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Crisis country case study

Belgium

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The International Social Security Association (ISSA) is the world's leading international organization bringing together national social security administrations and agencies. The ISSA provides information, research, expert advice and platforms for members to build and promote dynamic social security systems and policy worldwide.

The Crisis Country Case Studies are an integral part of the ISSA project to monitor and analyse the impact of the global financial and economic crisis on social security. These studies are based on data and research carried out between June 2009 and the first part of 2010. While every effort has been taken to ensure that the case studies are accurate, the situation in each country is constantly evolving.

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ISSA crisis case study: Belgium

Summary

The Belgian economy has been hit very hard by the financial crisis recording 3 per cent negative growth in 2009. Job losses during this same year reached 23,300 raising the unemployment rate from 7 per cent in 2008 to 7.9 per cent in 2009. The number of those unemployed temporarily has risen by 56.5 per cent.

Crisis measures, in particular the temporary or partial unemployment scheme, which was reinforced and extended, served to cushion the fall in full-time employment by 1.3 per cent and to contain the increase in full unemployment at 30,275 persons in 2009.

The Belgian authorities' reaction to the crisis was prompt and generally effective. The policies of supporting purchasing power together with a more active labour market approach pursued by the government have shown themselves to be appropriate on two counts. Firstly, these policies have lessened the effect of the crisis on more vulnerable groups such as the unemployed and also on the population as a whole. This was because increases in salaries and social benefits decided on prior to the crisis were not cancelled. Secondly, by encouraging demand, they have been able to help accelerate economic recovery.

Social security institutions covered

The National Employment Office (NEO); the National Institute for the Social Security of the Self-Employed (NISSE); and the National Social Security Office (NSSO).

Overview of the social security system

The Belgian social security system is based on the social insurance principle. It covers both salaried and self-employed workers. Uninsured individuals aged 65 or over and on low income nevertheless benefit from an earnings-tested guaranteed income. Under the employee scheme, a lump-sum contribution is paid by both workers and employers to the NSSO, which then allocates financial resources to the various branches (pensions, health-invalidity, family allowances, unemployment and occupational accidents and illnesses) according to their respective requirements. This is the role played by the NISSE. The financial allotment for each branch is set annually by the Social Security Management Commission. The overall contribution rate for the salaried workers' scheme is 13.07 per cent of salary for insured employees and 24.77 per cent for employers.

Overall supervision of the system is carried out by the Federal Public Service Social Security Authority. The National Pensions Office manages pensions while the National Health-Invalidity Institute coordinates the management of the health-invalidity insurance scheme with various management committees. The local authorities consist of roughly 65 recognized mutual funds, grouped in five national unions and one special fund for railway employees, the Occupational Accident Fund, a jointly managed public institution, which controls occupational accident benefits awarded by private insurance companies. The Occupational Sickness Fund, which is also jointly managed, looks after the victims of occupational illnesses. The National Employment Office manages unemployment benefits, controls the benefit payment bodies and carries out special missions in connection with employment policy through 30 unemployment bureaux. Family allowances are paid through 26 private occupational, regional or special funds and two public bodies. The National Family Allowance Office is responsible for the allocation of finances to the various funds and for supervising them.

The old-age pension is payable from the age of 65. The same age has been applicable for men and women since 2009. The pension is based on the average salary adjusted over an entire career up to a given ceiling. At the full rate the old-age pension is 60 per cent of salary for a single person or 70 per cent for a married couple. It cannot be less than US-dollar (USD)13,644 for a single person or USD17,051 for a couple.

Impact of the crisis

Impacts on the national economy

The Belgian economy was hit very hard by the financial crisis, albeit to a lesser extent than other European countries. The economy recorded a negative growth rate of three per cent for 2009 (*Institut des Comptes Nationaux*, 2009). According to the response provided by the NEO to the ISSA's survey on the crisis, job losses during this same year came to 23,300, raising the unemployment rate from 7 per cent in 2008 to 7.9 per cent in 2009. This increase of 0.9 per cent is lower than the 1.9 percentage points observed on average throughout Europe and the euro zone. Crisis measures, and in particular the temporary (or partial) unemployment scheme, which was reinforced and extended, served to cushion the fall in full-time employment by 1.3 per cent (the highest level in the Organisation for Economic Co-operation and Development, (OECD) according to this organization) and to contain the increase in full unemployment at 30,275 persons in 2009. The number of temporary unemployed (workers laid off for several days each month) rose from 134,736 in 2008 to 210,864 in 2009, an increase of 56.5 per cent. The crisis also caused a temporary decline in productivity, and it is estimated that job losses will continue into 2010 (Federal Planning Bureau, 2009).

Furthermore, measures introduced by the government to deal with the financial crisis run the risk of reducing the government's budgetary room to manoeuvre in the coming years given the proportion of debt to GDP which may reach 100 per cent between the present and the start of the economic recovery (OECD, 2009).

Impacts on the social security system

With regard to the social security system, general government financing balances for social security have moved from a surplus of 0.5 per cent of GDP in 2007 and 2008 to a deficit equivalent to 0.8 per cent of GDP in 2009 and are predicted to reach 0.5 per cent of GDP in 2010 and 0.3 per cent in 2011. This deterioration occurred despite an improvement in overall receipts of 1.5 per cent of GDP (Federal Planning Bureau, 2009). In fact, this was expenditure caused by the rise in the number of unemployed persons, above all temporary workers, and career breaks together with increases in social benefits decided for the period 2007 to 2010 which form the bulk of the deficit.

There is also a risk that the economic crisis will have a delayed effect on social security receipts. Replying to the ISSA survey on the crisis the NISSE noted, in fact, that a reduction in the overall amount of contributions could make itself felt from 2011 onwards. This is due to the fact that occupational incomes serving as the basis for the calculation of contributions are those from the third year prior to the year for which contributions are due, i.e. 2008 incomes are taken as the basis for 2011.

Among the immediate effects of the crisis the NISSE has already noted a decline in the rate of collection of contributions and a drop in income from investments and bank accounts owing to the persistent downward trend in interest rates. Furthermore, alternative sources of financing, consisting of value added tax receipts have been well below forecasts since the end of 2008.

Benefits paid by the NISSE for bankruptcies rose sharply by more than 240 per cent between the first quarter of 2008 and the first quarter of 2009.

The NEO has also recorded a rise in expenditure on unemployment benefits and temporary unemployment benefits as well as an extension of part-time pre-retirement pensions.

Responses to the crisis

In general policy terms

The federal government has developed an economic recovery plan to meet the financial crisis (Federal Planning Bureau, 2008). This plan focuses on rebuilding confidence and its declared aims are reinforcing socio-economic levers, investments, company competitiveness, employment and the social climate as well as the sustainable stabilization of public finances.

Since the outbreak of the crisis the government has acted to provide immediate support to banks and financial institutions in difficulty to prevent a chain-reaction. More than USD24.6 billion has been injected for bank recapitalization. A state guarantee for interbank financing was made available. Protection for savers was also improved by raising the guarantee for deposits to USD123,680.

A number of long-term measures were undertaken, the most important of which included the support provided by the Belgian government at the European level for the creation of a single European financial control body, a European emergency fund to help in the recapitalization of banks, guaranteeing interbank lending and dealing with the question of tax havens.

In terms of the social security system

In terms of social protection a whole series of measures were introduced aimed at reinforcing the purchasing power of social insured persons (Federal Planning Bureau, 2008).

Unemployment benefit minimum amounts and fixed sums for salaried workers were increased by 2 per cent and benefit rates increased by 2 per cent. Pay ceilings were revised upwards. With regard to temporary unemployment, additional provisional measures were taken for 2009–10 (increase in benefits). The scheme was also extended to cover temporary and agency workers and employees for the duration of the crisis. Temporary schemes for crisis credits and reductions in working hours for the duration of the crisis were introduced. Furthermore, workers who were laid off as a result of restructuring now receive better support. Hiring plans were also simplified.

For self-employed workers, the minimum pension was increased by 3 per cent and the ordinary pension by 1.5 per cent. Furthermore, payment facilities were improved and the financial crisis was recognized as a reason not to impose increases for late payment (NISSE, 2009a). Furthermore, the social insurance cover for self-employed workers was extended, as a temporary measure, to cover self-employed workers in difficulty as a result of the economic crisis (NISSE, 2009b).

These measures were aimed at preventing a worsening in the financial situation of social security schemes by supporting economic activity and by avoiding an increase in social security expenditure arising from economic activity stopping (payments of unemployment benefits and guaranteed monthly income).

Lessons learned

The Belgian authorities' reaction to the crisis was prompt and generally effective. The total cost of recapitalization operations and direct public loans was in the region of 7 per cent of GDP (OECD, 2009). The policies of supporting purchasing power together with a more active labour market approach pursued by the government have shown themselves to be appropriate on two counts. On the one hand, these policies have lessened the effect of the crisis on more vulnerable groups such as the unemployed and also on the population as a whole (increases in salaries and social benefits decided on prior to the crisis were not cancelled) and, on the other hand, by encouraging demand, they were able to accelerate economic recovery.

However, given the fact that most of these expenditures were financed by increasing public debt, there is a risk that problems of fiscal sustainability may arise once the economic recovery process has begun.

In light of previous experience, recovery in the labour market and the re-absorption of the additional unemployment caused by the crisis may take some time, even after economic recovery is well underway.

Another lesson that can be learned from the Belgian experience resides in the small effect that the crisis has had on social security receipts, which proves once again, if proof were needed, that a policy of prudent and measured management of social security funds remains the best guarantee against any serious financial deterioration in time of crisis.

Conclusion

The financial crisis has affected the Belgian social security system much more in expenditure terms (increases in expenditure on unemployment and early retirement benefits) than with regard to receipts. The allotment financing approach and the overall management of the various schemes (allocating resources according to the respective requirements of the various branches) has certainly allowed social security resources to be protected sufficiently.

The Belgian social protection system must now confront the risk of seeing the growth in unemployment continue even beyond economic recovery. This is why the government took strong measures based on activating unemployment benefits temporarily to support hiring for those jobseekers that were in most need, notably less-qualified young people and older persons. The government's level of debt also threatens its budgetary room for manoeuvre and consequently decreases its support for the social security system.

Furthermore, the reforms implemented to reduce employers' social security contributions and introduce wage subsidies to promote employment prospects were not sufficiently effective, according to certain analysts. These measures will also be redirected to focus on low earners from 2010 onwards with a view to rendering them more effective. Improved interaction between the tax system, particularly personal income tax, and the social security benefits system must also be in place to eliminate inactivity traps.

Sources

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