

Fiscal councils in federations - Case Study Belgium



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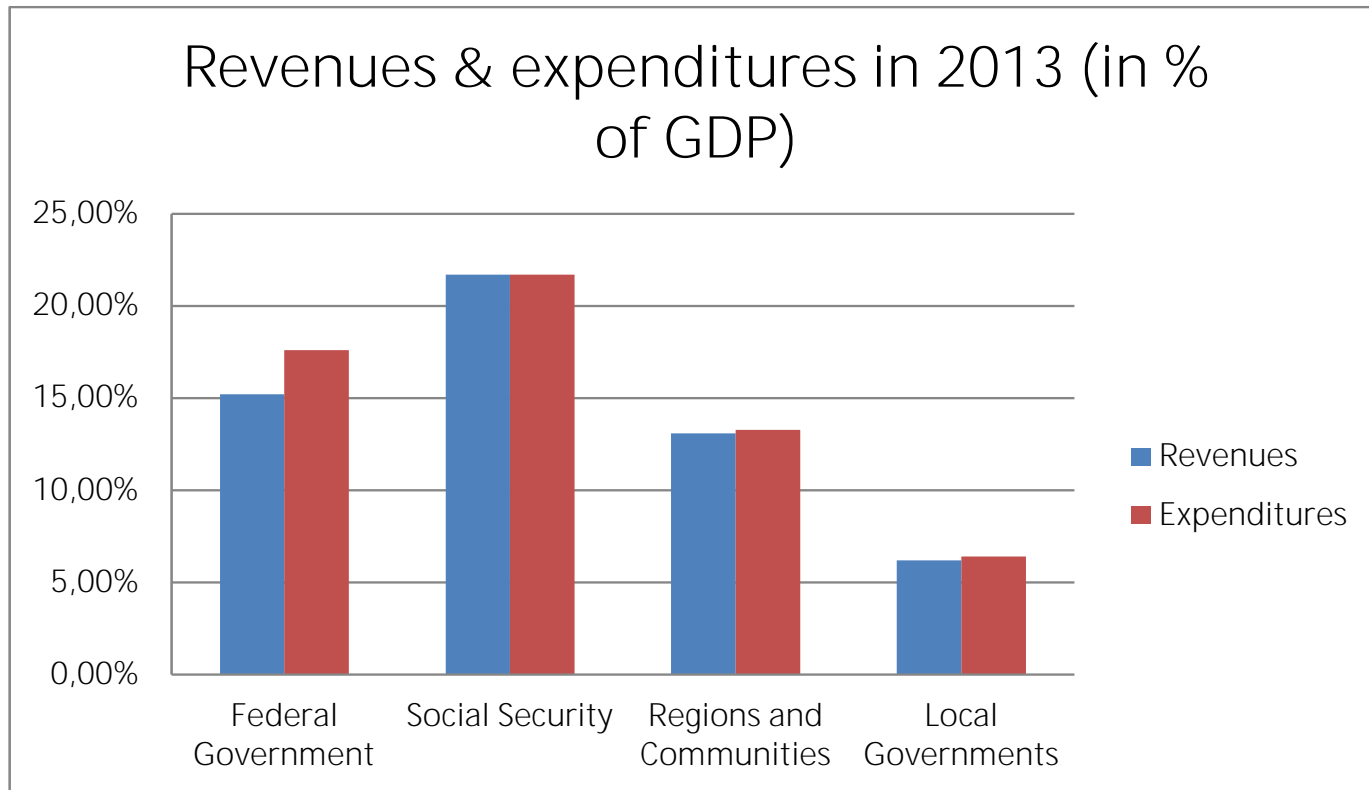
Structure

- 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

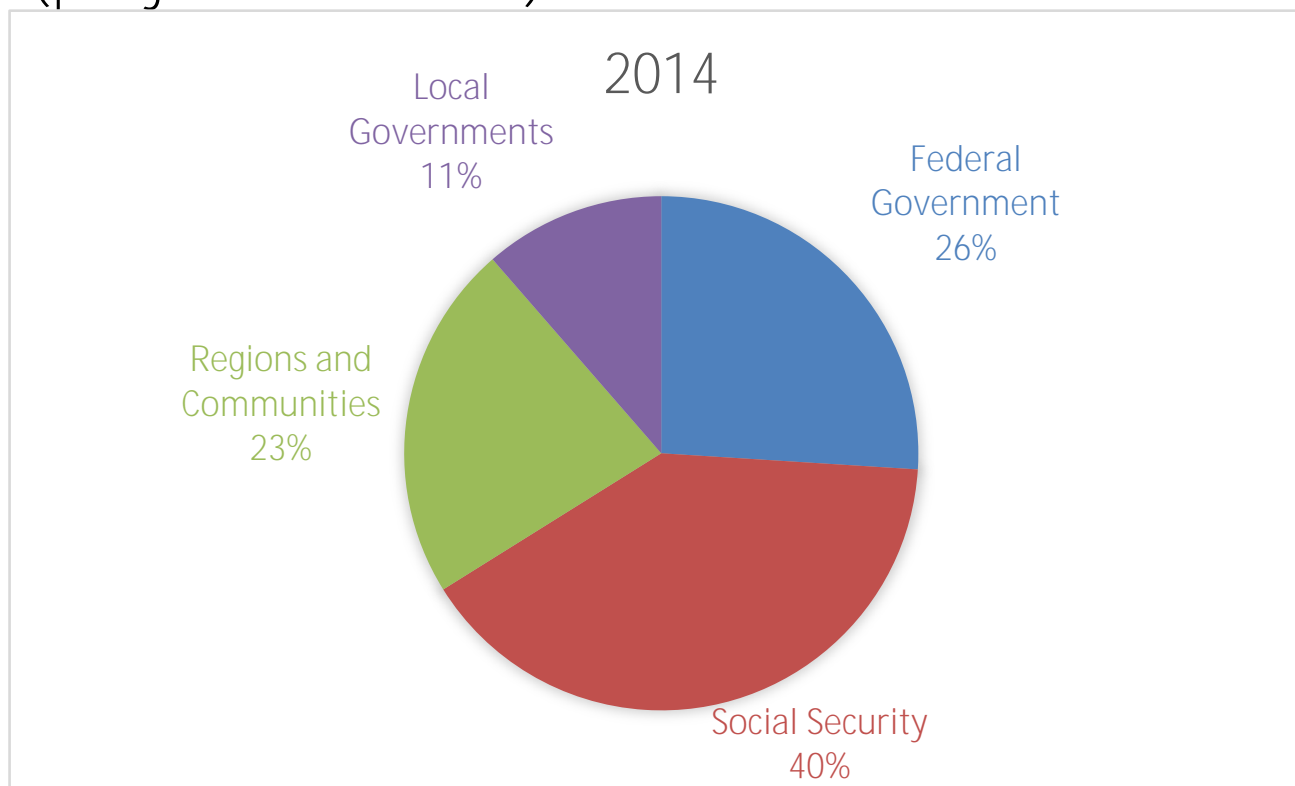
- Sixth Reform of the State (1 of July 2014)
 - Transfer of more competences
 - Regions: employment, certain tax expenditures
 - Communities: family allowances, elderly care, part of health care
 - Complete review of the Special Finance Act
 - Including enlarged tax autonomy for the Regions (surcharges 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

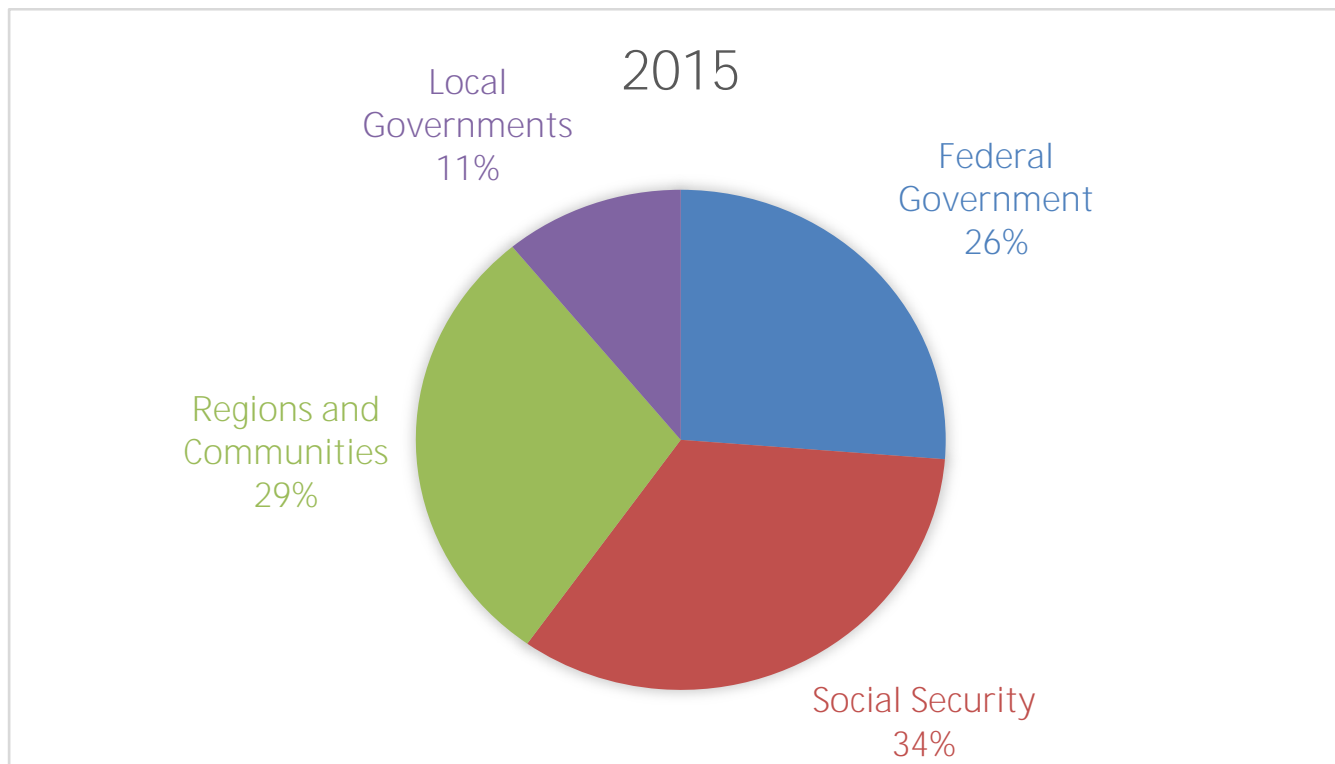
Share in revenues before 6th reform of the state
(projections 2014)



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

Introduction to the Belgium federal structure

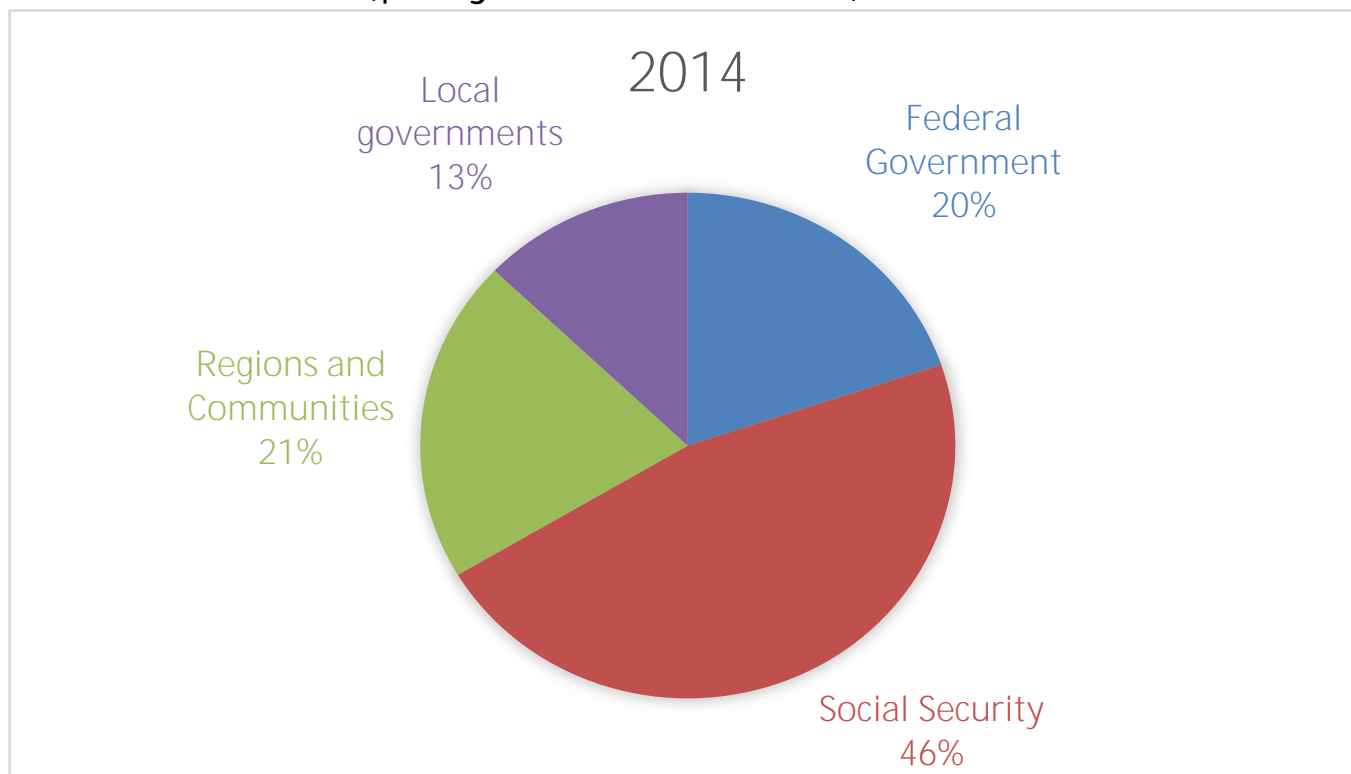
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Introduction to the Belgium federal structure

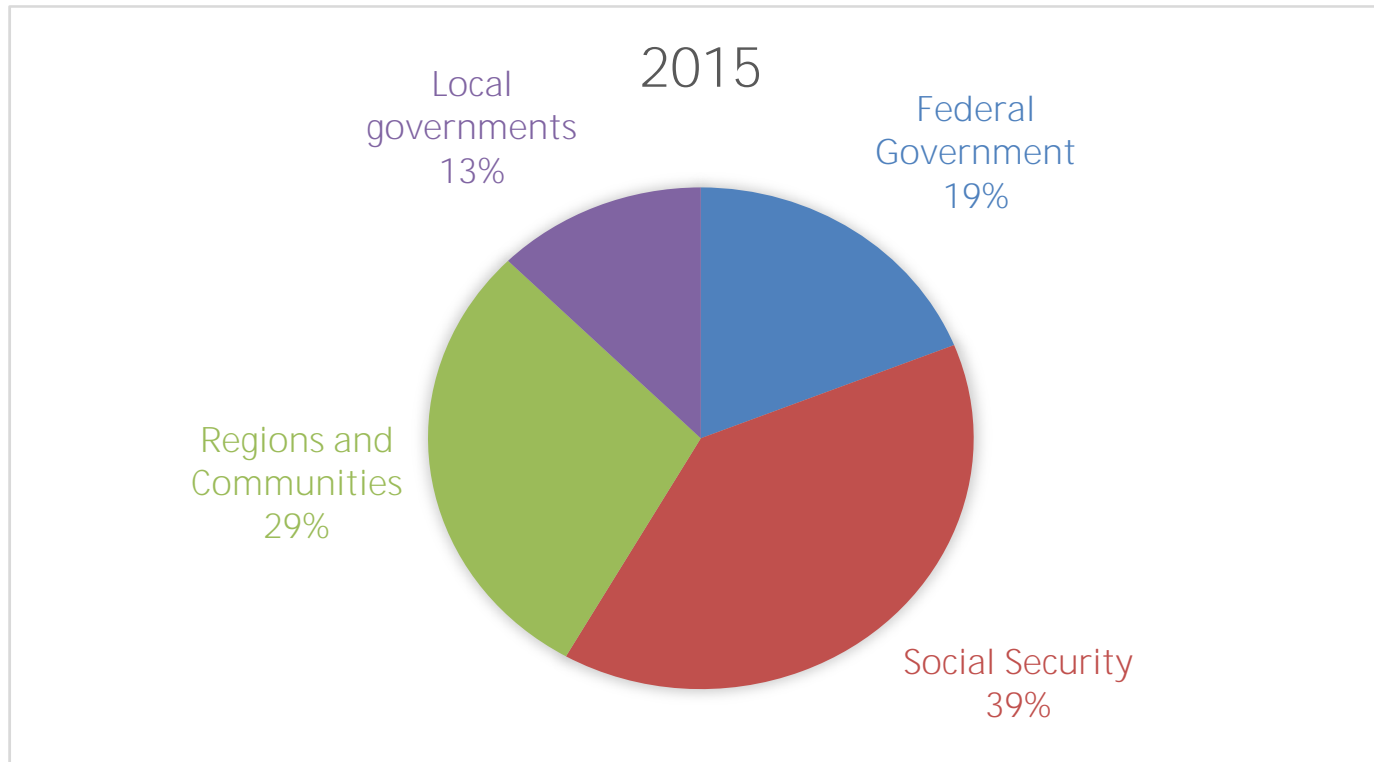
Share in final primary expenditures before 6th reform of the state (projections 2014)



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