Addressing medium-term fiscal challenges to address future shocks in Belgium

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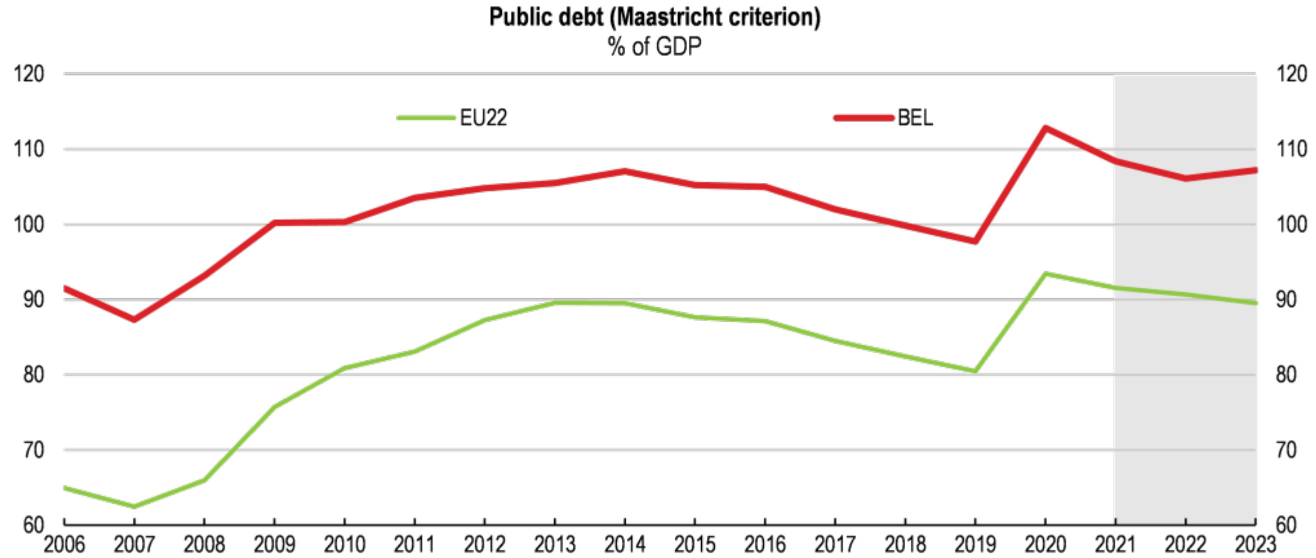
The large-scale support to mitigate the economic and social impact of the pandemic put additional strain on government finances in Belgium, as in other OECD countries. The temporary measures against increasing energy prices and the automatic indexation of public wages and social benefits to inflation will weigh further on public finances in the near term. The additional defence spending and the inflow of Ukrainian refugees arising from the war will also increase costs.

The new Economic Survey of Belgium shows that with unchanged policies, Belgium's high debt-to-GDP ratio, which is high at 108.4% in 2021 (Figure 1), is not expected to stabilise in the medium term. Fiscal challenges will be exacerbated by population ageing: total ageing costs (health, long-term care and pensions) will rise by 5.7% to 25.8% of GDP by 2070. Hence, a credible and transparent fiscal consolidation strategy to lower the budget deficit and to ensure a steady reduction of the debt-to-GDP ratio, including every level of government, is needed.

Figure 1. The crisis exacerbated fiscal challenges



Source: OECD Economic Outlook: Statistics and Projections (database).

The 2022 OECD Economic Survey of Belgium highlights four areas to improve medium-term fiscal sustainability:

- Increasing public spending efficiency through spending reviews: Public spending at 55% of GDP in 2022 is among the highest in the OECD and there is room to improve spending efficiency in some areas (e.g. education). Federal and regional spending reviews are starting to be used, and the national recovery plan includes a commitment to better integrate them into the annual budget process. Better coherence and consistency in methodology and objectives across different levels of government should be ensured to link spending reviews to the medium-term expenditure frameworks to gradually bring down public expenditures.
- Improving the fiscal framework and rules: Budgetary coordination between the different government levels is not effective. The cooperation agreement of December 2013, which aimed at ensuring the budgetary coordination of all levels of government, has not been fully implemented in practice. The lack of endorsement of the budgetary targets proposed by the High Council of Finance by the federal, regional and community governments prevents the High Council from fulfilling

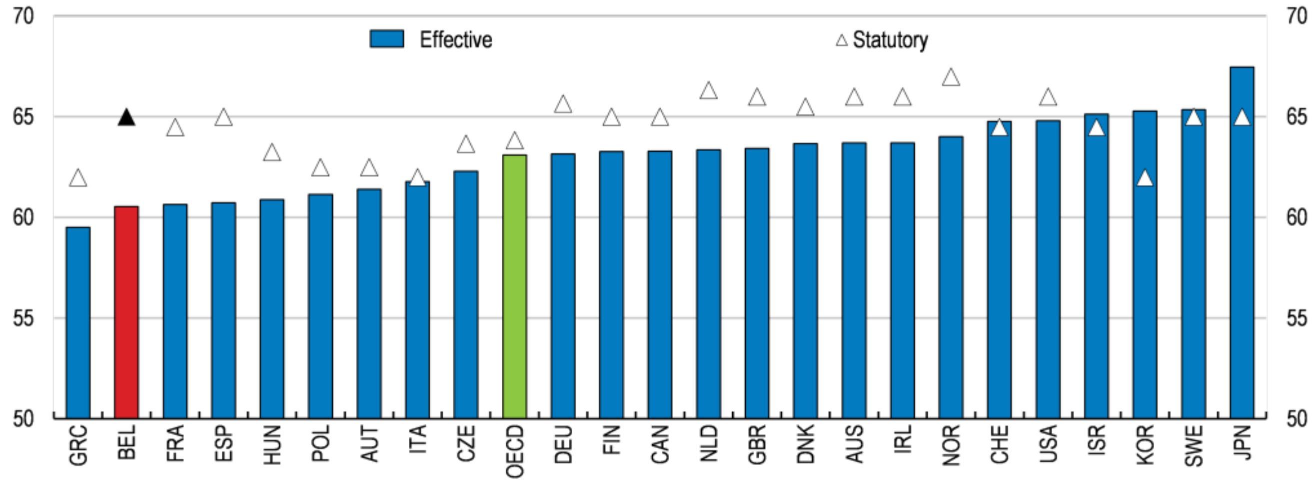
its mandate of monitoring outcomes and the use of a credible multi-annual budget planning. The introduction of medium-term budgetary planning and expenditure rules for all levels of government can increase transparency and consistency of fiscal policy and support medium-term expenditure reforms. Strengthening the mandate of the High Council of Finance to provide transparent, uniform and highly visible in-depth analysis and monitoring of public finances at different levels of government, even if it cannot impose binding targets or recommendations, can also help.

- Implementing the planned tax reform: High labour taxes discourage more people from working or looking for a job. While previous tax reforms reduced the tax burden on labour for the lowest income earners, they remain above the OECD average. The planned tax reform should broaden tax bases and reform capital taxation to lower misallocation of capital. Given fiscal sustainability challenges, it is important to ensure that the labour tax reduction for low-wage workers is fully financed.
- Implementing pension reforms: Pension expenditures are projected to increase from 12.2% to 15.2% of GDP by 2070, and the effective retirement age remains low at 60.5 (Figure 2). There is a need to upskill older workers, whose participation in lifelong learning is relatively low, to lengthen their working lives. Increased access to information and guidance regarding training are key. Introducing penalties and bonuses for those retiring before and after the statutory retirement age could strengthen the links between working careers and pensions in the early retirement system and encourage a rise in the effective age of exit from the labour market.

Figure 2. The effective retirement age is low

Average effective age of labour market exit and statutory pensionable age

Men and women, 2020



Note: The average effective age of retirement is defined as the average age of exit from the labour force during a 5-year period, while the statutory age is defined as the age of eligibility of all schemes combined, based on a full career after labour market entry at age 22.

Source: OECD (2021), Pensions at a Glance.

References

OECD (2022), *OECD Economic Surveys: Belgium 2022*, OECD Publishing, Paris, https://doi.org/10.1787/01c0a8f0-en