



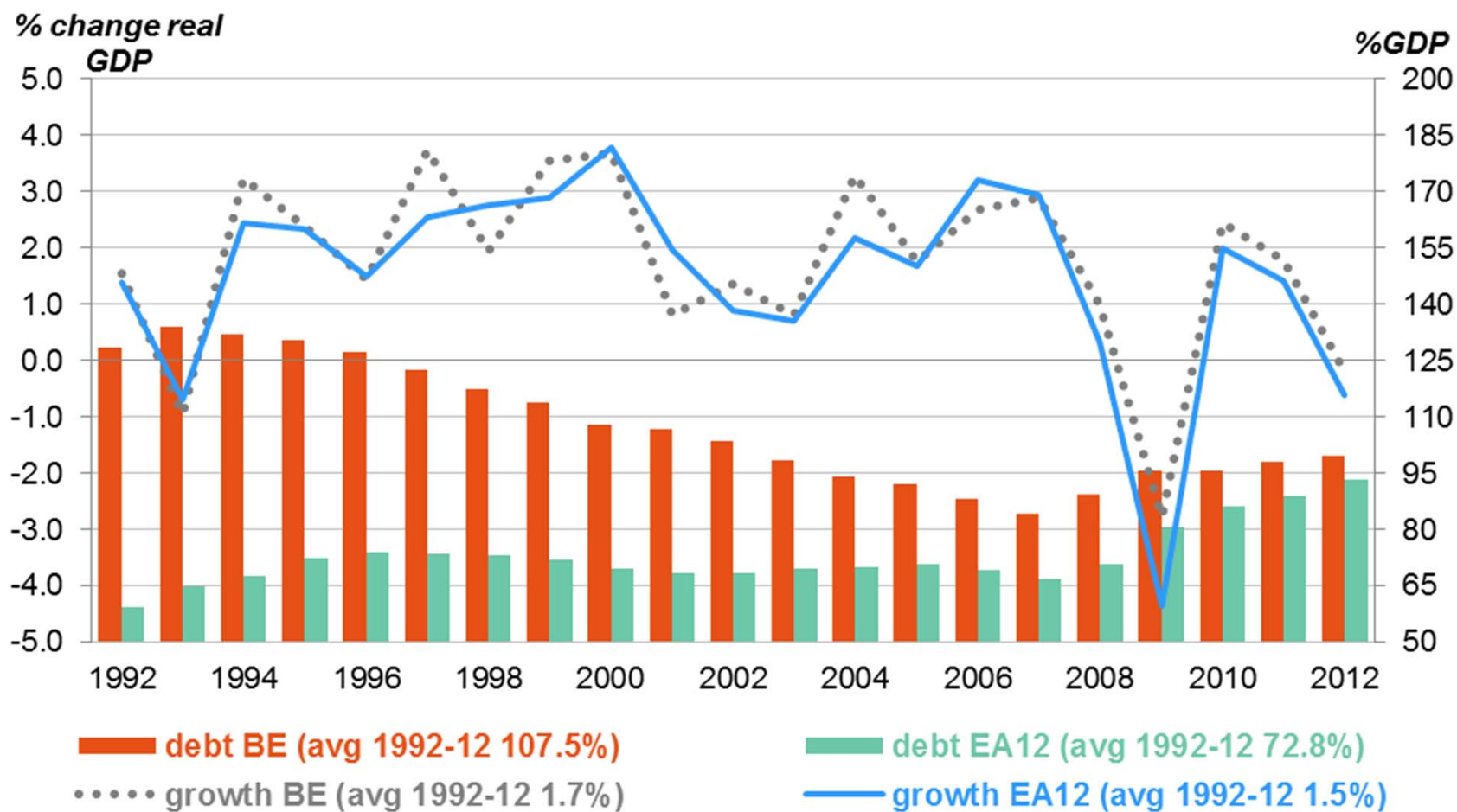
Medium term challenges for the Belgian economy

Session 1 – How to implement growth-friendly fiscal consolidation?

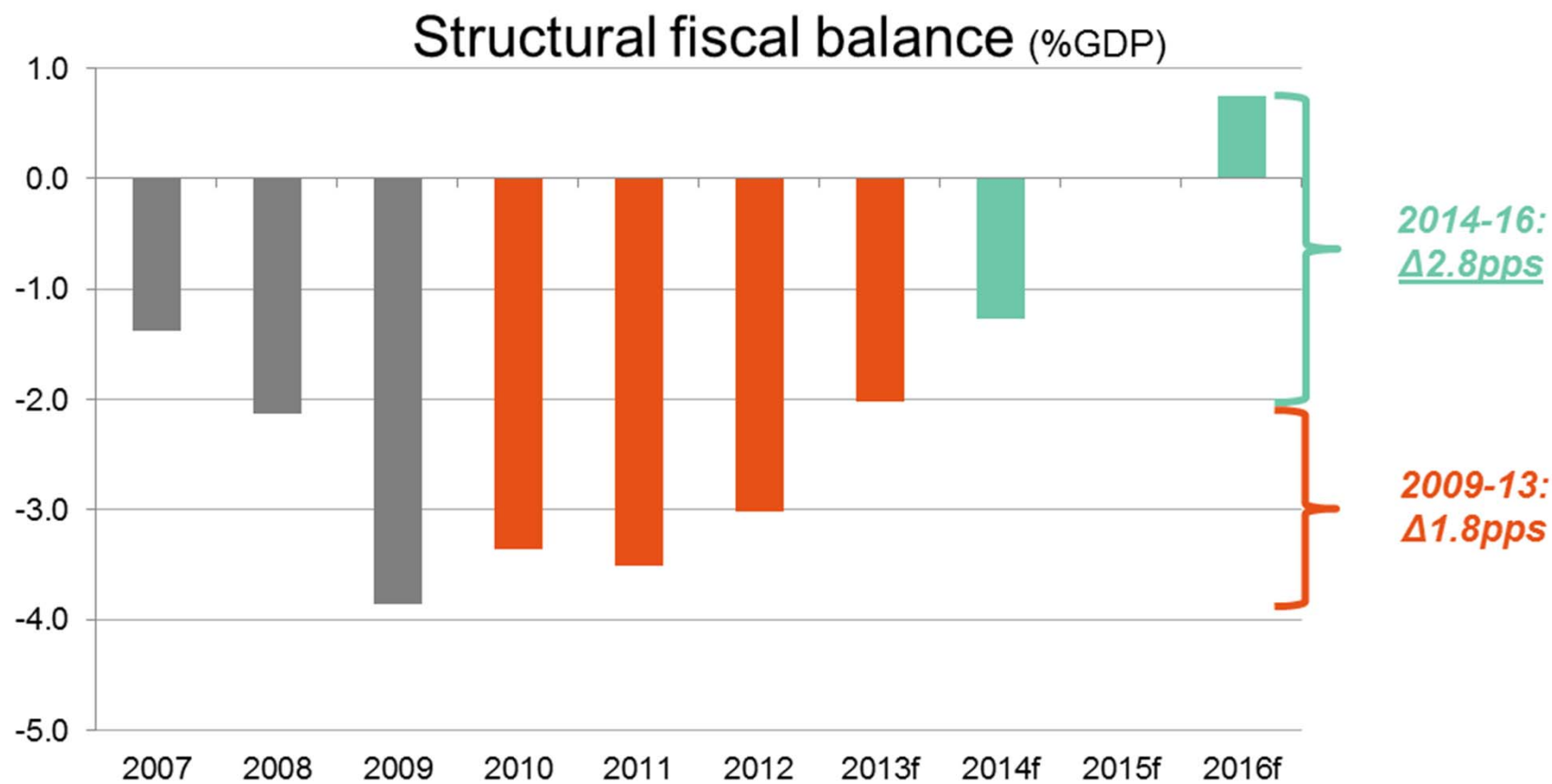
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Did past consolidation erode growth?



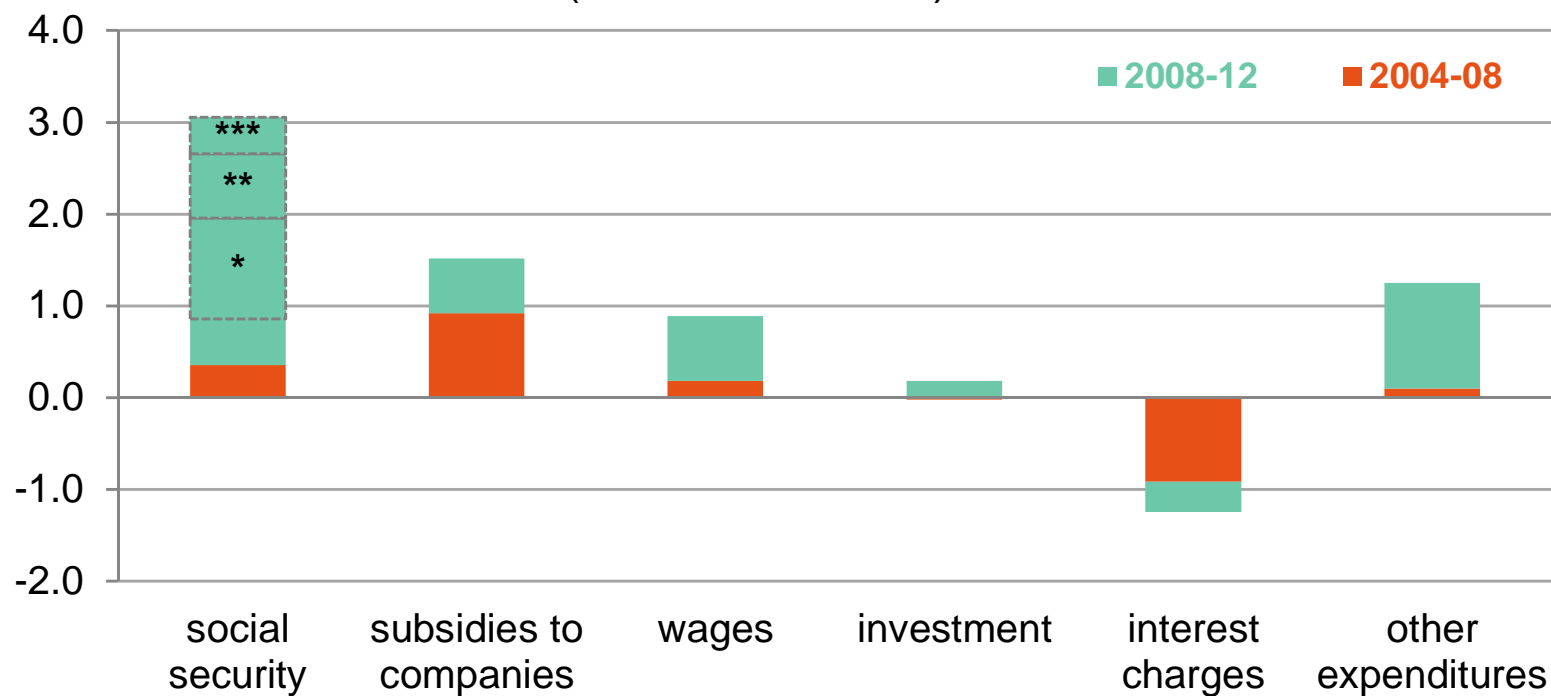
Important fiscal effort still ahead [CSR1]



(source: AMECO; Stability Programme as of 2013)

Notable evolution at expenditure side

Evolution of public expenditures (2004-12, %GDP)



(*pensions; **healthcare; ***sickness&disability)

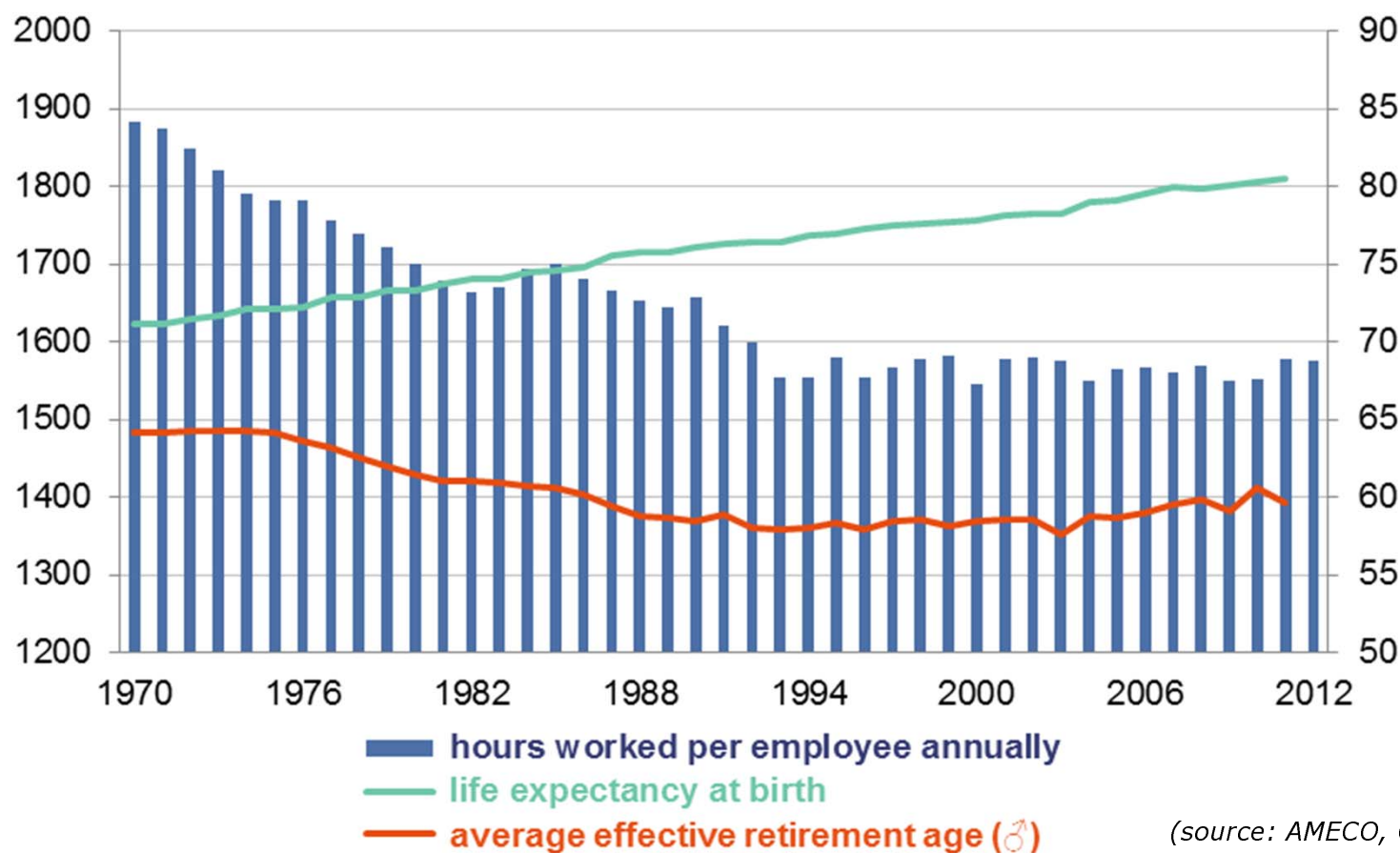
Some *growth-friendly* measures

- *Tax expenditures: many, distortive, expensive*
 - **mortgage loans?**
 - **private pension savings?**
- *Service vouchers: subsidy carries high public cost*
 - **heavy subsidy pushes system beyond limits**
 - **user-price does not reflect real costs**
- *Modernisation of public administration*
 - **does the increase in the number of civil servants point to inefficiencies or to real needs?**
 - **efficiency gains among administrative layers?**

Social security cannot be exempted

- *Pensions*
 - **changes in indexation?**
 - **'perequation' still justified?,**
 - **is it necessary to include a factor on life expectancy?**
- *Health care*
 - **applicable growth rate, sizeable efficiency gains seem within reach, from current fee-for-service towards all-in financing per treated patient?**
- *Sickness and invalidity*
 - **reinforced check that recipients effectively qualify for benefits**

Wider pension reform paramount to long-term fiscal sustainability [CSR2]



(source: AMECO, OECD)



Wider pension reform paramount to long-term fiscal sustainability [CSR2]

- *further gradual increase in minimum age for early retirement?; look at career length alternatively?*
- *can all exceptional regimes be justified?*
- *system of pre-retirement runs contrary to longer career, creates barrier for hiring older workers*
- *align civil servant and private pension parameters?*



Align labour market policies with priority of higher employment rate [CSR6]

- *replace plethora of job plans?*
- *narrow unemployment and low wage trap*
- *minimum wages vs. young workers?*
- *further invest in human capital?*
- *move from cash-benefits child support towards service-based approach?*



Enrich wage setting with correction mechanism and make it less rigid **[CSR3]**

- *introduce link between real wage growth and domestic productivity developments*
- *ensure smooth and automatic correction of eventual loss in competitiveness*
- *spread increase of health index out wider (e.g. pension schemes)?*
- *focus on labour cost element threatens to put other elements to background (energy price!)*



Shift taxes drastically away from labour to less distortive bases **[CSR5]**

Tax reduction on labour to be compensated by:

- *VAT*
 - justification of 12% category?; items taxed at 6% all of primary nature?
 - only slight increase in standard rate required to produce significant additional revenues
- *Other contributions could come from fiscal greening*
 - diesel excise duties, road pricing, congestion charge



Thank you for your attention