4. Public finances

The general government deficit declined to 2.7 % of GDP in 2013, thus falling for the first time since 2008 below the 3 % reference threshold indicating an excessive public deficit. The 1.3 percentage point improvement on 2012 is due to the structural measures which the various government entities have taken to boost revenues and cut expenditure, and to a fall in interest charges and one-off factors. At the end of the year, the debt stood at 99.7 % of GDP. Pursuit of the stability programme targets, namely a structural balance in 2015 and a structural surplus of 0.75 % of GDP in 2016 and subsequent years, is necessary to finance a large part of the budgetary costs of population ageing, which are substantial in Belgium. Also, the revision of the law governing the financing of the Communities and Regions was approved by a special majority in the context of the sixth State reform. It will enter into force on 1 July 2014. The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, and especially the budgetary element known as the Fiscal Compact, was ratified by the various parliaments, and arrangements were made for its implementation at federal, community and regional level.

4.1 Overview of fiscal policy

Significant reduction in the deficit, below 3 % of GDP

Belgian general government ended the year under review with a deficit of 2.7 % of GDP, which was 1.3 percentage points of GDP lower than the previous year's figure.

That improvement was due to the structural government measures combined with the effect of favourable financial market developments and one-off factors. Thus, the federal government and the Communities and Regions adopted consolidation measures which, as in 2012, improved the structural balance. Those measures essentially concerned revenues, which were raised to a new peak. They also curbed the rate of increase in primary expenditure, which was down in relation to GDP. The renewed fall in interest charges likewise contributed to the reduction in the structural deficit, while one-off factors flattered the level of the nominal deficit. In 2012, those factors, and particularly the recapitalisation of Dexia, had exerted a negative influence equal to 0.4 % of GDP on the general government budget balance. In 2013, their impact was positive at 0.4 % of GDP ; this mainly concerns the tax regularisation and proceeds from the sale of mobile telephony licences.

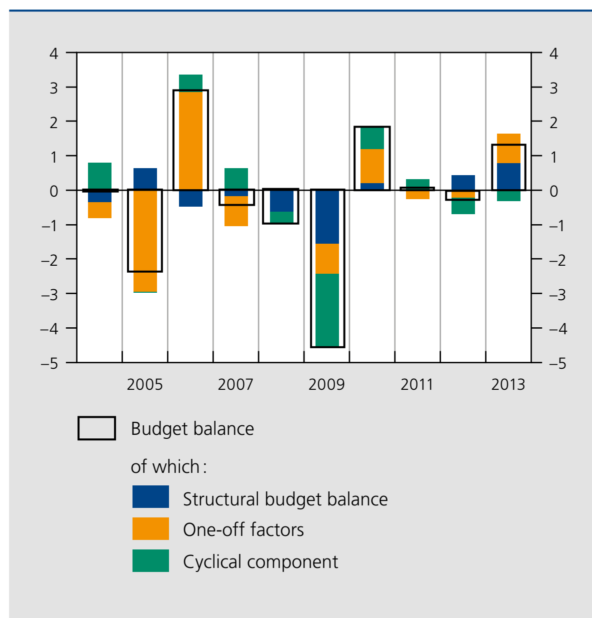
Conversely, the weakness of economic activity was detrimental to public finances during the year under review.

For the first time since 2008, the public deficit therefore dropped below the reference threshold of 3 % of GDP marking an excessive public deficit as defined under the European rules. In 2009, that threshold had been significantly overshot in the aftermath of the financial crisis and the resulting economic recession. In December of that year, the Ecofin Council had therefore opened an excessive deficit procedure (EDP) against Belgium and recommended cutting the public deficit below that threshold from 2012. To achieve that, the Council had stipulated a structural effort averaging 0.75 % per annum during the period 2010-2012.

Under the consolidation that followed the initiation of the EDP, revenues have risen faster than expenditure. However, since 2000, it is expenditure that has increased more strongly, despite a clear fall in interest charges.

CHART 76 DETERMINANTS OF THE CHANGE IN THE GENERAL GOVERNMENT BUDGET BALANCE [1]

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



Sources: EC, NAI, NBB.
(1) According to the EC methodology for the cyclical adjustment of the balance.

On 21 June 2013, the Ecofin Council stated that Belgium had not taken effective action to implement that recommendation. According to the figures available in the spring, the borrowing requirement had amounted to 3.9 % of GDP in 2012, and the EC had estimated the average annual structural effort at 0.3 % of GDP during the period from 2010 to 2012, that last year being the only one with a fully operational federal government. The Ecofin Council therefore took an additional step under the EDP, giving Belgium notice that it must take the necessary measures to bring the excessive deficit to an end in 2013. Against that backdrop, it was decided that the nominal deficit must be cut to 2.7 % of GDP, in order to provide an adequate safety margin in relation to the threshold of 3 % of GDP. According to the EC's spring forecasts, such an improvement would amount to a reduction in the structural deficit of 1 % of GDP during the year under review. For 2014, the Ecofin Council required Belgium to propose structural measures to ensure permanent correction of the excessive deficit and adequate progress towards attainment of the medium-term objective, which in Belgium's case means a structural surplus of 0.75 % of GDP. The Ecofin Council also asked Belgium to submit a report on the explicit coordination measures designed to render the fiscal targets binding at federal level and at the level of the federated entities, in a medium-term planning perspective.

In response to these Ecofin Council Decisions, the federal government and the governments of the Communities and Regions set the overall budget target for 2013

TABLE 19 TARGETS FOR THE OVERALL BALANCE OF BELGIAN GENERAL GOVERNMENT [1]

(in % of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
Stability programme									
April 2008	**0.0**	0.3	0.7	1.0					
April 2009	–1.2	**–3.4**	–4.0	–3.4	–2.6	–1.5	–0.7	0.0	
September 2009 (complement)		**–5.9**	–6.0	–5.5	–4.4	–2.8	–1.3	0.0	
January 2010		–5.9	**–4.8**	–4.1	–3.0	–2.0	–1.0	0.0	
April 2011			–4.1	**–3.6**	–2.8	–1.8	–0.8	0.2	
April 2012				–3.7	**–2.8**	–2.15	–1.1	0.0	
April 2013 [2]					–3.9	**–2.5**	–2.0	–0.5	0.4
p.m. June 2013 [3]						**–2.7**	–2.1		
p.m. Actual figures	*–1.0*	*–5.6*	*–3.7*	*–3.7*	*–4.0*	*–2.7 e*			

Sources: EC, FPS Finance, NAI, NBB.
(1) As in the other tables and charts in this chapter, including – in accordance with the rules laid down for the excessive deficit procedure (EDP) – net interest gains on financial transactions such as swaps.
(2) These balances correspond to the structural budget balances which were respectively –2.9 % of GDP in 2012, –1.8 % in 2013, –1.2 % in 2014, 0 % in 2015 and 0.75 % in 2016.
(3) Decision of the Ecofin Council on 21 June 2013.

TABLE 20 GENERAL GOVERNMENT ACCOUNTS [1]
(in % of GDP)

	2000	2008	2009	2010	2011	2012	2013 e
Revenue	49.0	48.7	48.1	48.7	49.6	51.0	51.5
Expenditure	49.0	49.7	53.7	52.4	53.3	54.9	54.2
Primary expenditure	42.5	45.9	50.0	49.1	50.0	51.6	51.1
Interest charges	6.6	3.8	3.6	3.4	3.3	3.4	3.2
p.m. Primary balance	*6.5*	*2.8*	*–1.9*	*–0.4*	*–0.4*	*–0.6*	*0.5*
Budget balance	0.0	–1.0	–5.6	–3.7	–3.7	–4.0	–2.7

Sources: NAI, NBB.
(1) According to the methodology used in the EDP.

at 2.5 % of GDP from July, in order to create a safety margin, and they adopted supplementary measures to achieve that. The federal government also undertook to maintain the debt below 100 % of GDP. In accordance with the obligations under another EU Regulation in the Two Pack, which came into force on 30 May, the federal and federated authorities issued quarterly reports on the progress achieved in implementing the Ecofin Council Decision, and submitted their draft budget plan to the EC and the Eurogroup on 15 October. That plan aims at a structural deficit of 1.2 % of GDP in 2014, which implies cutting the nominal borrowing requirement to 2.1 % of GDP. On 15 November, the EC found this draft plan to be broadly compliant with the requirements of the Stability and Growth Pact, although in the absence of additional measures it expected the deficit to be larger than indicated in the budget.

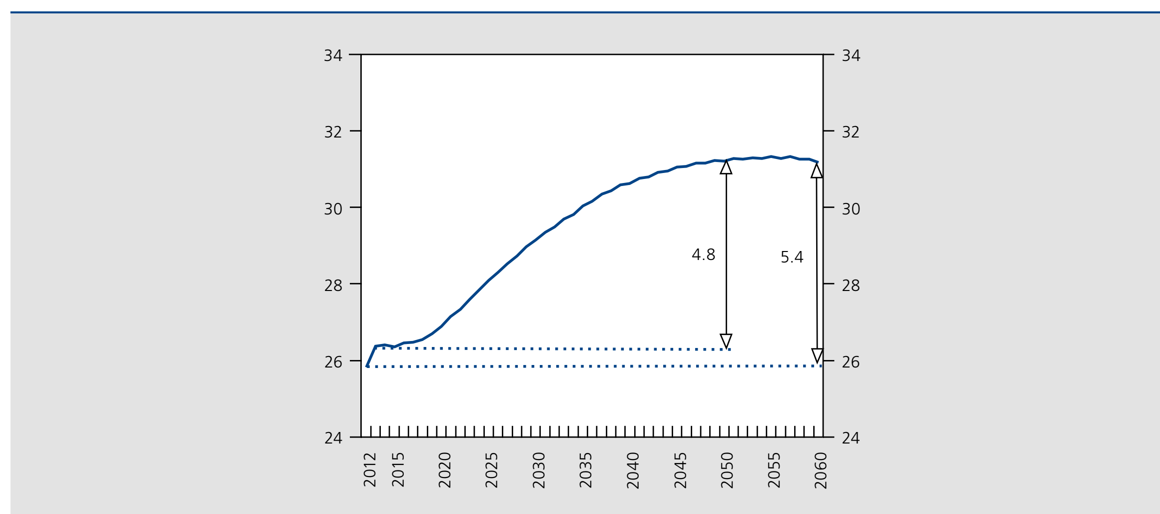
For the years beyond 2014, the federal government also revised the budget path in its latest version of the stability programme, dated April 2013. That path now aims at a structural balance in 2015 and a structural surplus of 0.75 % of GDP in 2016, in accordance with the medium-term objective. As described in Box 8, that target is essential in order to meet the numerous challenges facing public finances in the coming years, starting with population ageing.

The Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, in which the budgetary section is better known as the Fiscal Compact, stipulates that the balanced budget rule requiring convergence towards the medium-term objective as defined in the Stability and Growth Pact must be transposed into the national law of the 25 signatory Member States. That Treaty was ratified by the various Belgian parliamentary assemblies between December 2012 and December 2013. The 13 December 2013 cooperation agreement between the federal State, the Communities, Regions and Community Commissions, subject to the approval of the various parliamentary assemblies, implements the key aspects of the Fiscal Compact. The agreement stipulates that when the stability programme is updated, the annual budget targets will be allocated in nominal and structural terms between the various levels of power on the basis of a recommendation by the Public Sector Borrowing Requirement section of the High Council of Finance. That allocation will have to be approved by a decision of the Consultative Committee, a body comprising the Prime Minister and the Minister-Presidents of the Communities and Regions. The Public Sector Borrowing Requirement section is also designated as the independent body which, among other things, monitors compliance with these decisions and, more generally, checks that the governments fulfil their commitments.

Box 8 – Medium-term budgetary objective in the light of ageing

In accordance with the preventive arm of the Stability and Growth Pact, the EU Member States are required to meet a medium-term budgetary objective ensuring the long-term sustainability of public finances. This is a country-specific target value for each Member State, calculated in accordance with a methodology defined by the EC and approved by the Ecofin Council. Factors taken into account in calculating that value are the size of the public debt and the expected increase in public expenditure resulting from population ageing.

PROJECTED TREND IN SOCIAL BENEFITS, ASSUMING NO CHANGE OF POLICY
(in % of GDP)



Source: Study Group on Ageing.

Population ageing will primarily drive up expenditure on pensions, healthcare and care of the elderly. In its July 2013 report, the Study Group on Ageing estimates that, assuming no change of policy, social benefits will rise by 5.4 percentage points of GDP in Belgium between 2012 and 2060. During the first year of that period, they increased by 0.6 percentage point owing to the weakness of economic activity. Between 2013 and 2050, social benefits are projected to rise by 4.8 percentage points, then stabilise after that. Such long-term projections are naturally subject to great uncertainty, as is evident from the frequent upward revisions of the Study Group's estimates. The Working Group on Ageing Populations and Sustainability, set up by the EU, uses basic assumptions that differ somewhat from those of the Study Group, and expects the budgetary costs of ageing to be higher. The estimate for Belgium is one of the highest among the EU countries.

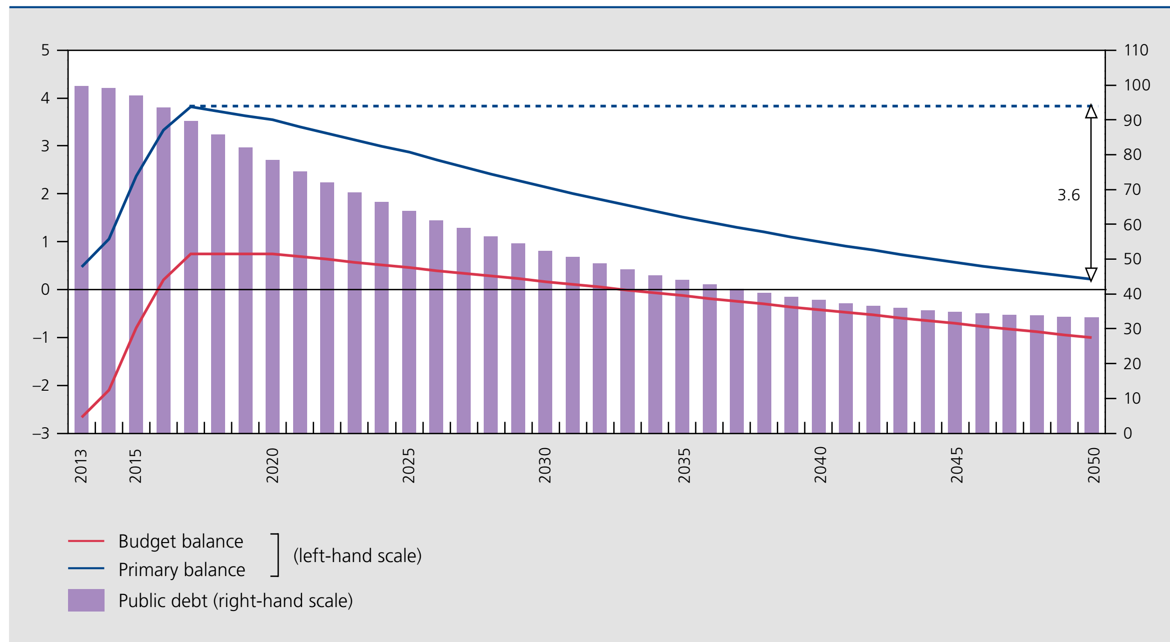
Belgium's medium-term budgetary objective implies a structural surplus of 0.75 % of GDP. According to the stability programme approved in April 2013, that surplus will be achieved in 2016, following attainment of a structural budget balance in 2015. If that target is met, it will create considerable fiscal scope which can be allocated to the expected rise in social benefits resulting from population ageing since, on the one hand, the speedier debt reduction will mean lower interest charges, and on the other hand, it will be possible to tap into the budget surplus as ageing costs increase.

The results of a simulation exercise on the long-term picture for public finances clearly bear out this view of the situation. That exercise is based on the assumption that the structural budget surplus of 0.75 % of GDP will

be achieved in 2016 and maintained until 2020. After that, the general government budget balance will tend towards a deficit of 1 % of GDP in 2050. That option conforms to the European governance framework which stipulates that the medium-term budget deficit may be up to 1 % of GDP, provided social benefits are stable by then. This exercise also used macroeconomic assumptions that support the Study Group's baseline scenario. According to that scenario, labour productivity will increase by an average of 1.3 % a year during 2014-2050, while employment will expand by 0.2 %, generating growth of economic activity averaging 1.5 % per annum.

SCENARIO FOR THE TREND IN PUBLIC FINANCES ON THE BASIS OF THE MEDIUM-TERM BUDGETARY OBJECTIVES (1)

(in % of GDP)



Sources: SGA, NAI, NBB.

(1) On the basis of the macroeconomic assumptions of the SGA's baseline scenario and the assumption that the implicit interest rate on the public debt will rise to 3.75 % in 2025 and then stabilise at that level.

According to this scenario, the primary balance could decline from 3.8 % of GDP in 2017 to 0.2 % of GDP in 2050. That would create fiscal scope of 3.6 % of GDP, which could be allocated to funding the budgetary costs associated with ageing. If that objective of a surplus of 0.75 % of GDP is achieved, it would therefore be possible to pre-finance three-quarters of the cost of ageing as estimated by the SGA.

To ensure the funding of social benefits and other expenditure in the future without having to impose excessive fiscal pressure, it would therefore be advisable to respect the targets set by the April 2013 stability programme and to achieve a medium-term structural surplus of 0.75 % of GDP. In view of the many uncertainties surrounding estimates of the budgetary costs of ageing together with the other long-term needs, it would be wise to consider this target surplus as a minimum.

To aim at less ambitious targets and achieve the said surplus only much later, if at all, would mean that only a smaller proportion of the budgetary costs of ageing could be pre-financed. That would also be true if economic growth fell short of the level anticipated in the Study Group's baseline scenario. Measures are therefore needed to boost both labour market participation and labour productivity, so as to raise the level of potential GDP.

Such progress is in fact essential to achieve, and ideally surpass, the economic growth figures assumed in the SGA baseline scenario.

Finally, although speedy attainment of the medium-term budgetary objective would make it possible to pre-finance much of the expected increase in age-related expenditure, that effort will have to be supplemented by reforms to the pension, health care and long-term care systems in order to maintain control over the increase in that expenditure.

4.2 Revenue, expenditure and overall balance

Further rise in revenues to an unprecedented level

During the year under review, total government revenues continued to rise, reaching an unprecedented level of 51.5 % of GDP. However, that was smaller than the increase in the three preceding years. The new, primarily structural, measures represented around 0.4 % of GDP. There was little impact on non-fiscal revenues overall.

The 0.3 percentage point rise in levies on earned incomes is the outcome of higher personal income tax revenues and a small reduction in social security contributions. The increase in personal income tax was due mainly to the success of the tax regularisation operations at relatively moderate cost, which expired in 2013. The greater priority accorded to pre-completed tax returns, on which the balance payable is generally small, and wider measures to fight tax fraud also led to lower refunds via assessments. In addition, a relatively strong rise in social benefits subject to withholding tax, owing to the increase in the number of recipients, particularly pensioners and the unemployed, drove up the personal income tax revenues. Furthermore,

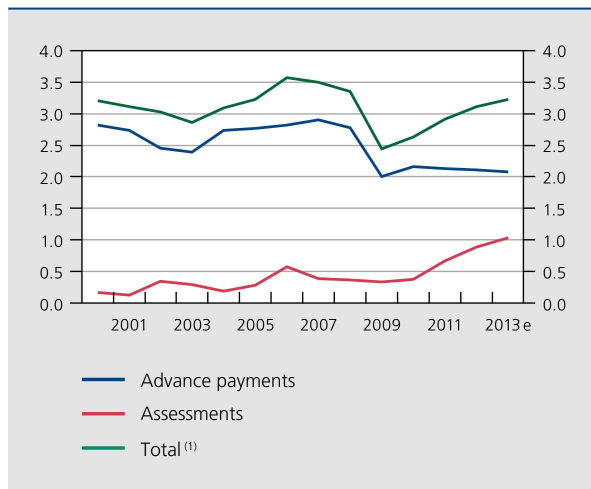
TABLE 21 REVENUE OF GENERAL GOVERNMENT [1]
(in % of GDP)

	2009	2010	2011	2012	2013 e
Fiscal and parafiscal revenue	42.8	43.2	43.6	44.8	45.4
Levies weighing chiefly on earned income	25.9	25.8	26.0	26.3	26.6
Personal income tax [2]	11.2	11.4	11.5	11.5	11.8
Social contributions [3]	14.7	14.4	14.6	14.9	14.8
Taxes on company profits [4]	2.4	2.6	2.9	3.1	3.2
Levies on other incomes and on assets [5]	3.6	3.7	3.9	4.2	4.5
Taxes on goods and services	10.8	11.0	10.8	11.1	11.0
of which:					
VAT	6.8	7.0	6.9	7.0	7.0
Excise duties	2.1	2.1	2.1	2.1	2.1
Non-fiscal and non-parafiscal revenue [6]	5.3	5.5	6.0	6.2	6.2
Total revenue	48.1	48.7	49.6	51.0	51.5

Sources: NAI, NBB.
(1) In accordance with the ESA 95, total revenue of general government does not include the proceeds of fiscal revenue which the government transfers to the EU.
(2) Mainly withholding tax on earned income, advance payments, assessments and the proceeds of additional percentages on personal income tax.
(3) Including the special social security contribution and the contributions of persons not in work.
(4) Mainly advance payments, assessments and withholding tax on movable property income.
(5) Mainly withholding tax on income from movable property of individuals, withholding tax on income from immovable property (including the proceeds of additional percentages), inheritance taxes and registration fees.
(6) Income from property, imputed social contributions, current transfers and capital transfers from other sectors, plus sales of goods and services produced, including the remuneration on the guarantees granted by the State on individuals' deposits and interbank loans.

CHART 77 CORPORATION TAX

(in % of GDP)



Sources: NAI, NBB.

(1) Including other taxes, the main component of which is the withholding tax on income from immovable property.

those revenues were boosted by a measure to raise the withholding tax in the case of temporary lay-offs. In contrast to these factors benefiting personal income tax revenues, an anticipation effect on the part of many households led to an increase in energy-saving investments which are still tax-deductible in the case of work executed under a contract concluded before 28 November 2011.

The slight fall in social security contributions is due partly to the negative effect on revenues of the cuts in contributions, primarily the fixed-rate reduction granted to employers and the work bonus for employees, and partly to the boost that they received from payment of the responsibilisation contributions for pensions payable by local authorities – including some intermunicipal associations – deductions from redundancy pay and tougher measures to combat tax evasion.

Taxes on company profits were up again by 0.1 percentage point at 3.2 % of GDP in 2013, a level comparable to the average for 2000-2008. According to the government's assumptions, a set of measures should have increased revenues by almost € 700 million compared to the previous year. The main measure, which alone represents almost half of the total impact, concerns the change in the definition of the reference rate applicable to the tax deduction for risk capital and the restrictions on transferring it. The taxation of capital gains that companies realise on the sale of shares should also raise additional revenue of around € 100 million. Finally, an agreement concluded with a company in the diamond sector involved in a massive international fraud led to payment of around € 160 million. However, it seems that the additional revenues that certain measures should have generated via early payments only partly materialised. It therefore appears that the shift away from early payments in favour of collection via assessments, already reported last year, is still persisting because the tax surcharge due in the event of insufficient advance payments remains fairly low. The small expansion of the tax base and the uncertainty over the strength of the economic recovery also contributed towards the stagnation of advance payments as a percentage of GDP.

TABLE 22 MAIN FISCAL AND PARAFISCAL MEASURES (1)

(in € million, differences compared to the previous year)

	2011	2012	2013
Structural fiscal measures	485	2 970	1 574
Federal government and social security	423	2 841	1 534
of which:			
Personal income tax	–273	–394	–201
Corporation tax	280	817	396
Levies on other incomes and on assets	0	1 311	569
Taxes on goods and services	366	719	521
Communities and Regions and local authorities	63	130	40
Structural parafiscal measures	–206	185	–271
Non-recurrent measures	–141	923	207
of which:			
Tax regularisation	0	0	731
Late payment of the nuclear rent for 2011	–250	500	–250
Inheritance taxes: declaration deadlines shortened by one month	0	80	–50
Early collection of the advance levy on life insurance	0	200	–220
Acceleration of the assessments (individuals and companies)	–200	100	100
VAT reduction on houses built in 2009 and 2010	150	0	0
Total	**139**	**4 078**	**1 510**
p.m. In % of GDP	*0.0*	*1.1*	*0.4*

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.

Levies on other incomes and on assets were also up for the fourth year running, from 4.2 to 4.5 % of GDP. There were in fact many measures which boosted that revenue. For instance, after having been harmonised at 21 % in 2012, the tax on income from movable property was increased to 25 %, generating over € 350 million in additional revenue. The withholding tax on the liquidation gains will increase from 10 to 25 % in October 2014. However, a transitional measure permits payment of a dividend corresponding to no more than the company's taxed reserves, provided the company capital is increased by the same amount. At the end of 2013, there were payments of substantial dividends, finally taxed at the lower rate of 10 %, thus boosting these revenues. The impact of these factors and of the increase in other dividends received by households more than offset the effect of the decline in their interest income. Moreover, the increased registration fees on leases and higher taxes on savings deposits gave a further boost to the amounts collected. Finally, inheritance taxes – which had benefited from the shorter declaration deadlines in 2012 – recorded a further marked rise that may have been due to tax regularisation, the stricter checking obligations imposed on notaries, and the dematerialisation of securities. Conversely, smaller contributions paid by credit institutions into the resolution fund and the disappearance of temporary revenues raised in 2012, such as the earlier collection of the advance levy on life insurance, reduced the revenues somewhat.

Taxes on goods and services declined by 0.1 percentage point of GDP, mainly owing to the weak growth of the tax base. While household consumption proved relatively resilient, that was not true of either investment by households – primarily in housing – or by the government. Nonetheless, various factors helped to mitigate the fall in indirect taxes, such as the increase in excise duty on tobacco and alcohol, the higher tax on insurance premiums, improved collection of VAT on mixed investment goods – particularly cars used by self-employed workers for both private and business purposes – and measures to fight fraud. These measures favourable to tax revenues outweighed the fall in payments made by the nuclear power supply company. In fact, € 250 million initially planned for 2011 had not been paid until 2012, thus supplementing the accounts for that year. On top of this naturally one-off shift, the amount due for 2013 came to € 481 million, compared to € 550 million for 2012.

Non-fiscal and non-parafiscal revenues were steady at 6.2 % of GDP in 2013. Among the positive factors, the most important concerned the imputed social security contributions, as a result of the steep rise in the number of public sector pensioners. In 2013, payments by the Bank to the State also reached a record level, surpassing the previous year's figure by € 325 million. Excess customs duties levied by the EU in the past gave rise to refunds recorded in the national accounts as capital transfers, so that they too contributed towards the buoyant revenues. Conversely, payments by financial institutions in respect of remuneration for guarantees and contributions to the special financial stability fund were down by a total of around € 600 million. Dividend incomes were up slightly, thanks to the exceptional payment made by Royal Park Investments, the company established in 2008 to take over the former Fortis Bank's risk-bearing assets.

TABLE 23 GENERAL GOVERNMENT PRIMARY EXPENDITURE

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

	2009	2010	2011	2012	2013 e	Average 2000-2012
Level recorded [1]	50.0	49.1	50.0	51.6	51.1	46.3
1. Real recorded growth	5.9	0.4	3.7	2.9	–0.8	2.9
2. Influence of non-recurrent or fiscally neutral factors [2]	0.8	–1.2	0.2	1.2	–1.3	0.2
3. Influence of cyclical factors [2]	0.7	–0.1	–0.4	0.0	0.1	0.0
4. Indexation effect [2] [3]	0.7	–1.0	0.4	0.4	0.4	0.0
5. Adjusted real growth (1 – 2 – 3 – 4)	3.7	2.6	3.4	1.3	0.1	2.8

Sources: DGSEI, NAI, NBB.

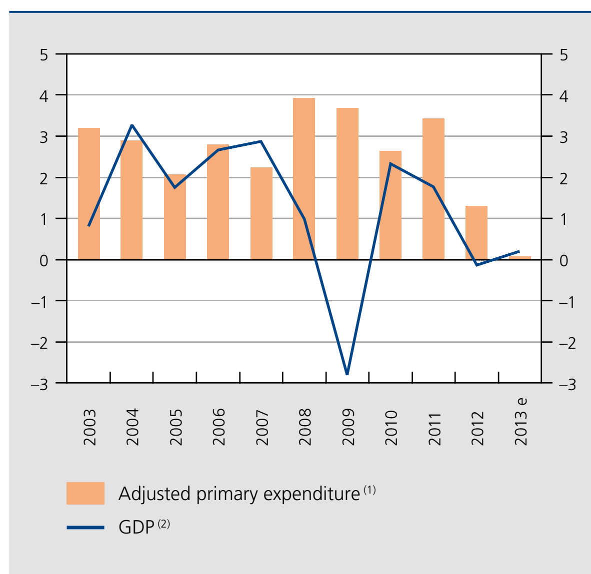
(1) In % of GDP.

(2) Contribution to real recorded growth of primary expenditure.

(3) Effect caused by the difference between the actual indexation of public sector wages and social security benefits and 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 they are attributable to the indexation mechanisms or to a divergent pattern in the prices of certain expenditure categories, are not adjusted owing notably to the absence of sufficient information.

CHART 78 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 the effect caused by the difference between the actual indexation of public sector wages and social security benefits and the rise in the GDP deflator.

(2) Calendar adjusted data.

Growth of primary expenditure was contained

General government primary expenditure, i.e. spending excluding interest charges, declined by 0.5 percentage point from the previous year, falling to 51.1 % of GDP in 2013. That implied a 0.8 % cut in the volume of expenditure. Among other factors, the economy measures taken by the federal government and by the governments of the Communities and Regions halted the derailment of expenditure seen in past years. Primary expenditure had peaked in 2012, when it exceeded the 2000 figure by 9 percentage points of GDP.

However, the record figure in 2012 was attributable partly to an exceptional cause, since expenditure had been driven up by the recapitalisation of Dexia. That had been reflected in the government accounts by a capital transfer equivalent to 0.8 % of GDP. To obtain a true picture of the fundamental trend in fiscal policy, the growth of expenditure should be adjusted for this and other non-recurrent factors, as well as for cyclical factors and indexation effects.

First, a number of one-off factors curbed the growth of expenditure in 2013 by 1.3 percentage points. Apart from the effect of the recapitalisation of Dexia in 2012, these included the proceeds from the sale of 800 MHz licences to mobile telephony operators, recorded as negative expenditure in the national accounts, and amounting to 0.1 % of GDP in 2013.

Next, the impact of the business cycle on primary expenditure is reflected in unemployment benefits. In 2013, these benefits outpaced the average growth rate for this expenditure category owing to the substantial rise in the number of people unemployed. Overall, the cyclical component added 0.1 percentage point to the change in expenditure.

Finally, factors relating to indexation exerted upward pressure on spending in 2013, estimated at 0.4 percentage point. Taking the year under review

TABLE 24 ADJUSTED PRIMARY EXPENDITURE BY GENERAL GOVERNMENT SUB-SECTOR (1) (2)

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

	2009	2010	2011	2012	2013 e	Average 2000-2012
Entity I	4.0	3.1	3.7	1.1	0.7	2.9
Federal government	3.6	4.0	3.4	–2.8	0.0	2.6
Social security	4.1	2.7	3.8	2.7	0.9	3.0
Entity II	3.2	1.8	3.0	1.7	–0.9	2.6
Communities and Regions	3.4	1.8	2.3	1.0	–0.5	2.8
Local authorities	3.0	1.9	4.2	3.0	–1.7	2.3
Total	3.7	2.6	3.4	1.3	0.1	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 the influence of cyclical and non-recurrent or fiscally neutral factors, and for indexation effects. The latter is the effect caused by the difference between the actual indexation of public sector wages and social security benefits and the rise in the GDP deflator.

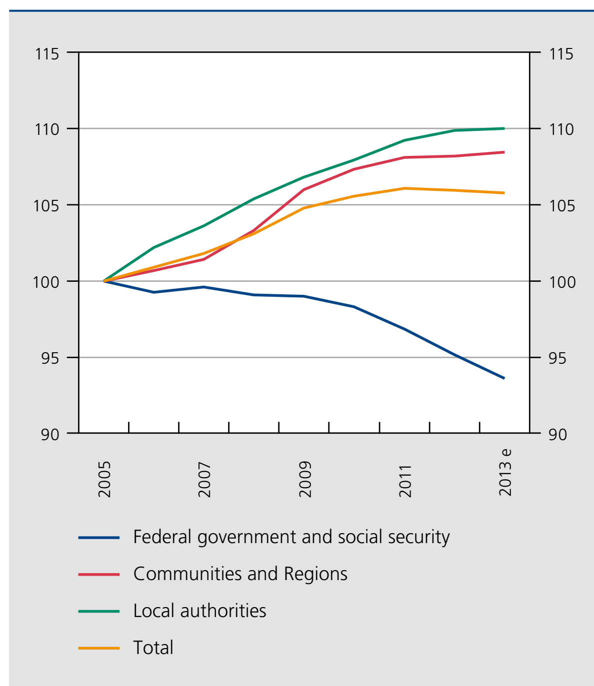
as a whole, civil service pay and social benefits were index-linked by a percentage greater than the rise in the GDP deflator, which is used as the reference for calculating the volume change in primary expenditure. That difference is due entirely to the fact that the key index was exceeded twice in 2012, including right at the end of the year, whereas last year the index was not exceeded again.

Overall, the adjusted growth of primary expenditure was virtually zero in 2013. That result is in line with the moderation of the structural growth of public spending which started last year.

However, the stagnation in real terms of the adjusted general government primary expenditure masks divergences between the various sub-sectors. At federal level, where final expenditure – excluding transfers to other government sub-sectors – accounts for 9 % of GDP, it was virtually stable in real terms in 2013, following a 2.8 % fall in 2012. Social security expenditure, which amounts to 22 % of GDP, was up by 0.9 %. The Communities and Regions, and similarly the local authorities, which respectively account for expenditure totalling 13 and 7 % of GDP, recorded reductions of 0.5 and 1.7 %.

CHART 79 PUBLIC SECTOR EMPLOYMENT

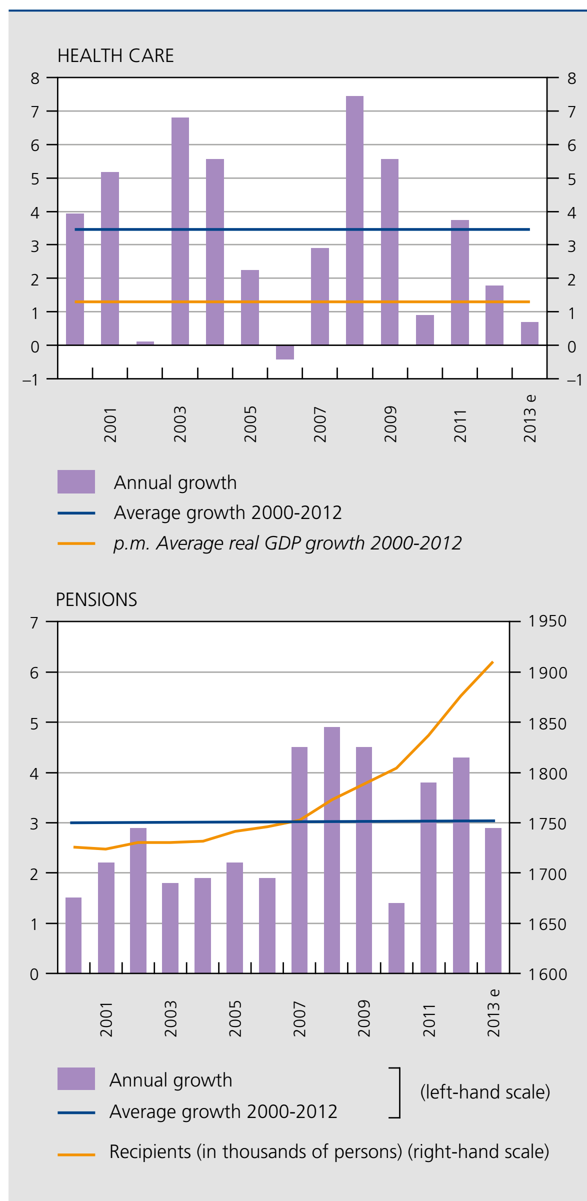
(annual averages, indices 2005 = 100)



Sources : NAI, NBB.

CHART 80 PUBLIC EXPENDITURE ON HEALTH CARE AND PENSIONS

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



Sources : Budget documents, NAI, National Pension Office, NBB.

Various budget items contributed to the stabilisation of the adjusted federal government expenditure in 2013. For instance, a further marked reduction in the number of public sector workers led to a fall in remuneration in real terms. Similarly, the volume of subsidies to businesses declined, as did federal government investment. Conversely, purchases of goods and services by the federal government increased in real terms, following a substantial fall in the previous year.

In 2013, the growth of the adjusted social security expenditure declined sharply to well below the average for the past ten years. That fall concerned the main social benefit categories.

Health care spending, which represents just over a third of the social security budget, was up by 0.7 % in real terms. That is a smaller rise than in the previous year, when the increase had also been considerably below the trend growth seen in the past. The target for real growth of health care expenditure, set at 2 % for 2013 under the government agreement, was voluntarily under-used : a series of economy measures were included in the initial budget or adopted on the occasion of subsequent budget adjustments. They include the reduction in the volume of medicines prescribed, thanks to stricter monitoring of prescribers, and the cut in the price of pharmaceuticals reimbursed.

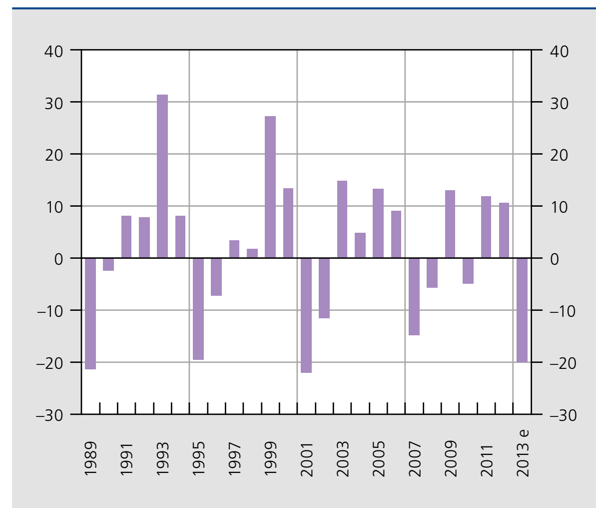
Pension expenditure increased by 2.9 % in real terms, which was less than in 2012, though still similar to the average growth rate since 2000. That is essentially due to the further increase in the number of pensioners during the year under review : in 2013, Belgium had more than 1 900 000 pensioners, on average, taking all systems together. This rise of almost 2 % compared to the previous year is a tangible sign of population ageing in Belgium.

In addition, cyclically adjusted unemployment benefits were stable in real terms, following the labour market reforms under the government agreement. Various measures which took effect during the previous year made their full impact during 2013. This concerns more particularly the fact that unemployment benefits have been made more degressive over time, and the age for claiming the seniority supplement has been raised from 50 to 55 years. Furthermore, during the year under review, the age up to which unemployed persons must be available for work was raised to 60 years, and benefits for temporary lay-offs were limited to 70 % of the wage ceiling.

The adjusted primary expenditure of the Communities and Regions was down by 0.5 %, in stark contrast to the average increase since 2000. Thus, their purchases of goods and services declined in real terms. At the same time, the remuneration of employees, accounting for over one-third of this government sub-sector's primary expenditure, lagged behind the trend growth of the past ten years, owing to the recent stabilisation of employment in the Communities and Regions following continuous expansion from 2002 to 2011.

CHART 81 INFLUENCE OF THE ELECTORAL CYCLE ON LOCAL AUTHORITY INVESTMENT (1) (2)

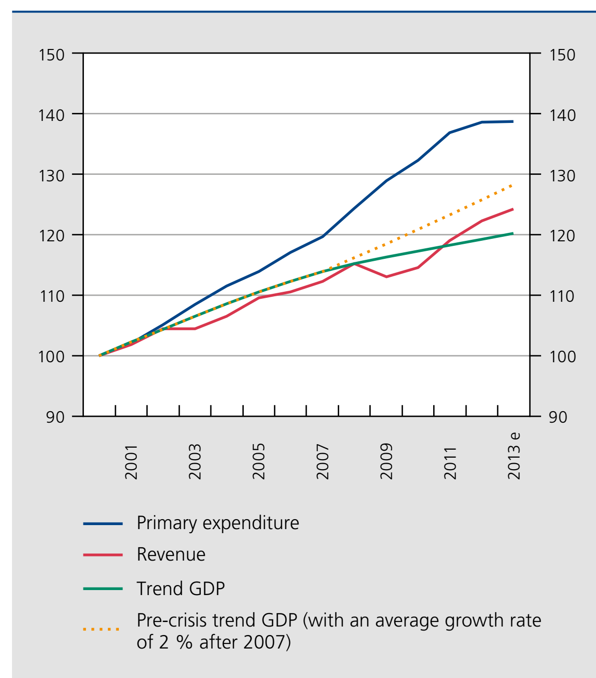
(percentage changes in volume1 compared to the previous year, excluding property sales)



Sources : NAI, NBB.
(1) The vertical grey lines indicate the municipal legislature terms.
(2) Data deflated by the prices of gross fixed capital formation of general government.

CHART 82 STRUCTURAL REVENUE AND EXPENDITURE (1) OF GENERAL GOVERNMENT AND TREND GDP

(data deflated by the GDP deflator, indices 2000 = 100)



Sources : NAI, NBB.
(1) Adjusted for cyclical, non-recurrent or fiscally neutral factors, and indexation effects.

TABLE 25 PRIMARY EXPENDITURE SCENARIOS

(percentage changes compared to the previous year, unless otherwise stated)

	Primary expenditure		Budget balance [1]	Gap in relation to the target [2]
	Real growth	Nominal growth	(in % of GDP)	(in % of GDP)
2014				
Nominal expenditure frozen	–1.5	0.0	–1.5	0.6
Real expenditure frozen	0.0	1.5	–2.3	–0.2
Projected expenditure with no change of policy [1]	0.9	2.4	–2.8	–0.6
2015				
Nominal expenditure frozen	–1.3	0.0	–0.3	0.2
Real expenditure frozen	0.0	1.3	–1.6	–1.1
Projected expenditure with no change of policy [1]	1.2	2.6	–2.7	–2.2

Sources: Budget documents, NBB.
(1) On the basis of the Bank's economic projections for 2014, published in the December 2013 Economic Review, and GDP growth of 1.4 % in 2015, similar to the EC's forecasts.
(2) Objectives under the April 2013 stability programme and in the Ecofin Council Decision of 21 June 2013.

Finally, the adjusted expenditure of the local authorities dropped by 1.7 %, mainly owing to the fall in investment. The latter, which accounts for almost half of all public investment, in fact tracks the electoral cycle: investment peaks in the year of the local elections, then falls sharply the following year. This cyclical pattern is responsible for the marked decline in local investment in the year under review. Also the stabilisation of the level of local authority employment curbed the growth of the wage bill. As in the case of the Communities and Regions, the slackening of public employment contrasts with the substantial expansion over the past ten years.

The stabilisation in real terms of the government's adjusted primary expenditure is striking compared to the rapid growth over the past decade. While revenues continued to rise in 2013, the expenditure slippage seen in recent years seems to have been halted. That is due to the fiscal consolidation efforts made recently by the federal government, the Communities and Regions and by the local authorities.

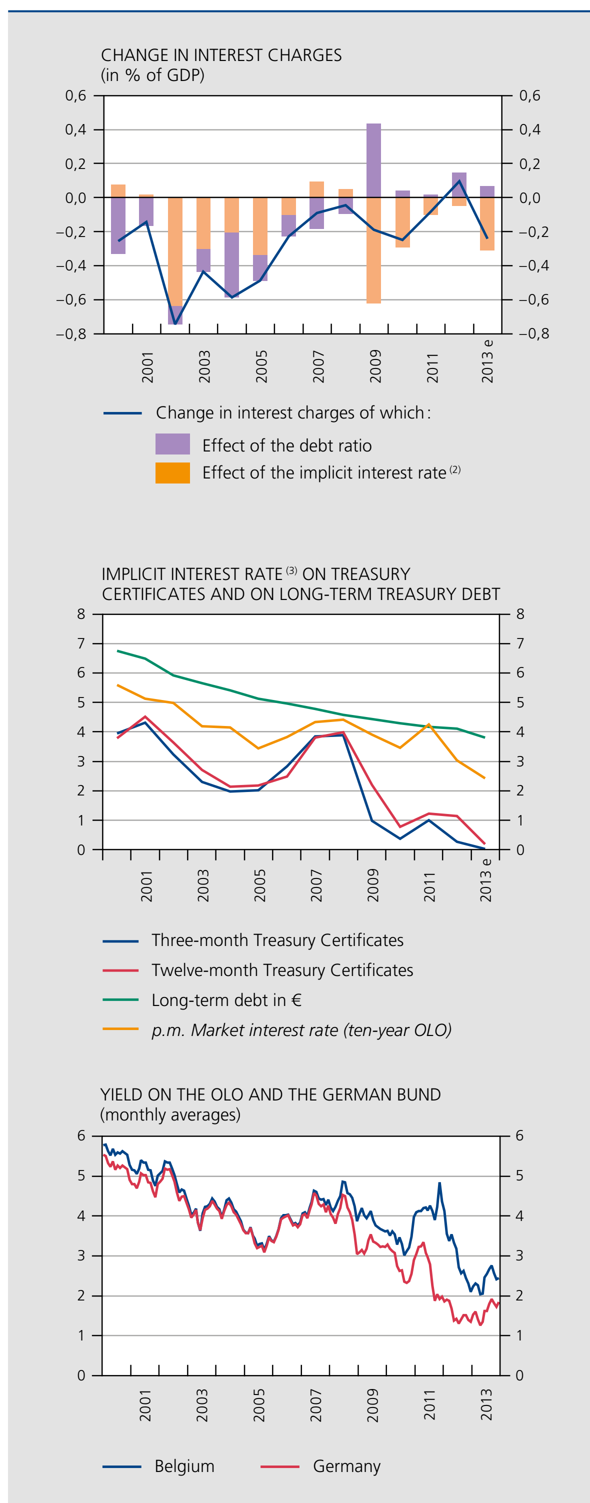
This moderation must be maintained in the longer term, as is evident from a mechanical exercise for 2014 and 2015, in which three technical scenarios for the movement in primary expenditure were developed by way of illustration. The assumptions are ranked in descending order of ambition. The first scenario imagines expenditure frozen at the nominal figure for 2013, which implies a contraction in volume. The second envisages expenditure frozen in real terms. Finally, the third shows what is likely to happen if fiscal policy is unchanged. In all three cases, GDP and inflation are also projected with policy unchanged. The budget balance obtained for each scenario is compared with the targets set by Belgium, namely a deficit of 2.1 % of GDP in 2014 and 0.5 % of GDP in 2015. Without a change in revenues, the stable nominal expenditure scenario is the only one that would conform to the budget path set for those two years. However, that scenario would imply the need for measures generating an immediate, very high yield. If the primary expenditure is less strictly contained, then fiscal consolidation would also require new revenues in order to achieve a structural balance in 2015.

Interest charges down as a result of low market rates

In 2013, interest charges fell by 0.2 percentage point to 3.2 % of GDP. That is a historically low level, and is due to the virtually constant decline in the ratio of interest charges to GDP that began in the early 1990s. This steep fall is due mainly to the steady reduction in the implicit interest rate on the public debt, down from 10.1 % of GDP in 1990 to 3.2 % in 2013.Up to 2007, the fall in interest charges was also caused by the significant decline in the debt ratio. However, since the end of 2008, the rise in the debt ratio has slowed the reduction in interest charges.

CHART 83 TEN-YEAR GOVERNMENT BOND YIELDS (1) AND BREAKDOWN OF THE CHANGE IN INTEREST CHARGES

(in %, unless otherwise stated)



Sources: NAI, FPS Finance, Thomson Reuters Datastream, NBB.
(1) Yield on the secondary market in benchmark bonds issued by the Belgian State (OLO) and the German State (Bund).
(2) Ratio between interest charges (including issue premiums) and the monthly average outstanding debt.
(3) Ratio between interest charges in the current year and debt at the end of the preceding year.

During the year under review, the reduction in interest charges was due essentially to the low level of interest rates on the public debt in both the short and the long term. With the gradual restoration of calm on the financial markets since the end of 2011, interest rates on Belgian government securities gradually eased until May 2013. By then, they had reached extremely low levels, with ten-year bond yields dropping below 2 %. Those yields then climbed back to 2.6 % by the end of the year. The picture was similar in most euro area countries. The spread on the ten-year OLO in relation to the German Bund contracted from 74 to 62 basis points between the beginning and the end of the year under review.

In view of the current level of the implicit interest rate on Belgian government securities, there is unlikely to be any further significant fall in the years ahead. Therefore, in order to avoid any rise in interest charges in the medium term, fiscal policy will need to make sure that the trend in the debt ratio is firmly reversed.

Overall balance of the general government sub-sectors

Following the recommendations of the Ecofin Council on 21 June 2013, the Consultative Committee between the federal government and the governments of the Communities and Regions resumed the tradition of concluding agreements on the fiscal targets that the various levels of power must achieve. In July, the Committee agreed the principles for the allocation of those targets for 2013 and 2014. The Institutional Reform Implementation Committee, comprising the Prime Minister, the State Secretaries for Institutional Reform and the representatives of the eight political parties with a special majority in the Chamber of Representatives and in the Senate who support the sixth State reform, finalised various legislative proposals, including the revision of the Special Finance Act for the Communities and Regions. The main aspects of the new version of that law, which will enter into force in July 2014, are presented in Box 9.

For the year under review, the federal, Community and Regional governments agreed that the overall public deficit must not exceed 2.5 % of GDP, thus creating a safety net in relation to the 2.7 % of GDP specified in the Ecofin Council Decision. That stricter target was allocated as follows: 2.4 % of GDP for Entity I, comprising the federal government and social security, and 0.1 % of GDP for Entity II, comprising the Communities and

TABLE 26 OVERALL BALANCE OF GENERAL GOVERNMENT AND PER SUB-SECTOR
(in % of GDP)

	2009	2010	2011	2012	2013 e	Target in 2013
Entity I	−4.9	−3.1	−3.4	−3.5	−2.6	−2.4
Federal government	−4.2	−3.0	−3.4	−3.4	−2.5	−2.4
Social security	−0.7	0.0	0.0	−0.1	0.0	0.0
Entity II	−0.7	−0.7	−0.4	−0.5	−0.1	−0.1
Communities and Regions	−0.7	−0.7	−0.2	0.0	0.0	0.0
Local authorities	0.1	0.0	−0.1	−0.4	−0.1	−0.1
Total	−5.6	−3.7	−3.7	−4.0	−2.7	−2.5
p.m. Ecofin Council Decision						−2.7

(1) Sources: EC, federal government, NAI, NBB.

Regions and the local authorities. Within Entity I, social security received a grant which should enable it to aim at a balanced budget, while a deficit of 2.4 % of GDP is acceptable for the federal government; that target allows for the fact that the responsibilisation contribution relating to pensions, intended to make the Communities and Regions bear part of the cost of pensions for their statutory staff, will not be paid again by those entities. In order to meet the Entity II deficit target of no more than 0.1 % of GDP, the Communities and Regions undertook to meet their own initial targets and specify additional margins in order to make up for non-payment of the pension responsibilisation contribution and to cover any local authority deficit, as the Federal Planning Bureau and the Bank had estimated in June 2013 that the latter could come to € 260 million. The governments of the French Community, the Walloon Region and the Brussels-Capital Region therefore proceeded to adjust their budget during the summer, while the Flemish Community had sufficient safety margins following the spring adjustment, so that it did not need to take any further action.

Compared to the previous year, both Entity I and Entity II contributed to the reduction in the public deficit in 2013, with the federal government and local authorities making the biggest contributions.

The federal government's net financing requirement was cut from 3.4 to 2.5 % of GDP. That improvement was due to a rise in tax revenues, a fall in primary expenditure and

TABLE 27 REVENUES PER GOVERNMENT SUB-SECTOR
(in % of GDP)

	Before transfers between sub-sectors			After transfers between sub-sectors		
	2011	2012	2013 e	2011	2012	2013 e
Entity I	41.2	42.6	43.0	30.2	31.4	31.7
Federal government	26.8	27.9	28.3	8.7	9.3	9.3
Social security	14.4	14.7	14.7	21.4	22.1	22.3
Entity II	8.4	8.3	8.5	19.4	19.6	19.9
Communities and Regions	4.8	4.9	5.0	12.5	12.7	12.8
Local authorities	3.6	3.5	3.5	6.9	6.8	7.1
Total revenues	49.6	51.0	51.5	49.6	51.0	51.5

Sources: NAI, NBB.

a reduction in interest charges. Capital expenditure was down sharply, as in 2012 it had been driven up by the recapitalisation of Dexia. That effect was partly offset by a new increase in transfers to the other sub-sectors.

Those additional transfers from the federal government once again went mostly to social security. As in previous years, they covered the rise in social benefits. Social security, which recorded a small deficit in 2012, thus restored a balanced budget during the year under review.

The accounts of the Communities and Regions ended in balance. The income growth offset the increase in primary expenditure. In fact, more own tax revenues were raised for this sub-sector, notably in the form of inheritance taxes. The federal government also granted additional resources to the Brussels-Capital Region under the first part of the refinancing of the Brussels institutions pursuant to the sixth State reform. These extra resources compensated for the slight fall in revenues transferred under the Special Finance Act. Rising expenditure includes current transfers to the local authorities.

The local authorities cut their deficit from 0.4 to 0.1 % of GDP. On the revenue side, they received more transfers from the Communities and Regions and the federal government. Among those transfers, the ones paid to the police districts were stepped up because, apart from revenues for the current year, in 2013 those entities received from the federal authority the proceeds of the 2012 fines due to them. Overall, local authority expenditure was down during the year under review, as the fall in investment after the municipal and provincial elections in October 2012 more than offset the new increase in employees' remuneration. In 2013, the local authorities also paid for the first time a contribution introduced by the Law of 24 October 2011 ensuring the permanent funding of local authority staff pensions.

Box 9 – Impact on public finances of the sixth phase of the State reform and the revision of the Special Finance Act [1]

A revision of the Special Finance Act for the Communities and Regions of 16 January 1989, which was last substantially amended in 2011, was approved by eight political parties forming a special majority in the Chamber of Representatives on 28 November 2013, and in the Senate on 19 December. This revision is a key element of the sixth State reform, which will take effect on 1 July 2014. It specifies and determines the amounts of the agreement dated 10 October 2011, the mechanisms of which were presented in an Economic Review article [2].

Apart from more political and institutional aspects, the sixth State reform implies an additional transfer of powers from the federal government and social security to the Communities and Regions. Calculated on the basis of estimates for 2015, i.e. the first full year in which the reform will be effective, that transfer will amount to around 4.7 % of GDP. The biggest transfers in budgetary terms – around 2.8 % of GDP – will go to the Communities. This concerns all family allowances and various aspects of health care and social support, including retirement homes. The Regions will acquire additional powers mainly relating to employment and tax expenditure. The share of the Communities and Regions in the revenue and expenditure of general government will thus increase considerably.

In the case of the Regions, one of the main changes resulting from the new Finance Act concerns their wider fiscal autonomy. Thus, they will be able to charge 'extended' additional percentages for an amount corresponding to around a quarter of the personal income tax revenues, or 2.9 % of GDP in 2015. The tax base will still be determined by the federal government, which will also continue to collect the tax, but the Regions can fix their own tax rates and scales. Adjustments made by the Regions may affect progressivity, but only to a limited extent.

(1) Special law of 6 January 2014 reforming the financing of the Communities and Regions, increasing the fiscal autonomy of the Regions and funding the new powers.
(2) Bisciari P. and L. Van Meensel (2012), "Reform of the Special Finance Act for the Communities and Regions", NBB, Economic Review, June, 65-85.

TRANSFER OF POWERS TO THE COMMUNITIES AND REGIONS
(in % of GDP, estimated on the basis of needs with no change of policy in 2015)

Communities	2.8
of which:	
Family allowances	1.5
Aspects of health care and social support	1.2
Regions	1.8
of which:	
Employment policy	1.0
Miscellaneous tax expenditure [1]	0.7
Total	**4.7**

Sources: Federal government, NBB
(1) Mortgage loans (single home), use of service vouchers and energy-saving investment.

Apart from these revenues, in order to exercise their new powers, the Regions will receive additional resources shared out on the basis of fiscal allocation keys, including personal income tax. These will not always cover the expected expenditure, and their rate of increase will not be linked entirely to economic growth. Instead, the Regions will in future benefit from growth of their personal income tax revenues which will tend to outpace GDP growth beacause of two factors: the progressive tax rates and population ageing, as pensions form part of the tax base but are not inclued in GDP.

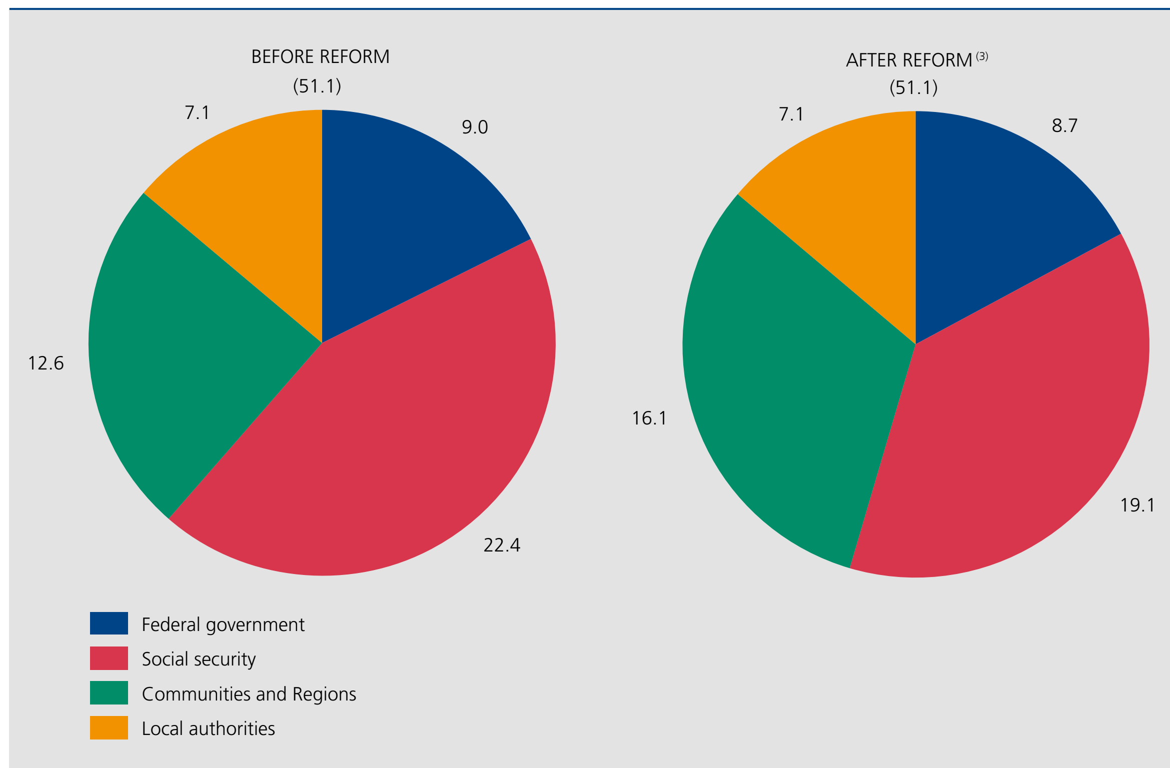
The text specifies retention of a solidarity mechanism in favour of the Regions where personal income tax revenues are below the national average, but the detailed arrangements will be changed. This will correct 80 % of the discrepancy between a Region's share of the population and its share of personal income tax revenues.

The Communities will also receive additional resources for exercising their new powers, but on the basis of demographic allocation keys. Furthermore, they will not be entirely linked to economic growth. The resources available to the Communities for the exercise of their existing powers, notably in education, will be restructured and will comprise a grant broken down according to the number of pupils attending French-language and Dutch-language schools plus a grant broken down according to a tax allocation key (personal income tax).

Taking account of all the changes made to the method of funding the Communities and Regions, the most important of which have been mentioned here, the resources of some entities will be less than under the previous system. A transitional mechanism in the form of an equalisation factor was therefore devised to ensure that no entity loses resources at the time of the switch from the old law to the new one. The amounts of this factor will be fixed in nominal terms for ten years, then phased out over the ensuing ten years.

Leaving aside the transition mechanism, the Brussels entities – Brussels-Capital Region, Community Commissions and municipalities – will receive additional resources amounting to around 0.1 % of GDP by 2015, generated by various channels. Thus, taking account of net commuter flows entering this Region, an adjustment will incorporate part of the incomes of commuters from the other two Regions. Another mechanism will compensate the Brussels-Capital Region for the income that it does not receive on the wages of officials of international institutions based in Brussels. Other resources will be devoted to specific expenditure, such as security, mobility and bilingual premiums. Part of that has been allocated to the Brussels institutions since 2012.

FINAL PRIMARY EXPENDITURE OF THE GENERAL GOVERNMENT SUB-SECTORS (1)
(in % of GDP, estimates based on 2013 figures (2))



Sources: Federal government, NAI, NBB.
(1) Transfers between government sub-sectors are excluded so that only final expenditure is considered.
(2) 2015 for the transfer of powers.
(3) Excluding powers transferred on the revenue side (mainly tax expenditure and reductions in social security contributions).

As a contribution to ageing costs, the Communities and Regions will in future pay a levy to the federal State for the pensions of their officials. Hitherto, it was the federal government that in practice paid almost the entire cost of these pensions. The impact on the budget will be greater for the Communities than for the Regions, since they employ more staff, particularly teachers.

In July 2013, an agreement was concluded whereby the federated entities will likewise contribute towards the consolidation of public finances. In 2014, the personal income tax revenues allocated to them will be subject to a one-off levy of € 250 million. In 2015, a contribution of € 1.25 billion is expected, which will increase to € 2.5 billion in 2016. These structural contributions will take the form of cuts in the grants relating to employment policy for the Regions, the personal income tax grants for the Communities, and the special grant for the Joint Community Commission. Furthermore, the federated entities will be required to make an additional effort tending towards 0.23 % of GDP in 2030, by weakening the link to economic growth in the case of various grants from 2017 onwards. For the Regions, this concerns in particular the grants for new employment and tax expenditure powers, for the Communities it concerns powers relating to health care and social support, and the resources granted according to a fiscal allocation key, and for the Joint Community Commission it concerns the special grant paid to that institution.

4.3 Public debt and government guarantees

The public debt ratio remained below 100 % of GDP

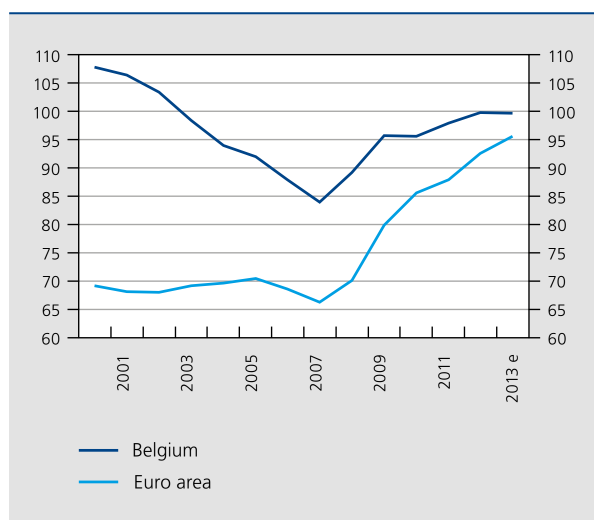
The Belgian government debt ratio came to 99.7 % of GDP at the end of 2013, 0.1 percentage point below the previous year's figure. In its April 2013 stability programme, the federal government had undertaken to implement the measures necessary to bring the debt ratio down below 100 % of GDP.

The virtually stable debt ratio contrasts with the rise that began at the time of the outbreak of the financial and economic crisis. The capital injections and loans granted to financial institutions and peripheral countries by the government since 2008 had been a major factor in raising the debt ratio. Thus, since 2007, the Belgian public debt has increased by 15.7 percentage points. Over the same period, the public debt of the euro area soared by 29.3 percentage points of GDP, a much more serious deterioration than in Belgium. The gap between the debt ratios of Belgium and the euro area therefore continued to shrink, and was down to 4.2 percentage points of GDP at the end of 2013.

The stabilisation of the Belgian debt ratio is the outcome of opposing movements in endogenous and exogenous factors.

CHART 84 CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT IN BELGIUM AND IN THE EURO AREA

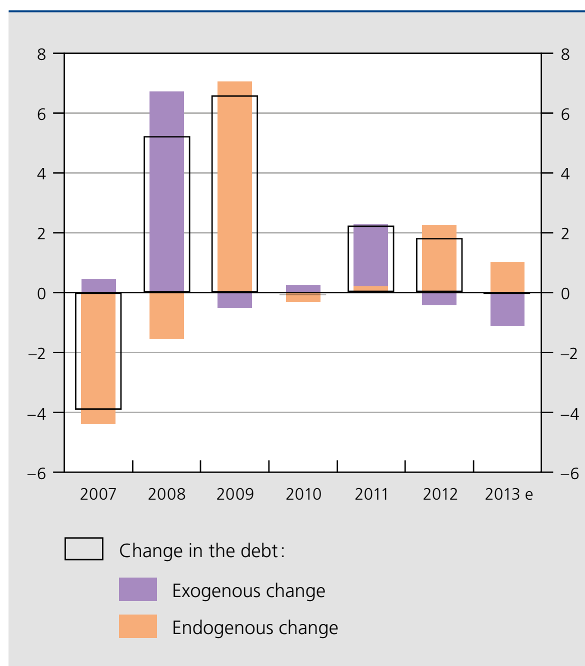
(in % of GDP)



Sources: EC, NAI, NBB.

CHART 85 DETERMINANTS OF THE CHANGE IN THE CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT

(in % of GDP)

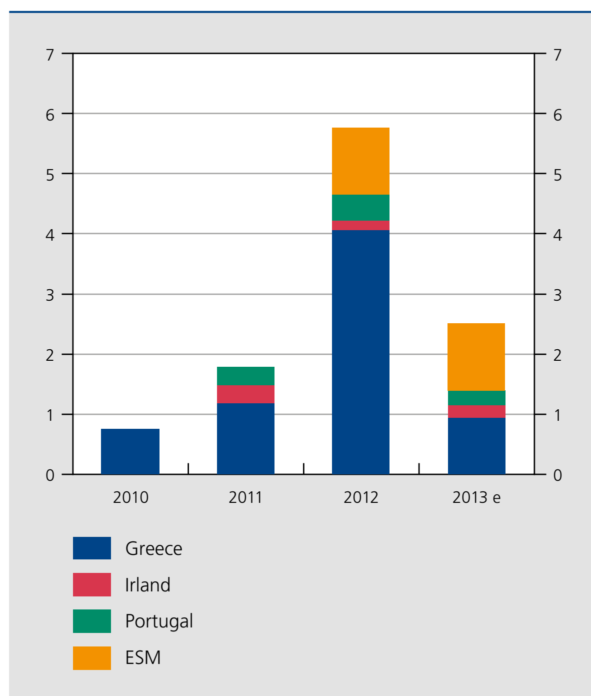


Sources: NAI, NBB.

The endogenous factors raised the Belgian debt ratio by 1 percentage point of GDP. Their impact is determined partly by the gap between the implicit interest rate on the public debt and nominal GDP growth, and partly by the level of the primary balance. In 2013, nominal GDP growth remained below the implicit interest rate, and the level of the primary surplus, at 0.5 % of GDP, was insufficient to avoid the endogenous rise in the debt. Since 2009, the year in which the budget surplus turned into a deficit in the wake of the economic and financial crisis, the primary balance was generally insufficient to avoid the snowball effect of interest charges on the public debt.

Exogenous factors, so named because they have an impact on the public debt but not on the overall balance, had a favourable influence of 1.1 percentage points of GDP on the debt in 2013. However, some exogenous factors drove the debt ratio higher. In particular, the federal government debt ratio felt the direct repercussions of the sovereign debt crisis. In that respect, the aid granted to Greece, Ireland and Portugal via the European Financial Stability Fund (EFSF) and the capital contributions to the ESM increased the debt by 0.4 and 0.3 % of GDP respectively in 2013. The cumulative

CHART 86 DIRECT IMPACT OF THE SOVEREIGN DEBT CRISIS ON THE BELGIAN PUBLIC DEBT (1)
(in € billion)



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 in the ESM.

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 2.9 % of GDP. Conversely, other factors helped to bring down the debt during the year under review. This concerns in particular the further repayment by KBC, amounting to 0.5 % of GDP, of the capital injected into that institution by the government. The federal government also sold off assets in 2013. First, in May 2013, it sold shares in Royal Park Investments amounting to 0.2 % of GDP. Next, in November 2013, it sold shares in Fortis Bank for 0.9 % of GDP. Then in December, the federal State transferred to financial institutions the claim on the EC in respect of the Berlaymont building, amounting to 0.2 % of GDP. Issue and redemption premiums reduced the debt ratio significantly for the second consecutive year. In 2013, they lowered the debt by around 0.4 % of GDP. Since the yield on the public debt securities coupon during the year under review generally exceeded the market interest rate, the issue and redemption value of those securities was globally higher than their nominal value.

Treasury debt management helped by favourable conditions in 2013

In 2013, the gross balance to be financed by the Treasury stood at € 40.4 billion, similar to the 2012 figure. The increase in the amount of medium- and long-term loans maturing was entirely offset by the reduction in the net financing requirement of the federal State.

As borrowing conditions offered were favourable, the Treasury decided to proceed with medium- and long-term euro-denominated issues – mainly OLOs – for a sum considerably in excess of the original targets, enabling it to make substantial reductions in its short-term debt. The average maturity of the Treasury's debt portfolio thus increased from 7.2 years at the end of 2012 to 7.6 years at the end of 2013.

After the introduction of the euro, holdership of the Belgian public debt had tended to become increasingly

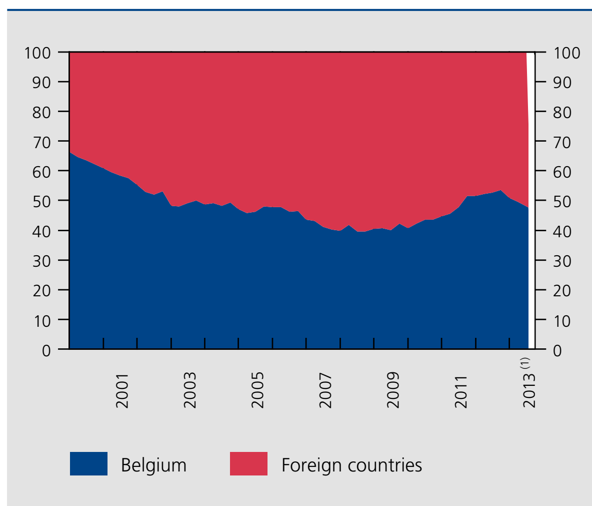
TABLE 28 FINANCING REQUIREMENTS AND RESOURCES OF THE FEDERAL STATE
(in € billion)

	2011	2012	2013 e
Gross balance to be financed	50.4	40.5	40.4
Gross financing requirements	42.9	33.5	33.0
Budget deficit (–) or surplus (+) (1)	18.9	8.0	5.7
Medium- and long-term debt maturing during the year	24.1	25.6	27.3
In euro	24.1	25.6	27.3
In foreign currencies	0.0	0.0	0.0
Buy-backs (securities maturing the next year or later)	7.1	7.0	7.4
Other financing requirements	0.4	0.0	0.0
Funding resources	49.5	48.0	46.7
Linear bonds (OLOs)	40.9	43.0	42.3
State notes and others	8.6	5.1	4.4
Net change in the short-term debt in foreign currencies	–0.1	0.0	0.6
Change in the outstanding amount of Treasury Certificates	–5.3	–3.4	–7.1
Net change in other short-term debts in € and in financial assets	6.4	–4.1	0.1

Source: FPS Finance.
(1) The budget balance is calculated on a cash basis and, among other things, takes account of financial transactions which are not included in the overall balance of general government which, in accordance with the ESA 95, is calculated on a transaction basis.

CHART 87 BREAKDOWN OF THE OUTSTANDING AMOUNT OF THE BELGIAN PUBLIC DEBT BY HOLDER

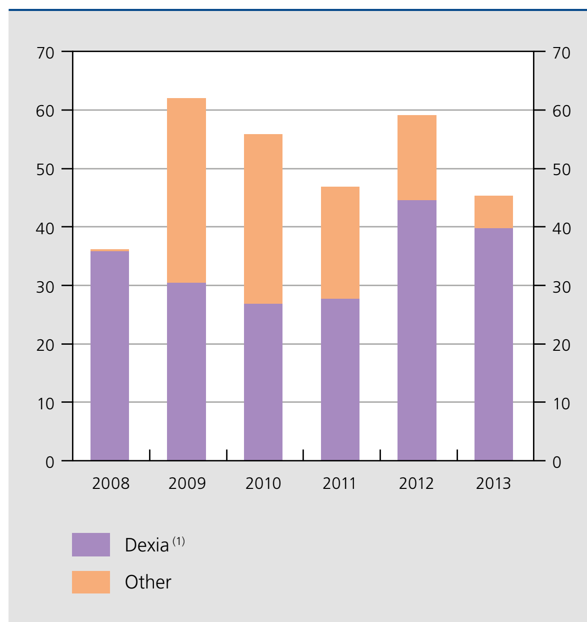
(quarterly data, in %)



Sources: NAI, NBB.
(1) First three quarters.

CHART 88 GUARANTEES GRANTED TO FINANCIAL INSTITUTIONS

(in € billion, year-end data)



Sources: NAI, FPS Finance, NBB.
(1) Guarantees relating to the 2008 and 2011 schemes.

international. However, the financial crisis reversed that trend. The emergence of the sovereign debt crisis and the difficulties that Belgian politicians encountered in forming a government after the June 2010 elections had ushered in a period of great uncertainty. Despite the attractive yields offered, foreign investors had then turned their back on Belgian government securities. Thus, while net flows of investment from the rest of the world were decidedly positive before the outbreak of the crisis, they subsequently declined steeply, becoming negative in 2011. Although foreign investors began to show an interest again during 2012, the share of the public debt held outside Belgium had continued to fall.

In 2013, the appetite of foreign investors for Belgian debt was confirmed and the proportion of the debt held outside Belgium increased to 51.9 % at the end of the third quarter. This strong demand indicates market confidence in Belgium, and certainly helped to keep Belgian interest rates at levels close to those prevailing in the core euro area countries.

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. They do not affect the budget balance or the debt unless they are called on. Leaving aside the deposit protection system, the amount of the guarantees granted declined by € 13.7 billion during 2013 to € 45.4 billion at the end of the year. Despite this sharp fall, the guarantees to the financial sector still represent a potentially substantial government liability corresponding to 11.9 % of GDP. The major part of these guarantees concerns interbank funding for Dexia, namely € 39.8 billion, comprising both the residue of the old system dating from 2008 and the guarantees granted on the basis of the December 2011 scheme.