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PRESS RELEASE

Should public investment be boosted?
(Article for the September 2016 Economic Review)

Since the early 1970s, public investment in Belgium has halved as a percentage of GDP. Belgium is currently among the European countries with the lowest government investment, whereas current public expenditure remains relatively high. Some other euro area countries likewise show a low level of public investment, sometimes caused by strong fiscal restrictions resulting from the financial and economic crisis.

However, public investment has a very positive effect on economic activity and on an economy's production potential. From that angle it therefore merits an extra boost, though naturally without impairing the consolidation of public finances necessary to safeguard their sustainability. It is therefore advisable to step up that investment. In so doing it is of course necessary to ensure that the processes leading to investment expenditure are as efficient as possible, and that the best projects are carried out at the lowest possible cost.

Promoting public investment was therefore rightly one of the key policies put forward by the European Commission under the presidency of Jean-Claude Juncker when he took office. That aim was spelt out in the "Investment Plan for Europe". The investment clause concerning the application of the Stability and Growth Pact also aimed to boost public investment, but the stipulated conditions are strict so that only a few countries fulfil them.

Despite these initiatives, public investment remains weak and the question is therefore whether additional measures can be taken to promote public investment by adjusting the statistical treatment of investment or by modifying the European fiscal rules.

As regards the statistical treatment of investment under the ESA 2010 methodological framework, the basic rules are clear and it is not desirable to redraft them. However, it is vital that Eurostat should make the practical application of those rules entirely plain, clarifying the method of recording investment expenditure effected via public-private partnerships or other alternative funding methods.

As regards the application of the European fiscal rules under the Stability and Growth Pact, serious consideration should be given to revising the way in which public investment is taken into account, with a view to more favourable treatment of that expenditure. This could be done by replacing investment expenditure with the amortisation of public investments when determining the relevant budget balance. That would amount to adjusting the government's budget balance for net investments. This proposal would facilitate an investment boost, which is highly desirable in the current circumstances of low public investment, weak demand and low inflation, low potential growth and low interest rates.

Communication
National Bank of Belgium Ltd.
boulevard de Berlaimont 14
1000 Brussels
phone + 32 2 221 46 28
www.nbb.be
Company's number:
0203.201.340 – RLP Brussels