Structural reforms and fiscal consolidation: highlights from Belgium's budget deal

The federal government has unveiled a new agreement to finalise the 2026 budget and outline the main direction for economic policy in the coming years. While these steps will help reduce the public deficit, further action will be necessary to stabilise the debt ratio

Belgium's Parliament building

A challenging fiscal landscape

The European Commission recently confirmed Belgium's ongoing fiscal challenges. Despite initial measures introduced in February, the country's public finances have remained in a precarious state. Without additional intervention, the situation was expected to deteriorate further. With a projected public deficit of 5.5% of GDP in 2026 under unchanged policies, Belgium ranked as the eurozone's weakest performer.

Recognising the urgency, the federal government set a deadline (before Christmas) to not only establish the 2026 budget but also to define economic policy guidelines through 2029. On Monday, ahead of schedule and amid three days of strikes and demonstrations, the government announced a political agreement aligned with these objectives.

Spending cuts and structural reforms

The agreement paves the way for the implementation of previously decided reforms—covering pensions, unemployment, night work, and a capital gains tax—the details of which depended on reaching this new consensus.

A major focus is reducing spending on long-term sickness benefits, which have surged in recent years. Belgium now has more long-term sick (600,000 people) than unemployed, with expenditures in this area rising over 50% in five years to exceed €14 billion in 2024. The government aims to reintegrate 100,000 people into the workforce, targeting nearly €2 billion in savings by 2029.

Other cost-cutting measures will affect public services, though these will be offset by increased military spending (up to 2% of GDP) and investments in growth and social cohesion (€550 million in 2026, nearly €900 million in 2029).

Revenue generation: new taxes and delayed relief

Let's first mention that the full effect of a labour income tax reduction, which was decided earlier this year, will be postponed from 2029 to 2030, saving €1 billion in 2029. Adjustments to consumer taxes—including VAT, excise duties, higher airline ticket taxes, and a €2 levy on e-commerce packages—are expected to generate nearly €950 million in 2026 and up to €1.6 billion in 2029. Additional revenue will come from increased wealth and banking taxes (€500 million and €150 million in 2026, respectively), as well as intensified efforts to combat tax and social security fraud (€470 million).

Selective indexation

The automatic income indexation system will be temporarily modified. In 2026 and 2028, salaries will be indexed only up to €4,000, with any surplus excluded. Social benefits and pensions will be indexed up to €2,000. This measure reduces public spending on civil servant salaries and pensions, while private sector companies will be required to transfer to the government half of the indexation that would have applied without this cap. The government expects then to save €270 million in its 2026 budget and up to €880 million in 2029.

Fiscal trajectory: progress, but challenges remain

Combined, these measures are projected to yield budgetary savings of €2.1 billion in 2026, €4 billion in 2027, €4.7 billion in 2028, and over €9 billion in 2029. Most short-term gains will come from increased taxation, while structural reforms will have a more gradual impact.

Despite these efforts, the deficit is expected to remain above 5% of GDP in 2026, only falling to between 4% and 4.5% by 2029 (the result depends pretty much on positive second round effects that the government is counting on). The debt ratio is projected to rise from 106.6% in 2025 to 111.3% in 2029. Stabilising the debt ratio—a key concern for rating agencies—will require additional savings equivalent to about 1% of GDP. Improved economic conditions and the positive effects of ongoing reforms may help, but further measures will likely be necessary.

Conclusion

The government has demonstrated its commitment to structural reform and fiscal consolidation, as promised. Despite social tensions and political opposition, the administration remains intact, sending a positive signal—especially compared to France, which recently rejected its 2026 budget. However, significant challenges remain, and further reforms will be needed to ensure fiscal stability, particularly in the face of potential economic shocks in the coming years.

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