National Accounts Institute

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PRESS RELEASE

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Belgian public finances worsened in 2019

- **The government deficit increases to 1.9 % of GDP in 2019, as a result of a decline in fiscal revenues, in particular direct taxes.**
- **The national debt ratio falls to 98.6 % of GDP, due to the positive gap between nominal GDP growth and the implicit interest rate on government debt.**

The National Accounts Institute has today, 20 April 2020, released the notification tables compiled for the purpose of reporting the government deficit and debt to the European Commission under the excessive deficit procedure (EDP). The figures are reported twice a year, in April and October.

The EDP tables are consistent with the usual statistics on public finances, which are also being published today, via the NBB.Stat. data base. Established in accordance with the European System of Accounts (ESA 2010), these statistics give an early provisional estimate of revenue, expenditure and the financing balance of the general government sector and its sub-sectors for the year 2019.

General government sector

The general government financing balance amounts to -1.9 % of GDP in 2019, compared to -0.8 % of GDP the previous year.

The rate of primary expenditure increases by 0.1 % of GDP compared to 2018, to reach 50.2 % of GDP, thus confirming the upward trend observed in 2018, while interest charges decline by 0.1 % of GDP to 2.0 % of GDP. Revenue decrease by 1.1 % of GDP to reach 50.3 % of GDP.

The rise in primary expenditure expressed as a percentage of GDP was basically due to an increase in social benefit payments, and the maintenance of an increased level of investment, with local government investment declining less than usual during a post-electoral year.

The reduction in interest charges was mainly the result of a further decline in the implicit interest rate, given that the level of interest rates on new government debt and bond issues remained below the rates on government securities arriving at maturity date.

The decrease in revenue is mainly due to the drop in fiscal and parafiscal revenues (-1.0 % of GDP), while the other revenues also fell, albeit more modestly (-0.1 % of GDP). The unfavourable trend in fiscal and parafiscal revenues is attributable mainly to direct taxes, both for companies (-0.6 % of GDP) and households (-0.4 % of GDP). Following the increase in advance payments by companies in 2017 and 2018 (due to the introduction of an increased penalty charged in the event of insufficient advance payments) the residual corporate income tax fell sharply. The measures of the tax shift decrease the direct tax revenues on households. Indirect taxes increase by 0.1 % of GDP, largely as a result of the growth in revenue from registration fees in the Flemish Region due to the effect of anticipatory behaviour to the abolition of the housing bonus.

The government debt (Maastricht definition) amounts to 98,6 % of GDP at the end of 2019, a fall of 1,2 %-points of GDP compared to 2018, thus confirming the decline in the debt ratio which had begun in 2015. The reduction in the debt ratio in 2019 is due to endogenous factors, but the contribution of the primary surplus is less significant than in previous years. The decline is intensified by a nominal GDP growth being higher than the implicit interest rate on government debt. On the other hand, the exogenous factors, which affect debt but not the overall balance, turned out to be mainly neutral.

TABLE 1 **GENERAL GOVERNMENT EXPENDITURE, REVENUE, BALANCE AND DEBT UNDER THE EXCESSIVE DEFICIT PROCEDURE**
(in € million)

	2015	2016	2017	2018	2019
Total expenditure	223 850.7	228 431.5	231 537.1	240 044.9	247 296.7
(in % of GDP)	(53.7)	(53.1)	(51.9)	(52.2)	(52.2)
Primary expenditure	211 825.1	216 912.1	221 249.5	230 429.4	237 960.7
(in % of GDP)	(50.8)	(50.4)	(49.6)	(50.1)	(50.2)
of which:					
Employee compensation	52 330.3	53 577.6	55 218.7	56 638.7	58 376.0
Social benefits	102 923.0	106 145.9	109 392.4	113 055.4	117 401.0
Gross fixed capital formation	10 387.5	10 362.9	10 714.0	12 169.0	12 220.3
Interest charges	12 025.6	11 519.4	10 287.6	9 615.5	9 336.0
(in % of GDP)	(2.9)	(2.7)	(2.3)	(2.1)	(2.0)
Total revenue	213 792.9	218 262.5	228 456.5	236 332.1	238 268.2
(in % of GDP)	(51.3)	(50.7)	(51.2)	(51.4)	(50.3)
of which:					
Fiscal and parafiscal revenue	185 202.9	187 617.6	196 581.0	203 381.9	204 625.3
(in % of GDP)	(44.4)	(43.6)	(44.0)	(44.2)	(43.2)
Financing balance	-10 057.8	-10 169.0	-3 080.6	-3 712.8	-9 028.5
(in % of GDP)	(-2.4)	(-2.4)	(-0.7)	(-0.8)	(-1.9)
Primary balance	1 967.8	1 350.4	7 207.0	5 902.7	307.5
(in % of GDP)	(0.5)	(0.3)	(1.6)	(1.3)	(0.1)
Government debt (Maastricht definition)	438 233.3	451 327.2	453 828.2	459 061.3	467 159.7
(in % of GDP)	(105.2)	(104.9)	(101.7)	(99.8)	(98,6)
p.m. GDP	*416 701.4*	*430 372.1*	*446 364.9*	*459 819.8*	*473 638.9*

Source: NAI.

General government sub-sectors

The overall government deficit is attributable to both the Federal Government as well as the Communities and Regions, while the accounts submitted by the local authorities and the social security funds are in surplus. The effect of the 2018 settlement as a result of the final determination of the autonomy factor in the regional personal income tax disappears in 2019. It had a positive impact on the balance of the federal government and a negative impact on the balance of the three regions in 2018.

Despite a fall in investment which seems less marked than usually observed in the post-electoral year, local authorities end the year 2019 with a surplus of 0.1 % of GDP. The social security accounts show a surplus of 0.2 % of GDP, mainly as a result of increased transfers from the federal government.

TABLE 2 **NET LENDING (+) / NET BORROWING (-) OF GENERAL GOVERNMENT SUB-SECTORS UNDER THE EXCESSIVE DEFICIT PROCEDURE**

	2015	2016	2017	2018	2019
	(in € million)				
Federal government (S.1311)	-5 329.7	-10 973.9	-5 595.3	-1 021.4	-9 330.7
Communities and Regions (S.1312)	-6 005.6	171.0	764.3	-2 000.0	-778.2
Local government (S.1313)	489.1	920.6	926.0	-530.1	249.1
Social security funds (S.1314)	788.4	-286.7	824.4	-161.3	831.3
General government (S.13)	-10 057.8	-10 169.0	-3 080.6	-3 712.8	-9 028.5
	(in % of GDP)				
Federal government (S.1311)	-1.3	-2.5	-1.3	-0.2	-2.0
Communities and Regions (S.1312)	-1.4	0.0	0.2	-0.4	-0.2
Local government (S.1313)	0.1	0.2	0.2	-0.1	0.1
Social security funds (S.1314)	0.2	-0.1	0.2	0.0	0.2
General government (S.13)	-2.4	-2.4	-0.7	-0.8	-1.9

Source: NAI.

Contributions to net consolidated debt differ widely in the four government sub-sectors, both in terms of level as well as evolution. While the debt contribution of the Federal Government, the Communities and the Regions go up in 2019, that of the local authorities decline for the fifth consecutive year. Meanwhile the social security funds once again made a substantial negative contribution to government debt, to an even greater extent than in 2018.

TABLE 3 **CONTRIBUTION TO CONSOLIDATED GROSS DEBT**
(in € million)

	2015	2016	2017	2018	2019
Federal government (S.1311)	367 386.6	380 082.5	384 270.6	388 278.2	395 483.2
Communities and Regions (S.1312)	49 787.3	57 839.8	57 165.9	58 356.9	61 170.0
Local government (S.1313)	24 185.6	24 004.1	23 496.4	23 298.2	23 082.7
Social security funds (S.1314)	-3 126.2	-10 599.2	-11 104.7	-10 872.0	-12 576.2
General government (S.13)	438 233.3	451 327.2	453 828.2	459 061.3	467 159.7

Source: NAI.

As regards the personal income tax regime at regional level that has been in force since the 2015 tax year, there is a significant difference between the way it is recorded under the ESA and the resultant cash flow. Accordingly, the NAI is publishing in this press release two balances for the Federal Government and for the Regions, one using the ESA 2010 concept and the other incorporating advance payments relating to the regional additional percentages on income tax. A detailed explanation of the sixth State reform is available in a note entitled 'Methodological Changes'.

The Flemish Community shows a surplus and the Walloon Region reduced its deficit All other entities among the Communities and Regions, except the community commissions, deteriorate their financing balance in 2019. As mentioned above, it was the recording of the non-recurring factor related to the settlements under the Special Financing Act that had a positive effect on the Federal Government balance and a strongly negative impact on the financing balances of the Regions, to a total amount of €1.6 billion, which breaks down as: €1,017.6 million for the Flemish Community; €457.1 million for the Wallonia Region; and €151.8 million for the Brussels Capital Region. This effect disappears in 2019. If the regional personal income tax is replaced by advances from the Federal level as part of the personal taxation system, it is mainly the financing balances of the Flemish Community that suffers a negative impact.

TABLE 4 **BREAKDOWN OF COMMUNITIES AND REGIONS' FINANCING BALANCE**
(in € million)

	2015	2016	2017	2018	2019
ESA 2010 balances					
Flemish Community	-3 377.1	-39.3	1 390.8	-685.8	536.7
French Community	-275.6	-65.8	-217.6	-209.3	-334.8
German-speaking Community	-131.9	-28.3	-34.6	-3.4	-20.2
Walloon Region	-1 860.6	101.2	-273.3	-700.8	-389.9
Brussels-Capital Region	-324.6	152.1	-189.5	-392.4	-617.9
Common Community Commission	-15.8	10.9	23.3	-95.3	-21.5
French Community Commission	7.3	24.8	15.4	7.6	-8.0
Flemish Community Commission	10.0	2.1	-2.3	-35.5	-5.8
Interregional units and statistical adjustment	-37.2	13.1	52.1	115.6	83.6
Total for Communities and Regions	-6 005.4	170.8	764.4	-1 999.4	-777.9
Balances incorporating advance payments of additional regional percentages					
Flemish Community	-548.6	91.7	780.5	-693.3	273.6
Walloon Region	-547.3	-210.7	-214.0	-763.0	-420.7
Brussels-Capital Region	125.8	33.3	-132.7	-439.3	-613.7
Total for Communities and Regions	-1 413.1	-128.9	270.2	-2 116.0	-1 067.6
p.m. Federal government	-9 922.3	-10 674.0	-5 101.2	-904.7	-9 041.0

Source: NAI.

Technical Notes

A. Publication of the EDP tables, in April and in October, is consistent with the provisions of Council Regulation (EC) No. 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.

B. Three months after the end of each year, the NAI transmits an estimate of the main data for public finances to the European Commission. In so doing, the NAI complies fully with Regulation (EU) No. 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European system of national and regional accounts in the European Union, which requires the Member States to provide Eurostat with revenue and expenditure figures for general government. This estimate is obtained using the same concepts as for the detailed general government accounts. The only difference from these accounts lies in the provisional nature of some of the available basic data. The more complete information available when the detailed general government accounts are compiled is likely to lead to revisions of this first provisional estimate.