
2007-09-13

PRESS RELEASE

The sustainability of public finances in the context of population ageing

(Article published in the Economic Review, September 2007)

As in the majority of European countries, public finances in Belgium will be confronted by the effects of population ageing that will have a significant impact on society. Economic growth is expected to slow down as a result of the decline in the working-age population. In addition, there will be strong upward pressure on public expenditure on pensions, health care and long-term care for the elderly. According to the Study Committee on Ageing, age-related government expenditure in Belgium will increase by no less than 6.2 percentage points of GDP between 2006 and 2050. It is particularly from 2010 onwards that public finances will feel the impact of ageing.

Population ageing is therefore a major policy challenge both for Belgium and for the EU as a whole. In order to meet that challenge, it is necessary to continue working on a coherent strategy embracing specific budgetary, economic and social policy aspects. Reducing the public debt, increasing labour market participation, boosting productivity and reforming the pension, health care and long-term care systems are key elements in that strategy.

Some EU Member States already have sound and sustainable public finances, and many others have reformed their pension schemes and other systems in order to meet the challenge. Those countries can face the future with confidence. However, the great majority still have a long way to go. On the basis of the current budget position and the expected increase in age-related government expenditure, the EU Member States are divided by the European Commission into three groups according to the risk to the sustainability of their public finances in the long term. Belgium is in the group of countries facing a medium risk: despite the steady debt reduction in preceding years, the debt ratio is still very high and the budgetary costs of ageing are above the EU average. Constant budget discipline is therefore essential to maintain the primary surplus for quite a long time to come, and to continue steadfastly reducing the burden of the public debt.

On the basis of the projections of the Study Group on Ageing, the "Public Sector Borrowing Requirement" section of the High Council of Finance has devised a budget plan for coping with the budgetary costs of ageing. According to that plan, structural budget surpluses must be gradually built up in the years ahead. The Section rightly points out that these targets should be regarded as a minimum in the medium term, as the favourable progress of public finances could be threatened if the targets are not met. In the event of major discrepancies – e.g. if the government fails to build up budget surpluses in the coming years – there will be insufficient scope to finance the budgetary costs of ageing, and in the long run there is a danger that the public debt snowball effect might recur.