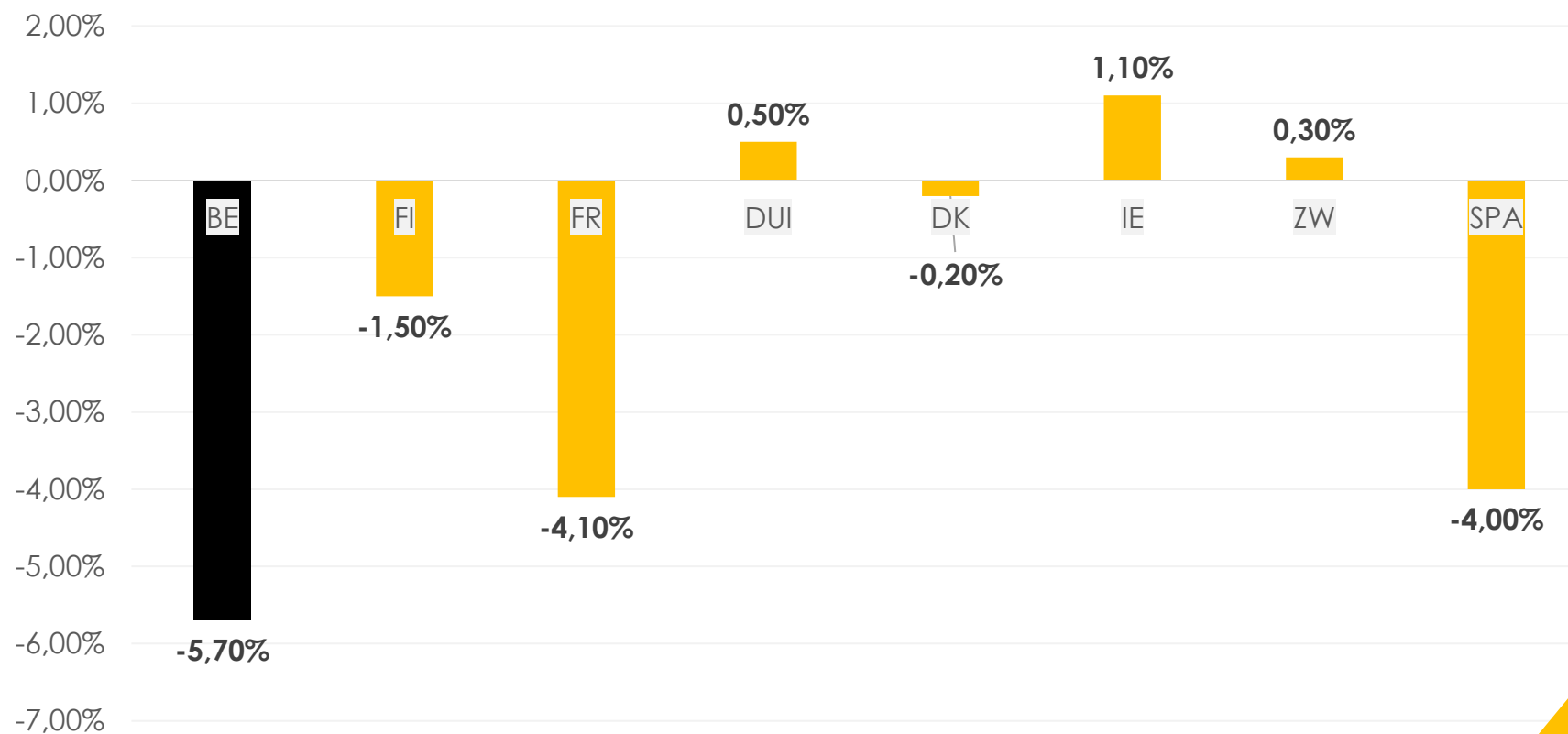
3 drama's

The background of the image is a complex financial chart. It features a candlestick chart in the upper half and a bar chart in the lower half, both rendered in white lines on a light blue background. Several dotted white trend lines are overlaid on the charts, some with small white triangles indicating direction. A solid black diagonal line runs from the top left towards the center. A large, solid yellow triangle is positioned in the top right corner. The text "3 drama's" is centered in a black rectangular box with a white border.

1_a

Grootste begrotingstekort

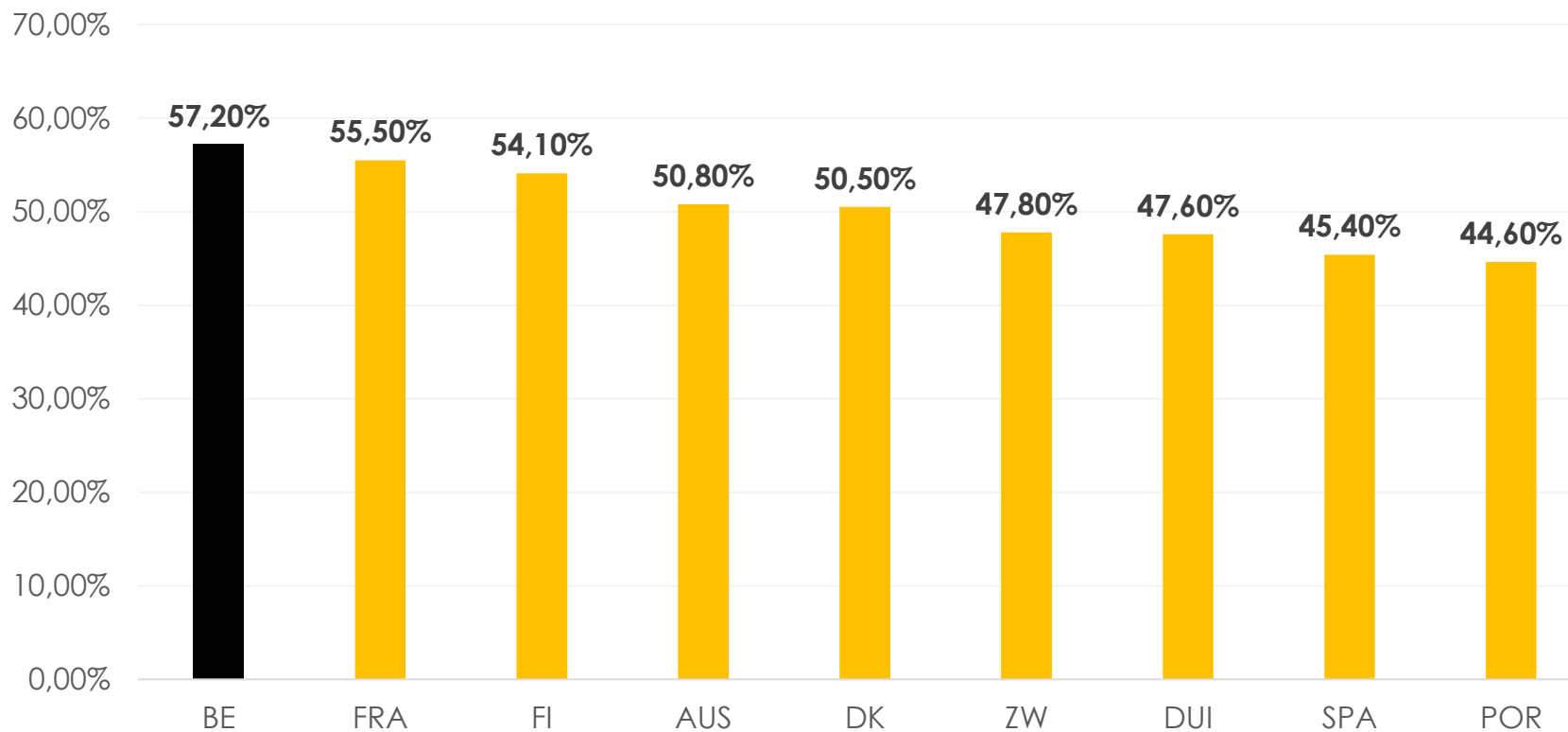
Structureel overheidssaldo in 2028
in % van bbp, bij ongewijzigd beleid, vooruitzicht IMF april 2023



Bron: IMF

Hoogste overheidsuitgaven **1_b**

in 2028 - in % van bbp, bij ongewijzigd beleid, vooruitzicht IMF april 2023

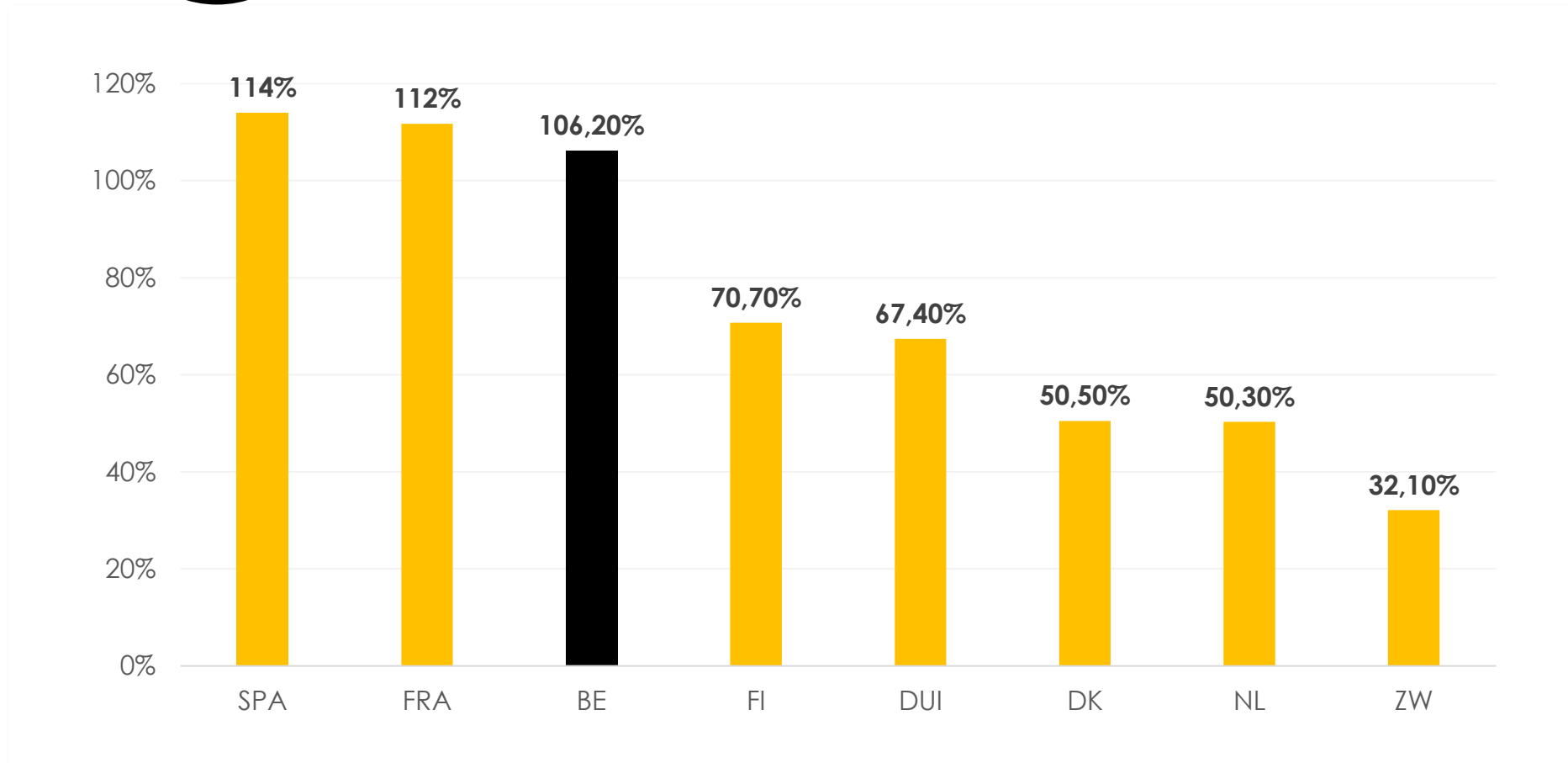


Bron: IMF

2

Stijgende schulden

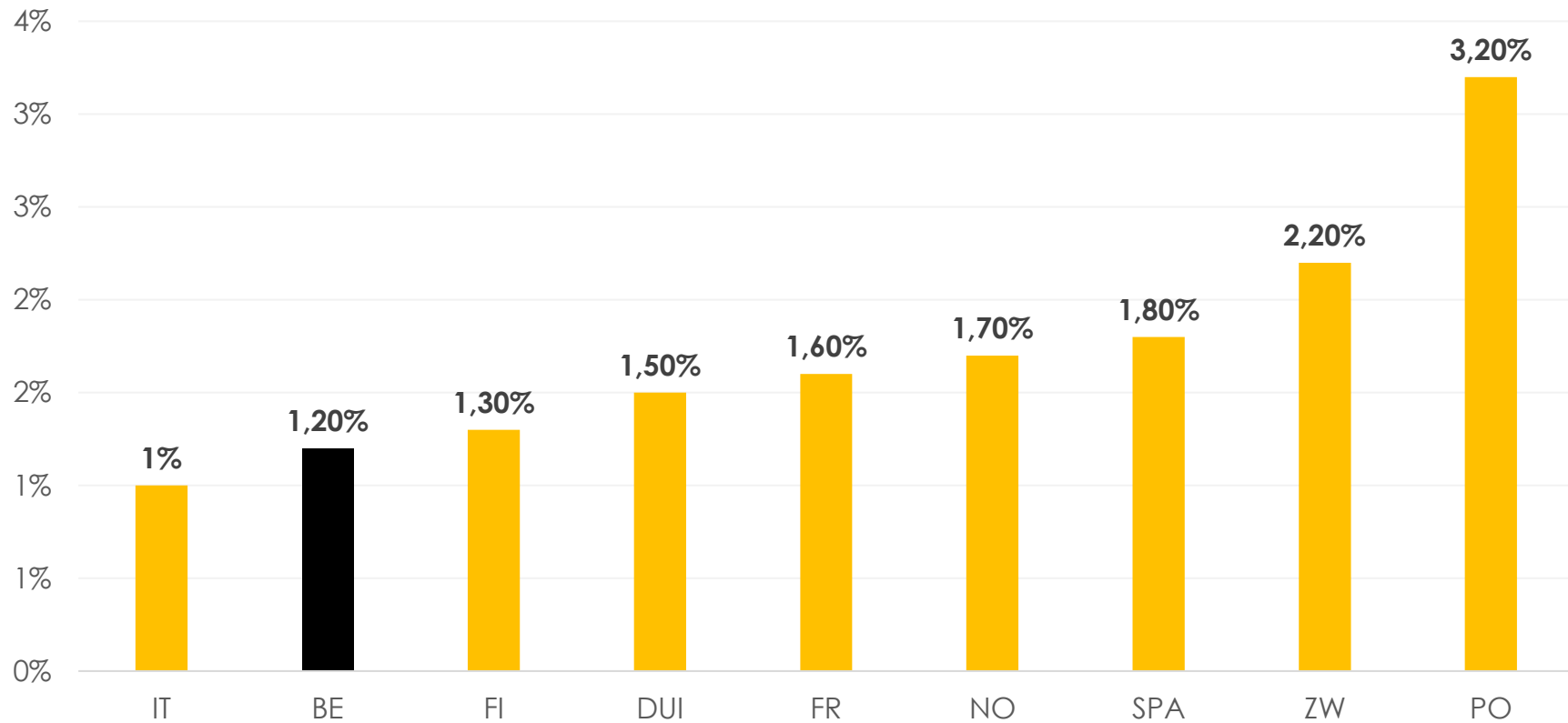
Bruto schuld in % BBP – April 2023



Bron: EC

Amper economische groei **3**

Gemiddelde reële bbp-groei per jaar 2024 - 2028



Bron: IMF

Grieks scenario?



Belgische schuldpositie slecht, maar geen "Grieks scenario" in zicht

Bron: GVA - 14 maart 2023

Historisch econoom: "Grieks scenario dreigt als we concurrentiekracht niet onder controle krijgen"



Bron: VRT – 18 april 2022

'Als we geen buffers voorzien, dreigt over vijf jaar een Grieks scenario'



Bron: DS – 11 december 2021

'België vergelijken met Griekenland is overdreven'



Bron: DS – 6 september 2022



“Griekenland heeft een arme overheid én een arme private sector; België een arme overheid, maar een rijke private sector”

Bart Van Craeynest - Hoofdeconoom Voka

The background of the slide features a close-up, slightly blurred image of numerous Euro coins and two folded Euro banknotes. The coins are in various denominations, including 1, 2, and 5 Euro. The banknotes are a 10 Euro note (blue) and a 20 Euro note (red). The text is overlaid on this image. There is a solid yellow triangle in the top-left corner and a white triangle in the bottom-center.

**Waarom zijn gezonde
overheidsfinanciën zo belangrijk?**

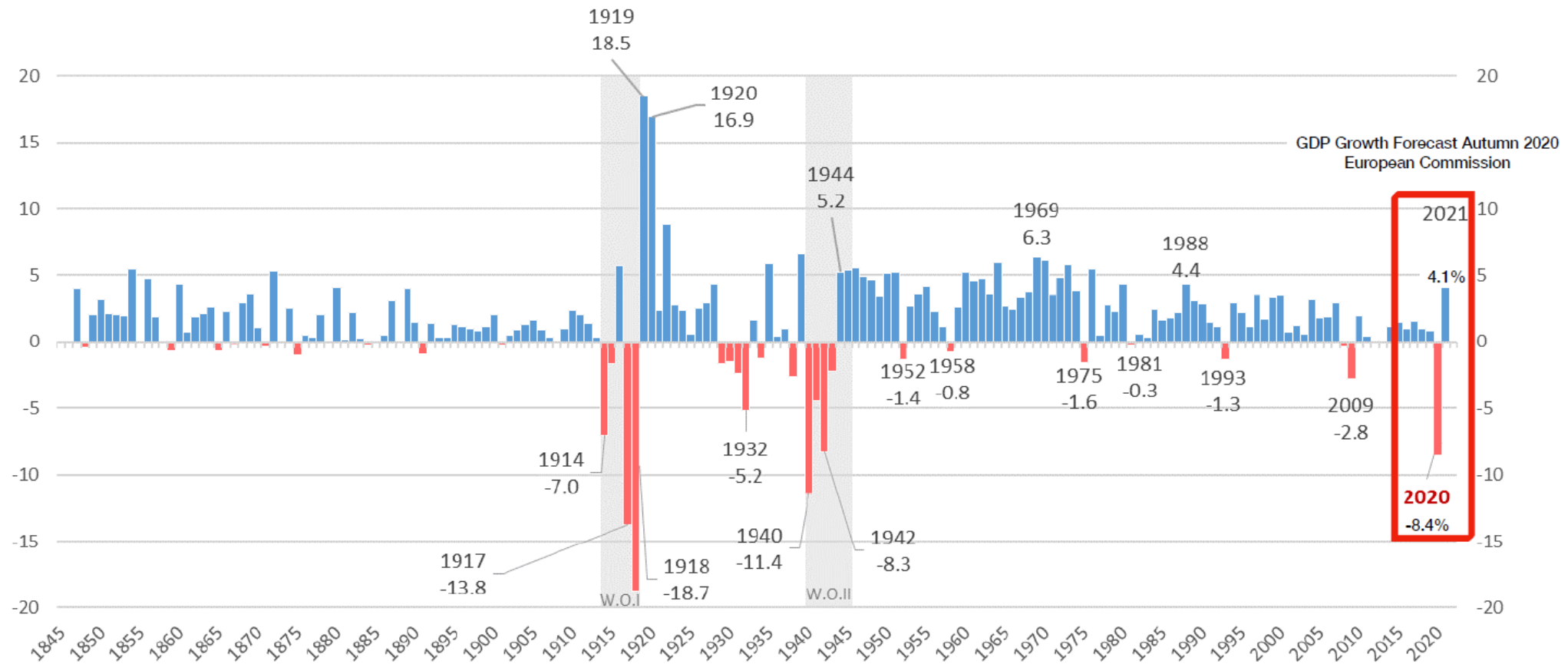
1





3

Buffer in crisistijden



**The
Economist**

THE PRINCE

The inside story of Xi
Jinping—and the threat he
poses at home and abroad



OCTOBER 1ST–7TH 2022

HOW NOT TO RUN A COUNTRY



Sharp decline in global debt levels in USD terms, but global debt/GDP ratios are on the rise again



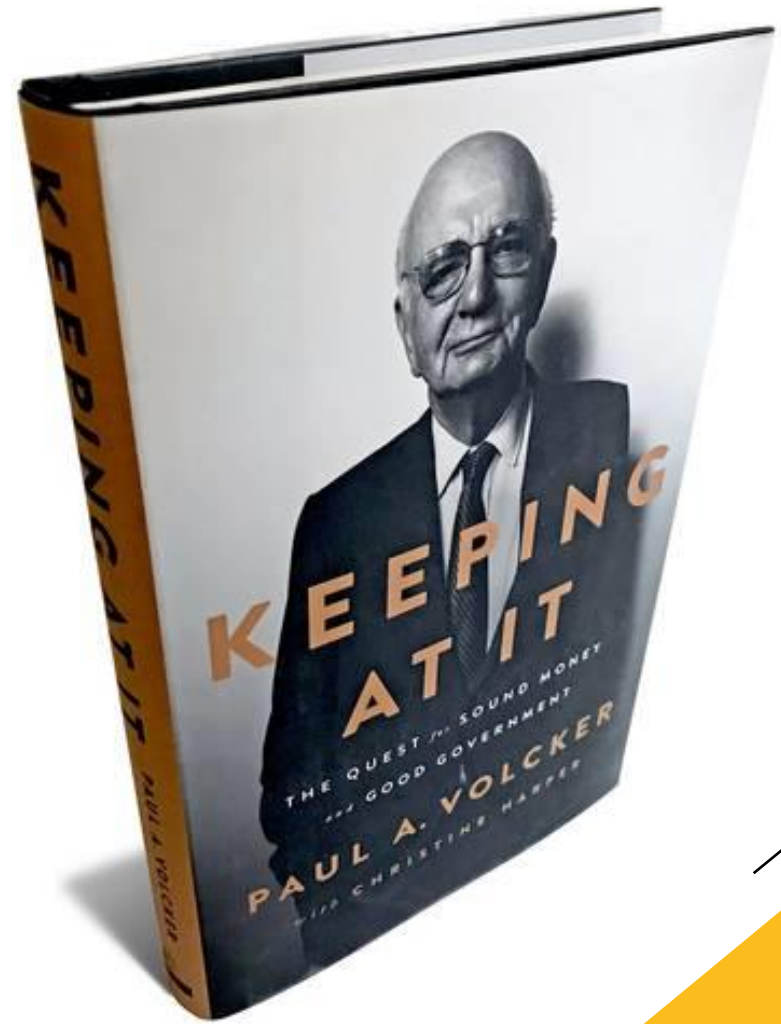
**We verarmen
door die schulden**

Source: IIF, BIS, IMF, National sources, Haver



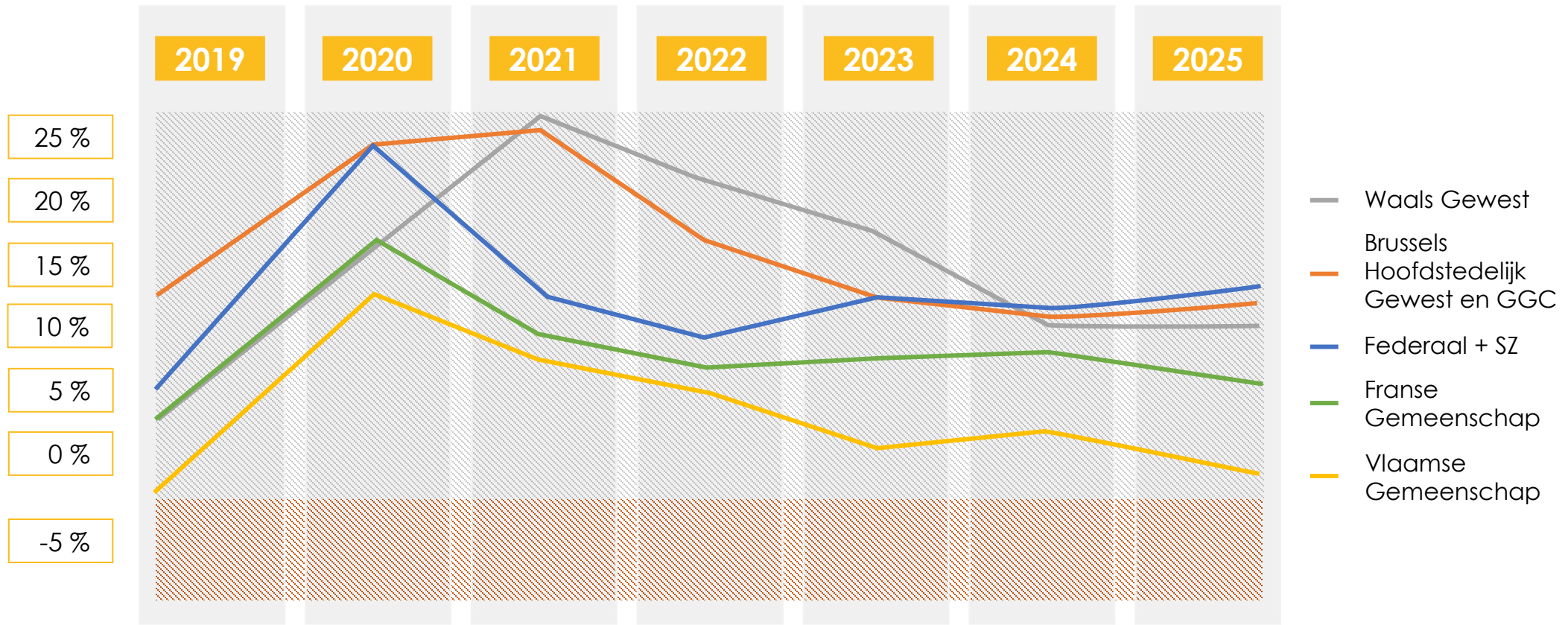
**“History doesn't repeat itself,
but it does rhyme.”**

— Mark Twain





Een gezond begrotingstraject: Vlaanderen doet wat moet



Onze tools



**BREDE
HEROVERWEGING**

UITGAVENTOETSING

UITGAVENNORM

SUBSIDIEREGISTER

**PRESTATIE
BEGROTING**



“

De overheid verdikt met 100 gram per maand.

Je praat dat telkens goed: 100 gram bijkomen dat is toch niet erg? Maar als dat blijft duren, ben je aan het einde van de rit wel obees.

- Ignace Van Doorselaere



A portrait of Matthias Diependaele, a middle-aged man with short grey hair, wearing a dark blue suit, white shirt, and patterned tie. He is looking off to the side with a serious expression. The background is a brick wall on the left and a bright window on the right. The image is framed by a white diagonal line and a yellow triangle in the top right corner.

VRAGEN?

Matthias Diependaele