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PRESS RELEASE

The sustainability of public finances in the context of population ageing

(Article for the December 2016 Economic Review)

In the coming decades, Belgium's public finances like those of most European countries, will be confronted by the effects of population ageing. For instance, between 2015 and 2060 the social benefits paid by the government in Belgium would rise by 2.3 percentage points of GDP.

The recent pension reform has curbed the expected increase in pension expenditure, but the costs of ageing are still high by European standards. There is also a risk that the costs have been underestimated, for example if the rise in labour productivity is weaker than the assumed figure forming the basis of the reference scenario of the Study Committee on Ageing.

Population ageing therefore remains a vital policy challenge for Belgium. To meet that challenge, further work is needed on a coherent strategy comprising a three-pronged policy covering targeted budgetary, economic and social aspects.

First, the budgetary policy must include a consolidation programme aimed at achieving a structurally balanced budget in the medium term. It should consist mainly of a selective reduction in expenditure. Efforts must also be made to ensure that taxes are properly collected, and use can be made of margins in some revenues.

In addition, the economic policy should aim to stimulate growth by boosting potential GDP. To that end, every effort must be made to drive up the employment rate, particularly that of a number of risk groups, via an active employment policy. There is also a need to increase productivity, e.g. by stimulating investment, research and development, and a more efficient market functioning.

Finally, the increase in expenditure on pensions and health care must be kept under control. That is important to ensure the sustainability of public finances and the affordability of social protection in the long term.