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

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Introduction

During the COVID-19 crisis, a strong fiscal stimulus has provided support for economic activity and ensured that it could subsequently begin to recover. The corollary to that is a steep rise in budget deficits and the public debt, which will have to be reversed in the aftermath of the crisis. This makes fiscal policy more prominent as a crucial element of macroeconomic policy aimed at promoting stability and growth. Well-designed fiscal frameworks can make a significant contribution here. In this respect, the European fiscal framework will be supported by national fiscal frameworks comprising a set of strong and efficient national budgetary procedures, fiscal rules and fiscal institutions forming the basis of the conduct of fiscal policy.

This article focuses on the most important aspects of the Belgian fiscal framework. On the basis of a description of how the framework operates and an analysis of best practices in other euro area countries, it will examine which aspects work well and which could be improved. Among other things, the article uses data from a survey conducted at the beginning of 2020 by the ESCB Working Group on Public Finance (WGPF), covering the national central banks of the 27 EU countries by detailed questionnaires concerning their national fiscal frameworks. Some suggestions for improving the Belgian fiscal framework will then be made.

This article is structured as follows. The first part defines the concept of a national fiscal framework, sets out the arguments put forward in the literature in favour of introducing such a framework, and explains the connection with the European fiscal framework. The second part examines in more detail an essential aspect of the national fiscal frameworks, namely budgetary procedures. It will consider the macroeconomic framework, followed by the revenue estimate, budget monitoring and control, the medium-term framework and some new developments. The third part looks at a second aspect of the national fiscal frameworks, namely the national fiscal rules. The next part describes the role that independent fiscal institutions perform within the fiscal framework. Here, the focus will be on the role of the High Council of Finance “Public Sector Borrowing Requirement” section. The fifth

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part examines the necessary budgetary coordination between the various echelons of the Belgian government. The concluding part sums up the main findings.

1. National fiscal frameworks

1.1 Description of national fiscal frameworks

A national fiscal framework is generally defined as the set of provisions, procedures, rules and institutions underlying the conduct of fiscal policy. There are five important components:

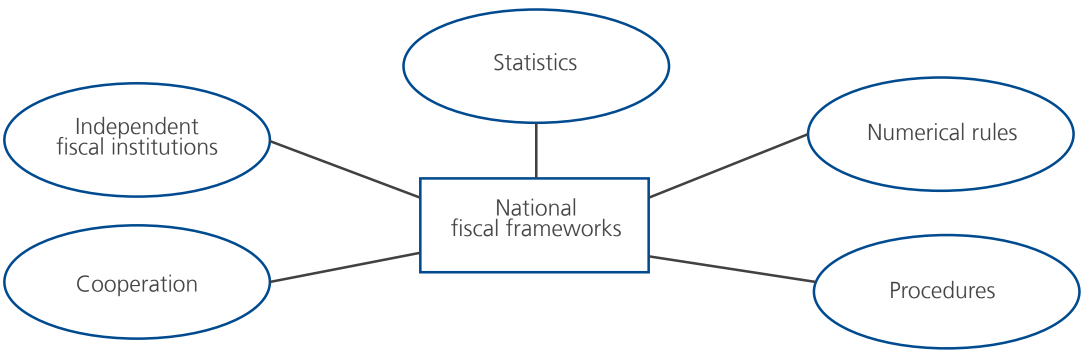
- systems for reliable, prompt and detailed statistical reporting on developments in public finances;
- numerical rules setting targets for key fiscal aggregates;
- procedures for producing forecasts for budgetary planning, monitoring the execution of the budget, and medium-term planning;
- mechanisms and rules regulating budgetary relationships between the various echelons of government;
- independent institutions offering fiscal policy recommendations and assessments.

These various components are interdependent and complementary, and determine the operation of the national fiscal framework. For example, strong fiscal rules and well-designed budgetary procedures will reinforce one another. As a further example, efficient, independent fiscal institutions foster compliance with the fiscal rules.

This article will not discuss fiscal statistics since there is in general no problem in Belgium with the availability of prompt, reliable government statistics. The financing balance of the government sector as well as other variables of the government accounts according to the ESA methodology are central aggregates for fiscal policy. Since the start of the Stability and Growth Pact, in the second half of the 1990s, Eurostat has kept a close eye on the production and quality of these figures. It does so on the basis of guidelines and periodic audits. The requirements for the figures were gradually strengthened. For instance, following the financial and economic crisis a rule was introduced requiring the publication of more short-term data, and Eurostat's auditing powers were extended, and financial sanctions were introduced for countries which falsify their figures.

Chart 1

Main components of a national fiscal framework



Sources: EC, NBB.

The success of a national fiscal framework depends on its quality and the coherence of its parts, but its implementation is also crucial. Strong political commitment to fiscal discipline and a social consensus in that regard are vitally important here.

1.2 The benefits of effective national fiscal frameworks

It is generally agreed that effective national fiscal frameworks can make a substantial contribution towards conducting fiscal policy. They enhance government efficiency and the transparency of decision-making. That is obvious for some aspects, such as the prompt availability of reliable, detailed fiscal statistics, cooperation between public authorities, or medium-term planning. But other aspects such as the existence of numerical fiscal rules or independent institutions responsible for macroeconomic and fiscal forecasts or fiscal policy recommendations and assessments, can also make a significant contribution to good budgetary results, as they can combat the so-called "deficit bias", the tendency to conduct procyclical fiscal policies and the risk of a lack of fiscal discipline in a monetary union.

The deficit bias means that the democratic decision-making process may provide incentives for governments to allow too high – or even excessive – deficit and debt levels, deviating from what might be considered the best fiscal policy from a macroeconomic viewpoint.

One reason for the deficit bias is that the population and politicians consider too short a timescale. For instance, individuals focus mainly on the short-term advantages of lower taxes or higher spending, without always being aware of the potential, adverse longer-term impact on the budget of such an expansionary fiscal policy. Politicians could be inclined to capitalise on that in order to boost their chances of re-election. There may also be a preference for deliberately favouring the current generations and shifting the debt burden onto future generations. Another explanation for the deficit bias is offered by what game theory refers to as the common pool problem. Where fiscal policy is concerned, this means that each "player" or interest group promotes its own interests without taking account of the general budget restrictions.

Furthermore, fiscal policy is often procyclical, whereas there is a consensus that the optimum policy should be anticyclical. A procyclical policy reinforces the fluctuations in economic activity and increases the debt. Such a policy comes about because of the difficulty of estimating the economic cycle situation and outlook in real time, combined with the delay in implementing fiscal policy. In addition, there are the so-called economic policy reasons whereby policymakers attach less importance to stabilising output than to other objectives, and all kinds of pressure groups step up their demands for additional expenditure or lower taxes when the economy is doing well.

In a monetary union, there is an even greater risk of a lack of fiscal discipline. If a country does not belong to a currency area, then in principle the financial markets can discourage an inappropriate fiscal policy when setting interest rates by imposing a higher risk premium on governments facing budgetary problems. In a monetary union, this mechanism might hamper if financial markets believe that in case of serious financial difficulties of a member country, there will be some kind of bail-out. Without such a mechanism, unsustainable public finances in one member country might lead to a sudden stop in the willingness of financial markets to finance government debt with, eventually, contagion effects for the monetary union as a whole. As both situations are problematic, it is clear that sustainable public finances are an essential condition for a well-functioning currency union. This reasoning applies not only to a monetary union comprising different countries, but also to local authorities and the component entities in a federal state.

1.3 European and national fiscal frameworks

In contrast to monetary policy, the fiscal policy of the euro area countries is a national competence. However, since the start of the economic and monetary union, it has been largely determined by a European framework aimed at promoting fiscal discipline and avoiding undesirable budgetary outcomes [1].

The basis of the European fiscal framework was laid by the Maastricht Treaty and the Stability and Growth Pact, which implements the Treaty's requirements concerning fiscal supervision. The framework comprises a preventive arm, aimed at avoiding the development of unsustainable budgetary situations, and a corrective arm, relating to the recovery measures for Member States facing serious problems in their public finances. Various adjustments to the fiscal framework have made it smarter but at the same time also more complicated [2]. That complexity is regarded as problematic and has therefore prompted ongoing discussions on the reform of the European fiscal rules.

Over the years, there has been a growing conviction that the European rules need to be supported by strong, efficient national frameworks. These frameworks are seen partly as a way of creating the necessary environment for compliance with the European fiscal rules, and partly as a way of reinforcing the national ownership of those rules.

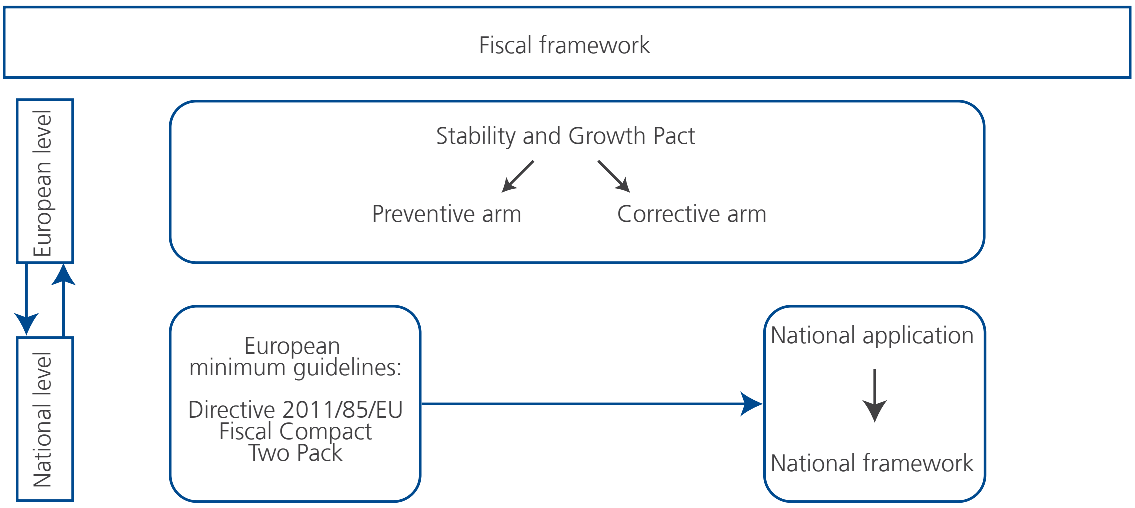
Since the creation of the euro, the national fiscal frameworks have made strong progress, in parallel with the development of the European fiscal framework. Following the financial and economic crisis of 2008-2011 in particular, in the context of the strengthening of governance at European level, there were a number of important initiatives for improving the national fiscal frameworks. This was in line with the shift towards stricter fiscal and economic supervision in response to the crisis. The EU Member States agreed on a number of requirements for their national fiscal frameworks with the aim of increasing their quality and their effectiveness in supporting fiscal discipline.

1 At present, the European fiscal framework has been temporarily suspended by the European Commission's activation of the "General Escape Clause" in March 2020.

2 The fiscal rules at EU level are dealt with here only very briefly since they have already been discussed in depth in Melyn *et al.* (2015), and have remained largely unchanged since then.

Chart 2

The European and national fiscal framework



Sources: NBB, EC.

A first initiative concerned Council Directive 2011/85/EU laying down some basic requirements for the budgetary frameworks of the Member States. That directive was adopted as part of the so-called Six Pack, the six texts setting out the new EU governance legislation, which was formally approved in November 2011 and specifies a number of minimum requirements which the Member States must meet in their national fiscal frameworks. Those minimum requirements are fairly vague, but they aim at greater consistency between the national and European rules and institutions. They concern the availability of reliable statistics for monitoring the budget, the introduction of numerical fiscal rules and associated correction mechanisms, the drafting of a detailed medium-term plan with a view to achieving the goals specified in the stability or convergence programme, the use of realistic macroeconomic and fiscal estimates, and the introduction of appropriate coordination mechanisms between all subsectors of general government.

A second initiative concerns the fiscal compact introduced at the end of 2011. This pact aimed to promote fiscal discipline and further reinforce European fiscal supervision. These agreements were laid down in a new intergovernmental "Treaty for Stability, Coordination and Governance in the Economic and Monetary Union" ("TSCG"), signed in March 2012. The fiscal compact is the budgetary section of the new treaty. Its principal stipulation is that the government budget must be in balance or in surplus. This requirement is considered to be met if the structural budget balance for the year is in line with the country-specific medium-term objective (MTO), with the proviso that any medium-term deficit target must not exceed 0.5% of GDP. It is necessary to converge to the country-specific medium-term objective (as defined in the Stability and Growth Pact), with the EC proposing the adjustment path[1].

Thirdly, the so-called Two Pack – i.e. two legal texts proposed by the EC on 23 November 2011 and intended to further tighten up fiscal supervision for countries in the euro area – also contains a number of provisions on national fiscal frameworks. Among other things, it laid down a common budget calendar, it introduced the obligation to base budgets on independent macroeconomic estimates, and it assigned an important role to independent fiscal institutions in regard to checks on compliance with the numerical fiscal rules.

There are wide variations between Member States in the design and effectiveness of the national fiscal frameworks. The principal reason is that the EU directives only lay down minimum requirements for the national fiscal frameworks, and there are variations in the implementation of – and compliance with – national guidelines. Discrepancies have also arisen between the European and national fiscal frameworks. That has undermined the credibility of both and made them more complex. The interaction between the European and national fiscal frameworks is nevertheless crucial to the proper operation of both.

There is still scope for further reinforcement of the national fiscal frameworks and for improving the interaction with the European fiscal framework. That is clear from a study of the operation of the EU's economic and fiscal policy framework, and more specifically the Six Pack and the Two Pack, published by the EC in early 2020 (EC, 2020b). Originally, the intention was to organise a public debate in mid-2020 based on that study, in order to collect proposals for possible adjustments. On that basis, towards the end of 2020, the EC was then to put forward proposals for further adjustments to the European policy framework and for any ensuing adjustments to the national fiscal frameworks. However, that initiative was put on hold as a result of the COVID-19 crisis.

2. Budget procedures

Budget procedures encompass the procedural rules laid down by law for drawing up, implementing and monitoring the budget. These rules specify the tasks of the parties involved (government, administration,

1 In December 2017 the EC drew up a proposal for a Directive for the European Council with the intention of incorporating the fiscal compact in EU law. That Directive has not yet been approved.

parliament, independent institutions) according to a timetable. This section looks at a number of important aspects of the budget process, namely the production of macroeconomic forecasts, the estimate of public revenues, monitoring and control of the budget, multiannual planning, and a number of new developments such as the costing of election manifestos and the conduct of spending reviews.

2.1 Macroeconomic forecasts

Cautious, realistic macroeconomic and budgetary forecasts are the cornerstone of an effective national fiscal framework [1]. Governments may in fact be inclined to use over-optimistic growth estimates, because that creates more budgetary scope, enabling them to avoid difficult consolidation measures ex ante. However, such practices subsequently have repercussions on the budget balance outcome, which will logically prove to be less favourable than expected if growth actually falls short of the estimate. Governments then frequently reject responsibility for that, by blaming the less favourable outcome on bad luck, or more specifically on weaker than expected growth.

In theory, independent institutions should not be tempted to do that. Such institutions should therefore be able to counterbalance any tendency on the part of governments to put an optimistic bias on the growth estimates underlying the budgets. In these circumstances, it is thought to be a good thing that governments should be obliged to use an independent institution's growth estimates when drawing up their budget. However, in the absence of such a formal obligation, the temptation to put an optimistic slant on growth can also be curbed by the fact that the independent institution's estimates form a benchmark against which the government's estimates can be compared.

In Belgium, the macroeconomic forecasts underlying the preparation and control of the budget are drawn up by the National Accounts Institute (NAI). This is a public institution with legal personality whose work is carried out by the associated institutions, namely the Federal Planning Bureau (FPB), Statbel and the National Bank of Belgium. This collaborative relationship and the presence of representatives of the various mutually independent institutions results in shared responsibility and thus reduces the risk of exposure to political pressure. The Federal Planning Bureau draws up the Economic Budget on behalf of the NAI, estimating the main national accounts aggregates used in the preparation – and monitoring – of the budget. The FPB is a non-profit entity with legal personality. It comes under the joint authority of the Prime Minister and the Minister of Economic Affairs but carries out its work entirely independently. The responses to the WGPF survey show that there are still only three other euro area countries, namely the Netherlands, Slovenia and Austria, in which an independent institution produces the macroeconomic forecasts.

To ascertain whether the governments of a number of important euro area countries draw up their budgets on the basis of over-optimistic estimates of real GDP growth (for the next year) – the so-called optimism bias – the growth estimates for the period 2000-2019, excluding 2009, the year of the great recession, are compared with the EC's estimates. The national authorities' growth estimates are derived from their successive stability programmes over the same period. The growth estimates on which the budgets are based are compared with the EC's estimates produced at roughly the same time. The forecasts are also compared with the growth actually achieved.

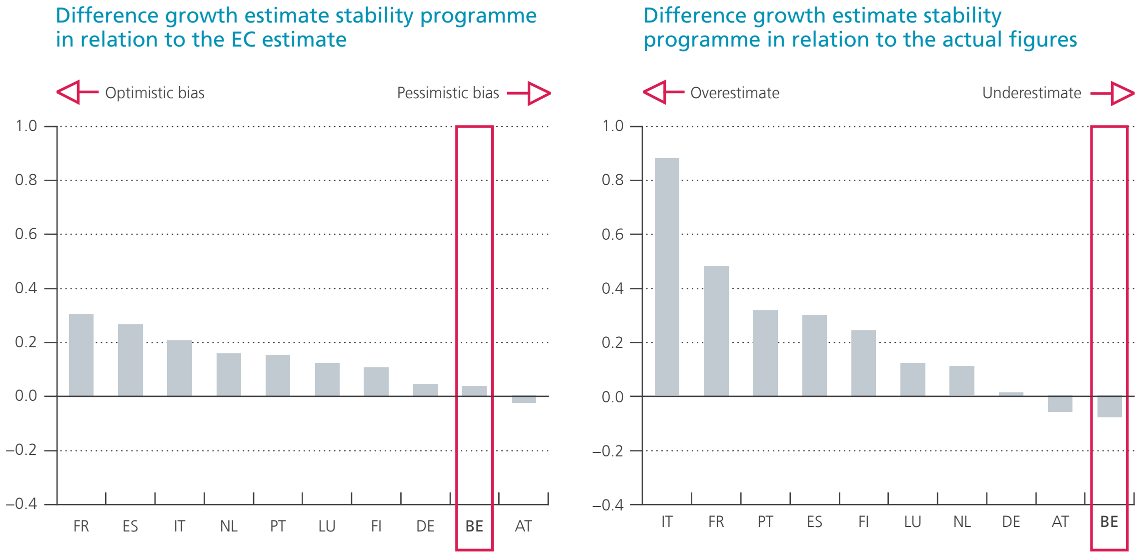
The comparison of the growth forecasts for Belgium shows that the assumptions used in the stability programmes were, on average, 0.04 pp more optimistic than the corresponding EC forecasts. There is therefore no optimism bias in Belgium's forecasts. For most of the other countries examined, the discrepancies are larger: most countries overestimate future growth compared to the EC's forecasts.

1 The aforesaid Council Directive 2011/85/EU gives a number of instructions on this subject. For instance, the Member States must base their budget forecasts on the most up-to-date information and the most likely macroeconomic and fiscal assumptions. Member States are also asked to publish their forecasts, and there are regular discussions with the EC on the assumptions used. In addition, the forecasts are subject to regular ex post evaluation. Member States must specify which institutions are responsible for the macroeconomic and budgetary forecasts. The Two Pack added some further requirements concerning the macroeconomic forecasts used to draw up the draft budget.

Chart 3

Difference between the growth estimates in the stability programmes and the EC's estimates or the actual figures for some of the most important euro area countries [1]

(difference between the average annual real GDP growth rates over the period 2000-2019, in percentage points [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.

Comparison of Belgium's growth forecasts with the actual growth figures shows that, on average, the actual growth was 0.08 pp higher than the forecast figures used in drawing up the stability programmes. In comparison with most of the other countries considered, this is a minor deviation. In some countries, there are very large differences between the growth assumptions used in drawing up the budget and the actual growth figures. For instance, the difference comes to 0.4 pp or more in Italy and France.

In regard to the macroeconomic forecasts, Belgium therefore does well and can even be regarded as representing an example of best practice.

2.2 Estimate of tax revenues

2.2.1 Belgium

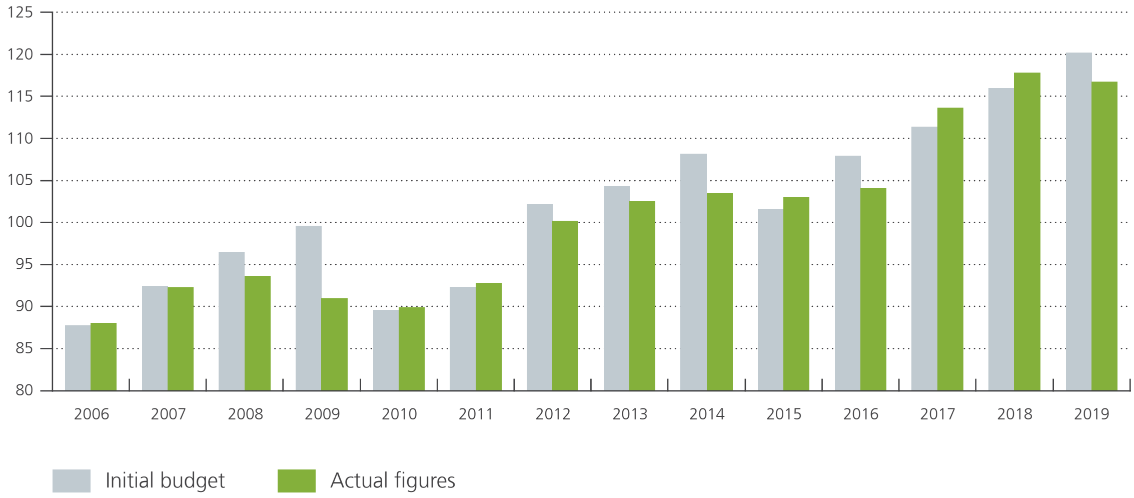
The tax revenue collected by the federal government is estimated by the Federal Public Service Finance, which produces a separate estimate for each tax rather than an overall estimate. The main tax revenue categories are estimated using the disaggregated method. This concerns the estimate of personal income tax, corporation tax, VAT and excise duties [1]. Estimates based on this method start with the presumed actual revenues for the previous year and then – on the basis of the Federal Planning Bureau's forecast of macroeconomic variables – use estimated

1 This concerns around 85 % of the tax revenues collected by the federal government.

Chart 4

Estimates versus actual tax revenues [1]

(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.

income elasticities to arrive at the estimate of the tax categories concerned, assuming no change in policy. The impact of policy measures and any technical adjustments is then added to obtain the final estimate of the income categories concerned. Other tax revenues are estimated by the federal administrations concerned, using ad hoc methods.

Each February, the tax revenues for the current fiscal year are estimated as part of the March budget review. In the autumn, the tax revenues for the next fiscal year are assessed and that estimate forms the basis of the draft budget. In recent years, estimated revenues have sometimes deviated substantially from the actual figures. Deviations between estimates and actual figures are inherent in any estimation method and tell us nothing about the quality of the method used. However, if the actual revenues are systematically overestimated (or underestimated), there is an optimism (or pessimism) bias in the estimate and it is advisable to adjust the estimation methodology. Furthermore, excessive deviations may also indicate scope for improving the existing estimates. An evaluation of tax revenue estimates using the disaggregated method, by Decoster et al. (2017), shows that over the period 1990-2017 these tax revenues were systematically overestimated.

Deviations in estimates based on the disaggregated method may be due to four possible reasons: (i) a deviation in the starting point, i.e. the estimate of revenues for the previous projection year, (ii) a deviation in the estimate of the macroeconomic parameters, (iii) a deviation resulting from the specification of the methodology used [1], and (iv) a deviation in the estimate of the impact of policy measures. Decoster et al. (2017) clearly demonstrate that the observed deviation in the estimates is due – at least partly – to the deviation in the macroeconomic parameters used and in the assessment of policy measures.

1 This mainly concerns the estimated income elasticities and the choice of the macroeconomic variables used.

The quality of the estimates could therefore be improved by using a more appropriate assessment of the impact of policy measures, based as far as possible on theory, and communicated transparently. In that sense, it is also advisable to get an independent institution verify the quantification of the impact of these measures, as in the Netherlands, for example. Moreover, in the case of policy measures whose exact budgetary impact is difficult to assess – such as measures to combat tax evasion – the estimate should be conservative or only stated as a token entry (p.m.).

When focusing only on the impact of the methodology used – and making abstraction of other causes of error, it seems that the current specification of the disaggregated method generally performs well, and yields better predictions than specifications used previously.

Finally, Decoster *et al.* (2017), like the Court of Auditors (2017), point to the need for adequate documentation and support for the methodology for estimating revenue other than by the disaggregated method. For instance, in recent years the ad hoc projection of withholding tax revenues has been systematically overestimated to a substantial degree, and this factor has contributed significantly to the overestimate of tax revenues. Systematic assessment of these revenues is therefore also advisable.

2.2.2 Best practices

In most euro area countries, the tax revenues are estimated by the Ministry of Finance. Among the few exceptions are Germany and the Slovak Republic [1]. Outside the EU, the UK can be seen as applying best practice. Since 2010, the Office for Budget Responsibility is charged with both macroeconomic and revenue projections. These projections include the impact of all budgetary and fiscal measures adopted by the government. The latter is forced by law to use these projections when preparing its budget.

In Germany the estimate of tax revenues is prepared by a dedicated advisory council, the Working Party on Tax Revenue Estimates. In addition to representatives of the Federal Ministry of Finance, members include the Federal Ministry of Economics and Technology, five economic research institutes, the Federal Statistical Office, the Bundesbank, the German Council of Economic Experts (GCEE), the finance ministries of the Länder and the Federation of German Local Authority Associations.

In practice, eight of its members, namely the economic research institutes, the Bundesbank, the GCEE and the Federal Ministry of Finance produce, independently of each other, their own proposed estimates for each individual tax. These proposed estimates are the subject of discussion in the working party. The working party discusses each tax until a consensus has been found. The revenue expected to accrue to the German federal government, the Länder, the local authorities and the EU is extrapolated based on the estimates for the individual taxes. Directly after the meeting, the results are put online. Ever since the Working Party was established, the federal government has adopted the results for the federation's tax revenue in the budget.

As a rule, the working party estimates tax revenue on the basis of current tax law and government macroeconomic forecasts. Changes in the law are considered only if they have already passed the legislative process. Generally, the government adds the impact of legislative changes that are planned but haven't yet passed the legislative process. The extra revenue or shortfalls projected in the tax law amendments or the drafts thereof always relate to the primary fiscal effects, i.e. the effects on the types of tax directly affected by the respective measure. Second-round effects are taken into account at an aggregate level by means of a macroeconomic projection drawn up to reflect the changes in tax law. In recent years, positive surprises have dominated especially for profit-related taxes.

In the Slovak Republic, the tax projection is prepared by the Ministry of Finance but is subject to an assessment by an independent committee, the tax revenue forecast committee, comprising representatives of the central

1 Another good practice is that of assessing ex post whether there are systematic biases in the Ministry of Finance's projections. An example of this is a 2018 report of the Audit Committee of the Finnish Parliament.

bank, commercial banks, the Institute of Informatics and Statistics and the Council for Budget Responsibility (fiscal council), plus observers. In recent years, tax forecasts by all forecasting institutions (Ministry of Finance, central bank and fiscal council) proved to be mostly underestimated.

2.3 Budget monitoring and control

The purpose of budget monitoring is to detect any derailments as quickly as possible. In Belgium, there is a legal obligation to review the implementation of the federal budget during the year (in the spring), and, if necessary, to make adjustments. Similar budget control procedures are foreseen for the Regions and Communities. In most other EU countries, a budget review also takes place during the year but in very variable forms.

In Belgium, there is sometimes also "monitoring" of the implementation of the budget at the federal government level. However, that takes place on a rather irregular basis and with no clearly specified obligations. In contrast to the initial budget and the budget review, the results of such regular monitoring of the implementation of the budget do not have to be presented as such to parliament. There are no automatic correction mechanisms if it is found that the budget outcomes deviate from the initial estimates.

The federal Monitoring Committee plays a key role in budget monitoring and reviews. It was established by the caretaker government in May 2010. It comprises the chairmen of FPS Policy and Support (Budget), FPS Finance and FPS Social Security, the chief executives of the RSZ-NSSO, the RSVZ-INASTI and the RIZIV-INAMI, and the head of the Finance Inspectorate. This committee has the task of monitoring developments regarding State revenue and expenditure, producing forecasts and issuing regular, accurate reports on the current and future budget position. The reports produced periodically by the macro-budgetary service of FPS Policy and Support (Budget) are used, among other things, as the basis for the budget discussions with a view to drawing up the federal government's budgets. Since these reports are produced by the authorities on the basis of their figures, they provide a clear and accurate picture of the budget position and the efforts needed to achieve the targets. The creation of this committee has clearly strengthened the Belgian fiscal framework.

2.4 Multiannual budgetary planning

Multiannual budgetary planning is an instrument that enables the government to extend the budget policy horizon beyond the traditional annual calendar. The introduction of such a framework is advisable since most budget measures have an impact that goes beyond the fiscal year. The main advantages of introducing multiannual planning therefore concern the greater transparency of the medium-term objectives of fiscal policy, greater fiscal policy time consistency, and the visibility of trends in public finances.

There is a consensus that multiannual planning is crucial to an effective fiscal policy. The European Directive on national budgetary frameworks encourages multiannual planning. This has led to considerable reinforcement and expansion of the medium-term frameworks in most EU countries, as is clear from the movement in the index produced by the EC on the presence and quality of these frameworks[1]. Since 2006, the index has risen significantly for the euro area, especially during the period 2010-2015. However, it is still well below the maximum value of 1, which indicates that there is scope for further improvements.

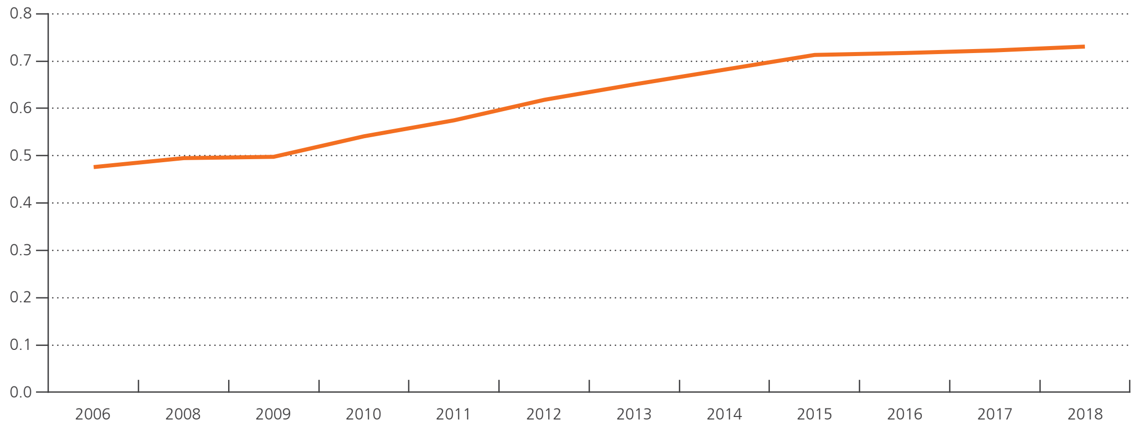
According to research by the EC, the success of multiannual fiscal planning depends on various factors in which the degree to which the targets are binding is crucially important. The degree and frequency of adjustments

1 In its fiscal governance database, the EC has developed several indicators which measure the strength and quality of the national budgetary frameworks of the EU Member States. These indicators measure the quality of the fiscal rules, the independent fiscal institutions and the medium-term framework. They are based on responses by the administrative authorities responsible for fiscal policy in the countries concerned. The results should therefore be interpreted with due caution. The information on these indicators is available in a database with 2018 as the most recent observation year.

Chart 5

Index of the quality of medium-term budgetary frameworks[1]

(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.

to the forecasts also play a major role. A third factor that helps to determine the success of such a framework is whether the differences between outcomes and targets are explained. Finally, it is also important for such a framework to involve all echelons of government, with clear agreements between them on the definition and attainment of the budget targets. The success of such programmes therefore depends not only on their composition but equally on monitoring and compliance. Recent research by the EC has already shown that well-designed multiannual fiscal planning has a very strong beneficial impact on the budget outcomes and thus strengthens fiscal discipline.

Just as in other EU countries, Belgium's stability programme contains budget targets that extend beyond the traditional one-year horizon. However, the level of detail is limited, and the targets are not so stable and reliable as time goes by, since they may be revised. Furthermore, experience has shown that the targets stated in these stability programmes are often not met. They therefore cannot be regarded as fully developed multiannual planning for the budget.

According to the results of the WGPF survey, Belgium is the only euro area country without any full developed multiannual fiscal planning at national level apart from the stability programme. It therefore seems right to introduce such multiannual planning, in particular at the level of the federal government. In some other parts of the Belgian government, there is already a multi-annual budget framework, for instance for local authorities as well as to a certain extent for some Regions and Communities. For inspiration, we can look to the Netherlands which has such a framework already for a long time, and which is generally regarded as representing best practice. This is discussed in more detail in the section on fiscal rules (box 1). The Flemish multiannual budget framework is another example which could provide inspiration. Every year the Flemishgovernment produces a multiannual estimate which covers a period of six years, including the current year. The multiannual estimate translates unchanged policy and the policy options chosen when drawing up the budget into an indicative multiannual fiscal forecast and predicts how the Flemish regional government's budget will turn out. The multiannual estimate is assessed each year during the draft budget process and adjusted to changing circumstances.

2.5 New developments

2.5.1 Costing of electoral programmes

The Law of 22 May 2014 gave the Federal Planning Bureau responsibility for costing the electoral programmes of the political parties represented in the House of Representatives.

This costing took place for the first time in the context of the federal elections held on 26 May 2019. The political parties had until the end of January 2019 to submit the measures necessary to achieve their electoral programme priorities. The FPB then produced a draft costing, focusing on the impact of the measures on public finances, employment, the purchasing power of population groups, social protection, mobility and energy. In the ensuing consultation, the parties had the opportunity to adjust certain measures. Throughout the procedure, the exchange of data remained confidential. The FPB published the results of the costing on 26 April 2019. This exercise also follows on from the "Rekening 14" campaign by the newspapers, De Tijd and De Standaard, and the VRT (the Flemish public broadcaster), at the time of the May 2014 elections, calling for the programmes of the parties represented in the Flemish Parliament to be costed by a team coordinated by Professor André Decoster of KU Leuven.

This costing of electoral programmes forms an extension of the Belgian fiscal framework. In this respect, the Belgian federal government is following the example of some other countries which have a tradition of instructing independent institutions to cost the impact of electoral programmes. The costing conducted by the Central Planning Bureau in the Netherlands since 1986 is often taken as the benchmark here, both because of the costing procedure followed and because of the importance attached to it in the electoral debate[1].

The primary aim of costing electoral programmes is to enhance transparency. Objective assessment of the impact of the proposals by an independent, harmonised analysis will give voters the information that will ultimately enable them to cast their vote with a greater awareness of the issues. Costing can also be expected to result in the disciplining of political parties, restraining them from putting forward proposals which are barely affordable or beyond the means of public finances. Costing could thus make a significant contribution towards the sustainability of public finances.

The Federal Planning Bureau made an impressive job of the costing, especially as this was a new task and imposed considerable additional pressure of work on the institution in that period. It is also good that the FPB used the associated preparations to develop new analysis instruments, particularly micro simulation models which, among other things, can identify distributional issues. Conversely, there are also some points on which the costing did not entirely come up to expectations. For instance, the political parties paid little attention to the necessary fiscal consolidation by means of proposals for bringing down the budget deficit: the costing results showed virtually constant or rising deficits for all parties, though it would have been desirable to reduce the deficit after the elections. The impression is therefore that the political parties were reluctant to formulate proposals which would cut the deficit via increased government revenues or lower expenditure, but which would also have a negative influence on household disposable incomes. The parties themselves largely took charge of communication concerning the costing, and made little mention of the budget challenge aspect, especially as the press paid little attention to that before the elections.

1 The costing of electoral programmes in the Netherlands is not based on any law but is the result of a tradition which has developed since the 1986 elections.

Nevertheless, the costing of electoral programmes is a sensible extension of the Belgian budgetary framework. However, if this instrument is to work properly, the role of the Federal Planning Bureau needs to be supplemented by the willingness of the parties to be as honest as possible about their plans and the associated measures, and the press needs to take a critical view.

2.5.2 Spending Reviews

An instrument for improving the quality of public finances

A spending review is a coordinated, in-depth analysis of public spending, aimed at detecting potential efficiency gains or reducing non-priority expenditure. These assessments are becoming increasingly widespread and recognised as a tool for improving the quality of public finances and boosting their ability to support the economy's competitiveness and growth.

Analyses of this type rely on the assumption that some aspects of public spending could be more effective. This means either that the same service could be provided at lower cost, or that a better service could be achieved without any increase in cost, thanks to a better allocation of resources. A high level of funding does not always guarantee that public authorities will perform well. Sometimes there are counter-productive factors at play, such as complex procedures or substantial partitioning of public services.

Conceptually, there are two different approaches to spending reviews (Vandierendonck, 2014). First, a strategic approach which questions the actual use of public funds to finance a policy or an entity. After the strategic approach comes the tactical approach, which entails ensuring that the level of public funding is more in line with the results achieved.

Spending reviews are complex processes requiring many types of expertise: knowledge of administrative processes, data analysis, estimates of costs and savings, transformation of organisations, etc. They can help to achieve fiscal consolidation targets, but also create scope for new policies, such as new investments and expenditure to stimulate growth. In view of the difficult fiscal context, this tool could prove extremely useful, especially if it becomes a permanent part of the budgetary process.

Increasingly being introduced by European Union Member States

In 2016, the Eurogroup called on euro area Member States to conduct spending reviews. A survey conducted by the EC in 2019 found that 43 spending reviews were carried out in the euro area, or 13 more than in 2017. The relevant practices are not the same everywhere. Spending reviews fall into three categories:

- full reviews covering a large part of the expenditure or the public authorities (Finland, France, Ireland, Italy, Luxembourg);
- thematic reviews covering only certain types of expenditure but representing a substantial proportion of public spending, such as health care, education or social benefits (Slovakia, Slovenia);
- targeted reviews covering specific branches but representing a small proportion of expenditure. This applies to the majority of spending reviews. Examples include the assessment of public contracts and the allocation of powers between entities (Germany), or the judiciary (Austria).

Regarding spending review frequency, some countries such as the Netherlands and Germany conduct targeted reviews every year. Conversely, Ireland for example conducted a full review every two to three years between 2009 and 2014, contributing to its fiscal consolidation. In the following years, Ireland has carried out a series of more targeted reviews providing input for the budgetary process each year.

The lack of data and staff resources are two recurring problems mentioned in connection with spending reviews. Only 16 of the 43 spending reviews covered in the EC survey were completed in 2019; it is still too soon to assess the results, and especially to determine whether they meet the set objectives and targets.

A tool still underdeveloped in Belgium

In its latest Country Report on Belgium, the EC stresses that spending reviews can help to improve the composition and effectiveness of public spending in order to respond better to the economic and societal objectives (EC, 2020e). Earlier studies have in fact pointed out that there is room for improvement in public sector efficiency (Cornille et al., 2017).

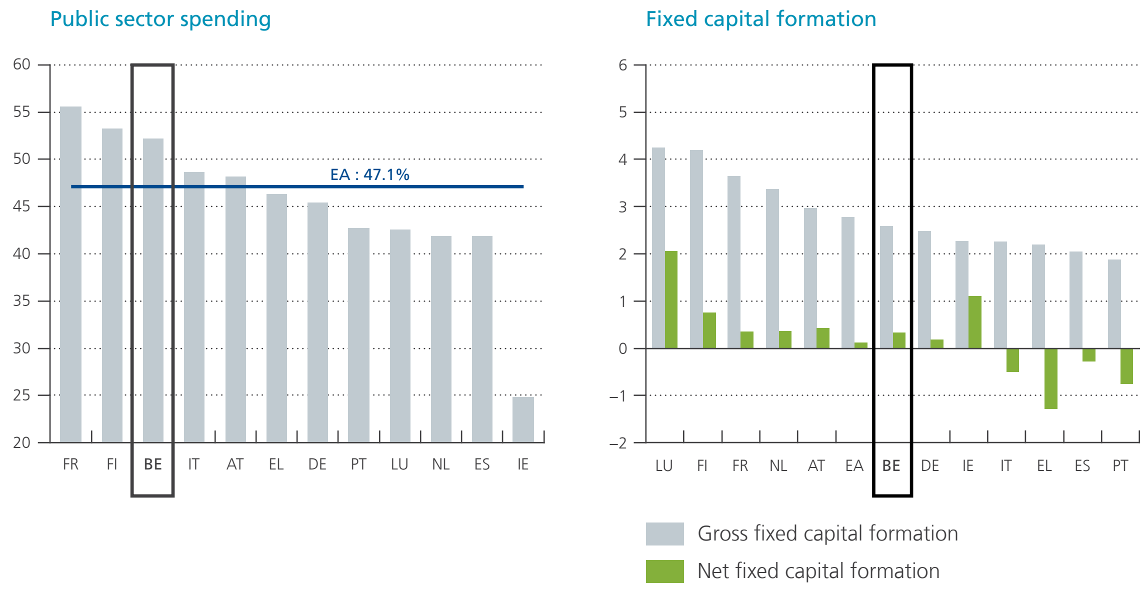
In Belgium, spending reviews take place in the context of high public expenditure which, in 2019, amounted to 52.2 % of GDP, compared to an average of 47.1 % of GDP in the euro area, representing the third highest ratio in the euro area after France and Finland. In the past two decades, the rise in public expenditure has, on average, outpaced nominal GDP growth. Conversely, new public investment remains low, barely covering the amortisation of earlier investments. For many years now, the stock of fixed capital has recorded only very modest growth.

Against that backdrop, in 2015 the council of ministers approved, at federal level, an initial project for optimising public sector spending and improving the efficiency of public services. That plan comprised various dimensions: standardisation of procurement policy, improvements in revenue collection and the management of property assets, and excellence initiatives concerning security and health care. One aspect also focused on the merger of certain horizontal federal public services. Two dimensions were added subsequently: operational excellence initiatives for the federal government's research departments, and the digital transformation of government. Following this exercise, some federal public services were merged in 2017 (creation of FPS BOSA), a central

Chart 6

Public spending and investment

(2019, % of GDP)



Source: EC.

procurement office was set up, and a plan was launched for the management of the federal government's property assets.

Following this initial experience of a targeted spending review, the federal government should soon be launching a broader spending review, working jointly with the OECD and the European Commission. At present, this exercise is still in a preliminary phase but is likely to progress to a more active phase in the near future, since the recent federal government agreement mentions the use of spending reviews as a tool for improving the quality of public services and the functioning of the State.

Successive State reforms have transferred certain powers and resources to the regional authorities. Although the federated entities are now responsible for an increasing share of the expenditure, the situation in terms of spending reviews is variable.

In the Flemish Community, the Ministry of Finance and the Budget, supported by the European Commission's Structural Reform Support Service, conducted an initial pilot project in 2019 involving a targeted spending review in the service voucher sector. The results of that project will be used to develop spending reviews further in the Flemish Community and incorporate them as a structural feature of the annual and multiannual budget process. During 2021, reviews of major expenditure items are to be conducted in order to identify any savings and consider reforms. The results are expected next June.

In the Walloon Region, the zero-based budget principle will soon be extended to all the Region's competences. Although this is not a spending review, the aim is likewise to improve the management of public expenditure by systematically justifying spending on the basis of its usefulness and relevance when drawing up the budget, rather than preparing each budget on the basis of the one for the previous year. Similarly, the government of the Wallonia-Brussels Federation conducted the zero-based budget exercise as part of its October 2020 budget adjustment, and likewise selected a number of expenditure items that could be made more efficient. Specific analyses will be conducted shortly.

Regular spending reviews can undoubtedly help to improve the quality of public finances, particularly if the objectives are well defined and the spending review is anchored in the budget planning. That is not yet the case in Belgium. This is a tool which is set to become very important in the years ahead for the consolidation of public finances.

3. Fiscal rules

3.1 A changing situation

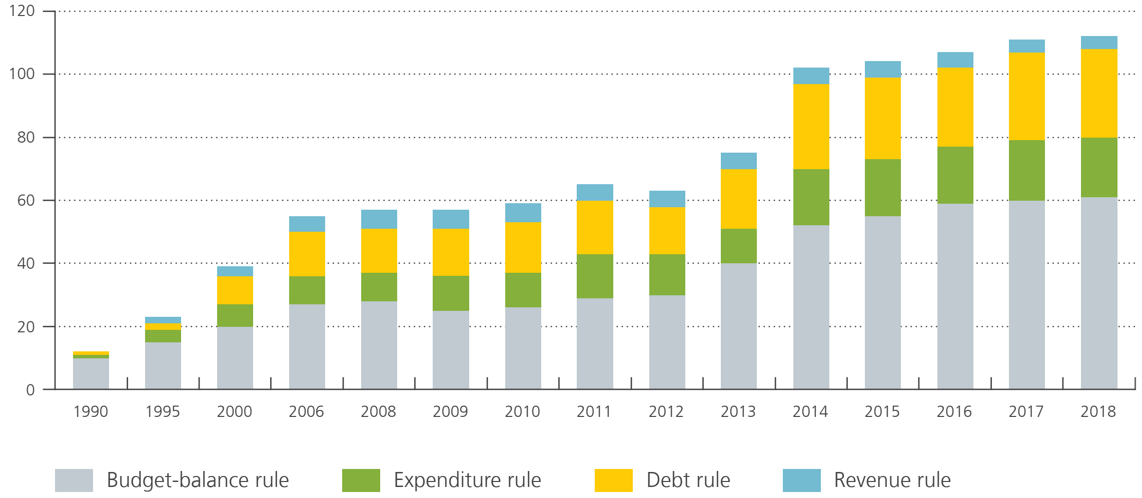
A fiscal rule can be defined as a permanent restriction on fiscal policy in the form of a synthetic indicator of budget performance. Fiscal rules specify numerical targets or limits for key aggregates of public finances, such as the budget balance, public revenue and expenditure, and the debt level. The determination of explicit numerical limits is based on the assumption that fiscal rules make deviations from those limits sufficiently costly for politicians, thus preventing systematic deviations and fostering greater fiscal discipline (Beetsma and Debrun, 2018).

Interest in a rules-based fiscal policy increased during the 1970s and 1980s when most countries experienced a serious deterioration in their public finances. From the early 1990s, more fiscal rules were gradually introduced. At first they were simple, with less emphasis on their enforceability. The financial and economic crisis was a catalyst for further development in this respect, leading to a second generation of fiscal rules. Typically, these rules are more flexible, specifying escape clauses for exceptional events and making provision for structural reforms to improve sustainability, and they are more practical to implement. However, the result has been to make the fiscal rules more complicated.

Chart 7

National numerical fiscal rules in the EU (1990-2018)

(number of rules)



Source: EC.

The EC's fiscal governance database contains two fiscal rule indicators. 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.

According to the results for 2018, on the basis of the FRIs the countries with the most efficient fiscal rules were the Netherlands, Lithuania and Italy. The Dutch case is discussed in Box 1. On this subject, Belgium ranked just below the euro area average. In recent decades, this index has risen considerably for most countries, pointing to an improvement in the quantity and quality of the fiscal rules.

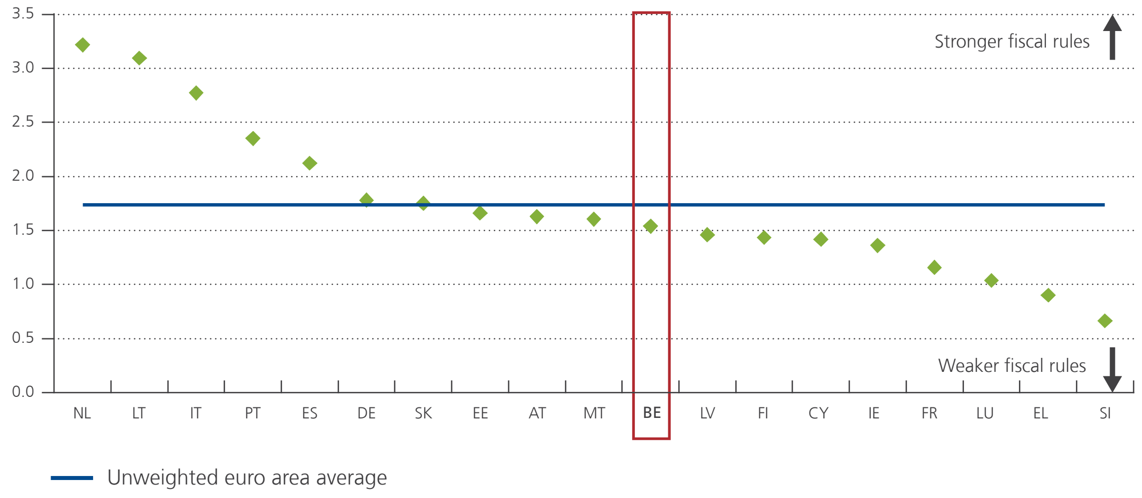
It is important to specify well-designed rules, since poorly designed rules do not produce the optimum results and could even entail a cost, e.g. because they encourage a procyclical policy or could lead to creative accounting. In the literature there is a broad consensus on several requirements that fiscal rules must meet in order to be successful. There are frequent references in this respect to the criteria put forward by Kopits and Symansky (1998).

First, a fiscal rule must be clearly defined and transparent. It must also be appropriate to the targets in view. A good fiscal rule must also be consistent, both in relation to other fiscal rules and as regards other policy goals. In addition, it needs to be enforceable and flexible. A fiscal rule should also preferably be simple. Finally, it must be effective in the sense that it ensures that the desired fiscal policy is pursued and that any necessary structural measures are taken.

Chart 8

Fiscal Rule Index

(2018 survey, index value)



Source: EC.

However, it should be noted that it is not possible to simply combine all these characteristics in a single rule. As more flexibility is built in, a rule becomes less simple. Also, a simple rule which makes no distinction between the policy and the fiscal implications of phenomena over which the government has no direct influence might be difficult to enforce. Fiscal rules will therefore inevitably be an imperfect compromise between all the requirements stated above.

BOX 1

The Netherlands as an example of best practice for fiscal rules and medium-term budgetary planning

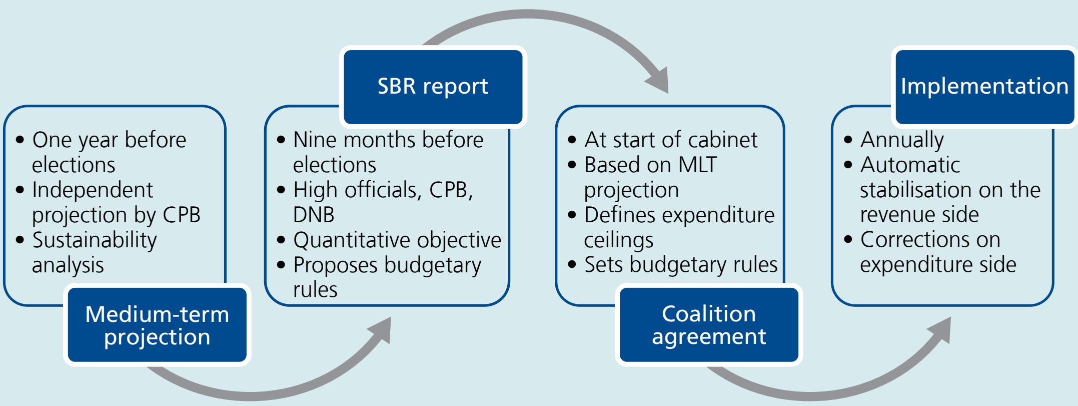
The Netherlands can be considered as a best practice both in terms of medium-term budgetary planning and fiscal rules (Bos, 2008; EC, 2010; Vierke and Masselink, 2017; OECD, 2019a). The Dutch fiscal framework is all the more interesting in that it predates the requirements set at the European level. Some of its components have actually been in place since as long ago as 1971.

In practice, the Dutch budgetary framework works as outlined by Vierke and Masselink (2017). One year before scheduled general elections, the Centraal Planbureau (CPB) publishes a medium-term macroeconomic projection covering the next 4 to 5 years, corresponding to the next coalition period. It is based on an unchanged policy assumption and it includes an assessment of the long-term sustainability of public finances. This projection serves as input for a report published around nine months before the general elections by the Studiegroep Begrotingsruimte (SBR). The SBR is a non-partisan advisory group on budgetary principles comprising high-level officials from various ministries, the director of the CPB and the President of De Nederlandsche Bank (DNB), the Dutch central bank. The incumbent Minister of Finance formally requests its advice, and this was last done on 10 July 2020. On the basis of the CPB medium-term projection, the SBR assesses the room for fiscal manoeuvre and defines quantitative budgetary objectives. Although not binding, its recommendations usually have an influence on the political parties' programmes. The SBR can also assess the effectiveness of the budgetary framework and propose changes to the fiscal rules. In this regard, an often-mentioned example of the SBR's influence is the 1993 report which proposed switching from deficit-focused policy to trend-based budgetary planning with multiannual fixed real expenditure ceilings, which are still a key feature of the Dutch budgetary framework.

After the election, the coalition parties set the rules for the next four annual budgets. The coalition agreement is therefore the most important moment for deciding on budgetary policy every four years. This explains why the negotiations tend to be lengthy and why the agreements are very detailed. Indeed, if a government or a coalition party wants a change in the agreement, it needs to provide an alternative with the same budgetary impact (van Veldhuizen, 2018). The coalition agreement defines multiannual real expenditure ceilings (in levels) for three main budgetary areas (central government, social security and health care) and sets benchmarks for the revenue side. In particular, the coalition agrees on discretionary tax measures and on the desired development of the tax base. Since 2017, the expenditure rules include interest charges but not the cyclical part of unemployment and welfare spending.

During the negotiations to form a government, the CPB will analyse the coalition agreement once the final decision by the political parties is imminent, providing information on the impact on key variables

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).

(economic growth, unemployment, government deficit and sustainability). When the decisions are taken, it adjusts its medium-term baseline on the basis of the coalition agreement. This is then integrated in a new multiannual budget by the Ministry of Finance and results in the Startnota (initial budget memorandum) that includes the expenditure ceilings.

The trend-based principle implies that while revenues are allowed to fluctuate over the cycle, the expenditure ceilings have to be respected. During the term of the parliament, any breaches of the expenditure ceilings must, in principle, be offset within the sector; windfalls must first be used to compensate for setbacks within that sector. Apart from this, there is no automatic correction mechanism. Windfalls cannot be used for new expenditure. In practice, in recent years, shortfalls in the planned spending on some specific categories such as infrastructure were rolled over to subsequent years. Also, breaches of expenditure ceilings for certain subsections of government – notably healthcare – are often offset by expenditure cuts in other sections, even though this is formally only allowed in exceptional cases. On aggregate, however, the framework functions well according to stakeholders.

On the revenue side, additional tax increases are offset via tax relief and vice versa. Only changes in statutory tariffs are taken into account. Increases in tax revenue due to economic developments are disregarded. A common practice has also involved revenue rules. One rule obliges the government to pre-allocate higher than expected revenues (windfalls) to lower debt. Another rule defines tax burdens as a percentage of GDP. In recent years, given the budget surplus, the government has decided to circumvent the rule and provide tax relief in addition to plans decided on at the start of the coalition.

3.2 Current fiscal rules in Belgium

At present, a number of fiscal rules apply in Belgium and they will be described below.

Targets for the general government nominal and structural budget balance

Under the Stability and Growth Pact, Belgium has to draw up a stability programme each year, setting out budget targets for the medium term. Those targets are not strictly binding, and in past years the objective of achieving a structurally balanced budget has been regularly postponed to the future.

Health care expenditure targets

In 1994 the federal government introduced expenditure targets for health care. The real growth of that expenditure was to be limited to 1.5 % per annum. After a number of upward and downward adjustments, the federal government has restored the target of 1.5 % per annum since 2015. Up to 2018, decisive measures ensured that the rise in health care expenditure remained below that target. The federal coalition agreement of 2020 set that growth target at 2.5 % per annum from 2022.

Targets for Communities and Regions

In a federal State, it is logical for each entity to contribute towards the attainment of the budget targets applicable to general government. 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. We shall return to this in section 5.

Legal restrictions on local authority balances

In 1982, a strict budgetary framework was imposed on local authorities to put an end to the large deficits of those days. The equilibrium principle for the municipalities was introduced via a special decree which was later incorporated in the Municipal Law. This rule, which was mandatory from 1988 onwards, de facto obliges the municipalities to produce a broadly balanced budget.

By law, the finances of other local authorities, such as police districts, emergency rescue districts and public social welfare centres must also balance at all times. If their budget is found to be in deficit, then the municipality concerned has to correct that deficit by means of grants so that the equilibrium principle is always respected.

However, it should be noted that since the regionalisation of the Municipalities and Provinces Law in 2002, the Regions have power to exercise supervision over local government finances. As a result of that regionalisation, municipal accounting in the three Regions is now subject to different rules and targets, and different criteria apply to the equilibrium principle. This rule has worked well in that local authority accounts in Belgium are sound from a macroeconomic point of view.

3.3 Adjustment proposals

There is a growing consensus that expenditure rules can be an effective way of fostering fiscal discipline. At present, 12 of the 19 euro area countries use an expenditure rule for general government. The attraction of such rules increased after the financial and economic crisis, the main reasons being that they concern an indicator over which the government has direct control, and they are simpler and more transparent than rules applicable to other indicators such as the structural balance. For Belgium, an expenditure rule is even more appropriate since public sector expenditure is very high and there is hardly any leeway on the revenue side. Good expenditure targets could be a powerful supplement to the budget balance targets set for general government and its subsectors.

However, as already stated, there is currently no focus on expenditure rules in the Belgian budgetary framework, except for health care spending. This is in contrast to the situation in the 1990s and the early 2000s, when various restrictions applied. For example, as part of the measures to bring down the budget deficit in order to comply with the Maastricht criteria, the 1992 federal coalition agreement set the target for the real growth of federal government expenditure excluding interest charges to be limited to 0 % or less. The 1995 coalition agreement confirmed this zero real growth target. In 1998, the year after testing against the Maastricht criteria for monetary union, the target was dropped.

Although the application of these budget targets was sometimes circumvented by debudgetisation techniques and alternative forms of funding, so that the expenditure growth recorded for the federal government in the government sector accounts often exceeded the target, there are strong indications that setting expenditure targets in this way did lead to restrictive measures. In that period, federal expenditure expressed as a percentage of GDP therefore declined.

At regional level, the Flemish Community will introduce an expenditure target. It was one of the proposals in the final report of the economic advisory committee established by the Flemish government in the Spring of 2020 with the task of devising measures for a strong and rapid recovery and for safeguarding welfare and prosperity. The Flemish government welcomed the proposal and in its September 2020 statement it announced that an expenditure target would be adopted with effect from the 2022 budget.

4. Independent fiscal institutions

4.1 Role

Independent fiscal institutions play a key role in the conduct of fiscal policy. These are public, politically independent entities responsible for watching over the sustainability of public finances. To that end, fiscal institutions may have positive or normative powers. In the former case, they typically provide macroeconomic forecasts. In the latter case, they set targets in terms of fiscal discipline and assess the policies pursued in the light of those targets. These fiscal councils may also provide input for discussions on public finances by making other recommendations.

Independent fiscal institutions gained fresh momentum with the rising deficits and public debts caused by the 2008-2009 economic and financial crisis. Since a close watch was maintained on commitments in favour of sustainable public finances, decision-makers looked for new ways of preserving fiscal discipline and restoring confidence in their ability to manage budgets prudently and transparently. As a result, the number of fiscal institutions in the OECD countries has more than tripled over the past decade and is still growing.

The relevance of Independent fiscal institutions depends on several factors. For instance, the institution must have a clear and unequivocal mandate. A second factor concerns the fiscal institution's independence, which must be guaranteed in both legal and financial terms. The influence of an independent fiscal institution also clearly depends on its credibility. In that regard, great transparency is crucial, and is guaranteed for example by publication of the models and data used. One last factor that determines its influence is the extent of its involvement in the budgetary process. That is greater if the institution is heard by parliament and consulted regularly by the government, and if it is asked to provide independent forecasts when the budget is being prepared or when the government needs to justify deviations from the estimates or the recommendations (Dury and Van Meensel, 2008).

4.2 Situation in Belgium

In Belgium, two entities perform the functions traditionally devolved to independent fiscal institutions: the Federal Planning Bureau (FPB) responsible for preparing the macroeconomic forecasts mentioned above, and the High Council of Finance, via its "Public Sector Borrowing Requirement" section [1], which is described in the following paragraphs.

Creation

The "Public Sector Borrowing Requirement" section was set up by the special law of 16 January 1989. Against the backdrop of Belgium's conversion to a federal State, the creation of an advisory body was intended to facilitate the coordination of fiscal policies between the country's various entities.

Composition

The "Public Sector Borrowing Requirement" section has twelve members, appointed for renewable five-year terms and chosen for their particular competence and experience in the financial, budgetary and economic spheres. Six of them are appointed on the proposal of the governments of the Communities and Regions. Since 2019, the section has been chaired by Pierre Wunsch, governor of the National Bank of Belgium. In the preparation of its work it is assisted by a secretariat, which is currently provided by FPS Finance officials.

1 In the rest of the article, we shall use the terms "HCF" and "section" indiscriminately to mean the HCF "Public Sector Borrowing Requirement" section.

Mission

The section conducts assessments and makes recommendations on the subject of fiscal policy. These primary tasks are specified in the Cooperation Agreement of 13 December 2013, which transposes the provisions of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (fiscal compact) and which was approved by the parliaments of the federal government and of the Regions and Communities. In that regard, two reports are published each year:

- in March/April, in connection with the preparation of the stability programme, an opinion on the budget path which the government should follow over the next three years and the allocation of these budget targets among the various levels of power;
- in June/July, an opinion on the assessment of compliance with the commitments entered into by the various levels of power and execution of the previous year's stability programme.

If the section finds a major discrepancy between the actual budget outcomes and the budget target of the level(s) of power concerned, there is provision for automatic activation of a correction mechanism. The section then has to issue an opinion on the scale of the correction measures required, followed by another opinion verifying their implementation.

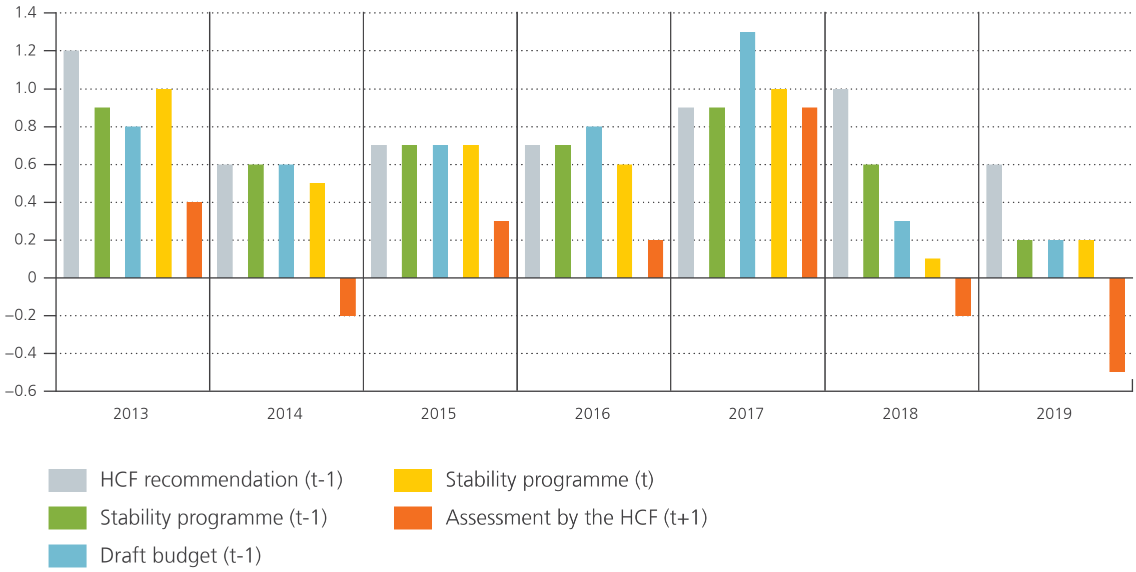
Assessment

The effectiveness of an independent fiscal institution has to be judged by the results achieved. In that regard, the HCF's "performance" has fluctuated over the past three decades.

Chart 9

Year-on-year change in the structural balance

(percentage points of GDP)



Sources: HCF, budget documents.

During the period preceding the adoption of the euro, the Maastricht convergence criteria and the objectives of the HCF and the political decision-makers were aligned, and the section's recommendations were largely followed. After the introduction of the euro, the section's recommendations had less influence on fiscal policy (Coene and Langenus, 2013).

Since 2013, the HCF has proposed a path for the structural budget balance. On this subject, the ex post observations have never exceeded either these recommendations or the fiscal intentions of the Belgian authorities. The evolution of the structural balance has always deviated substantially from that planned in the budget. On average, the gap amounted to 0.5 percentage point of GDP over the period 2013-2019 and is relatively stable over time. Conversely, there is better alignment of the paths recommended by the HCF, adopted in the stability programmes and incorporated in the budget plans. The challenge for Belgium therefore 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.

Also another recurrent failing on the part of the Belgian authorities has a direct impact on the work of the HCF: in the absence of political agreement on the budget targets for the individual levels of power, the said correction mechanism cannot be applied. The next chapter will return to the shortcomings of interfederal budget coordination in Belgium.

In the recent past, the EC has addressed other remarks to Belgium, highlighting the need to ensure the independence of the national fiscal institution responsible for verifying compliance with the European fiscal rules. It made three requests: (i) explicitly ensure that the section's members and its functioning are independent of all external influence, particularly that of the fiscal authorities and political power, (ii) guarantee its total autonomy in the communication of its opinions, and (iii) provide sufficient resources, including a dedicated secretariat and a ringfenced budget allocation.

In response to these observations, the Royal Decree of 23 May 2018 on the HCF introduced changes in the functioning of its "Public Sector Borrowing Requirement" section. The members are still proposed by the various authorities, but are no longer deemed to represent them. The HCF may also engage in any type of public communication, totally independently and without any restrictions or censorship. That reform also introduced other new features which have not yet been implemented, such as an annual budgetary credit line, which increases its financial independence. In particular, the Royal Decree foresees the extension of the staff – actually 3 to 5 people – to a ten-person secretariat, of which five are proposed by the federal finance and budget services and five by the Regions and Communities' administration.

Although the remarks of the EC are correct from a formal perspective, the fact that the secretarial function was provided by the staff of the FPS Finance has never hindered the independence of the HCF's advices. Moreover, the section should be able to perform well its actual role as foreseen in the cooperation agreement of 13 December 2013 with a staff of 3 to 5 people. With the foreseen extension of the secretariat, to 10 people in total, the section should be able to perform new tasks. In any case, the section should have a managing director and develop back-up functions, especially for critical functions and sensitive applications.

The HCF's influence could also be strengthened by raising the political cost of discrepancies between the budget path and the recommendations, e.g. via the obligation of the government to justify such deviations publicly (before parliament) via a "comply or explain" mechanism. Its media presence could be facilitated by a genuine communication policy.

4.3 Foreign independent fiscal institutions and best practices

Created in 1989, the "Public Sector Borrowing Requirement" section of the High Council of Finance is one of the oldest independent fiscal institutions, even among those of the main euro area countries considered in the Annex 2.

As already mentioned, in the wake of the global financial crisis and the sovereign debt crisis, many euro area Member States fundamentally revised their existing fiscal framework in response to the strengthening of the EU governance. This included setting up independent fiscal councils in line with well-established OECD principles and with the guidance of the IMF in the context of the assistance programmes. At the beginning of 2020, all euro area countries had a fiscal council. The fiscal councils of Spain and the Slovak Republic created with the support of the IMF are often considered as examples of good practice: together with the central banks, they are also perceived by the stakeholders as the most independent and non-partisan bodies in their institutional landscape.

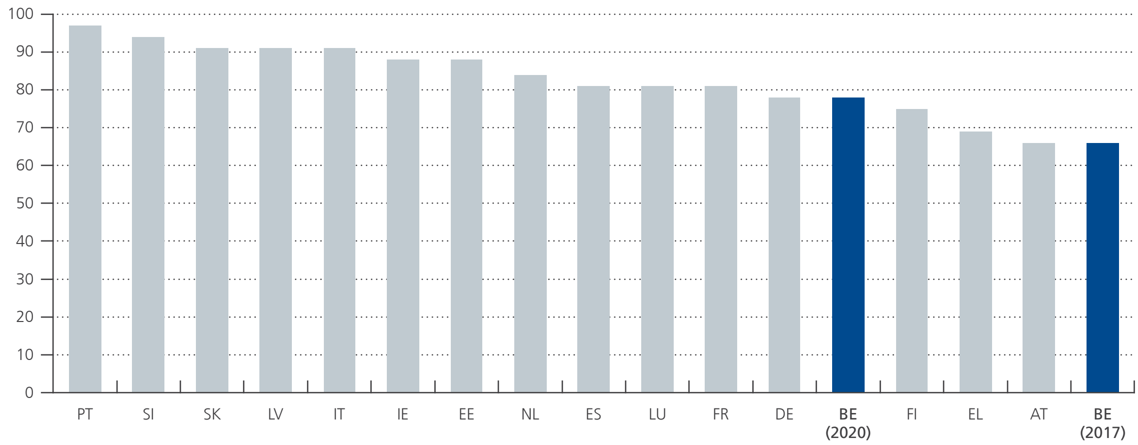
The Belgian fiscal council therefore now appears to rank below average. Until the 2018 revision of the Royal Decree, Belgium had the lowest score among the euro area countries in terms of independence, while countries which had received financial assistance, such as Portugal, Ireland and Spain, perform much better with respect to this criterion. According to a rough estimate, thanks to the 2018 reform, the Belgian position has improved somewhat but is still below average.

According to table 1 in Annex 2, a striking difference between the Belgian fiscal council and the new-generation fiscal councils relates to their organisation. In Belgium and in a few other countries, the key people in the council are the board members. These are more numerous than the staff and they have power to decide on policy guidelines and recommendations. In most of the recently established fiscal councils, the number of board members is very small and (far) below the head count. In Spain, for example, there are 35 full-time equivalents on the staff and there is no actual board: the full-time president assumes the role of a managing director, having

Chart 10

Independence of fiscal councils

(composite indicator[1], in %, 2017 unless otherwise stated)



Source: von Trapp and Nicol (2018).

1 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.

full control over the hiring of the staff and also representing the institution. The staff's educational level is also outstanding. These new-generation councils have also developed a communication team, either in-house or via consultants, helping them to acquire high media visibility in a short period of time. It also helped that the first president (in Spain) or the first three members of the executive board (in the Slovak Republic) were outstanding experts in the field of public finance, recognised nationally or even internationally. In both countries, under their guidance and with the help of an external advisory panel, the staff have successfully developed models to perform their various tasks while they have also frequently testified in parliamentary hearings. Both countries have succeeded in ensuring the succession by nominating their second president/executive board.

The mandate of the fiscal councils differs widely across the euro area depending mostly on whether tasks had already been assigned to other actors (Annex 2 – Table 2).

All fiscal councils as defined by the EU budgetary framework monitor whether the fiscal position complies with the EU or national rules. In most cases, they can also trigger the corrective mechanism and consider escape clauses. In addition to these missions, some fiscal councils, especially those which are well-staffed, also have a mandate or a role which extends to assessing the long-term sustainability of public finances, providing policy costings, assessing the fiscal stance, contributing to the budget coordination among government levels and maintaining regular monitoring of the public finances at the various levels of government.

In fiscal councils which are well-staffed but nevertheless working under pressure, such extended mandates may lead to the regular publication of numerous reports. As an example, the Slovakian Council for Budget Responsibility (CBR) publishes regular budgetary "traffic light" reports that identify in-year risks of deviation from the initial budget balance targets. In Spain, the Independent Authority of Fiscal Responsibility (AIReF) also provides both ex ante recommendations and ex post assessment of the stability programmes and the draft budgetary plans.

The Spanish fiscal council is unique in the production of outputs concerning the subnational governments, in particular reports on the public finances of the various autonomous communities. "Stakeholders report that the AIReF's work has contributed to better fiscal management in Spain across the fiscal policy cycle. In particular, AIReF has helped generate improvements in economic forecast methods, the monitoring of budget implementation and early detection of non-compliance with fiscal rules. Subnational stakeholders view AIReF as an honest broker in national/subnational fiscal coordination. In relation to transparency, stakeholders across levels of government welcome the new economic and fiscal information provided by AIReF and note the contributions that AIReF has made more generally to promoting a new culture of transparency in Spain" (Von Trapp et al., 2017).

5. Budgetary coordination

5.1 Positioning

In many EU countries, fiscal policy is partly decentralised. The literature on fiscal federalism points out the advantages and disadvantages of such a policy. Decentralisation is generally based on political and economic motives: lower echelons of government are said to be better able to align the provision of public goods with local needs, thus enhancing government efficiency, while the national level benefits from economics of scale. However, the devolution of competences to lower echelons may also increase the vulnerability of public finances, as fiscal discipline is often harder to enforce at a lower level. In Belgium, there has been a marked tendency towards more regionalisation over the past 50 years.

This decentralisation also has implications for compliance with the requirements of the European budgetary framework, as its stipulations apply to the general government sector. This means that, in a federal state like

Belgium, where each entity contributes to the attainment of the overall budget targets, there is a need for effective, operational budget coordination.

5.2 The situation in Belgium

In Belgium's institutional structure, there is no hierarchy of legislation between the various levels of government. Consequently, all governments must concur before an agreement can be reached on the goals and the paths for achieving them.

In Belgium, since the mid‑1990s budget coordination has taken the form of cooperation agreements on budget targets, concluded between the federal government and the governments of the Communities and Regions. The recommendations of the "Public Sector Borrowing Requirement" section of the High Council of Finance usually formed the basis for such cooperation agreements.

The cooperation agreement between the Federal Government, the Communities, the Regions and the Community Commissions of 13 December 2013, mentioned in section 4.2, stipulates that the annual budget targets relating to the stability programme are to be allocated in nominal and structural terms among the various policy levels on the basis of a recommendation by the "Public Sector Borrowing Requirement" section of the High Council of Finance. That allocation must be approved by a decision of the Consultative Committee, an entity comprising the prime minister and the minister presidents of the Communities and Regions. The "Public Sector Borrowing Requirement" section is also designated as the independent body whose responsibilities include maintaining supervision over compliance with those decisions, and more generally assessing respect for the commitments entered into by the governments.

Following evaluation of the targets, the section should also be able to indicate any party to the agreement deviating significantly from its target. If such a significant deviation is detected, an automatic correction mechanism is launched, whereby the entity concerned must justify its deviation and take the necessary corrective measures to put an end to the deviation within 18 months. On the basis of the section's recommendation, a longer period may be justified, depending on the institutional and economic reality, but it must not be contrary to any deadline that the European Union imposes on Belgium.

The section is also responsible for monitoring whether the correction measures are implemented, and issues an annual opinion in that respect.

Finally, the cooperation agreement states that any financial sanction imposed on Belgium by the Council of the European Union must be shared among the parties to the agreement in proportion to the failings identified by the Public Sector Borrowing Requirement section.

5.3 Evaluation

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.

While the cooperation agreement of 13 December 2013 formalised the framework for budget cooperation between the federal government and the Regions and Communities' governments, it has never been implemented. The Consultative Committee has never yet managed to agree on the allocation of the budget targets included for general government in the stability programme. Moreover, the Consultative Committee has most of the time only taken note of the overall targets and thus has not formally approved them. Up to now, the budgetary coordination has therefore not been sufficiently effective.

The absence of effective budgetary coordination between the various governments has significant consequences. 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. The section has therefore called on the governments to approve the overall and individual targets in the Consultative Committee. The EC and the Ecofin Council have also repeatedly expressed their concern over the lack of internal budgetary coordination and have rightly called on Belgium to pursue the full implementation of the 2013 Cooperation Agreement.

6. Conclusion

The national fiscal frameworks, comprising a set of procedures, rules and institutions forming the basis of the conduct of fiscal policy, have been modified and reinforced, primarily as a result of tightening of the EU directives on the subject following the financial and economic crisis. This article examined the main aspects of the Belgian fiscal framework and investigated which aspects work well and which could be improved.

The Belgian fiscal framework clearly has a number of strong points. For instance, if the economic growth forecasts underlying the stability programmes are compared with those produced by the EC, we find that, on average, Belgium's forecasts deviate little and demonstrate no optimism bias. Furthermore, they are very similar to the actual figures. Also, in recent years the Belgian fiscal framework has been strengthened in various respects. Examples include the creation of the federal Monitoring Committee, which performs a key role in budget monitoring and control. The reports that this committee produces usually provide a clear and accurate picture of the budget and of the efforts required to achieve the targets. The costing of the electoral programmes by the Federal Planning Bureau has also strengthened the fiscal framework since it has enhanced transparency.

Apart from these strengths, the analysis also clearly reveals a number of aspects of the Belgian fiscal framework which could be improved. First, there is the distortion in the estimation of tax revenues. The estimate's quality could be improved by better documenting and underpinning of the estimation methodology, greater transparency in the assessment of the policy measures, and a verification by an independent institution of the quantification of the impact of those measures.

A second aspect of the Belgian fiscal framework where improvements could be made concerns the introduction of multiannual fiscal planning, accompanied by an expenditure rule. The best practice applied by the Netherlands shows that a medium-term framework assigning a key role to the expenditure rule can make a significant contribution towards an effective fiscal policy. The introduction of such a framework will ensure an improvement in the transparency of the targets and the consistency of fiscal policy over time.

An adjustment which has already begun and which should continue is the further introduction of regular spending reviews. These ensure a critical appraisal of public expenditure and examine ways of improving efficiency. This is a useful exercise, certainly in the context of the high level of public spending in Belgium, and taking account of the necessary consolidation of public finances in the aftermath of the COVID-19 crisis.

Concerning the "Public Sector Borrowing Requirement" section of the High Council of Finance, it is necessary to choose between keeping the present number of staff and their set of duties, and completing the 2018 reform involving an increase in staff numbers. In the latter case, it should be able to perform new tasks.

One final possible improvement concerns budgetary coordination. Despite the existence of a detailed legal framework on the subject, this does not work properly in the absence of an agreement on the targets between the various governments. Following the Ecofin Council recommendations, attention must be drawn to the importance of an annual agreement on the binding targets for the various governments. That creates clarity regarding each party's responsibility and facilitates independent monitoring by the High Council of Finance.

To sum up, the evaluation of the Belgian fiscal framework presents a mixed picture. Comparison with best practices in other euro area countries shows that the Belgian fiscal framework does well in a number of respects, but also that a number of aspects offer room for improvement. It is important to focus on this, since the suggested further adjustments could help to support the necessary consolidation which will come after the COVID-19 crisis, enhance government efficiency and thus guarantee the long-term sustainability of Belgian public finances.

Annex 1 – Main results of the WGPF survey on national fiscal frameworks

This annex summarises the answers to the most relevant questions for this article taken from the survey on national fiscal frameworks. This survey was conducted amongst the EU27 national central banks at the beginning of 2020 by the ECB Working Group on Public Finance (WGPF). The survey was previously organised in 2011, 2012, 2013, 2014 and 2015.

1. Budget process

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

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

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

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

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

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

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

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

1.5. Is there an official budget review procedure during the year?

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

2. Fiscal rules

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

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

3. Fiscal Councils

3.1. Is there a (functional and financially) independent fiscal council?

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

4. Fiscal federalism arrangements

4.1. Does there exist a kind of effective cooperation/commitments between the different government levels that goes beyond simple ad hoc negotiations? (or 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
green +/–	green +/–	green	green +/–	green	green +/–	green	green	green +/–	red	green +/–	red	green +/–	green +/–	red	green +/–	green +/–	green +/–	red

Legend: green means yes.
red means no.
+/- means partly.

Annex 2 – Information on independent fiscal institutions in the main euro area countries

Table 1

Key organisational aspects

Country	Institution name	Creation year	Last change	Staff (full-time)	Council / Board	Nature of leadership: individual	Leadership has control over the hiring process for staff	Leadership commitment (full-time)	Leadership selection	External advisory panel
Austria	a) Fiscal Advisory Council (FISK)	1970	2013	6	15	○	◖	○	Various	○
	b) Parliamentary Budget Office (PBO)	2012	2012	8	0	●	◖	●	Open	○
Belgium	a) Federal Planning Bureau (FPB)	1959	2014	100	4	○	●	●	Government	●
	b) High Council of Finance – Section for Public Sector Borrowing Requirements [1]	1989	2013	3 to 5	12	○	○	○	Various	○
Finland	a) Monitoring and Evaluation of Fiscal Policy Function – National Audit Office	2013	2013	4	0	●	●	●	Various	●
	b) Finnish Economic Policy Council (EPC)	2014	2014	2	4	○	◖	○	Various	○
France	High Council of Public Finance (HCFP)	2013	2013	3	11	○	●	○	Various	○
Germany	Independent Advisory Board to the Stability Council	2013	2013	1	9	○	●	○	Various	○
Greece	a) Parliamentary Budget Office	2011	2016	11	5	○	◖	○	Parliament	○
	b) Hellenic Fiscal Council	2015	2017	15	5	○	●	○	Various	○
Ireland	a) Irish Fiscal Advisory Council (IFAC)	2011	2013	6	5	○	◖	○	Government	○
	b) Parliamentary Budget Office (PBO)	2017	2017	12	0	●	●	●	Open	●
Italy	Parliamentary Budget Office (PBO)	2014	2014	24	3	○	●	●	Parliament	●
Netherlands	a) Bureau for Economic Policy Analysis (CPB)	1945	2013	125	0	●	●	●	Government	●
	b) Advisory Division of the Council of State	2014	2014	3	3	○	○	○	Government	○
Portugal	Public Finance Council (CFP)	2012	2014	18	5	○	●	○	Various	○
Slovak Republic	Council for Budget Responsibility (CBR)	2012	2012	14	3	○	●	○	Various	●
Spain	Independent Authority of Fiscal Responsibility (AIReF)	2014	2014	35	0	●	●	●	Gov + Parl	●

Sources: ESCB WGPF questionnaires, OECD Fiscal Council database, Dutch Council of State, Federal Planning Bureau.
1 In Belgium, the Royal Decree was also modified in 2018 but all these changes have not yet been applied.

Table 2

Mandates and outreach

Country	Institution name	Analysis of long-term fiscal sustainability	Role in macroeconomic or fiscal forecasts	Role in monitoring compliance with fiscal rules	Correction mechanism / escape clause	Role in policy costing	Can the institution provide normative advice?	Leadership participates in parliamentary hearings	High media visibility
Austria	a) Fiscal Advisory Council (FISK)	●	●	●	●	○	●	●	●
	b) Parliamentary Budget Office (PBO)	●	○	○	○	●	◐	●	○
Belgium	a) Federal Planning Bureau (FPB)	●	●	○	○	●	○	○	●
	b) High Council of Finance – Section for Public Sector Borrowing Requirements	●	○	●	●	○	●	○	◐
Finland	a) Monitoring and Evaluation of Fiscal Policy Function – National Audit Office	●	●	●	◐	○	◐	●	●
	b) Finnish Economic Policy Council (EPC)	●	●	●	○	○	◐	●	○
France	High Council of Public Finance (HCFP)	○	●	●	●	○	○	●	○
Germany	Independent Advisory Board to the Stability Council	○	●	●	◐	○	◐	○	○
Greece	a) Parliamentary Budget Office (PBO)	○	●	●	○	○	●	●	○
	b) Hellenic Fiscal Council (HFC)	◐	●	●	●	◐	●	◐	○
Ireland	a) Irish Fiscal Advisory Council (IFAC)	○	●	●	○	◐	◐	●	●
	b) Parliamentary Budget Office (PBO)	○	○	○	●	●	○	◐	○
Italy	Parliamentary Budget Office (PBO)	●	●	●	●	●	○	●	◐
Netherlands	a) Netherlands Bureau for Economic Policy Analysis (CPB)	●	●	○	○	●	○	●	●
	b) Advisory Division of the Council of State	○	○	●	●	○	●	●	◐
Portugal	Public Finance Council (CFP)	●	●	●	○	○	○	●	●
Slovak Republic	Council for Budget Responsibility (CBR)	●	○	●	●	●	◐	●	●
Spain	Independent Authority of Fiscal Responsibility (AIReF)	●	●	●	●	○	◐	●	●

Sources: ESCB WGPF questionnaires, OECD Fiscal Council database, Dutch Council of State, Federal Planning Bureau.

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