4. Public finances

The general government deficit ended 2014 at 3.2% of GDP, up from 2.9% in 2013. The modest consolidation that started in 2011 failed to keep going and the benefits of reduced interest charges were lost in a climate of low interest rates. So, the deficit moved into "excessive" territory by breaching the 3% ceiling. Government debt climbed 1.9 percentage points to 106.5% of GDP, its acceleration due to both the deteriorating primary balance and GDP's subdued nominal growth. The Belgian government's budget plan is focused on achieving structural balance by 2018, and the European Commission will investigate in March whether it meets the requirements of the Stability and Growth Pact prior to implementation of the budget and the proposed structural reforms. In this particular context, Belgium faces extremely high fiscal and parafiscal pressure on labour income, and a shift to other tax bases would benefit job creation as well as competitiveness.

4.1 Overview of fiscal policy

Deteriorating nominal and structural overall balances have put a stop to the modest improvement of the previous few years

The Belgian government ended the year 2014 in the red to the tune of 3.2% of GDP, a deepening of the deficit by 0.3 percentage point compared with 2013. A combination of lower revenues and a higher ratio of primary expenditure to GDP was to blame, while interest charges came down further.

It was the reversal of a recent trend: the fiscal consolidation that had got underway in 2011 was stopped in its tracks. Belgium's structural overall balance as measured by European Commission (EC) methods – which adjust the budget for the effects of cyclical and temporary factors – worsened by 0.1 percentage point of GDP, whereas it had improved by around 1 percentage point between 2011 and 2013. Non-recurrent factors had put a 0.3% positive shine on nominal deficit levels – tax regularisation revenues being the key factor – but their total effect was 0.3 percentage point less than in 2013. The business cycle proved a neutral force, as economic activity roughly kept pace with the economy's growth potential in 2014.

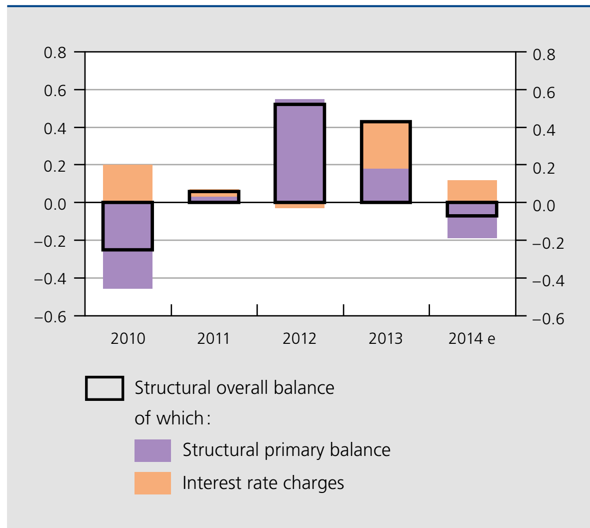
TABLE 16 GENERAL GOVERNMENT ACCOUNTS
(in % of GDP)

	2000	2011	2012	2013	2014 e
Revenue	48.6	49.3	50.7	51.5	51.2
Primary expenditure	42.2	49.8	51.4	51.2	51.4
Primary balance	6.4	–0.5	–0.7	0.3	–0.2
Interest charges	6.5	3.4	3.4	3.2	3.0
Budget balance	–0.1	–3.9	–4.1	–2.9	–3.2
p.m. Effect of non-recurrent factors	*–0.2*	*–0.2*	*–0.4*	*0.6*	*0.3*

Sources: EC, NAI, NBB.

CHART 67 DETERMINANTS OF THE CHANGE IN THE GOVERNMENT'S STRUCTURAL OVERALL BALANCE

(changes compared to the previous year, in percentage points of GDP)



Sources : EC, NAI, NBB.

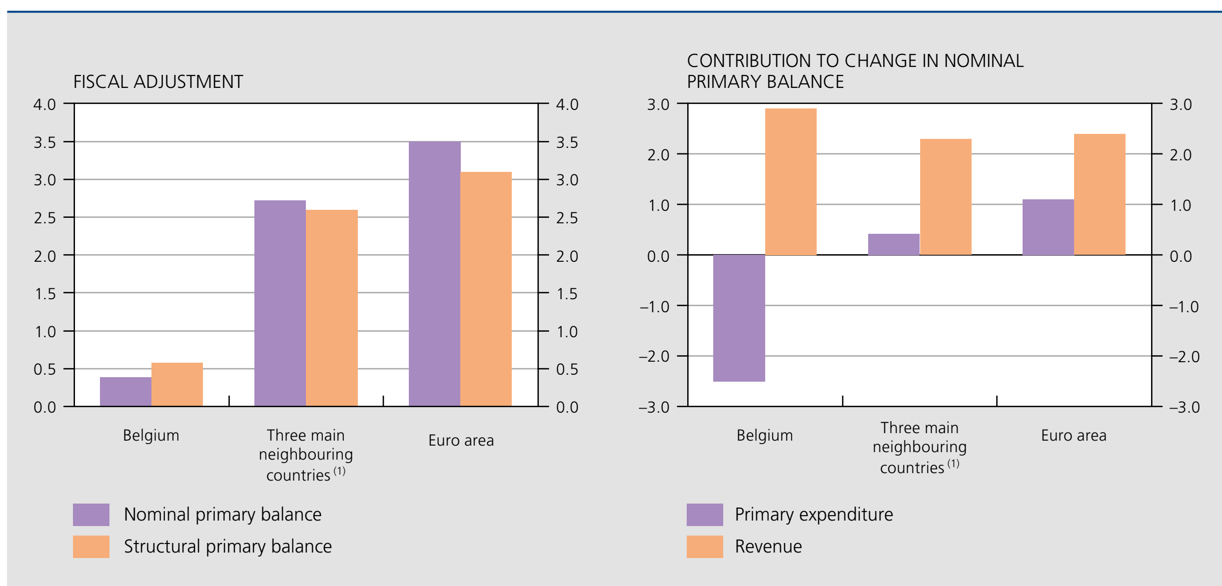
In addition to its interrupted consolidation, Belgium may also be observed to have trodden relatively lightly on austerity compared with measures taken in its three main neighbouring countries and elsewhere in Europe, particularly in the peripheral countries. Measured by the structural primary balance, which ignores interest charges, non-recurrent factors and cyclical effects, Belgium's fiscal consolidation worked out at 0.6 % of GDP between 2010 and 2014, as against 2.6 % of GDP for the three main neighbouring countries – with Germany notching up a 2.2 % improvement, France 2.6 % and the Netherlands 3 % – and compared with 3.1 % of GDP for the euro area at large. France, the Netherlands and Germany – if by a very small degree – had bigger deficits than Belgium in 2010, as did the euro area as a whole, but have managed to shrink them significantly in 2014, France excepted. Germany returned to a balanced budget in 2012.

The contrast with the approach to fiscal consolidation is also striking : throughout the euro area, both the expenditure and revenue levers were applied at the same time, but in Belgium expenditure has gone up as a percentage of GDP, which has not helped to make public finances any healthier as it required offsetting by significantly higher revenues.

The budgetary deterioration of 2014 prevented Belgium from meeting its target as set in its October 2013 draft budget, i.e. a structural balance improvement of 0.6 % of GDP. On the basis of calculations made at the time, this target was in line with a nominal deficit of 2.1 % of GDP, a norm also included in the April 2014 stability programme. Belgium's failure to achieve the structural

CHART 68 SIZE AND BREAKDOWN OF FISCAL CONSOLIDATION

(changes between 2010 and 2014, in percentage points of GDP)



Sources : EC, NAI, NBB.
(1) Unweighted averages.

TABLE 17 INTERNATIONAL COMPARISON OF OVERALL BALANCE AND PUBLIC DEBT

(in % of GDP)

	Overall balance					Consolidated gross debt
	2010	2011	2012	2013	2014 e	2014 e
Belgium	–4.0	–3.9	–4.1	–2.9	–3.2	106.5
Three main neighbouring countries [1]	–5.3	–3.4	–2.9	–2.1	–2.2	79.9
Germany	–4.1	–0.9	0.1	0.1	0.2	74.5
France	–6.8	–5.1	–4.9	–4.1	–4.4	95.5
Netherlands	–5.0	–4.3	–4.0	–2.3	–2.5	69.7
Euro area	–6.1	–4.1	–3.6	–2.9	–2.6	94.7

Sources: EC, NAI, NBB.
(1) Unweighted averages.

balance improvement as envisaged in its budget was the main reason for its non-compliance with its nominal target. Plus which, the review of the general government accounts in the wake of the transition to ESA 2010 caused a negative effect on the overall balance of nearly 0.3 % of GDP [1].

Belgium needs to bring its fiscal policy in line with the European governance framework

The April 2014 stability programme also set out a budget path based on the recommendations of Belgium's High Council of Finance in March 2014, which envisaged a structurally balanced budget by 2016. This was never a formal commitment, however, as it noted in the run-up to the general elections of 25 May 2014 that both these fiscal targets and their breakdown across the various entities were indications only and could well be changed by future federal, community and regional governments. As it turned out, such adjustments were indeed agreed during the coalition negotiations and the achievement of a structural balance was pushed back by two years, to 2018.

The federal government agreement also provides for new pension reforms, their main aspects being an increase in the statutory retirement age to 66 in 2025 and to 67 in 2030, tighter early retirement conditions, changes to civil

(1) See Methodological Note.

TABLE 18 TARGETS FOR THE OVERALL BALANCE OF BELGIAN GENERAL GOVERNMENT

(stability programme targets, unless otherwise stated; in % of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018
Nominal balance								
April 2011	**–3.6**	–2.8	–1.8	–0.8	0.2			
April 2012		**–2.8**	–2.15	–1.1	0.0			
April 2013			**–2.5**	–2.0	–0.5	0.4		
April 2014				**–2.1**	–1.4	–0.4	0.6	
October 2014 (draft budget)				–2.9	**–2.1**	–1.3	–0.4	0.0
Structural balance								
April 2014				–1.4	–0.7	0.0	0.75	
October 2014 (draft budget)				–2.0	–1.3	–0.6	–0.1	0.0

Sources: FPS Budget and Management Control, FPS Finance.

servants' pension calculations and an increase in the age at which people are eligible for survivor pensions. It is too early to say if these reforms will enable Belgium to ease its medium-term target – which is currently a structural surplus of 0.75 % of GDP – as it has not yet been possible to estimate accurately the extent to which these reforms will curb the budgetary cost of ageing in Belgium.

A revised budget path was included in the draft budget plan for 2015, as submitted to the EC and the Eurogroup on 22 October. On 28 November 2014, the EC found that the draft budget risks falling short of the requirements of the Stability and Growth Pact, in view of inadequate improvements to the structural balance in 2014 and 2015. It urged the Belgian authorities to take the necessary measures to bring the 2015 budget into line with the requirements of the Pact as part of its national budgetary process, while also encouraging Belgium to pursue its efforts in the structural arena of the EU Council's public finances recommendations. In early 2015, the EC will review the situation in light of the completion of Belgium's fiscal laws and the implementation of the structural reforms announced by the authorities.

Although the Ecofin Council decided on 20 June 2014 to end the excessive deficit procedure (EDP) against Belgium that it had opened in December 2009, the country's nominal overall balance worsened in 2014 and the latest estimates suggest that it again breached the reference threshold of 3 % of GDP. At the end of March 2015, the NAI will make its first submission to Eurostat of the official general government accounts for the year 2014.

Box 10 – European fiscal rules for Belgium

The fiscal policies of EU Member States are required to comply with all European fiscal rules, whose aim is to avoid flawed policies and undesirable outcomes. The Treaty on the Functioning of the European Union (TFEU) and the Stability and Growth Pact underpin these rules, whose application has been fleshed out by the European Commission [1]. It has put in place both preventive measures – to ward off any emergence and/or development of untenable budgetary situations – and corrective recovery action for Member States that run into particularly severe difficulties in terms of their public finances.

This Box provides an overview of the key rules that Belgium is expected to comply with. Following the Ecofin Council's decision on 20 June 2014 to lift the excessive deficit procedure embarked on in December 2009, Belgium is now subject to the preventive arm of the Stability and Growth Pact, while also needing to comply with the transitional arrangements relating to the corrective arm's debt criterion.

Preventive measures

The medium-term objective

Setting and achieving a medium-term objective (MTO) is the very essence of the preventive arm, this being a country-specific reference value of the overall balance as expressed in structural terms, i.e. adjusted for cyclical influences and excluding temporary factors. The Member States themselves choose their own medium-term objectives in their stability or convergence programmes, although their MTOs should meet a minimum standard taking into account public debt and the expected budgetary cost of ageing, as forecast by the EC's Ageing Working Group. In 2012, the EC put the required minimum for Belgium at 1.3 % of GDP. However, the minimum may not exceed an upper limit, which for Belgium is currently set at a maximum of 0.75 % of GDP. It is thus the highest of all the euro area countries, reflecting the high debt level and the significant budgetary cost of population ageing in Belgium.

(1) EC (2013), *Vade mecum on the Stability and Growth Pact*, EC Occasional Paper 151, May.

Convergence towards the medium-term objective

Countries that have yet to achieve their medium-term objective – like Belgium in this instance – are expected to converge on their MTOs at an appropriate pace along an adjustment path. Progress is assessed by analysing two indicators, namely the structural balance and real government expenditure. The required improvement in the structural balance is determined on the basis of the economic cycle and the public finances of the Member State. Based on the European Commission's guidance on the practical application of the Stability and Growth Pact rules for the 2014 European Semester, and given its 13 January 2015 Communication for the 2015 European Semester, these improvements can be summarised in the following table :

DETERMINING THE REQUIRED STRUCTURAL BALANCE IMPROVEMENT

(in percentage points of GDP)

Economic conditions	Gross debt < 60 % and no risk pertaining to the sustainability of public finances		Gross debt > 60 % of GDP or sustainability of public finances at risk	
	Semester 2014	Semester 2015	Semester 2014	Semester 2015
Exceptionally poor :				
real growth < 0 % ou	No adjustment			
output gap [1] < –4 %				
Very poor :				
–4 % ≤ output gap < –3 %	> 0.0	0.0	≥ 0.5	0.25
Poor :				
–3 % ≤ output gap < –1.5 %				
a) real growth < potential growth		0.0		0.25
b) real growth > potential growth		0.25		0.5
Normal :				
–1.5 % ≤ output gap < 1.5 %	0.5	0.5	> 0.5 [2]	> 0.5 [2]
Good :				
output gap ≥ 1.5 %	> 0.5 [2]		> 0.5 [2]	
a) real growth < potential growth		> 0.5 [2]		≥ 0.75
b) real growth > potential growth		≥ 0.75		≥ 1.0

Source : EC.
(1) The output gap equals the difference between actual GDP and its potential level and is expressed as a percentage of the latter.
(2) An improvement in the structural balance by over 0.5 percentage point of GDP is conventionally considered as at least equal to 0.6 percentage point of GDP.

In July 2014, the Ecofin Council recommended an improvement in Belgium's structural balance by 0.5 percentage point of GDP in 2014, and by 0.6 percentage point of GDP in 2015, taking into consideration the EC's recommendations and the rules as set out in the above schedule. The required minimum improvement is higher for 2015 as the EC forecast a negative output gap of below 1.5 % of potential GDP and debt exceeding 60 % of GDP. The requirements do not change under the Commission's new interpretation for the 2015 European Semester.

To pinpoint the permitted annual change in real government expenditure [1] a benchmark was created for all Member States based on potential GDP growth in the medium term. Countries like Belgium, which have yet to

(1) Government expenditure does not include interest charges, cyclical unemployment benefit expenditure and all expenditure on EU programmes funded by the EU. Government expenditure is also adjusted for the budgetary impact of discretionary reveneu measures..

hit their medium-term objectives, have reference values below the benchmark, enabling them to converge to the objective. For Belgium, this implies a real annual change of 0.2 % in 2014 and 0 % in 2015.

Compliance monitoring

Every spring, the EC assesses countries' performances on the basis of data submitted, more specifically identifying any significant deviations from medium-term objectives or convergence paths. Deviations are found to exist if the two conditions below are met, or if one of them is met and a more general analysis establishes that the other is met to a limited degree:

– The deviation between structural balance developments and the pre-agreed path amounts to no less than 0.5 percentage point of GDP in any one year or an average 0.25 percentage point of GDP per annum in two successive years;
– Government expenditure deviates from the agreed objective, affecting the government balance by at least 0.5 percentage point of GDP in any one year or cumulative in two successive years.

Temporary deviations from the adjustment path to the medium-term objective are possible, for instance if there are unusual events outside the control of the Member State which have a major impact on its financial position, in periods of severe economic downturn for the euro area or in the EU as a whole, or to combat negative short-term effects of significant structural reforms which have a verifiable positive fiscal effect in the longer term, provided that this does not jeopardise the sustainability of public finances in the medium term.

If it identifies a significant deviation, the EC will notify the Member State, under Article 121 (4) of the Treaty on the Functioning of the European Union. A decision by the Ecofin Council on a significant deviation from the adjustment path to the medium-term objective will trigger the preventive arm procedure as laid down in the Stability and Growth Pact, and sanctions may be imposed.

The corrective arm

The general government overall balance

A country's general government deficit cannot be greater than 3 % of GDP in nominal terms.

Public debt

General government outstanding debt should not exceed 60 % of GDP or, failing that, it should be approaching the reference value at a satisfactory pace. The general rule is that Member States reduce their debt-to-GDP ratios each year, measured as an average over a period of three years, by one-twentieth of the difference between the initial debt ratio and the reference value.

Since the measure was only adopted fairly recently, several euro area countries – including Belgium – are nevertheless put under a transition regime after closure of the excessive deficit procedure against them. For Belgium, this transition period runs from 2014 to 2016, during which time sufficient progress needs to be made towards respecting the general rule. This progress is measured by the change in the structural balance, also called the 'minimum linear structural adjustment'. Based on the EC's autumn projections, Belgium currently needs to notch up a minimum improvement of 0.8 percentage point of GDP per year, whereas the spring projections were still pointing to 0.3 percentage point of GDP. This clear tightening directly ties in with the country's higher debt

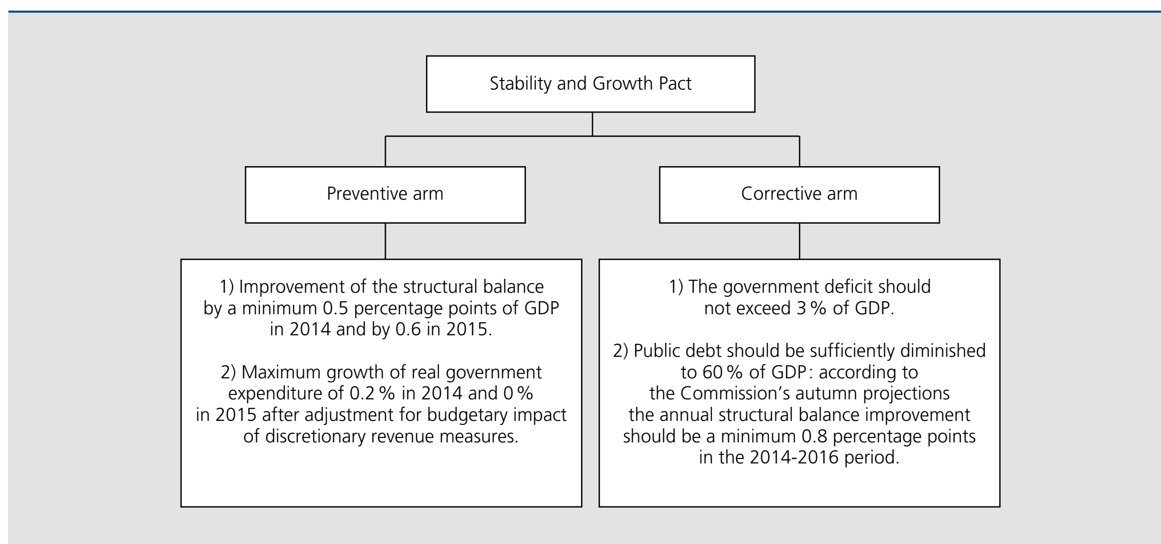
ratio and fiscal deficit in 2013, but primarily also with the downward revision of nominal GDP growth, which caused a deterioration in the debt-to-GDP ratio. On 8 December 2014, the Eurogroup nevertheless said it was aware that poor economic conditions and extremely low inflation have made it difficult to meet the debt reduction criterion and acknowledged that Belgium currently faces a real challenge meeting it.

In order to ensure continuous and realistic progress towards compliance with the debt rule by the end of the transition period, a Member State should respect two conditions: the annual adjustment of the structural balance should not deviate from the required improvement by more than 0.25 percentage point of GDP, and the remaining annual structural improvement should not exceed 0.75 percentage point of GDP at any time during the transition period. A larger annual effort put into meeting the first condition may mean that the second condition does not apply.

Breaching the criteria

If the figures show a Member State not to have met the criteria or if the forecasts suggest a risk of non-compliance, a Commission report under Article 126 (3) of the TFEU will consider all the relevant factors to see whether an EDP needs to be launched. If, on the basis of the Commission's opinion, the Ecofin Council decides that an excessive deficit exists, it sends a recommendation to the Member State to absorb the deficit within a set period and may even impose sanctions.

SUMMARY OF EUROPEAN FISCAL RULES THAT BELGIUM IS REQUIRED TO COMPLY WITH IN 2014 AND 2015



Source: EC.

4.2 General government revenue, expenditure and overall balance

Falling revenue after four years of consistent increases

In 2014, total government revenue declined to 51.2 % of GDP, mainly in the wake of lower non-fiscal revenue, while fiscal and parafiscal revenue stabilised. Belgium's revenue ratio remains high, both historically and compared with other European countries.

Levies on earned income dipped slightly under last year's levels, while the relationships between the various components remained unchanged.

Income tax held more or less steady as assessments developed favourably and offset lower payroll tax revenues, which were hit by the slighter share of wages in GDP as a result of meagre improvements in employment and the freezing of real negotiated wages. These effects were compounded by slower inflation, as indexation fed into wages much less than into tax brackets, which are index-linked to inflation in the previous year. These negative factors were only partly offset by higher social security benefits on which payroll tax is due, as the number of claimants increased. Lastly, the structural measures related to tax on income from employment had a slightly negative impact.

Social security contributions have barely come down from the previous year, despite wage restraint and the rather negative effect of the wider cuts in social contributions – and particularly the structural component granted to employers, as well as fresh tax reductions for the accommodation and food services sector, as long as employers register their employees on a daily basis.

TABLE 19 GENERAL GOVERNMENT REVENUE
(in % of GDP)

	2010	2011	2012	2013	2014 e
Fiscal and parafiscal revenue	42.3	43.0	44.1	44.8	44.8
Levies weighing chiefly on earned income	25.2	25.5	25.8	26.2	26.1
Personal income tax [2]	11.2	11.4	11.4	11.7	11.7
Social contributions [3]	14.0	14.1	14.4	14.4	14.4
Taxes on company profits [4]	2.5	2.8	3.0	3.1	3.1
Levies on other incomes and on assets [5]	3.6	3.7	4.0	4.4	4.4
Taxes on goods and services	11.0	10.9	11.3	11.1	11.2
of which:					
VAT	6.9	6.8	6.9	6.9	7.0
Excise duties	2.1	2.1	2.1	2.0	2.1
Non-fiscal and non-parafiscal revenue [6]	6.0	6.3	6.6	6.7	6.4
Total revenue	48.4	49.3	50.7	51.5	51.2

(1) In line with ESA 2010, total revenue of general government does not include the proceeds of customs duties transferred to the EU nor the revenues levied directly by the EU.
(2) Mainly payroll tax, advance payments, assessments and additional percentages on personal income tax.
(3) Including the special social security contribution and the contributions of people not in work.
(4) Mainly advance payments, assessments and withholding tax.
(5) Mainly withholding tax on income of individuals, withholding tax on income from immovable property (including the proceeds of additional percentages), inheritance taxes and registration fees.
(6) Income from assets, imputed social contributions, current transfers and capital transfers from other sectors, plus sales of goods and services produced, including revenues on guarantees granted by the State on interbank loans.

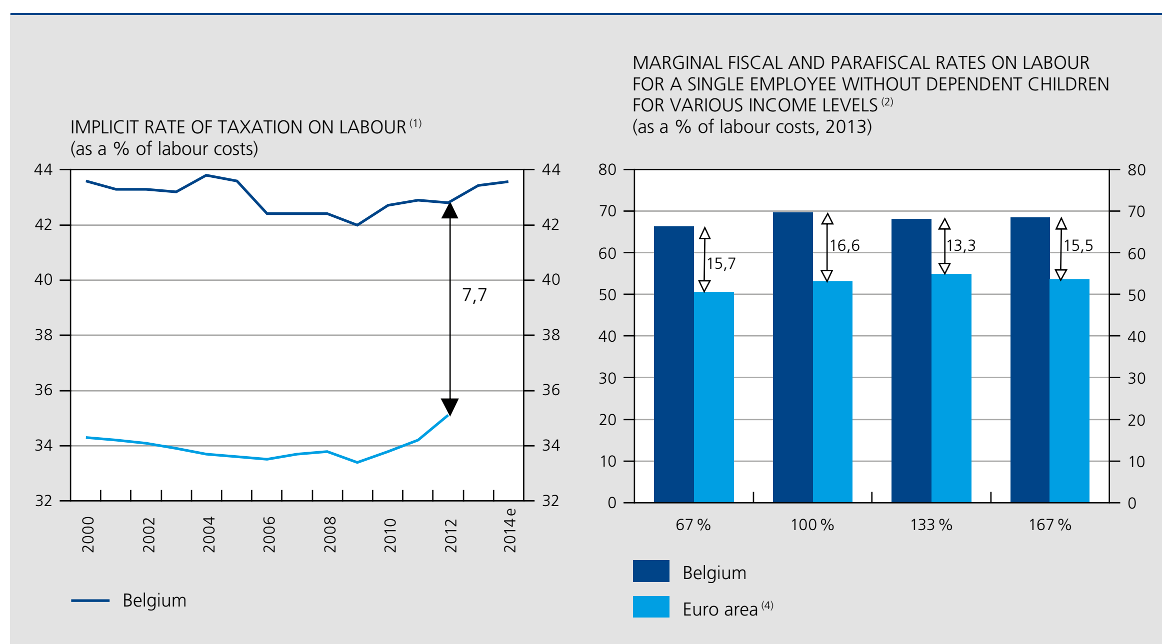
Box 11 – Fiscal and parafiscal levies on labour and tax shift options

The general level of taxation in Belgium is high, with the tax burden on labour being among the highest in the euro area. The most recent EC statistics show that the implicit tax rate on labour is 7.7 percentage points higher than the euro area average in 2012, despite the strong rise there in 2010. And with the Belgian rate increasing further in recent years, the country's tax burden has again reached a level similar to that seen in 2000. On top of this, marginal rates have hit a record high: in Belgium, about two-thirds of pay rises go towards paying fiscal and parafiscal levies, irrespective of levels of income and family situations.

Although heavy taxation of labour income is used to fund a large proportion of social security costs and other public spending, it is clear that it has a discouraging effect on labour supply and demand. It might therefore be desirable to make the tax system more efficient, which would imply reducing the tax burden on labour and shifting it to less distorting tax bases. As the need for fiscal consolidation remains, a rebalancing of this kind would mean giving greater weight to consumption – in particular consumption with an adverse environmental footprint – and to capital as a basis for taxation. Corporation tax, on the other hand, is also generally felt to have an unfavourable impact on growth, so reforms to shift the tax burden onto corporations would not offer a good alternative to levies on labour.

On 2 June 2014, the Ecofin Council recommended that Belgium should try to restore equilibrium in its tax system and improve its overall fairness in the 2014-2015 period, as well as preparing far-reaching tax reforms. This would, at the same time, pave the way for reducing the tax burden on labour income by shifting the tax base towards levies that would promote growth, simplify the tax system, put an end to tax abuse, improve VAT efficiency, broaden the tax base, lower tax expenditure and gradually abolish environmentally unfriendly subsidies.

LABOUR TAXATION



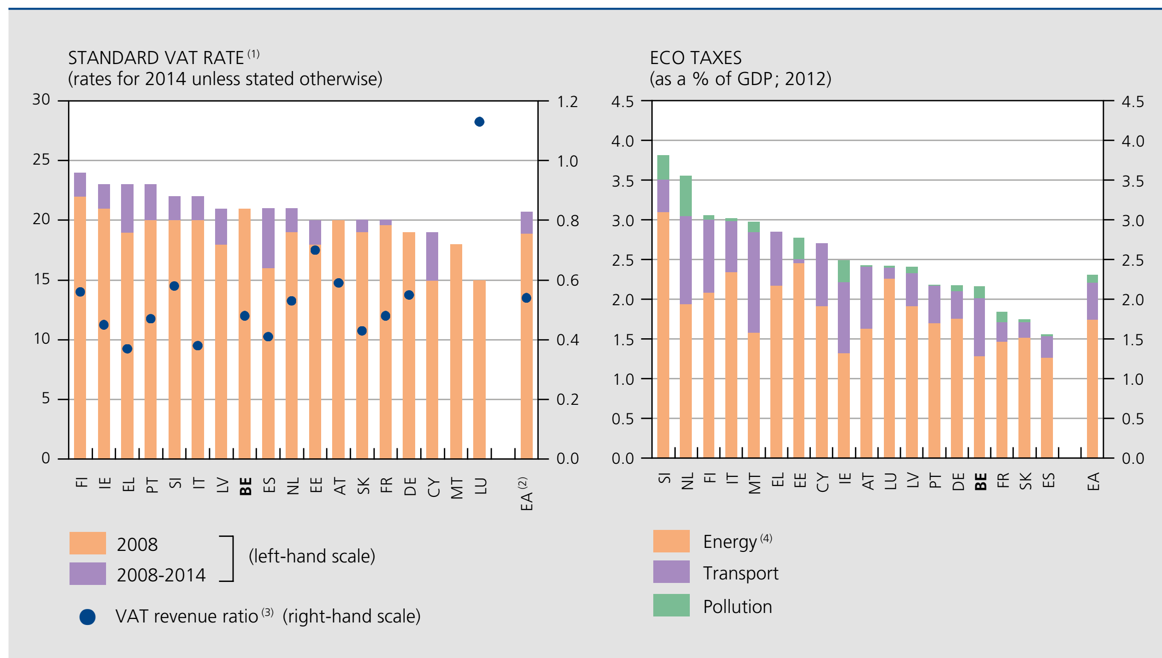
Sources: EC, OECD, NBB.
(1) Defined as total levies on labour income paid to the government, divided by the wage bill. Calculated on the basis of the national accounts.
(2) Expressed as a percentage of the average wage.
(3) Unweighted averages.
(4) Unweighted averages, except for Cyprus, Malta and Latvia.

The standard VAT rate in Belgium is close to the average for the euro area, particularly since most Member States recently raised their rates. However, the VAT revenue ratio, which measures the difference between effective revenues and the theoretical revenues that would have been collected if the standard VAT rate had applied to total consumption, shows that this difference is fairly large in Belgium. It has even risen in recent years, partly in response to the fact that the lowered rates were applied to accommodation and food service activities and to electricity consumption. Some thought should be given to using lowered rates for a significant proportion of the consumer basket.

At the same time, Belgium has a real opportunity to raise revenues from environmental levies. Expressed as a percentage of GDP, these levies are among the lowest in the euro area. Belgium's revenues from levies on energy are amongst the smallest, an average half a percentage point of GDP lower than the average for the other Member States. Excise duties in Belgium are also fairly low compared with most other countries in the euro area, for example on diesel and domestic heating oil. Moreover, the tax treatment of company cars and fuel cards is very generous.

Belgium could use additional levies in the form of indirect taxes and eco taxes to lower the tax burden on labour while at the same time encouraging more sustainable consumption patterns. Note in this regard that such a tax shift will have the best possible effect on Belgium's competitive position and employment if the impact on prices does not lead to wage increases.

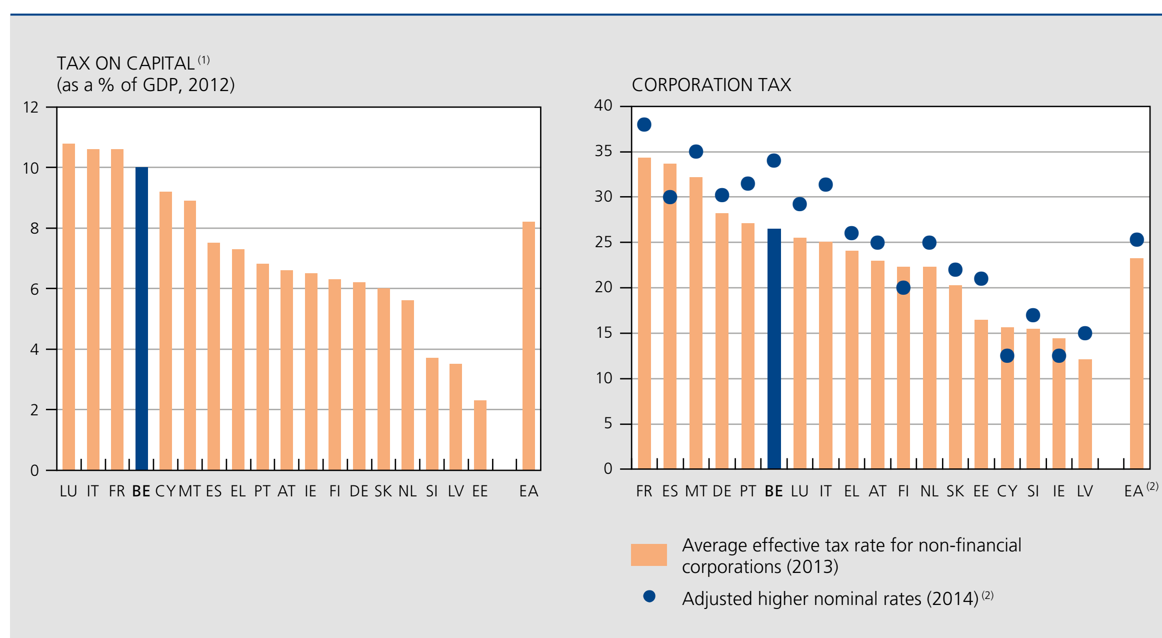
VAT AND ENVIRONMENTAL LEVIES



Sources: EC, OECD.
(1) If two rates apply in a given year, the rate that applied on 1 July is used.
(2) Unweighted averages.
(3) Calculated by the OECD, 2012 data.
(4) These taxes include excise duties on fuel.

Capital is more heavily taxed in Belgium – where tax on capital amounts to 10 % of GDP – than in the euro area, where the average amounts to 8.2 % of GDP. Corporation tax adds to the relatively high tax burden, giving Belgium one of the highest nominal tax rates in the euro area. Tax deductibles for companies – including tax allowances for venture capital – are very generous in Belgium, bringing the effective tax rate to 26.5 %. This tax rate is higher than in most European countries, but does not exceed the rate in France and Germany, for example. Capital transfer taxes, such as inheritance taxes and registration fees, are also substantial. Whereas annual capital income used to be only moderately taxed in Belgium, the situation changed as a result of withholding tax increases between 2012 and 2014. Capital gains realised by private individuals are barely taxed, however, whereas they are subject to taxation – in a variety of ways – in several European countries, including Belgium's neighbours. Note also that the effective tax rate is very unevenly distributed across the various types of assets. Some are heavily subsidised through personal income tax allowances, for example within the context of pension savings schemes. Other assets, such as interest income from savings, are exempt from the 25 % general withholding tax. This different tax treatment can lead to imbalances between types of savings. Besides the conversion of labour income into corporate revenues leads to distortions. Remedying these distortions could generate additional revenues, which could also be used to shift the tax burden.

TAX ON CAPITAL AND CORPORATION TAX



Sources: EC, ZEW.

(1) In Belgium, examples of capital taxation include, notably, corporation tax and tax paid by the self-employed, inheritance and gift taxes, tax paid on long-term savings, proceeds from tax regularisations, property tax, road tax paid by companies and rent payments by the nuclear power supply company.

(2) Unweighted averages.

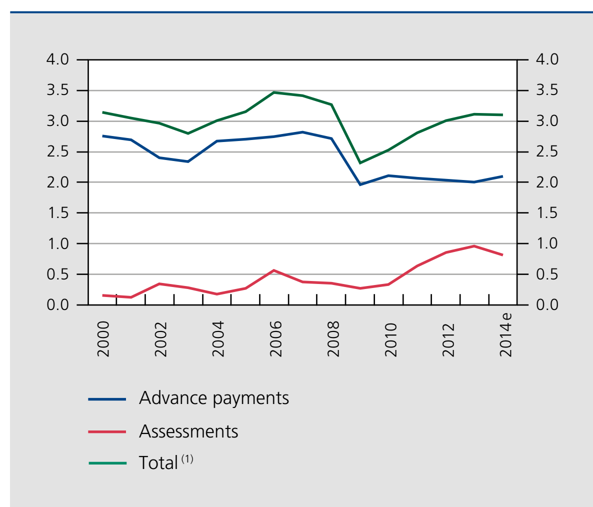
(3) If different tax rates exist, only the highest base rate applies; any additional levies and the average of local taxes are then added.

The tax burden on labour could also be relieved by improving tax administration procedures and combating tax fraud and tax evasion. This requires cross-border cooperation and the effective international exchange of tax information. In any case, recent decisions in this area are encouraging. In addition, various forms of fraud could be more efficiently tackled by making optimum use of the technical resources available to determine all incomes and the financial position of private individuals.

Tax revenues on company profits were virtually unchanged at 3.1 % of GDP in 2014. Assessments were negatively affected by a temporary factor, as last year's revenue had reflected a settlement with a company in the diamond sector involved in a massive international fraud. In addition, the 'fairness tax', a new measure that was supposed to bring in more tax revenue – applicable to certain companies whose distributed profits exceed the basis of assessment for corporation tax – did not yield as much as had been hoped, while the budgetary gains of other decisions were modest. Equally modest was the effect of measures reducing tax collection, such as higher tax allowances for investment – SMEs are granted tax exemptions for creating investment reserves and enjoy a 4 % allowance rate for their investment expenditure. However, the rise in advance tax payments almost made up for reduced assessment revenues, and 2014 would appear to have seen fewer companies shift to collection via assessments than in previous years. The tax surcharge due in the event of insufficient advance payments was unchanged, but a lot higher than market rates, so it may be cheaper to take out a loan to finance the advance payments than pay the penalty. That said, the increase was more modest than might be expected given the steady upward trend in gross operating surplus and the lower reference interest rate used to calculate the tax allowance for risk capital and the limited possibilities for transferring it.

Levies on other incomes and on assets held steady at 4.4 % of GDP, after having risen for four successive years – temporary factors being a key influence in recent

CHART 69 CORPORATION TAX
(in % of GDP)



Sources: NAI, NBB.
(1) Including other taxes, the main component of which is withholding tax.

fluctuations. For one thing, the increase in withholding tax on liquidation gains, raised from 10 % to 25 % in October 2014, had boosted revenues by around € 600 million in 2013 on the back of a transition measure, rising further to around € 660 million in the year under review. What is more, the third tax regularisation operation, heralded as people's last chance for tax forgiveness, was a resounding success. Files submitted in this third tax amnesty operation were dealt with in the course of 2014, and, together with the final stage of the second operation, generated around € 480 million more in tax revenues than in 2013, with the proportion related to inheritance tax falling to the Regions. Registration fees benefited from structural measures, primarily on long leases, to the tune of nearly € 100 million. Together, these favourable measures conspired to cushion the impact of lower inheritance taxes due to faster processing and the drop in withholding tax,

TABLE 20 MAIN FISCAL AND PARAFISCAL MEASURES (1)
(in € million, differences compared to the previous year)

	2012	2013	2014
Structural fiscal measures	3 663	1 677	612
Federal government and social security	3 550	1 650	562
Personal income tax	1 330	461	–56
Corporation tax	1 087	552	327
Levies on other incomes and on assets	81	71	131
Taxes on goods and services	1 052	566	166
Communities and Regions and local authorities	113	27	44
Structural parafiscal measures	81	–121	–194
Non-recurrent measures	1 236	1 091	–140
of which:			
Liquidation gains	0	600	60
Tax regularisation	0	668	477
Late payment of the 2011 nuclear rent	500	–250	0
Inheritance taxes: filing deadline shortened by one month	80	40	–120
Early collection of the advance levy on life insurance	200	–200	0
Tax agreements and court decisions	300	–52	–248
Total	**4 980**	**2 647**	**278**
p.m. In % of GDP	*1.3*	*0.7*	*0.1*

Sources: Budget documents, NBB.
(1) This generally concerns the presumed influence of the measures according to the budget documents. The final impact may be different.

which reflected low interest rates and a shift of a proportion of savings to instruments taxed less heavily or later.

Taxes on goods and services rose by 0.1 percentage point of GDP, as the tax base remained robust. Private consumption virtually kept pace with GDP, but private investment – which is also subject to VAT – was relatively dynamic, while various indirect tax measures were also supportive. For instance, higher excise duties on tobacco and fuels (with a total impact of over € 330 million), the increase in annual taxes on credit institutions and a higher monopoly rent paid by the Loterie Nationale/Nationale Loterij (Belgium's national lottery) more than made up for the nearly € 400 million fall in VAT on electricity consumption and banks' lower contributions to the deposit guarantee scheme.

Non-fiscal and non-parafiscal revenues inched down in 2014, from 6.7 % to 6.4 % of GDP, in part because revenue-enhancing elements from 2013 had run their course, such as the Bank's record payments to the State or the refunds of excess customs duties levied by the EU. However, the main reason was the further erosion of interbank guarantee fees paid by financial institutions and the drop in dividends paid, totalling over € 600 million. After all, the Belgian State has fewer holdings in these institutions and the federal and Flemish governments also made fewer loans to some of them.

Continued high levels of primary expenditure

The government's primary expenditure, i.e. spending excluding interest charges, amounted to 51.4 % of GDP in 2014, a slight increase on the previous year, taking the increase in expenditure volumes, which is 1.3 %, a touch higher than the 1% real GDP growth rate.

To obtain a true picture of the fundamental trend in fiscal policy, the growth of expenditure should be adjusted for temporary factors as well as for cyclical factors and indexation effects. Non-recurrent factors, which include one-off refunds of unlawfully levied corporation tax, have fuelled expenditure in 2014 by 0.2 percentage point of GDP. Unemployment benefits show up the impact on primary expenditure of the economic cycle and stayed below their average pace of growth in 2014, with the cyclical component shaving a total 0.1 percentage point off primary expenditure in the year. Lastly, factors relating to indexation exerted more downward pressure on spending in 2014, estimated at 0.3 percentage point. After all, civil service pay and social benefits were not index-linked in the year – as the key index on which this mechanism is based has not been exceeded since the end of 2012 – while general price levels went up further.

At the end of the day, primary expenditure recorded adjusted growth of 1.5 % in 2014, and so exceeded GDP growth. This acceleration in real terms of general government's adjusted primary expenditure masks divergences between the various sub-sectors. The federal and local governments were expected to post a new drop in their

TABLE 21 GENERAL GOVERNMENT PRIMARY EXPENDITURE

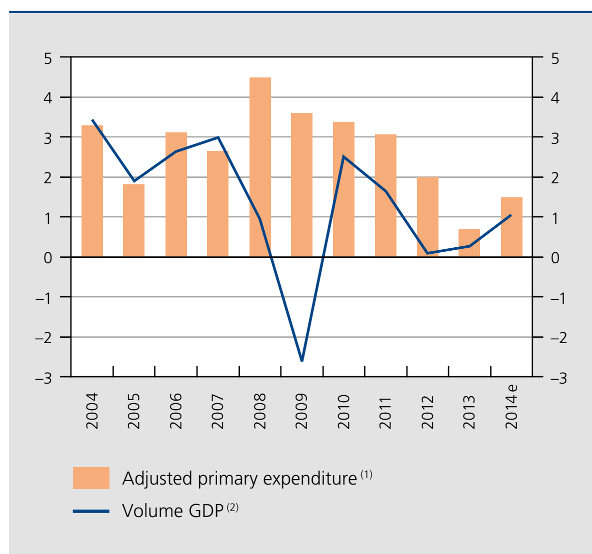
(deflated by the GDP deflator, percentage changes compared to the previous year, unless otherwise stated)

	2010	2011	2012	2013	2014 e	Average 2000-2013
Level recorded [1]	48.9	49.8	51.4	51.2	51.4	46.3
1. Real recorded growth	1.1	3.6	3.2	0.0	1.3	2.9
2. Influence of non-recurrent or fiscally neutral factors [2]	–1.3	0.6	0.8	–1.1	0.2	0.1
3. Influence of cyclical factors [2]	–0.1	–0.3	0.1	0.1	–0.1	0.0
4. Indexation effect [2] [3]	–0.9	0.3	0.3	0.4	–0.3	0.0
5. Adjusted real growth (1 – 2 – 3 – 4)	3.4	3.1	2.0	0.7	1.5	2.8

Sources: DGS, NAI, NBB.
(1) In % of GDP.
(2) Contribution to real recorded growth of primary expenditure.
(3) Effect caused by the difference between, on the one hand,the actual indexation of public sector wages and social security benefits and, on the other hand, the rise in the GDP deflator. The other effects due to differences between inflation measured by the GDP deflator and the movement in price factors influencing other expenditure categories – whether these are attributable to the indexation mechanisms or to divergent patterns in the prices of certain expenditure categories – are not adjusted, owing notably to the absence of sufficient information.

CHART 70 PRIMARY EXPENDITURE OF GENERAL GOVERNMENT AND GDP

(percentage volume changes compared to the previous year)



Sources: NAI, NBB.

(1) Primary expenditure deflated by the GDP deflator and adjusted for cyclical and non-recurrent or fiscally neutral factors, and for the indexation effect. The latter is caused by the difference between, on the one hand, the actual indexation of public sector wages and social security benefits and, on the other hand, the rise in the GDP deflator.

(2) Calendar adjusted data.

adjusted expenditure, whereas spending on social security and spending by the Communities and Regions was estimated to have exceeded economic activity by 1 and 2 percentage points respectively.

Various budget items contributed to more moderate adjusted federal government expenditure in 2014. For instance, a further marked reduction in the number of public sector workers led to a fall in remuneration, while purchases of goods and services by the federal government held steady in real terms. Conversely, the volume of subsidies to businesses increased, mainly comprising lower payroll tax and subsidies to the national railway company (SNCB/NMBS), Infrabel and bpost.

In 2014, growth of adjusted social security expenditure stayed firmly below the average in the past decade, and this related to the main social security benefits categories. Health care spending, which represents just over a third of the social security budget, increased by 1.3 % in real terms, a fairly similar trend to the previous year, which itself had been considerably below trend growth in the past. The target for real growth of health care expenditure, set at 3 % for 2014, was amply met.

Pension expenditure increased by 2.6 % in real terms, which was below the average since 2000 and reflected slowdown in the growth of the number of pensioners in 2014. That said, the pensions bill continued to grow faster than average economic activity, while benefits paid under the sickness and disability scheme shot up to well above the long-term average in real terms. By contrast, cyclically adjusted unemployment benefits fell in real terms on the back of the labour market reforms introduced by the previous federal government, such as making unemployment benefits more degressive over time, and raising to 60 the age up to which unemployed people must be available for work.

TABLE 22 ADJUSTED PRIMARY EXPENDITURE BY GENERAL GOVERNMENT SUB-SECTOR [1][2]

(deflated by the GDP deflator, percentage changes compared to the previous year)

	2010	2011	2012	2013	2014 e	Average 2000-2013
Entity I	4.6	3.5	2.1	0.6	1.4	2.8
Federal government	8.2	4.9	0.2	–1.4	–0.4	2.5
Social security	3.1	2.9	3.0	1.5	2.2	2.9
Entity II	1.4	2.3	1.7	0.9	1.6	2.7
Communities and Regions	2.2	1.8	0.5	2.0	2.9	2.9
Local authorities	0.1	3.3	4.0	–1.0	–0.8	2.3
Total	3.4	3.1	2.0	0.7	1.5	2.8

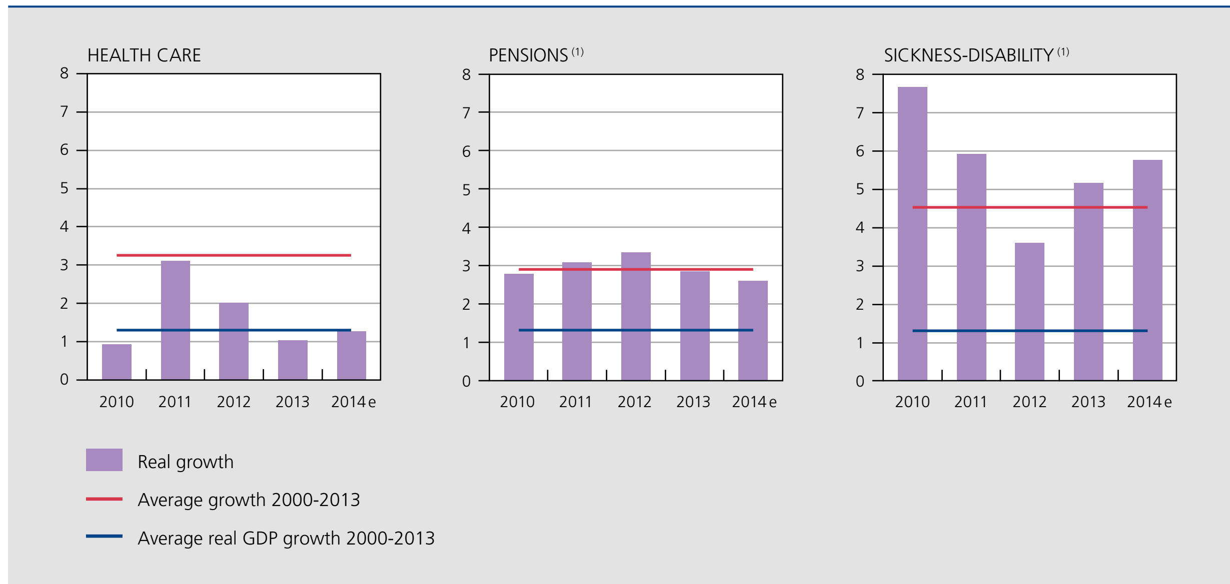
Sources: NAI, NBB.

(1) The expenditure of the general government sub-sectors does not include mutual transfers.

(2) Primary expenditure deflated by the GDP deflator and adjusted for cyclical and non-recurrent or fiscally neutral factors, and for the indexation effect. The latter is caused by the difference between, on the one hand, the actual indexation of public sector wages and social security benefits and, on the other hand, the rise in the GDP deflator.

CHART 71 PUBLIC EXPENDITURE ON HEALTH CARE, PENSIONS AND SICKNESS AND DISABILITY BENEFITS

(deflated by the GDP deflator, percentage changes compared to the previous year, unless otherwise stated)



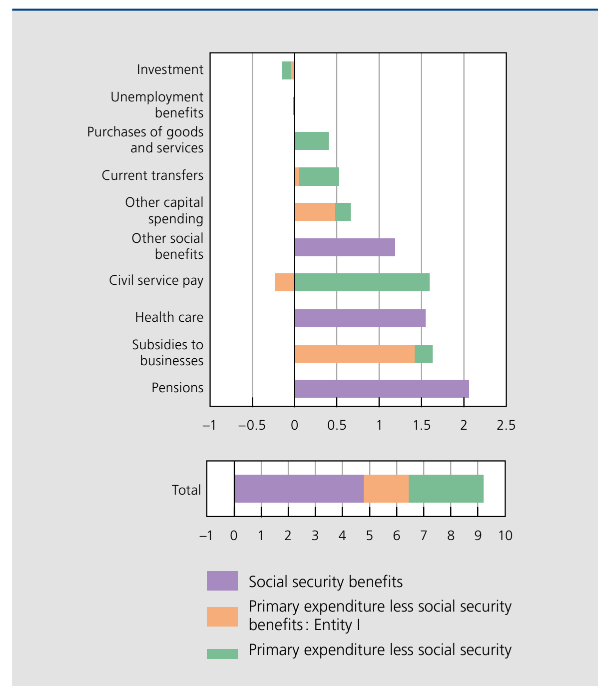
Sources: Budget documents, NAI, NBB.
(1) Expenditure adjusted for the indexation effect, caused by the difference between, on the one hand, the actual indexation of public sector wages and, on the other hand, social security benefits and the rise in the GDP deflator.

The Communities and Regions reported a 2.9 % increase in adjusted primary expenditure, the big-ticket items being subsidies to businesses, current transfers and investment. Lastly, adjusted expenditure by local government came in 0.8 % lower as a result of reduced government investment, which traditionally drops back in the two years that follow local and provincial elections.

Taking a long-term perspective, however, primary expenditure has staged a significant 9 percentage point average upturn since 2000, this being mostly down to three key expenditure categories: social security benefits, civil service pay and subsidies to businesses. First, social security benefits added 4.8 percentage points of GDP, climbing much faster than economic activity. The category saw pensions and health care spending add 2.1 and 1.5 percentage points between 2000 and 2014. Second, civil service pay was up 1.4 percentage points in the same period, all of this attributable to the Communities and Regions, and local government. The last contributor, subsidies to businesses, accounted for 1.6 percentage points of GDP in the period, which is attributable to the federal government (payroll tax reductions) and to social security (the service voucher scheme and employment activation programmes).

CHART 72 PRIMARY EXPENDITURE BY CATEGORY AND BY ENTITY

(changes between 2000 and 2014, in percentage points of GDP)



Sources: NAI, NBB.

Investment, which is considered productive public spending as it bolsters the economy's growth potential, was

the only category to decline relative to GDP, from 2.3 % in 2000 to 2.1 % in 2014. The election cycle's influence on local government spending offers only part of the explanation, and relative government expenditure levels are well below the average in the euro area.

Interest rate falls push interest charges down further

In 2014, interest charges fell by 0.2 percentage point to 3 % of GDP, in line with the ongoing downward movement in the interest charges-to-GDP ratio since the early 1990s. This steep fall was due mainly to the steady reduction in the implicit interest rate on the public debt, down from 10.1 % of GDP in 1990 to 3 % in 2014. Up to 2007, the fall in interest charges was also caused by the significant decline in the debt ratio, but the rise in the debt ratio has slowed the reduction in interest charges since the end of 2008.

The year under review was no different and the further decline in interest charges mirrored the exceedingly low interest rates on new securities and government loans, both short-dated and longer-dated paper. In fact, ten-year rates kept coming down throughout the year and even dipped below the 1 % threshold by the end. Most countries in the euro area saw similar movements. The spread on Belgian government paper against Bunds halved to around 30 basis points by the end of 2014, which is similar to the spread observed for French government loans.

Overall balance of the general government sub-sectors

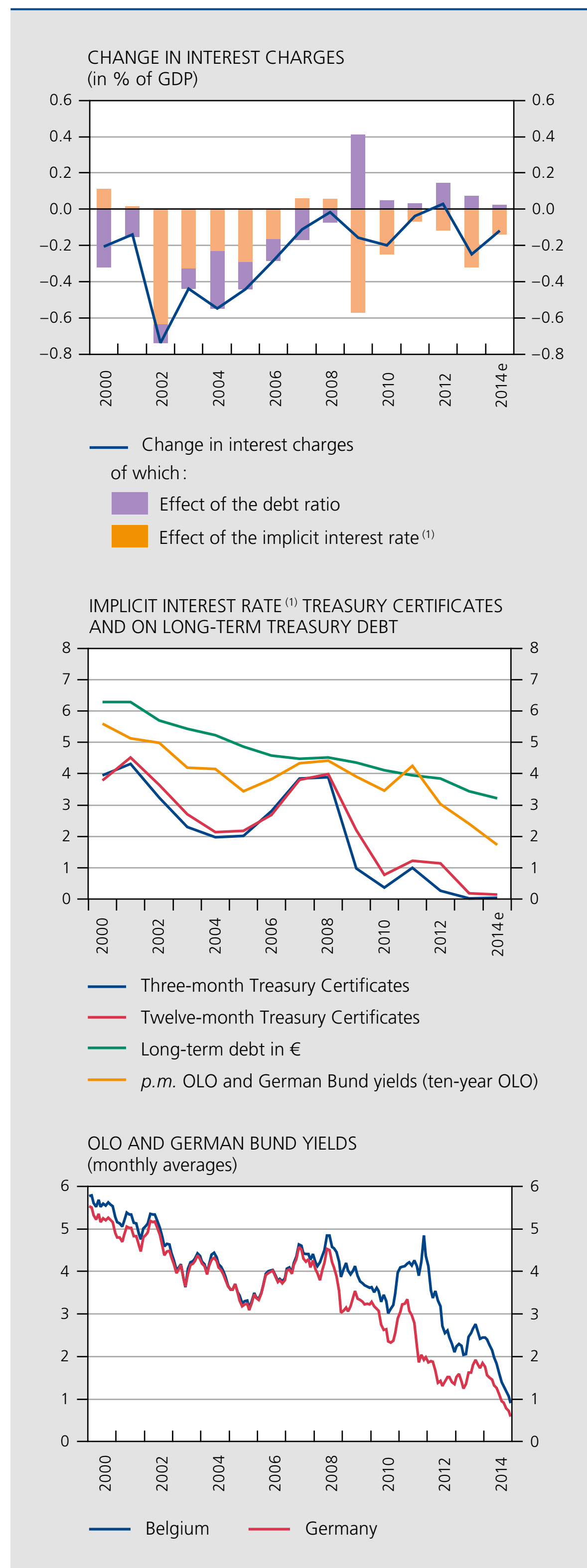
Despite a minor fall in interest charges, the federal government deficit climbed to 2.6 % from 2.4 % of GDP in 2013. This deterioration was caused by a fall in both non-fiscal and fiscal revenues that are retained at the federal level of power after transfers to all other sub-sectors. In this respect, transfers rose faster than the revenues collected by FPS Finance.

The additional revenue received from the federal government partly went towards social security; as in previous years, it helped to pay for the sudden increase in social security benefits. After a small deficit in 2013, social security spending was in balance again in 2014.

The Communities and Regions saw their deficit widen further, to 0.5 % of GDP. The Flemish Community, the Walloon Region and the French Community ended the 2014 fiscal year on significant funding shortfalls, while the Brussels-Capital Region was predicting a virtually balanced

CHART 73 TEN-YEAR GOVERNMENT BOND YIELDS AND BREAKDOWN OF CHANGES IN INTEREST CHARGES

(in %, unless otherwise stated)



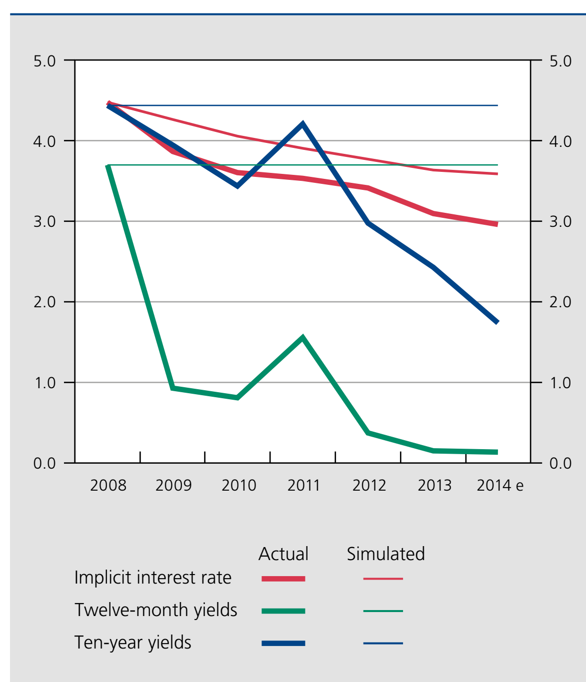
Sources: FPS Finance, NAI, Thomson Reuters Datastream, NBB.
(1) Ratio between interest charges in the current year and debt at the end of the previous year.

Box 12 – Lower interest rates and their effect on government interest charges

The fall in interest rates over the past few years has sharply reduced the interest charges paid by the Belgian State. To get an idea of the amounts actually saved by the Treasury, this Box compares paid interest with the interest bill it would have had to pay if rates had stayed at their average market levels since the outbreak of the financial crisis in 2008. At the time, Treasury bills were looking at three-month rates of 3.7 % and ten-year linear bonds (OLOs) at 4.4 %. These theoretical levels can be tested against effective rates, which fell by 3.6 and 2.7 percentage points respectively between 2008 and 2014. These projections suggest that the implicit interest rate, i.e. total interest charges relative to outstanding debt, will continue to decline despite constant market rates, as previously taken out higher-rated loans mature and are refinanced with cheaper loans.

BELGIAN GOVERNMENT YIELDS, ACTUAL AND SIMULATED

(annual averages)



Source: NBB.

The simulation shows that the Treasury would have had to pay € 2.9 billion more in interest charges in 2014 if Belgian public debt securities had been issued at average conditions prevailing in 2008. Over one-third of this would be attributable to lower short-term yields, and nearly two-thirds to falling long-term yields. This saving, which gradually rises from 2008 onwards, would have implied a windfall gain for the budget in 2014 of 60 basis points in terms of the implicit interest rate on Belgian government debt, taking the saved amount, which rises steadily in the simulation period, to 0.7 % of GDP. All in all, lower interest rates would have saved a total € 11.2 billion over the projection period, with cumulative cost-cutting since 2008 taking 2.8 % off the debt ratio. And if market rates remain low, the positive effects would be even greater in future.

Falling interest rates, the result of the ECB's accommodating monetary policies among other things, have thus somewhat eased the fiscal restrictions faced by the government. But although low interest rates have in fact kept interest charges in check, they are caused by an economic climate not beneficial to public finances. These two effects, lower interest charges and pressure on the primary balance related to unfavourable economic conditions, are pulling in two different directions. By the same token, the burden carried by debt-laden entities – such as the government – in a low-inflation environment is lessened by the falling nominal interest rates resulting from this environment, albeit that the offset is only partially due to the inertia of the implicit interest rate.

Lower interest charges present an opportunity the government should jump at to reduce its deficit. It needs to preserve the sustainability of public finances, and not just because of the effect of rising implicit interest rates on public debt, but also because of the rapidly growing costs of ageing, a trend that has already got underway.

INTEREST-RATE REDUCTION AND ITS EFFECT ON GOVERNMENT INTEREST CHARGES

(data concerning 2014)

	Implicit interest rate [1]	Interest charges	
		(in % of GDP)	(in € billion)
1. Actual levels	3.0	3.0	12.2
Short-term debt	0.1	0.0	0.0
Long-term debt	3.2	3.0	12.2
2. Simulated levels [2]	3.6	3.8	15.1
Short-term debt	2.8	0.3	1.1
Long-term debt	3.7	3.5	14.0
3. Difference (1 – 2)	–0.6	–0.7	–2.9
Short-term debt	–2.7	–0.3	–1.1
Long-term debt	–0.5	–0.5	–1.8

Sources: NAI, NBB.
(1) Relationship between interest charges in the current year and debt at the end of the previous year.
(2) The simulation assumed unchanged figures for the government's funding structure and primary balance levels; only outstanding debt was influenced by the change in the interest charge amount.

budget. Primary expenditure caused the increased deficit in the Communities and Regions as a whole, which saw their own revenues fall in the wake of fewer tax receipts and an absence of a dividend payment to the Flemish Community by KBC (unlike the previous year). The overall fall exceeded the additional tax revenues allocated by the federal government under the old Finance Act, last applied before the sixth State reform – as announced on 6 January 2014 – came into force.

Local government saw its deficit come down to 0.1 % from 0.2 % of GDP. Revenues stagnated, while expenditure dropped on the back of investment cuts in keeping with its typical electoral cycle.

In its April 2014 stability programme, the federal government proposed a breakdown of the budget target across the sub-sectors, in addition to outlining the fiscal path for government as a whole, assuming a deficit of 2.1 % of GDP for 2014. The objectives for fiscal 2014 were in line with the July 2013 cooperation agreement, which had envisaged a surplus for local government reflecting its elections-related investment cycle. Between them, the Communities and Regions were supposed to strike a nominal balance, in

TABLE 23 OVERALL BALANCE OF GENERAL GOVERNMENT AND BY SUB-SECTOR

(in % of GDP)

	2010	2011	2012	2013	2014 e	Target in 2014 (1)
Entity I	–3.1	–3.4	–3.6	–2.5	–2.6	–2.3
Federal government	–3.0	–3.5	–3.4	–2.4	–2.6	–2.3
Social security	–0.2	0.1	–0.1	–0.1	0.0	0.0
Entity II	–0.8	–0.5	–0.5	–0.4	–0.6	0.1
Communities and Regions	–0.7	–0.3	0.0	–0.2	–0.5	0.0
Local government	–0.1	–0.2	–0.5	–0.2	–0.1	0.1
Total	–4.0	–3.9	–4.1	–2.9	–3.2	–2.1

Sources: FPS Finance, NAI, NBB.
(1) Targets from the April 2014 stability programme, determined on accounts drawn up in accordance with ESA 95.

accordance with the recommendations of the High Council of Finance's Public Sector Borrowing Requirement section. Entity I, which comprises the federal government and social security, was to limit its deficit to 2.3 % of GDP, a figure in line with the objective imposed on the federal government, assuming that it would keep social security in balance.

On the basis of the most recent data under ESA 2010 – which entail an increase in the deficit of nearly 0.3 % of GDP compared with ESA 95, in use when the stability programme was drawn up (see Methodological Note) – the fiscal targets of the Stability Pact were not achieved for either Entity I or Entity II, with both the Communities and Regions and local government responsible for the latter.

4.3 Public debt and government guarantees

Debt ratio back up

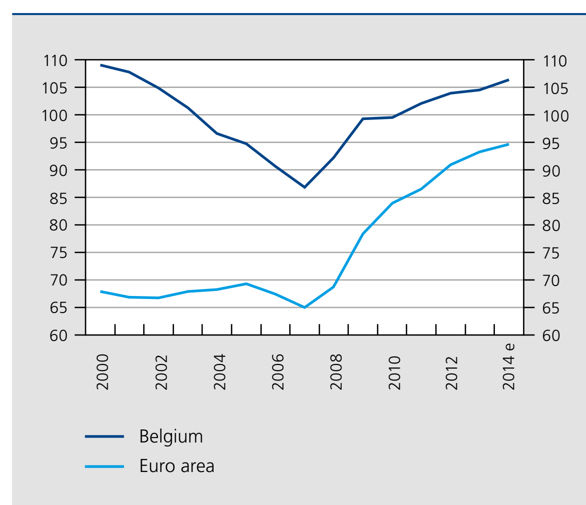
The Belgian government's debt ratio came to 106.5 % of GDP at the end 2014, compared with 104.5 % a year earlier. A range of methodological changes introduced by the NAI in the course of 2014 – partly due to the transition to the ESA 2010 methodology – led to a total upward revision of the ratio by 4.5 percentage points of GDP. The revision was mainly the result of the inclusion of institutional entities in the public sector and the rearrangement of transactions that used to be recognised differently in the accounts (see Methodological Note).

There was no change, then, in the upward debt ratio trend that started in 2008, when the government first injected capital into various ailing financial institutions. Belgium has seen its debt ratio add nearly 20 percentage points of GDP since 2007, while public debt in the euro area rose by close to 30 percentage points of GDP. In contrast with the previous two decades, however, the debt ratio gap between Belgium and the euro area widened in the year under review.

Endogenous factors underlay much of the 2014 rise in the Belgian debt ratio, accounting for 1.6 percentage points of GDP. Their impact is determined partly by the gap between the implicit interest rate on the public debt and nominal

CHART 74 CONSOLIDATED GROSS GOVERNMENT DEBT IN BELGIUM AND IN THE EURO AREA

(in % of GDP)



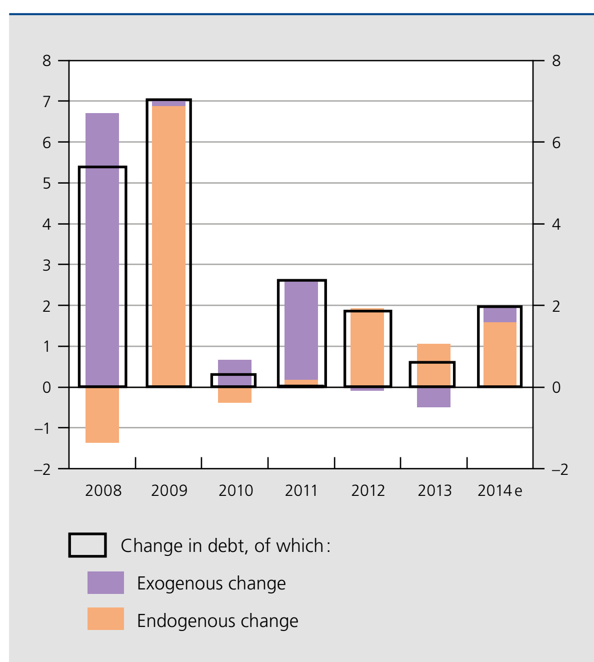
Sources: EC, NAI, NBB.

GDP growth, and partly by the level of the primary balance. With both real GDP and the GDP deflator barely moving, nominal GDP growth was relatively subdued and stayed well below the implicit interest rate on public debt. The primary balance, which reversed into a deficit of 0.2 % of GDP in 2014, was unable to stop the domino effect.

Exogenous factors, so named because they have an impact on the public debt but not on the overall balance, had an unfavourable influence of 0.3 % of GDP on the debt in 2014. Once again, Belgium's federal debt was directly affected by Europe's sovereign debt crisis, as aid to Greece, Ireland and Portugal via the European Financial Stability Facility (EFSF) and the capital contributions to the ESM increased the debt by nearly 0.2 % of GDP. The cumulative effect of the aid to European countries in difficulty, granted by Belgium since 2010 in the form of bilateral loans and via the EFSF and the ESM, comes to 3 % of GDP. In 2014, the debt ratio also added nearly 0.1 % of GDP as a result of the integration of Dexia NV, the holding company of the Dexia group, within the general government boundary, following the sale of Dexia Asset Management at the beginning 2014. Two temporary factors also weighed on the debt ratio. First, the Flemish municipalities acquired Electrabel's stake in the Flemish mixed (public and private) distribution system operators for gas and electricity, after receiving a bridging loan from Eandis for this purpose, pending an equally large sum from a planned capital reduction. And second, corporation tax receipts lagged behind assessments in the year under review. By contrast, other factors helped relieve debt, one being the repayment by KBC of the capital injection received from the Flemish Community, worth 0.1 % of GDP. Moreover, actual debt management also pushed GDP down by 0.5 %, owing to hefty issue premiums. With coupons on general government debt exceeding market rates, issue values were higher than their nominal values – the benchmark for what is known as the Maastricht debt. This effect will peter out as higher coupons are paid.

CHART 75 DETERMINANTS OF THE CHANGE IN THE CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT

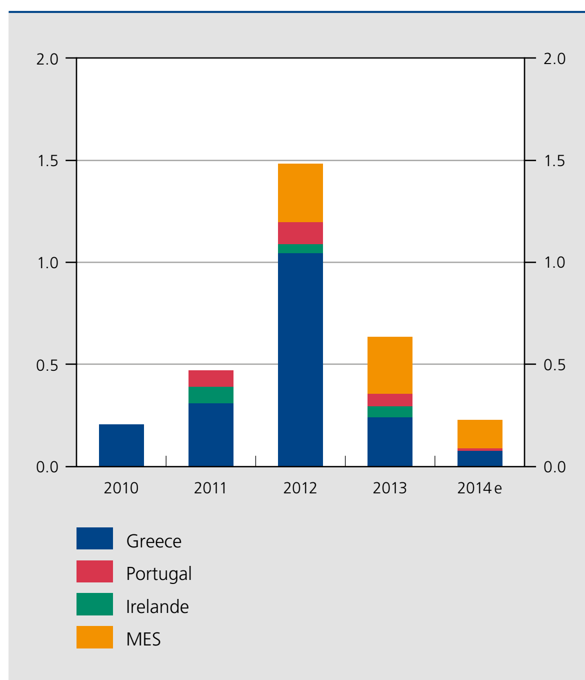
(in % of GDP)



Sources : NAI, NBB.

CHART 76 DIRECT IMPACT OF THE SOVEREIGN DEBT CRISIS ON BELGIAN PUBLIC DEBT (1)

(in % of GDP, end-of-year data)



Sources : EFSF, ECB, NBB.

(1) Direct impact of the loans to other euro area countries (bilateral loans to Greece and loans via the EFSF) and capital injections into the ESM.

Treasury debt management again benefited from favourable conditions

In 2014, the gross balance to be financed by the Treasury stood at € 38.2 billion, which is below the € 40.4 billion figure recorded in 2013. The federal government's growing fiscal deficit was amply offset by steep falls in medium- and long-term loans maturing – the outcome of the steady increase in maturities in the past few years – and by the smaller amount of outstanding loans bought back compared with the previous year.

Unlike in the 2011-2013 period, the Treasury increased short-term financing by issuing Treasury bills in 2014, in order to boost the instrument's liquidity. Combined with a lower gross borrowing requirement, this resulted in a sharp reduction in medium- and long-term refinancing, particularly by way of OLOs. And yet, the Treasury issued more loans than it had planned towards pre-funding expected 2015 requirements, which were adjusted upwards as the year progressed. Solid debt management kept the average maturity of the Treasury's debt portfolio virtually unchanged at 7.8 years, whereas it had continuously risen in the previous few years. A longer average maturity typically reduces refinancing risks.

2014 confirmed the upturn in foreign demand for Belgian government securities, first observed in 2013, and the share of debt held outside Belgium rose to 50 % by the end of the third quarter. This was solely due to renewed investor interest from outside the euro area. In the context of investors' search for yields in the financial markets, robust foreign demand and shrinking spreads between Belgian interest rates and core euro area countries also reflect confidence in the Belgian markets.

TABLE 24 FINANCING REQUIREMENTS AND RESOURCES OF THE FEDERAL GOVERNMENT

(in € billion)

	2012	2013	2014 e
Gross balance to be financed	40.5	40.4	38.2
Gross financing requirements	33.5	33.0	32.8
Budget deficit (–) or surplus (+) [1]	8.0	5.7	10.5
Medium- and long-term debt maturing during the year	25.6	27.3	22.4
In euro	25.6	27.3	22.4
In foreign currencies	0.0	0.0	0.0
Buy-backs (securities maturing the next year or beyond)	7.0	7.4	5.3
Other financing requirements	0.0	0.0	0.0
Funding resources	48.0	46.7	35.7
Linear bonds (OLOs)	43.0	42.3	31.8
State notes and others	5.1	4.4	3.8
Net change in the short-term debt in foreign currencies	0.0	0.6	–0.6
Change in the outstanding amount of Treasury Certificates	–3.4	–7.1	1.8
Net change in other short-term debts in € and in financial assets	–4.1	0.1	1.4

Source: FPS Finance.

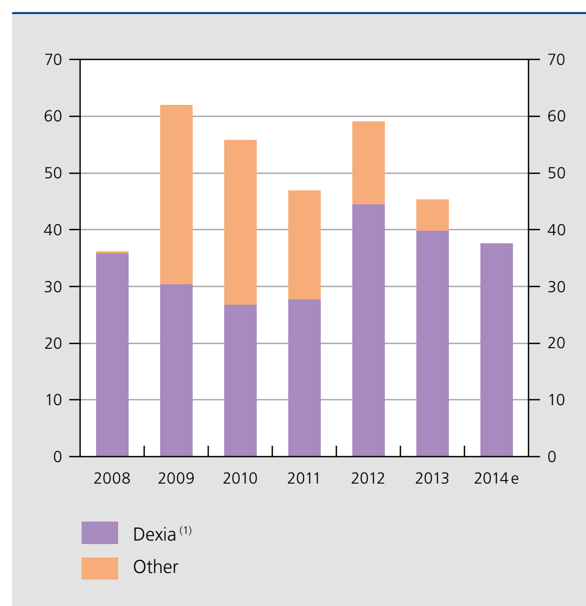
(1) The overall balance is calculated on a cash basis and takes account of financial transactions which are not included in the overall balance of general government which, in accordance with ESA 2010, is calculated on a transaction basis.

Further reduction in guarantees granted to financial institutions

Against the backdrop of the financial crisis, the Belgian government, principally the federal State, granted guarantees to financial institutions, which do not affect the budget balance or the debt unless they are called on. At the end of 2014, the only remaining guarantee was the Dexia interbank funding that had been agreed in December 2011. Federal government guarantees for KBC ended, as in 2014 the bank wound down the CDOs they underpinned. Remaining guarantees for Fortis were also lifted at the start of 2014, and the total amount of guarantees – ignoring the deposit protection scheme – declined by € 7.8 billion to € 37.6 billion at the end of 2014. Despite this, guarantees granted to the financial sector still constitute a major potential commitment, accounting for 9.4 % of GDP, and comprise the vast majority of all general government guarantees. Recent NAI figures put other guarantees at nearly 1.8 % of GDP. These were granted by the federal government as well as the Communities, Regions and the local government.

CHART 77 GUARANTEES GRANTED TO FINANCIAL INSTITUTIONS

(in € billion)



Sources: NAI, FPS Finance, NBB.

(1) Guarantees relating to the 2008 and 2011 schemes. For 2014, only the 2011-related guarantees apply.