Belgium: Public Finances, 1993-2000

(In percent of GDP)

	1993	1994	1995	1996	1997	1998	1999 Est.	2000 Proj.
Revenue	45.4	45.7	45.4	46.0	46.3	46.4	46.3	45.2
Expenditure	52.6	50.6	49.6	49.7	48.3	47.5	47.1	45.7
Primary expenditure	41.7	41.1	40.5	40.9	40.4	39.8	40.0	39.1
Federal	14.1	13.8	13.2	13.2	13.1	12.7	12.8	12.4
Social security	19.3	18.8	18.8	19.1	18.5	18.3	18.2	17.8
Local government	5.3	5.4	5.2	5.2	5.2	5.2	5.3	5.2
Regions and communities	11.4	11.4	11.5	11.4	11.4	11.3	11.2	11.1
Intergovernment transfers	-8.4	-8.3	-8.1	-8.0	-7.7	-7.6	-7.5	-7.4
Interest payments	10.9	9.5	9.1	8.7	7.9	7.7	7.1	6.6
Balance	-7.2	-4.9	-4.2	-3.7	-2.0	-1.0	-0.9	-0.5
Federal	-5.8	-4.6	-3.8	-3.4	-2.7	-1.9	-1.8	-1.1
Social security	-0.5	0.5	0.0	-0.2	0.4	0.4	0.5	0.2
Local government	-0.1	0.1	0.4	0.3	0.3	0.2	-0.1	0.1
Regions and communities	-0.8	-0.9	-0.7	-0.4	-0.1	0.2	0.5	0.3
Memorandum items:								
Primary balance	3.7	4.5	4.9	5.0	5.9	6.6	6.3	6.1
Structural balance	-5.3	-3.2	-2.8	-1.7	-0.8	-0.2	0.0	-0.3
Structural primary balance	5.7	6.3	6.3	7.1	7.1	7.5	7.1	6.3
Output gap	-3.8	-3.0	-2.5	-3.4	-2.1	-1.5	-1.5	-0.3
Debt	135.9	134.5	131.8	128.3	123.0	117.4	115.0	110.7
Net debt	126.7	126.2	125.3	122.4	118.0	112.3	...	...
				(Growth rate, in percent)				
Memorandum items:								
Primary expenditure	1.6	1.6	0.9	2.0	2.3	1.2	2.6	1.1
GDP growth	-1.4	3.0	2.5	1.0	3.5	2.7	2.0	3.3

Sources: Data provided by the authorities; and Fund staff projections.

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IMF Concludes Article IV Consultation with Belgium

On February 25, 2000, the Executive Board concluded the Article IV consultation with Belgium.[1]

Background

Economic activity picked up in the course of 1999, despite the dioxin crisis of mid-year, due to a recovery in export markets following the world financial turmoil of late 1998, supportive monetary policy in the euro area, improvements in business and consumer confidence, and continued growth in employment. At end-1999, there was still a margin of excess capacity and, in the absence of generalized pressures in product and labor markets, **inflation** has tended to fall along with the Euro-area average. Moderate price and wage inflation has preserved Belgian competitiveness, though buoyant import demand and a flagging world economy resulted in a narrowing of the current account surplus by almost 1 percentage point of GDP in 1998, to about 4¾ percent of GDP, where it remained through 1999.

The situation in **labor markets** remains unsatisfactory, with a high unemployment rate and a very low participation rate. Though the unemployment rate, on a harmonized basis, fell by ½ of 1 percentage point during 1999 and at about 8 ½ percent in January, 2000 it is still high. Moreover, there are considerable regional disparities in labor-market performance, as unemployment has remained very high in much (but by no means all) of Wallonia, while shortages have emerged in most areas of Flanders (and some parts of Wallonia). Long-term unemployment remains stubbornly high. Both the employment rate and the participation rate are well below the EU average, a situation that is particularly marked for those above 50 years of age (who benefit from widespread early retirement schemes).

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. In this PIN, the main features of the Board's discussion are described.

The **fiscal situation** improved markedly over the past decade, though there is much more to be done. The debt-GDP ratio peaked at 136 percent in 1993, but has since declined rapidly as the fiscal deficit was cut from 7.2 percent of GDP in 1993 to only 0.9 percent in 1999. More than half of this reduction is accounted for by falling interest costs (and most of this, by lower interest rates), though increases in the primary surplus were important as well. There was significant progress on the expenditure side, with the ratio of general government expenditure to GDP falling by 5 ½ percentage points over this period. However, the overriding need to cut the deficit ruled out a decline in the tax burden (the ratio of general government revenue to GDP). The key to fiscal control has been the policy of enlarging the primary surplus and then, from about 1997, maintaining it at 6 percent of GDP or higher. Despite this progress, both the debt ratio and the tax burden remain high. The debt ratio still amounted to 115 percent at end-1999, and at more than 46 percent the revenue-GDP ratio is one of the highest in the Euro area. However, the 2000 budget contains significant tax reductions, mainly in the form of lower employers' social security contributions, of some ½ of 1 percent of GDP.

The short-term **economic prospects** are improving, with real GDP projected by the staff to grow by 3.3 percent in 2000. This projected increase in growth reflects three factors. First, macroeconomic policies are assumed to remain accommodative. The 2000 Budget is, in the staff's evaluation, slightly expansionary in thrust (as measured by the change in the structural balance), although the actual budget deficit is projected to decline significantly. Monetary conditions are also likely to remain supportive of further expansion. Second, the external situation is set to continue to improve, particularly in view of the anticipated pickup of activity in Germany and France. And, finally, consumption should continue to be bolstered by household confidence and employment gains. Given the degree of aggregate economic slack and the already negotiated wage settlement (a maximum cumulative increase in wage costs of 5.9 percent in 1999–2000) underlying inflation and labor cost growth are projected to remain moderate.

Executive Board Assessment

Executive Directors commended the Belgian authorities for the marked improvement in their fiscal situation in recent years which had helped turn around the public debt dynamics. They welcomed the pickup in economic activity in the course of 1999, and noted that high household confidence, expanding export markets, and supportive monetary conditions should help ensure a continued economic recovery. Moreover, they observed that inflation would remain moderate in view of the existing economic slack and already negotiated wage settlements. Against this backdrop, Directors urged the authorities to continue their program of fiscal consolidation and debt reduction, and to accelerate the implementation of needed structural reform so as to strengthen their medium-term growth prospects and further address weaknesses in the labor market.

Directors welcomed the authorities' determination to achieve a balanced budget at least by 2002, and were encouraged by the recent progress made in reducing the deficit for the 2000 fiscal year. They also welcomed the authorities' intention to allocate any windfall gain from favorable economic circumstances primarily to deficit reduction. Directors did not share the staff's characterization of the 2000 budget as a lost opportunity, and noted that the prudent pace of expenditure growth in that budget permitted both deficit reduction and tax cuts, while ensuring that the goal of a balanced budget could be reached sooner than 2002. They supported the authorities' policy to further reduce the tax burden, in particular to lower the high tax wedge on labor in the short run. But a few argued that a higher priority should have been given to debt reduction, in view of the still high debt and the budget's vulnerability to interest rate movements. Directors stressed that the envisaged tax cuts, together with further reductions in the debt to GDP ratio, would require continued strict spending discipline in the face of sometimes intense demands. In this context, a number of Directors saw merit in developing an explicit multiyear expenditure framework that could further help strengthen the authorities' commitment to expenditure restraint. Directors also encouraged the authorities to broaden the tax base and address distortions in their tax system so as to enhance its efficiency and contribute to reducing the size of the gray economy.

Pointing to the low employment rate and high unemployment, Directors urged that comprehensive structural reforms be adopted to complement the authorities' policy of reducing nonwage labor costs. They observed that the recovery provided a timely opportunity for implementing broad-based structural reforms. Taking action during the cyclical upswing would help ensure that jobs would be available for those in search of work. By increasing the economy's productive capacity, such reforms would also help to prolong the recovery phase. Noting the significant consolidation of the Belgian financial sector, Directors also encouraged the supervisory authorities to keep pace with the changing circumstances in the industry.

Directors encouraged the authorities to expand active labor market programs to ensure that those seeking work were well qualified and would be matched with suitable employment opportunities. They also urged the authorities to strengthen further the incentives to seek employment by increasing the attractiveness of work relative to income support programs—while preserving the core of the social safety net. Some Directors suggested limiting the duration of unemployment benefits in order to increase the job search incentives of the long-term unemployed. They also encouraged the authorities to strictly enforce the obligations for employment benefit recipients to seek work or enter training programs. To address the very low employment rate for older people, Directors underscored the importance of phasing out early retirement schemes and the special unemployment regime for those over 50 years of age. In light of the persistent regional labor market disparities, some Directors encouraged the authorities to promote more wage dispersion.

Directors considered that product market reform could help promote economic dynamism and increase job opportunities. They welcomed the recent progress in the liberalization of utilities and telecommunications, noting that there was still considerable scope for improving the functioning of markets. They encouraged the authorities to press ahead with such reforms, including by reforming zoning rules, reducing the administrative burden, and liberalizing shop opening hours. Directors welcomed the recent establishment of a commissioner and an agency to address the issue of the administrative burden of the public sector.

Directors commended the authorities for the increase in the budget for development assistance and welcomed the intention to move further toward the United Nations target.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. As part of a pilot project, the staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 1999 Article IV consultation with Belgium is also available on the IMF's website (http://www.imf.org).