

Belgium is not France (yet...)

From a public finance perspective, Belgium and France might seem to be in the same boat, both facing precarious situations. However, it's crucial not to lump them together. Belgium still has some unique advantages and opportunities that France no longer possesses



Belgium's Parliament building

Same problem... at first sight

The fall of the French government is casting a shadow over the social, economic and political stability of the eurozone's second-largest economy. Outside observers won't be able to keep their eyes off what's happening in the other eurozone countries, with the risk of fears about France spreading to the other fragile links in the eurozone. In this case, it's more than likely that the spotlight will fall on Belgium, which shares the bottom of the league with France when it comes to public deficits. In fact, this process seems to have already begun, since the end of August, when Prime Minister François Bayrou announced a vote of confidence on his policy, the sovereign risk premium associated with Belgium has risen even more than that of France.

In terms of public spending trends over the last few years, it's true that both countries share a deplorable situation: they have failed to reverse the haemorrhaging of public spending incurred during the Covid crisis. This inability to turn back the clock on what was often perceived as the gains of the population has led to continued high public deficits, putting both countries at the bottom of the European league. According to the European Commission, the public deficit will

reach 5.4% and 5.6% respectively in Belgium and France this year, and will increase by a further tenth of a point in both cases next year.

Moreover, in both cases, economic growth (which, it should be remembered, feeds government revenues) remains sluggish. On average over the last three years, GDP growth has not exceeded 1.2% in France and 1.5% in Belgium. This contrasts with a country like Spain, which also has precarious public finances, but which is currently enjoying much higher economic growth and thus rising tax revenues.

Belgium still has a few trump cards up its sleeve

But the comparison probably stops there. The importance of the issues surrounding public finances does not require lumping all countries together (as it was done too quick in 2010), but to look at the situation in detail. Three elements can make the difference between Belgium and France :

1. While both countries face pressure to implement cost-cutting measures due to strained public finances, Belgium retains slightly greater fiscal flexibility than France. This is due in particular to a slightly less problematic debt dynamic: in 2024, France's debt-to-GDP ratio will reach 113%, compared with 104.7% in Belgium. More importantly, in the case of Belgium, this debt ratio is not fundamentally different from that of 10 years ago. In France, on the other hand, the debt ratio is rising inexorably. Ten years ago, it was 'only' 97% of GDP, reflecting an overall deterioration in public finances far worse than in Belgium. Even if price effects can play a role here, taking a look at the European Commission's recommended effort to both countries in order to exit the Excessive Deficit Procedure is interesting. The Commission recommends that France limit growth in net expenditure to 0.8% in 2025, 1.2% in 2026, 1.2% in 2027 and 2028, and 1.1% in 2029. For Belgium, the recommendations are less stringent, as spending growth should not exceed 3.6% in 2025, 2.5% in 2026 and 2027, and 2.1% in 2028 and 2029.
2. Belgium is quite used to having to make efforts when it comes to public finances. It should be remembered that public finances were even worse off in the early 1980s and again in the early 1990s, necessitating such drastic cost-cutting plans that they have in the past been cited as an example by the IMF. On the contrary, France seems paralysed by the idea of going back on the slightest gains of the past: every reform goes down very badly, both with the political class and the population. In other words, unlike France, Belgium is rather 'accustomed' to this kind of situation.
3. This leads naturally to the third difference. First of all, let's not be naive: most European countries are facing a fragmentation of the electorate, the rise of extremes and social tensions. Belgium is no exception. Nevertheless, both politically and socially, Belgium appears more stable than France. Politically speaking, Belgian parliamentary democracy requires compromise and agreement between fundamentally opposed parties. There is a culture of compromise (admittedly difficult to maintain given the rise of populism and extremes) that enables Belgian politicians to get out of difficult situations. Failing a clear direction for economic policy, if each political party forming a majority achieves a few key victories, there will be a willingness to negotiate a compromise. This doesn't make for efficient economic policies in the economic sense of the term, but at least it ensures a degree of stability. France has no such culture at all. The parties are not prepared to make concessions, and the animosity between the parties, but also between individual politicians, is out in the open, in the media or the National Assembly. The debates following Bayrou's general policy statement yesterday were a sad illustration of this. On the social front, it has

to be said that certain mechanisms specific to Belgium, although often (and rightly) criticised, have the merit of limiting social tensions. These include automatic indexation of wages, pensions and social benefits. Although it has cost Belgium dearly in terms of competitiveness in recent years, this mechanism has probably avoided a lot of social tension following the huge inflation wave of 2022.

Conclusion

In the end, it's the investors, and the rating agencies before them, who will determine if France's financial woes will ripple out to other countries. However, let's not jump to conclusions. Every country has its own unique traits, history, and potential. Specifically, while Belgium is grappling with significant public finance challenges, it still has a bit more wiggle room compared to France.

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