4. Fiscal policy and public finances

4.1 Across the world, fiscal policy was activated in response to the COVID-19 crisis

As the COVID-19 pandemic unfolded, fiscal policy played a key role in supporting economic activity…

With demand generally supported by highly accommodative monetary policies, governments across the world simultaneously and forcefully rolled out fiscal policies to cushion the pandemic's economic and social impacts – a necessary and appropriate response given the nature and extent of the crisis. In the first place, automatic stabilisers will help keep economies on an even keel without any decisions needing to be made. This happens in the event of a drop in tax revenues when households or companies see their incomes fall or when consumption declines, and when unemployment benefits go up at a time of economic slowdown. The effects of automatic stabilisers can be bolstered by specific discretionary measures to help limit loss of income for households and address the liquidity and solvency issues facing the hardest-hit companies to keep the economic fabric intact.

Government response justified given the nature and extent of the crisis

To be effective and fair and not to jeopardise the sustainability of public finances – even if the low interest rate environment currently offers scope – such measures must meet three crucial preconditions: they must be timely, targeted and temporary. In other words, they must be taken at the right time, focus on households and firms that really need them, and be limited in time, implying they will be lifted as soon as the economy shows signs it has recovered sufficiently.

… much more so than it had in the global financial crisis

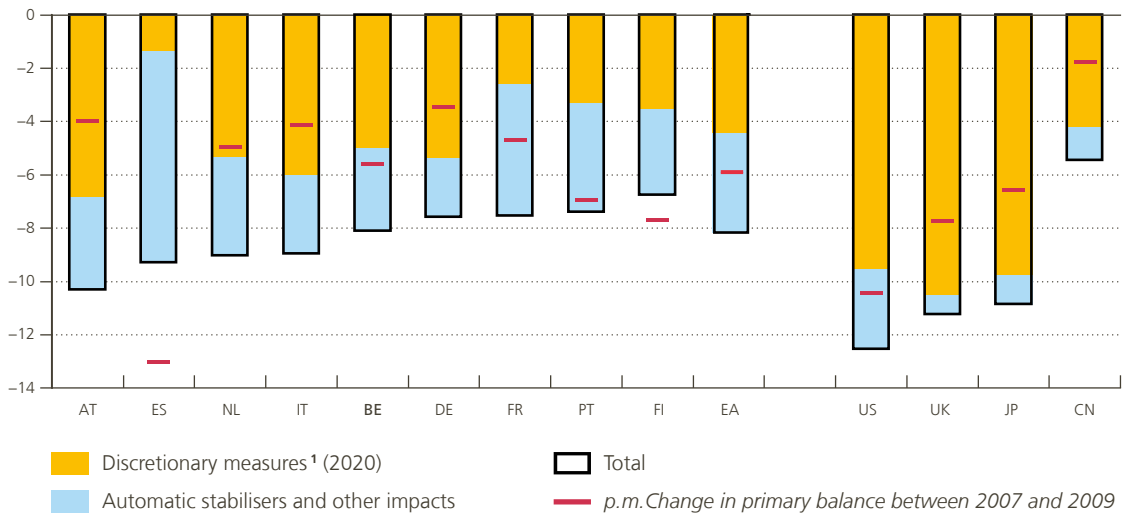
In nearly all euro area countries and all other key economies, the primary budget balance deteriorated more in 2020 than it did in the two years of the global financial crisis, plumbing deeper in the United States, the United Kingdom and Japan than in the euro area. With their automatic stabilisers traditionally limited, these countries introduced exceptionally large discretionary fiscal impulse.

On the whole, the discretionary measures took the shape of additional spending, focusing on health measures to keep the pandemic under control and secure health systems, but also on furlough schemes and subsidies to companies. Measures were taken to keep self-employed workers afloat and to help people requiring social assistance because their business activities were halted (hospitality, entertainment, culture, etc.).

Chart 37

In addition to automatic stabilisers kicking in, governments provided unprecedented discretionary fiscal stimulus

(changes in the primary balance between 2019 and 2020, in percentage points of GDP)



Sources: EC, IMF (for the US, Japan and China), NBB.

1 COVID-19-related discretionary measures for the IMF and NBB, total of discretionary measures for the EC, including measures to keep up employment in all cases.

Other kinds of government support, which do not increase the public deficit, were given to companies and households

To cushion the squeeze on companies' and households' cash situations since the implementation of restrictive measures, governments granted direct and indirect tax payment and social security contribution holidays, moving forward their own payments from 2021 to 2020 in some cases.

Also, government guarantee schemes supporting lending to businesses in many euro area countries, as well as in the UK, encouraged banks or regional/federal funds to grant loans more easily. In Germany and Italy, where the maximum government-guaranteed amounts for banks exceeded 20 % of GDP, take-up was only limited, with the proportion higher in Spain and to a lesser extent also in France.

In an effort to respond to liquidity needs, governments also granted aid in the form of direct loans to companies. In the EU, state aid of this kind may only be given to strategic companies or to businesses considered viable and healthy before the COVID-19 crisis, but that saw their financial situations deteriorate on account of the crisis. Multiple countries gave cash to airlines, for instance, which were entirely floored by restrictions on non-essential travel, and in many cases also to the tourist industry. As the economic crisis dragged on, governments also supplied capital injections to support company solvency, either directly or indirectly via public investment corporations.

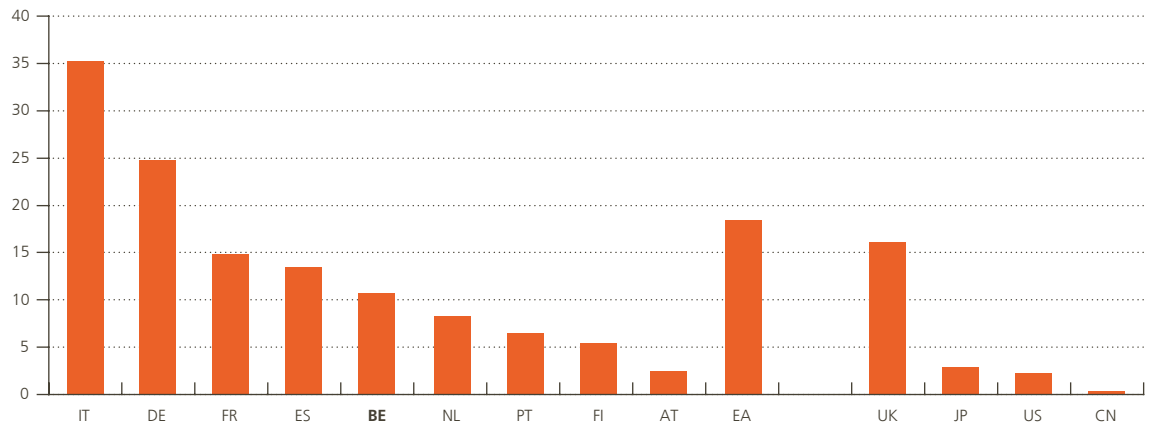
Large deficits and falling GDP pushed government debt to unprecedented highs

In 2020, government budget balances took a major hit, and one that was pretty similar in size for all euro area countries. All Member States

Chart 38

European governments offered huge State guarantee schemes to banks to lend to companies

(in % of GDP)



Sources: IMF, NBB.

recorded deficits well in excess of the 3 % of GDP threshold – a showing that would normally trigger an excessive debt procedure. Public deficits remained more subdued in countries in which public finances were still running a surplus or which had nearly reached equilibrium in 2019 (in Germany and the Netherlands, for instance) than in those that were already looking at larger deficits (such as Spain, Italy, France and Belgium).

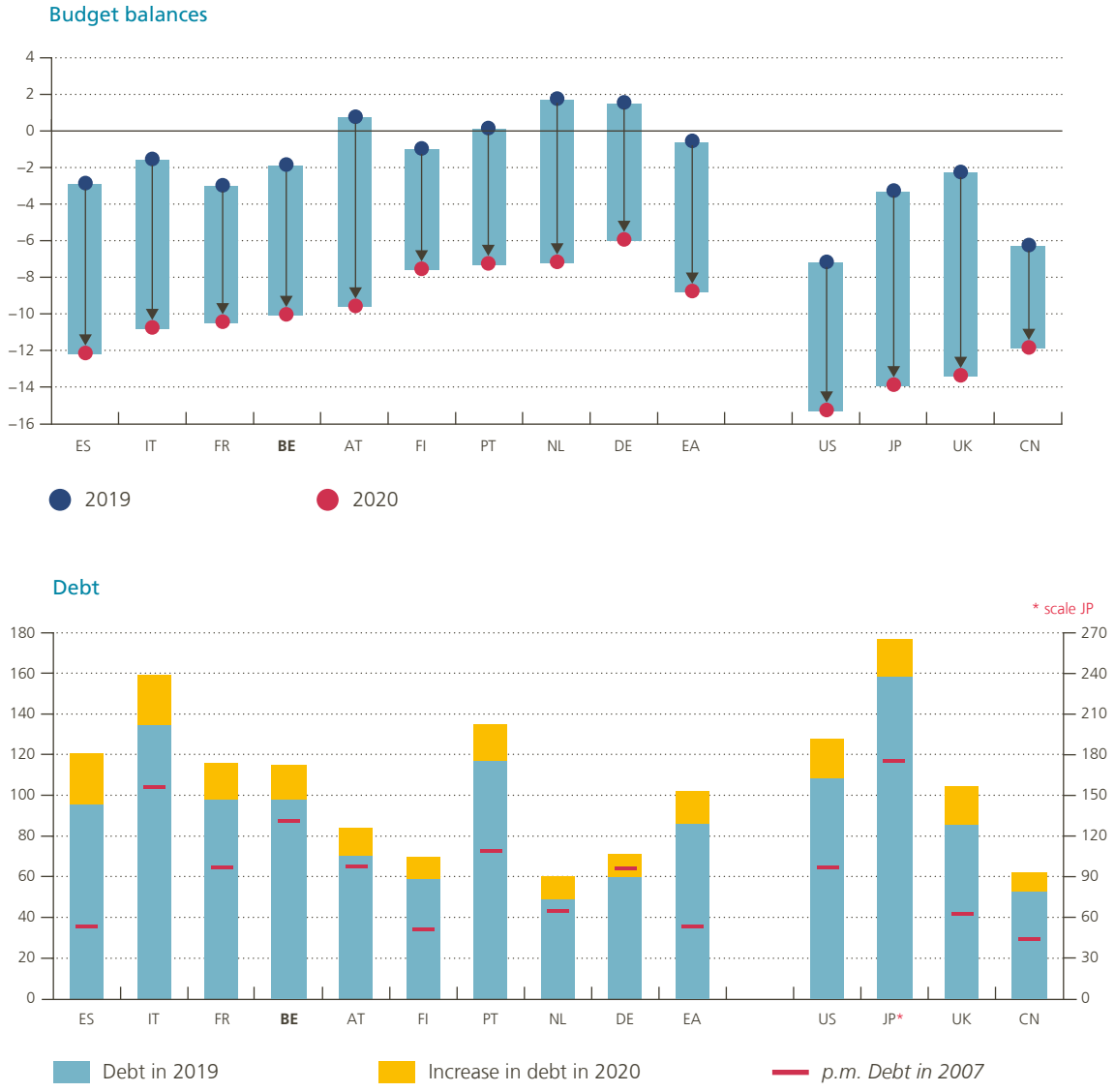
For the euro area as a whole, the public deficit worked out at 8.8 % of GDP in 2020. Other major economies allowed their deficits to grow even higher: well over 10 % of GDP in China, Japan and the UK, while in the US – in full election mode – the figure even reached 15 % of GDP. These sizeable deficits coupled with historic falls in GDP also pushed up government debt ratios to unprecedented highs in peacetime in most cases.

In most countries, government debt was higher at the start of the COVID-19 pandemic than it had been on the eve of the global financial crisis, as debt ratios were steeper at the end of 2019 than at the end of 2007. Germany was the only exception as it had been running a surplus in previous years, whereas governments in the other countries had barely used the years of better economic conditions and low interest rates to cut their national debt after it had ballooned during the 2008 financial crisis, in part owing to interventions to prop up certain credit institutions. In the euro area, some countries, such as Italy and Spain, but also France and Belgium, were running large public deficits and significant government debt. As a result, they were more exposed to economic or financial shocks.

Chart 39

Public deficits surged and government debt frequently reached unprecedented levels

(in % of GDP)



Sources: EC, IMF (for China), NAI, NBB.

4.2 Decisive action at European level

When the COVID-19 crisis first hit, EU Member States quickly agreed to pursue a joint approach and to collaborate closely with the European Commission (EC). On 10 March 2020, the European Council identified four priorities: curbing the spread of the virus, providing medical equipment, encouraging scientific research – into vaccine development among other things – and addressing the social and economic impacts of the crisis.

Very shortly thereafter, the Commission announced a range of measures to help cushion the economic impact. It would not only use the range of instruments available to it as soon as possible to support health systems, households and companies, but also use the flexibility on state aid rules and the fiscal framework to the maximum extent possible to enable Member States to offer broad-based fiscal stimulus.

European fiscal rules were temporarily suspended and state aid rules eased

In view of the expected serious economic downturn in the wake of the pandemic, on 20 March 2020, the Commission reported that all criteria had been met to activate the general escape clause in the Stability and Growth Pact. The Ecofin Council agreed to this on 23 March. The clause allows Member States to temporarily deviate from their medium-term budgetary objective or from the path towards that goal, with the proviso that this does not jeopardise the sustainability of public finances in the medium term. This was the first time this clause had been triggered since being included in the European fiscal framework at the end of 2011.

With this clause now triggered, Member States are able to implement a broad-based fiscal stimulus. Meanwhile, the Commission has announced that the clause will continue to apply in 2021, as it reckons that fiscal policy will need to remain stimulative to support recovery and as major uncertainty persists over the pandemic's economic impact.

Although the approval of the general escape clause *de facto* suspended the application of European fiscal rules, usual procedures remained in place, if modified. Though not having to outline a consolidation path in their stability programmes, Member States were asked to explain the measures to counter the economic impact of the coronavirus crisis. Draft budgetary plans, the requirements for which had also changed, were generally in line with Ecofin Council recommendations, which were purely qualitative this year. However, for a number of countries, including Belgium, the Commission made clear that the implementation of support measures must factor in the sustainability of public finances in the medium term, given the challenges these countries were already facing before the outbreak of the COVID-19 crisis. They were also encouraged to regularly review the use, effectiveness and adequacy of the support measures, and where necessary adapt to changing circumstances.

Application of European fiscal rules de facto suspended

The EC also announced that the trend in economic activity will determine when European fiscal rules will be reinstated. In any case, this cannot depend on the outcome of the talks on the reform of the European fiscal framework, which were postponed because of the COVID-19 crisis. The purpose of this reform is to make the fiscal framework less complex, and any adjustments are useful if they simplify and create more transparency. It is also important that the fiscal framework supports growth-friendly policies, on investment for instance – a point also made by the European Fiscal Board in its 2020 Annual Report.

On 19 March, the Commission approved a temporary framework allowing Member States to grant state aid to companies, provided that such measures – following formal notification and a quick investigation – are deemed to be compatible with

state aid rules. The Commission later also allowed other measures, particularly aid to research and development of products needed to combat the pandemic, wage subsidies, recapitalisations and hybrid instruments to bolster companies' financial structures. The temporary state aid framework initially applied to support measures taken between February and December 2020. It was generally extended to mid-2021, and to the end of September 2021 for recapitalisations.

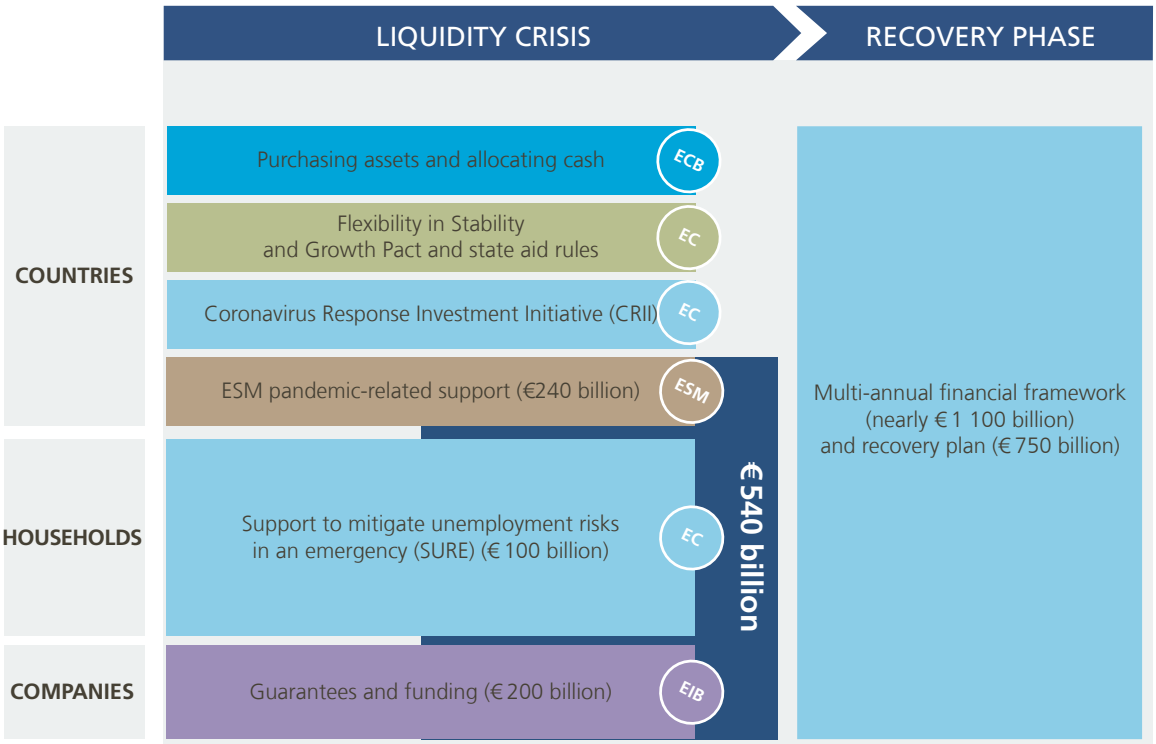
Adjustments to fiscal rules and the state aid scheme enabled Member States to introduce major fiscal impulses, while the rapid approval of numerous – and, in nominal terms, significant – guarantee schemes by national and regional governments underpinned the continuity of lending to businesses.

European institutions provided unprecedented financial support

In addition to the indirect support in the shape of greater flexibility granted to Member States and the powerful response in terms of ECB monetary policy, the EU institutions also launched exceptional initiatives to tackle the COVID-19 crisis. As box 3 explains, these initiatives have three stages: a rapid response financed by reallocating the EU budget for 2020, a €540 billion package agreed in April and a €750 billion recovery plan for the 2021-26 period. The year 2020 also saw agreement on the EU's 2021-27 multiannual financial framework, involving a budget of comparable size to the previous one despite the UK's exit from the EU.

Chart 40

Unparalleled response to COVID-19 crisis from the EU institutions



Source: EC.

BOX 3

European institutions' budgetary and financial response to the COVID-19 crisis

March budget reallocations offered immediate support

At the very outset of the coronavirus crisis, the European authorities swung into action immediately to address the health crisis (purchase of PPE and ventilators, building up reserves of medical equipment, etc.), the humanitarian emergency (aid to Greece for the refugee camps and to partner, neighbouring and developing countries) and the economic crisis (cash to SMEs, but also to several hard-hit sectors traditionally in the EC's remit, such as agriculture and fisheries). The intervention was financed by internal reallocations in the EU budget – with 2020 the last year of the 2014-20 multiannual budget – or by resources, from the Cohesion Fund in particular, that had not been spent by the Member States. The biggest measure of all came with the Coronavirus Response Investment Initiative (CRII), for which €37 billion was earmarked.

More sizeable support from April

In April 2020, the European Council agreed a more substantial response, drawing mostly on existing instruments. This package of measures, for a total maximum amount of €540 billion, encompasses three safety nets in the shape of loans at favourable interest rates.

The first, a new Pandemic Crisis Support credit facility up to €240 billion to be provided by the European stability mechanism (ESM) will give a euro area Member State seeking to draw on the instrument access to credit up to 2 % of GDP. The sole condition is that the money is used to defray direct and indirect costs for health care and prevention related to COVID-19. To date, no Member State has tapped into the facility.

A second safety net for a maximum of €200 billion is earmarked for companies and is administered by the European Investment Bank (EIB), which created a Pan-European Guarantee Fund (EGF). On the back of a €25 billion guarantee by Member States, it was able to raise its liquidity support to companies, more particularly SMEs, by furnishing loans to businesses. Twenty-one EU countries decided to join. How much is eventually spent will depend on the extent of borrowing demand from companies or financial or institutional intermediaries.

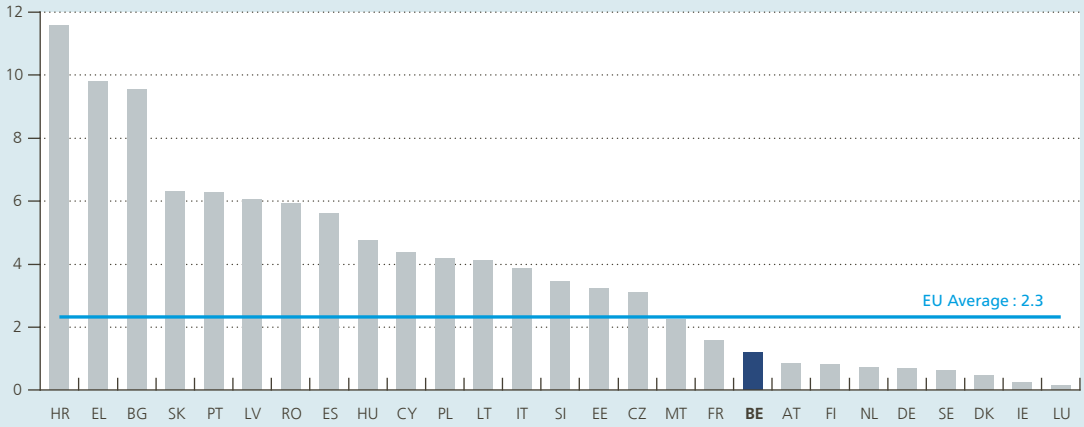
The third instrument, the Support to mitigate Unemployment Risks in an Emergency (SURE), was set up by the European Commission. It provides EU Member States with a financing option for measures taken to provide temporary employment support and to reduce the impact of the crisis in terms of unemployment or loss of income. Of the available maximum amount of €100 billion, the Ecofin Council approved financial support to the tune of €90.3 billion in 2020. This was shared between 18 Member States, including Belgium. The resources will be found in the financial markets through the issue by the Commission of AAA-rated bonds.

July saw approval of a historic recovery plan

In July 2020, the European Council approved the NextGenerationEU plan, originally proposed by the Commission and the key element of which is the Recovery and Resilience Facility (RRF). The full recovery

Countries in Southern and Eastern Europe to receive relatively larger proportion of RRF grants

(in % of GDP)



Source : EC.

plan is worth €750 billion, €390 billion in the shape of transfers and €360 billion in loans. The plan is about solidarity with the EU countries hardest hit by COVID-19 and the poorest or least advanced Member States.

In terms of the RRF subsidies, 70 % of the total amount will be earmarked in 2021 and 2022. This will be shared between EU Member States on the basis of inverted GDP per capita in 2019, and on population size and average unemployment rate between 2015 and 2019. For the remaining 30 %, to be locked in in 2023, the unemployment criterion (pre-crisis) will be replaced by GDP shrinkage during the COVID-19 crisis (half of which in 2020 and half in 2020 and 2021 together). These transfers should, as a proportion of GDP, prove especially important for the EU's least advanced countries, such as Croatia, Greece and Bulgaria. Rather more advanced countries that were hit hard by the coronavirus crisis in 2020, such as Spain and Italy, should receive a more significant proportion of these funds than the EU average. Belgium may count on a transfer of €5.9 billion in the next few years, i.e. 1.2 % of GDP.

Rigorous governance should ensure that subsidies granted are used to encourage investment and structural reforms in all countries. To qualify for these subsidies, Member States must submit a national recovery and resilience plan covering the 2021-23 period by 30 April 2021 at the latest. The Commission will assess whether these plans fit in with country-specific recommendations and whether they will enhance growth potential, create employment and promote economic and social resilience. An effective contribution to a green and digital transition is also required to access RRF grants, and a positive evaluation of the targets and milestones to be achieved is a prerequisite for payments. The European Council's agreement, subsequently validated by the European Parliament, also specifies that 30 % of spending on NextGenerationEU and the multiannual financial framework must go to the green transition, with countries expected to allocate 37 % of the allotted grants to ecological transition and 20 % to the digital transition.

This is the first time that the Commission has raised such a large sum (€750 billion) in the markets on top of the amount earmarked for SURE. The total amount is the largest ever issuance of euro-denominated debt at supranational level. A government issuer enjoying the highest rating, the Commission is thus significantly raising the supply of risk-free securities in euros and is helping to bolster the international role of the European single currency. The financial resources raised will be partly lent to Member States, to be repaid at maturity, and will be partly allocated to Member States as subsidies. Eventually, these subsidies will, at maturity (in 2058 at the latest), be financed by new EU own resources and, where necessary, by contributions by Member States calculated on the basis of their gross national income.

The recovery plan is a temporary operation. If successful, it might contribute to the creation of permanent mechanisms, such as a central fiscal capacity.

4.3 The pandemic has dealt a seismic blow to Belgium's public finances

Belgium's public finances have deteriorated sharply

Like many other countries, in 2020, Belgium recorded the worst deterioration of its general government budget balance since the Second World War. The budget deficit rose to 10.1 % of GDP, its highest level since the mid-1980s. The debt ratio rose by nearly one-sixth to 115.1 % of GDP.

The deterioration in the overall balance expressed as a percentage of GDP in 2020 was almost completely attributable to the coronavirus crisis. This was a two-pronged affair. Firstly, the budget deficit ballooned as economic activity faltered. While fiscal and parafiscal revenues slid almost as hard as nominal GDP, spending as a percentage of GDP surged even without additional measures. Secondly, the various governments took numerous measures to combat the health crisis and economic problems, bringing down the overall balance even further (by 5.0 % of GDP).

The pandemic prompted the government to adopt measures to help contain the health crisis, measures that cost a total €6.0 billion. However, this increase in spending on health care was partly offset by the postponement of non-urgent medical treatments, the impact of which is provisionally estimated at €2.2 billion. In net terms, then, managing the health crisis caused government spending to rise by €3.8 billion.

By contrast, a number of other factors, which indirectly also flowed from the coronavirus crisis,

Table 10

General government overall balance and debt

(in % of GDP unless otherwise stated)

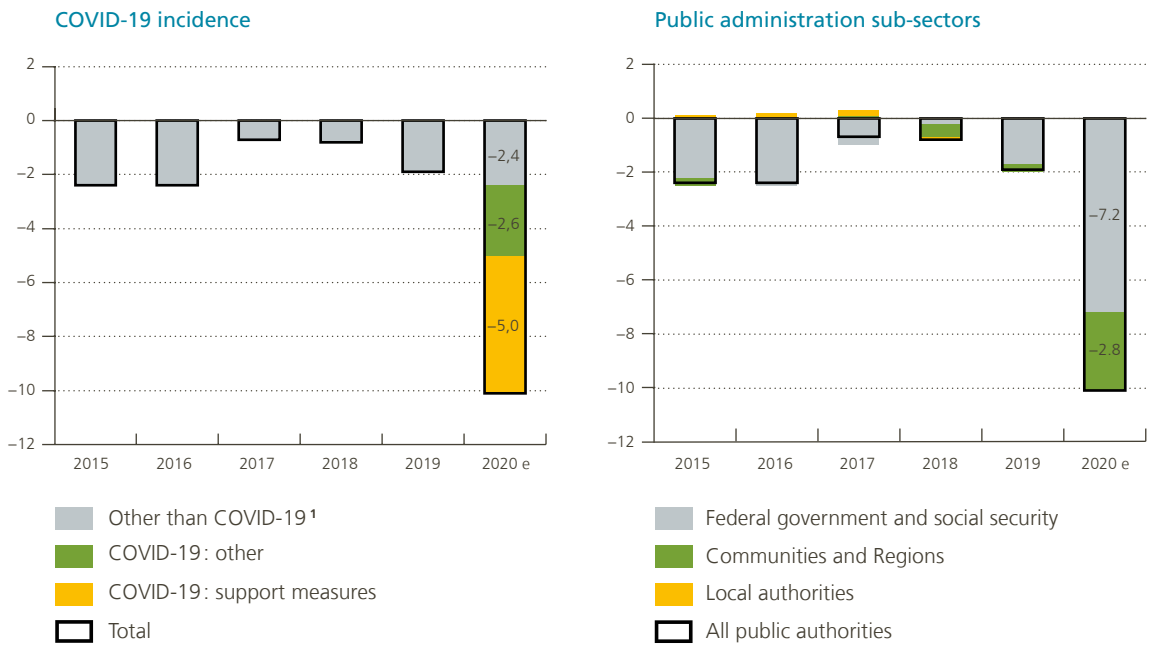
						p.m. Nominal growth (in %)
	2016	**2017**	**2018**	**2019**	**2020 e**	***2020 e***
Revenue	50.8	51.3	51.4	50.1	50.7	*–4.6*
of which: Fiscal and parafiscal revenue	43.6	44.2	44.2	43.0	43.3	*–5.1*
Primary expenditure	50.4	49.7	50.0	50.1	58.8	*10.7*
Primary balance	0.3	1.7	1.3	0.0	–8.1	
Interest charges	2.7	2.4	2.1	2.0	1.9	*–7.2*
Overall balance	–2.4	–0.7	–0.8	–1.9	–10.1	
Public debt	105.0	102.0	99.8	98.1	115.1	*10.6*

Sources: NAI, NBB.

Chart 41

Overall balance deterioration almost entirely due to the coronavirus crisis

(general government budget balance, in % of GDP)



Sources: NAI, NBB.

1 The situation without COVID-19 was estimated based on the NBB's macroeconomic projections from December 2019, adjusted for the difference between the projections and actual figures for 2019.

impacted the overall balance positively. Supply constraints, for instance, acted as a curb on government investment. Non-tax revenues, expressed as a percentage of GDP, were still climbing somewhat. The drop in these revenues – resulting from fewer dividends at financial institutions in which the government holds stakes – was less marked than that in GDP, after all.

To a lesser degree, the overall balance was also influenced by non-COVID-related developments. For one thing, the upward trend in spending on pensions and other social benefits continued.

Interest charges were not pushed up by the financial markets because of the crisis. In fact, Eurosystem purchases of government bonds contributed to market yields on ten-year Belgian bonds turning slightly negative, allowing for the additional and rolled-over debt to be financed at no cost.

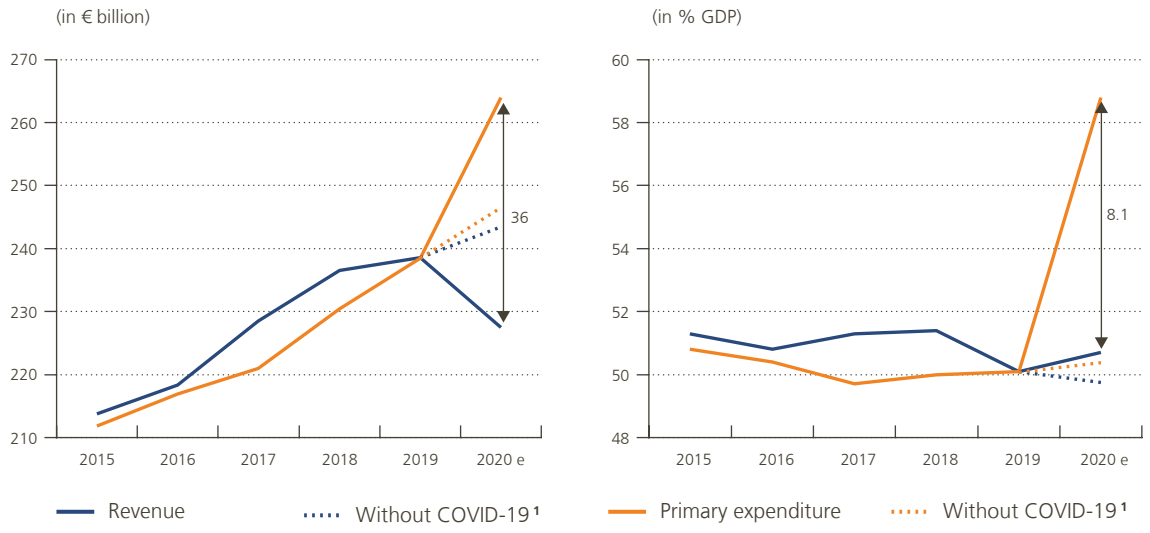
Powerful fiscal stimulus was necessary to stabilise the economy and preserve its potential

As in other countries, fiscal policy in Belgium played a key part in combating the pandemic's economic and social repercussions. The unprecedented public finances fillip, which worked out at nearly €36 billion in 2020, was vital to manage the health crisis and help cushion the financial blow to households and companies.

The automatic stabilisers accounted for less than half of the financial boost provided by government. The largest proportion of the government stimulus came in the shape of discretionary measures, amounting €22 billion. This amount included spending on temporary lay-off (furlough) schemes for employees and the bridging allowance for self-employed workers. Both systems were already in place before the crisis,

Chart 42

The impact of the coronavirus crisis was mitigated by lower government revenues and rising government spending



Sources: NAI, NBB.

1 The situation without COVID-19 was estimated on NBB's macroeconomic projections from December 2019, adjusted for the difference between the projections and actual figures for 2019.

but their rules were eased and the schemes expanded. For simplicity's sake, the full amount attributable to COVID-19 was considered discretionary. In addition to income support to households, the Belgian government also gave aid to businesses through targeted additional spending as well as solvency-enhancing tax measures.

Both the federal government, which includes social security, and the Communities and Regions saw their budget deficits swell, as each introduced support measures in their policy areas. Authorised to fund hospitals, the federal level shouldered the bulk of spending on managing the health crisis, albeit that the Communities and Regions played a key role in supporting elderly care and contact tracing. The biggest share of income support to households fell to the federal government and social security, while the onus for support to companies was on the Regions. By contrast, the crisis had but a limited effect on local authority finances, thanks to the financial support that municipalities and public social welfare centres received from other levels of government and because transfers from the Regions and the federal government were unaffected by the crisis.

Belgium's various governments freed up significant resources to get the health crisis under control

Managing the health aspects of the COVID-19 crisis was the key priority of all of the country's governments, and they freed up €6.0 billion for the task in 2020.

Significant amounts were spent on measures to help curb the spread of the virus and keep health care up and running. Resources were freed up at the federal level to purchase personal protective equipment (PPE) for the caring professions, reimburse tracking tests, set up triage centres, etc. There was also expenditure that immediately benefited the population, such as the purchase of face masks for all citizens. The Communities

Table 11

The federal government and Communities and Regions took far-reaching measures to mitigate the impact of the crisis

(impact on general government budget balance in 2020; in € billion, unless otherwise stated)

	Federal government	Communities and Regions	Total [1]	*p.m. In % of GDP*
Health crisis management	4.9	1.1	6.0	*1.3*
Income support to households	8.7	0.4	9.0	*2.0*
Benefits for temporary lay-offs	4.3	0.0	4.3	*1.0*
Bridging allowance for self-employed	3.3	0.0	3.3	*0.7*
Other social benefits and premiums	1.1	0.4	1.5	*0.3*
Support to companies and self-employed	3.1	4.2	7.3	*1.6*
Premiums for forced closures or massive revenue falls	0.8	3.1	3.9	*0.9*
Solvency-boosting tax measures	1.4	0.0	1.4	*0.3*
Support to specific sectors	1.0	1.1	2.1	*0.5*
Total	16.7	5.7	22.3	*5.0*
p.m. In % of GDP	*3.7*	*1.3*	*5.0*	

Sources: FPS Policy and Support FPS Finance, FPS ELSD, FPB, Communities and Regions, NBB.

1 Excluding measures taken by local government. Some municipalities decided to abolish, reduce or halt local taxes on businesses (on outdoor seating, tourist overnight stays, etc.) and/or handed out vouchers and other bonus payments.

and Regions likewise freed up specific resources, particularly for the purchase of PPE, prevention campaigns, contact tracing and research projects on COVID-19. They also allocated additional funds to hospitals and nursing homes.

In addition, the government decided to provide some compensation to hospitals for the impact of the health crisis on their financial situations. After all, hospitals have incurred extra costs for admitting COVID-19 patients, while at the same time facing a general drop in activity at times when non-urgent consultations and hospital admissions were being postponed. However, there was barely any catch-up later in the year for the health care put off in these exceptional circumstances, leading to a significant short-term drop in social benefit spending.

In addition, the extraordinary efforts of care staff were acknowledged by an exceptional end-of-year bonus, while general practitioners also received financial compensation for the excessive administrative burdens they were facing. On top of these one-off measures, more structural commitments decided earlier were honoured and raised by significant amounts. These commitments aim to boost employment in hospitals by way of the *Zorgpersoneelfonds* and to increase pay to the health care professions as agreed in the social agreement to be implemented from 2021. Funds freed up for mental health care, an area sorely tested by the pandemic, will also be refinanced. In addition, permanent wage increases were announced for the health care professions under regional authority, particularly care workers in nursing homes.

Households hit by the pandemic were able to access social security

It was not just health care that required immense resources in 2020; so too did other branches of social security. Social benefits reached extraordinarily high levels, with the additional expense for discretionary

measures to support household incomes estimated at €9.0 billion.

For employees and self-employed workers, two existing schemes were tapped into, which were eased and revisited in the context of COVID-19, i.e. temporary lay-offs for employees and a bridging allowance for self-employed workers. A specific type of parental leave was introduced for workers who had no childcare options for children unable to go to nursery or school. Job-seekers saw their benefits kept level, as the federal government decided to temporarily freeze their degressive nature.

Temporary lay-offs and the bridging allowance were key support measures in the crisis

At the social assistance end as well, a range of measures were introduced to help the most vulnerable households. Those in receipt of integration income or other types of social security received monthly supplements to their usual benefits. Local governments, which are typically the first point of contact for these families, received financial assistance from other government bodies to help meet increased demand. The Regions in turn offered assistance with energy and water bills, as well as rent payments for households in need.

Despite the amounts spent to support the population as a whole, some people or groups of people still slipped through the cracks of the public authorities' safety nets. And others who did meet the criteria for the support measures failed to avail themselves of them for lack of information, or because the competent services were inaccessible.

Government support mitigated the shock to businesses

In addition to temporary lay-offs and the bridging allowance, other measures also helped businesses to contain the negative effects of the crisis on their activities to some degree. For the various government services, these discretionary support measures implied new expenditure or foregone revenues for a total amount of €7.3 billion, as well as financial transactions or contingent liabilities without any immediate impact on the budget balance.

Measures to meet liquidity requirements

The crisis caused liquidity problems or other financial troubles for many companies, which is why the federal government approved a series of measures to strengthen the liquidity positions of businesses and self-employed workers. These were automatically given two months extra to pay the withholding tax and to pay VAT they owed for the months of February, March and April and for their first-quarter returns, without fines or interest on arrears. Payment moratoria also applied to assessments from mid-March 2020 in personal and corporation tax for the 2019 tax year.

For corporation tax, the percentages pertaining to prepayment benefits were raised for the third and fourth maturity dates, making it less detrimental to delay pre-payments to the second half of the year. This measure was specifically targeted at companies facing liquidity issues, so the higher percentages did not apply to companies that had reduced their capital, engaged in share buybacks or paid out dividends since the outbreak of the pandemic.

The government took a series of measures to strengthen the liquidity positions of businesses and self-employed workers

Additionally, businesses filing periodic VAT returns were exempted from the obligation to pay the December advance in 2020.

Businesses and self-employed workers affected by the health crisis were also able to seek a repayment plan for their tax debts, which came with a waiver of interest arrears and forgiveness of fines for non-payment.

On top of this, companies that had been compelled to close their businesses in the first wave of the coronavirus were automatically granted leave to defer payment of their employers' contributions for the first and second quarters of 2020, to 15 December 2020. Those who did not have to close but were able to prove they were hard hit were also allowed to apply.

Affected self-employed workers were granted payment moratoria on their provisional social security contributions of up to one year for 2020, while they could also seek a reduction or exemption from these payments if in trouble.

Allowance in the event of forced closure or steep fall in revenue

Aside from payment deferrals for fiscal and parafiscal obligations, which were largely granted by the federal government, the Regions, which have competence for business support, have provided other types of emergency assistance to help relieve pressure on businesses' cash positions and improve their solvency.

The Regions allocated damages to a large number of self-employed workers and companies affected by the lockdowns, with the hardest-hit sectors, such as accommodation and food services, events and tourism often qualifying for special compensation. Although this varied somewhat depending on the size of the business or the length of its closure, allowances were not directly related to fixed expenses, which, by their very nature, are hard to reduce. As the months progressed, however, regional support became more targeted and adequate.

Quite early on in the crisis, the Flemish Region was paying lump sums to businesses that had to close either partially or fully. If business activities were closed down for three weeks or longer, this lump sum was topped up with a daily allowance. Support was gradually expanded to include businesses seeing a drop in revenue of at least 60 %. The initial lump sums were replaced by variable payments that matched a proportion – first 7.5 % and then 10 % – of the revenue earned in the corresponding period of 2019, up to a ceiling. The Walloon Region also

paid out lump sums in the early stages, depending on the situation companies found themselves in. By the third quarter, they were receiving 30 % of their revenue for the previous year, with a ceiling linked to the number of employees. The Brussels-Capital Region kept most of its COVID-19 aid in lump sums for most sectors, with the exception of the accommodation, catering and events sectors.

In a separate development, the federal government decided to exempt from tax the lump sums and other aid that the various Regions granted because of the COVID-19 crisis.

Fiscal measures to boost companies' solvency

In addition to liquidity-enhancing options, payment extensions and regional support mechanisms, more structural, solvency-boosting measures were needed to support businesses and self-employed workers hit by the coronavirus crisis. To this end, a range of initiatives were launched in corporate and personal income tax.

Solvency-boosting measures also taken

Self-employed workers and corporations were given an opportunity to create a tax-free COVID-19 reserve for the 2020 tax year, allowing them to deduct expected losses for the 2020 financial year from their 2019 taxable profits. This carry-back scheme reduces the amount of tax a company has to pay for the 2020 tax year (revenue year 2019) or allows it to reclaim advance payments. The tax-exempt reserve will be stripped out of the losses effectively incurred in 2020, with only the remaining losses carried forward to subsequent financial years. The reserve for the 2020 tax year was capped at the profit for the financial year, up to a maximum of €20 million. A sanction was also put into place for reserves more than 10 % higher than actual losses in the 2020 financial year.

To revive companies' solvency positions in the medium term, corporation tax now also allows for a

reconstruction reserve, a measure aimed at keeping future profits within the company in a tax-friendly way and thus to help it to rebuild equity to pre-coronavirus levels faster. The reconstruction reserve may only be created for financial years related to tax years 2022 through 2024, and its total amount is limited to the operating losses incurred in the 2020 financial year, up to a maximum of €20 million. As it is intended to bolster a company's equity, businesses that implement capital reductions, engage in share buybacks or pay out dividends do not qualify for this solvency-boosting measure.

To ensure companies' production potential and encourage productive investment, it was decided to raise to 25 % the basic investment allowance percentage for small firms and sole traders until the end of the 2022 financial year. What is more, the term for moving forward any unused investment allowance during this period was also extended to the next two tax years, instead of merely the next tax year.

To prop up affected companies and encourage the return to work after temporary lay-offs, it was also decided to mitigate the wage bill for the months of June, July and August 2020 via a payroll withholding tax exemption, with 50 % of the increase in payroll withholding tax relative to May 2020 exempt for each of these months. To avail themselves of the exemption, businesses must have used the temporary lay-off scheme between March and May 2020 during an uninterrupted period of one month.

A whole series of government guarantees were either rolled out or expanded

Support for selected sectors

Selected sectors that were particularly hard hit received specific support. The federal government, for example, footed the bill for the end of year bonus in the accommodation and food service sector. All businesses that were forced to close in the second lockdown, and by extension also their suppliers bearing the brunt, qualified for repayment of employers' social contributions for the third quarter. To create some financial margin for food service businesses, the VAT rate on restaurant and catering services and on the sale of non-alcoholic drinks was cut to 6 % until the end of 2020. Tax breaks for business hospitality costs for companies and the self-employed were temporarily ratcheted up to 100 %.

In a separate development, the Belgian national rail company SNCB received federal support to offset losses due to the drop in traffic and compensation for the Hello Belgium card offering twelve free train rides to the population. Infrabel, which runs the rail network, and Skeyes, the air traffic managers, also received support.

The Regions and Communities have provided partial compensation for the drop in their own revenues of many a subsidised institution, such as day nurseries for children, service voucher companies, sheltered workplaces and cultural sector organisations, on top of the subsidies they were already in receipt of and which continued. Regional public transport companies also got help.

Loans, shareholdings and government guarantees

Both the federal government and the Regions initiated or expanded a variety of government guarantee schemes to ease access to lending for businesses affected by the crisis. The most high-profile measure, included in the agreement between the financial sector and the federal government on 23 March 2020, is the government guarantee mechanism to which new loans and bank credit facilities are eligible under certain conditions (and which is the subject of chapter 5.1 of this part of the Annual Report). In addition, the federal government also stepped in to provide more immediate support to specific companies, particularly in the aviation industry, where the federal shareholdings and investment company SFPI allowed loans to Brussels Airlines and ground handler Aviapartner.

The Regions have bumped up their guarantee schemes by around €2 billion. In the Flemish Region a total of at least €400 million in loans was effectively secured by the government to help businesses pull through the crisis. The public investment body *Participatiemaatschappij Vlaanderen* furnished nearly €150 million in subordinated loans to over 350 businesses. In the other Regions, a wide range of government finance instruments


© Brussels Airlines

were either rolled out or expanded. The Brussels government, for one, launched recovery loans for micro firms, while self-employed workers and small businesses can increase their cash reserves with the ricochet loan offered by the Walloon Region, a hybrid scheme made up of a bank loan that is 75 % secured supplemented by an interest-free government loan.

Lastly, Flanders and Wallonia decided to expand the arrangements in their current initiatives to mobilise savings, more specifically the "win-win loan" and the *prêt coup de pouce*, while the Brussels Region introduced a similar system, its so-called "proxi loan". The underlying principle in all cases is to encourage funding of entrepreneurs by their friends and families through tax credits for lenders coupled with a partial regional guarantee on borrowings.

For budget purposes, these government guarantees are, in principle, considered to be contingent liabilities, which will only trigger spending on amounts that will have to be paid to cover defaults. The loans and equity investments are considered as pure financial transactions if their conditions are in line with market practice, by which time they will be neutral for the general government budget balance but will still affect gross debt.

Government debt has surged

After gradually falling between 2014 and 2019, the government debt ratio surged in 2020 by 17 percentage points to 115.1 % of GDP – a rise of a steepness not seen in well over 20 years, even if it remains below the peak of 134.9 % of GDP in 1993. By the end of 2020, federal government debt accounted for 80.9 % of total government debt, while the share of the other government levels rose by around one percentage point in the course of the year.

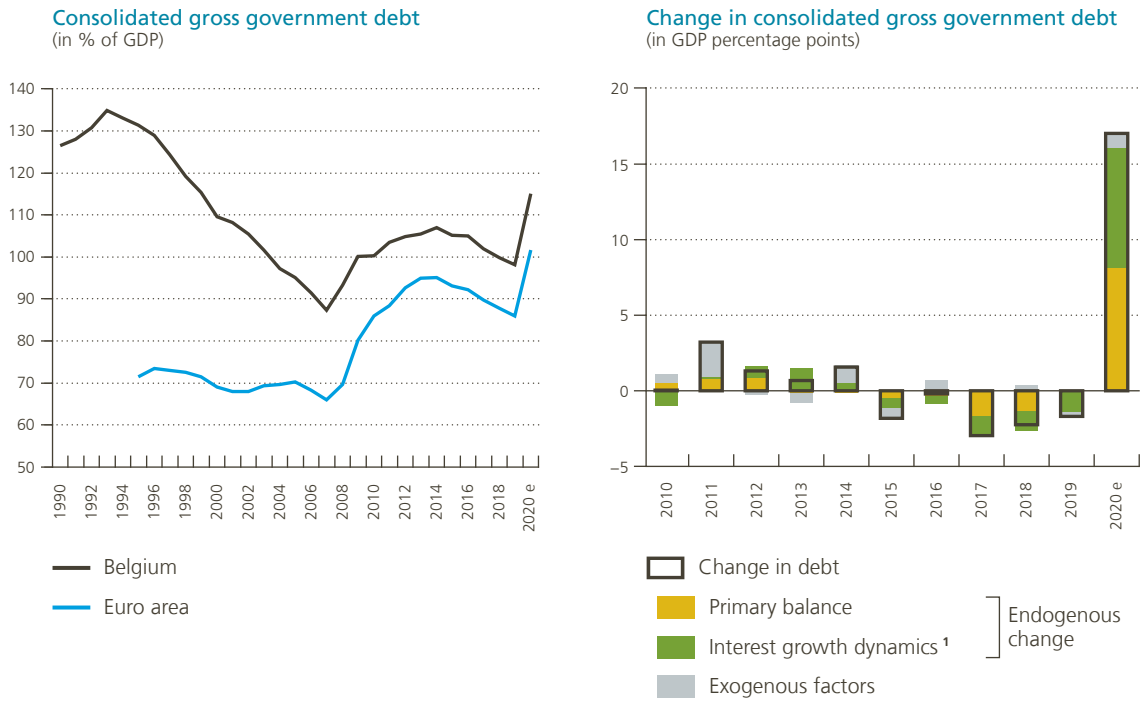
Since 2014, when the sovereign debt crisis in the euro area drew to a close, Belgium's debt ratio profile had been similar to the euro area average debt ratio. That said, its 2020 surge was higher in Belgium, where the pace of its drop had also been slightly slower in the five previous years. As a result, government debt levels in Belgium remain well above the euro area average, by some 13.4 percentage points of GDP.

The 2020 record increase in the government debt ratio is almost entirely down to the coronavirus crisis. First off, the major GDP contraction more than wiped out the favourable effect of extremely low interest rates, making for a significant contribution from the difference between the implicit interest on debt and nominal GDP growth (+7.9 percentage points). In addition, the primary deficit hitting 8.1 % of GDP also pushed up debt sharply.

Exogenous factors likewise contributed to higher debt, to the tune of 0.9 of a percentage point. These are mostly related to stakes the Belgian governments took in companies in 2020, the loans they granted to companies and payment deferrals for contributions and taxes from 2020 to 2021. The accounting adjustments for registering debt issues had the opposite

Chart 43

Health crisis costs and recession drove the debt ratio up dramatically



Sources: EC, NBB.

1 The difference between the implicit interest rate on the debt and nominal GDP growth, multiplied by the ratio between the debt at the end of the previous year and GDP in the period considered.

effect, as the Belgian Debt Agency issued a lot of debt instruments above par, particularly for issues at negative interest rates. As a negative coupon is an impossibility, such a negative rate can only be achieved by issuing securities at values in excess of their nominal value, meaning that investors receive a lower amount at maturity than their initial outlay. These issue premiums depress debt in the year of issuance, while subsequent years to maturity will see this impact offset by an upward effect on the debt ratio.

Despite steeper debt, exceptional financing conditions implied that interest charges continued to fall

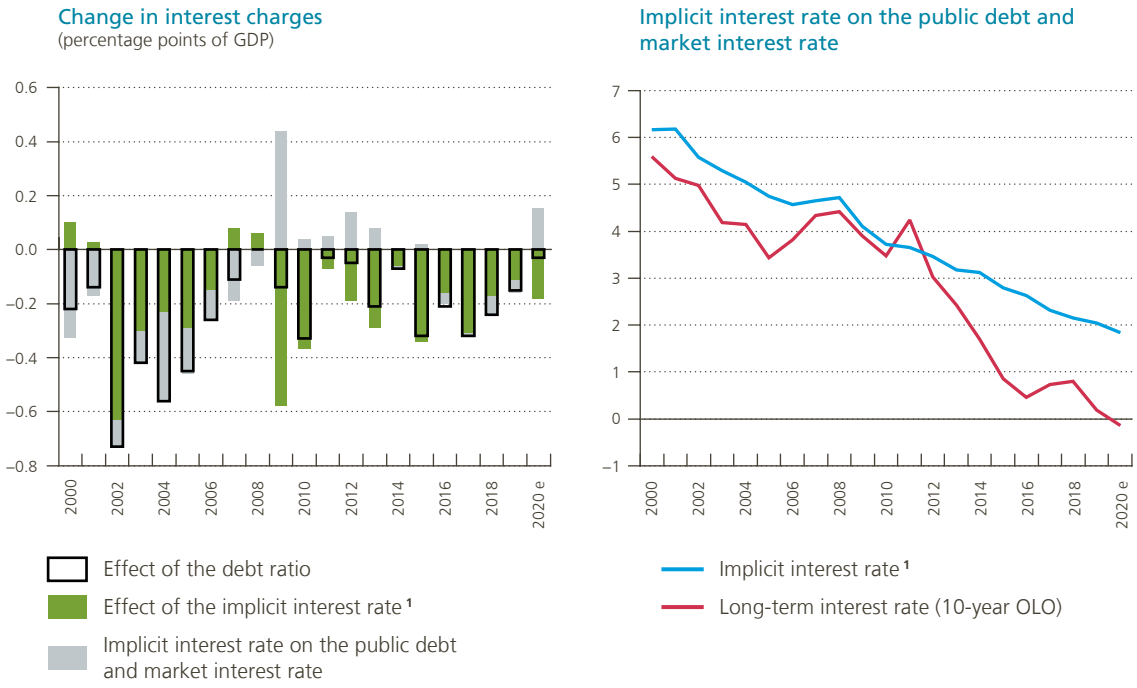
The downward trend in interest charges persisted in 2020, with savings of nearly €700 million made for general government compared with 2019. Once again, this was due to lower implicit interest rates, which counteracted the upward effect of the debt ratio.

Because of the fall in interest rates and their subsequent stabilisation at low levels, debt was refinanced by issues commanding lower rates than those on securities maturing. 2020 once again saw governments tap into extremely favourable financing conditions, as the yield on ten-year linear bonds (OLOs) shrank from 0 % in January to –0.4 % in December. Despite a temporary upturn at the start of the crisis, when turbulence shook the financial markets, this yield worked out at an average –0.1 % for the year. The federal government was essentially remunerated for various issues of long-term securities, especially in the second half of the year. Three-month and one-year Treasury certificates saw average yields close to their levels for 2019, i.e. around –0.6 %.

Chart 44

The fall in the implicit interest rate further reduced interest charges

(in %, unless otherwise stated)



Sources: Belgian Debt Agency, NAI, NBB.

1 Ratio between interest charges in the current year and the debt at the end of the previous year.

Unless market rates go up unexpectedly and sharply, interest charges look set to come down even further in 2021 and 2022. After all, the OLOs maturing in the course of these next two years were issued at average interest rates between 3 % and 4 %. Refinancing gains are expected to tail off afterwards, as the securities maturing beyond 2022 were issued at relatively low interest rates.

Gross borrowing requirement bumped up to finance support measures

At the beginning of 2020, before the outbreak of the coronavirus crisis, the Belgian Debt Agency's financing plan was expecting a gross borrowing requirement of around €31 billion for the year, including the refinancing of around €19 billion in OLOs maturing in the year. To meet the requirement, some €30 billion in OLO issues were planned. In the event, over €20 billion extra was needed, because of the impact of the crisis on the budget and the numerous support measures.

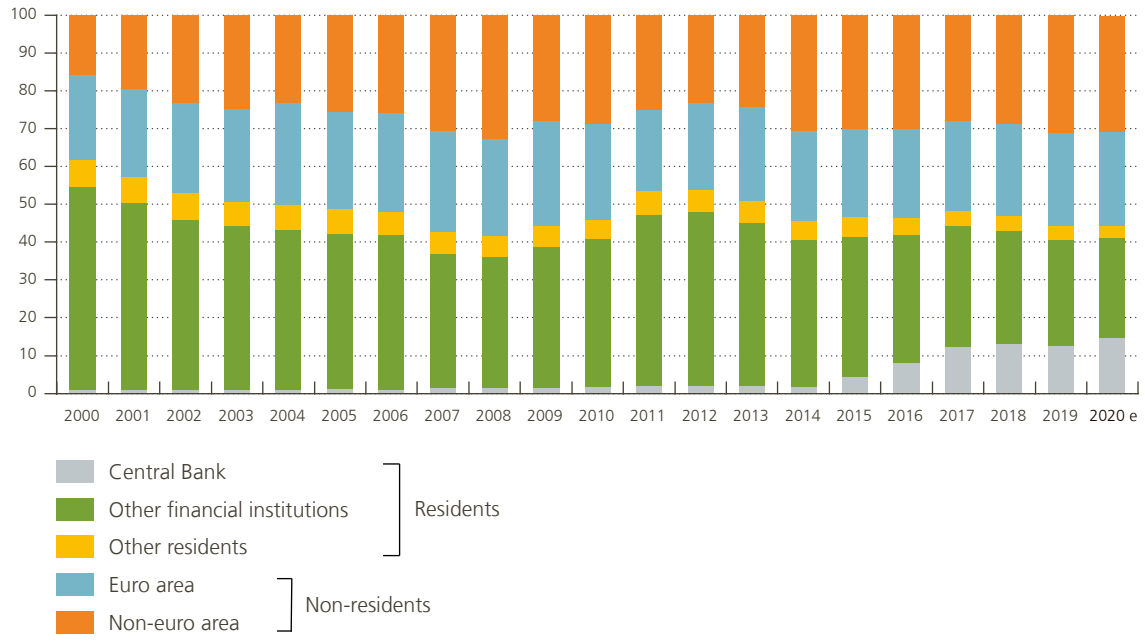
At the federal level, as a result, borrowing requirements totalled €52.6 billion. As initially planned, these were mostly met through OLO issues in the amount of €44.5 billion. The European Commission also transferred a first tranche of €2 billion (of the budgeted total €7.8 billion) of the loan it had allocated to the Belgian governments as part of the SURE programme providing temporary support to mitigate the risk of unemployment in emergencies.

In the secondary market, the Bank's share of government debt has been steadily rising since 2015 in the wake of the Eurosystem's asset purchase programmes. Whereas this percentage was less than 2 % of outstanding debt in 2014, by 2020 it

Chart 45

The proportion of NBB-held government debt has been growing since 2015

(debt breakdown by holder[1], in %)



Source: NBB.

1 For 2020: estimate for the situation as at 30 September.

had gone up to 14.8 %. The share held by other Belgian residents, meanwhile, has declined to the same degree. Over half of Belgian government debt is held by non-residents.

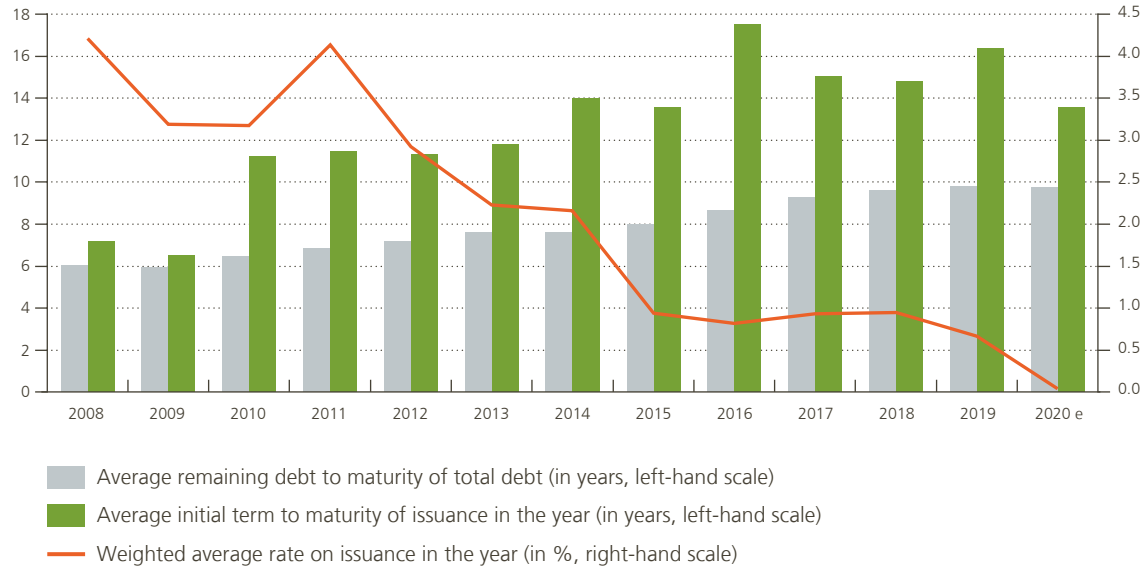
Debt maturity unchanged

Debt issued by the Belgian Debt Agency in 2020 had an initial term to maturity of 13 years and seven months at an average interest rate of 0.04 %, the lowest average interest rate for its issues ever. Very long-dated loans were again issued, a number of which will mature in 2066.

The remaining term to maturity of total federal debt remained stable in 2020 : nine years and nine months by year-end 2020, the same as at the end of 2019. The steep rise in the borrowing requirements compared with pre-crisis expectations did not therefore change the federal government's debt management strategy. These long terms to maturity reduce the risks related to the gross borrowing requirement, which can be substantial for countries with high government debt such as Belgium.

Chart 46

Federal debt term to maturity stabilised while average yields on new issues declined further



Source : Belgian Debt Agency.

4.4 Post-crisis measures will be needed to ensure the sustainability of Belgian public finances

Expected persistent fall in GDP to lead to lasting deterioration of public finances

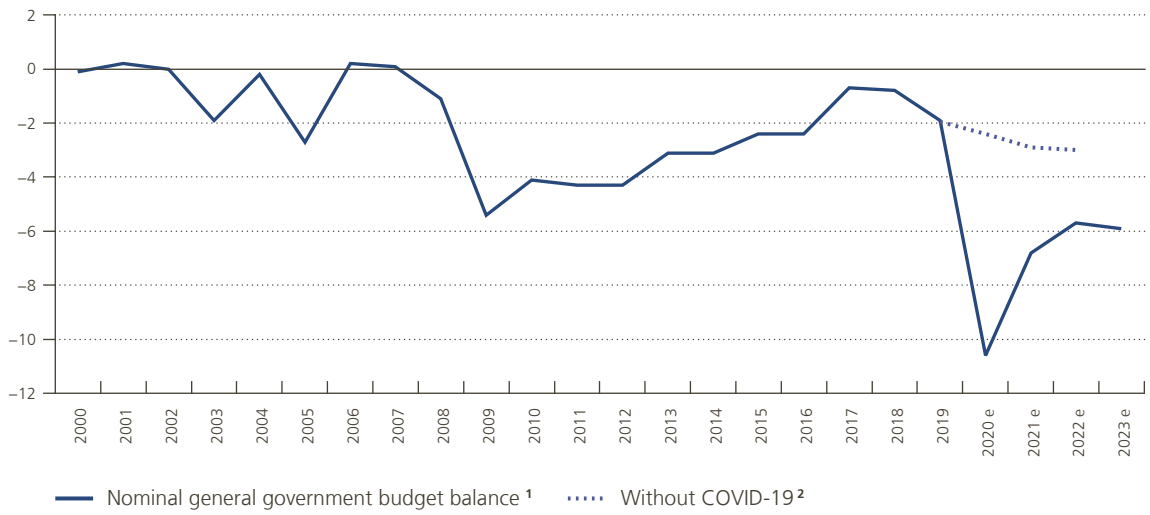
Even before the outbreak of the COVID-19 crisis, Belgium's public finances were still far away from structural balance. In fact, in its assessment of the country's 2020 draft budgetary plan in November 2019, the Commission had observed that the favourable economic conditions of the previous years had been insufficiently seized to make the country's public finances healthier. Coupled with the high levels of debt, this structural imbalance affects Belgium's ability to handle economic shocks and market pressures. The coronavirus crisis has proven beyond a doubt that it is important to have budgetary scope.

Despite this shaky starting position, the public authorities responded aptly to unprecedented circumstances with concerted, focused and swift action

Chart 47

The deterioration in the nominal budget deficit will only partly fade in the years ahead

(in % of GDP)



Sources: NAI, NBB.

1 Compared with the Bank's 2020 December outlook, projections for the government budget deficit for 2020 were revised from 10.6 % to 10.1 % of GDP, but those for the 2021-23 period remained virtually unchanged.

2 The situation without COVID-19 was estimated on the basis of the NBB's macroeconomic projections from December 2019, adjusted for the difference between the projections and actual figures for 2019.

to support the economy, resulting in a sizeable increase in the nominal budget deficit.

From 2021, the budget deficit is set to shrink to nearly 6 % of GDP, according to the Bank's December 2020 projections, but this is still significantly higher than projections before the crisis hit. The difference is largely due to an only partial recovery in GDP, which is predicted to remain close to 3 % below the levels expected without the COVID-19 crisis by 2023. The federal government and social security are expected to account for some three-quarters of the deficit, and the Communities and Regions for the remaining quarter, while local governments' overall balance is forecast to remain roughly in equilibrium. The debt ratio is likewise reckoned to deteriorate sharply and rise towards 120 % of GDP, around 20 percentage points higher than before the crisis.

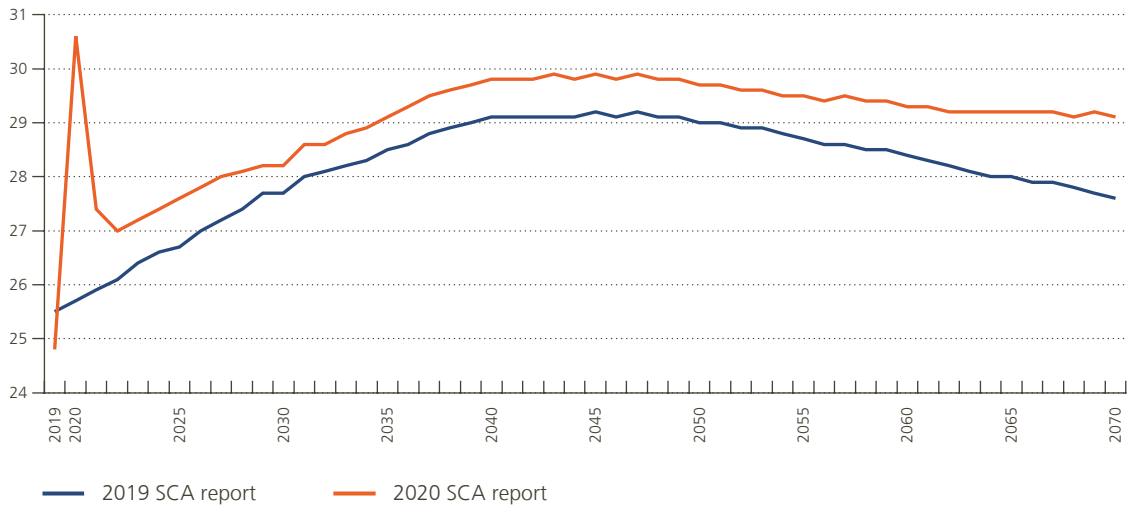
The impact of population ageing must also be factored in; this will continue to depress public finances in the next two decades and will only worsen because of the current crisis. The Study Committee on Ageing (SCA) is currently projecting that, in the absence of any change of policy, social benefits will be 5.1 % of GDP higher in 2045 than in 2019, a significant rise on the projections the SCA posited in its 2019 report, when it was assuming 3.6 % of GDP. Over half of this difference is attributable to the impact of the COVID-19 crisis, and mainly to its concomitant persistently lower estimated GDP numbers. Apart from that, the upward revision of the number of people on disability benefit and, to a lesser extent, the downward revision of the projected average number of children a woman has also play a role. Over the coming years, population ageing costs can push up government spending by an average 0.2 of a percentage point of GDP per annum, mainly caused by higher pensions and health care spending.

It is hard to predict what turn public finances will take in the next few years, as the macroeconomic outlook is surrounded by a good deal of uncertainty. This calls for a simulation of how public finances would develop until 2030 in a range of different scenarios for GDP developments, all else being equal. A baseline scenario sees GDP develop as expected in the Bank's 2020 December projections until 2023; an optimistic scenario puts GDP in 2023 3 % higher than the baseline, taking it

Chart 48

Social benefits set to rise sharply over the next decades

(in % of GDP)



Sources: SCA, NBB.

close to what it was expected to be without the COVID-19 crisis; a pessimistic scenario puts GDP as much as 3 % lower than the baseline. All three scenarios assume that, from 2024, GDP will grow as predicted in the most recent SCA report, i.e. by an average 1.3 % a year, that the primary deficit as a percentage of GDP will rise annually in step with population ageing costs and that implicit interest rates on government debt will hold steady at 1.3 %.

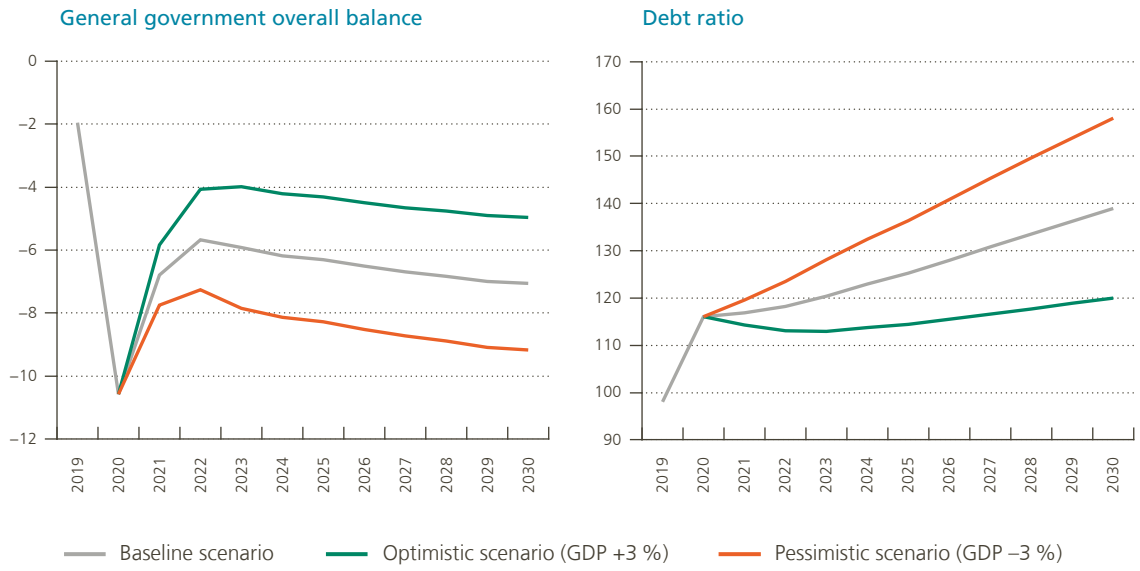
The baseline scenario foresees a rise in the budget deficit beyond 2023 to around 7 % of GDP, on the back of steadily growing population ageing costs. At such a deficit, the debt ratio would add over 2.5 % of GDP per annum, to nearly 140 % of GDP in 2030. In the optimistic scenario, the deficit shrinks to 4 % in 2023 before reverting to a gradual increase. In this scenario, too, the debt ratio gradually climbs to 120 % of GDP in 2030. Lastly, the pessimistic scenario sees the deficit going no lower than 7 % of GDP and deteriorating to over 9 % of GDP by 2030. The debt ratio would then go off the rails towards 160 % of GDP, a level considered unsustainable.

The simulation exercise reveals that even in the baseline scenario an important consolidation effort will be needed to stabilise the debt ratio and then get it on a downward trajectory. Today's extremely favourable interest growth dynamics, which – if continued – should alleviate the pressure on the debt ratio beyond 2023 yearly by around two percentage points, are not in any way enough to offset the upward impact of the primary budget deficit on the debt ratio. And even the optimistic scenario, which reflects a macroeconomic environment as

Chart 49

Post-crisis economic recovery will largely determine the risks to the sustainability of government debt [1, 2]

(in % of GDP)



Sources: NAI, SCA, NBB.

1 The baseline scenario reflects the NBB's December 2020 macroeconomic outlook, with a projection horizon until 2023. For the 2024-30 period, the simulation assumes the primary balance achieved in 2023 as a starting point, and factors in population ageing costs and hypotheses on GDP developments in the July 2020 SCA report. Other assumptions include that the implicit interest rate on government debt will remain stable at 1.3 % beyond 2023 and that no exogenous factors impact the debt ratio trajectory. The alternative scenarios posit an increase or decrease in GDP by 1.5 % in 2021, by 2.5 % in 2022 and by 3 % in 2023; the impact on public finances is estimated by applying a semi-elasticity of 0.62.

2 Compared with the NBB's 2020 December projections, the estimate for the government budget deficit for 2020 was revised downwards from 10.6 % to 10.1 % of GDP, but the projections for the 2021-23 period have remained virtually unchanged.

expected before the coronavirus crisis, flags the necessity of consolidation measures to bring the debt back onto a downward path and thus limit the risks related to the sustainability of government debt.

A step-by-step plan to nurture Belgian public finances back to health is vital

The outlook unmistakeably shows that the impact of the coronavirus crisis will squeeze the sustainability of Belgian public finances. In time, when economic activity is fully recovered and the health crisis past, the debt ratio will inevitably have to be reduced to safeguard the sustainability of public finances.

It is advisable that a roadmap is drawn up to gradually curb the deficit and ensure that government debt stops rising and instead starts to fall. The best timing to a large degree depends on the way the health crisis unfolds and the strength of the economic recovery.

Budget consolidation in Belgium must be guided by the European fiscal framework, once this is back in place. These rules should be underpinned by robust and efficient national fiscal frameworks. An analysis of the key elements of the Belgian fiscal framework reveals it to have a number of strong points as well as some areas for improvement[1].

Belgium's fiscal framework could do with improvement on a number of points

The government has two levers at its disposal to reduce the budget deficit, namely revenue and primary expenditure, preferably supported by a policy which promotes growth. The margins on the revenue side are very thin given the already substantial tax burden, so consolidation will have to focus mostly on primary spending. In the past two decades, government spending has generally risen faster than nominal GDP, which is why it was high even before the health crisis. In 2019, government spending came to 52.1 % of GDP in Belgium, compared with a euro area average of 47.1 % ; in fact, in the euro area, only France's and Finland's percentages were higher. Spending on general services, economic affairs and education, in particular, is relatively high in Belgium, whereas government investment is structurally low. In fact, expressed in percentages of GDP the government's capital stock has been falling for years.

High levels of spending are not necessarily effective ; as a previous analysis by the Bank showed, the Belgian government is rather average in terms of efficiency[2]. A sustained effort to control costs and improve government performance should therefore be central to its fiscal policy. A government apparatus that is as efficient as possible at all policy levels should be the key objective to weather future challenges, while trends in the most important spending category – social benefits – must be taken in hand, given the sharply upward pressure due to population ageing.

To achieve the requisite consolidation post-corona crisis, it is essential to secure the commitment and strong collaboration between all layers of Belgian government. Although a detailed legal framework aimed at achieving this is in place, coordination is lacking. In the past years, the country's various governments have proved unable to agree cooperation on binding budgetary goals for general government and sharing them out between the various levels of power. Such an agreement would create clarity on the various responsibilities and facilitate independent monitoring by the Public Sector Borrowing Requirement section of Belgium's High Council of Finance. It is vital that all government levels contribute to fiscal consolidation and that these efforts can be assessed. After all, all governments will have to observe budgetary discipline if they are to ensure the sustainability of Belgium's public finances.

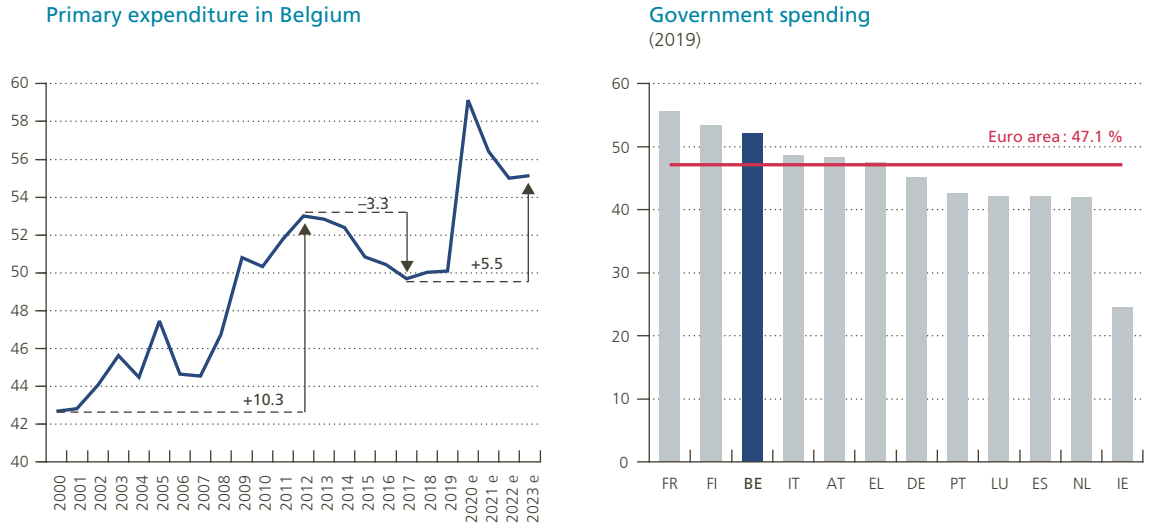
1 For more details, see Bisciari P., H. Godefroid, W. Melyn, R. Schoonackers, P. Stinglhamber and L. Van Meensel (2020), "Belgium's fiscal framework : what is good and what could be better ?", NBB, *Economic Review*, December.

2 For more details, see Cornille D., P. Stinglhamber and L. Van Meensel (2017), "Public sector efficiency in Belgium", NBB, *Economic Review*, June.

Chart 50

Primary expenditure – which had been high even before the pandemic – touched record highs and will probably remain high in future years [1]

(in % of GDP)



Sources: EC, NAI, NBB.

1 Compared with the NBB's 2020 December outlook, projections for 2020 primary expenditure were revised down from 59.1 % to 58.8 % of GDP, but those for the 2021-2023 period remained virtually unchanged.

BOX 4

Public finances: no prosperity without sustainability, even when interest rates are negative

Many governments are currently able to borrow large sums of money at negative interest rates. This raises the question of whether they should be concerned at all about the current or future level of government debt. Current interest rates do indeed offer the desired scope governments need to handle shocks such as the COVID-19 crisis but these circumstances are not here to stay forever, nor are they a *carte blanche* to carelessly spend money, as governments ought to be solvent, regardless of the interest rate level.

Budgetary restrictions facing government and sustainability of debt

Just like households and businesses, governments must balance their incomings and outgoings. Not that equilibrium is a requirement at all times, as part of spending can be financed by loans if economic actors running surpluses are willing to lend.

Accumulating debt by government can be a good thing for society. At times of economic or financial shock, for instance, it enables government to spread economic stakeholders' income losses across time through taxes and transfers. Conversely, debt should be wound down when economies are at the top of their cycle – a symmetry that is quite rare in the real world. Government debt does not only serve to cushion macroeconomic shocks, it can also finance a proportion of productive public spending (such as on infrastructure), insofar as the expected gains exceed the costs of borrowing.

Even though government debt can make economic and societal sense, certain boundaries should not be overstepped. After all, the smooth operation of the financial system is based on the confidence of the lender that the borrower is able to meet their obligations – in their solvency, in other words. In the case of governments, solvency implies that they are able to meet their current and future financial commitments, without resorting to dire economic or socially untenable policy measures. If they were incapable of doing so, lenders would charge unsurmountable risk premiums or even discontinue their lending. Obviously, then, there is a ceiling to debt, a point beyond which a government's promise it will repay interest and principal no longer merits belief.

The sustainability of government debt is judged on economic prospects, including the fiscal implications of key trends such as population ageing and global warming, which weigh heavily on the credibility of government commitments. Any such judgement also reflects major uncertainties and assumptions that require constant re-evaluation[1]. The relationship between government debt and GDP is an often-used indicator for sustainability analyses. After all, a government bond may be considered to be a right for its holder to share in government revenues, and GDP – the gauge of the totality of income in any economy – is a reliable approximation of a country's potential tax base. At the end of the day, debt must not run up much faster than its ultimate "guarantee".

1 An operational framework providing the basis on which to gauge the sustainability of government debt is detailed in Debrun X., M. Jarmuzek and A. Shabunina (2020), "Public debt: Safe at any speed?", NBB, *Economic Review*, September.

The importance of sustainable public finances

No government that has repeatedly reneged on its payment commitments has ever been able to ensure the prosperity of its people in the long term. As soon as the ceiling on government debt is crossed, lenders run the immediate risk of default and any access to new loans is jeopardised. In situations such as these, a government only has economically and socially expensive options left, such as official funding – via the European Stability Mechanism, for instance, or the IMF – which typically come with a repayment plan to guarantee the future sustainability of debt, full or partial default or a gradual depreciation through inflation. In any case, the prospect of default or rapidly rising inflation undermines the reputation of government paper as a risk-free asset, removing a key reference point for setting risk premiums and thus for the savings and investment decisions of businesses and individuals. More often than not, this results in massive destruction of wealth, an implosion of the financial sector, a halt to investment and lastly also job losses, often hitting the most vulnerable the hardest.

Who is responsible for the sustainability of public finances?

The sustainability of public finances is the responsibility of government. Its decisions must ensure that the debt ratio does not surge in the long term. Some also believe that central banks could guarantee a sustainable debt ratio, but that must perforce always be done via inflation, which can get rapidly out of control if not handled circumspectly.

And yet, in an unprecedented context in which inflation has been languishing below official targets for years, central banks are playing a more direct role in the financial markets through their purchases of government paper, which are cutting funding costs for governments. In 2020, this fiscal scope was largely used to handle the COVID-19 shock. At the same time, the unprecedented urgency to make

very extensive use of both monetary and fiscal policies to help stabilise the economy has weakened any concerns about the sustainability of – nonetheless very high – levels of government debt.

These highly unusual circumstances do not, however, change anything about the division of responsibilities between government and central bank in terms of macroeconomic stability. The sustainability of debt is the unique remit of governments, while safeguarding purchasing power is the exclusive responsibility of central banks. This division between monetary and fiscal policies has proved to be effective and remains the best security against a return to the macroeconomic and financial instability of the 1970s and 1980s, which continues to haunt some emerging economies.

How to ensure the sustainability of public finances

To manage debt developments, the government must control the budget balance whatever the interest rate is. This is less difficult when GDP is growing rapidly and interest rates are low. More specifically, when GDP growth is higher than the interest rate, as has been the case for quite some time now, the government is able to pay a proportion of the interest charges from additional borrowing without fear of exploding debt levels. By contrast, when the interest rate exceeds GDP growth, the debt ratio can only be stabilised when a sufficiently large proportion of interest charges is covered by revenues (and therefore when primary surpluses are being generated).

Although current financing conditions enable the government to deploy without much stress the exceptional resources needed to mitigate the coronavirus crisis, it would be careless to conduct fiscal policy and debt management on the assumption that these conditions will stay in place for ever more. History suggests that the situation may suddenly turn and that low interest rates, even if they persist for a long time, do not offer any protection against debt crises[1].

At the end of the day, managing government debt is a challenge similar to containing global warming, as neglect will have major repercussions for future generations and expose society to calamity if turning points are breached. And in both cases, those risks must be contained today, robustly and sustainably.

1 See Mauro P. and J. Zhou (2020), "r minus g negative: Can We Sleep More Soundly?", *IMF Working Paper* 20/52.