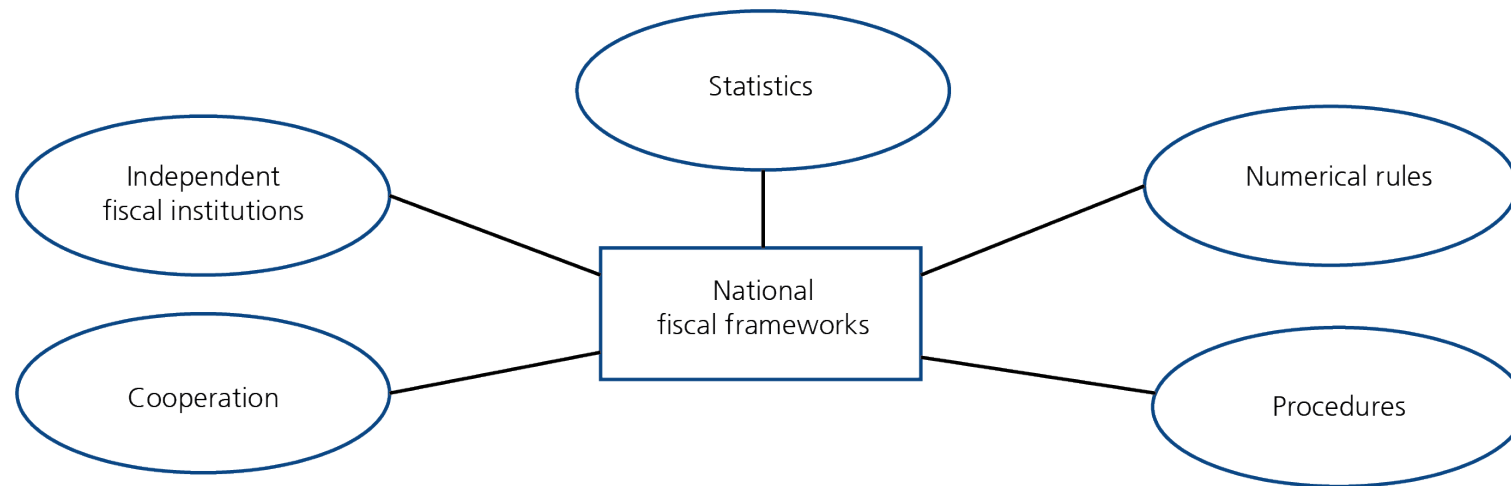


Belgium's fiscal framework: what is good and what could be better?

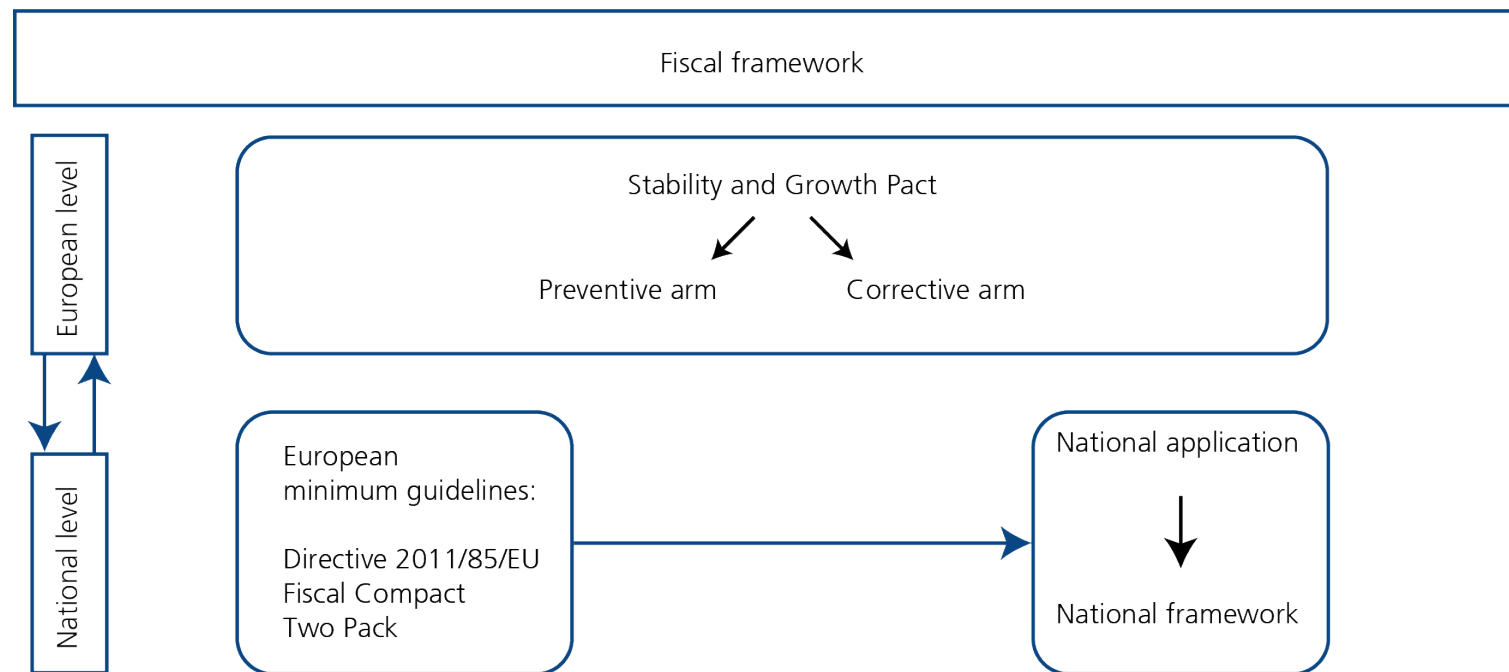
Pierre Wunsch
25th November 2021



Intro - Main components of a national fiscal framework



Intro - The European and national fiscal framework



Focus on

1. Budgetary procedures
2. National fiscal rules
3. Independent fiscal institutions
4. Budgetary coordination

Evaluation based on a comparison with euro area countries making use of the results of the 2020 survey on national fiscal frameworks conducted by ESCB's working group on public finance

1. Budgetary procedures - macroeconomic forecasts

- The projections for the macroeconomic environment (GDP growth, unemployment, etc.) underlying the annual budget are prepared / assessed or endorsed (+/-) by an independent institution.

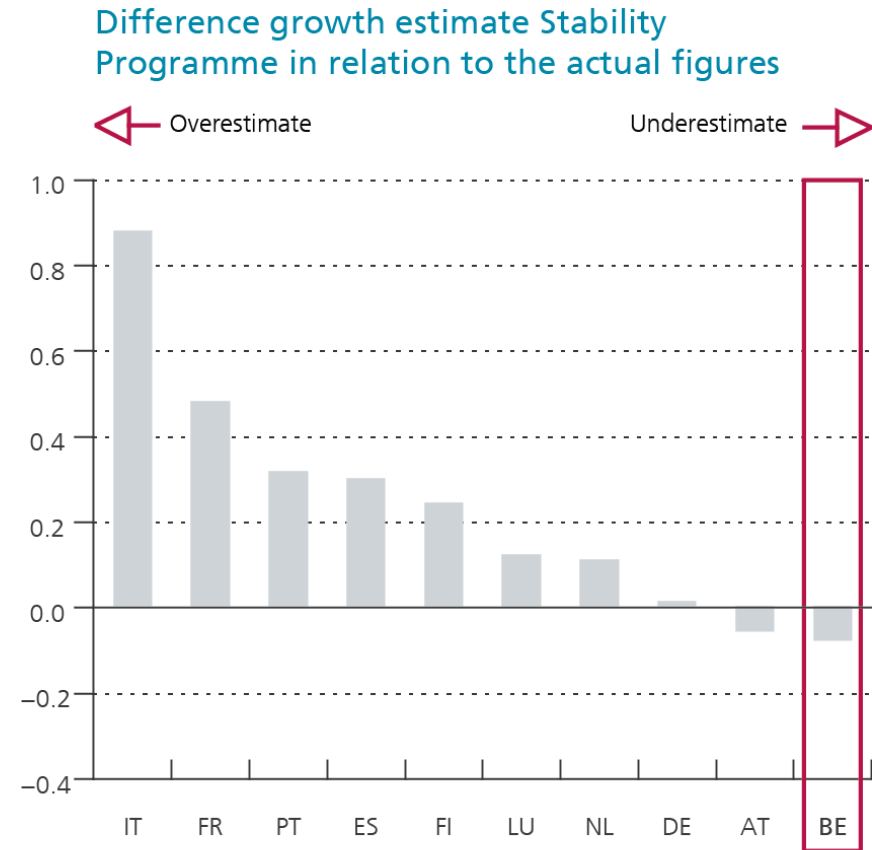
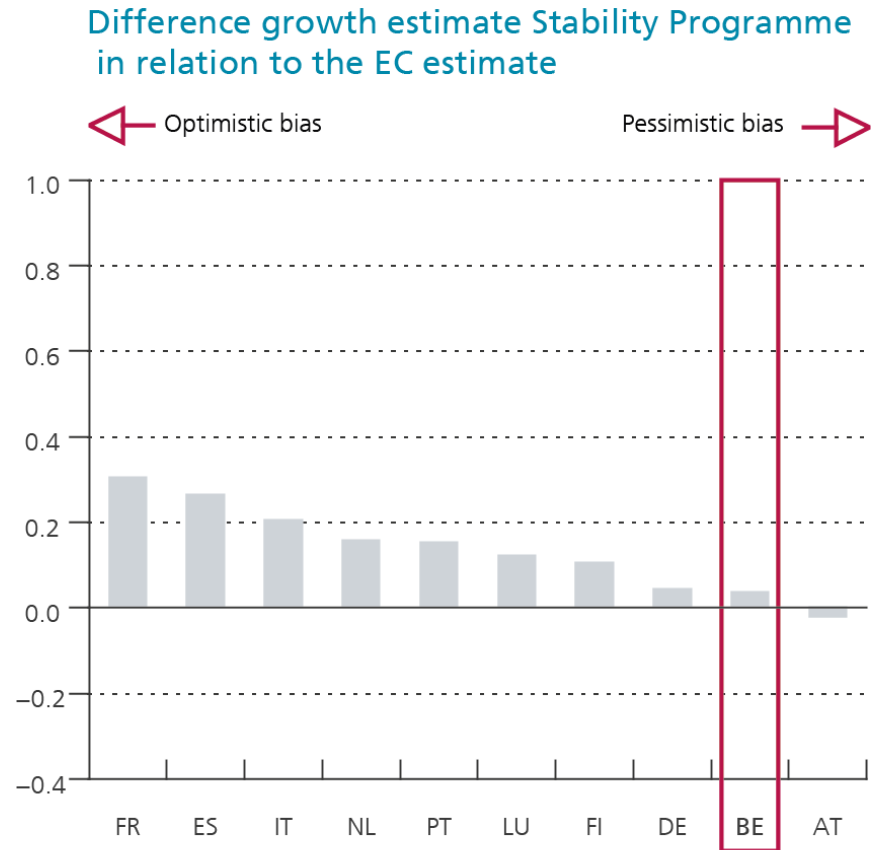
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|----|----|-----|-----|----|----|-----|----|----|-----|-----|-----|-----|-----|----|----|----|----|-----|
| | | +/- | +/- | | | +/- | | | +/- | +/- | +/- | +/- | +/- | | | | | +/- |

Source: ESCB WGPF questionnaires.

Apart from Belgium (economic budget prepared by the Federal Planning Bureau), there are still only three other euro area countries, namely the Netherlands, Slovenia and Austria, in which an independent institution produces the macroeconomic forecasts.

Macroeconomic forecasts in Belgium perform well

(difference between the average annual real GDP growth rates over the period 2000-2019, in percentage points^{1,2})



Sources: EC, NBB.

¹ Countries were chosen based on the availability of comparable data over the entire period.

² 2009 is disregarded since the unexpectedly severe economic recession in that year makes it difficult to obtain comparable figures.

1. Budgetary procedures - estimate of tax revenues

- The projections for the main government revenue items are prepared / assessed (+/-) by a separate independent institution.

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| | | | +/- | | | | | | | | | | | | +/- | | | +/- |

Source: ESCB WGPF questionnaires.

In most euro area countries, tax revenues are estimated by the Ministry of Finance. Germany, the Netherlands and the Slovak Republic are exceptions.

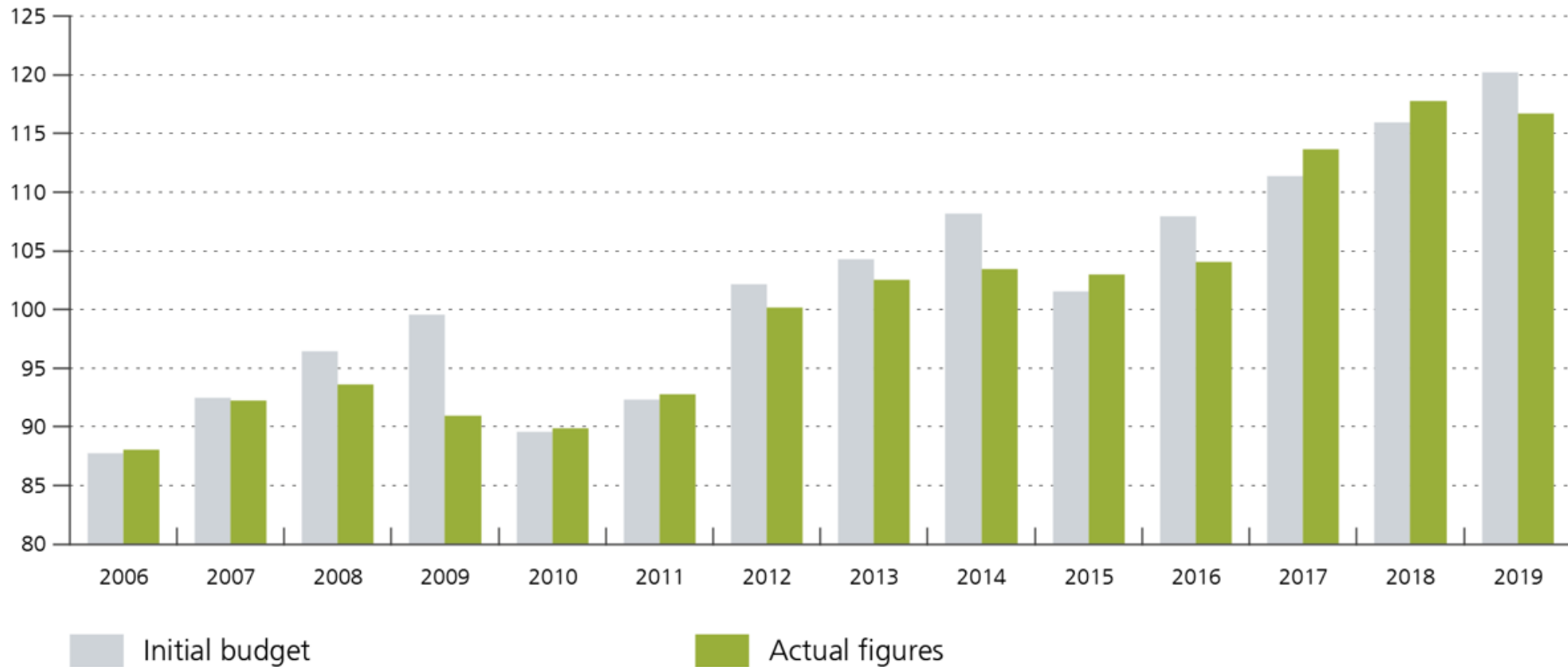
- There is no upward bias in revenue projections (they tend to be more buoyant than EC or ESCB projections)

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| | | | | | | | | | | | | | | | | | | |

Source: ESCB WGPF questionnaires.

In Belgium, quality of tax revenue estimates could be improved

(Estimates versus actual tax revenues in Belgium¹, in € billion)



Source : Federal government budget documents.

¹ This concerns the tax revenues collected by the federal government on a cash basis. If there is a change in timing of collection between the initial budget and the actual figures, an adjustment is made in order to obtain comparable figures.

1. Budgetary procedures - multiannual budgetary planning

➤ Is there a multi-annual budget/planning framework (other than the stability programmes) ?

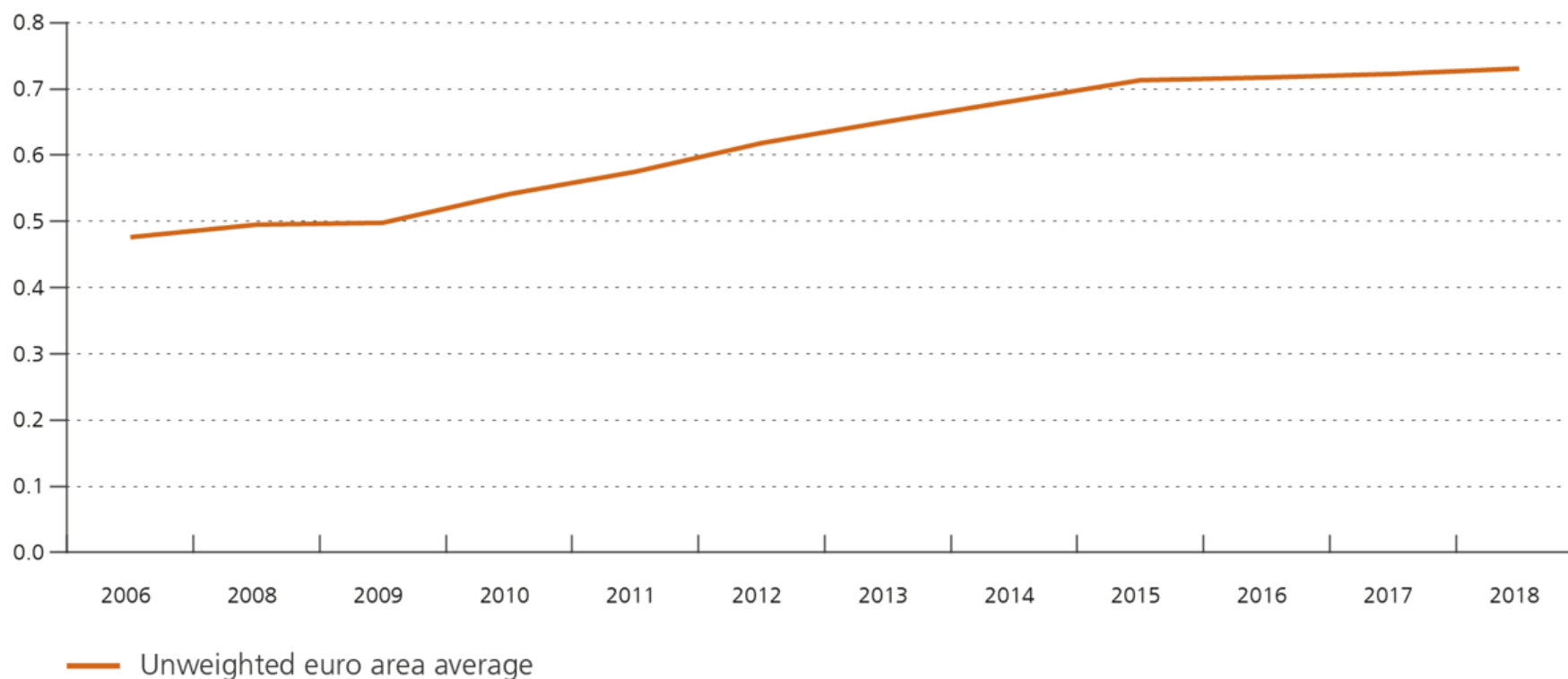
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| | | | | | | | | | | | | | | | | +/- | | |

Source: ESCB WGPF questionnaires.

Belgium is the only euro area country without any full developed multiannual fiscal planning at national level apart from the stability programme.

There has been a considerable reinforcement and expansion of medium-term frameworks in most euro area countries

(Index of the quality of medium-term budgetary frameworks¹, unweighted euro average, between 0 and 1, a higher value indicating a better-quality medium-term framework)



Source : EC.

¹ This index measures five dimensions of medium-term budgetary frameworks: coverage of the targets/ ceilings included in the medium-term fiscal plans, connectedness between the targets/ ceilings included in the medium-term fiscal plans and the annual budgets, involvement of national parliament or use of a coalition agreement in the preparation of the national medium-term fiscal plans, involvement of independent fiscal institutions in the preparation of national medium-term fiscal plans, level of detail included in the medium-term fiscal plans.

2. Fiscal rules - European fiscal framework [1/2]

- Stability and Growth Pact (SGP)
 - ✓ **Preventive part**
 - Avoid unsustainable budgetary positions
 - Achieve medium-term objective (MTO)
 - Adjustment path for countries that have not yet reached an MTO: improvement of structural balance determined based on a matrix, expenditure rule
 - ✓ **Corrective part**
 - Recovery measures for countries experiencing excessive deficits or debt
 - Overall balance up to 3% of GDP
 - Debt ratio up to 60% of GDP, debt rule

| Matrix of the required improvement of the structural balance (in percentage points of GDP) | | |
|---|---|---|
| Economic circumstances | Gross debt < 60% of GDP and no public finance sustainability risk | Gross debt > 60% of GDP or public finance sustainability risk |
| Exceptionally bad ▪ real growth < 0 % or output gap ¹ < -4 % Very bad ▪ -4 % ≤ output gap < -3 % Bad ▪ -3 % ≤ output gap < -1,5 % a) real growth < potential growth b) real growth > potential growth Normal -1,5 % ≤ output gap < 1,5 % Good ▪ output gap ≥ 1,5 % a) real growth < potential growth b) real growth > potential growth | No adjustment | |
| | 0,0 | 0,25 |
| | 0,0 | 0,25 |
| | 0,25 | 0,5 |
| | 0,5 | > 0,5 ² |
| > 0,5 ² | ≥ 0,75 | ≥ 0,75 |
| ≥ 0,75 | ≥ 0,75 | ≥ 1,0 |

Source: EC.

¹ The output gap corresponds to the difference between actual GDP and its potential level and is expressed in % of that level.

² An improvement in the structural balance of more than 0.5 percentage point of GDP is by convention considered to be at least equal to 0.6 percentage point of GDP.

2. Fiscal rules - European fiscal framework [2/2]

- General Escape Clause
 - Temporary easing of the European fiscal framework
 - Applicable from March 2020, at least until the end of 2022
 - Deactivation dependent on recovery economic activity to pre-crisis level
- Fiscal Compact
 - Budget section intergovernmental “Treaty for Stability, Coordination and Governance in the Economic and Monetary Union”
 - Government budget must be balanced or in surplus
 - Satisfied if structural balance equal to MTO or required path to MTO followed
 - Included in national legislation

2. Fiscal rule - current rules in Belgium

✓ **Targets for the general government budget balance**

→ Belgium has to draw up a stability programme under the Stability and Growth Pact

• **Specific rule at central government level : health care expenditure targets**

▫ The real growth of that expenditure was limited since 1994. After a number of adjustments, the federal government has restored the target of 1.5 % per annum since 2015. The federal coalition agreement of 2020 set that growth target at 2.5 % per annum from 2022.

• **Targets for Communities and Regions**

▫ Following the sixth State reform, the generally accepted approach was that each entity would move towards balance in the medium term. The cooperation agreement of 13 December 2013 provides a formal framework for budgetary coordination in Belgium.

• **Legal restrictions on local authority balances**

▫ The equilibrium principle which was mandatory from 1988 onwards, de facto obliges the municipalities to produce a broadly balanced budget.

2. National fiscal rules - expenditure rules

➤ Do expenditure rules play an important role in guiding fiscal policy (other than the expenditure rule of the Stability and Growth Pact)

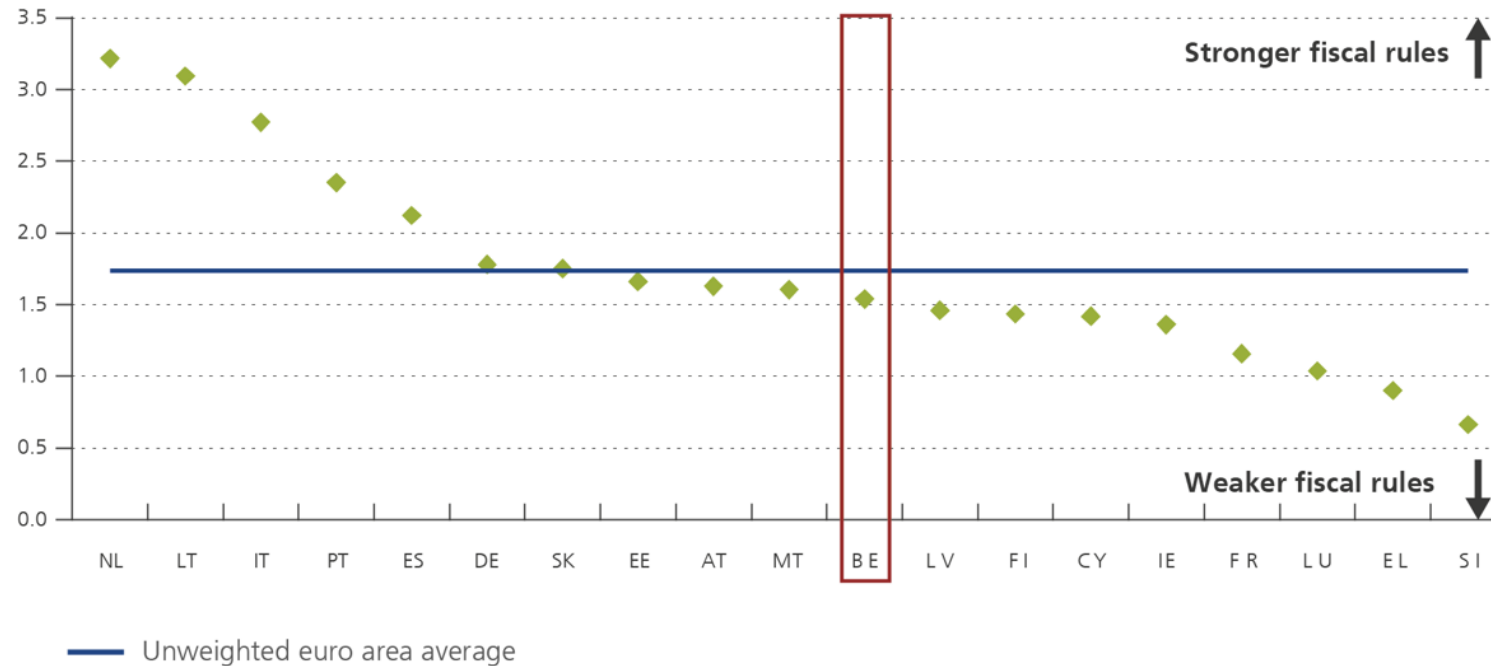
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| | | | | | | +/- | | | +/- | | | | | | | | | |

Source: ESCB WGPF questionnaires.

There is a growing consensus that expenditure rules can be an effective way of fostering fiscal discipline. There is currently no focus on expenditure rules in the Belgian budgetary framework, except for health care spending

2. National fiscal rules - strength

(Fiscal Rule Index¹ , 2018 survey, index value)



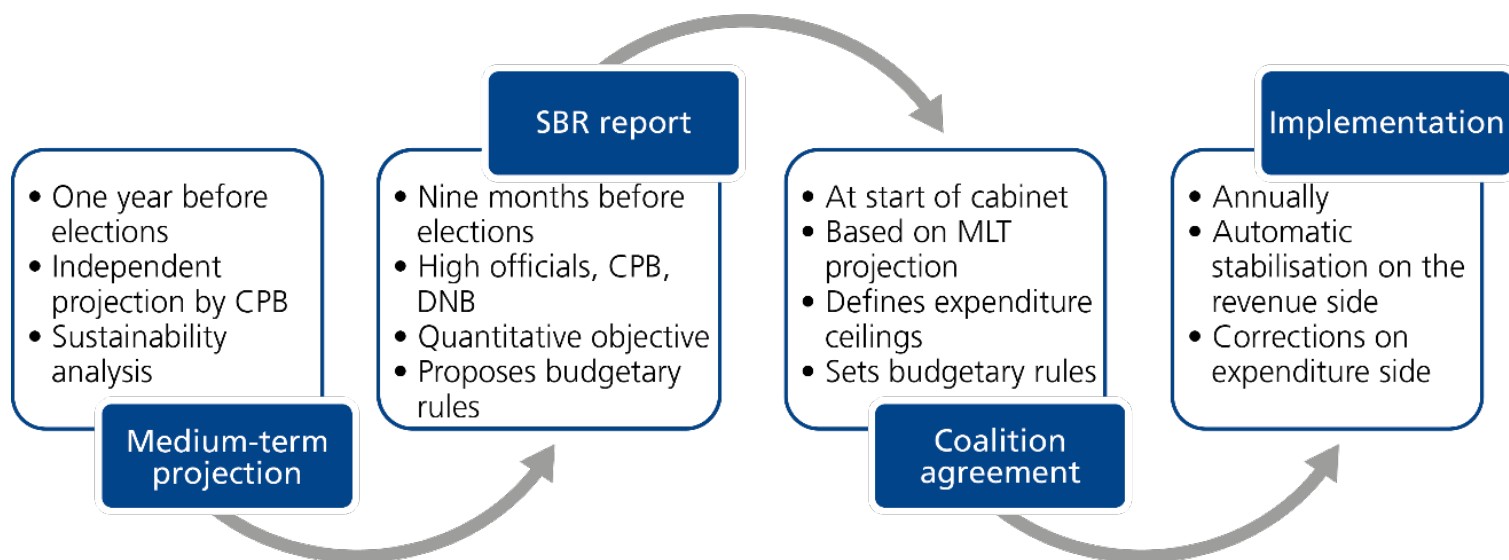
According to the results for 2018, the countries with the most efficient fiscal rules were the Netherlands, Lithuania and Italy.

Source : EC.

¹ First, a Fiscal Rule Strength Index (FRSI) is calculated for each country for each fiscal rule and for each policy level on the basis of five criteria : the statutory / legal basis, the room for setting or revising objectives, the nature of the entity responsible for monitoring the implementation of the rule and the correction mechanism, the correction mechanism associated with the rule, and the resilience to shocks or events outside the control of the government. Each of these criteria is given a specific score : the higher the score, the stronger the rule. Next, the EC calculates a composite Fiscal Rule Index (FRI) for each country on the basis of the various FRSIs, taking account of the coverage of the index and the presence of different fiscal rules in certain countries.

2. Fiscal rules - NL as an example of best practice

The setting of fiscal rules in the Netherlands during the electoral cycle



CPB = Centraal Planbureau (Bureau for Economic Policy Analysis)

MLT = Middellangetermijnverkenning (Medium-term projection)

SBR = Studiegroep Begrotingsruimte

DNB = de Nederlandsche Bank

Source: Vierke and Masselink (2017).

3. Independent fiscal institutions - organisational aspects [1/2]

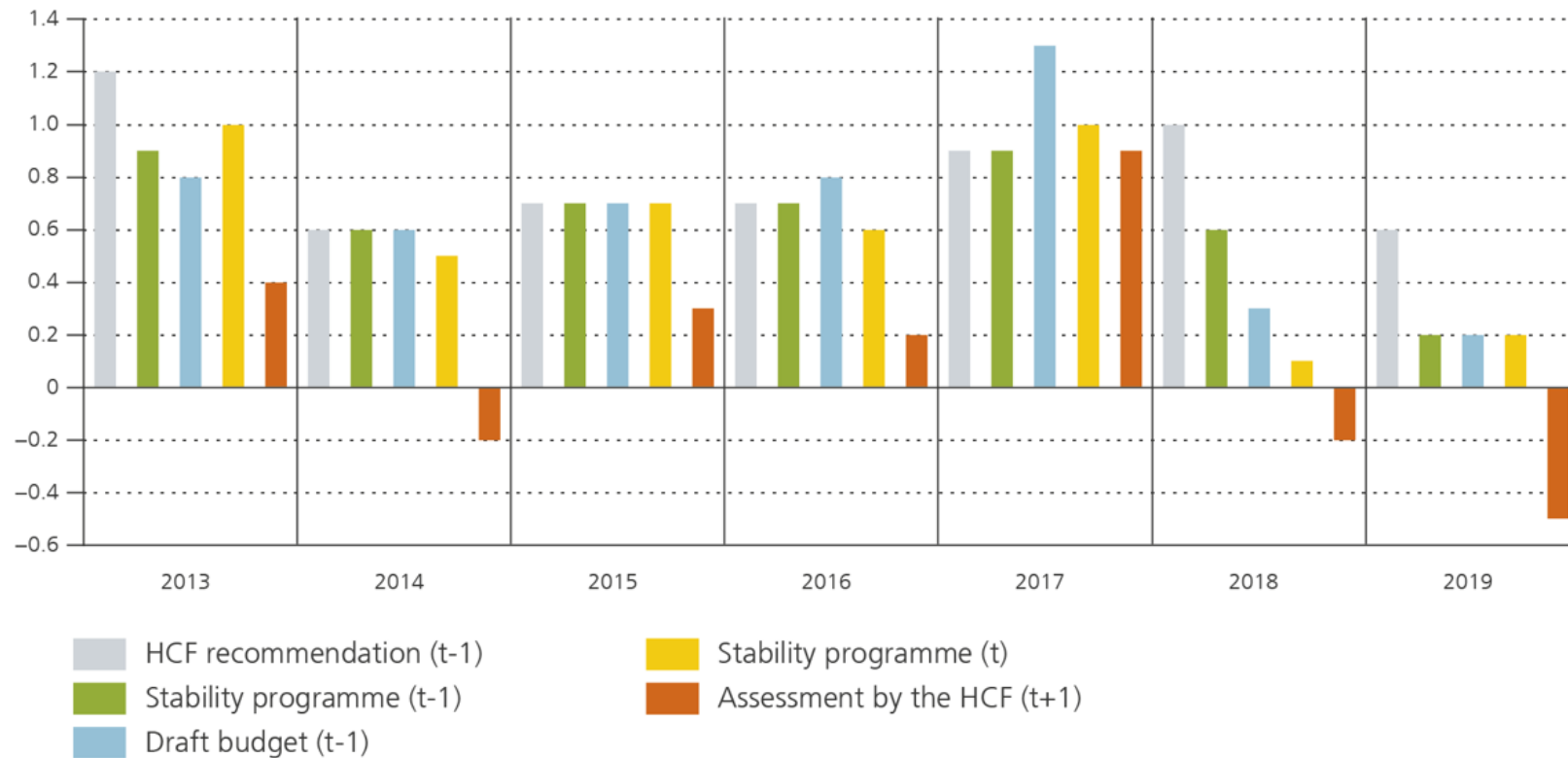
- In Belgium, two entities perform the functions traditionally devolved to independent fiscal institutions
 - High Council of Finance, via its “Public Sector Borrowing Requirement section”
 - Federal Planning Bureau (FPB) : prepare macroeconomic forecasts
- The “Public Sector Borrowing Requirement” section was set up by the special law of 16 January 1989
 - Facilitate the coordination of fiscal policies between the country’s various entities and make assessments and recommendations on fiscal policy (Cooperation Agreement of 13 December 2013)
 - 12 members assisted by a secretariat (FPS Finance officials)
- EC highlighting recently the need to ensure the independence of the national fiscal institution responsible for verifying compliance with the European fiscal rules.
 - Royal Decree of 23 May 2018 on the introduced changes in the functioning of the section

3. Independent fiscal institutions - organisational aspects [2/2]

| Institution name | | Creation year | Last change | Staff (full-time) | Council/ Board | External advisory panel | Leadership participates in parliamentary hearings |
|------------------|--|---------------|-------------|-------------------|----------------|-------------------------|---|
| Austria | a) Fiscal Advisory Council (FISK) | 1970 | 2013 | 6 | 15 | ○ | ● |
| | a) Parliamentary Budget Office (PBO) | 2012 | 2012 | 8 | 0 | ○ | ● |
| Belgium | a) Federal Planning Bureau (FPB) | 1959 | 2014 | 100 | 4 | ● | ○ |
| | a) High Council of Finance - Section for Public Sector Borrowing Requirements ¹ | 1989 | 2013 | 3 to 5 | 12 | ○ | ○ |
| Finland | a) Monitoring and Evaluation of Fiscal Policy Function - National Audit Office | 2013 | 2013 | 4 | 0 | ● | ● |
| | a) Finnish Economic Policy Council (EPC) | 2014 | 2014 | 2 | 4 | ○ | ● |
| France | High Council of Public Finance (HCFP) | 2013 | 2013 | 3 | 11 | ○ | ● |
| Germany | Independent Advisory Board to the Stability Council | 2013 | 2013 | 1 | 9 | ○ | ○ |
| Greece | a) Parliamentary Budget Office | 2011 | 2016 | 11 | 5 | ○ | ● |
| | a) Hellenic Fiscal Council | 2015 | 2017 | 15 | 5 | ○ | ● |
| Ireland | a) Irish Fiscal Advisory Council (IFAC) | 2011 | 2013 | 6 | 5 | ○ | ● |
| | a) Parliamentary Budget Office (PBO) | 2017 | 2017 | 12 | 0 | ● | ● |
| Italy | Parliamentary Budget Office (PBO) | 2014 | 2014 | 24 | 3 | ● | ● |
| Netherlands | a) Bureau for Economic Policy Analysis (CPB) | 1945 | 2013 | 125 | 0 | ● | ● |
| | a) Advisory Division of the Council of State | 2014 | 2014 | 3 | 3 | ○ | ● |
| Portugal | Public Finance Council (CFP) | 2012 | 2014 | 18 | 5 | ○ | ● |
| Slovak Republic | Council for Budget Responsibility (CBR) | 2012 | 2012 | 14 | 3 | ● | ● |
| Spain | Independent Authority of Fiscal Responsibility (AIReF) | 2014 | 2014 | 35 | 0 | ● | ● |

3. Independent fiscal institutions - effectiveness

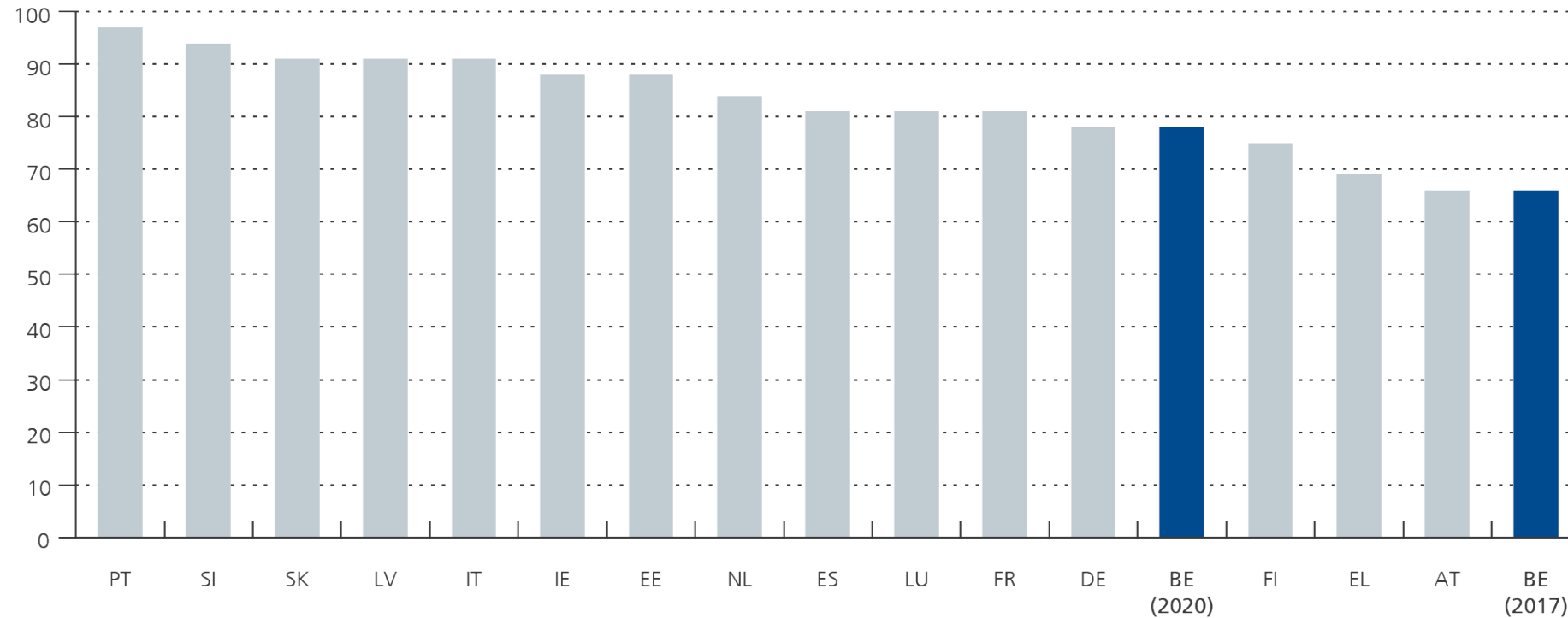
(Year-on-year change in the structural balance, percentage points of GDP)



The challenge for Belgium lies more in the execution than in the definition of the budgetary guidelines. Nevertheless, the evolution of the structural balance might have been less favourable if there were simply no recommendations.

3. Independent fiscal institutions

(composite independence indicator¹, in %, 2017 unless otherwise stated)



Until the 2018 revision of the Royal Decree, Belgium had the lowest score among the euro area countries in terms of independence, while countries which had received financial assistance, such as Portugal, Ireland and Spain, perform much better with respect to this criterion.

Source : von Trapp and Nicol (2018).

The composite indicator includes the following components : leadership independence, operational independence, legal and financial independence, plus access to information and transparency. A higher value means a higher degree of independence.

4. Budgetary coordination

Cooperation agreement of 13 December 2013

- Between the Federal Government, the Communities, the Regions and the Community Commissions

- **Each entity contributes to the attainment of the overall budget targets : need for budget coordination.**
 - Annual budget targets relating to the stability programme are to be allocated among the various policy levels on the basis of a recommendation by the “Public Sector Borrowing Requirement” section of the HCF.
 - Following evaluation of the targets, the section should also be able to indicate any party to the agreement deviating significantly from its target.

4. Budgetary coordination

➤ Does there exist a kind of effective cooperation/commitments between the different government levels that goes beyond simple ad hoc negotiations? (regular internal stability programmes or implicit budget coordination (+/-))

| AT | BE | CY | DE | EE | EL | ES | FI | FR | IE | IT | LT | LU | LV | MT | NL | PT | SI | SK | |
|-----|-----|----|-----|----|-----|----|----|-----|----|-----|----|-----|-----|----|-----|-----|-----|----|--|
| +/- | +/- | | +/- | | +/- | | | +/- | | +/- | | +/- | +/- | | +/- | +/- | +/- | | |

Source: ESCB WGPF questionnaires.

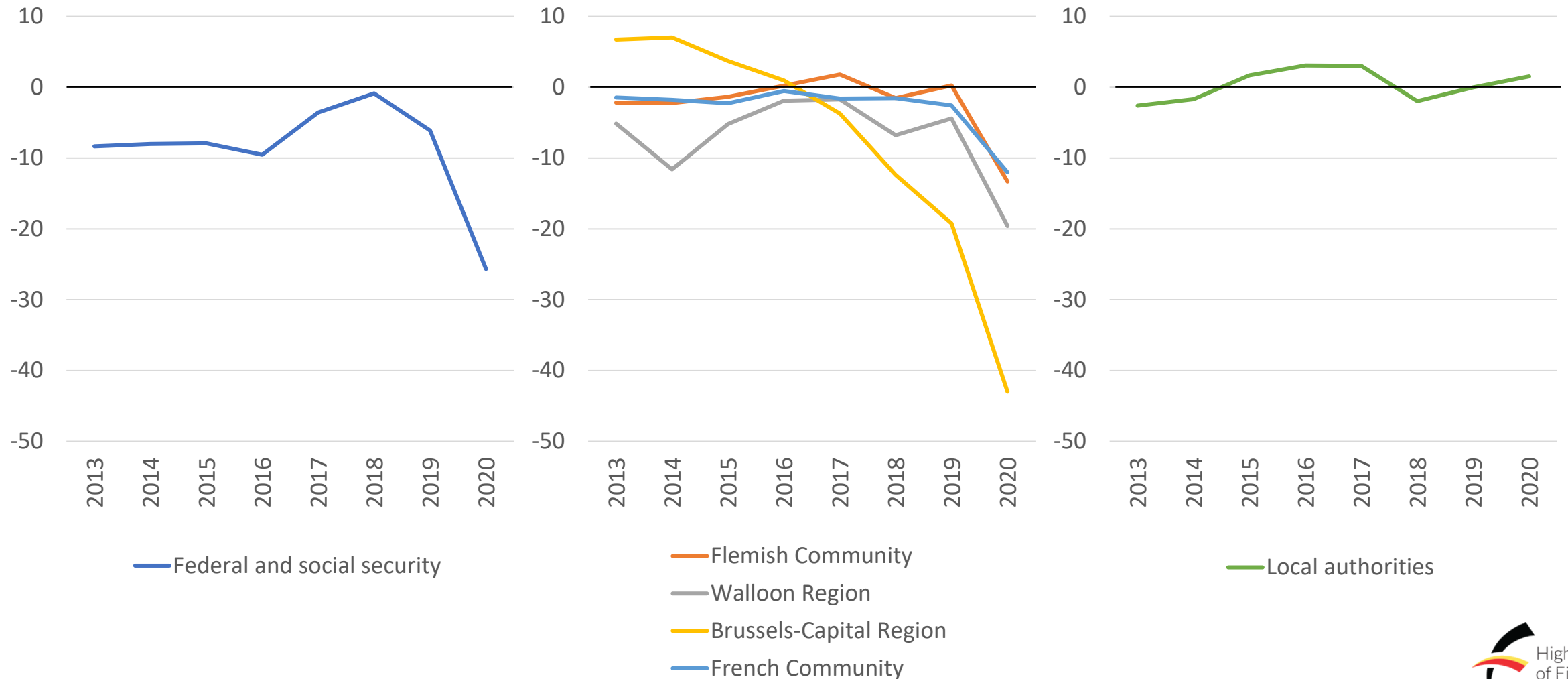
The **lack of any hierarchy in the legislation** means that Belgium has a unique institutional structure, and it is therefore impossible to adopt another country's best practice.

Since the cooperation agreement in 2013, the Consultative Committee has **never yet managed to agree on the allocation of the budget targets** included for general government in the stability programme.

If there are no agreed targets for each level of government, the “Public Sector Borrowing Requirement” section of the **High Council of Finance cannot determine whether there is any significant deviation**, and the operation of the automatic correction mechanism therefore cannot be guaranteed.

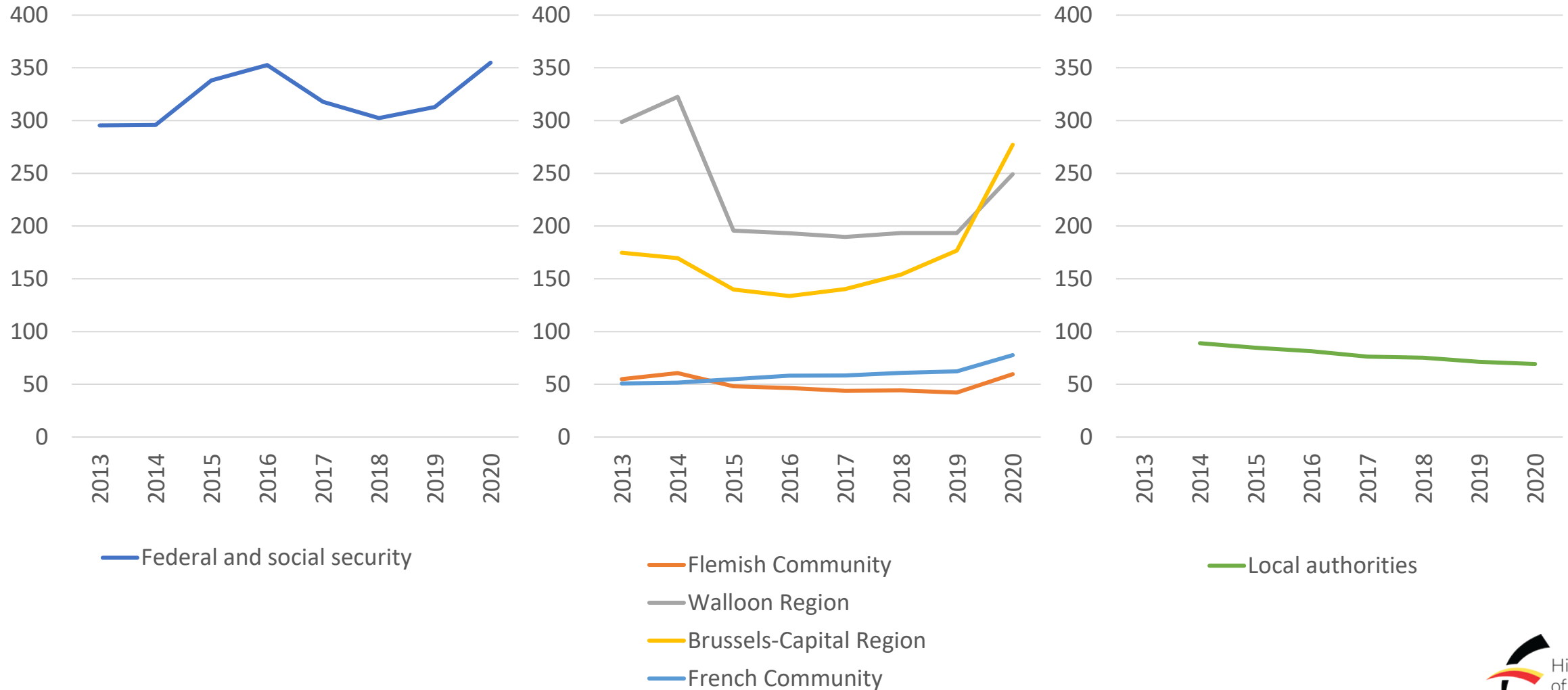
4. Budgetary coordination - Overall budget balance

(% of revenue after deduction of transfers to other sub-sectors)



4. Budgetary coordination - Indebtness

(% of revenue after deduction of transfers to other sub-sectors)



Sources: NAI, NBB.

4. Budgetary coordination - normative trajectories in 2021

Distribution of the normative trajectories of all public administrations between the different levels of power :

- Distribution key based on the share in the structural deficit¹ (= share in the distance to the medium-term objective)
- This ensures that all subsectors achieve the medium-term objective in the same year

Part des sous-secteurs dans le solde structurel de l'ensemble des administrations publiques en 2022¹

| (% du PIB, sauf mentions contraires) | Ent. I | Ent. II | C&R | PL | Total | |
|--------------------------------------|--------|---------|-------|-------|-------|------|
| | -3,5 | -1,1 | -1,2 | 0,0 | -4,7 | |
| <i>% Total</i> | 75,4% | 24,6% | 24,7% | -0,1% | 100% | |
| Détail C&R | C. Fl. | C. Fr. | RW | RBC | Autre | C&R |
| | -0,5 | -0,1 | -0,4 | -0,2 | 0,0 | -1,2 |
| <i>% C&R</i> | 38,3% | 10,5% | 31,6% | 15,9% | 3,7% | 100% |

Source : Calculs du CSF sur la base du BFP (2021) : Perspectives économiques 2021-2026

¹ Dans des circonstances normales, l'année qui précède le départ de la trajectoire normative ferait fonction de période de référence, soit 2021, mais cette année est encore façonnée par l'impact économique et budgétaire de la pandémie. Une année dans la période post-coronavirus qui pourrait servir de référence est trop éloignée dans le temps et par conséquent entourée de davantage d'incertitudes. C'est pourquoi la Section a décidé de répartir les efforts structurels recommandés pour l'ensemble des administrations publiques selon la part de chaque sous-secteur dans le solde structurel estimé pour l'année 2022 au niveau de l'ensemble des administrations publiques.

4. Budgetary coordination - normative trajectories in 2021¹

Solde de financement structurel normé (en % du PIB)

| | 2020 | Horizon programme de stabilité | | | | Δ resp. Σ 22-24 |
|-------------------------------------|--------------|--------------------------------|--------------|--------------|--------------|----------------------------------|
| | | 2021 | 2022 | 2023 | 2024 | |
| Entité 1 | -4,3 | -4,3 | -3,5 | -3,0 | -2,6 | 0,9 |
| Entité 2 | -1,92 | -1,06 | -1,17 | -1,03 | -0,88 | 0,29 |
| Communautés et régions | -2,10 | -1,07 | -1,18 | -1,03 | -0,88 | 0,30 |
| <i>Communauté flamande</i> | -0,94 | -0,26 | -0,45 | -0,40 | -0,34 | 0,11 |
| <i>Communauté française</i> | -0,26 | -0,04 | -0,12 | -0,11 | -0,09 | 0,03 |
| <i>Région wallonne</i> | -0,39 | -0,53 | -0,37 | -0,33 | -0,28 | 0,09 |
| <i>Région de Bruxelles-Capitale</i> | -0,23 | -0,21 | -0,19 | -0,16 | -0,14 | 0,05 |
| <i>Autres²</i> | -0,05 | -0,03 | -0,03 | -0,03 | -0,02 | 0,01 |
| Pouvoirs locaux | 0,18 | 0,02 | 0,01 | 0,00 | 0,00 | 0,00 |

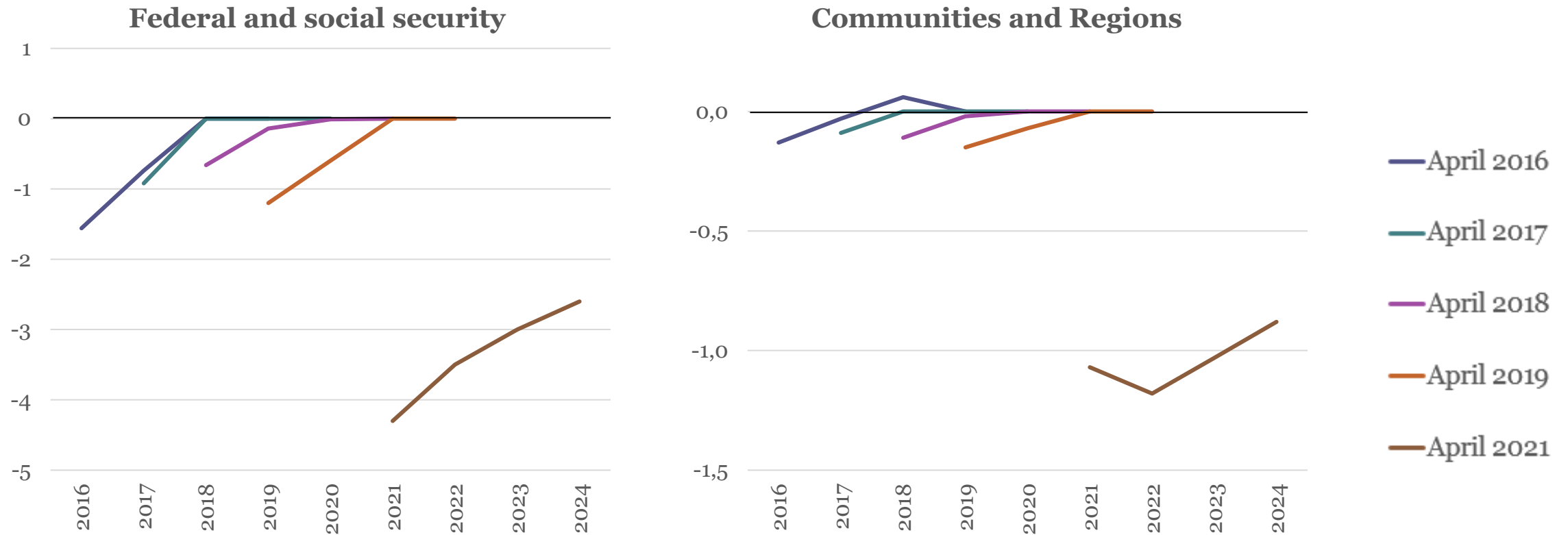
Source : Calculs du CSF sur la base du BFP (février 2021) : Perspectives économiques 2021-2026.

¹ Δ SB 2022-2023 cumulée de 1,3 point de pourcentage du PIB et Δ SB 2024 de 0,6 point de pourcentage du PIB

² Communauté germanophone, COCOF, COCON et COCOM

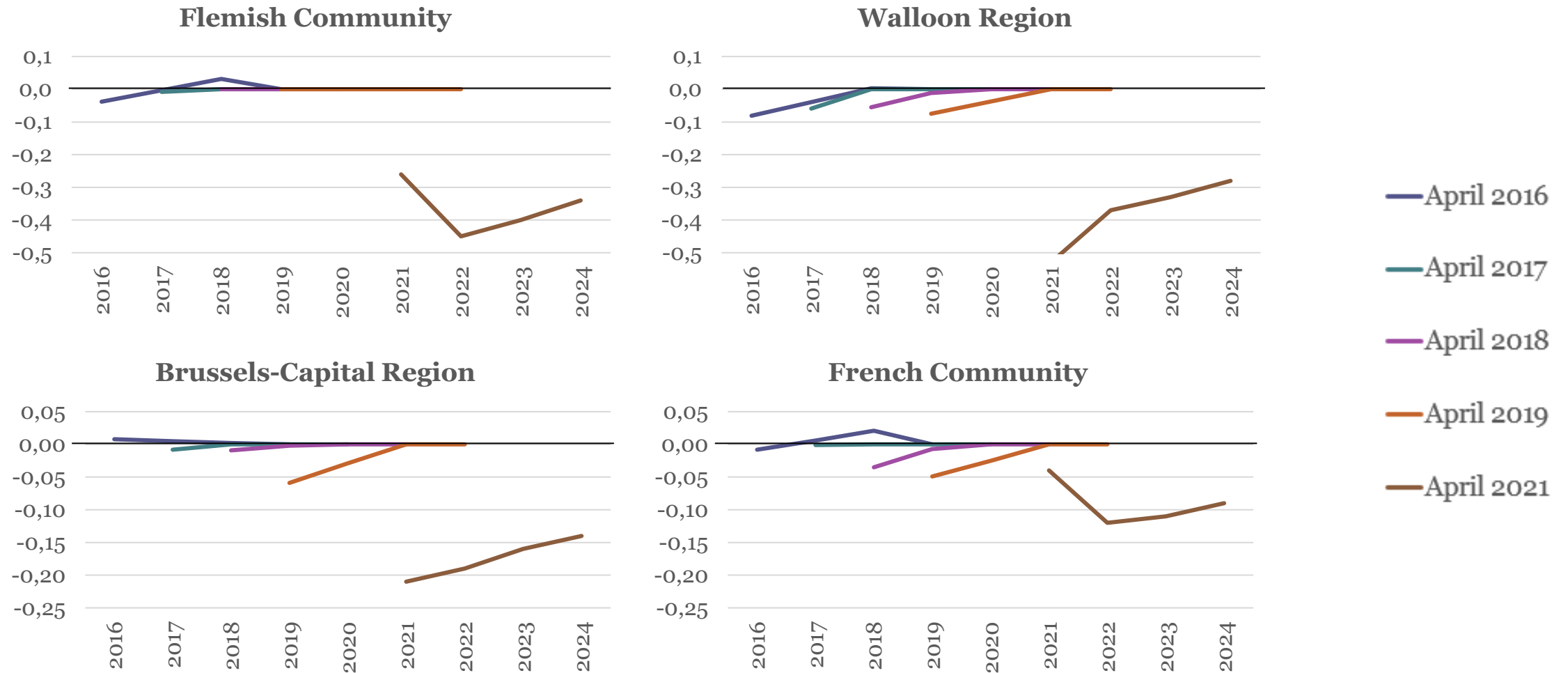
4. Budgetary coordination - successive normative trajectories

(Normative structural balance in % of GDP, based on successive advice of the Section Public Sector Borrowing Requirements of the HCF)



4. Budgetary coordination - successive normative trajectories

(Normative structural balance in % of GDP, based on successive advice of the Section Public Sector Borrowing Requirements of the HCF)



The Belgian national fiscal framework - conclusions

- The Belgian fiscal framework has a number of strong points ...
 - **Economic growth forecasts** have no optimism bias and are close to actual figures
 - Creation of the Federal Monitoring Committee
 - Introduction of the costing of election manifestos by the Federal Planning Bureau
- ... but some aspects can be improved:
 - **Estimation of tax revenues**
 - Introduction of **multiannual planning**, possibly in combination with an expenditure rule
 - Further introduction of spending reviews
 - **Implementation of the High Council of Finance / stability programmes budget path**
 - Functioning of the **budgetary coordination**