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PRESS RELEASE

Reform of the Special Finance Act for the Communities and Regions (Article for the June 2012 Economic Review)

On 10 October 2011, eight parties with a special majority in the federal parliament concluded an agreement on the sixth reform of the Belgian State. The article presents the two most important aspects of the reform from an economic and budgetary point of view, namely the transfer of new powers from federal level to the federated entities, and the revision of the Special Finance Act for the Communities and Regions of 16 January 1989. The agreement on the revision of the Finance Act mostly concerns principles and mechanisms.

The revision of the Finance Act was included on the State reform agenda for two main reasons. First, it was necessary to specify the funding mechanisms for the new powers devolved to the Communities and Regions. Second, there were various calls from different political parties on both sides of the language divide, seeking changes to certain facets of the current law.

The powers transferred represent around 4.4 % of GDP. These transfers come under social security rather than federal government, and more powers are devolved to the Communities and Community Commissions - institutions with no fiscal powers of their own – than to the Regions.

For the Regions, one of the main changes pursuant to the new draft Finance Act concerns the greater fiscal autonomy accorded to them in regard to personal income tax. For their new powers, the Regions also receive additional resources allocated according to a fiscal key. Finally, a national solidarity allowance is maintained, but the detailed arrangements are modified.

Likewise, the Communities receive additional resources for their new powers, but they are allocated on the basis of demographic keys. The resources available to the Communities for their old powers are being restructured and allocated, to a larger extent than before, according to the number of pupils attending French-language and Dutch-language schools, rather than according to a fiscal key.

There is also a transitional mechanism to neutralise the effects of the reform for the various entities when it comes into force, and to limit the scale of the effects during the first decade. Separately from this mechanism, the Brussels institutions are to be refinanced and the agreement includes an higher contribution from the federated entities towards the budgetary cost of ageing.

Taking account of the legislative process for the adoption of the texts implementing the sixth State reform, the new Finance Act and the power transfers would probably only enter into force in 2014. However, a number of mechanisms should be applied before that date. That should be the case in 2012 for the refinancing of the Brussels institutions and the mechanism giving the federated entities more responsibility for pensions.

As it stands, the agreement on State reform does not solve the issue of the various entities' participation in the necessary consolidation of Belgian public finances. Although the agreement includes an increased contribution from the federated entities towards the budgetary cost of ageing, the federal government and social security still bear most of the expenses associated with this demographic phenomenon. It is therefore important to determine the sharing of the consolidation efforts needed to restore a balanced budget in Belgium by 2015, to specify the arrangements for the participation by the federated entities and, in that connection – as stipulated by the agreement – to finally set certain Finance Act variables, such as the reference amounts for the transfer of powers and their variation parameters.