

Article | 19 May 2020 Belgium

Belgium: the public finances challenge

As in many other countries, the coronavirus crisis represents a huge challenge for public finances. This is all the more true for countries that already had a high level of debt before, which is the case for Belgium



Spending on the rise

In the urgency of the last two months, the priority of governments has been to deal with the shock, by making the necessary spending to acquire missing equipment, activate social safety nets, particularly in terms of temporary unemployment, or by granting tax or charge deferrals to companies. This obviously has an enormous cost: apart from the deferrals, the bill for the state as a whole is likely to reach more than €13 billion, if not much more. It is a significant expense, but it should be remembered that in 2019, total state expenditure was €250 billion. All things considered, this seems manageable.

Plunging revenues

This being said, in the case of a crisis, public finances suffer a double blow: on the one hand, expenditure increases, as we have just shown, but on the other hand, revenue is reduced. In fact, since most taxes are a proportion of consumption or corporate expenditure or income, government revenues evolve in parallel with economic activity, and therefore with GDP. Therefore,

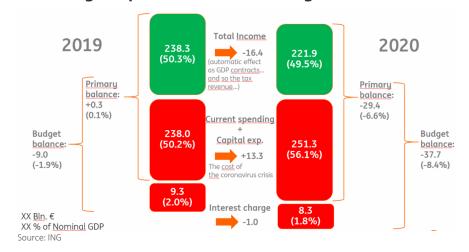
Article | 19 May 2020 1 when GDP contracts, so do government revenues. In the present case, an unprecedented contraction in GDP is expected. The estimates will probably be revised, but over the year as a whole, it would not be surprising to see Belgium's GDP contracting by more than 5% in nominal terms, or by €25 billion. Given that government revenues in Belgium correspond to around 50% of GDP, this represents a shortfall of no less than €12.5 billion. It should be added that, due to the progressiveness of the tax, the fall in activity will also lead to a slight reduction in the share taken by the state, reducing the tax revenue even more.

The public finances canyon

Taking into account lower revenues, increased expenditure and of course the public finance imbalance that was already expected before the crisis, Belgium's public deficit could reach almost €38 billion this year, or 8.4% of 2020 GDP. These figures are likely to change in the coming months, depending on the economic situation, but also on possible additional spending. Indeed, some political parties are advocating further increases in spending to accelerate the economic recovery.

In the short run, debt financing at low cost is being ensured by the European Central Bank's intervention, but this will not last forever. Therefore, after the crisis has passed, as in other euro area countries, the state of public finances will require reflection in terms of their sustainability long term. This will also be at the heart of discussions in the formation of the next government. But in today's context, who would dare to utter the word "austerity"?

The Belgian public finances canyon



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