Interregional transfers and solidarity mechanisms via the government budget

D. Dury
B. Eugène
G. Langenus
K. Van Cauter
L. Van Meensel

Introduction

The socioeconomic context prevailing in each of the three Belgian regions displays considerable variations. These form the basis for the interregional transfers effected via the government budget. In the past, a number of studies (1) have already attempted to assess the scale of the financial flows between regions, and have thus revealed continuous net transfers from the Flemish Region to the Walloon Region since the late 1960s, and also to the Brussels-Capital Region since the 1990s (2).

This article on interregional transfers and solidarity mechanisms via the government budget is not based on the findings of earlier studies but sets out the results of an analysis conducted by the National Bank of Belgium. That analysis focuses solely on transfers, in contrast to various other studies which examine the regional allocation of total public revenues and expenditure. Thus, the analysis excludes government transactions which cannot be regarded as transfers since they correspond to payments associated with a direct counterpart.

The article is structured as follows. Section 1 defines the concept of interregional transfers adopted in the study. Section 2 briefly describes the socioeconomic situation in each of the three regions. Section 3 offers a detailed assessment of the scale and determinants of interregional transfers in Belgium. Next, section 4 presents projections of the future pattern of these transfers, taking account of the impact of expected demographic developments and of various employment scenarios. Section 5 considers Belgium's interregional transfers in an international perspective, their relative scale being measured against that of interregional transfers recorded in other EU countries. The final section sums up the main findings of the study.

1. The concept of interregional transfers

Almost all public revenue and a large proportion of public expenditure consist of transfers, i.e. payments with no direct counterpart. On the revenue side, that applies to taxes and social contributions. Although the government uses these revenues to finance public facilities and social benefits, among other things, those are indirect counterparts. On the expenditure side, it applies to social benefits – such as pensions, child benefits, invalidity benefits and unemployment benefits, and public health care expenditure – and other transfers of income and capital as subsidies granted to enterprises, households or NPIs. Other transactions, such as dividends and proceeds of sales accruing to the government, and salaries, purchases of goods and services, investment expenditure and interest

(1) Cf. in particular Van Rompuy and Bilsen (1988), and De Boeck and Van Gompel (1998).

(2) Commissioned by the Flemish government, the most recent study on the subject was conducted by Abafim, the Flemish authority for finance and the budget, and was published in October 2004. It concluded that net financial transfers of around 6.6 billion euro were effected from the Flemish Region to the Walloon Region (5.4 billion) and the Brussels-Capital Region (1.2 billion) in 2003. The methodology of the study was subsequently examined by a committee of experts, which made a number of comments.

charges, have a direct counterpart and are therefore excluded from the study.

These transfers are the primary means by which the government performs its role of redistribution and by which social solidarity is organised, as taxation takes account of the economic capability of each taxpayer, and in particular the level of his income, the extent of his assets and his family situation. In addition, social benefits offer partial protection against the loss of income resulting from a number of social risks which may impede participation in the world of work, such as ageing, invalidity or unemployment.

Transfers from or to the government can be broken down by region [1]. Transfers between the government and households are based on the place of residence, whereas transfers between the government and businesses are based on the place where the business is conducted or value is created.

It is possible to conduct a regional comparison of the relative scale of the public transfers thus broken down. A region is considered as a contributor of interregional transfers in terms of public revenues if, per head of population, the transfers by that region's residents to the federal government or social security – e.g. in the form of personal income tax, social contributions or corporation tax – are higher than the per capita national average. Conversely, a region is regarded as a recipient of such transfers if its contribution is proportionately lower than would be expected on the basis of its percentage of the population. A similar reasoning also applies to transfers received by households from the government, and especially social benefits. Assessment of the interregional transfers on the basis of both public revenue and public expenditure reveals the net position of each region in terms of interregional transfers. By definition, the total of interregional transfers is zero.

Since the calculations were done in the current Belgian institutional context, the interregional transfer results presented are only valid in that context. If the Belgian institutional context were to change, altering the government subsectors or entities collecting certain taxes and social contributions or granting certain social benefits, that could lead to different – perhaps even very different – results.

Finally, it was necessary to use allocation formulas, which were sometimes relatively rudimentary, in order to break down public transfers among the various regions. The interregional transfers deduced from those data therefore offer only an approximate idea of the real financial flows between the regions.

(1) Only public authority transfers effected by the federal government and social security are examined. Regional and local taxes are excluded from the analysis since they do not, in principle, imply any interregional transfer. Social benefits and other transfers, such as the subsidies which the communities, regions or local authorities pay to enterprises, households or NPIs, are also disregarded.

Box – Place of residence versus place of work criterion for the calculation of interregional transfers

This article analyses the transfers between the government and households on the basis of the household's place of residence. This accords with the economic logic applied for the purpose of compiling the regional household accounts.

Sometimes an alternative approach is advocated whereby the interregional transfers are calculated on the basis of the place of work of the individuals and, in principle, of the persons covered by social insurance.[1] The argument most commonly put forward here is that this approach allows commuting to be taken into account. It is then often suggested that the position of the Brussels-Capital Region in regard to interregional transfers would be much more favourable if the place of work criterion were used rather than the place of residence criterion.

The degree to which, according to this alternative approach, the place of work criterion should be applied to the various transfers between the government and households is interpreted in various ways. For instance, there are interpretations whereby all these transfers are allocated according to the place of work, as opposed to interpretations whereby that applies only to certain transfers. In both cases, however, conceptual and practical problems arise.

According to the approach in the broad sense, the place of work criterion is used to allocate all transfers between the government and households. Consequently, according to that approach, it is not only personal income tax and social contributions that are allocated according to the place of work criterion but also social benefits, for example, which are financed partly by those social contributions. However, in conceptual terms it is unclear how pensions, child benefit, unemployment benefit etc, should be attributed to the various regions. Such an approach would therefore only be possible if a number of assumptions – debatable by definition – are applied. But even in that case the available statistical data do not permit the allocation of social benefits according to the place of work criterion. Moreover, such an approach does not accord with the current Belgian institutional context, and that goes against the approach adopted in this article.

According to the approach in the strict sense, the application of the place of work criterion is generally confined to the allocation of social contributions.(2) However, this approach cannot be applied consistently, as it does not present any link between the regional allocation of social contributions on the one hand, and the related social benefits on the other. In practice, this means for example that these studies make the assumption that residents of the Flemish or Walloon Region who work in the Brussels-Capital Region pay social contributions there but receive their pensions from the Flemish or Walloon Region, causing significant distortion in the transfers. This approach would also imply that if, for example, more residents of the Walloon Region were to go and work in the Flemish Region and the social contributions were attributed to the latter region according to the place of work criterion, then all other things being equal that would increase the interregional transfers from the Flemish to the Walloon Region ; that can hardly be called a sensible conclusion. This example shows that the interpretation of the results obtained according to this approach is problematic.

This article therefore refrains from using the place of work criterion.

(1) E.g. the report by the committee studying the methodology used in the analysis of interregional transfers (2006) – this committee examined the methodology of the 2004 Abafim study – advocates use of the place of work criterion alongside the place of residence criterion.

(2) Sometimes it is confined solely to employers' social security contributions, on the grounds that these are transfers paid by enterprises. This approach conflicts with that adopted in the national accounts, whereby labour costs are all viewed as compensation for the work performed by the employees (and households paying the total amount of social contributions).

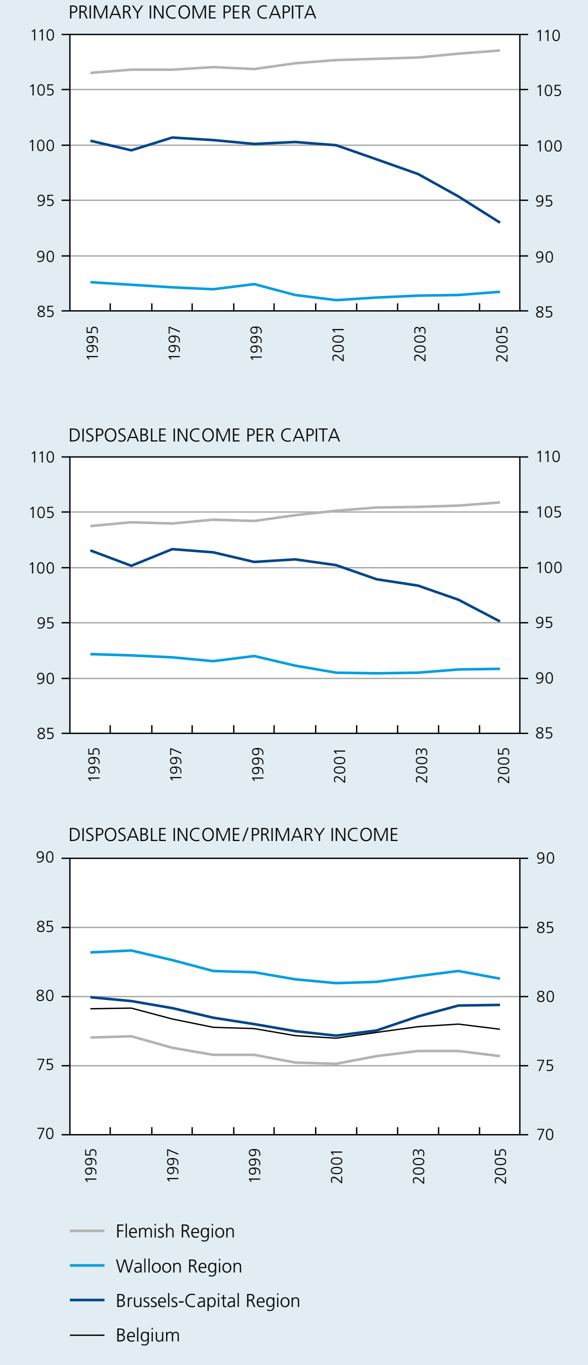
2. The socioeconomic situation of the three Belgian regions

The three Belgian regions feature significant socio-economic disparities. For instance, the primary income of households per capita is considerably higher in the Flemish Region than in the other two regions, and hence in the country as a whole. More specifically, in 2005 – i.e. the year to which the calculations in this study relate, since that is the latest year for which all the necessary data were available – the primary income of households per capita was 8.5 p.c. above the national average in the Flemish Region. Conversely, in the Walloon Region, the primary income of households per capita was 13.3 p.c. below the national average, and in the Brussels-Capital Region the negative gap was 7 p.c. In this last region, however, the gross value added per capita is around twice the national average. Commuters are part of the reason for the divergence in the Brussels-Capital Region between the gross value added per capita and the primary income per capita.

The variations in the primary income of households per capita between the regions are due mainly to differences in the labour market situation, as the employment rate in the Flemish Region is around 9 percentage points higher than in the Walloon Region and over 11 percentage points above the rate in the Brussels-Capital Region. The Flemish Region has a considerably higher activity rate and much lower unemployment rate than the other two regions.

CHART 1 PRIMARY INCOME AND DISPOSABLE INCOME OF HOUSEHOLDS

(Belgium = 100, unless otherwise stated)



Sources: NAI, NBB.

Since the Flemish Region is the one with the highest primary income of households per capita, the taxes and social contributions paid there by households to the government are higher in relative terms – i.e. as an average per capita – than in the other two regions. In view of its higher primary income of households per capita and a lower unemployment rate, the Flemish Region should logically be a net contributor to interregional transfers. Conversely, the socioeconomic context specific to the Walloon Region implies that the region is a net recipient of these transfers. The same applies to the Brussels-Capital Region, at least in regard to transfers between the government and households. The effect exerted on household incomes by the secondary income distribution – via taxes and social contributions, on the one hand, and via social benefits, on the other hand, – is therefore relatively more favourable in those two regions than in the Flemish Region. In fact, although the disposable income of households per capita in the latter was still 5.9 p.c. above the national average in 2005, that is less than the difference in primary income of households per capita. The opposite situation applies in the Walloon Region and the Brussels-Capital Region, since the negative gaps between disposable income of households per capita and the national average are only 9.1 and 4.9 p.c. respectively.

3. Scale and determinants of interregional transfers in Belgium

The analysis of interregional transfers via the government budget in Belgium is based largely on the data from the household regional accounts, published since 2003 by the National Accounts Institute. The latest statistics, which are used for the calculations presented below, relate to the year 2005. To make it possible to measure the total interregional transfers, these data were supplemented with other information and with the results of our own calculations, particularly in regard to corporation tax, indirect taxes and public expenditure on health care.

3.1 Transfers via public revenues

The main fiscal and parafiscal revenues of the federal government and social security come from personal income tax, the withholding tax on income from movable property, social contributions, corporation tax, VAT and excise duty. This section examines the aspects relating to the allocation of these revenues among the regions. The taxes collected by the federal government on behalf of the regions and local authorities and the taxes which the latter entities collect themselves are outside the scope of the analysis, since these taxes do not imply any interregional transfers. That is why the revenues generated by personal income tax and VAT are adjusted for the portion transferred to the communities and regions in accordance with the Special Finances Act of 16 January 1989.

TABLE 1 SOCIOECONOMIC CONTEXT OF THE THREE BELGIAN REGIONS

(2005 ; Belgium = 100, unless otherwise stated)

	Flemish Region	Walloon Region	Brussels-Capital Region	
Gross value added per capita	99.1	72.2	198.4	
	↓	↓	↓	Influence of commuters in particular
Primary income of households per capita	108.5	86.7	93.0	
	↓	↓	↓	Impact of the distribution of secondary income (via public transfers)
Disposable income of households per capita	105.9	90.9	95.1	
Employment rate (1)	66.1	57.0	54.8	
Unemployment rate (2)	4.4	10.5	17.2	

Sources : EC ; NAI ; FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; NBB.
(1) Percentage of the population of working age (persons aged 15 to 64), in 2007.
(2) Percentage of the labour force of working age, in 2007.

DIRECT LEVIES ON INCOMES

The regional breakdown of the levies on household incomes, such as personal income tax, the withholding tax on incomes from movable property, and social contributions, is based on the method of allocating secondary household incomes adopted in the regional accounts. It therefore operates according to the place of residence of the households, in the same way as that which applies to other transfers between households and the government. In contrast, the regional allocation of corporation tax is effected in this study on the basis of the value added of the companies per region.

In 1995, the per capita revenues generated by personal income tax and the withholding tax on income from movable property paid in the Flemish Region were already well above the national average. That positive gap widened further during the next decade owing to the relatively more favourable movement in incomes in that region. In contrast, the opposite picture is seen in the Walloon Region : per head of population, personal income tax and withholding tax on income from movable property were well below the national average there in 1995, and that negative gap widened further in the ensuing years. Nevertheless, there has been a turnaround since 2002, narrowing the gap to some extent. However, the most striking development occurred in the Brussels-Capital Region. While the per capita average there was close to the national figure in 1995, it has since dropped well below it.

The social contributions paid per capita display a similar trend, although it is less pronounced. This is due in part to the fact that the social contributions are, in principle, levied as a fixed percentage of gross pay, whereas personal income tax is progressive.

Reflecting the fact that incomes are relatively higher in the Flemish Region, the latter's total contribution by way of personal income tax, withholding tax on income from movable property and social contributions was around 4.1 billion euro higher, in 2005, than might be expected purely on the basis of its share of the population. Where these revenues are concerned, that region can therefore be considered as an interregional transfer contributor. Conversely, contributions from the Walloon Region and the Brussels-Capital Region were respectively around 3.3 billion euro and 900 million euro lower than would be expected, so that in this respect they are interregional transfer recipients.

In the case of corporation tax, the situation is totally different. The largest contribution comes from the Brussels-Capital Region, whose central geographical location and capital status attract many businesses pursuing a wide range of economic activities. In per capita terms, the corporation tax revenues collected in that region are twice

TABLE 2 INTERREGIONAL TRANSFERS VIA PUBLIC REVENUES [1]

(2005, millions of euro)

	Flemish Region	Walloon Region	Brussels-Capital Region
Public revenues	**5,052**	**–5,136**	**83**
Direct taxes			
Personal income tax [2] and withholding tax on income from movable property	1,978	–1,524	–455
Actual social contributions	2,147	–1,737	–409
Corporation tax	175	–1,241	1,066
Indirect taxes			
VAT	504	–381	–123
Excise duty	26	31	–56
Special Finances Act and other federal allocations			
Resources generated by VAT and personal income tax	111	–193	82
Other federal allocations [3]	112	–90	–22

Sources: NAI; FPS Economy, SMEs, the Self-employed and Energy (DGSEI); FPS Finance; NBB.

(1) A positive figure indicates a transfer from the region concerned, whereas a negative figure indicates a transfer to that region.

(2) Excluding the average local additional percentages on personal income tax per region.

(3) The other federal allocations concern the allocation to the German-speaking Community, the drawing rights of the regions in regard to getting unemployed persons back into work, and the allocation for investments in the Brussels-Capital Region (Beliris). The allocation for foreign students is excluded from the calculations since it does not go to residents of the regions.

the national average. Thus, in the case of corporation tax, the Brussels-Capital Region made a contribution to interregional transfers of 1.1 billion euro in 2005. The Flemish Region also contributes to interregional transfers via corporation tax, but to a much smaller degree than the Brussels-Capital Region. The Walloon Region, conversely, is a major recipient of these transfers.

VAT AND EXCISE DUTY

The regional accounts do not supply data on the regional breakdown of VAT and excise duty. In the present study, it was therefore decided to use other sources of information, such as the household budget surveys, in order to permit such a breakdown [1]. Application of the current VAT and excise rates to the various expenditure categories identified by these surveys provides an indication of the indirect taxes paid by residents of a particular region, wherever their expenditure took place. The VAT allocated on that basis comprises only the VAT on household consumption expenditure. Households also pay VAT on new housing and home renovations. The VAT payable on new housing was allocated according to the newly built habitable area in each region, while the VAT charged on renovation was allocated according to the number of applications for renovation permits submitted in each region. The non-deductible VAT paid by public enterprises and by companies could not be broken down owing to the absence of any reliable formula [2].

In the case of VAT revenues, according to the method of calculation described above, the Flemish Region contributed 504 million euro to interregional transfers in 2005, whereas the Walloon Region and the Brussels-Capital Region received 381 and 123 million euro respectively by way of interregional transfers in this tax category.

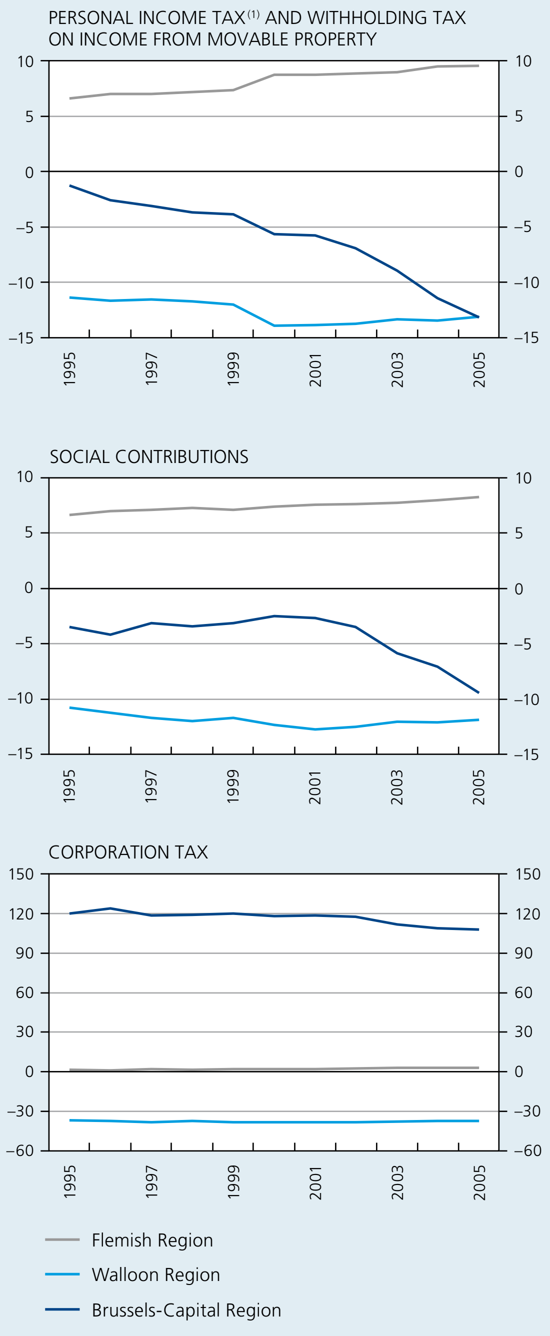
These transfers are not really due to differences between the regions in the average VAT rates applied to household expenditure: those rates are equivalent overall in the Flemish Region and in the Walloon Region, while the rate applied in the Brussels-Capital Region is slightly lower owing to the larger proportion of expenditure on housing which attracts a lower rate of VAT. The transfers are due primarily to the differences in incomes between the regions, since those differences are reflected in variations in consumption and investment expenditure from one region to another.

(1) Conducted by the Directorate General of Statistics and Economic Information of FPS Economy, SMEs, Self-employed and Energy, the household budget surveys aim to determine the average annual expenditure and income of households.

(2) In all, around 70 p.c. of total available VAT revenues are broken down per region, whereas there is no reliable formula available for allocating the remaining 30 p.c.

CHART 2 INTERREGIONAL TRANSFERS VIA DIRECT TAXES ON INCOMES

(percentage difference between the average taxes per capita and the national average, in percentages)



Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; NAI ; NBB.
(1) Excluding the average local additional percentages on personal income tax per region.

The regional breakdown of excise duties was also based on information obtained from the household budget surveys. The breakdown is therefore confined to the excise duties payable on products for which those surveys offer detailed data, namely the excise duties which households pay on tobacco and mineral oil [1].

The interregional transfers via excise revenues are much smaller than those via VAT revenues. The Flemish Region and the Walloon Region thus contributed 26 and 31 million euro respectively to interregional transfers in 2005. In contrast, the Brussels-Capital Region received 56 million euro, essentially as a result of lower expenditure on mineral oil in that region.

IMPACT OF THE SPECIAL FINANCES ACT

Pursuant to the Special Act of 16 January 1989 on the financing of the communities and regions, the federal government transfers to the communities and regions a considerable percentage of the revenues generated by personal income tax and VAT. As the revenue share which each region receives does not correspond to the share which it could claim according to its percentage of the population, the Special Act influences interregional transfers. It is therefore necessary to make a supplementary adjustment. In practice, this means that the analysis only examines the aspects relating to the regional allocation of the share of personal income tax and VAT revenues not transferred to the communities and regions, which thus accrues to the federal government and social security.

The method of calculation used to assess the redistributive effects of the Special Finances Act calls for two technical comments.

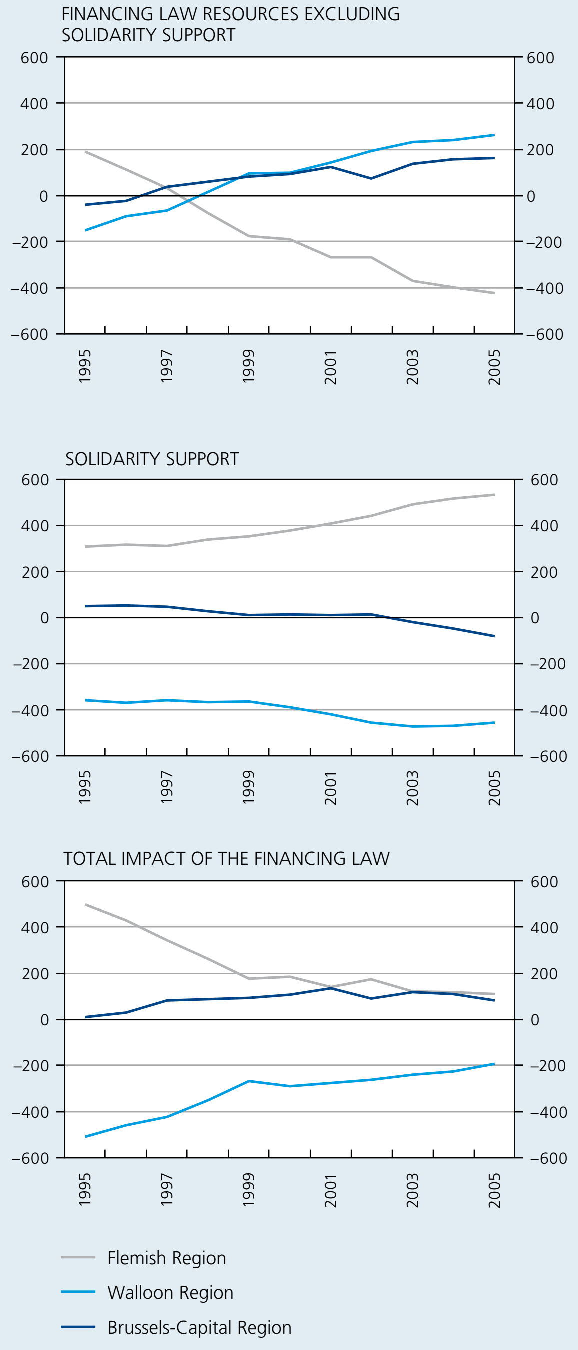
First, in this study the resources transferred to the communities were imputed to the regions on the basis of their share of the population and, for the Brussels-Capital Region, taking account of the 20/80 allocation formula stipulated by the Special Finances Act [2].

The second comment concerns the reform of the Special Finances Act introduced by the Lambermont agreements in 2001. That reform gave the regions greater fiscal autonomy by regionalising the revenues generated by various taxes and the associated powers, such as registration fees, gift taxes and motor vehicle duties. By way of compensation, a "negative term" was deducted from the personal

(1) These excise duties make up around 60 p.c. of total revenues collected in the form of excise duties.
(2) This formula is implicitly based on the assumption that 20 p.c. of the residents of the Brussels-Capital Region belong to the Flemish Community and 80 p.c. to the French Community.

CHART 3 IMPACT OF THE SPECIAL FINANCES ACT ON THE INTERREGIONAL TRANSFERS (1)

(millions of euro)



Sources: FPS Finance, NAI, NBB.

(1) A positive figure indicates a transfer from the region concerned, whereas a negative figure indicates a transfer to that region.

income tax revenues transferred. This negative term was retropolated in order to identify the interregional transfers via the resources resulting from the Special Finances Act in the period 1995-2005 (1). This avoids the need to calculate the regional breakdown prior to 2002, when taxation was still a federal responsibility.

The interregional transfers resulting from the Special Finances Act can be divided into interregional transfers excluding the solidarity support and those effected via that mechanism.

Since its entry into force, the trend in interregional transfers via the resources covered by the Special Finances Act, excluding the solidarity support, has always been favourable to the Flemish Region and unfavourable to the other two regions. The reason is that, during the transitional period of the Special Act between 1989 and 1999 and during the period following the Lambermont agreements, growing importance was attached to personal income tax revenues in each region for the allocation of these transfers. At present, the Flemish Region is therefore a net recipient of the said interregional transfers while the Walloon Region and the Brussels-Capital Region are contributors.

However, the influence of the regional breakdown of the personal income tax revenues as a formula for the allocation of the resources transferred to the communities and regions is tempered by the solidarity support provided for by the Special Finances Act. This support is paid to a region as soon as the gap between the level of personal income tax revenues per capita in that region and the corresponding national figure becomes negative. In the case of the Walloon Region, that was already the case when the Special Finances Act came into force, so that Wallonia has always received interregional transfers by way of the solidarity support payment. In the Brussels-Capital Region, per capita personal income tax revenues have fallen sharply in relation to the national average: at the beginning of the 1990s, those revenues had been well above the national average, but the positive gap systematically declined, becoming negative from 1997. Since that year, the Brussels-Capital Region has therefore claimed the solidarity support. However, it is only since 2003 that this support has resulted in a transfer to that region; between 1997 and 2003, the region's share in the solidarity support was in fact less than that corresponding to its percentage of the population. The Flemish Region has never received this support, so that it has always contributed towards these interregional transfers.

(1) The negative term is calculated on the basis of the regional breakdown of the taxes which were regionalised under the Lambermont agreements between 1999 and 2001.

Taking account of the total impact of the transfers of resources triggered by the Special Finances Act, both the Flemish Region and the Brussels-Capital Region contributed to the interregional transfers in 2005, in the sum of 111 and 82 million euro respectively (1). In that same year, the Walloon Region received 193 million euro by way of interregional transfers. The total impact of the said resources on the interregional transfers is clearly declining, as it is currently much less pronounced than at the time of entry into force of the Special Act.

3.2 Transfers via public expenditure

Interregional transfers via public expenditure operate mainly via social benefits. This section examines in turn the aspects relating to the regional breakdown of expenditure in the form of pensions, pre-pensions, unemployment benefits, child benefits, health care, invalidity benefits and compensation for occupational diseases, allowances for career breaks and time credit, subsistence allowance and other social benefits. Finally, it describes the regional breakdown of subsidies to enterprises.

(1) In the case of the Brussels-Capital Region, the negative term – which is relatively large since the taxes regionalised under the Lambermont agreements are quite high – plays a significant role.

PENSIONS

The three regions of Belgium vary greatly in their demographic structure. In comparison with the other two regions, the Flemish Region has a relatively elderly population, as the population of the Walloon Region is slightly younger and that of the Brussels-Capital Region is considerably younger. In 2005, the proportion of persons aged over 65 years in the total population was 17.8 p.c. in the Flemish Region, or around 1 percentage point higher than in the Walloon Region and almost 3 percentage points higher than in the Brussels-Capital Region. The demographic disparities between the regions are the main factor accounting for the interregional transfers by way of pension benefits.

Interregional transfers via pensions are also determined by the average pension paid to each person aged over 65, although the influence of that factor is far more tenuous, since the average pension does not vary greatly between the regions. In the Flemish Region and in the Brussels-Capital Region, that figure is below the national average, whereas it is slightly above it in the Walloon Region. This is due mainly to the relatively large proportion of public sector pensions in the Walloon Region, which are generally higher than the pensions of private sector employees and the self-employed.

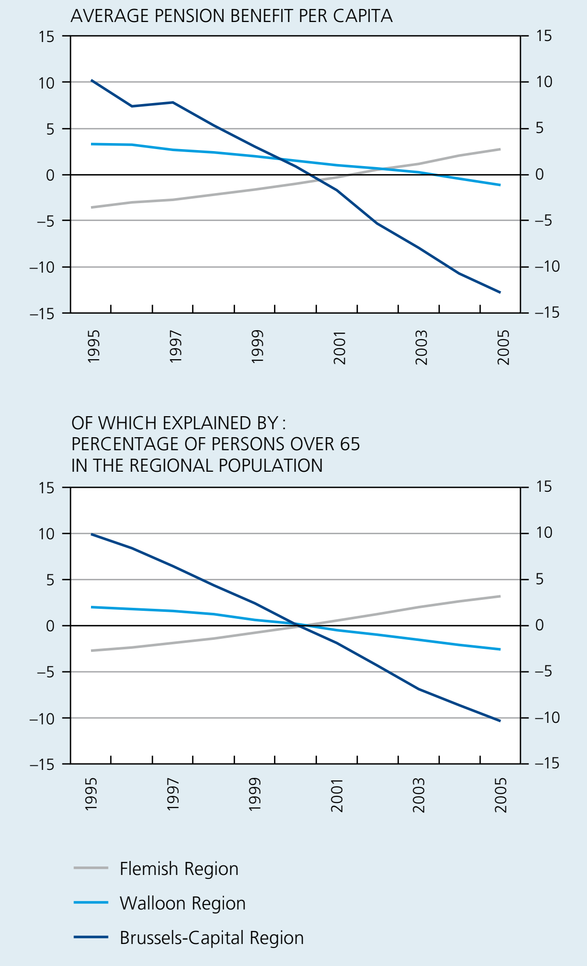
TABLE 3 INTERREGIONAL TRANSFERS VIA PUBLIC EXPENDITURE (1)
(2005, millions of euro)

	Flemish Region	Walloon Region	Brussels-Capital Region
Public expenditure	**790**	**–920**	**130**
Pensions	–417	95	322
Pensions of employees and self-employed	–421	177	244
Public sector pensions	4	–82	78
Pre-pensions	–122	52	70
Unemployment benefits	864	–619	–245
Child benefits	121	–74	–47
Health care expenditure	2	–57	55
Invalidity benefits	86	–100	14
Compensation for occupational diseases	66	–92	26
Career breaks and time credit	–66	39	27
Subsistence allowances	148	–66	–82
Other social benefits	132	–118	–14
Subsidies to enterprises (service vouchers)	–24	20	4

Sources: FPS Economy, SMEs, Self-employed and Energy (DGSEI); NSDII; NAI; NEO; NBB.
(1) A positive figure indicates a transfer from the region concerned, whereas a negative figure indicates a transfer to that region.

CHART 4 INTERREGIONAL TRANSFERS VIA PENSIONS

(difference from the national average, in percentages)



Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; NAI ; NBB.

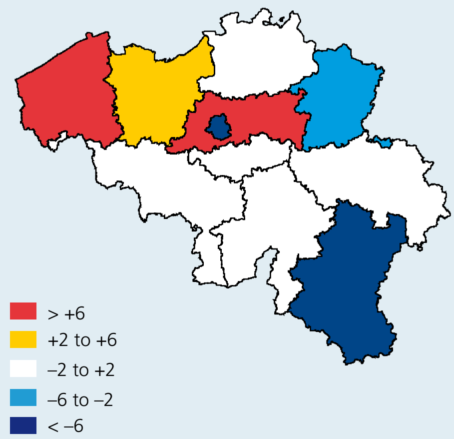
Consequently, the Flemish Region received 417 million euro in 2005 in the form of interregional transfers via pensions. The Walloon Region and the Brussels-Capital Region, in contrast, made respective contributions of 95 and 322 million euro by way of pensions.

However, the demographic disparities have not always displayed the same pattern. Thus, in 1995, the Brussels-Capital Region still had a relatively elderly population while the Flemish Region's population was considerably younger than that of the other regions, a situation which has since been reversed, as already mentioned.

These demographic changes are naturally reflected in the pattern of interregional transfers via pensions. The Brussels-Capital Region saw the most striking development : whereas

CHART 5 INTERPROVINCIAL TRANSFERS VIA PENSIONS

(2005, differences in percentages between the average benefit per capita and the national average)



Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; NAI ; NBB.

in 1995 the average per capita pension there was still well above the national average, a decade later it was well below that figure. The Walloon Region also recorded a downward trend though it was much less pronounced. Conversely, the opposite happened in the Flemish Region, since the average per capita pension there rose faster than the national average. While the Walloon Region, and especially the Brussels-Capital Region, became contributors to interregional pension transfers between 1995 and 2005, having previously been recipients, the Flemish Region became a pension transfer recipient instead of a contributor.

The total pensions can be divided between private sector pensions – namely those paid by the social security schemes for employees and self-employed workers – and public sector pensions. This distinction shows that interregional transfers going to the Flemish Region essentially concern private sector pensions. In contrast, the Walloon Region receives interregional transfers by way of public sector pensions. The Brussels-Capital Region contributed towards the transfers in 2005, in the case of both private sector and public sector pensions.

In the case of pensions, the scale of the interprovincial transfers is also relatively large. Thus, in 2005, the average pension per capita in Brussels-Capital [1] and in the provinces of Luxembourg and Limbourg was well below the

(1) The Brussels-Capital Region is included in the exercise even though, in principle, it is no province.

national average. West Flanders, Flemish Brabant and East Flanders were at the opposite end of the spectrum. In the other provinces, the average pension per capita broadly corresponded to the national average.

PRE-PENSIONS

In 2005, the average pre-pension paid per capita in the Flemish Region was 16.8 p.c. higher than the national average, whereas in Wallonia and Brussels the per capita benefits were lower by 12.7 and 58.1 p.c. respectively.

Public expenditure on pre-pensions therefore led to a transfer of 122 million euro to the Flemish Region in that year. The Walloon Region and the Brussels-Capital Region contributed 52 and 70 million euro respectively to the interregional transfers.

UNEMPLOYMENT BENEFITS

As already pointed out, the relative level of unemployment varies greatly from one region to another. Differences in unemployment rates are one of the main factors explaining the interregional transfers via unemployment benefits. In addition, the average periods of unemployment vary considerably between the regions, which in turn leads to higher average amounts of unemployment benefit per claimant. Thus, in 2005, the average benefit in the Flemish Region was considerably higher than the average in the Walloon Region and higher still than the benefit paid in the Brussels-Capital Region. This last factor is also behind the interregional transfers via unemployment benefits.

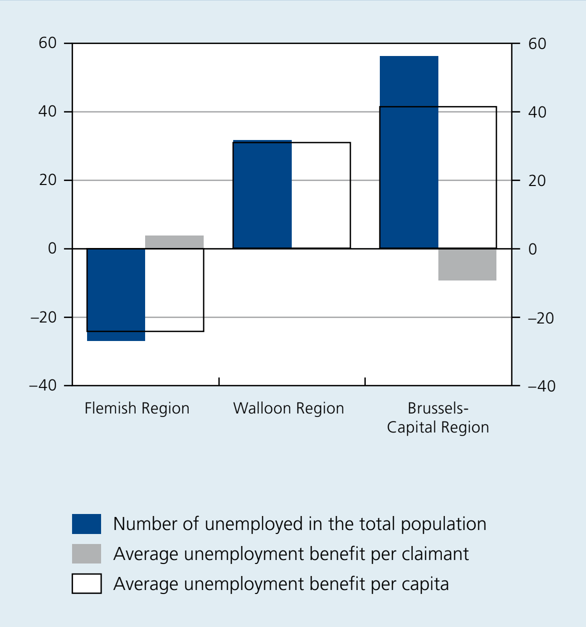
In 2005, the average unemployment benefit paid per capita in the Walloon Region was 31.1 p.c. above the national average, and the positive differential was actually 41.4 p.c. in the Brussels-Capital Region. In contrast, in the Flemish Region the average unemployment benefit per capita was 24.4 p.c. below the national average.

Comparison of the regional breakdown of the unemployment benefits paid in 2005 with the regional breakdown of public expenditure that would correspond to each region's share of the country's population reveals that the Walloon Region and the Brussels-Capital Region respectively received an extra 619 and 245 million euro. In that year, the Flemish Region contributed 864 million euro to the interregional transfers via unemployment benefits.

The interregional transfers via unemployment benefits increased between 1995 and 2005. More specifically, the Flemish Region contributed more, while the other two regions received larger transfers.

CHART 6 INTERREGIONAL TRANSFERS VIA UNEMPLOYMENT BENEFITS : EXPLANATORY FACTORS

(2005, differences from the national average, in percentages)

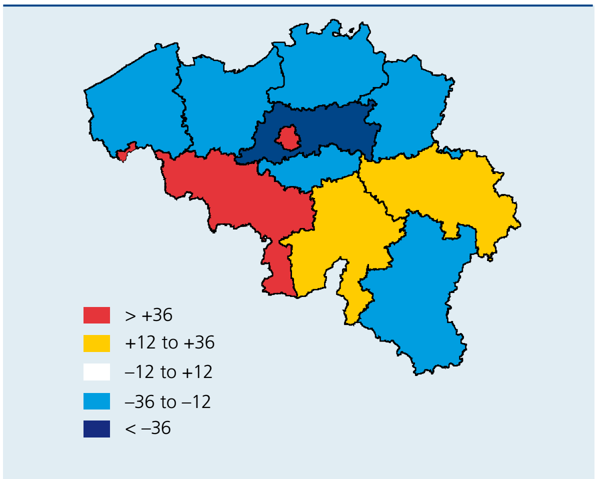


Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; NAI ; NEO ; NBB.

Unemployment benefit transfers were again very substantial between the provinces. This time, the leading recipients were Hainaut and Brussels-Capital. In the provinces of Liège and Namur, the average unemployment benefit

CHART 7 INTERPROVINCIAL TRANSFERS VIA UNEMPLOYMENT BENEFITS

(2005, differences in percentages between the average benefit per capita and the national average)



Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; NAI ; NEO ; NBB.

per capita was also above the national average in 2005. Like Walloon Brabant and Luxembourg, all the Flemish provinces contributed to the interprovincial transfers. The highest per capita contribution was recorded in Flemish Brabant, followed by West Flanders, Luxembourg, East Flanders, Antwerp, Walloon Brabant and Limbourg.

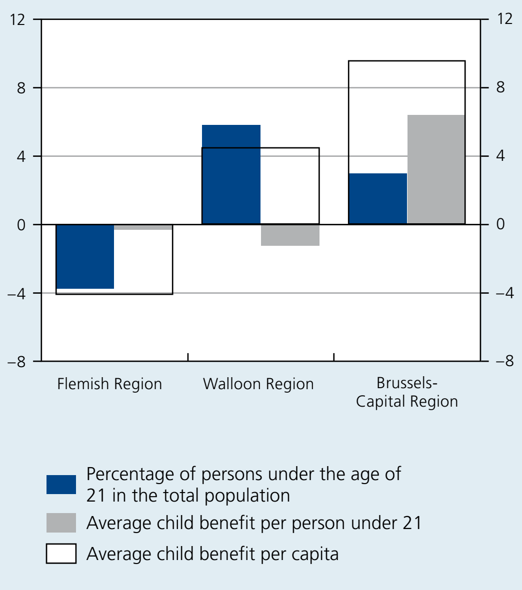
CHILD BENEFITS

As already mentioned, the Flemish Region's population is relatively elderly in comparison with that of the other two regions. The percentage of persons under 21 years old in the total population is below the national average, in contrast to the position in the Walloon Region and the Brussels-Capital Region. Moreover, the latter comprises the largest families, on average. Since the amount of child benefit increases according to the child's ranking within the family, the average benefits per child under the age of 21 are higher there.

The percentage of persons under 21 and the average amount of child benefit per child under 21 are both factors explaining the interregional transfers via child benefits.

CHART 8 INTERREGIONAL TRANSFERS VIA CHILD BENEFITS : EXPLANATORY FACTORS

(2005, differences in percentages compared to the national average)



Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; NAI ; NBB.

In the Flemish Region, the average child benefits per capita were around 4.1 p.c. below the national average in 2005, while in the Walloon Region and the Brussels-Capital Region, they exceeded the national average by 4.5 and 9.6 p.c. respectively.

In 2005, the Flemish Region therefore contributed 121 million euro to interregional transfers via child benefits. The Walloon Region and the Brussels-Capital Region respectively received 74 and 47 million euro in that year.

HEALTH CARE

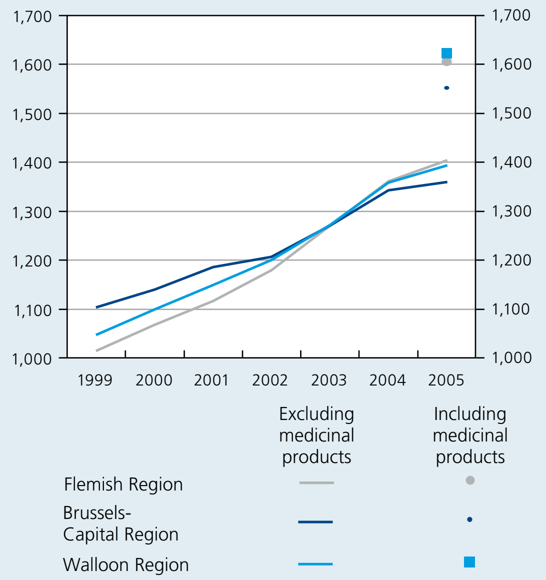
Interregional transfers by way of public health care expenditure are very small, the contribution from the Flemish Region amounting to just 2 million euro in 2005. Although the contribution from the Brussels-Capital Region was larger, at 55 million euro that year, it was still relatively modest. These transfers went to the Walloon Region, which received 57 million euro via public health care expenditure.

The average public health care expenditure per capita in the three regions is therefore fairly similar to the national average. In 2005, the Flemish Region's expenditure was broadly equivalent to the national average. In the Walloon Region, it was only 1 p.c. higher than the average. In contrast, the Brussels-Capital Region recorded a negative gap of around 3 p.c. However, these are averages which take no account of the population's characteristics, in particular the demographic structure and any additional health care allowances, if applicable.

The electronic monitoring system, Pharmanet, supplying data on the regional breakdown of purchases of medicinal products in pharmacies, was not introduced until 2004. These recent data were used to calculate the interregional transfers via public health care expenditure in 2005. More specifically, the largest difference in terms of health care expenditure per capita – namely the difference between the Walloon Region and the Brussels-Capital Region – is estimated at 71 euro in 2005. However, in order to obtain an idea of how these differences have changed in previous years, it is necessary to calculate the current differences in health care expenditure per capita excluding the amount spent on the purchase of medicinal products in pharmacies. It thus appears that the differences between the regions in terms of public health care expenditure declined between 1999 and 2005. One reason for that fall is the modest growth of public health care expenditure in the Brussels-Capital Region where, in per capita terms, that expenditure was lower than in the other two regions at the end of the period whereas it had initially been higher.

CHART 9 AVERAGE PUBLIC HEALTH CARE EXPENDITURE PER CAPITA [1]

(euro)



Sources: FPS Economy, SMEs, Self-employed and Energy (DGSEI); NSDII; NBB.

(1) The differences between the regions in average public health care expenditure per capita are due to variations between the regions in the average amount of expenditure per person insured and the percentage of insured persons in the total population. In the Flemish Region, that proportion is 99 p.c., whereas it is 97 p.c. in the other two regions.

Health care expenditure comprises numerous expenditure categories, such as doctors' fees, purchases of medicinal products, hospitalisation costs, residential home and nursing home fees and the costs of day care and home care. The disparities between the regions in terms of these expenditure categories per capita are again small and appear to cancel one another out to some extent.

In per capita terms, expenditure on purchases of medicinal products from pharmacies and on almost all types of doctors' fees is higher in the Walloon Region than in the other two regions. Conversely, expenditure relating to hospitalisation costs is lower there than in the other two regions.

In contrast, in the Flemish Region, expenditure on purchases of medicinal products and doctors' fees is lower than in the other two regions. Expenditure on care homes and nursing homes and on day care and home care is higher there. In all probability, that is due to the region's demographic structure, with its relatively large number of elderly persons.

Finally, in the Brussels-Capital Region, expenditure on purchases of medicinal products, and even more so on residential homes and nursing homes, is relatively insignificant. That is due to the relatively small percentage of elderly persons in the Brussels-Capital Region, and to the residents' tendency to move to one of the other two regions if they wish to enter such homes. Nonetheless, it is also possible that , thanks to the proximity of many medical services, people are able to delay moving into that type of institution.

INVALIDITY BENEFITS

In 2005, invalidity benefits paid out per capita in the Flemish Region and the Brussels-Capital Region were 3.9 p.c. below the national average. In the Walloon Region, they exceeded the national average by 8.2 p.c.

In the case of these benefits, the Flemish Region and the Brussels-Capital Region contributed 86 and 14 million euro respectively to the interregional transfers in 2005. The Walloon Region received a transfer of 100 million euro.

COMPENSATION FOR OCCUPATIONAL DISEASES

Compensation for occupational diseases shows a very marked geographical concentration in Belgium. Thus, the compensation per capita in the Walloon Region was no less than 81 p.c. above the national average in 2005. In the Flemish Region and the Brussels-Capital Region, the figures were respectively 32 and 77 p.c. below the national average. These large differences between the regions are due essentially to the compensation for occupational diseases paid out in three provinces, namely Hainaut, Liège and Limbourg. In these provinces – which used to depend on mining – per capita compensation is in fact particularly high, whereas in all the other provinces except Namur it is below the national average.

However, since this is a relatively minor expenditure category, the interregional transfers for occupational disease compensation are relatively small. The total contributions of the Flemish Region and the Brussels-Capital Region came to 66 and 26 million euro respectively in 2005. In that year, the Walloon Region received 92 million euro by way of these interregional transfers.

ALLOWANCES FOR CAREER BREAKS AND TIME CREDIT

Via the allowances for career breaks and time credit, the Flemish Region received interregional transfers totalling 66 million euro in 2005, while the Walloon Region and the Brussels-Capital Region contributed 39 and 27 million euro respectively.

SUBSISTENCE ALLOWANCE

In 2005, the Flemish Region contributed 148 million euro to interregional transfers via the subsistence allowance. These transfers went to the Walloon Region and the Brussels-Capital Region, which received 66 and 82 million euro respectively.

OTHER SOCIAL BENEFITS

Altogether, other social benefits generated transfers from the Flemish Region to the Walloon Region and to the Brussels-Capital Region, amounting to 118 and 14 million euro respectively. This mainly concerned allowances paid by the social security fund, the business closure fund, allowances to disabled persons, war pensions, the guaranteed income for elderly persons and the guaranteed child benefits.

SUBSIDIES TO ENTERPRISES

Apart from interregional transfers paid via social security, there are also transfers in the form of subsidies to enterprises. In practice, this study deals only with aspects concerning the regional allocation of service vouchers. The other corporate subsidies mainly concern subsidies to public enterprises such as the BNRC and the Post Office. Since they are allocated per region according to the respective percentage of the population, they do not imply any interregional transfer. Since expenditure relating to the service vouchers was still relatively modest in 2005, the resulting interregional transfers are also small. They went to the Flemish Region, the main user of these vouchers.

3.3 Overview of the interregional transfers

On the basis of an overview of the situation prevailing in 2005, the Flemish Region evidently contributed around 5.8 billion euro to the interregional transfers. The Brussels-Capital Region also contributed just over 200 million euro to these transfers. These subsidies have benefited the Walloon Region, which received almost 6.1 billion euro in that year.

In per capita terms, the Flemish contribution came to 967 euro and that of the Brussels-Capital Region to 211 euro, while the Walloon Region received 1,783 euro per capita.

The bulk of these transfers – 80 p.c. in the case of the Flemish Region and the Walloon region – concern public revenues. In the Flemish Region, that is due largely to the fact that the average primary income per household, and hence also the associated taxes and social contributions, are relatively high. The opposite applies in the Walloon Region and in the Brussels-Capital Region. Nonetheless, the latter does contribute to interregional transfers of public revenues since it makes a relatively large contribution via corporation tax.

In the case of public expenditure, the interregional transfers are much smaller. In 2005, these transfers mainly passed from the Flemish Region to the Walloon Region. They resulted from both unemployment benefits and other social benefits, although they were moderated somewhat by the transfers effected via pensions. The Brussels-Capital Region was a recipient of interregional transfers via unemployment benefits, subsistence allowances and child benefits, but was a contributor to interregional transfers in the case of pensions, pre-pensions and health care expenditure. In 2005, that region made a net contribution to interregional transfers via public expenditure.

TABLE 4 OVERVIEW OF THE INTERREGIONAL TRANSFERS (1)

(2005 ; millions of euro, unless otherwise stated)

	Flemish Region	Walloon Region	Brussels-Capital Region
Public revenues	5,052	–5,136	83
Public expenditure	790	–920	130
Total	**5,843**	**–6,056**	**212**
p.m. Idem, per capita, in euro	*967*	*–1,783*	*211*

Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; FPS Finance ; NSDII ; NAI ; NEO ; NBB.
(1) A positive figure indicates a transfer from the region concerned, whereas a negative figure indicates a transfer to that region.

Finally, the analysis reveals that most of the public expenditure categories also display marked differences between the provinces. That bears out the assumption that there are also substantial intraregional transfers as well as interregional transfers.

TREND IN INTERREGIONAL TRANSFERS

Expressed as a percentage of GDP, the total contribution of the Flemish Region to the interregional transfers declined slightly between 1995 and 2005, despite its growing contribution in terms of revenues and unemployment benefits. That increase was in fact more than offset by the decline in its contribution via pensions and other social benefits. In 2002, the Flemish Region exchanged its position as a contributor for that of a recipient in regard to pensions.

Throughout the period 1995-2005, the Walloon Region received interregional transfers. However, there was a slight reduction in the scale of these transfers, notably because that region has been contributing towards transfers via pensions since 2004.

Finally, the Brussels-Capital Region contributed to the interregional transfers throughout the period from 1995 to 2005. Its contribution increased fairly sharply between 1995 and 2000 before subsiding as a result of relatively adverse changes in the primary incomes of households per capita and the resulting changes in personal income tax and social contributions. Since the population of the Brussels-Capital Region is relatively young, that region has been contributing to interregional transfers via pensions since 2001.

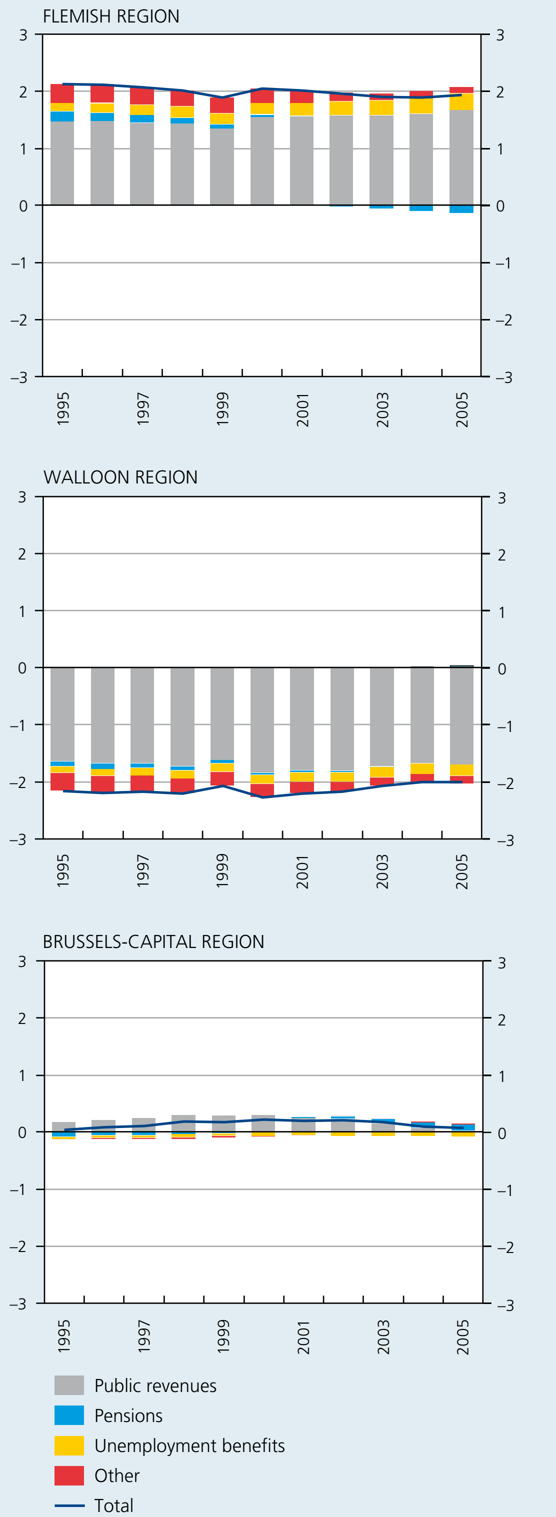
4. Projections of future interregional transfers in Belgium

This section examines the possible future pattern of interregional transfers via the government budget. Naturally, the results of these projections depend on the underlying assumptions.

4.1 Assumptions underlying the projections

The macroeconomic context applicable to the projections is based on the assumptions set out by the Study Group on Ageing in its June 2008 report. The Study Group's findings were also used to examine the trend in the various social benefits. Taxes and social contributions are assumed to remain constant as a percentage of GDP, at least at the national level.

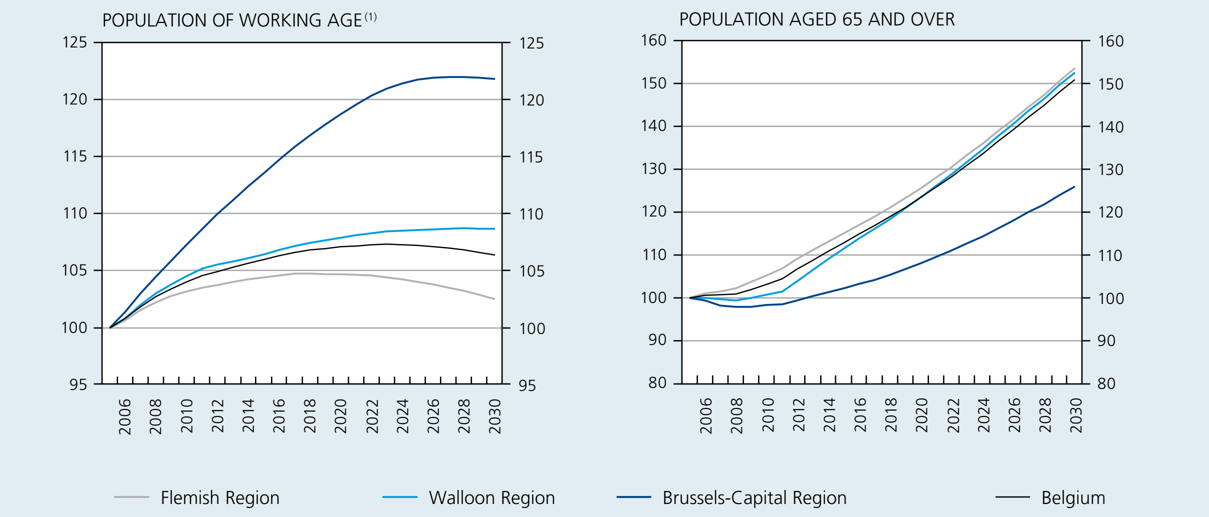
CHART 10 TOTAL INTERREGIONAL TRANSFERS (1)
(percentages of GDP)



Sources : FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; FPS Finance ; NSDII ; NAI ; NEO ; NBB.
(1) A positive figure indicates a transfer from the region concerned, whereas a negative figure indicates a transfer to that region.

CHART 11 EXPECTED DEMOGRAPHIC TRENDS PER REGION UP TO 2030

(index 2005 = 100)



Sources: FPB; FPS Economy, SMEs, Self-employed and Energy (DGSEI).

(1) The population of working age is defined as the population aged from 15 to 64 years.

The assumptions which have the greatest impact on the future pattern of interregional transfers are those concerning the expected demographic changes and those relating to the trend in employment in the various regions.

Thus, the future pattern of transfers between regions depends very much on the population forecast for each region. On the one hand, changes in the labour force are a major factor determining the growth of employment and hence of the primary incomes underlying the interregional transfers via taxes and social contributions. On the other hand, population ageing has a considerable influence on interregional transfers via social benefits, and more particularly pensions and health care expenditure.

The projections are based on the population forecasts published in May 2008 by the Federal Planning Bureau and the Directorate General of Statistics and Economic Information of FPS Economy, SMEs, Self-employed and Energy. According to those forecasts, the 15-64 age group, namely the potential labour force which currently totals almost 7 million persons in Belgium, will increase by around 300,000 persons over the next fifteen years before declining during the seven years from 2023 by just over 70,000 persons.

However, there are considerable variations between the three regions in the forecasts for the population of working age. In the Flemish Region, the population of working age is set to continue growing somewhat in the coming years, though the trend will reverse from 2018, causing a decline in the size of this population group, restoring it to roughly its 2005 level by 2030. In the Walloon Region, the population of working age is projected to continue growing for a longer period since the trend is not expected to reverse until 2029. At the end of the projection period, this population group is likely to be 9 p.c. bigger than it was in 2005. The forecast for the Brussels-Capital Region is totally different. There, the population of working age is expected to grow steadily in the coming years, reaching a level almost 22 p.c. above its 2005 figure by 2030.

In 2030, the number of persons aged 65 and over is projected to be more than 50 p.c. above the 2005 figure in both the Walloon Region and the Flemish Region. Conversely, in the Brussels-Capital Region, population ageing is expected to be far less pronounced, although the over 65 age group is also likely to expand considerably in that region, too, namely by more or less a quarter during the period 2005-2030.

On the employment front, three scenarios are envisaged. The first is based on the assumption that the current divergences in employment rates between the regions will persist. In this scenario, it is also assumed that the differences between unemployment rates and average amounts of unemployment benefit will be halved (1). The second scenario is based on the assumption that employment rates in the three regions will converge, reaching 68.1 p.c. by 2030, the level presumed for the country as a whole in the baseline scenario of the Study Group on Ageing. It also assumes that unemployment rates and average amounts of unemployment benefit will converge in the various regions. The third scenario, which is a compromise between the other two, is based on the assumption that the current disparities in employment rates will be halved by 2030.

Finally, the projections are based on the assumption that the influence of the other factors will remain unchanged in the future. In practice, this means that the interregional transfers resulting from transfers paid by the government other than pensions, health care expenditure, unemployment benefits and child benefits, will remain constant as a percentage of GDP. It is also assumed that the small differences in average pensions per capita will persist at their latest recorded level, although they will probably also be affected by employment trends. These assumptions are justifiable since the influence of these other factors on interregional transfers is very weak overall.

Obviously, the projection results are merely a guide since they are inevitably based on a series of assumptions. However, such projections are very useful as they provide a clear illustration of the effect of the demographic outlook on interregional transfers, while highlighting the significance of the trend in employment in the various regions.

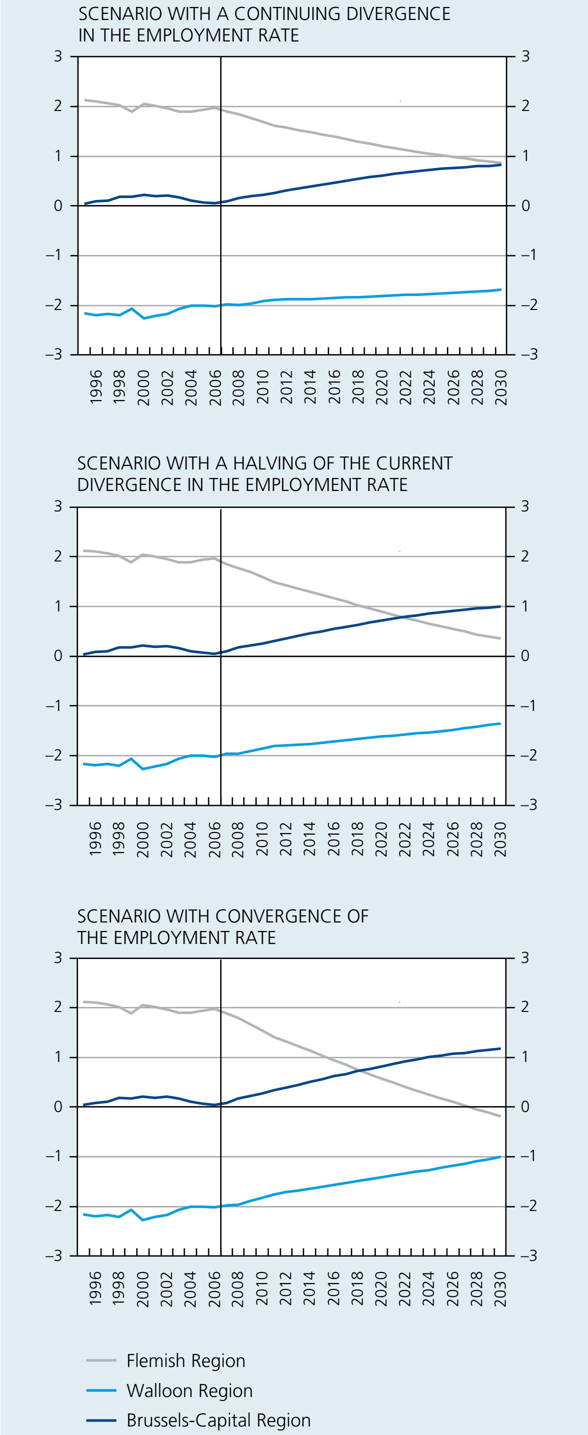
4.2 Projection results

In the three scenarios envisaged, demography and the employment trend exert a considerable influence on the transfers.

In the scenario assuming persistence of the current divergences, in which the present labour market disparities are largely unchanged, the Flemish Region continues to make a net contribution to interregional transfers. However, that contribution falls from around 2 p.c. of GDP in 2005 to 0.8 p.c. of GDP in 2030. According to that scenario, the contribution of the Brussels-Capital Region to interregional transfers will increase considerably by 2030 from 0.1 to reach 0.7 p.c. of GDP. The Walloon Region is likely

CHART 12 PROJECTIONS OF INTERREGIONAL TRANSFERS IN BELGIUM UP TO 2030

(percentages of GDP)



Sources : ANMC / LCM (Association of Christian Mutual Societies) ; FPB ; FPS Economy, SMEs, Self-employed and Energy (DGSEI) ; FPS Finance ; NSDII ; NAI ; NEO ; Study Group on Ageing ; NBB.

(1) Considering the Study Group on Ageing's assumption that the unemployment rate will decline systematically in the future, it is unrealistic to assume that the current divergences in unemployment rates can persist.

to continue receiving interregional transfers, but they will decline from around 2 p.c. of GDP at present to 1.6 p.c. of GDP by the end of the projection period. These developments will be due mainly to the differential growth rates of primary incomes of households per capita in the three regions owing to divergent demographic trends. In 2030, as a result of those trends, the Flemish Region is expected to receive a transfer of 0.5 p.c. of GDP by way of pensions and health care, the main source being the Brussels-Capital Region.

In the convergence scenario, the changes are much more marked. The Flemish Region would thus switch from a situation in which it is a net contributor to interregional transfers, as it is at present, to become a net recipient in 2030. The interregional transfers destined for the Walloon Region would diminish significantly, dropping to around 0.9 p.c. of GDP. It is mainly the Brussels-Capital Region that would see a substantial increase in its contribution to interregional transfers in this scenario, since that contribution would rise from around 0.1 p.c. of GDP in 2005 to 1.1 p.c. of GDP in 2030. However, the conditions on which this last scenario is based, namely convergence of employment rates in the three regions, could not be met without a major intensification of the efforts to stimulate labour market participation and employment expansion in the Walloon Region and in the Brussels-Capital Region.

The scenario in which the current regional variations in employment rates are halved by 2030 occupies an intermediate position between the two more extreme scenarios. In this scenario, the Walloon Region would be the sole recipient of interregional transfers in 2030. The Flemish Region would still be a contributor, but to a much lesser extent than at present, while the Brussels-Capital Region would make the largest contribution to these transfers.

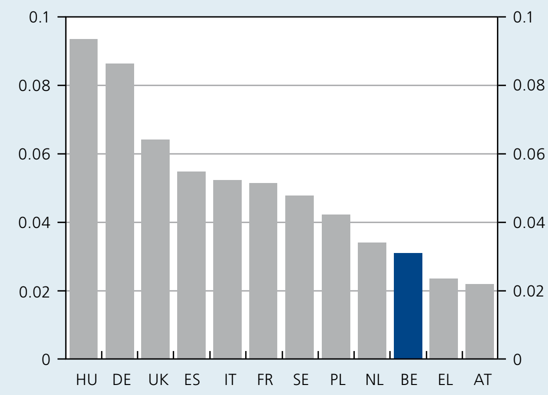
5. International comparison

In order to assess the scale of the interregional transfers in Belgium effected via the government budget, it is useful to measure them against those prevailing in the other European Union countries. For that purpose, it is possible to use the household regional accounts compiled on the basis of the ESA 95 methodology: those accounts permit comparison of the scale of the interregional transfers between the government and households in general for those countries.

In the regional accounts, the Belgian regions correspond to the NUTS1 aggregation level. According to Eurostat, this is in principle a classification comprising regions

CHART 13 RELATIVE SCALE OF INTERREGIONAL TRANSFERS IN THE EU MEMBER STATES

(coefficient of variation [1]; based on the ratio between the disposable and primary incomes of households per region [2] in 2004 [3])



Source: Eurostat.
(1) The coefficient of variation is a statistical measure of the relative dispersion. It is calculated as the ratio of the standard deviation to the mean.
(2) The regions are defined at NUTS1 level; for Belgium, there are three regions.
(3) This is the latest year for which complete and final figures are available.

which, on average, have a population of between 3 and 7 million. There is therefore no NUTS1 aggregate for relatively small countries. Another point worth noting is that for some countries, in contrast to Belgium, this classification does not correspond to any domestic administrative subdivision. That is the case, for example, in the Netherlands, Italy, Spain and France, where the NUTS1 aggregate is above the level of the “domestic” regions or provinces. Conversely, in Germany this level corresponds to that of the federal states (Länder).

The redistribution between regions thus defined in the various countries can be assessed via the dispersion of the ratio between disposable and primary incomes [1]. That ratio measures the size of the difference between the transfers paid to governments in the form of taxes on household incomes, social contributions and other current transfers, on the one hand, and the transfers paid by governments in the form of social benefits and other

(1) The analysis of the differences in the ratio between disposable and primary incomes at NUTS1 region level in a given country was conducted for the EU Member States for which regional NUTS1 data were available. That is not true for small countries such as Luxembourg, Malta, Cyprus, Lithuania, Estonia, Latvia, Slovakia, the Czech Republic, Slovenia, Ireland and Denmark. Bulgaria and Romania are also absent from the data series as the latest figures do not relate to 2004. Finally, Finland and Portugal are also excluded from the analysis, because the NUTS1 classification in those countries creates regions which are too unequal: in Portugal, only the Azores and Madeira are distinguished from the mainland, while in Finland the only region considered separately by the NUTS1 classification is the Aaland islands (which account for only around 0.5 p.c. of the Finnish population).

current transfers, on the other hand. It is important to note that this analysis of redistribution via the government budget is less complete than the one in the preceding sections, since it concerns only the household account and disregards corporation tax, indirect taxes and health care expenditure.

It is clear from this analysis that the rate of regional redistribution via transfers between the government and households is relatively low overall in Belgium : measured both by the difference between the maximum and minimum values and by the coefficient of variation, the dispersion of the difference between disposable and primary incomes seems to be much smaller in Belgium than in most other EU Member States. The redistribution rate is therefore considerably higher in Hungary and in some neighbouring countries, such as Germany, the United Kingdom and France. In Germany, the ratio between disposable and primary incomes is just over 83 p.c. in Bavaria, Hesse and Baden-Wurttemberg, while that ratio is no less than 23 percentage points higher in Saxony and Saxony-Anhalt, Länder forming part of the former East Germany. In the United Kingdom, the difference between London and Wales is also over 20 percentage points. In contrast, in Belgium, the maximum difference – namely that between the Flemish Region and the Walloon Region – is only 6 percentage points.

6. Conclusion

This study by the Bank on interregional transfers and solidarity mechanisms via the government budget shows that the Flemish Region is currently a net contributor to interregional transfers, while the Walloon Region is a net recipient. The Brussels-Capital Region is also a net contributor for the moment, but only to a relatively small extent.

The interregional transfers are due largely to differences in each region's capability to contribute. Thus, the contribution capability of households in the Flemish Region is considerably greater than that of households in the other two regions in Belgium because primary household incomes per capita are higher in Flanders. Such differences are due in particular to the fact that the employment rate in the Flemish Region is considerably higher than in the other two regions. In the Brussels-Capital Region, the relatively low contribution capability of households is more than offset by the high contribution capability of enterprises which conduct their business there.

The interregional transfers effected via the government budget also originate partly from the regional breakdown of social benefits. That applies in particular to the transfers from the Flemish Region to the Walloon Region and the Brussels-Capital Region resulting from unemployment benefits. Conversely, in the past decade the number of pensioners has risen faster in the Flemish Region than in the other regions, which explains why this first region currently receives interregional transfers by way of pensions. In regard to health care expenditure, there are currently few transfers between the regions.

The projections show that demographic developments will have a considerable influence on interregional transfers. Here, the demographic trend is most favourable for the Brussels-Capital Region which has a relatively young population and which, according to the forecasts, should see a further significant expansion in its population of working age. In contrast, the Flemish Region faces the sharpest increase in the number of elderly persons, while its population of working age is already about to begin falling.

The influence of employment on the expected pattern of interregional transfers is also clear from the projections.

If the regions which currently have a relatively low employment rate, namely the Walloon Region and the Brussels-Capital Region, do not manage to catch up, and if the differences in employment rates between the various regions persist, the interregional transfers paid by the Flemish Region will decline but without disappearing altogether, while the Walloon Region will remain a net recipient. The Brussels-Capital Region would be an increasingly large net contributor to interregional transfers in this scenario.

Conversely, if the regions which have a relatively low employment rate do catch up, and if employment rates converge by 2030, the interregional transfer situation would be totally different from what it is today. In that scenario, although the Walloon Region would still be a net recipient of interregional transfers, the Flemish Region would also eventually become a net recipient. The Brussels-Capital Region would then be the only region contributing to interregional transfers and its net contribution would constantly increase.

Finally, an international comparison reveals that interregional transfers in Belgium are relatively small compared to transfers between regions in most of the other EU Member States considered.

Bibliography

Abafim (Administrative Budgeting, Accounting and Financial Management of the Ministry of the Flemish Community) (2004), *Financiële transfers tussen de Belgische gewesten*.

Federal Planning Bureau and Directorate General of Statistics and Economic Information of FPS Economy, SMEs, Self-employed and Energy (2008), *Population forecasts 2007-2060*, Planning Paper, 105.

Commissie voor de studie van de methodologie gebruikt bij de analyse van interregionale transfers (2006), *Verslag*.

Study Group on Ageing (2008), *Annual report*.

De Boeck, E. and J. Van Gompel (1998), *Financiële stromen tussen de Belgische gewesten opnieuw bekeken*, in C. Vanderveeren and J. Vuchelen (eds.), *Een Vlaamse fiscaliteit binnen een economische en monetaire unie*, 213-233.

National Accounts Institute (2007), *Regional accounts : notes on concepts and methodology*.

National Accounts Institute (2007), *Regional accounts 1995-2005*.

National Accounts Institute (2007), *Regional accounts 1997-2006*.

Van Rompuy, P. and V. Bilsen (1988), *Tien jaar financiële stromen tussen de gewesten*, Leuvense Economische Standpunten, 45.