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### What's behind the increase in the federal and regional budget deficits in Belgium?

by W. Melyn, T. Roelandt, P. Stinglhamber and S. Van Parys



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## Introduction

Despite several rounds of fiscal consolidation, Belgium's budget deficit has increased steadily over the past decade, reaching 5.2% of GDP in 2025. This is problematic because the widening deficit is causing already-high public debt to climb further, a situation that is unsustainable in the medium term. To steer public finances onto a sustainable path and halt the rise of the debt-to-GDP ratio, the deficit must be brought below 3% of GDP as soon as possible.<sup>1</sup>

In this article, we look at how the budget balance has evolved over the long term and present a detailed analysis for the period 2016-2025. Using data from the government accounts, we identify the revenue and expenditure categories that account for the deterioration of the budget balance at different levels of government.

Using 2016 as the starting point for our in-depth analysis is relevant for several reasons. First, this was the year in which the sixth state reform, adopted in 2014, took full effect. In particular, the fiscal autonomy of the regions with respect to personal income taxation was only fully reflected in the government accounts from 2016 onwards given that, at the regional level, tax revenue is recorded at the time of final assessment which occurs two years after the income is reported. In addition, the €2.5 billion contribution by the communities and regions to fiscal consolidation was fully implemented in 2016. As a result, the finances of the individual units comprising the Belgian general government sector (i.e. the federal government and social security funds, as well as the communities and regions) can only be analysed without a break in the time series from 2016 onwards. The sixth state reform also reflected an agreement – reached by a broad political majority – on rebalancing financial relations between the general government subsectors. This was done through modifying transfers between the federal government and the communities and regions by revising the Special Financing Act, taking into account the policy challenges known at the time, including demographic projections. Under this new framework, the various subsectors committed to achieving a structurally balanced budget by 2018.<sup>2</sup>

<sup>1</sup> See pp. 164-175, National Bank of Belgium (2026).

<sup>2</sup> In 2015 and 2016, the High Council of Finance recommended that all levels of government achieve a structurally balanced budget. The Stability Programmes of 2015 and 2016 envisaged a structurally balanced budget by 2018 for the federal government and social security funds as well as the communities and regions and local government.

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Furthermore, in 2014, Belgium emerged from an EU excessive deficit procedure (EDP) and, in 2015, the budget deficit fell below 3% of GDP for the first time since the global financial crisis. Substantial fiscal efforts were made on both the revenue and expenditure sides to achieve this outcome.

In 2016, the primary balance (i.e. the budget balance excluding interest expense) of all major subsectors was close to zero (see Figure 1). This makes it possible to focus the analysis on the deterioration of the budget balance since then, specifically the emergence of primary deficits across all levels of government.

In the first part of this article, we place the deterioration of the budget balance in a historical context. We show that the (primary) balance has been deteriorating, with interruptions, since the early 2000s. We find that from one period to the next, there have been considerable variations in the drivers of this deterioration, in particular the relative contribution of revenue and expenditure. For example, the weakening of the budget balance since 2000 is almost entirely due to increased primary expenditure, while since 2016, both declining revenue and rising expenditure have played a substantial role. This section subsequently focuses on the contribution of individual revenue and expenditure categories to the deterioration of Belgium's general government balance during the period 2016-2025.

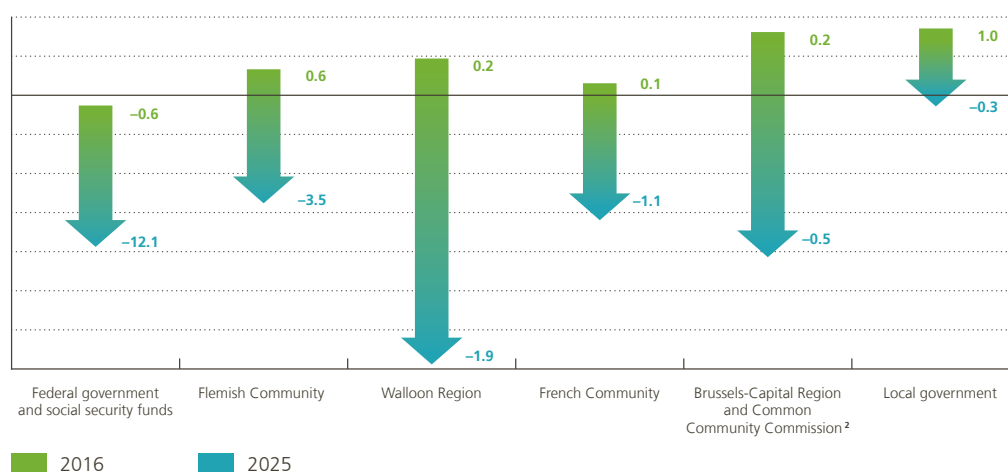
In the second part, we analyse the deterioration of the (primary) balance of the largest individual general government units (i.e. the federal government and social security funds, the Flemish Community, the French Community, the Walloon Region and the Brussels-Capital Region) since 2016. Local government is excluded from our analysis given that, when considering this subsector as a whole, neither its budget deficit nor its debt dynamics are a cause for concern. A detailed examination of trends in revenue and expenditure also enables us to assess the impact of changes in transfers from the federal to the regional level under the revised Special Financing Act.

The third section summarises the findings of our analysis and presents our conclusion.

**Figure 1**

**The primary balance turned negative at all levels of government in the period following implementation of the sixth state reform (2016-2025)**

(in € billion)<sup>1</sup>



Sources: NAI, NBB.

<sup>1</sup> The size of the arrows corresponds to the size of the budget, measured in terms of disposable revenue (revenue less intergovernmental transfers paid to other units). A downward arrow of the same size indicates a deterioration of the same magnitude in the primary balance relative to disposable revenue.

<sup>2</sup> Consolidated data.

## 1. General government sector

### 1.1 Long-term perspective and historical background

Belgian public finances were in a very concerning state at the end of the 1970s and the early 1980s. This led policymakers to focus in the 1980s and 1990s on restoring the sustainability of the public purse.

A key impetus in this regard was the aim of having Belgium be part of the first group of countries to join the monetary union with the euro as its currency. The main prerequisites for joining the Economic and Monetary Union (EMU), as stated in the Treaty of Maastricht, are a budget deficit below 3% of GDP and government debt not exceeding 60% of GDP (or steadily declining towards this level). As a result of the measures taken to meet these objectives, Belgian public finances were healthy around the turn of the century.<sup>3</sup>

Subsequently, however, post-Maastricht fatigue set in, resulting in a gradual deterioration of Belgian public finances. The primary surplus declined, but the budget could be balanced in some years due to falling interest expense. During the global financial crisis in 2008 and the ensuing recession in 2009, however, the primary surplus was entirely wiped out, the budget deficit widened to well above 3% of GDP and public debt started to rise again.

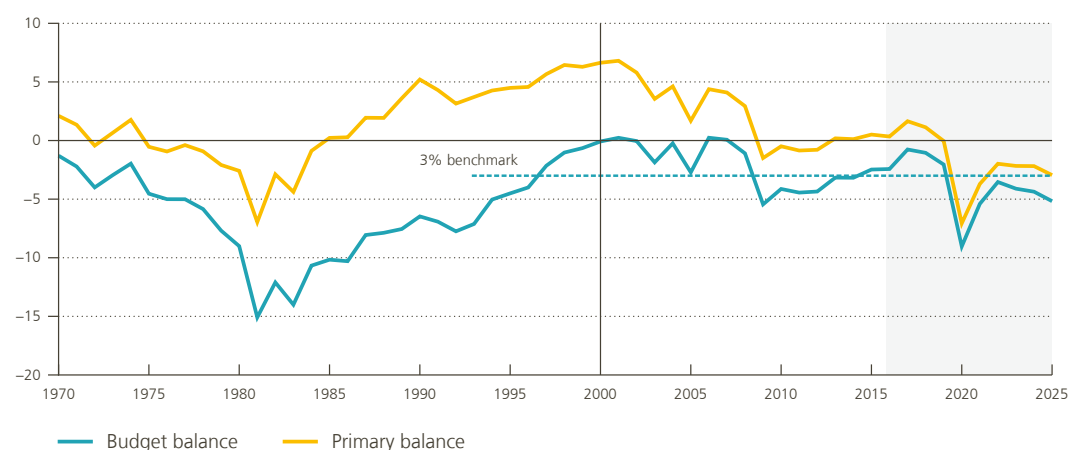
At the end of 2009, the EU opened an excessive deficit procedure against Belgium, and the country took measures over the following years to reduce its deficit. The subsequent reduction of the deficit, together with a favourable fiscal outlook, led to closure of the procedure in June 2014.

In 2020, the Covid-19 crisis led to a new, substantial increase in Belgium's budget deficit. Although the deficit was partially reduced over the following years, it did not return to pre-crisis levels and began to widen again from 2023 onwards.

Figure 2

**The general government budget balance was healthy at the turn of the century but deteriorated gradually and turned strongly negative<sup>1</sup>**

(as a percentage of GDP)



Sources: NAI, NBB.

<sup>1</sup> The statistics published by the National Accounts Institute for years up to 1994 do not follow the ESA 2010 methodology. For this period, back-casting was carried out using growth rates calculated as per the data contained in the government accounts compiled according to ESA 1995.

<sup>3</sup> For a more detailed description of this period, please see Bisciari, P. *et al.* (2015).

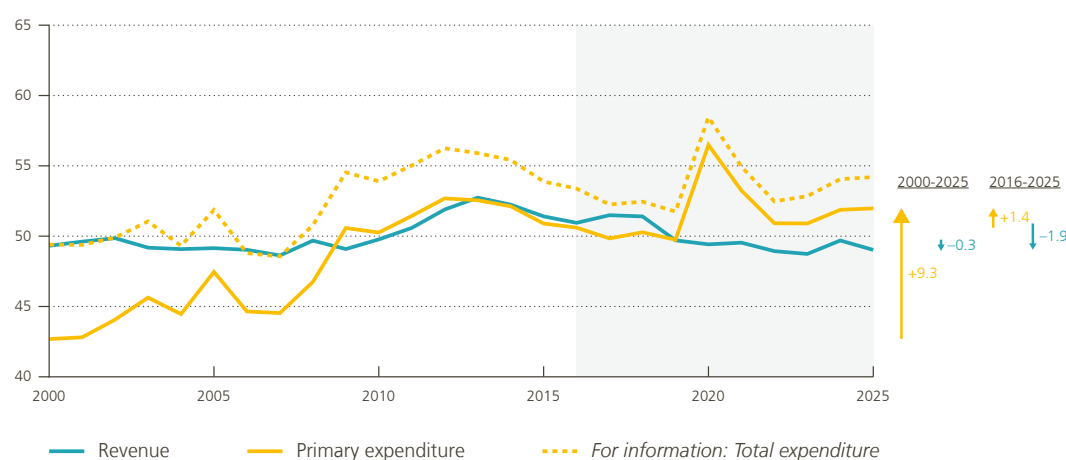
The primary balance thus deteriorated gradually, leading to a deficit in 2025 that has not been observed since the early 1980s. However, the substantial decline in interest expense over much of this period means that despite a comparable primary deficit, the general budget deficit is now smaller.

Across the entire twenty-five year period, there was a strong increase in primary expenditure, while revenue remained almost at the same level. Conversely, since 2016, there has been a substantial decrease in revenue and a more moderate increase in primary expenditure.

**Figure 3**

**Primary expenditure has increased significantly since 2000, while revenue has made a greater contribution to the decline in the primary balance since 2016**

(as a percentage of GDP)



Sources: NAI, NBB.

Over the period 2016-2025, primary expenditure contributed 1.4 percentage points of GDP to the deterioration of the balance, whereas over the period 2000-2025 this contribution amounted to 9.3 percentage points. Expenditure on pensions, healthcare, and sickness and disability benefits increased substantially, while spending on certain other social benefits (unemployment benefits, early retirement and career break expenses, family allowances) decreased. Subsidies to enterprises and the civil service wage bill also rose. Spending on investment grew as well, after having fallen to a low level at the end of the 1990s.

Revenue declined by 1.9 percentage points of GDP over the period 2016-2025, compared with “only” 0.3 percentage points of GDP for the period 2000-2025. This indicates that revenue increased in the years prior to 2016. Belgium indeed succeeded in reducing its budget deficit to below 3% of GDP and in exiting an EDP (in 2014), partly through increasing revenue. Revenue amounted to 50.9% of GDP in 2016, after having peaked at 52.7% of GDP in 2013. The increase between 2000 and 2016 can be entirely attributed to revenue other than taxes and social contributions. The decline from 2016 onwards resulted from a reduction in revenue from taxes and social contributions.

In the remainder of this article, we focus on the period 2016-2025 for the reasons explained in the introduction. Analyses of other periods can be found in other NBB publications.<sup>4</sup>

<sup>4</sup> See, for example, National Bank of Belgium (2020), pp. 175-184, for an analysis of primary expenditure over the period 2000-2019, National Bank of Belgium (2024), pp.231-239 for an analysis of the deterioration of the primary balance over the period 2019-2023, and National Bank of Belgium (2025), pp. 157-165, for an analysis of the primary budget deficit over the period 2014-2024.

Table 1

**General government: breakdown of the change in the budget balance since 2000 and 2016**

|                                                   | 2000 | 2016 | 2025 | Δ 2000–2025 |                        | Δ 2016–2025 |                        |
|---------------------------------------------------|------|------|------|-------------|------------------------|-------------|------------------------|
|                                                   | %GDP | %GDP | %GDP | %GDP        | € billion <sup>1</sup> | %GDP        | € billion <sup>1</sup> |
| Budget balance                                    | –0.1 | –2.4 | –5.2 | –5.1        | –32.7                  | –2.7        | –17.6                  |
| Interest expense                                  | 6.7  | 2.8  | 2.2  | –4.5        | –28.8                  | –0.5        | –3.5                   |
| Primary balance                                   | 6.6  | 0.3  | –2.9 | –9.6        | –61.5                  | –3.3        | –21.1                  |
| Revenue                                           | 49.3 | 50.9 | 49.0 | –0.3        | –1.9                   | –1.9        | –12.4                  |
| Revenue from taxes and social contributions       | 43.8 | 43.7 | 41.8 | –2.0        | –12.8                  | –2.0        | –12.8                  |
| Taxes levied mainly on earned income              | 25.9 | 24.8 | 23.9 | –2.0        | –13.1                  | –0.9        | –5.8                   |
| Taxes on corporate profits                        | 3.1  | 3.4  | 4.1  | 1.0         | 6.1                    | 0.7         | 4.4                    |
| Taxes on other income and wealth                  | 3.3  | 4.1  | 3.9  | 0.6         | 4.0                    | –0.2        | –1.0                   |
| Taxes on goods and services                       | 11.4 | 11.5 | 9.9  | –1.5        | –9.9                   | –1.6        | –10.3                  |
| Revenue other than taxes and social contributions | 5.5  | 7.2  | 7.2  | 1.7         | 10.9                   | 0.1         | 0.4                    |
| Primary expenditure                               | 42.7 | 50.6 | 52.0 | 9.3         | 59.6                   | 1.4         | 8.8                    |
| Compensation of employees                         | 11.2 | 12.5 | 12.5 | 1.3         | 8.1                    | 0.0         | –0.2                   |
| Purchases of goods and services                   | 3.7  | 4.1  | 4.3  | 0.6         | 3.9                    | 0.2         | 1.5                    |
| Social benefits                                   | 20.6 | 24.7 | 25.7 | 5.1         | 32.8                   | 0.9         | 5.9                    |
| Subsidies to enterprises                          | 1.6  | 3.8  | 3.5  | 1.9         | 12.2                   | –0.2        | –1.5                   |
| Other current transfers                           | 1.9  | 2.1  | 1.8  | 0.0         | –0.3                   | –0.3        | –1.8                   |
| Gross fixed capital formation                     | 2.4  | 2.5  | 3.1  | 0.7         | 4.7                    | 0.7         | 4.3                    |
| Other capital expenditure                         | 1.3  | 0.9  | 1.0  | –0.3        | –1.7                   | 0.1         | 0.5                    |

Sources: NAI, NBB.

<sup>1</sup> Based on 2025 GDP.

## 1.2 The deterioration of the general government budget balance over the period 2016–2025

Our analysis of the budget balance and the various revenue and expenditure categories is based on the change in these variables relative to GDP. In other words, growth in nominal national GDP is used as the benchmark.<sup>5</sup> Faster or slower growth in revenue or expenditure relative to GDP may result from both discretionary policy measures and macroeconomic or other factors. Expressing changes in relation to GDP is meaningful for both revenue, as tax bases can generally be expected to broadly keep pace with GDP, and expenditure, which is linked to policy needs that may depend on the scale of economic activity.

For the remainder of this article, these changes are expressed in billions of euro based on the level of GDP in 2025. This approach is adopted solely for communication purposes as readers may find it easier to interpret data expressed in monetary terms rather than as a percentage of GDP rounded to several decimal places, particularly when the discussion centres on the fiscal policies of smaller subsectors (i.e. the communities and regions).

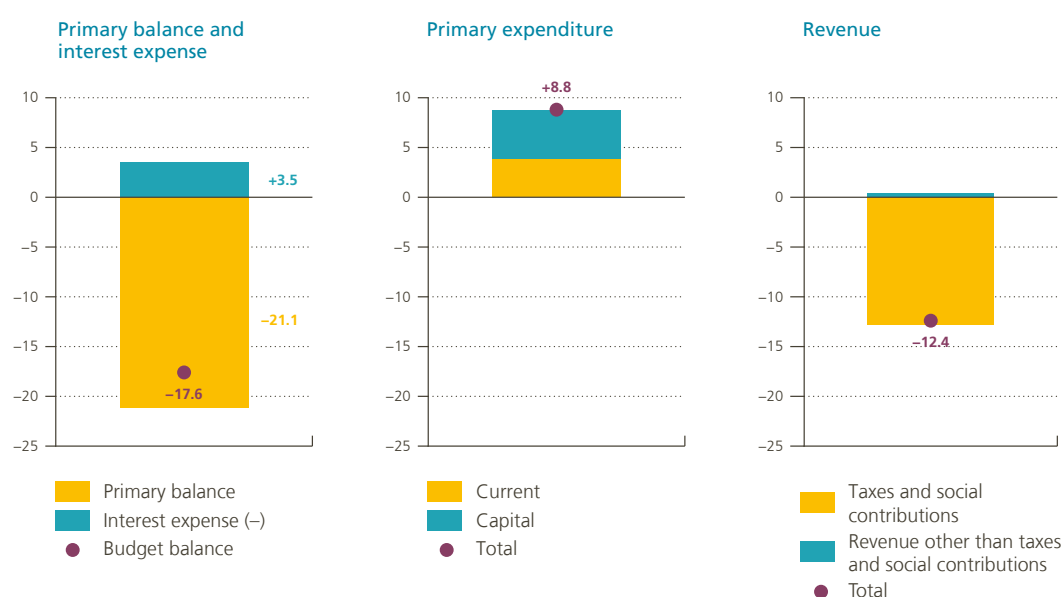
<sup>5</sup> This article refers to GDP rather than potential GDP given that estimates of Belgium's output gap over the period 2016–2025 vary. According to the EC, the output gap became more negative, while NBB estimates show a gradual narrowing of the (negative) output gap. We can therefore conclude that there is no clearly identifiable difference between the output gap in 2016 and 2025. Further, it should be noted that there were no significant temporary fiscal measures in place in 2016 and 2025. Those that were introduced during the Covid19 crisis and the energy crisis, or following the 2021 floods in Wallonia, had been unwound by 2025.

The deterioration of the general government budget balance by 2.7 percentage points of GDP over the period 2016-2025 thus corresponds to a decline of €17.6 billion. As interest expense decreased by €3.5 billion, the deterioration of the primary balance was even larger, amounting to €21.1 billion. This resulted from faster growth in primary expenditure than nominal GDP, which contributed €8.8 billion, and from lower growth in revenue than nominal GDP, which contributed €12.4 billion.

Figure 4

**The worsening of the general government budget balance reflects reduced revenue from taxes and social contributions as well as higher current and capital spending**

(change between 2016 and 2025 as a percentage of GDP, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

The increase in primary expenditure was driven primarily by certain expenditure categories. The largest contribution, of €5.9 billion, was due to a rise in social benefits. Gross fixed capital formation and other capital expenditure increased by €4.9 billion, while purchases of goods and services rose by around €1.5 billion.

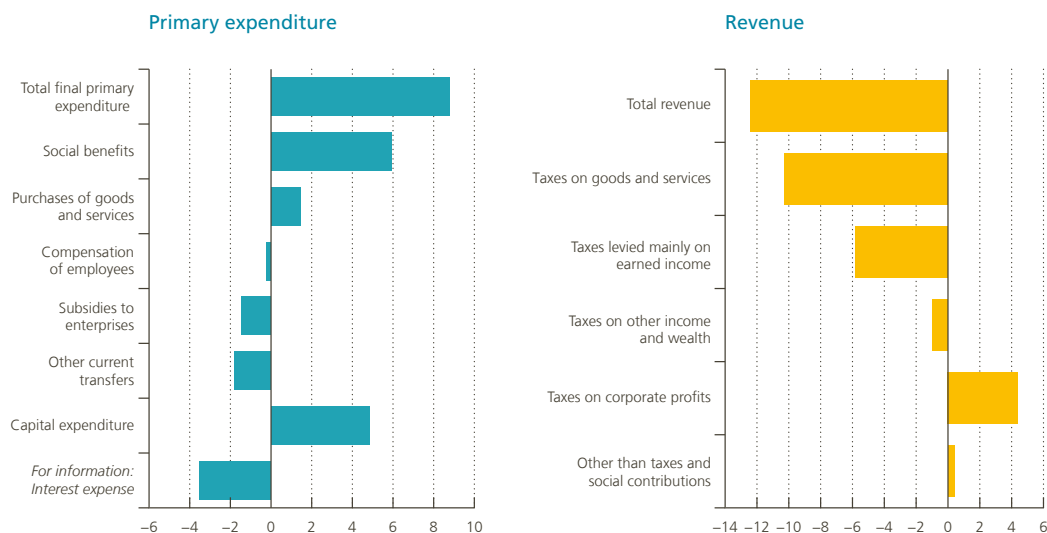
Other expenditure categories moderated the overall increase. Subsidies to enterprises declined by around €1.5 billion, reflecting savings measures implemented by the regions, while other current transfers decreased by approximately €1.8 billion. Expenditure on the compensation of government employees remained broadly unchanged for the general government sector as a whole over the period. However, this relatively stable aggregate belies diverging trends across the various levels of government. Compensation of employees declined at the federal and local levels but increased at the level of the communities and regions.

The change in total primary expenditure therefore did not result from a broad-based increase across all expenditure categories. Rather it reflected a shift in the composition of government spending, with a larger share accounted for by social benefits and capital expenditure, alongside lower subsidies and other current transfers.

Figure 5

### Expenditure increased while revenue declined

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

On the revenue side, almost all major categories contributed to the deterioration of the budget balance. The sharpest decline was recorded in taxes on goods and services, which fell by €10.3 billion, reflecting developments at both the federal and regional levels. Taxes and social contributions levied mainly on earned income also made a substantial negative contribution of €5.8 billion. Revenue from taxes on other income and wealth decreased by around €1 billion, mainly as a result of developments at the regional level. Corporate income tax constituted the main exception. Receipts from corporate tax increased by €4.4 billion, making it the only major tax category to provide a significant positive contribution. Non-tax revenue remained broadly stable for the general government sector as a whole.

## 2. Subsectors of general government

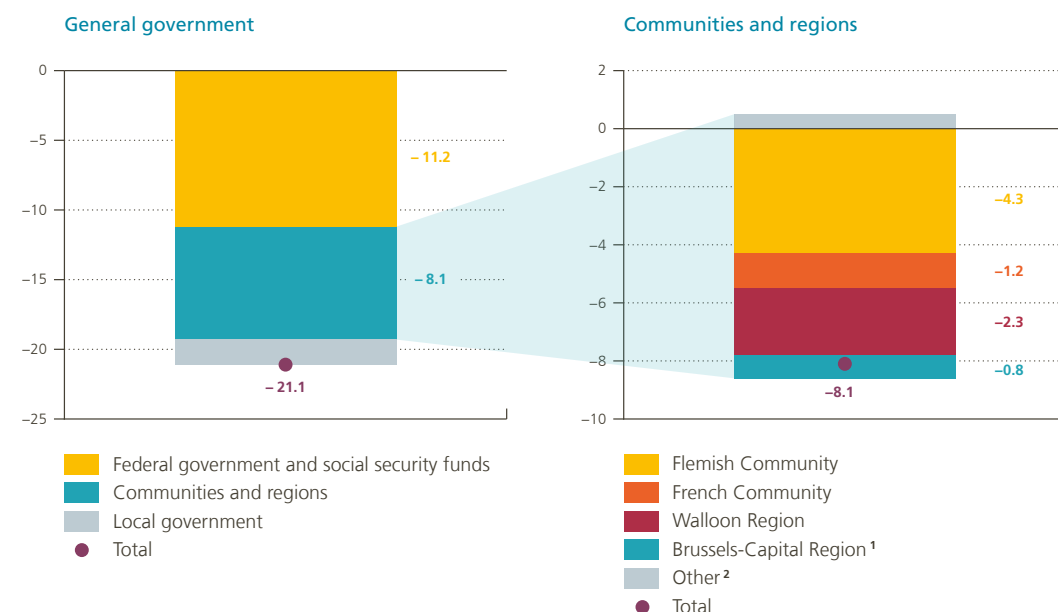
The general government sector is composed of multiple subsectors. The budget balance is the result of fiscal policies, in a broad sense, pursued by the federal government and social security funds, the communities and regions, and local government. Each of these levels of government is responsible for certain types of expenditure and revenue. As indicated above, this allocation has remained unchanged since 2016, following implementation of the sixth state reform.

Each level of government contributed to the deterioration of the primary balance. Their respective contributions should, however, be assessed relative to the resources available to them, which differ considerably (see figure 1). Nevertheless, the deterioration was broad-based and cannot be attributed exclusively to a single subsector. To gain a better understanding of the underlying drivers, a separate analysis for each level of government is required. Local government is excluded as there is not a significant structural budget deficit at that level.

Figure 6

### Each level of government contributed to the deterioration of the primary balance

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

1 Brussels-Capital Region and Common Community Commission.

2 German-speaking Community, Flemish Community Commission, French Community Commission and statistical adjustment.

For our analysis of the regions (Flanders, Wallonia and Brussels), we use regional GDP growth as an alternative benchmark for the main aggregates.<sup>6</sup> This indicator is thought to more closely reflect changes in the regional tax base and budgetary needs than national GDP growth and is therefore an interesting additional standard for measuring trends in revenue and expenditure. That being said, it is subject to certain limitations. First, determining regional GDP is less straightforward for the communities, which cover multiple regions. That's why we opted not to use this indicator for the French Community. For the Flemish Community, however, use of regional GDP is warranted due to the fact that this community covers the Brussels-Capital Region relatively less. Second, the GDP of the Brussels-Capital Region is affected by many factors that do not necessarily move in tandem with the regional tax base, such as a high percentage of commuters from outside the region. Using the alternative indicator of regional GDP growth significantly affects the contributions of revenue and expenditure to the worsening of the budget balance but has barely any impact on the deterioration of the budget balance as a whole.<sup>7</sup>

Furthermore, in this article we apply two statistical adjustments to the government accounts at subsector level in order to enhance transparency when evaluating fiscal policy. We use the "advance payments" approach to regional personal income taxation<sup>8</sup> and adjust the expenditure and revenue of the communities and regions to exclude spending on the civil service pension bill, which is financed by the federal government and so is budget neutral for them.

<sup>6</sup> Regional GDP data are currently available up to 2024. For 2025, estimates from the Federal Planning Bureau's Regional Economic Outlook 2026-2031 are used. See Federal Planning Bureau, Brussels Institute for Statistics and Analysis, Walloon Institute for Evaluation and Statistics Flanders (2026).

<sup>7</sup> This is because the numerator of the budget balance-to-GDP-ratio is much smaller than that of the revenue- or expenditure-to-GDP-ratio.

<sup>8</sup> In our analysis of the individual regions, regional personal income tax revenue is determined based on advance tax payments received from the federal government rather than on assessed amounts actually collected as prescribed by the national accounting approach. The advance payments approach better reflects the budgetary reality of the regions (see HCF (2021)). It should also be noted that, in this article, we classify the difference between these two approaches as "revenue from taxes" (taxes on earned income) rather than "other revenue" as is usually done. This allows us to include developments in personal income tax in the discussion on taxes on earned income.

## 2.1 Federal government and social security funds

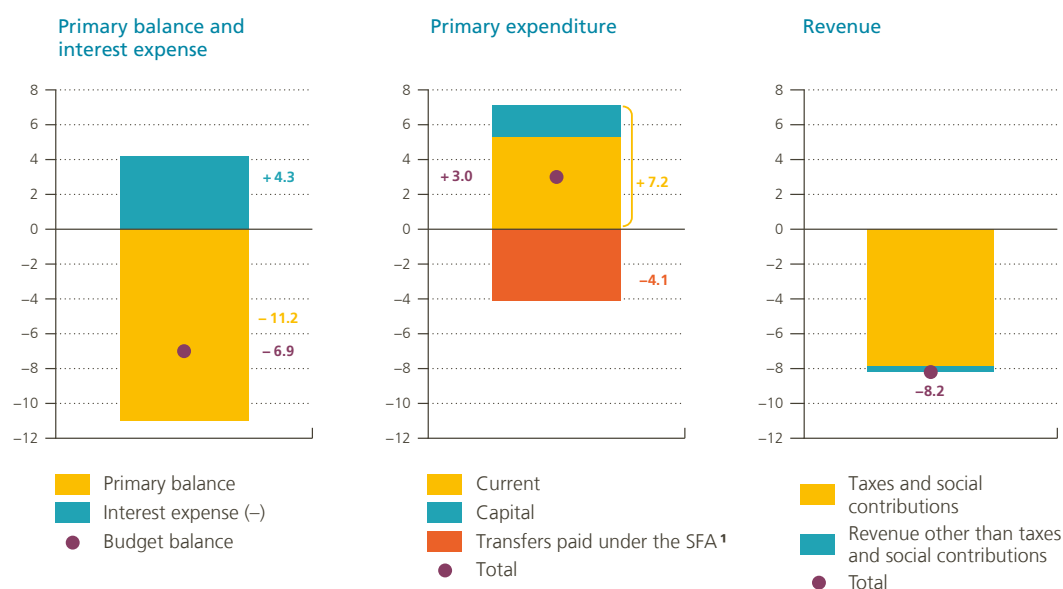
For the federal government and the social security funds, the same broad pattern was observed as for general government as a whole. Over the period 2016-2025, expenditure increased while revenue declined as a proportion of GDP. The deterioration of the primary balance was partly mitigated by lower interest expense. This decline reflected favourable financing conditions rather than a reduction in federal government debt.

Particular attention should be paid to federal transfers to the communities and regions under the revised Special Financing Act.<sup>9</sup> The sixth state reform introduced far-reaching changes to these transfers (see the Box 1). These flows are recorded as expenditure by the federal government and as revenue by the communities and regions. They are presented separately in order to prevent changes in institutional financing flows from being mistaken for changes in final primary expenditure, which better captures developments in federal policy comprising service provision and social protection.

Figure 7

### The federal government balance deteriorated despite lower interest expense and a decline in transfers paid under the Special Financing Act

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

1 SFA: Special Financing Act.

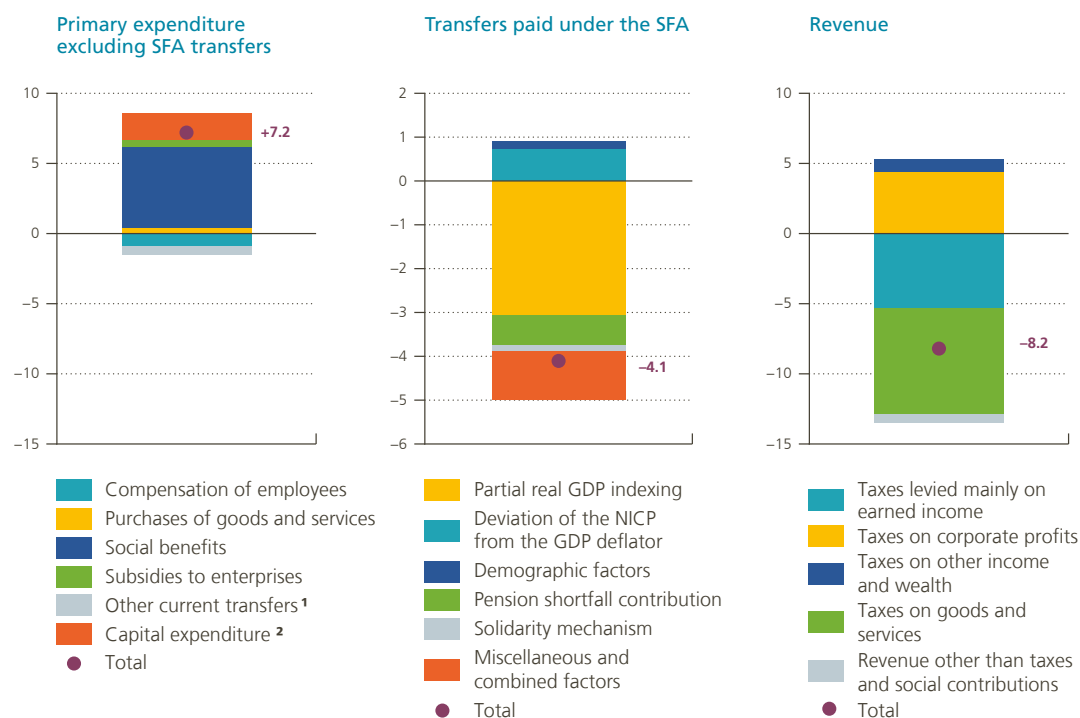
The primary expenditure of federal government and the social security funds increased by €3.0 billion between 2016 and 2025. This was despite a significant decline in transfers to the communities and regions under the revised Special Financing Act by €4.1 billion. As a result, excluding these transfers, final primary expenditure increased by €7.2 billion.

9 See Bisciari, P. and Van Meensel, L. (2012).

Figure 8

# **Social benefits and defence drove up expenditure while lower receipts from taxes on consumption and labour income reduced revenue**

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

1 Transfers to other sectors and to other levels of government, excluding transfers under the Special Financing Act.

2 Gross fixed capital formation and other capital expenditure.

## **Spending on social benefits and defence pushed up expenditure**

The increase in final primary expenditure was driven mainly by increases in social benefits and capital expenditure. Within social benefits, there was a particularly strong increase in pension expenditure as a result of anticipated population ageing.<sup>10</sup> Healthcare expenditure increased at a more moderate pace, partly reflecting the statutory real growth norm. Conversely, unemployment benefits declined substantially over the period under review. This decrease was due to, among other factors, reforms affecting benefit levels, tighter eligibility conditions and the phase-out of early retirement schemes. It was further boosted by rising labour demand and limited growth in labour supply as a result of demographic developments. At the same time, expenditure on sickness and disability benefits increased markedly, partly reflecting labour-market policies designed to encourage longer participation in the workforce.<sup>11</sup> The increase in expenditure on sickness and disability benefits was sufficiently large to fully offset the decline in unemployment benefits.

Capital expenditure and purchases of goods and services also increased. In recent years, this trend has largely been driven by a sharp rise in defence spending.

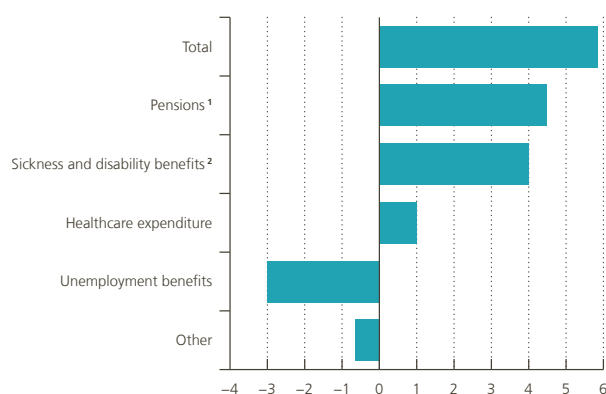
10 See Deroose, M., Melyn, W., Stinglhamber, P. and Van Parys, S. (2023).

11 See Gelade, W. and Saks, Y. (2024).

Figure 9

**The increase in social benefits was due to higher spending on both pensions and sickness and disability benefits**

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

1 Including early retirement schemes.

2 Including benefits for persons with disabilities, benefits under the sickness and disability insurance scheme, and occupational illness benefits.

In contrast, compensation of employees moved in the opposite direction. Expenditure in this category declined relative to the size of the economy, against the backdrop of a broadly stagnant workforce in both government administration and the armed forces. From 2023 onwards, however, employment rebounded slightly as a result of efforts to reinforce the security services. The decline in staffing levels within the armed forces also came to an end.

Lastly, other current transfers also declined over the period under review. Belgium's contribution to the European Union, which is determined mainly by GNI-based transfers, remained broadly unchanged in nominal terms. As a result, this item of expenditure decreased relative to GDP. Transfers and support to Ukraine, on the other hand, increased in the wake of Russia's invasion of Ukraine, thereby partly offsetting the decline in other current transfers.

**Revenue fell owing to lower receipts from taxes on consumption and labour income**

The decline in revenue relative to GDP was mainly attributable to lower receipts from taxes on goods and services and taxes on earned income. The increase in taxes on corporate profits only partially offset this decline. These developments reflected both policy measures, such as tax cuts and increases, and changes in the macroeconomic tax bases, notably their decoupling from GDP, as well as other factors.

Revenue from taxes on goods and services grew €7.6 billion less than implied by GDP growth between 2016 and 2025. Around 90% of this shortfall was attributable to the two largest revenue categories, namely excise duties (40%) and VAT (50%). In the case of excise duties, substantial rate increases on diesel, tobacco and gas and electricity significantly pushed up tax revenue. On the other hand, since most excise duties are levied on a unit basis rather than *ad valorem*, their share of GDP gradually declines as domestic prices (measured by the GDP deflator) rise. This negative impact of inflation on excise revenue broadly offset the *ex ante* impact of the rate increases. Furthermore, consumption of goods subject to excise duties grew less than real GDP and even broadly declined. Thus, consumption of tobacco products and alcoholic beverages fell over the period. Higher excise duties on alcohol and tobacco may have contributed to lower consumption of these products or led to more cross-border purchases. Consumption of motor fuels broadly stabilised over the period, with a shift from diesel to petrol.

VAT receipts also contributed to the decline in revenue from taxes on goods and services. Federal policy measures, including a reduction in the VAT rate on natural gas and electricity (from 21% to 6%), as well as on demolition and reconstruction works, accounted for approximately 40% of this decrease. In parallel, private consumption at current prices evolved broadly in line with nominal GDP over the period under review. The relative decline in VAT receipts therefore cannot be explained by generally weaker growth in nominal consumption.<sup>12</sup> The remaining share of the decline must, consequently, be due to other factors which are not immediately identifiable. The decline in VAT revenue merits a more detailed analysis, which is beyond the scope of this study. In principle, other factors may include composition effects, for example if a larger share of consumer spending is on goods and services subject to reduced VAT rates or categories that are more prone to tax avoidance. The increase in net imports of travel services, driven by the growing gap between Belgians' tourism spending abroad and foreign tourists' spending in Belgium, may also play a role, as VAT on travel-related expenditure is largely paid in the country where consumption takes place. Another possible explanation is weaker VAT compliance as a result of tax evasion or inefficiencies in tax collection. The unexplained portion of the decline in VAT revenue is also reflected in the widening VAT compliance gap observed in recent years compared with 2016.<sup>13</sup>

Taxes and social contributions levied primarily on earned income also grew less than GDP, reducing revenue by €5.3 billion. The main factor weighing on this category was social security contributions, which declined largely on account of two factors. First, discretionary policy measures, which sought to reduce the tax burden on labour mainly through reductions in social security contributions, explain approximately two-thirds of the decline. In particular, the phased implementation of tax cuts (under the tax shift) between 2015 and 2020 had a significant impact on revenue. The lowering of the tax burden was also reflected in the decline in the implicit tax rate on labour, as calculated by the European Commission, from 41.6% in 2016 to 40.7% in 2024. Second, labour income declined as a share of GDP, resulting in less favourable growth in the macroeconomic base underpinning this revenue.<sup>14</sup> Receipts from personal income tax and social security contributions largely track the taxable wage bill. When labour income grows less rapidly than nominal GDP, this revenue category mechanically declines relative to GDP. One mitigating factor is so-called fiscal drag, which refers to the automatic increase in tax revenue that occurs when receipts in a progressive tax system grow more rapidly than the underlying tax base.

In contrast, revenue from taxes on corporate profits increased by €4.4 billion relative to GDP. This increase occurred over a period in which the corporate tax system was undergoing a major reform. The gradual lowering of the standard statutory rate from 33% to 25% was accompanied by measures aimed at broadening the tax base, including abolition of the notional interest deduction.<sup>15</sup> Policymakers intended and assumed that the reform would be budget neutral. However, given its scale and complexity, it is difficult to assess *ex post* whether it ultimately resulted in an increase or decrease in the tax burden.<sup>16</sup> The increase in corporate tax revenue was largely driven by growth in the macroeconomic tax base. Gross operating surplus, which serves as a rough proxy<sup>17</sup> for corporate profits, increased more rapidly than nominal GDP. This is the counterpart to the declining wage share. The positive decoupling of gross operating surplus explains approximately half of the increase in corporate tax revenue. In addition, high returns on frozen Russian assets have exerted upward pressure on corporate tax revenue since 2022 (around €1.2 billion).

12 Although growth in consumption volumes was weaker than GDP growth, this was offset by a stronger increase in consumer prices than in the GDP deflator so that nominal consumption growth broadly matched that of nominal GDP.

13 The VAT compliance gap is an estimate of revenue lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, and miscalculations. See European Commission. (2025).

14 For an extensive analysis of the decline in the wage share since 2013, see Basselier, R. and Jonckheere, J. (2025).

15 See pp. 129–131, National Bank of Belgium (2018) and Coppens, B., Schoonackers, R., Van Meensel, L. and Van Parys, S. (2018).

16 The available indicators, as reported by the OECD and the European Commission, do not allow unequivocal assessment of the evolution of the corporate tax burden. While the average effective corporate tax rate has declined, the implicit tax rate, which is based on actual corporate tax revenue relative to net operating surplus, has risen. These indicators should therefore be interpreted with caution. Prior to the tax reform, for example, corporate tax outcomes were significantly influenced by the notional interest deduction, implying that the change in the effective tax burden strongly depends on firm-specific characteristics. Moreover, the observed increase in net operating surplus explains only part of the evolution of the corporate tax base, which also consists of the financial results of corporations.

17 Gross operating surplus does not take into account financial results, which also form part of the corporate tax base.

## Transfers governed by the Special Financing Act

In addition to its own final expenditure, the federal government makes transfers to other levels of general government. These are, to a large extent, governed by the Special Financing Act (SFA) and simultaneously constitute expenditure for the federal government and revenue for the communities and regions.<sup>1</sup>

The sixth state reform transferred new responsibilities from the federal government to the communities and regions and revised the financing of the latter.

Major responsibilities such as family allowances, elderly care and numerous aspects of employment policy were thus assigned to the federated units. With regard to the financing of the communities and regions, additional transfers were introduced and certain pre-existing transfers reformed.<sup>2</sup> Furthermore, the regions were granted greater fiscal autonomy through the regionalisation of a portion of personal income tax revenue, which now constitutes own-source revenue for the regions and is therefore discussed in the related sections of this article.

Although the SFA was revised in 2014, the full effects of this reform were only felt from 2016 onwards.<sup>3</sup> This means that analysis of transfers under the SFA over the past ten years is not affected by significant breaks in the statistical series.

Overall, SFA transfers grew more slowly than GDP between 2016 and 2025, representing around €4.1 billion in “savings” at the federal level.

SFA transfers are numerous, with the amount of each based on a specific formula. However, several factors can be identified that help to explain the trend in all types of transfers under the SFA over the period in question.

The first is the indexation of most transfers based on the national consumer price index (NICP). Indeed, inflation as measured by this index exceeded growth of the GDP deflator over the period 2016-2025. This differential is estimated at €700 million. This factor exerted upward pressure on the transfers-to-GDP ratio.

The second factor concerns the demographic parameters used for calculating certain transfers in areas such as education, family allowances and elderly care. Depending on the type of transfer and spending needs, the relevant parameter is the size of the population under 18 years of age, the population aged 80 and over, or the total population. Overall, changes in these parameters boosted transfers by approximately €200 million, although the effect varied considerably across the communities and regions. This factor thus provided some support to the transfers-to-GDP ratio.

1 Other federal transfers are made to local authorities such as public social welfare centres (CPAS/OCMW), police zones and emergency service zones.

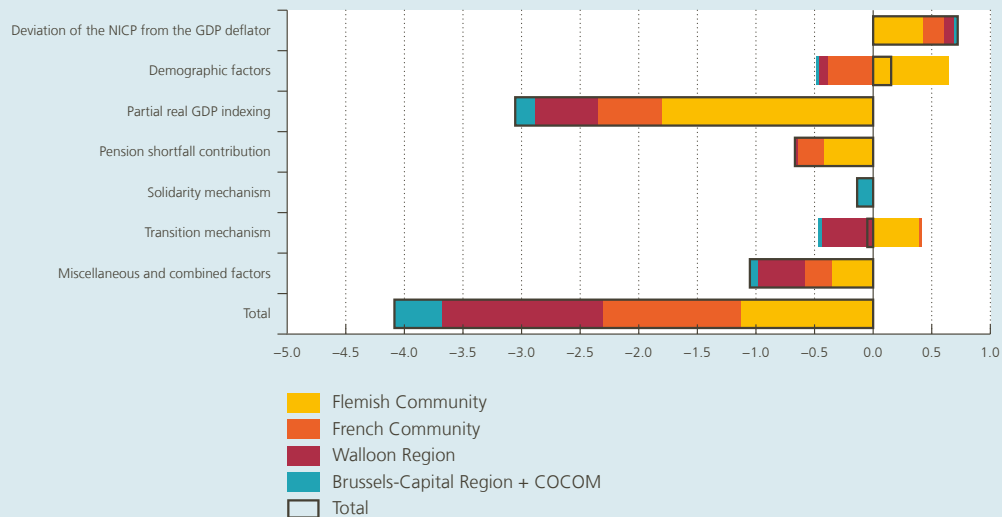
2 For a detailed presentation, see Bisciari, P. *et al.* (2012) and Bisciari, P. *et al.* (2014).

3 Owing in particular to the reduction in the fiscal consolidation contribution between 2015 and 2016.



### Transfers to the federated units<sup>1</sup> declined, mainly as a result of only partial GDP indexing

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

<sup>1</sup> Given that changes in transfers to the German-speaking Community, the French Community Commission (COCOF), and the Flemish Community Commission (VGC) over the period 2016-2025 were negligible, these units have been intentionally omitted. Transfers received by the French Community and subsequently transferred to the Walloon Region (and the French Community Commission, COCOF) under the intra-francophone agreements are directly attributed to their final beneficiary.

Conversely, the size of most federal transfers is determined by a formula that incorporates only a fraction of real GDP growth. The percentage applied varies depending on the funding envelope.<sup>4</sup> This mechanism is intended to ensure that the federated units contribute to the cost of population ageing and to offset the fact that personal income tax revenue (including the regional component) is, in principle, expected to grow faster than economic activity. By definition, this factor had a negative impact on the transfers-to-GDP ratio and was in fact the main factor behind the decline in transfers, with an estimated effect of €3.1 billion.

In addition to macroeconomic and, in some cases, demographic factors, a number of specific upward and downward adjustments are applied to the main categories of transfers. The most significant of these are discussed in the following three paragraphs.

The pension shortfall contribution is an administrative offset, i.e. it is deducted from other transfers to the federated units. Its purpose is to ensure that the communities and regions contribute to the cost of their civil servants' pensions, which are funded at federal level. The aggregate amount has grown faster than GDP, thereby increasing the relative weight of the deduction. The effect of this factor is estimated

<sup>4</sup> For more information on the applicable fractions, see e.g. High Council of Finance (2015).



at €700 million. This contribution is set to continue to rise until 2028, supported by its main determinant, namely the gradual raising of the rate applied to the civil service wage bill.

The national solidarity mechanism is intended to support less affluent regions. More specifically, it consists of a federal transfer to regions whose per capita personal income tax revenues are below the national average. The Walloon Region and the Brussels-Capital Region currently benefit from this mechanism. Since 2016, this transfer has evolved less favourably overall, reflecting the fact that per capita PIT revenues have, to some extent, converged towards the national average. Overall, this factor generated savings of approximately €100 million for the federal government.

The transition mechanism is a temporary instrument designed to ensure that no government entity was disadvantaged by the revised SFA at the time of its implementation. It consists of a transfer or administrative offset depending on the entity concerned. Overall, the transition mechanism represents only limited net expenditure for the federal government. Since 2016, it has also grown more slowly than GDP, generating modest savings at the federal level. The nominal amounts paid out have been declining linearly since 2025, with payments expected to be completely phased out by 2034.

The last factor is the difference between the change in total SFA transfers and the contribution of the abovementioned factors. This residual category captures the combined impact of adjustments that cannot be singled out as well as the effect of various corrections not isolated earlier (e.g. compensation received by the Brussels-Capital Region for international civil servants). Overall, this factor represents an amount of €1.1 billion.

## 2.2 Flemish Community

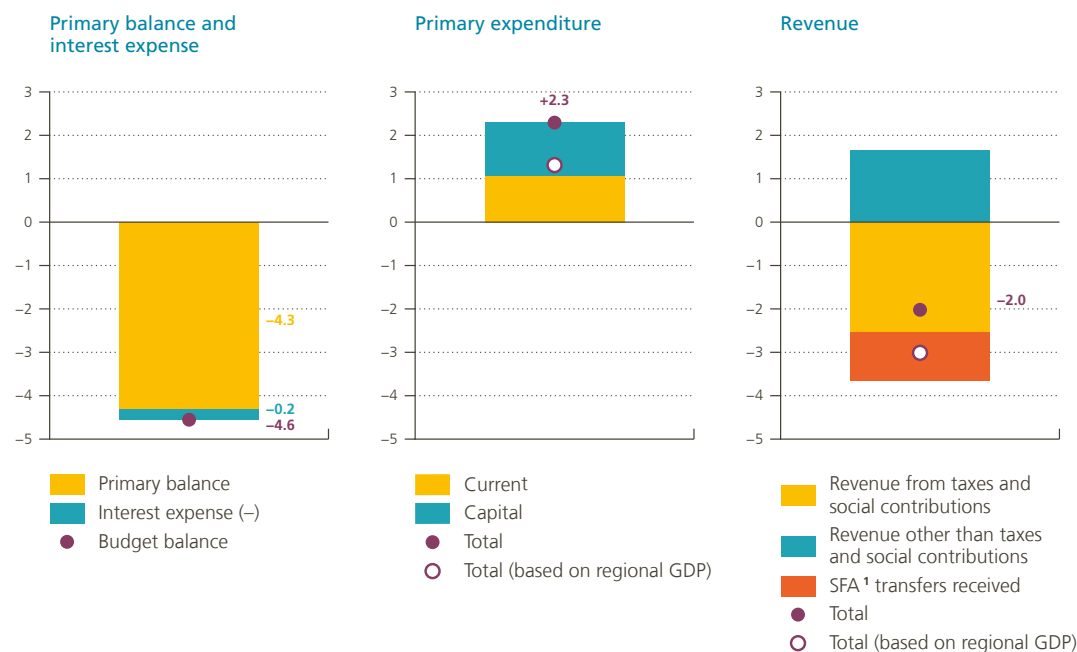
Between 2016 and 2025, the Flemish budget balance deteriorated by €4.6 billion. Interest expense increased by €0.2 billion, meaning the primary balance worsened by €4.3 billion. This deterioration was due in roughly equal parts to an increase in primary expenditure and a decline in revenue. Based on Flemish regional GDP figures, the contribution of the change in primary expenditure to the change in the primary balance is lower while that of revenue is higher as Flemish GDP increased faster than national GDP.

Primary expenditure increased mainly owing to higher capital expenditure. According to the Classification of the Functions of Government (COFOG, see Table 2 in the Annex), this increase was concentrated primarily in transport, which forms part of the category of economic affairs. The implementation of the European Recovery and Resilience Facility and the Flemish Recovery Plan contributed to this rise. Expenditure related to the closure of the Antwerp Ring Road (the Oosterweel project) also made a significant contribution. Capital spending was further driven by a marked increase in expenditure on research and development, in line with Flanders' ambition to rank among Europe's leading knowledge and innovation regions. Primary expenditure was pushed up by higher compensation of employees. COFOG data indicate that spending on employee compensation increased strongly in the field of education. A more limited increase was also observed in health-related research and development. Finally, spending on the purchase of goods and services rose as well, particularly in the areas of road infrastructure and education.

Figure 10

# **In the Flemish Community, the deterioration of the primary balance can be attributed to rising primary expenditure and lower tax revenue**

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

<sup>1</sup> SFA: Special Financing Act.

Subsidies declined, thereby moderating the increase in primary expenditure. The rise in wage subsidies to hospitals and for public healthcare during and in the aftermath of the Covid-19 pandemic, as well as to service voucher companies, was more than offset by the phase-out of certain targeted wage subsidies<sup>18</sup> and the gradual decline in subsidies for green certificates.<sup>19</sup> The latter primarily concern subsidies for solar panels, which peaked in 2022 and are gradually being phased out. In principle, this scheme is budget neutral as it is financed through levies imposed on electricity suppliers.

Transfers received under the Special Financing Act declined by €1.1 billion. This decrease was mainly attributable to the fact that most transfers are only partially adjusted in line with real GDP growth. In addition, a substantial deduction was made from transfers received to finance the pension shortfall contribution for Flemish civil servants (see the Box 1).

The own-source revenue of the Flemish Community also declined, by €0.9 billion. This decrease was mainly attributable to lower revenue from taxes on goods and services, which fell primarily owing to a drop in revenue from green certificates (see above). Revenue from motor vehicle registration and circulation taxes also decreased, mainly due to the greening of the vehicle fleet and the lower rates applicable to electric and

<sup>18</sup> Following the sixth state reform, several aspects of employment policy, including targeted reductions in social security contributions, activation measures and wage subsidies were transferred to the regions. Targeted reductions are aimed at groups facing difficulties on the labour market, such as older workers, low-skilled young people, persons lacking recent long-term work experience, persons with disabilities, and workers in the dredging, towage and merchant shipping sectors. In July 2024, several of these targeted reductions, notably for older workers and young people, were abolished in Flanders. For more information see Godefroid, H. *et al* (2025).

<sup>19</sup> For more information see Cornille, D. *et al* (2021).

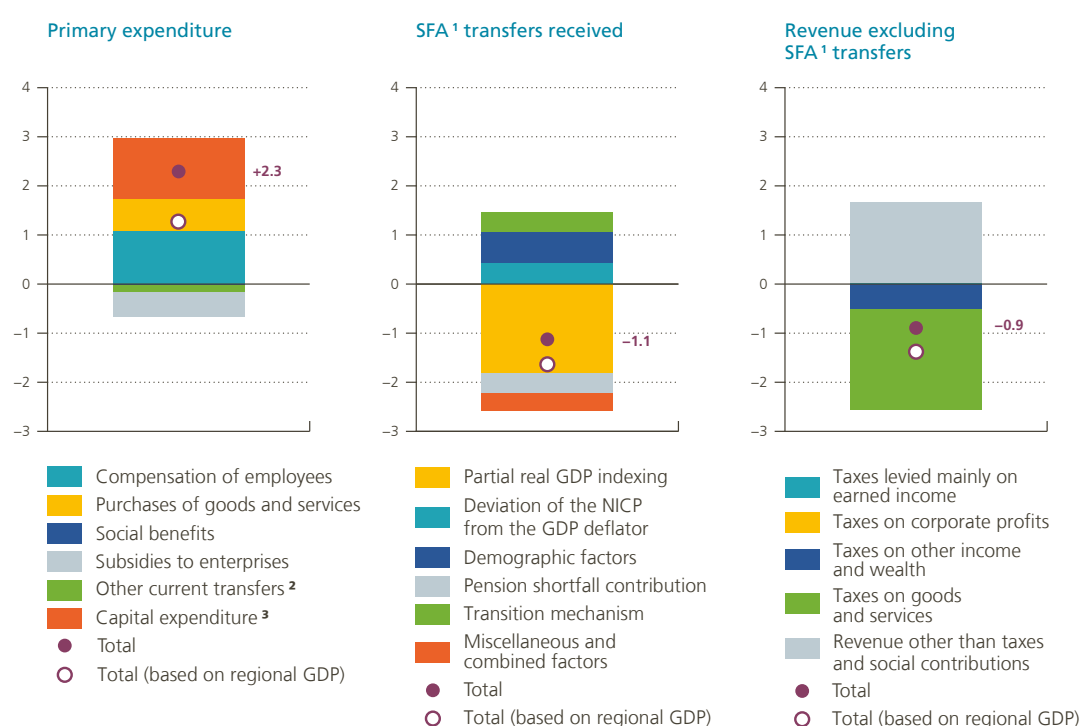
other low-emission vehicles. In addition, revenue from taxes on other income and wealth also grew less rapidly than GDP, predominantly as the result of a reduction in the rate of registration duty, the introduction of new preferential regimes for inheritance tax, and a growing preference for gift tax, the rate of which is lower.

Non-tax revenue, by contrast, increased, in the main due to higher receipts from the kilometre charge and EU institutions, particularly through the Recovery and Resilience Facility (RRF) of the NextGenerationEU (NGEU) programme.

**Figure 11**

**In the Flemish Community, transfers received under the Special Financing Act declined and tax revenue fell while expenditure increased**

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

<sup>1</sup> SFA: Special Financing Act.

<sup>2</sup> Transfers to other sectors + transfers to other government units.

<sup>3</sup> Gross fixed capital formation + other capital expenditure.

## 2.3 French Community

Overall, the French Community's primary balance has deteriorated over the past ten years, by an amount of €1.2 billion.

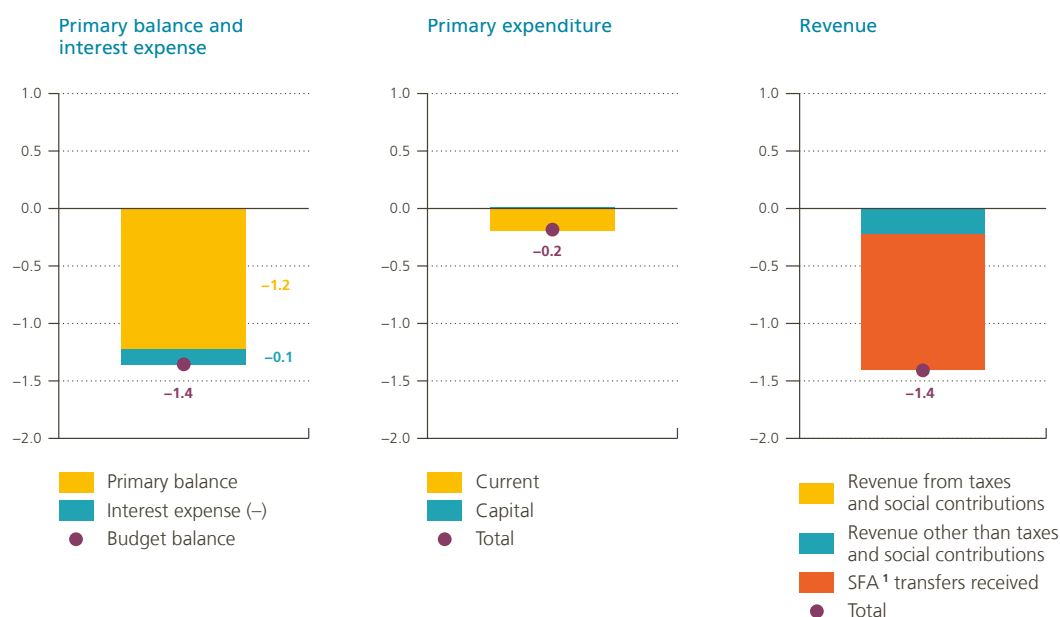
The French Community is financed mainly by federal transfers. However, a portion of these transfers is subsequently passed on to the Walloon Region and the French Community Commission (COCOF) under the intra-francophone Saint-Quentin and Sainte-Émilie agreements. The corresponding amounts are therefore

recorded as both revenue and expenditure in the community's accounts. As these flows are budget neutral for the French Community, they are excluded from the following analysis in order to provide a clearer picture of disposable revenue and final expenditure.

**Figure 12**

**In the French Community, the decline in expenditure is limited compared with that in revenue**

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

<sup>1</sup> SFA: Special Financing Act, excluding transfers redistributed by the French Community to the Walloon Region and the French Community Commission (COCOF) under the intra-francophone agreements.

Over the period 2016-2025, the French Community succeeded in reducing its primary expenditure as a percentage of GDP. However, this moderation remained limited, amounting to only €200 million. The fiscal effort concerned mainly current expenditure. The wage bill, which accounts for a large share of expenditure, represented the bulk of the savings. This decline in spending on the compensation of employees relative to GDP was partly offset by additional expenditure on social benefits in kind, primarily in the area of early childhood care, as well as by increased purchases of goods and services. Overall, the French Community's capital expenditure changed little, despite a slight increase in public investment. A functional breakdown for the past decade unsurprisingly reveals that significant changes occurred in education, which accounts for a substantial share of the Community budget (see Table 3 in the Annex).

The contraction in primary expenditure remained modest compared with the steep decline in the revenue-to-GDP ratio, which amounted to €1.4 billion.

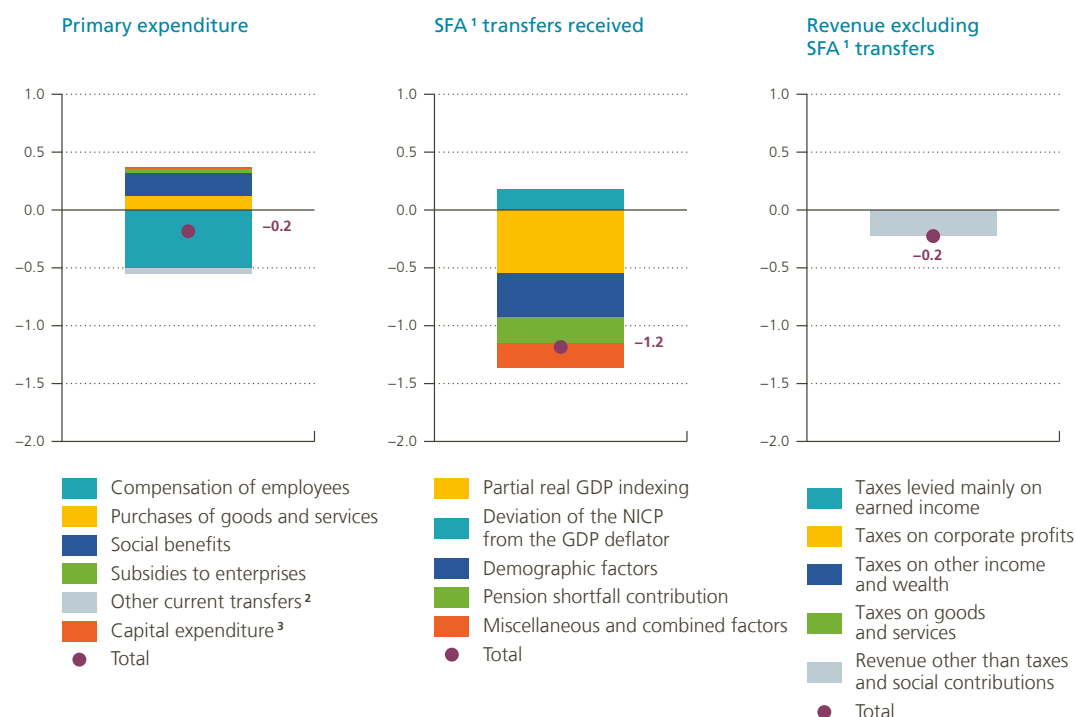
SFA transfers to the French Community have declined sharply as a percentage of GDP. This decrease amounts to €1.2 billion. As was the case for the Flemish Community, a large portion of the decline observed since 2016 is attributable to the pension shortfall contribution and the fact that these transfers are only partially adjusted in line with real GDP growth. A factor specific to the French Community also comes into play here: demographic

parameters had a negative impact on revenue. In particular, the apportionment key based on student share, which corresponds to each community's share of the total number of children aged 6 to 17 enrolled in their respective school system, evolved to the detriment of the French Community, thereby reducing the associated transfers. This decline in funding is, however, assumed to reflect changes in the needs of the French Community and should logically have been accompanied by a corresponding reduction in expenditure.

**Figure 13**

**In the French Community, the decline in transfers received was not sufficiently offset by lower spending**

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

1 SFA: Special Financing Act, excluding transfers redistributed by the French Community to the Walloon Region and the French Community Commission (COCOF) under the intra-francophone agreements.

2 Transfers to other sectors + transfers to other government units.

3 Gross fixed capital formation + other capital expenditure.

By comparison, the French Community's own-source revenue is very limited and derives, among other sources, from tuition fees paid by students in higher education (universities and colleges funded by the French Community are included within the bounds of its budget). However, these fees were not indexed during the period under review. Consequently, their value relative to GDP declined. Overall, the French Community's own-source revenue decreased by €200 million.

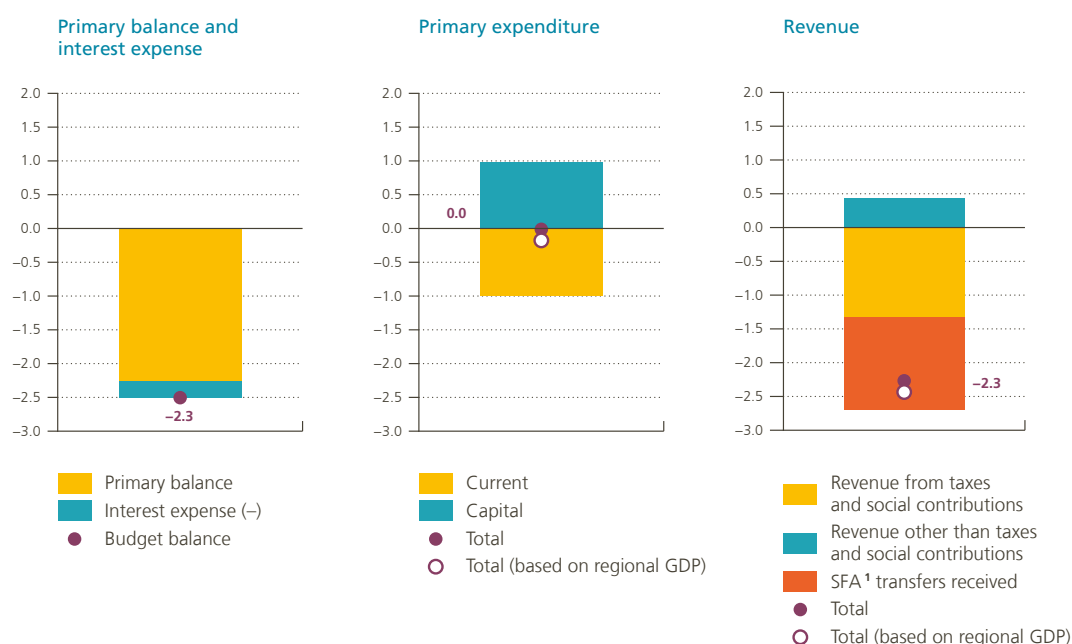
## 2.4 Walloon Region

Overall, the Walloon Region's primary balance has deteriorated over the past ten years, by €2.3 billion. This worsening is entirely attributable to lower revenue. Primary expenditure, by contrast, has remained stable as a percentage of national GDP. When measured against regional GDP, the fall in revenue is somewhat greater whereas expenditure shows a slight decline. This reflects the fact that Walloon GDP grew slightly faster than the national average between 2016 and 2025.

Figure 14

### In the Walloon Region, expenditure remained broadly stable whereas revenue fell sharply

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

<sup>1</sup> SFA: Special Financing Act, including transfers redistributed by the French Community to the Walloon Region under the intra-francophone agreements.

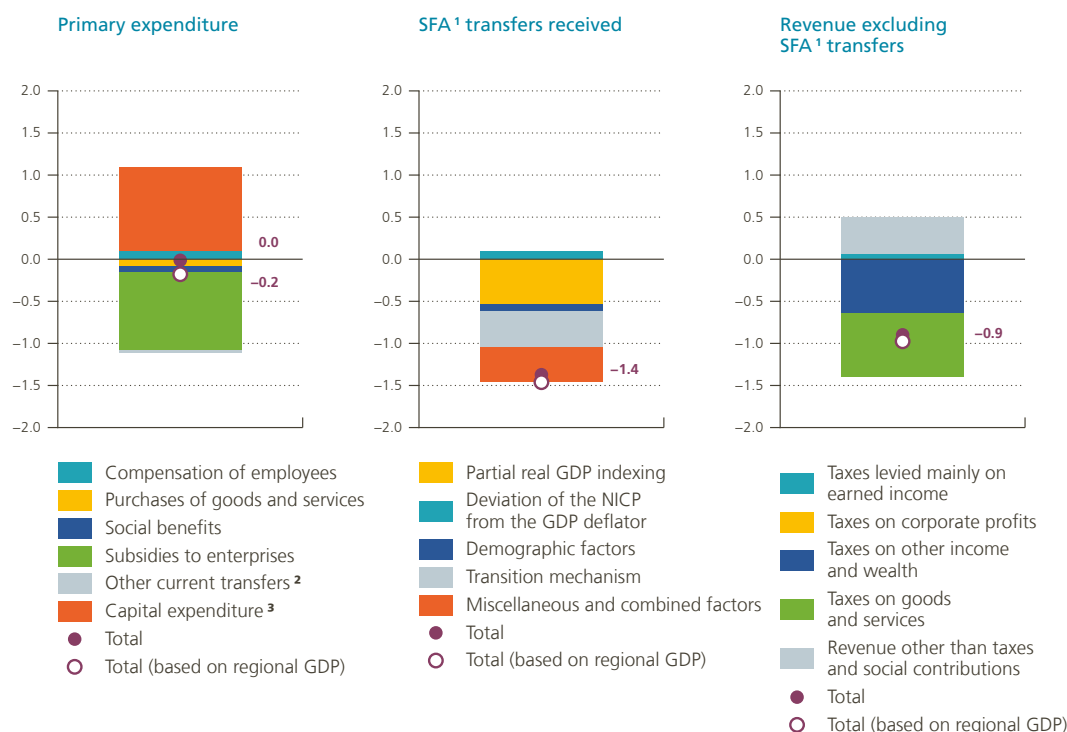
Overall, the Walloon Region's expenditure held steady over the period 2016-2025. However, this apparent stability masks contrasting developments. In particular, a shift appears to have occurred from current to capital expenditure. Current expenditure declined markedly, driven primarily by lower subsidies (notably service vouchers, targeted reductions in social security contributions and green certificates). The wage bill recorded only modest growth, while social transfers appear to have remained broadly under control. By contrast, capital expenditure increased significantly, affecting both direct investment, investment grants and transfers to local authorities. The implementation of the Walloon Recovery Plan contributed to this trend. A functional breakdown of these changes is provided in the Annex.

Since 2016, the Walloon Region's revenue, as a percentage of GDP, has declined substantially. The decrease amounts to €2.3 billion. This can be explained by a decline in both own-source revenue and transfers received under the SFA.

Figure 15

# In the Walloon Region, the fall in transfers received was compounded by a decline in own-source revenue

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

1 SFA: Special Financing Act, including transfers redistributed by the French Community to the Walloon Region under the intra-francophone agreements.

2 Transfers to other sectors + transfers to other government units.

3 Gross fixed capital formation + other capital expenditure.

Transfers under the Special Financing Act (SFA) include grants channelled through the French Community and subsequently transferred to the Walloon Region under the agreements concluded between them. The decline in these transfers since 2016 is estimated to have had a negative impact of €1.4 billion on the budget balance. As in the other federated units, the decline can mainly be explained by the fact that these transfers are only partially adjusted in line with real GDP growth.

In the Walloon Region, a second factor has weighed almost as heavily on revenue since 2016: the transition mechanism (see Box 1). These temporary payments are denominated in euro and are not indexed, meaning their weight relative to GDP is diminishing year after year. In 2024, they amounted to approximately €600 million for the Walloon Region. Since 2025, however, this amount has been subject to a linear reduction, with complete phase-out scheduled for 2034.

The Walloon Region's own-source revenue, expressed as a percentage of GDP, declined over the period 2016-2025, by an estimated €900 million. Revenue from registration duty, which had already been on a downward trend, was further affected by the rate reduction introduced in 2025. Revenue from inheritance tax also declined. Among taxes on goods and services, other negative contributors included motor vehicle registration and circulation taxes, the abolition of the radio and television licencing fee, which was still in place in 2016,

and green certificate revenue. The only increase was in non-tax revenue, which benefited in particular from the receipt of European funds to partially finance the region's recovery plan, although this is expected to come to an end in 2027, as well as the kilometre charge levied on heavy goods vehicles.

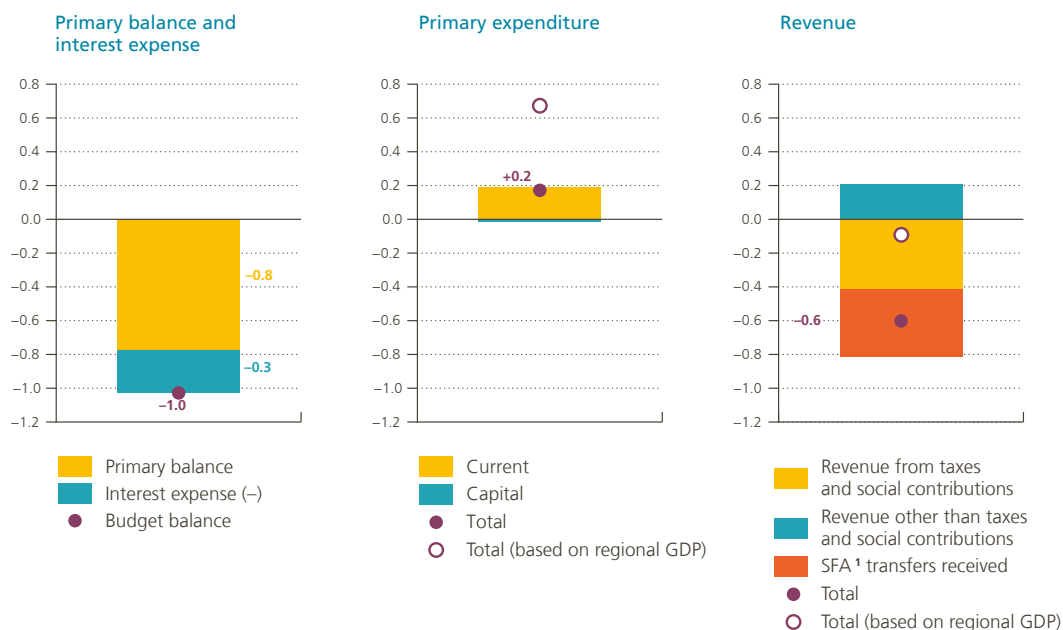
## 2.5 Brussels-Capital Region and the Common Community Commission

The budget balance of the Brussels-Capital Region<sup>20</sup> deteriorated by €1.0 billion over the period 2016-2025. Interest expense contributed substantially to this worsening, by €0.3 billion, driven by the increasing debt ratio. The region's primary balance has deteriorated by €0.8 billion since 2016, mainly due to declining revenue. Based on regional GDP figures, the contribution of the change in primary expenditure to the change in the primary balance is higher while that of revenue is lower and almost zero as regional GDP grew less than national GDP.

Figure 16

### In Brussels, declining revenue and higher expenditure both contributed to the deterioration of the budget balance

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

1 SFA: Special Financing Act.

Primary expenditure increased faster than GDP. Expressed in terms of 2025 GDP, the difference amounted to €0.2 billion. COFOG data suggest that this increase was mainly attributable to higher compensation of employees in general public services and transport, particularly at the Brussels public transport operator (STIB/MIVB) (see Table 5 in the Annex). The latter reflects the policy priority of promoting public transport. Purchases of goods and services also increased in both general public services and transport.

<sup>20</sup> Consolidated data for the Brussels-Capital Region and the Common Community Commission.

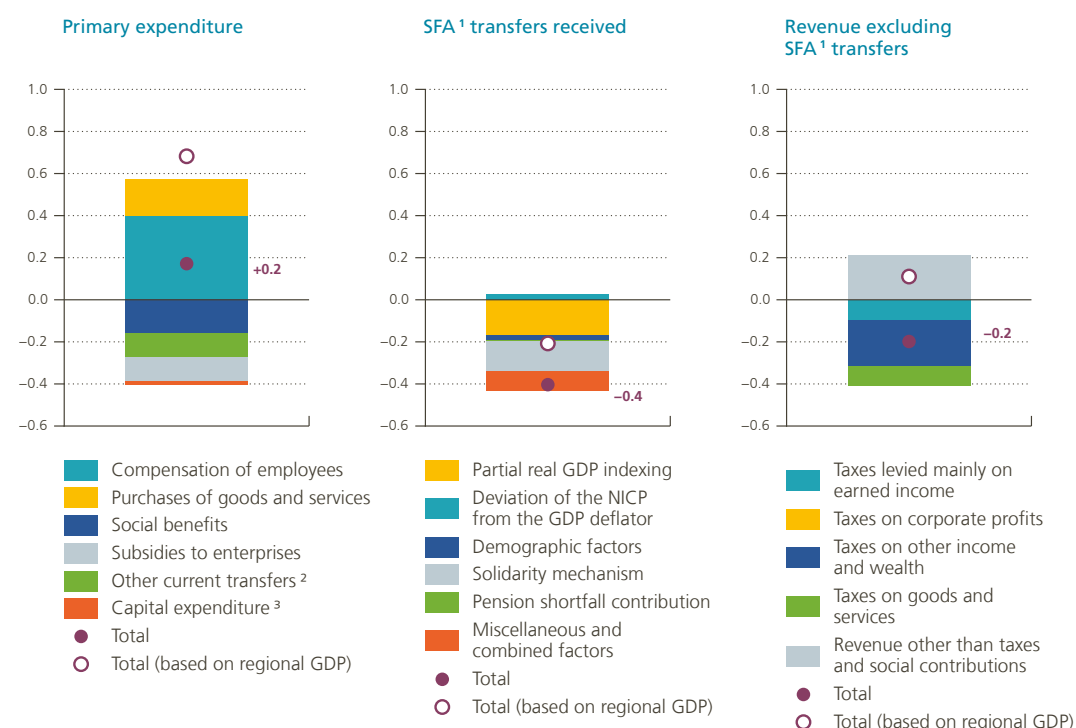
Capital expenditure declined, owing to a decrease in capital transfers to other levels of government. This mainly reflected lower investment grants to municipalities and police zones. Gross investment in other assets, however, increased as a result of higher spending on transport, notably through the STIB/MIVB, and on social housing.

Revenue received by Brussels under the Special Financing Act declined by €0.4 billion. As in the other communities and regions, the bulk of this decrease can be explained by the fact that these transfers are only partially adjusted in line with real GDP growth. In addition, the solidarity mechanism also made a significant contribution. This is a redistributive mechanism designed to compensate for differences in regional fiscal capacity, as measured by personal income tax revenue. Since 2016, this transfer has generally decreased, as personal income tax revenue per inhabitant in Brussels has converged towards the national average.

**Figure 17**

### Revenue declined in Brussels, primarily as a result of lower transfers under the Special Financing Act

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)



Sources: NAI, NBB.

<sup>1</sup> SFA: Special Financing Act.

<sup>2</sup> Transfers to other sectors + transfers to other government units.

<sup>3</sup> Gross fixed capital formation + other capital expenditure.

The region's own-source revenue also grew less rapidly than GDP, by €0.2 billion. This was mainly owing to lower revenue from taxes on other income and wealth. In this respect, the 2016-2017 tax reform played a significant role, notably through the effective lowering of registration duty (*abattement*) for the purchase of a first home and changes to inheritance tax.<sup>21</sup> The decline in revenue from taxes on goods and services was largely driven by lower receipts from motor vehicle taxes as a result of the greening of the vehicle fleet, as was the case in

<sup>21</sup> Carlier, G. (2026).

Flanders. Revenue from taxes on earned income also declined against the backdrop of the reduction in regional PIT surcharges introduced further to the tax reform.

Non-tax revenue, by contrast, increased mainly as a result of higher receipts from the EU institutions, particularly through the RRF and from sales.

### 3. Summary and conclusion

Since the turn of the century, Belgium's budget deficit has steadily widened, reaching 5.2% of GDP in 2025. The primary balance deteriorated from a surplus of almost 7% of GDP to a deficit of nearly 3% of GDP, a level not seen since the early 1980s. The deterioration of the primary balance since 2000 can be attributed almost entirely to an increase in primary expenditure, while revenue has remained broadly stable. Over the past decade, however, revenue has also declined markedly.

Focusing on developments since 2016 is relevant as this was the first year in which the sixth state reform took full effect, allowing for a consistent analysis of individual government units. At the time, Belgium had only recently emerged from an excessive deficit procedure, and all levels of government had committed to achieving a balanced budget within the framework of the revised Special Financing Act. A number of noteworthy findings for policymakers can be drawn from this in-depth analysis of Belgium's budget balance over the past decade.

A first general finding is that the budget balance deteriorated by 2.7% of GDP (or €18 billion) between 2016 and 2025, while the primary balance worsened by 3.3% of GDP (or €21 billion), despite the commitment made by all levels of government following the sixth state reform to move towards a balanced budget. This deterioration occurred notwithstanding a decline in interest expense by 0.5% of GDP (or €4 billion) which accrued entirely to the benefit of the federal government as it bears the bulk of public debt.

A second finding is that the deterioration of the primary balance since 2016 can be attributed to both lower revenue (€12 billion) and higher primary expenditure (€9 billion). Against this backdrop, it should be noted that the initial *level* of revenue and the expenditure ratio at the start of the period under analysis is equally important when assessing fiscal policy. An analysis of the *level* of public expenditure in Belgium compared with that in other countries falls outside the scope of this paper. Previous studies by the Bank have shown that primary expenditure in Belgium is high compared with neighbouring countries. This is notably the case for spending on education and subsidies but not social expenditure.<sup>22</sup>

A third finding is that both the federal government (€11 billion) and the communities and regions (€8 billion) contributed to the deterioration of the primary balance over the past decade. A reduction in transfers paid by the federal government under the revised Special Financing Act (€4 billion) mitigated the deterioration at this level and contributed to it at the regional level.

A fourth finding is that own-source revenue declined while final primary expenditure rose relative to GDP at both the federal and regional levels. At the federal level, final primary expenditure increased by €7 billion, largely as a result of higher social benefits, capital expenditure and subsidies, while the compensation of public sector employees declined. At the regional level, final primary expenditure increased by €2 billion. Capital expenditure grew, while the compensation of employees and purchases of goods and services also increased. Subsidies, including those transferred under the sixth state reform, dropped. On the revenue side, the decline at the federal level (€8 billion) was principally due to a reduction in receipts from taxes on labour income and consumption

<sup>22</sup> See Godefroid, H., Van Parys, S. and Stinglhamber, P. (2021) and Godefroid, H. *et al.* (2025).

which was only partially offset by higher corporate tax revenue. The fall at the regional level (€2 billion) resulted primarily from lower revenue from taxes on consumption and wealth, although this drop was somewhat made up for by an increase in non-tax revenue, mainly due to temporary funding from the European Recovery and Resilience Facility. It is worth noting that the decline in tax revenue cannot be attributed entirely to tax cuts. In addition to policy measures, macroeconomic and other factors also strongly influenced revenue trends. In particular, the decline in receipts from taxes on earned income can be explained by, among other factors, the decreasing wage share, whereas the increase in corporate tax revenue is associated with stronger growth in corporate profits relative to GDP.

A fifth finding is that, in all communities and regions examined, the decline in revenue was only partially offset by lower expenditure. As foreseen and agreed under the sixth state reform, federal transfers to the communities and regions declined under the impetus of several factors, namely the fact that these payments are only partially adjusted in line with real GDP growth, the raising of the pension shortfall contribution, and, in the French Community, a downward trend in demographic variables relevant to regional policies. In addition to lower transfers, own-source revenue also declined relative to GDP in all federated units. Primary expenditure, in the meantime, increased in the Flemish Community and the Brussels-Capital Region, driven by higher compensation of employees and purchases of goods and services, while it declined somewhat in the French Community. In both the Flemish Community and the Walloon Region, there was a certain shift in expenditure away from subsidies towards capital investment.

The overall conclusion is that Belgium requires a binding national fiscal framework to ensure compliance with budgetary objectives intended to place the debt-to-GDP ratio on a sustainable path.

Table 2

**Summary: overview by level of government**

(change as a percentage of GDP between 2016 and 2025, expressed in € billion based on 2025 GDP)

|                                                                           | General government | Federal government and social security funds | Communities and regions | Flemish Community | French Community <sup>1</sup> | Walloon Region | Brussels-Capital Region | Local government |
|---------------------------------------------------------------------------|--------------------|----------------------------------------------|-------------------------|-------------------|-------------------------------|----------------|-------------------------|------------------|
| <b>Revenue</b>                                                            | -12.4              | -8.2                                         | -6.1                    | -1.9              | -2.1                          | -2.3           | -0.6                    | -1.4             |
| Own-source revenue                                                        | -12.4              | -7.9                                         | -1.9                    | -0.9              | -0.2                          | -0.8           | -0.2                    | -2.5             |
| Revenue from taxes and social contributions                               | -12.8              | -7.6                                         | -3.7                    | -2.5              | 0.0                           | -1.3           | -0.4                    | -1.3             |
| Taxes levied mainly on earned income                                      | -5.8               | -5.3                                         | -0.1                    | 0.0               |                               | -0.1           | -0.1                    | -0.5             |
| Taxes on corporate profits                                                | 4.4                | 4.4                                          |                         |                   |                               |                |                         |                  |
| Taxes on other income and wealth                                          | -1.0               | 0.9                                          | -1.4                    | -0.5              |                               | -0.6           | -0.2                    | -0.5             |
| Taxes on goods and services                                               | -10.3              | -7.6                                         | -2.5                    | -2.0              |                               | -0.7           | -0.1                    | -0.2             |
| Revenue other than taxes and social contributions                         | 0.4                | -0.3                                         | 2.0                     | 1.6               | -0.2                          | 0.4            | 0.2                     | -1.2             |
| <i>Transfers of taxes from other subsectors of general government</i>     |                    |                                              | -3.1                    | -0.9              | -1.3                          | -0.7           | -0.2                    | -0.1             |
| Current and capital transfers from other subsectors of general government |                    | -0.3                                         | -1.3                    | -0.2              | -0.6                          | -0.6           | -0.2                    | 1.3              |
| <b>Primary expenditure</b>                                                | 8.8                | 3.0                                          | 2.0                     | 2.3               | -0.9                          | 0.0            | 0.2                     | 0.4              |
| Final expenditure                                                         | 8.8                | 6.7                                          | 1.6                     | 2.1               | -0.1                          | -0.2           | 0.3                     | 0.5              |
| Current expenditure                                                       | 3.9                | 4.7                                          | -0.3                    | 0.8               | -0.1                          | -0.9           | 0.2                     | -0.6             |
| Compensation of employees                                                 | -0.2               | -0.9                                         | 1.1                     | 1.1               | -0.5                          | 0.1            | 0.4                     | -0.5             |
| Intermediate consumption and current taxes on income, wealth, etc.        | 1.5                | 0.4                                          | 0.8                     | 0.6               | 0.1                           | -0.1           | 0.2                     | 0.3              |
| Social benefits                                                           | 5.9                | 5.8                                          | -0.1                    | 0.0               | 0.2                           | -0.1           | -0.2                    | 0.2              |
| Subsidies                                                                 | -1.5               | 0.5                                          | -1.5                    | -0.5              | 0.0                           | -0.9           | -0.1                    | -0.5             |
| Current transfers to other sectors                                        | -1.8               | -1.1                                         | -0.6                    | -0.4              | 0.0                           | 0.0            | -0.1                    | -0.1             |
| Capital expenditure                                                       | 4.9                | 1.9                                          | 2.0                     | 1.3               | 0.0                           | 0.7            | 0.0                     | 1.0              |
| Gross fixed capital formation                                             | 4.3                | 2.1                                          | 1.2                     | 0.8               | 0.1                           | 0.3            | 0.1                     | 1.0              |
| Other capital expenditure                                                 | 0.5                | -0.2                                         | 0.7                     | 0.6               | 0.0                           | 0.4            | 0.0                     | 0.0              |
| <i>Transfers of taxes to other subsectors of general government</i>       |                    | -3.2                                         |                         |                   |                               |                |                         |                  |
| Current transfers to other subsectors of general government               |                    | -0.4                                         | 0.2                     | 0.3               | -0.8                          | 0.0            | -0.1                    | -0.1             |
| Capital transfers to other subsectors of general government               | 0.0                | -0.1                                         | 0.2                     | -0.1              | 0.0                           | 0.3            | -0.1                    | 0.0              |
| <b>Interest expense</b>                                                   | -3.5               | -4.3                                         | 0.9                     | 0.2               | 0.1                           | 0.2            | 0.3                     | -0.2             |
| <b>For information: Total expenditure</b>                                 | 5.3                | -1.3                                         | 2.9                     | 2.5               | -0.8                          | 0.2            | 0.6                     | 0.3              |
| <b>Primary balance</b>                                                    | 21.1               | -11.2                                        | -8.2                    | -4.3              | -1.2                          | -2.3           | -0.8                    | -1.8             |
| <b>Budget balance</b>                                                     | 17.6               | -6.9                                         | -9.0                    | -4.6              | -1.4                          | -2.5           | -1.0                    | -1.7             |

Sources: NAI, NBB.

<sup>1</sup> Including transfers redistributed by the French Community to the Walloon Region and the French Community Commission (COCOF) under the intra-francophone agreements.

## Annex

Table 1

### Federal government and social security funds, as per ESA/COFOG (2016-2024)

(change as a percentage of GDP between 2016 and 2024, expressed in € billion based on 2024 GDP)

|                                                        | General public services | Defence    | Economic affairs | Environmental protection | Health     | Social protection | Other <sup>1</sup> | TOTAL       |
|--------------------------------------------------------|-------------------------|------------|------------------|--------------------------|------------|-------------------|--------------------|-------------|
| Compensation of employees                              | -0.6                    | -0.3       | 0.0              | 0.0                      | 0.0        | -0.2              | 0.1                | -1.1        |
| Purchases of goods and services                        | -0.2                    | 0.6        | 0.0              | 0.0                      | -0.1       | 0.0               | 0.1                | 0.4         |
| Subsidies                                              | 0.0                     | 0.0        | -0.8             | 0.4                      | 0.9        | 0.0               | 0.0                | 0.6         |
| Social benefits                                        | 0.0                     | 0.0        | -0.3             | 0.0                      | 0.3        | 4.7               | 0.0                | 4.7         |
| Other current transfers to the communities and regions | -3.8                    | 0.0        | 0.0              | 0.0                      | 0.0        | 0.0               | -0.3               | -4.0        |
| Other current transfers (residual)                     | -2.0                    | 0.9        | -0.2             | -0.1                     | 0.2        | 0.4               | 0.1                | -0.7        |
| Capital expenditure                                    | 0.1                     | 1.8        | -0.6             | 0.0                      | 0.1        | -0.1              | 0.0                | 1.2         |
| <b>Primary expenditure</b>                             | <b>-6.5</b>             | <b>2.9</b> | <b>-1.9</b>      | <b>0.3</b>               | <b>1.4</b> | <b>4.9</b>        | <b>0.0</b>         | <b>1.2</b>  |
| Interest expense                                       | -4.8                    | 0.0        | 0.0              | 0.0                      | 0.0        | 0.0               | 0.0                | -4.8        |
| <b>Total expenditure</b>                               | <b>-11.3</b>            | <b>2.9</b> | <b>-1.9</b>      | <b>0.3</b>               | <b>1.4</b> | <b>4.9</b>        | <b>0.0</b>         | <b>-3.6</b> |

Sources: NAI, NBB.

1 Education; recreation, culture and religion; housing and community amenities; public order and safety.

Table 2

### Flemish Community, as per ESA/COFOG (2016-2024)

(change as a percentage of GDP between 2016 and 2024, expressed in € billion based on 2024 GDP)

|                                 | General public services | Economic affairs | Environmental protection | Health     | Recreation, culture and religion | Education  | Social protection | Other <sup>1</sup> | TOTAL      |
|---------------------------------|-------------------------|------------------|--------------------------|------------|----------------------------------|------------|-------------------|--------------------|------------|
| Compensation of employees       | 0.0                     | -0.1             | 0.0                      | 0.1        | -0.1                             | 1.0        | 0.0               | 0.0                | 0.9        |
| Purchases of goods and services | 0.1                     | 0.2              | 0.1                      | 0.1        | 0.0                              | 0.1        | 0.1               | 0.0                | 0.6        |
| Subsidies                       | 0.0                     | -1.3             | -0.4                     | 0.6        | 0.1                              | 0.0        | 0.4               | -0.1               | -0.6       |
| Social benefits                 | 0.0                     | -0.2             | 0.0                      | 0.3        | 0.0                              | -0.1       | 0.1               | 0.0                | 0.1        |
| Other current transfers         | 0.9                     | -0.4             | 0.0                      | -0.1       | -0.3                             | -0.1       | 0.0               | 0.0                | 0.0        |
| Capital expenditure             | 0.3                     | 1.6              | 0.2                      | -0.1       | 0.1                              | -0.6       | 0.2               | 0.0                | 1.7        |
| <b>Primary expenditure</b>      | <b>1.3</b>              | <b>-0.3</b>      | <b>-0.1</b>              | <b>0.9</b> | <b>-0.2</b>                      | <b>0.3</b> | <b>0.8</b>        | <b>0.0</b>         | <b>2.7</b> |
| Interest expense                | 0.4                     | 0.0              | 0.0                      | 0.0        | 0.0                              | 0.0        | 0.0               | 0.0                | 0.4        |
| <b>Total expenditure</b>        | <b>1.8</b>              | <b>-0.3</b>      | <b>-0.1</b>              | <b>0.9</b> | <b>-0.2</b>                      | <b>0.3</b> | <b>0.8</b>        | <b>0.0</b>         | <b>3.1</b> |

Sources: NAI, NBB.

1 Defence; public order and safety; housing and community amenities.

Table 3

**French Community, as per ESA/COFOG (2016-2024)**

(change as a percentage of GDP between 2016 and 2024, expressed in € billion based on 2024 GDP)

|                                      | General public services | Economic affairs | Environmental protection | Housing and community amenities | Health     | Recreation, culture and religion | Education   | Social protection | TOTAL       |
|--------------------------------------|-------------------------|------------------|--------------------------|---------------------------------|------------|----------------------------------|-------------|-------------------|-------------|
| Compensation of employees            | 0.0                     | 0.0              | 0.0                      | 0.0                             | 0.0        | -0.1                             | -0.3        | 0.0               | -0.4        |
| Purchases of goods and services      | 0.1                     | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0                              | 0.1         | 0.0               | 0.2         |
| Subsidies                            | 0.0                     | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0                              | 0.0         | 0.0               | 0.0         |
| Social benefits                      | 0.0                     | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0                              | 0.0         | 0.2               | 0.2         |
| Other current transfers <sup>1</sup> | -0.7                    | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0                              | -0.1        | 0.0               | -0.7        |
| Capital expenditure                  | 0.0                     | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0                              | 0.1         | 0.0               | 0.1         |
| <b>Primary expenditure</b>           | <b>-0.6</b>             | <b>0.0</b>       | <b>0.0</b>               | <b>0.0</b>                      | <b>0.0</b> | <b>0.0</b>                       | <b>-0.2</b> | <b>0.2</b>        | <b>-0.6</b> |
| Interest expense                     | 0.1                     | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0                              | 0.0         | 0.0               | 0.1         |
| <b>Total expenditure</b>             | <b>-0.5</b>             | <b>0.0</b>       | <b>0.0</b>               | <b>0.0</b>                      | <b>0.0</b> | <b>0.0</b>                       | <b>-0.2</b> | <b>0.2</b>        | <b>-0.5</b> |

Sources: NAI, NBB.

<sup>1</sup> Including transfers redistributed by the French Community to the Walloon Region and the French Community Commission (COCOF) under the intra-francophone agreements.

Table 4

**Walloon Region, as per ESA/COFOG (2016-2024)**

(change as a percentage of GDP between 2016 and 2024, expressed in € billion based on 2024 GDP)

|                                 | General public services | Economic affairs | Environmental protection | Housing and community amenities | Health      | Recreation, culture and religion | Education  | Social protection | TOTAL       |
|---------------------------------|-------------------------|------------------|--------------------------|---------------------------------|-------------|----------------------------------|------------|-------------------|-------------|
| Compensation of employees       | 0.1                     | -0.1             | 0.0                      | 0.0                             | 0.0         | 0.0                              | 0.0        | 0.1               | 0.1         |
| Purchases of goods and services | -0.1                    | 0.0              | -0.1                     | 0.0                             | 0.0         | 0.0                              | 0.0        | 0.0               | -0.1        |
| Subsidies                       | 0.0                     | -0.6             | -0.5                     | 0.0                             | 0.1         | 0.0                              | 0.0        | 0.1               | -0.9        |
| Social benefits                 | 0.0                     | 0.0              | 0.0                      | 0.0                             | 0.0         | 0.0                              | 0.0        | -0.1              | -0.1        |
| Other current transfers         | -0.2                    | 0.2              | 0.0                      | 0.0                             | 0.0         | 0.0                              | -0.1       | 0.1               | 0.1         |
| Capital expenditure             | -0.2                    | 0.3              | 0.0                      | 0.4                             | -0.2        | 0.0                              | 0.0        | 0.2               | 0.4         |
| <b>Primary expenditure</b>      | <b>-0.4</b>             | <b>-0.2</b>      | <b>-0.5</b>              | <b>0.4</b>                      | <b>-0.1</b> | <b>0.0</b>                       | <b>0.0</b> | <b>0.3</b>        | <b>-0.6</b> |
| Interest expense                | 0.3                     | 0.0              | 0.0                      | 0.0                             | 0.0         | 0.0                              | 0.0        | 0.0               | 0.3         |
| <b>Total expenditure</b>        | <b>-0.2</b>             | <b>-0.2</b>      | <b>-0.5</b>              | <b>0.4</b>                      | <b>-0.1</b> | <b>0.0</b>                       | <b>0.0</b> | <b>0.3</b>        | <b>-0.3</b> |

Sources: NAI, NBB.

Table 5

**Brussels-Capital Region and Common Community Commission, as per ESA/COFOG (2016-2024)**

(change as a percentage of GDP between 2016 and 2024, expressed in € billion based on 2024 GDP)

|                                 | General public services | Economic affairs | Environmental protection | Housing and community amenities | Health     | Social protection | Other <sup>1</sup> | TOTAL      |
|---------------------------------|-------------------------|------------------|--------------------------|---------------------------------|------------|-------------------|--------------------|------------|
| Compensation of employees       | 0.2                     | 0.1              | 0.0                      | 0.0                             | 0.0        | 0.0               | 0.0                | 0.4        |
| Purchases of goods and services | 0.0                     | 0.0              | 0.1                      | 0.0                             | 0.0        | 0.0               | 0.0                | 0.2        |
| Subsidies                       | 0.0                     | -0.2             | 0.0                      | 0.0                             | 0.0        | 0.0               | 0.0                | -0.1       |
| Social benefits                 | 0.0                     | 0.0              | 0.0                      | 0.0                             | 0.1        | -0.2              | 0.0                | -0.1       |
| Other current transfers         | 0.0                     | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0               | 0.0                | 0.0        |
| Capital expenditure             | 0.0                     | 0.1              | 0.0                      | 0.0                             | 0.0        | 0.1               | 0.0                | 0.2        |
| <b>Primary expenditure</b>      | <b>0.3</b>              | <b>0.0</b>       | <b>0.1</b>               | <b>0.1</b>                      | <b>0.1</b> | <b>0.0</b>        | <b>0.0</b>         | <b>0.6</b> |
| Interest expense                | 0.3                     | 0.0              | 0.0                      | 0.0                             | 0.0        | 0.0               | 0.0                | 0.3        |
| <b>Total expenditure</b>        | <b>0.5</b>              | <b>0.0</b>       | <b>0.1</b>               | <b>0.1</b>                      | <b>0.1</b> | <b>0.0</b>        | <b>0.0</b>         | <b>0.9</b> |

Sources: NAI, NBB.

<sup>1</sup> Defence; public order and safety; recreation, culture and religion; education.

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## Conventional signs

|               |                                     |
|---------------|-------------------------------------|
| %             | per cent                            |
| % GDP         | percentage of GDP                   |
| €             | euro                                |
| <i>et al.</i> | <i>et alia</i> (and others)         |
| e.g.          | <i>exempli gratia</i> (for example) |
| i.e.          | <i>id est</i> (that is)             |
| $\Delta$      | variation                           |

# List of abbreviations

## Countries or regions

|    |         |
|----|---------|
| BE | Belgium |
|----|---------|

## Abbreviations

|           |                                                                                                                                                              |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|
| COCOF     | French Community Commission                                                                                                                                  |
| COCOM     | Common Community Commission                                                                                                                                  |
| COFOG     | Classification of the Functions of Government                                                                                                                |
| Covid-19  | Coronavirus disease 2019                                                                                                                                     |
| EDP       | Excessive deficit procedure                                                                                                                                  |
| ESA 1995  | European System of Accounts 1995                                                                                                                             |
| ESA 2010  | European System of Accounts 2010                                                                                                                             |
| EU        | European Union                                                                                                                                               |
| FPS       | Federal public service                                                                                                                                       |
| GDP       | Gross domestic product                                                                                                                                       |
| GNI       | Gross national income                                                                                                                                        |
| NAI       | National Accounts Institute                                                                                                                                  |
| SFA       | Special Financing Act                                                                                                                                        |
| STIB/MIVB | <i>Société des transports intercommunaux de Bruxelles/Maatschappij voor het Intercommunaal Vervoer te Brussel</i> (Brussels Intercommunal Transport Company) |

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