

Austerity or unsustainability: Belgium's budget crossroads

After years of unchecked budgetary slippage, Belgium's federal government is now attempting to launch its most ambitious fiscal consolidation effort since the 1990s. The signal is clear: it's time for action. Yet, despite the urgency, a rapid stabilisation of the debt ratio remains unlikely



The Belgian Prime Minister, Bart de Wever, is involved in difficult budget negotiations

Correction is needed

Belgium's public finances, across all entities, are in a precarious state. The public deficit has consistently breached the 3% of GDP threshold since 2019, with a steady upward trend since 2022. According to the latest figures from the Monitoring Committee, responsible for monitoring budget forecasts during the year, the deficit of Entity I (federal government and social security) should reach 4.2% of GDP this year. When combined with the anticipated shortfall from Entity II (regions, communities, and local authorities), the overall government deficit could surpass 5.5% of GDP.

Even if this seems to be a quite pessimistic extrapolation of the already available data, most institutions, including the European Commission and the National Bank, expect the deficit to exceed 5% this year. This would mark a significant overshoot compared to the 4.7% forecast submitted to the European Commission. Moreover, while these forecasts envision a gradual

reduction to 3% by 2029, reality is likely to diverge. The Monitoring Committee's latest figures suggest Entity I's deficit will remain above 4% next year and climb past 5% by 2029, with Entity II likely to add further pressure.

Automatic deterioration due to ageing and interest rate

Without corrective measures, the deficit is expected to worsen due to rising age-related expenditures and higher debt servicing costs in an environment of elevated interest rates. The Ageing Committee estimates that age-related spending will add 0.5 percentage points to GDP by 2030, a figure recently tempered compared to previous estimates, thanks to the new pension reforms.

Meanwhile, interest payments are expected to increase the deficit by 0.1 to 0.2 percentage points annually. Planned boosts in public investment and defence spending further compound the challenge. To merely stabilise the deficit, annual efforts of 0.3 to 0.4 percentage points of GDP (about €2 billion) are required. Additional measures will be needed to actually reduce the deficit.

A Herculean task ahead

Despite the government's initial reforms, such as unemployment benefit time limits, pension changes, a capital gains tax, and labour market flexibility, further action is essential. The government has announced a renewed commitment to restoring fiscal sustainability, a welcome shift after years of neglect. However, doubts persist about the speed and scope of consensus; the required effort is substantial and cannot be achieved through superficial measures.

The political process will be painful and protracted. This week, various proposals were floated among coalition partners and the public, but none have garnered sufficient support.

Staying reasonable

From an economic perspective, a robust savings and structural reform plan would be ideal, as it would secure the long-term sustainability of public goods and services while supporting growth. Yet, political realities often intervene. In today's climate, reducing the deficit below 3% seems unrealistic. Pragmatically, the government may aim to first reduce and then stabilise the deficit around 4.4% of GDP. Accounting for unavoidable ageing and interest costs, and capping public investment (including defence) at 4.2% of GDP, this would require an effort of 2% of GDP by 2030 (about €12 billion at 2025 prices)—already a severe austerity program.

Even so, this path would not be enough to stabilise the debt ratio, which is projected to hit 106.7% of GDP this year and exceed 110% by 2030. Achieving debt stabilisation would demand an additional 1 percentage point of GDP in savings, lowering the deficit to 3.5%.

The clock is ticking

Fiscal consolidation must return to the forefront of political debate. While the European Commission and financial markets have been lenient in recent years, recent warnings—such as the Excessive Deficit Procedure and Fitch's credit rating downgrade—underscore the urgency. Key deadlines loom:

- Moody's will update Belgium's sovereign debt rating this Friday, with current budget negotiations unlikely to sway the outcome.

- The Prime Minister's policy statement is scheduled for next Tuesday, followed by a day of major protest against government measures, making it politically risky to announce new reforms.
- The European Commission expects the 2026 budget proposal and medium-term trajectory by mid-October, with end-of-month delays still acceptable. The real challenge will be convincing stakeholders of the credibility and sufficiency of these new efforts.

Belgium has embarked on a process of fiscal consolidation—an encouraging development. Yet, it remains far too early to declare success. Experience suggests that while the haemorrhaging of public finances may be stemmed, the underlying wound will not be healed.

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