

# Fiscal councils in federations - Case Study Belgium



Barbara Coppens  
Member of the secretariat -  
High Council of Finance

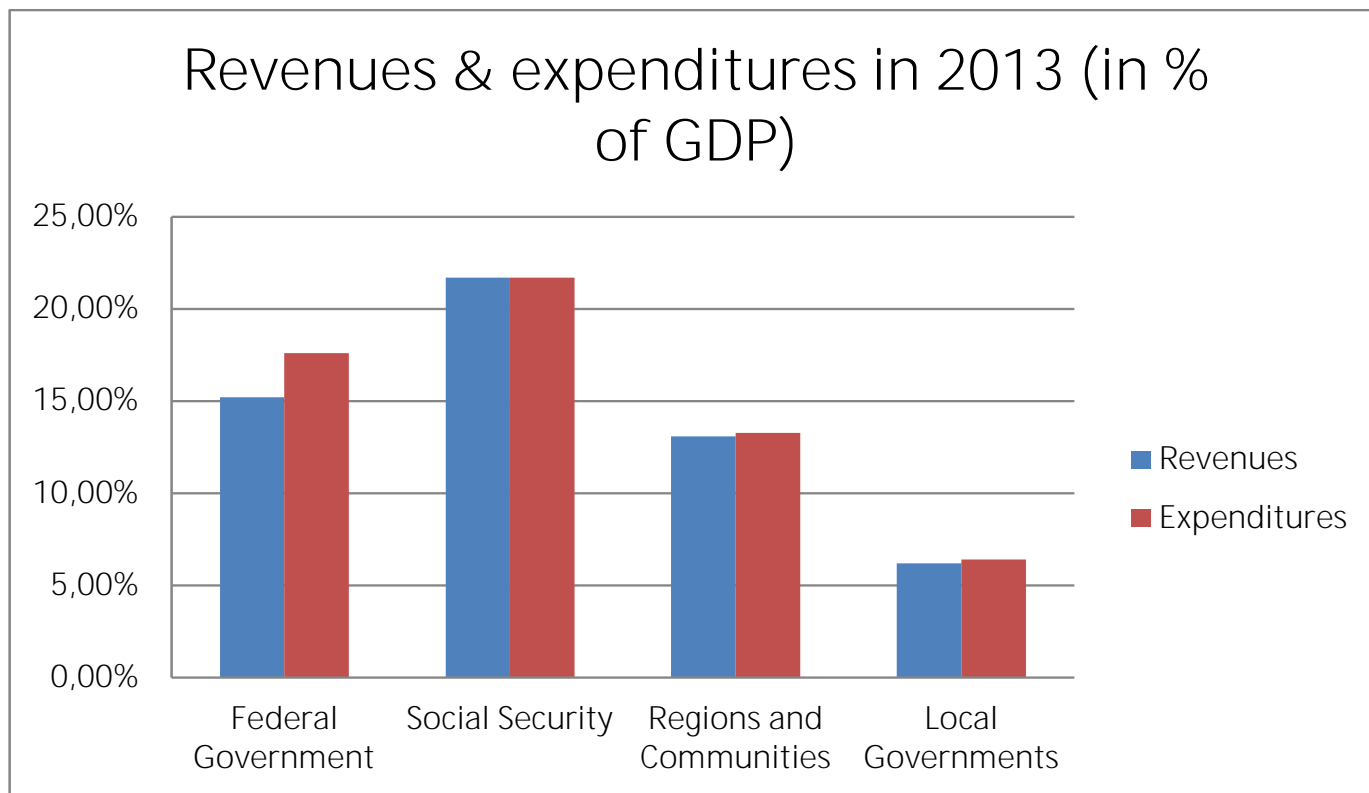
# Structure

- Introduction to the Belgium federal structure
- Coordination between the Central Government and Regions & Communities
- Role of the High Council of Finance
- How does the High Council of Finance work
- Challenges for 2015

# Introduction to the Belgium federal structure

- Entity I
  - Federal Government
  - Social Security
- Entity II
  - Regions and Communities
  - Local Governments (municipalities, provinces, etc.)

# Introduction to the Belgium federal structure



Source: HCF-report November 2014  
Calculation HCF based upon NAI statistics

# Introduction to the Belgium federal structure

- Three Regions – territorial linked and economic competences
  - Flemish Region
  - Walloon Region
  - Brussels Capital Region

=> Budget supervision over local governments
- Financing through (Special Finance Act):
  - Tax autonomy
  - Grants

# Introduction to the Belgium federal structure

- Three Communities – person link competences
  - Flemish Community
  - French Community
  - German-speaking Community

(Community Commissions for the bilingual Brussels Capital Region)
- Financing (Special Finance Act):
  - based on grants

# Introduction to the Belgium federal structure

- Sixth Reform of the State (1 of July 2014)
  - Transfer of more competences
    - Regions: employment, certain tax expenditures
    - Communities: family allowances, elderly care, part of health care
  - Complete review of the Special Finance Act
    - Including enlarged tax autonomy for the Regions (surcharges on the PIT)
    - New transfers to finance new competences
    - Reform of the existing grants
      - Including limitation of the national solidarity for the Regions

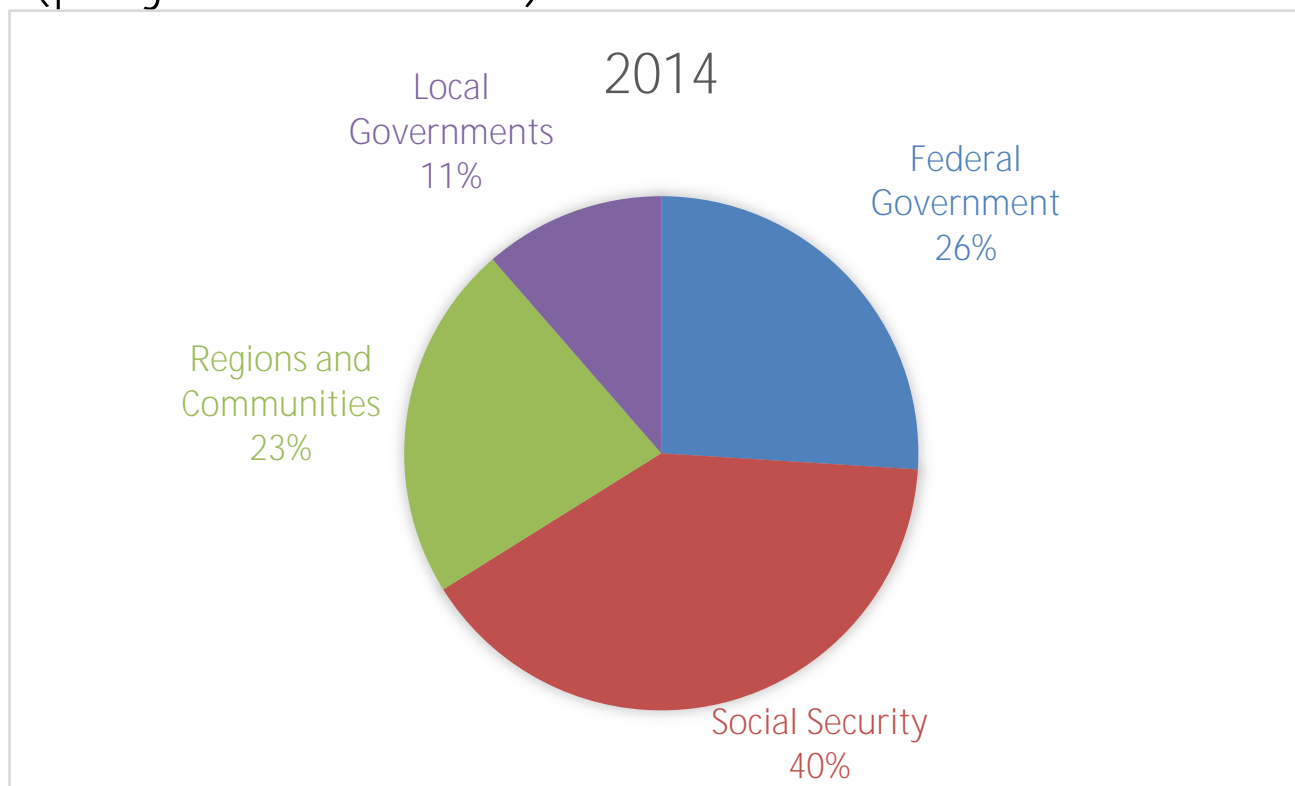
# Introduction to the Belgium federal structure

- Sixth Reform of the State (1 of July 2014)
  - Important contributions from the Regions and Communities to
    - Fiscal consolidation (in total 2.5 billion euro by 2016)
    - Cost of ageing (0.23 of GDP by 2030)
    - Higher responsibility contribution for pensions



# Introduction to the Belgium federal structure

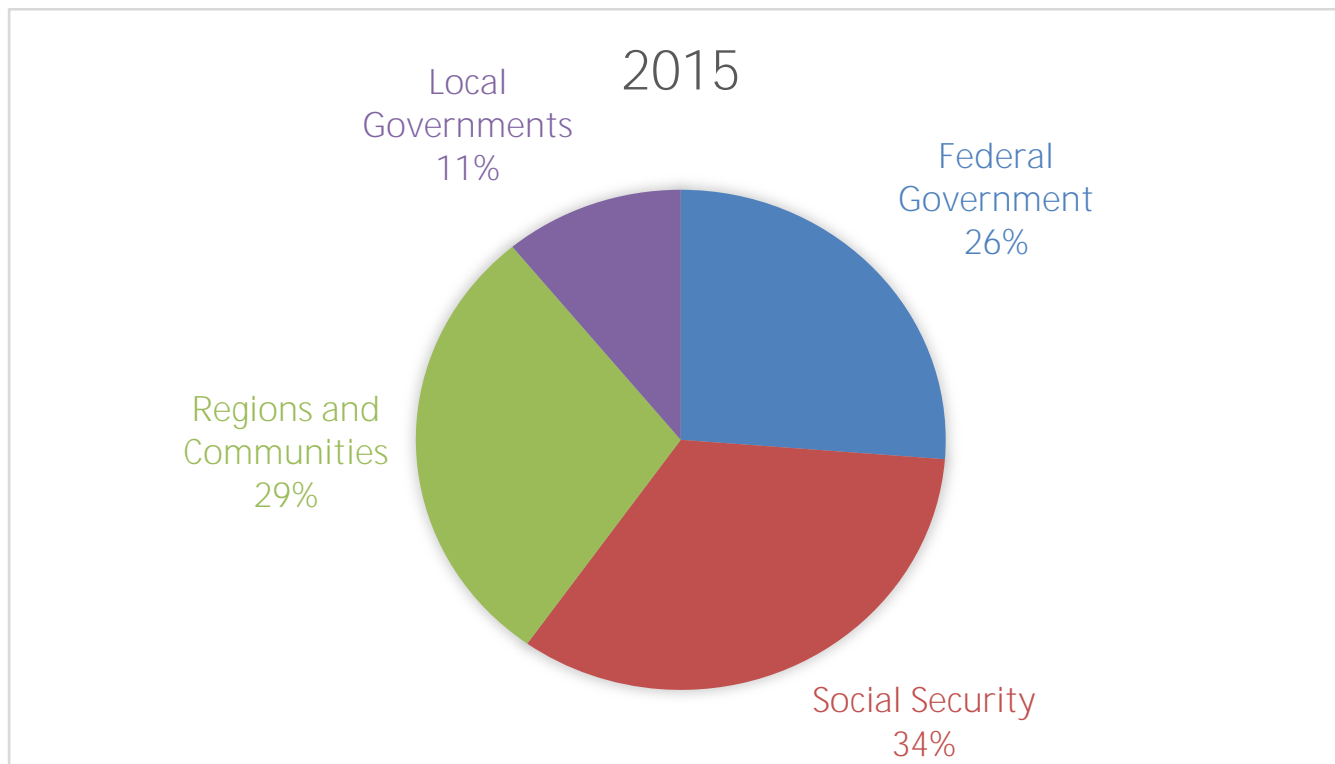
Share in revenues before 6th reform of the state  
(projections 2014)



Source: HCF calculations based upon medium term projection 2014-2019  
(March 2014) Federal Planning Bureau

# Introduction to the Belgium federal structure

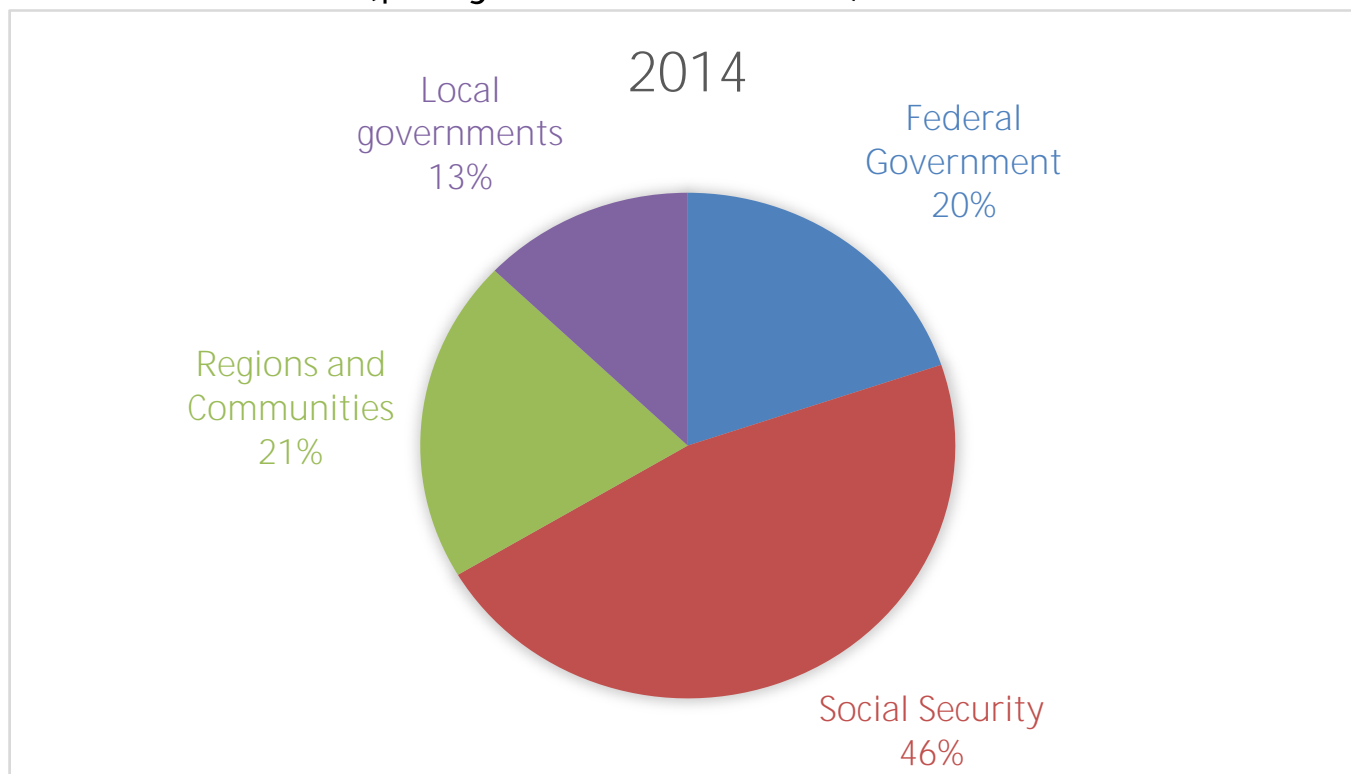
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# Introduction to the Belgium federal structure

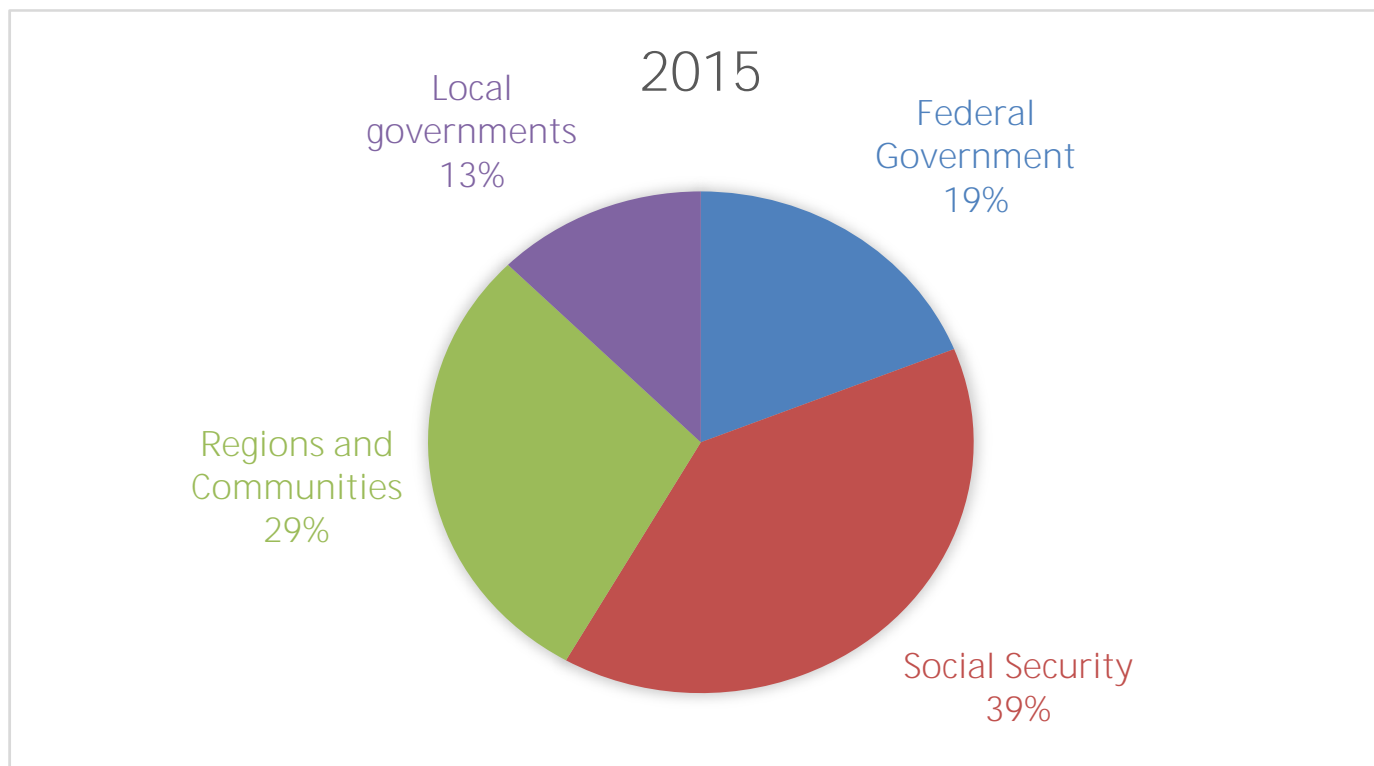
Share in final primary expenditures before 6th reform of the state (projections 2014)



Source: HCF calculations based upon medium term projection 2014-2019 (March 2014) Federal Planning Bureau

# Introduction to the Belgium federal structure

Share in final primary expenditures after 6th reform of the state (projections 2015)



Source: HCF calculations based upon medium term projection 2014-2019 (March 2014) Federal Planning Bureau

# Coordination between the different levels of government

- Federal Government and Regions & Communities meet in:
  - The Concertation Committee
  - Interministerial conference
- Concertation Committee
  - Internal stability pacts
    - Setting (multi-annual) budgetary goals for each level of government and each entity

# Role of the High Council of Finance

- **Section “The Public Sector Borrowing Requirements”**
  - Current form since 1989 (Special Finance Act)
- Composition of the Section: twelve members
  - Six members to represent the federal level
  - Six members to represent the Regions and Communities

# Role of the High Council of Finance

- Presence of representatives of the R&C in the Council
  - Overall positive experience
  - Can help with missing data, clarification on certain measures or projects
  - Endorsement of recommendations by individual Regions and Communities

# Role of the High Council of Finance

- Missions of the Section ***before the fiscal compact***
  - A report with an Opinion on the budgetary path
    - In preparation of the Stability Programme
  - An evaluation of the budgetary results compared to the budgetary targets of the Stability Programme
- Possible recommendation to restrain the borrowing capacity of a government in case of severe budgetary slippage



# Evolution of the role of the High Council of Finance

- Implementation of the fiscal compact
  - Cooperation agreement of 13 December 2013
- Improvement of the fiscal framework
  - High Council of Finance appointed as Independent Fiscal Council (IFI)
  - Federal Planning Bureau appointed as IFI concerning the macro-economic projections

# Evolution of the role of the High Council of Finance

- Coordination mechanism
  - Recommendations in light of the stability programme
    - Budgetary targets for each level of government in both nominal and structural terms taken into account a fair burden sharing of the consolidation path
  - HCF-Opinion submitted to the Concertation Committee

# Evolution of the role of the High Council of Finance

- Monitoring mechanism
  - Monitoring of the budgetary outcomes
  - Significant deviation = automatic correction mechanism
    - The concerned government has to take the necessary correction measures
    - Exceptional circumstances
  - HCF will monitor the implementation of these correction measures

# How does the HCF work

- Evaluation of budgetary results
  - Central Government and 4 subnational levels
    - Based on information from:
      - National Accounts Institute (NAI)
      - European Commission
    - Budget balances compared to targets of the Stability Programme

# How does the HCF work

- Evaluation
  - For individual Regions and Communities
    - Only ESA budget balances in the NA
    - Complemented with information from budgets, Court of Audit, etc.
    - Since September 2014: revenues and expenditures in NA
    - Compared, if possible, to targets of a cooperation agreement (internal stability pact)

# How does the HCF work

- Budgetary Path – Forward looking
  - Medium term projection of the Federal Planning Bureau
  - Before: budgetary path for the Central Government
    - Division between Entity I – Entity II
    - Or between 4 subnational levels
  - 2014: the first attempt for a budgetary path for each individual R&C in both nominal and structural terms

# Challenges for 2015

- Budgetary challenges
  - For the General Government
    - Adjustment path to the MTO
    - Fulfilling requirements for the debt rule
  - For Regions and Communities
    - Important consolidation efforts demanded of the R&C (new Special Finance Act)
    - Negative impact of ESA 2010 and enlargement of the government sector for R&C
      - Higher debt

# Challenges for 2015

- For the High Council of Finance
  - Implementing all its new missions
    - Distributing significant deviation?
    - Exceptional circumstances?
    - Calculating structural balances for each level of government ?
  - Recommending a budgetary path compliant with the minimum requirements of the European Commission





THANK YOU FOR LISTING