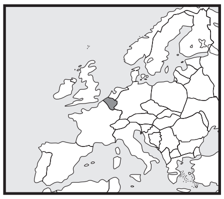
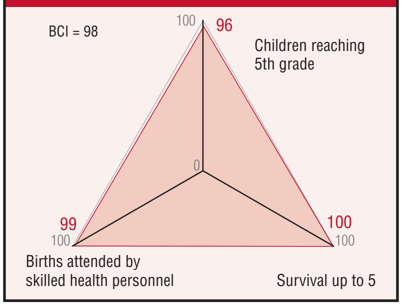
The high cost of the bank rescue



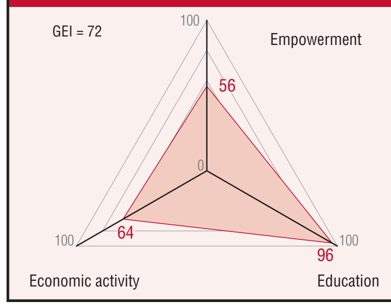
When the shares of banks and the principal enterprises in the country collapsed, the Government went to the rescue of the banks and provided deposit guarantees. The crisis is still causing unemployment to rise, while the cost of the bank rescue is making itself felt in the drastic increase of public debt, with serious repercussions in the provision of social security.

CNCD - 11.11.11
Arnaud Zacharie
Gaspard Denis

Basic Capabilities Index (BCI)



Gender Equity Index (GEI)



In 2008, two of the largest banks in Belgium, Fortis and Dexia, began to experience serious problems, worsened by the financial crisis which other banks in the world were suffering. The shares of Fortis and Dexia, like most of the shares in Belgian companies, collapsed. The Government's reaction was to go to the rescue of the banks and guarantee deposits, but the cost of the financial collapse has still been particularly serious, not because of the bail-out funds paid out by the State, but because of the vast increase in the level of public debt which the country had been attempting to reduce for about fifteen years.

The State has spent almost EUR 20 billion (USD 28 billion) in providing a capital increase for the banking sector. To this sum should be added EUR 25 billion (USD 35 billion) offered by the State in the form of guarantees, due to which the total bill for public aid given to banks is close to EUR 45 billion (USD 63 billion). In addition to debt, the consequences of the rescue also include budget problems, rising unemployment and uncertainty regarding the State's capacity to continue to finance its social model.

The cost of rescuing the banks

The rescue operations carried out by the Federal Government and the federated bodies led to the nationalization of Fortis Banque, as well as a capital increase for the Dexia Banque, the KBC group and Ethias, an insurance company. Within a term of three months, public authorities reappeared in the Belgian banking sector, after having abandoning it almost two decades earlier. However, conditions for the financial institutions' plans for a capital increase have been to a large extent, weak and obscure. Thus, rescue measures have adapted perfectly to the old liberal adage: "socialize losses, privatize profit".

Dexia, a Franco-Belgian-Luxembourg bank, received a capital increase of EUR 3 billion (USD 4.2 billion), from Belgian public authorities (the federal State and federated bodies). The French supplied an equivalent sum of EUR 2 billion (USD 2.8 billion) through the French state financial institution Caisse des Depots, and 1 billion (USD 1.4 billion) from the State. This investment has increased French participation from 11.5% to close to 28% of the bank's capital and, as a result, made it possible for the French share to achieve a minority with blocking capacity in the banking group. The KBC bank, for its part, has benefited from three successive rescue plans to date. First, in October 2008 the Federal State intervened providing EUR 3.5 billion (USD 4.9 billion). Then, in January 2009 the Flemish Region paid out EUR 2 billion (USD 2.8 billion) and lastly, in May it again issued State bonds for a total of EUR 2 billion (USD 2.8 billion) in order to finance the KBC group. In all, to date KBC has received close to EUR 7.5 billion (USD 10.5 billion) from Belgian tax-payers.

Regarding the bail-out of Fortis, the Belgian-Dutch group, capital participation of the Belgian State reached 99.93% in October 2008, which constitutes a total of EUR 9.4 billion (USD 13.16 billion). However, it has shown from the start a willingness to sell 75% of its holdings in Fortis to the French group BNP Paribas. Nevertheless, the opposition of Fortis Holding shareholders to the dismantling of their group has twice forced the Government and BNP to revise their agreement for the transfer of Fortis Banque. The third version was finally approved by the shareholders in two general assemblies held on 28 and 29 April 2009 in Gand (Belgium) and Utrecht (Netherlands). In short, in exchange for transferring its holdings in Fortis Banque to BNP Paribas, the Belgian State has received 11.6% of the French banking group's capital.

Public debt soars

When Belgium applied for inclusion in the European single currency in the early 1990s, a serious problem arose: the weight of the public debt. Although Maastricht convergence criteria stipulated that a member state's debt should not exceed 60% of its GDP, Belgian public debt exceeded it by 130% in 1993 and 1994.

Because of this, an austerity plan was implemented with painful results for the levels of public spending but it made possible to reduce the country's debt, which had descended to 84% of its GDP in 2007.

Today, the cost of the bank bail-outs and the impact of the financial crisis on public finance have resulted in a sharp increase in the rate of debt, reaching 89.7% in 2008, while the Belgian National Bank forecasts a rise to 103% in 2010. This constitutes a debt of over EUR 30,000 (USD 42,000) per inhabitant. The Government deficit has naturally followed the same curve: from 1.2% of the GDP in 2008 it is expected to soar to 5.5% in 2009.

Social security and unemployment

Due to the Government deficit, financing for social security has also been affected, with a deficit of EUR 2.45 billion (USD 3.43 billion) in 2009 due to the drop in revenue from social security contributions and VAT. The Government forecasts a deficit increase for social security of EUR 5.3 billion (USD 7.42 billion) in 2010.

Lastly, unemployment is still on the rise due to the recession of the economy. In June 2009, 443,574 people were unemployed, which means that there are 43,433 new unemployed persons over the past year.

In June 2009, the High Council for Employment, which answers to the Ministry of Employment and Equal Opportunities, published a report on "Recent evolution and the outlook for progress in labour"[1], devoted to the analysis of the global economic crisis and its consequences for employment.

According to this document, activity regressed 1.7% in the first quarter of 2009, as compared to the same period in 2008. After a zero-growth period for employment during the fourth quarter of 2008, close to 10,000 jobs disappeared in the first quarter of 2009. The number of hours worked in temporary jobs had not ceased to drop after the second quarter of 2008. This tendency became more marked in April with a 28% drop compared to the previous year. Belgium's National Bank forecasts the disappearance of 36,000 jobs in 2009 and a further 80,000 in 2010. Bearing in mind the continuous growth of the active population, the number of persons seeking employment will increase in 2009 to 68,000 and to 111,000 in 2010. The unemployment rate will therefore rise from 7% in 2008 to 9.2% in 2010. ■

1 See: <www.emploi.belgique.be/defaultNews.aspx?id=23984>.