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PRESS RELEASE

The finances of the communities and regions
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Throughout the successive phases of the Belgian state reform, powers were increasingly devolved from federal level to the communities and regions. At the same time, the funds were provided to finance those powers. At present, both the revenues and the expenditure of the communities and regions account for around a quarter of general government revenue and expenditure.

The present article deals with the revenues and expenditure of the communities and regions. The article also contains an analysis of the changes in the financing balance and debt level. Finally, the results of the projections regarding the movement in community and regional finances are also highlighted. The analysis concerns both the communities and regions as a whole, and the individual federated entities. In order to eliminate the influence of institutional differences and compare more uniform entities, a distinction is also made between the north and south of the country. Here, the north is defined as the Flemish Community and 20 p.c. of the Brussels Capital Region; the south comprises the French Community, the Walloon Region, the German-speaking Community and 80 p.c. of the Brussels Capital Region.

The past decade has seen a systematic improvement in the financing balance of the communities and regions. While at the beginning of the 1990s, the communities and regions were still recording deficits of around 1 p.c. of GDP, they have tended to balance their budgets or even achieve a surplus in recent years. The explanation for this improving trend lies in the fact that the real rate of growth in their primary expenditure was lower than the growth of their revenues. Revenues in fact increased sharply. During the so-called transitional period which ended in 1999, the special mechanisms provided under the Finance Act indeed contributed towards a very steep increase in the funds allocated in respect of personal income tax.

As regards the part of personal income tax allocated to the communities and regions, the gradual switch to an allocation formula based on the proceeds of the personal income tax collected in each entity caused the Finance Act funding to rise faster in the north than in the south. This enabled the north to implement substantial tax cuts recently, while the tax reforms introduced in the south of the country had a much smaller impact. Since revenues have grown faster than expenditure over the past ten years in each entity– with expenditure rising by more in the north than in the south of the country – all the communities and regions succeeded in achieving an improvement in their financing balance.

In order to achieve the target of a balanced budget in 2010, set by the High Council of Finance, the increase in expenditure for the communities and regions as a whole must not outpace GDP growth. The permissible expenditure growth will then probably not be the same for each individual entity. In the north, expenditure can increase by slightly more than in the south, partly because the north has scope for gradually reducing its surplus, while in the south the deficits – albeit small – need to be eliminated.

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