Belgium

High Council of Finance: (Hoge Raad van Financiën/Conseil supérieur des Finances)

Established: 1936, with major reforms in 1989. A 13 December 2013 co-operation agreement enhanced the responsibilities of the HCF (Section Public Sector Borrowing Requirements) in line with the EU fiscal compact.

Enabling legislation: Royal Decree on the High Council of Finance (Koninklijk besluit betreffende de Hoge Raad van Financiën/Arrêté royal relatif au Conseil supérieur des Finances), 3 April 2006.

Mandate: The Council is responsible for advising the Minister of Finance and the Minister of Budget in the development of fiscal, financial and budgetary policy.

Budget: Unavailable. No separate budget line.

Staff: One Chair (Minister of Finance), two Deputy Chairs and 24 council members; 12 secretariat staff, 2 secretariat administrators.
1. Context

The High Council of Finance (HCF) is one of the oldest fiscal councils. It was first established by a 1936 royal decree in an effort to consolidate five previously created advisory bodies (High Council of Finance, n.d.). In the run-up to the Second World War, the Council’s work arguably became too broad. It ventured beyond a purely advisory role and started to generate policy prescriptions, which may explain why post-war Ministers of Finance were reluctant to convene it. As a result, the council fell into disuse and did not convene from the Second World War until 1969. The council was revived in 1967 and new members appointed in 1969, following a recommendation by a government commission on the financial problems of economic expansion. It was reformed again in 1981, when the membership of the council was expanded.

The structure and mandate of the HCF changed fundamentally in 1989 in the context of a constitutional reform process towards a federal state. At the time, a widely shared concern was the need to reconcile macroeconomic and budgetary stability with increased subnational fiscal autonomy. This reform included the creation of the Section for “Public Sector Borrowing Requirements” (PSBR) and specific competences for intergovernmental fiscal co-ordination. The structure and mandate of the HCF were updated in 2006. This reform abolished the Section “Financial Institutions and Markets”, which had become obsolete due to the existence of other institutions with related functions, and expanded the mandate of the Section “Taxation and Social Security Contributions” to include tax revenues collected by the federal government on behalf of local governments. The council, and in particular its section for PSBR, continues to play an important role in the effort to promote fiscal discipline in a federal setting.

In December 2013, under a co-operation agreement, the HCF Section Public Sector Borrowing Requirements was officially designated as Belgium’s “independent fiscal institution” under the new European fiscal framework and its mandate was enhanced. The co-operation agreement is between the federal, regional and community governments, and was ratified by the parliaments of each of these entities.

The European Union’s fiscal rules provide an important reference for the development of the budget. Belgium is subject to the 3% deficit and 60% debt limits in the Stability and Growth Pact. In accordance with the pact, Belgium has drawn up a stability programme each year since 1998 to set out medium-term budget targets that guide annual budgets. This approach has relied on the co-operation between the federal and sub-national governments, through agreements that specify borrowing targets for each region and community on a multi-annual basis, taking into consideration the recommendations of the HCF and a burden-sharing agreement for the consolidation efforts. Local authorities are subject to a balanced budget rule based on a 1982 royal decree; this rule, however, takes into account the electoral investment cycle. This subsector has had more or less balanced finances in the past two decades, although with variations across individual municipalities and the electoral cycle (Van Meensel and Dury, 2008). In recent years, the balanced budget
is more challenging for local authorities due to growing pension costs and an increase in social assistance expenditure as a result of the economic crisis and population ageing.

2. Relationship with the executive and the legislature

The HCF is an advisory body for the executive with limited institutional independence. The secretariat of the HCF is part of the Federal Public Service Finance, under the authority of the federal government, and formally the Minister of Finance chairs the council. Article 2 of the 2006 decree describes the council as a “technical and advisory” body that works to support the Minister of Finance and the Minister of Budget. There is no requirement on the government to respond to the reports of the HCF, although the budget documents make reference to the recommendations of the council.

The HCF has no formal relationship with the federal or sub-national parliaments. Legislative committees do not generally discuss the council’s reports, although individual members of parliament may refer to them. On some occasions, staff from the HCF secretariat have participated in discussions held by committees in the sub-national parliaments. Theoretically, parliamentary committees could invite the chairs of the sections to discuss budgetary issues, but this rarely happens. When recommendations of the PSBR section reflect a political consensus, such discussions could also be perfunctory. Overall, the role of the council is well established and it has operated under many governments of different political compositions. It faces no existential threat.

As noted earlier, the co-operation agreement of 13 December 2013 in effect formalised the recommendations of the PSBR section in view of the Stability Programme. The opinion of the section on the multi-annual targets has to be, as of 2014, submitted to the Concertation Committee. Based upon these recommendations, the governments of the federal level and the regions and communities have to seek an agreement on the budgetary path for the Stability Programme. In practice, if the governments elect a different budgetary path then the one recommended by the PSBR section, they have to defend their choice (“comply or explain”).

The HCF is not the only advisory body that plays a role in the budget process. The National Accounts Institute (NAI) was created in 1994 in order to ensure the quality and the independence of the main economic statistics and macroeconomic forecasts upon which the budget is based. It has no resources of its own, but serves as a vehicle to bring together Statistics Belgium, the National Bank of Belgium and the Federal Planning Bureau. Bogaert et al. (2006) describe the relationship between the HCF and the NAI as a division of labour between two fiscal councils, where the latter is limited to “positive economics” in contrast to the more “normative” role of the council.

The Federal Planning Bureau carries out a number of important activities related to public finances that are typical in other IFIs (Bogaert et al., 2006). For instance, it collaborates with the National Bank of Belgium in the preparation of the general government account within the national accounts. The bureau also produces, on behalf of the NAI, the short-term economic forecasts that are used by the federal government for drawing up its budget. The bureau’s medium-term economic outlook informs the preparation of the Stability Programme. Moreover, it prepares long-term projections of the budgetary consequences of an ageing population. The origin of the Bureau dates back to 1959 and it currently has about 100 staff members.
Box 1. The Federal Planning Bureau

Founded in 1959 as the “Programming Bureau”, the Federal Planning Bureau (FPB) is an independent public agency which, in its current form - as stipulated in the Law of 21/12/1994 amended by the Law of 04/04/2014 – forecasts, studies and analyses policy measures. Its main mission is to support the political decision-making process. As such, it shares its expertise with the government, parliament, social partners and national and international institutions. The FPB carries out studies and projections on economic, social and environmental policy issues, and on the integration of these policies within a context of sustainable development. FPB analysis is limited to positive analysis.

On behalf of the National Accounts Institute, the FPB provides the federal government, regions and communities with a common forecast (referred to as the “economic budget”) that serves as a starting point for their budgetary projections. The FPB also prepares a medium-term economic outlook including a detailed projection of general government accounts (federal, social security, federated entities and local) based on a no-policy-change scenario that is then used by the HCF to make its recommendations. This macroeconomic outlook also serves as a starting point for the elaboration of the stability programme. Finally, the FPB is the seat of the secretariat of the Study Group on Ageing and produces its long-term projections of age-related budgetary expenditures.

To reinforce its independence, the FPB has a policy of being as transparent as possible. It publishes its forecasts, methods, models and data. It also assesses its own forecasting performance. Moreover, any study commissioned by the federal government or any other institution is published under the FPB’s name. All FPB publications can be downloaded free of charge from its website. Study results are also disseminated through presentations at workshops and conferences.

Regular staff recruitment is governed by a transparent procedure and the candidates are appointed for a renewable nine-year term on the proposal of the bureau’s managing board. Management staff is appointed by the Council of Ministers on the basis of a list of candidates chosen by a selection committee composed of independent experts in the fields of management and economics.

Box 2. Role of the legislature in the budget process

Belgium is a federal state with a parliamentary system of government and a bicameral legislature. The Chamber of Representatives has 150 members who are directly elected by universal suffrage. The Coalition Agreement of 2011 included reforms to the Senate which were implemented fully in 2014, the first year where senators were not directly elected. The new 60-member Senate is completely composed of members appointed by the community and regional parliaments (50 members) and “co-opted” senators elected by their peers (six from the Dutch language group and four from the French-language group). The Senate’s role in the legislative process has been greatly reduced and will focus on reforms of the state and the royal family.

The Chamber of Representatives has exclusive authority over the state budget. The budget is to be presented no later than 31 October, two months before the start of the fiscal year. In recent years, however, there have been frequent deviations from the normal budget cycle due to political instability.
3. Legal basis for establishment

The HCF was first created by the Royal Decree of 31 January 1936 Establishing a High Council of Finance. Reforms occurred in 1967 and 1981. The creation of the section PSBR as part of the council was required by article 49, §6 of the Special Law of 16 January 1989 on the Financing of Communities and Regions. The Royal Decree of 3 April 2006 on the High Council of Finance established its current structure. New tasks were assigned to the PSBR section by the co-operation agreement of 13 December 2013.

4. Mandate

Article 2 of the 2006 decree gives the HCF a broad overall mandate: “The Council is responsible for advising the Minister of Finance and the Minister of Budget in the development of fiscal, financial and budgetary policy.” In principle, it can act on its own initiative although this is rare in practice. The two Sections and a Study Group that fall under the Council have more targeted mandates:

According to the 1989 Special Law, the PSBR section of the council has to prepare an annual opinion on the financing needs of governments. The section may also give its opinion, on its own initiative or upon request by the federal Minister of Finance or Budget, as to the advisability of restricting the borrowing requirement of one or more authorities should this be necessary in order to protect economic and monetary union or to avoid “a structural derailment of the borrowing requirements”. This is one of the main legal competences of the council and the key reason for the creation of the PSBR section in the context of the 1989 state reform. In practice, this option has never been used. Any attempt by the federal government to limit the borrowing of a region or community would be “very likely to cause massive political turmoil” (Coene and Langenus, 2011). In line with the concerns at the time of the creation of this section, its institutional coverage is comprehensive and includes the different levels of government, as well as other institutions if they affect government budgets.

As noted in the OECD Economic Survey of Belgium (OECD, 2015), the responsibilities of the HCF have been enhanced as follows:

“First, in the context of the preparation of the Stability Programme, the HCF delivers an Opinion with recommended multi-annual budget targets to promote fiscal sustainability...
in the medium and long term. These targets are set in nominal and structural terms for each level of government, taking into account a fair burden-sharing of the fiscal consolidation efforts. On the basis of that Opinion, the federal, regional and community governments have to conclude an agreement on the fiscal path and its breakdown. Second, the co-operation agreement also tightens up enforcement of the fiscal rules by strengthening the Council’s monitoring responsibilities. The Council will monitor the different governments’ budget outcomes and, in the event of any significant deviation from targets, will trigger a correction mechanism. In such cases, the government in question will have to implement additional consolidation measures in a limited timeframe to attain its target. The Council will monitor the implementation of these corrective measures.”

The second Section on “Taxation and Social Security Contributions” can give advice, either at the request of the federal Minister of Finance or at its own initiative, on issues related to taxation and social security contributions. It also has to give an annual opinion on the tax revenues collected by the federal government on behalf of local governments.

In addition, a Study Group on Ageing was created by the Law of 5 September 2001 Guaranteeing a Continuous Reduction of Public Debt and Creating an Ageing Fund. It has to publish an annual report on the budgetary and social consequences of ageing, which by law should be taken into account by the PSBR section in preparing its recommendations. As noted in Box 1, the secretariat of the Study Group on Ageing is provided by the Federal Planning Bureau.

5. Functions

Within the HCF, the PSBR section evaluates compliance with the budgetary targets of the different subsectors of the general government, and recommends borrowing targets for the medium and longer term. Detailed economic analysis of taxation is the role of the Section Taxation and Social Security Contributions section. The work of the Study Group on Ageing has a long-term focus, including projections of the budgetary effects of ageing that cover a 50-year period. The HCF does not produce macroeconomic forecasts, as this role is assigned to the NAI/FPB. Nor does the HCF routinely cost individual policy proposals, carry out regulatory impact assessments, or produce assessments of the fiscal implications of the election platforms of political parties. The reports of the HCF are based on budgetary data and quantitative analyses, complemented with narrative commentary and interpretation.

Since 1989, the council has had a crucial role in assessing compliance with medium-term budgetary targets. Its PSBR section monitors overall compliance with the targets in the stability programmes for the general government as a whole, as well as the contributions of the different sub-sectors. This includes both an ex post as well as an ex ante focus, which in past years have usually been linked to separate reports. One of the key tasks of the Section is to develop normative recommendations, specifically medium-term deficit targets and their breakdown across the sub-sectors.

The ex ante role of the PSBR section has been formalised by the Co-operation Agreement of 13 December 2013. The Section will continue to recommend a multi-annual budgetary path but as of 2014 the budgetary targets have to be set in both nominal and structural terms. This budgetary path has to be set for all the levels of government, including individual regions and communities. The ex ante opinion is thereafter submitted to the Concertation Committee. Based on this opinion, the governments of the federal level
and the regions and communities have to seek an agreement on the fiscal path for the stability programme.

The ex post role of the PSBR section has also been significantly enlarged by the Co-operation Agreement of 13 December 2013. The monitoring responsibilities of the section were strengthened in order to comply with the fiscal compact. The section will continue to monitor the budgetary outcomes and their compliance with the targets of the stability programme. However from now on, an automatic correction mechanism will be triggered if the section detects a significant deviation. If this happens, the government or governments in question will have to implement measures to correct this deviation. The PSBR section will be responsible for monitoring the implementation of these corrections measures in a separate report and it will also be the section that determines whether exceptional circumstances apply.

6. Work programme

The chair, the deputy chairs of the two permanent sections, a member nominated by the Minister of Finance, a member nominated by the Minister of Budget, a member representing the National Bank of Belgium and the member representing the Federal Planning Bureau form a “Bureau” charged with preparing and organising the work of the HCF. In practice, the two sections and the study group organise their work with a high degree of autonomy.

The HCF organises its work programme in accordance with its mandate. The two sections and the working group each have to report annually. They also have to respond to ad hoc requests from the government, and can act on their own initiative. In practice, the council and its subunits rarely go further than their required regular reports and typically respond only to ministerial requests. The dates of publication for the required reports have varied somewhat.

The PSBR section usually produces more than one report a year. The first is typically published around March and recommends fiscal targets on a multi-annual basis for each level of government in view of the stability programme. In the context of the introduction of the “European semester”, this first report contributes to the development of the stability programme. A second report in early summer (June/July) assesses the compliance of the budgetary outcomes of the previous year with the targets of the stability programme for each level of government including individual regions and communities. This report can involve specific recommendations on the budget balances of individual authorities. The timing of the two reports can sometimes be more erratic due to specific economic circumstances or to changes to the timing of stability programme updates. In addition, if the automatic correction mechanism is triggered, the workload of the PSBR section will likely rise and include additional reports.

7. Budget

Unlike the Federal Planning Bureau, the HCF does not have a separate line in the budget. In fact, the council has no significant expenditures of its own. The Federal Public Service Finance provides the secretariat staff, with resources that are allocated as part of the regular budget process. Members do not receive any wages, as they have other full-time jobs and membership only entails attendance at a small number of meetings a year. Hence, unlike in countries where fiscal councils have been threatened with budget cuts when they
have been perceived as overly critical of the government, this is not a possibility in Belgium. However, there are other circumstances that can disrupt its work, in particular delays in the appointment of its members.

8. Staffing

8.1. Leadership

Article 4 of the 2006 decree stipulates that the federal Minister of Finance is the Chair of the HCF. The federal Ministers of Finance and Budget also designate two Deputy Chairs who can replace the chair in case of absence. In practice, the Deputy Chairs chair the meetings and are in charge of organising the work programme. They propose the main guidelines for the Opinions and represent their Section in various meetings and institutions. The HCF consists of 24 members with five-year renewable terms (Articles 5 and 6). All also have full time positions in other institutions. In principle the appointment of non-nationals is possible.

The PSBR section consists of 12 members. Six members must be experts in budgeting and economics. Three of these are nominated by the National Bank of Belgium, one by the Minister of Finance, one by the Minister of Budget and one (the Deputy Chair) is nominated jointly by the Ministers of Finance and Budget. The Ministers of Finance and Budget nominate another six members who are experts in finance and economics on the basis of proposals from the governments of the communities and regions, including: two members proposed by the government of the Flemish Community; one by the government of the French Community; one by the government of the Walloon Region; two by the government of the Brussels-Capital Region, with one each representing the French and Dutch language communities.

Twelve members are nominated in the Section Taxation and Social Security Contributions Section. They must be experts in the area of taxation. These include six members of which one is proposed by the government of the Walloon Region if desired, one by the government of the French Community if desired, two by the Flemish government if it wishes and two by the government of the Brussels-Capital Region if it wishes, with one each representing the French and Dutch language communities. Another six members are nominated by the Minister of Finance, two of which are proposed by the Minister of Budget, one by the Minister of Social Affairs, one by the Federal Planning Bureau and two by the Minister of Finance.

Technically, the King appoints the members of the council. In practice, he always appoints the proposed individuals. Resolutions of the HCF require a two-thirds majority and the Minister of Finance does not have voting rights. Members do not receive compensation, except a modest attendance fee (about EUR 40 a meeting) and reimbursement of travel-related expenses.

In practice, the membership of the council has to reflect a carefully crafted political balance. Appointments have to be “carved up” among the traditional political parties and strike a balance in terms of regional-federal and linguistic representation, as well as gender. This can delay appointments. Following the 2004 regional elections, it was especially difficult to reach an agreement on the composition of the HCF, which led to a two-year hiatus that interrupted the work of the council. The mandates of the previous members expired in the fall of 2011 and the sections have been reconstituted since March 2012 with the appointment of the current members for a period of five years.
Strictly speaking, the decree on the HCF does not provide for the dismissal of a council member. In practice, the replacement of a member might become necessary if, for instance, he or she takes up a new position that is incompatible with work on the council.

8.2. Staff

The work of the two sections of the HCF is supported by a secretariat consisting of 12 staff plus two administrators, appointed by the federal Minister of Finance. The Federal Planning Bureau provides separate administrative support to the Study Group on Ageing. In practice, secretariat duties are interpreted in a very broad manner and include the drafting of the Council’s reports.

The secretariat is located on the premises of the Federal Public Service Finance. Its staff are civil servants and full-time members of the Research and Documentation Department of the Federal Public Service Finance, which carries out preparatory analytical work and drafts documents in support of political decisions in the field of public finance. This ensures that the council has access to staff with relevant qualifications, mostly in economics. Traditionally, they work part-time on HCF business and part-time on other business, depending on the particular workload of the council at a given time. Recently, due to the Section PSBR becoming the official IFI, Section PSBR secretariat staff work essentially full time.

The use of external experts is also possible, but rare in practice. Informally, some members may draw on expertise of staff in those organisations that nominated them, for instance to provide comments on draft reports.

9. Access to information

The HCF is chaired by the Minister of Finance, who also appoints the staff of the secretariat from amongst the staff of the Federal Public Service Finance. This ensures timely access to information the council may require for the preparation of reports. Some members of the council may also have access to the expertise within their nominating organisations, such as the National Bank of Belgium and the Federal Planning Bureau. Unlike in some other countries, the HCF has not been threatened with limits on access to information in response to critical reports. This is an unlikely scenario in Belgium given the importance of political factors in establishing the composition of the council.

The co-operation agreement of 13 December 2013 also clearly stimulates that the HCF should be granted access to all information it needs to carry out its missions and particularly the new missions of the PSBR section.

10. Transparency

All reports of the council are published on the HCF website in both French and Dutch. The PSBR section also publishes an executive summary in English of their reports on the website. The reports are of a technical nature and include discussions of methods and assumptions where appropriate. New reports are announced on the website of the Federal Public Service Finance. Occasionally, the publication of a report is accompanied by a news release. Since 2007, the chair of the PSBR section has held more regular news conferences to accompany publications. The publications of the council receive media attention and are also referenced in the budget documents that the government tables in the Belgian
11. Governance, advisory support, monitoring and evaluation

The HCF work programme is overseen by its “bureau”. The HCF does not have an oversight board or panel of advisors to guide its work. Nor is its work systematically subjected to peer review. However, it has received some positive evaluations in the academic literature and by international financial institutions. There is also some informal interaction between the secretariat of the HCF, and the relevant technical staff of the Federal Planning Bureau and the National Bank of Belgium.

12. Concluding remarks

The HCF is an advisory and consultative body. It has limited institutional independence from the Federal Public Service Finance, which provides the necessary staff and offices, and which finances the operation of the council from its budget. This is evolving however as the staff working for the Section PSBR have essentially become full-time and potential reforms are being discussed which would supplement the PSBR secretariat with experts from the regions and communities.

The Council nonetheless is regarded as an important forum for intergovernmental fiscal co-ordination in Belgium (Spahn, 2007). It is part of a set of fiscal institutions that ensures the separation of normative functions from more technical functions such as forecasting (Bogaert et al., 2006). This role is widely recognised and the continued existence of the council is not in doubt. However, commentators point out that the influence of the PSBR section was most visible in the first decade after its creation. Debrun, et al. (2009) summarise that its recommendations “were followed closely as long as its views were aligned with political priorities”, in particular in the run-up to the adoption of the euro. However, its recommendations “seem to have been followed less closely” during the past decade. This view is confirmed by a study that assesses the council’s effectiveness in promoting fiscal discipline, including whether the government adopted and complied with the recommendations (Coene and Langenus, 2011). However, it is impossible to say with certainty to what extent the recommendations merely reflect an existing consensus, or serve to establish one.

It remains to be seen whether the council can regain its former level of influence. It did play a useful role during the political crisis of 2010 and 2011, when Belgium’s political parties failed to form a new government and a caretaker administration was in charge. The latter sought the opinion of the HCF in devising a consolidation plan for the 2011 to 2014 stability programme. At the time, the council’s input gave the budgetary targets a degree of legitimacy, although the targets for the years after 2012 remain contested by some regions. Through its successive opinions the PSBR section also provided valuable input to the development of the Sixth Reform of the State, especially regarding the contribution of the regions and the communities to the consolidation efforts. The new missions given to the PSBR section will no doubt further strengthen the role of the section in the Belgian budgetary framework.

Notes

1. These included: A Treasury section, a section on banks and stocks, a section of industrial and commercial finance, a section on budgetary legislation and technology and a tax section.
2. Of the 50, 29 are appointed by the Flemish Parliament (and the Dutch-speaking group of the Brussels-Capital Region Parliament), ten appointed by the Parliament of the French Community, eight appointed by the Parliament of the Walloon Region, two appointed by the French-speaking group of the Parliament of the Brussels-Capital Region and one appointed by the Parliament of the German-speaking Community.

3. The Federal Planning Bureau was appointed as the independent fiscal council for macroeconomic forecasts (see Box 1).

4. As of 2015, the Section PSBR has decided to bring forward the report on compliance with the budgetary outcomes to better fit with the European semester. If a significant deviation is detected this new timing should allow governments to take measures for the next budget. The previous report timing in autumn came too late for governments to apply new measures to the next budget.

5. The HCF website has been temporarily merged with that of the Ministry of Finance due to budgetary reasons.

Bibliography

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Belgian High Council of Finance (Hoge Raad van Financiën/Conseil supérieur des Finances), http://financien.belgium.be/nl/over_de_fod/hoge_raad_van_financien.

Legislation

Co-operation Agreement between the federal government, the communities, the regions and the community commissions concerning the execution of article 3 §1 of the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union (Samenwerkingsakkoord tussen de federale overheid, de gemeenschappen, de gewesten en de gemeenschapscommissies betreffende de uitvoering van art. 3 §1 van het Verdrag inzake Stabiliteit, Coördinatie en Bestuur in de Economische en Monetaire Unie/Accord de coopération entre l’État fédéral, les communautés, les régions et les commissions communautaires relative à la mise en œuvre de l’art. 3 §1 du Traité sur la Stabilité, la Coordination et la Gouvernance au sein de l’Union économique et monétaire), 13 December 2013.
Royal Decree on the High Council of Finance (Koninklijk besluit betreffende de Hoge Raad van Financiën/Arrêté royal relatif au Conseil supérieur des Finances), 3 April 2006.
Royal Decree on the High Council of Finance (Koninklijk besluit betreffende de Hoge Raad van Financiën/Arrêté royal relatif au Conseil supérieur des Finances), 20 June 1989.

Royal Decree Establishing a High Council of Finance (Koninklijk besluit houdende instelling van een hoog raad van financiën/Arrêté royal instituant un Conseil supérieur des Finances), 31 January 1936.

Note: The High Council of Finance has published a detailed institutional history, in Dutch, that provides further details on the evolution of the council’s legal framework. The document is available on the council’s website, http://finance.belgium.be/en/about_fps/high_council_finance/