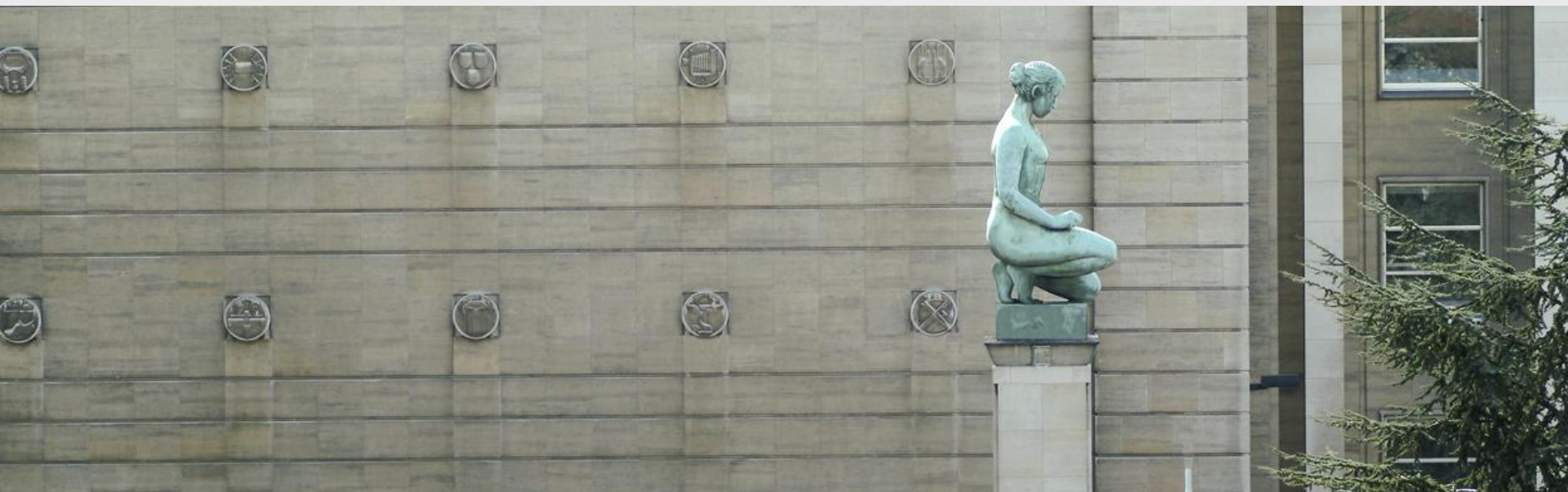


# The benefits of long-term fiscal projections: the Belgian case

by: **Geert Langenus**

(Research Department, National Bank of Belgium, [geert.langenus@nbb.be](mailto:geert.langenus@nbb.be))



**OECD Parliamentary Budget Officials and  
Independent Fiscal Institutions, 5th Annual Meeting**

**Parliament of Canada, Ottawa, 21-22 February 2013**

# Overview of the presentation

1. **role of the Belgian fiscal council(s)**
2. long-run fiscal projections for Belgium
3. benefits?
4. concluding remarks



# High Council of Finance: organisation

- ▶ Public Sector Borrowing Requirements section:
  - assessment of fiscal policy
  - budget recommendations for different government levels
  - public reports
  
- ▶ Taxation and Social Contributions section
  - advice on specific issues related to taxation and social contributions
  
- ▶ p.m. the National Accounts Institute
  - joint venture between the Federal Planning Bureau, the National Bank of Belgium and the National Institute for Statistics
  - responsible for the economic projections for the budget ("economic budget")
  - in practice: Federal Planning Bureau prepares the projections
  
- ▶ since 2001: **Study Committee on Ageing** created within the High Council of Finance



# Study Committee on Ageing

- ▶ responsible for assessing the budgetary and social implications of population ageing
- ▶ Chairperson: Françoise Masai (Deputy-Governor of the National Bank of Belgium)
- ▶ national version of the EC's Ageing Working Group
- ▶ Members with five-year renewable mandates
  - (appointed by the King but) proposed by the National Bank of Belgium, the Federal Planning Bureau and three federal ministries (Finances, Budget, Social Affairs)
- ▶ no own staff
  - practical work outsourced to the Federal Planning Bureau (that also provides the Belgian input for the Ageing Working Group)
  - some involvement by National Bank of Belgium staff (briefing of 'Bank' members)



# Study Committee on Ageing II

- ▶ background: idea of 'pre-funding' ageing costs by creating budget surpluses
  - Silver Fund: fund into which budget surpluses would be stored

*(statistically: fund created within the federal government and, according to its mandate, buying only specific federal government bonds; so essentially just a reduction of gross consolidated public debt)*
  - Study Committee on Ageing: expert group that calculates the exact impact of ageing
  - PSBR Section of the Council: "expert" group that recommends how much should be set aside to cope with ageing
- ▶ the Silver Fund never really got off the ground (no budget surpluses, see below)
- ▶ ... but legal obligation has remained: budget recommendations by the PSBR Section should 'take into account' the Study Committee's reports



# Overview of the presentation

1. role of the Belgian fiscal council(s)
- 2. long-run fiscal projections for Belgium**
3. benefits?
4. concluding remarks



# Budgetary cost of ageing

(percentages of GDP)

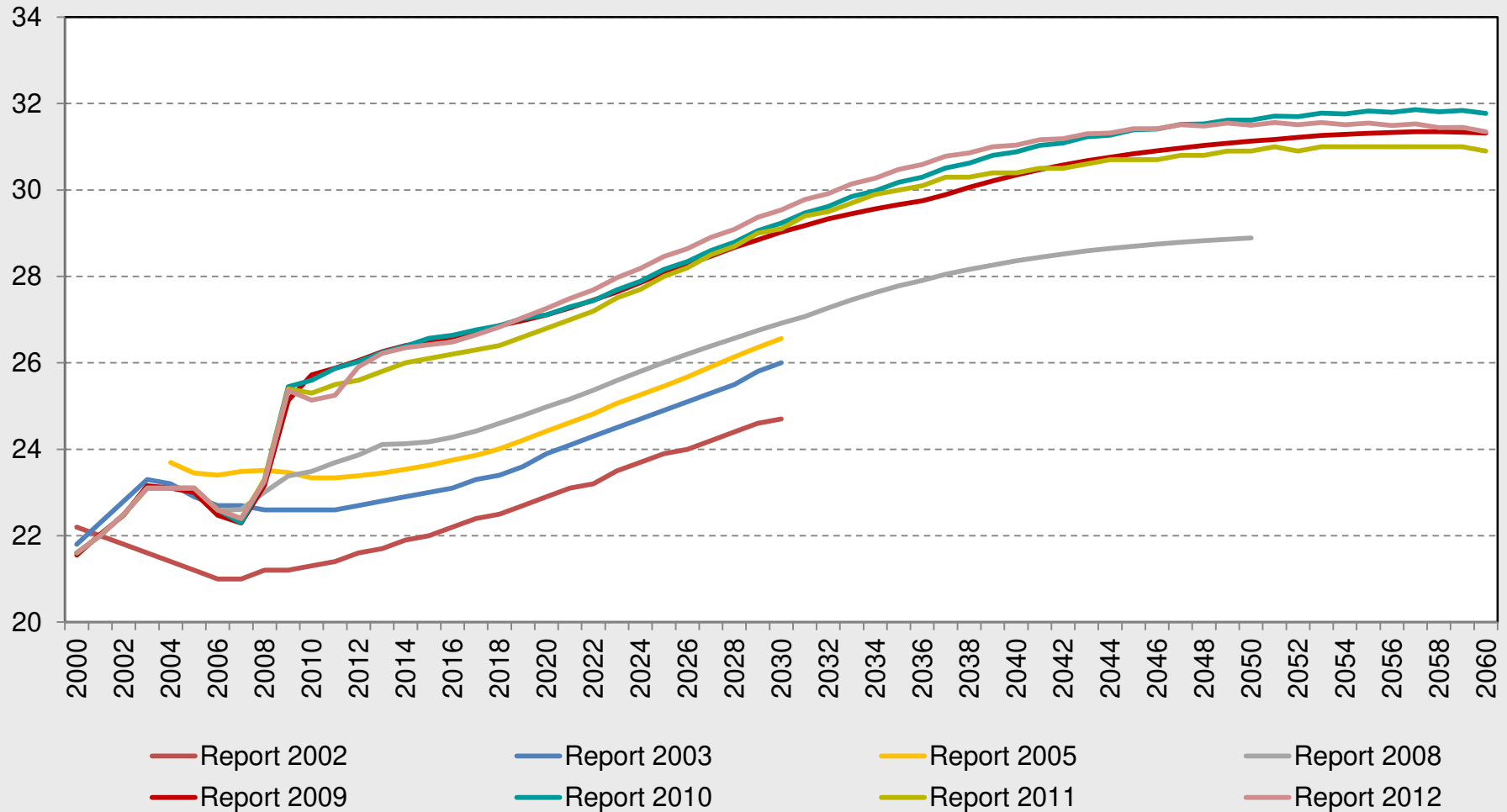
	Most recent Ageing Report (October 2012)							change compared to 2011 Ageing Report
	2011	2017	2030	2060	2011-2017	2017-2060	2011-2060	2011-2060
Pensions	9.9	10.7	13.6	14.5	0.9	3.7	4.6	0.4
Health care	8.0	8.6	9.4	11.0	0.6	2.3	3.0	0.1
Unemployment benefits	2.0	1.8	1.3	1.1	-0.2	-0.7	-0.9	0.0
Family allowances	1.6	1.6	1.6	1.4	0.0	-0.2	-0.2	0.1
Early retirement	0.4	0.4	0.3	0.3	-0.1	-0.1	-0.2	0.0
Other social spending	3.3	3.4	3.3	3.1	0.2	-0.3	-0.2	0.2
<b>Total</b>	<b>25.3</b>	<b>26.6</b>	<b>29.5</b>	<b>31.5</b>	<b>1.4</b>	<b>4.7</b>	<b>6.1</b>	<b>0.7</b>

Source: Study Committee on Ageing.



# Successive projections of ageing costs: an upward drift?

(ageing-related expenditure. percentages of GDP)



⇒ only in the 2011 report: a temporary downward revision!

Source: Study Committee on Ageing.





# SCA projections significantly more 'benign' than EC's AWG Reports

	Pensions <sup>1</sup>	Health care	Unemployment	Total	<i>p.m. other ageing-sensitive spending<sup>2</sup></i>	<i>p.m. Totaux publiés</i>
<i>p.m. AWG 2009, 2009-2060 period</i>	4.8	2.6	-0.4		0.0	6.9
AWG 2012, 2010-2060 period	5.6	3.1	-0.1	8.6	0.5	<b>9.1</b>
SCA 2012, 2011-2060 period	4.3	3.0	-0.9	6.4	-0.4	<b>6.1</b>
Difference	1.3	0.1	0.8	2.2	0.9	<b>3.0</b>
Caused by:						
Macroeconomic projections	0.1		0.9	1.0		
Demographic projections	0.5			0.5		
Assessment of structural measures / timing	0.5			0.5		
Other factors	0.2	0.1	-0.1	0.2		

Sources: AWG, Study Committee on Ageing, National Bank of Belgium.

1 Including early retirement and disability schemes.

2 Education spending for the AWG projections and other ageing-sensitive spending (e.g. family allowances) for the SCA projections.



# Overview of the presentation

1. role of the Belgian fiscal council(s)
2. long-run fiscal projections for Belgium
3. **benefits?**
4. concluding remarks



# Importance of long-run fiscal projections

- Council's recommended strategy to pre-fund ageing costs has clearly failed: surpluses proved to be a moving target

## Targets for the budget balance in successive stability programmes (% of GDP)

vintage	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Dec2000	-0.1	0.2	0.3	0.5	0.6	0.7					
Nov2001		0.0	0.0	0.5	0.6	0.7					
Nov2002			0.0	0.0	0.3	0.5					
Nov2003				0.2	0.0	0.0	0.0	0.3			
Dec2004					0.0	0.0	0.0	0.3	0.6		
Dec2005						0.0	0.0	0.3	0.5	0.7	
Dec2006							0.0	0.3	0.5	0.7	0.9
p.m. outcome	-0.0 (-0.4)	0.4 (-0.3)	-0.1 (-0.2)	-0.1 (-1.3)	-0.1 (-0.9)	-2.5 (0.0)	0.4 (-0.4)	-0.1 (-0.4)	-1.0 (-1.4)	-5.5 (-4.3)	-3.7 (-4.1)

Note: figures between parentheses are *structural* budget balances (ESCB method of cyclical adjustment)



# Importance of long-run fiscal projections II

- ▶ however: the debate on the appropriate fiscal policy was enriched
  - concepts of **intertemporal neutrality** and **intergenerational equity** explicitly addressed in the High Council of Finance's fiscal policy analysis
- ▶ counterfactual: which budget outcomes if the Council had settled for softer recommendations based on a more myopic view?
- ▶ regular assessments of long-run fiscal trends
  - have increased awareness about ageing
  - and may also have helped to build public/political support for structural reforms (increases in effective retirement age)



# Overview of the presentation

1. role of the Belgian fiscal council(s)
2. long-run fiscal projections for Belgium
3. benefits?
4. **concluding remarks**



## Concluding remarks

- ▶ long-run fiscal projections come with great uncertainties
- ▶ coexistence of national (SCA) and international institution (AWG) implies some 'quality control'
- ▶ linking budget recommendations to long-run fiscal projections
  - makes sense
  - ... but is operationally difficult
- ▶ fiscal council should
  - at any rate raise awareness about budgetary problems in the longer run
  - not impose but can help to *operationalise* principles of intergenerational equity / intertemporal neutrality
- ▶ Belgian experience: effectiveness of recommendations may be increased by
  - stronger budget procedures (increasing the cost of deviation)
  - a sharper public profile for the SCA



Thanks for your attention !!!

