

**GENERAL SUMMARY
AMENDED BUDGET 2018**

Table of contents

1. INTRODUCTION AND NET POLICY SPACE	7
1.1. Essentials of the 2018 budgetary adjustment.....	7
1.2. Design of the net policy space table.....	7
1.2.1 Balance assuming unchanged policy.....	9
1.2.2 Measures and new initiatives.....	10
1.2.3 Detailed net policy space table	11
2 THE ECONOMIC ENVIRONMENT.....	17
3. THE FEDERAL GOVERNMENT BUDGET.....	17
3.1. Total resources	17
3.2. Surcharges and allocated portion of the VAT and PIT (personal income tax)	19
3.2.1 Parameters.....	19
3.2.2 Results.....	20
3.3. Specific allocations from the federal government.....	22
3.4. Regional taxes	24
3.5. Allocated revenue.....	27
3.6. Other revenues.....	27
3.7. Lottery resources	27
3.8. Consolidated institutions	27
4. EXPENDITURE BUDGET.....	29
4.1. Introduction	29
4.2. Policy and payment appropriations	29
4.2.1 Policy appropriations.....	29
4.2.2 Payment appropriations.....	31
4.2.3 Overall evolution of policy and payment appropriations	32
4.3. Policy and payment appropriations spread over the 12 policy areas	33
5. ESA CORRECTIONS	36
6. THE GOVERNMENT BALANCE.....	38
6.1. Government balance.....	38
6.2. ESA revenues	39
6.3. ESA expenditure	40
6.4. Under-utilisation	40
6.5. ESA corrections and corrections to check the balanced budget target ..	42
6.6. Government balance table.....	42
7. EUROPEAN FRAMEWORK AND STANDARDISATION	45
7.1. Background.....	45
7.2. Recommendations of the High Council of Finance	46
7.2.1 Collective government path	46
7.2.2 Shared path for Communities and Regions.....	46
7.2.3 Specific recommendations for Flanders.....	47
7.2.4 Adjustment path in preparation for the stability programme.....	48
7.3. Flemish vision of 2018-2021 path.....	49
7.4. Consultative Committee	50
8. FINANCIAL MANAGEMENT	51
8.1. Consolidated debt: introduction	51
8.2. Trend in consolidated debt in 2018.....	51
8.2.1 Budget balance in ESA terms	51
8.2.2 Lending and holdings in 2018.....	51
8.2.3 ESA 9 for non-CFA-members.....	52
8.2.4 Summary	53
8.3. Refinancing requirements and new financing requirements for Flemish ministries in 2018	53

8.4.	Trend in consolidated debt in 2017 and 2018 per entity	56
8.5.	Interest sensitivity analysis	59

List of Tables

Table 1-1: Summarising table net policy space (in thousands of euros)	8
Table 1-2: Table summarising unchanged policy (in thousands of euros)	9
Table 1-3: Summarising table of measures and new initiatives (in thousands of euros) .	11
Table 1-4: Detailed net policy space table (in thousands of euros)	12
Table 2-1: In-budget inflation and growth prognoses	17
Table 3-1: Major items of the ESA revenues (in thousands of euros)	17
Table 3-2: Cumulative impact Tax Shift and other federal measures on Flemish surcharges (in million euros)	19
Table 3-3: Gross supplementary income tax charge and allocated portion of PIT and VAT (in thousands of euros)	21
Table 3-4: Specific allocations from the federal government (in thousands of euros)	23
Table 3-5: Regional taxes (in thousands of euros)	26
Table 3-6: Consolidated institutions t (in thousands of euros)	28
Table 4-1: Consolidated policy and payment appropriations (in thousands of euros)	29
Table 4-2: Balance calculation – Policy appropriations of ministries (in thousands of euros)	30
Table 4-3: Balance calculation – Policy appropriations for consolidated institutions (in thousands of euros)	31
Table 4-4: Balance calculation – Total policy appropriations (in thousands of euros)	31
Table 4-5: Balance calculation – Payment appropriations for ministries (in thousands of euros)	32
Table 4-6: Balance calculation – Payment appropriations for consolidated institutions (in thousands of euros)	32
Table 4-7: Balance calculation – Total payment appropriations (in thousands of euros) .	32
Table 4-8: Policy appropriations per policy area (in thousands of euros)	34
Table 4-9: Payment appropriations per policy area (in thousands of euros)	34
Table 5-1: Summary of ESA corrections (in thousands of euros)	36
Table 6-1: Table summarising government balance (in thousands of euros)	38
Table 6-2: From revenue appropriations to consolidated ESA revenues (in thousands of euros)	39
Table 6-3: From expenditure appropriations to consolidated ESA expenditure (in thousands of euros)	40
Table 6-4: Government balance	43
Table 7-1: From nominal HCF balance to structural HCF balance (in % GDP and millions of euros)	47
Table 7-2: HCF path (in millions of euros)	48
Table 7-3: Corrected HCF path (in millions of euros)	49
Table 8-1: Estimated development of consolidated debt in 2018 (in thousands of euros)	53
Table 8-2: Funding requirement ministry without direct funding (in thousands of euros)	55
Table 8-3: Net debt increase of FSHC, FHF and School Invest (in thousands of euros)	55
Table 8-4: Funding requirement ministries (in thousands of euros)	56
Table 8-5: Trend in consolidated gross debt of the Government of Flanders per entity (in thousands of euros)	57
Table 8-6: Trend in secured debt (in millions of euros)	58
Table 8-7: 100 base point change in yield curve (euros)	59

List of Figures

<i>Figure 3-1: Major items of the ESA revenues, AB 2018</i>	18
<i>Figure 4-1: Policy and payment appropriations (in thousands of euros)</i>	33
<i>Figure 4-2: Policy and payment appropriations per policy area – 2018 AB (in thousands of euros)</i>	35

List of abbreviations

ALPG	Agency for Local and Provincial Government
AB	Amended Budget
ART	Agency for Roads and Traffic
BAM	Antwerp Mobile Management Company
BCP	Belgian Commercial Paper
BeIRAI	RAI= Resident assessment instrument; unique scale used to measure care needs
BIRB	Belgian Intervention and Restitution Bureau
CFA	Central Funding Agency
CPI	Consumer Price Index
DBFM	Design Build Finance Maintenance
EAA	Externally Autonomous Agency (of the Flemish government)
EDP	Excessive Deficit Procedure
EMTN	Euro Medium Term Note
ESA	European System of National and Regional Accounts
ETS	Emission trading scheme
FAPD	Flemish Agency for Persons with Disabilities
FFEU	Financing Fund for Debt Reduction and One Off Investment Expenses
FFRC	Flemish Fund for the Redemption of Charges
FHF	Flemish Housing Fund
FIA	Funds for Services and Public Utility for Automobile Inspections
FIF	Flemish Infrastructure Fund
FIPM	Flemish Infrastructure Fund for Person-related Matters
FIT	Flanders Investment & Trade
FITR	Flemish Institute for Technological Research
FPC	Flemish Participation Company
FSEVT	Flemish Service for Employment and Vocational Training
FSHC	Flemish Social Housing Company
FSP	Flemish Social Protection
GDP	Gross domestic product
HCF	High Council of Finance
IAA	Internally Autonomous Agency (of the Flemish government)
IB	Initial Budget
ICL	Indirect Carbon Leakage
IMF	International Monetary Fund
INA	Institute of National Accounts
ISE	Intrinsic Structure Element
MFC	Ministry of the Flemish Community
MTO	Mid Term Objective
OECD	Organisation for Economic Cooperation and Development
OPF	Pension Funding Agency
PMV	Flanders Holding Company
pp	percentage point
PPP	Public private partnership
REA	Realisations
SAM	Service with autonomous management
SFA	Special Funding Act
SFR	Scientific Research Fund
SoT	Schools of Tomorrow
UNRWA	United Nations Relief and Works Agency
VIA	Flemish Intersectoral Agreement for the Social Profit Sector

1. INTRODUCTION AND NET POLICY SPACE

1.1. Essentials of the 2018 budgetary adjustment

In 2017 the budget of the Flemish Community was balanced again, while the initial budget 2018 was also written in black. The amended budget confirms the lack of a deficit. Hence the Flemish budget remains structurally balanced.

By comparison with the target of a balanced budget, the budgetary margins amount to 200 million euro when assuming an unchanged policy. These margins are mainly dedicated to an extra contingency buffer, 100 million euro in total, which comes on top of the buffer of 47 million euro which the initial budget already foresaw. The balance, which amounts to 53 million, will finance non-recurrent policy measures in 2018.

In conclusion, the Flemish government issues a clear signal that its budgetary policy is buttressed not only by the target of a balanced budget but also by the sustainability of its public finances.

1.2. Design of the net policy space table

Careful analysis of the budgetary documents should give the reader an idea of the (budgetary) challenges with which the Government of Flanders is faced after a spending round, and how these challenges are dealt with. However, this is no easy matter, given the sheer extent of the information. In recent years, then, the Government of Flanders has begun a tradition of summarising the main points in the net policy space table in the general notes.

In essence, the table is designed to highlight budgetary trends given unchanged policy, and the measures/new policy initiatives started by the Government of Flanders in the wake of a spending round.

One of the table's main benefits is that it reflects the government balance for the Flemish budget when assuming unchanged policy. If that government balance is better than the proposed budgetary target, the Government of Flanders has net policy space available, which it can fill with new policy initiatives, or decisions that result in lower revenues. If, in the opposite case, the government balance falls below the proposed target the Government of Flanders will be forced to take steps (cutting some of the appropriations or providing extra revenues) to achieve the budgetary target. These steps, should they be necessary, are also included separately in the net policy space table.

Table 1-1: Summarising table net policy space (in thousands of euros)

Balanced budget IB 2018 (1)	11,522
Expenditure outside budget target (2)	1,218,083
Government balance IB2018(3=1-2)	-1,206,561
Balance assuming unchanged policy (4)	191,303
<i>Revenues (a)</i>	390,783
<i>Expenditure (b)</i>	-361,682
<i>ESA corrections (c)</i>	-19,890
<i>Under-utilisation (4)</i>	182,093
Receivables balance IB2018 assuming unchanged policy (5=3+4)	-1,015,258
Expenditure excluded from budgetary target (6)	1,218,175
Net policy space (7=5+6)	202,918
Enlargement of net policy space through additional revenues (8)	0
Filling of net policy space (New Policy) (9)	199,360
Balanced budget target AB 2018 (10=7+8-9)	3,558
Government balance AB 2018 (11=10-6)	-1,214,618

Table 1-1 shows the evolution from balanced initial budget to adjusted budget. A move from a balanced 2018 budget proposal to the government balance requires the addition of construction costs for the Oosterweel link, hospital infrastructure investments dated prior to the transfer of powers but weighing on the 2018 budget, assumption of the debt of the municipalities and a negative settlement of resources allocated under the Special Funding Act for 2018. The budget proposal estimates this expenditure at 1,218.1 million euros. The estimated receivables deficit in the 2018 budget proposal was therefore -1,206.6 million euros.

As a result of the 2018 budgetary adjustment the Government of Flanders estimates that the government balance is set to improve by 191.3 million euros should policy remain unchanged (line 4). If no measures or new initiatives are taken this would mean a receivables deficit of 1,015.3 million euros in 2018.

As with the initial budget, a number of corrections were applied to the government balance to check compliance with the balanced budget target. In summary, these are the negative settlement of resources to the tune of 1,005.1 million euros allocated under the Special Funding Act, construction expenses for Oosterweel (76.4 million euros), a contingency buffer for hospital investments already made prior to the transfer of powers (40.0 million euros) and assumption of the debt of the municipalities (96.7 million euros). Combined, they represent a budget adjustment of 1,218.2 million euros.

The receivables deficit is corrected, as a result of which the Government of Flanders reaches a net policy space of 202.9 million euros, should policy remain unchanged.

As a result of the budgetary adjustment the policy space has not been enlarged through the provision of new measures. New policies that amount up to 199.4 million were agreed upon to fill the available net policy space, as a result of which the balanced budget target was exceeded by 3.6 million.

Where the government balance is concerned this leads to a receivables deficit of 1.2 billion euros.

We begin the remainder of this chapter by looking at the various factors involved assuming unchanged policy. Then, we go on to cover new measures and initiatives.

Finally, we show the complete net policy space table, which includes the main trends assuming unchanged policy as well as a detailed table of the new appropriations.

When reading this chapter please bear in mind that the information we provide here is intended solely for the purpose of illustrating the most important trends. In this sense the net policy space table is a management summary of the budget, which must always be read alongside the other chapters in the general notes and notes for each programme. In Table 1-4 reference is always made to the programme or institutions involved to allow a link to the other information.

1.2.1 Balance assuming unchanged policy

The net policy space table essentially shows the trend in appropriations assuming unchanged policy. On both the revenues side and the expenditure side appropriations change when drafting the initial or amended budget due to new circumstances or readjusted estimates of the underlying cost drivers.

In addition, the ESA corrections are updated (see chapter 5 for more information) as is the under-utilisation estimate (see chapter 6).

Table 1-2: Table summarising unchanged policy (in thousands of euros)

Revenues assuming unchanged policy (1)	390,783
MFC revenues	239,398
Enlargement of perimeter	-268
Other revenues institutions	151,653
Expenditure assuming unchanged policy (2)	361,682
Index	110,809
Update of policy and payment appropriations	251,614
Adjustment of consolidation perimeter	-264
ESA corrections (3)	-19,890
Under-utilisation (4)	182,093
Balance assuming unchanged policy (5=1-2+3+4)	191,303

Revenues increase by 390.8 million euros, due for the most part to the increase in community resources and the institutions' self-generated revenues.

Removal of the University Centre for Development Cooperation from the consolidation perimeter has resulted in a small decrease in revenues. However, it's effect on the government balance is almost neutral given the implied reduction in expenditure.

Expenditure rises by 361.7 million euros where assuming unchanged policy. In the net policy space table we split this trend over 3 categories:

- Index
- Policy and payment appropriation update
- Consolidation perimeter adjustment

The first important factor when assuming unchanged policy, is the application of index parameter arrangements, for both wage appropriations and operating appropriations. Application of the adjusted inflation parameters leads to an increase in expenditure of 110.8 million euros.

The "Policy and payment appropriation update " category covers changes resulting from a re-estimate of appropriations, where they are not the result of amended index

parameters or redistributions (compensations). The latter have a neutral effect on net policy space and do not, therefore, appear in the table.

In most cases the update will affect both the policy and payment appropriations. Sometimes, however, adjustment of the payment appropriations is all that is involved. These changes are included in this category too. In terms of payment appropriations, this represents an increase of 251.6 million euros.

The category also includes increased spending by the institutions due to higher self-generated revenues. Given that the increased revenues are fully converted to extra expenses, in principle, a significant part of the expenditure trend assuming unchanged policy, results from these institutions' increased revenues.

The third and final category in the dynamics of expenditure assuming unchanged policy is the adjustment of appropriations due to the enlargement of the consolidation perimeter. As a result of the budgetary adjustment this leads to a 0.3 million euro decrease in appropriations, because the University Centre for Development Cooperation is no longer within the consolidation perimeter.

This 361.7 million euro increase in expenditure assuming unchanged policy has a negative effect on the net policy space. This is because an increase in payment appropriations reduces the government balance.

In addition to revenue and expenditure adjustments, assuming unchanged policy, the ESA corrections are updated in every spending round. This has a negative effect on the government balance of 19.9 million euros.

The ESA corrections are discussed in more detail in chapter 5.

Finally, a re-estimate of the under-utilisation hypothesis is needed for every spending round. As explained in chapter 6, estimated under-utilisation rises by 182.1 million euros due to the under-utilisation noted in the 2017 budget. Higher under-utilisation has a positive impact on the government balance.

1.2.2 Measures and new initiatives

On an unchanged policy basis the budget would show a receivables deficit of 1,015.3 million euros. After correcting for the balanced budget target the Government of Flanders retains a net policy space of 202.9 million euros.

Table 1-3: Summarising table of measures and new initiatives (in thousands of euros)

Measures (1=2+3)	0
Revenues (2)	0
Expenditure (3)	0
Buffer and New initiatives (4=5+6)	199,360
Revenues (5)	0
Expenditure (6)	199,360
	Extra buffer
	100,000
	One-off new policy incentives BA2018
	99,360
Adjustment of net policy space (7=1-4)	-199,360

No additional measures were put in place to increase the policy space after the budgetary adjustment.

This net policy space is filled on the expenditure side as part of the budgetary adjustment. In the first place the buffer of 47 million euros, which had already been provided at the time of the budget proposal, was increased by a further 100 million euros.

Additionally, new initiatives were put in place following the spending round which are all non-recurrent and have the overall effect of increasing the payment appropriations by 99.4 million euros, which can be rounded off to 100 million euros.

The detailed net policy space table lists the main points in relation to these new initiatives, and the notes on each programme give more detailed information on the new initiatives.

1.2.3 Detailed net policy space table

The detailed net policy space table shows the list of the main factors affecting the trend in Flemish revenues and expenditure, split according to unchanged policy and measures/new initiatives as explained above.

In the case of unchanged policy, elements are included if their absolute value is greater than 5 million euros.

The first column refers, where relevant, to the programme or institution where the trend is observed. The second column specifies the details. For a more detailed explanation please refer to the individual programme notes.

To help you understand the table properly it is important to reiterate that redistributions, either within a given area of policy or across several policy areas, are not included in the table. The net policy space table is not designed to show the trend for each programme or institution, but merely the trends which impact on the net policy space available to the Government of Flanders. Following the budgetary adjustment, for example, the resources of the Climate Fund were redistributed to a variety of policy areas through allocations. These shifts are not included in the net policy space table, only the net impact on the consolidated policy and payment appropriations.

The amounts shown in the table reflect the difference (trend) between the available appropriations and the 2018 budget proposal and not the absolute amounts available.

Table 1-4: Detailed net policy space table (in thousands of euros)

BD	PR/Institution		Policy appropriations	Payment appropriations
		Balanced budget IB2018 (1)		11,522
		Expenditure left from consideration to check the budgetary target (2)		1,218,083
		Government balance IB2018(3=1-2)		-1,206,561
		Revenues unchanged policy (4)		390,783
		MFC revenues (4.1)		239,398
		SFA surcharges		4,568
		Regional resources SFA		16,917
		Community resources SFA		167,811
		Recalculation 2018 (outside norm)		-93
		Regional taxes		-21,182
		Energy Fund		44,777
		Climate Fund		27,575
		FIA		-8,237
		Unpaid withholding tax on professional income knowledge workers		5,001
		Water pollution charge on groundwater extraction		8,783
		Other MFC revenues		-6,522
		Adjustment consolidation perimeter (4.2)		-268
		University Centre for Development Cooperation		-268
		Revenues institutions (4.3)		151,653
		Universities and colleges		55,189
		FSEVT - Community work		35,293
		FSHC - Higher interest revenues due to higher lending volume		19,346
		Other		41,825
		Expenditure unchanged policy (5)	441,874	361,682
		Index (5.1)	111,648	110,809
C	CB	Index provision (anticipated exceedance of trigger index number in September 2018)	99,811	99,811
X	X	Other index	11,837	10,998
		Updating Policy and payment appropriations (5.2)	330,490	251,137
X	X	Asylum crisis excluding Education Salary Model	4,995	4,995
X	X	Allocation of Climate Fund resources	2,412	-8,187
C	CB	ex-FFEU	0	-14,506
C	CB	PFA provision De Lijn	5,000	5,000
C	CD	Tax expenditure	33,302	33,302

BD	PR/Institution		Policy appropriations	Payment appropriations
E	<i>Fund for Flanking Economic and Innovation Policy</i>	Hermes Fund	10,257	-14,016
F	FD	Salary Model	28,413	28,413
F	FF	Asylum crisis - Salary Model	-4,864	-4,864
F	<i>Agency for Infrastructure in Education</i>	Recuperation of VAT on school buildings	5,247	0
F	<i>Agency for Infrastructure in Education</i>	Education infrastructure payment schedule -Agency for Infrastructure in Education	0	6,933
F	<i>Community Education</i>	Education infrastructure payment schedule	0	-8,261
F	<i>UNIVERSITIES AND COLLEGES (GLOBAL TEMPLATE)</i>	UNIVERSITIES AND COLLEGES	94,471	94,471
F	<i>DBFM "Schools for Tomorrow"</i>	DBFM "Schools for Tomorrow"	9,284	9,284
G	GC	FIA 2nd pillar pension	-6,389	-6,389
G	GH	Social agreements on elderly care	14,914	14,493
G	GH	Trend in housing and fixed institution fee	-7,185	-7,185
G	<i>Flemish Agency for Social Protection</i>	Catch-up operation	6,239	6,239
G	<i>Flemish Infrastructure Fund for Person-related Matters</i>	Update payment schedule classic funding delayed start-up	0	-23,159
G	<i>Youth Welfare Fund</i>	Cost drivers for foster care, psychiatry interns, specific action, HCA	5,889	5,889
H	<i>Sports Flanders Agency</i>	Use of the Sports Infrastructure carryover	16,067	0
H	<i>Flemish Radio and Television Broadcasting Company</i>	Pension fund contribution contractors	-6,000	-6,000
J	JD	Service cheques	-34,252	-34,252
J	JD	Target groups policy	238	238
J	JD	Net increase Care appropriation	18,352	18,352
J	<i>Flemish Service for Employment and Vocational Training</i>	FSEVT: Community work based on revenue trend	35,706	35,706
J	<i>Flemish Service for Employment and Vocational Training</i>	FSEVT: Investments	11,875	0
M	MH	Maintenance and energy costs ART	7,426	7,426
M	MI	Compulsory purchase Hedwige Polder	0	7,900
M	<i>SAM Flemish Infrastructure Fund</i>	Station area, Mechelen	-6,200	-6,200
M	<i>SAM Flemish Infrastructure Fund</i>	Payment schedule road infrastructure investments and structural maintenance	0	15,000
M	<i>De Werkvennootschap</i>	Use of budgetary carryover	8,108	0
M	<i>De Werkvennootschap</i>	Payment schedule Work on the Ring, Brabantnet, R4 West Oost, N60 and North South Limburg	0	10,000
M	<i>De Vlaamse Waterweg nv</i>	Pension contributions De Vlaamse Waterweg	-8,050	-8,050

BD	PR/Institution		Policy appropriations	Payment appropriations
M	De Vlaamse Waterweg nv	De Vlaamse Waterweg, other	-11,842	-23,419
M	Flemish Transport Company De Lijn	IBP Contribution	-7,000	-7,000
M	Flemish Transport Company De Lijn	Payment schedule (mostly station environment, trams and buses)	0	51,888
M	Antwerp Mobile Management Company	Antwerp Mobile Management Company (within expenditure norm)	-35,700	-35,700
Q	QE	Energy Fund - green heat	15,000	5,000
Q	QE	Energy Fund - certificate purchase	28,256	28,256
Q	QG	Restorations via multiannual agreements	0	8,224
Q	SAM Fund for Prevention and Remediation Environment and Nature	Allocations to potable water companies by way of re-estimation of Aquafin invoice and supramunicipality contribution and redress	-7,451	-7,451
Q	Flemish Social Housing Company	FS3 allocations based on higher lending volume	28,830	28,830
X		Other	75,142	39,937
		Trend based on self-generated revenues	49,567	51,580
		Rest	25,575	-11,643
		Adjustment consolidation perimeter (5.3)	-264	-264
		University Centre for Development Cooperation	-264	-264
		ESA corrections (6)		-19,890
		Hospital infrastructure A1/A3		-8,613
		Terneuzen lock		-12,381
		Other		1,104
		Under-utilisation (7)		182,093
		Government balance BA2018 assuming unchanged policy (8=3-4+5+6+7)		-1,015,258
		Expenditure excluded from budgetary target (9)		1,218,175
		Excluding standardisation Oosterweel		76,447
		Excluding standardisation municipal mergers		96,654
		Excluding standardisation A1/A3 (non-requested provisional amounts concerning investments prior to 2016).		40,000
		Excluding standardisation SFA settlement 2018		1,005,074
		Net policy space (10 = 8+9)		202,918
		New Policy Incentives and Buffer AB 2018 (11)	200,000	199,360

BD	PR/Institution		Policy appropriations	Payment appropriations
C	CB	Buffer for contingencies	100,000	100,000
D	VISITFLANDERS	Investments relating to Flemish Masters	3,500	3,500
D	DD	Culture diplomacy in cooperation with the Netherlands (Dublin exhibition)	500	500
D	Flanders Investment & Trade (FIT)	IT-project FIT	100	100
D	DE	Emergency aid (including UNRWA)	550	550
F	FD	Class assignment reduction managers	1,200	1,200
F	FD	Manager pay equalisation	1,400	1,400
F	FG	School desk in the workplace	233	233
F	FG	Manager training	500	500
F	FD	Special nursery and primary education activities	700	700
F	FD	Nursery and primary education activities	8,300	8,300
G	Child and Family Agency	Purchase of hearing screeners	1,000	1,000
G	GD	Strategic care plan guidance	600	600
G	GC	One-off incentives: such as anger management, police	1,300	1,300
G	GA	Non-recurrent increase Tongeren	500	500
G	GA	ICT intersectoral gateway	500	500
G	GH	BelRAI start-up	1,000	1,000
G	Flemish Agency for Social Protection	ICT-investments FSP	5,000	5,000
G	Youth Welfare Fund	Outflow community institutions	2,000	2,000
G	GC	Social welfare services	100	100
H	HD/HE	Additional funding	2,640	2,400
H	Cultural Infrastructure Fund	Infrastructure	3,000	3,000
H	HE/HG	Project support resources	2,150	1,850
H	Sports Flanders Agency	Call to open school sports infrastructure	4,000	4,000
H	Sports Flanders Agency	Trial projects extracurricular sports	1,000	1,000
J	JE	Social economy investment call sustainable efficiency gains	4,000	4,000
M	Flemish Transport Company De Lijn	Greening the De Lijn fleet (50 hybrid buses + 5 city buses)	20,000	20,000
P	PM	ALPG investment call social infrastructure	6,000	6,000
P	SAM ICT	SAM ICT-projects	3,400	3,400
P	PE	IT- PPP project reporting	150	150
P	PE	Projects and events	1,800	1,800
P	PG	Additional funding	500	400
Q	QC	Asbestos	9,000	9,000
Q	QE	Energy poverty projects	2,100	2,100
Q	QE	Innovative renewable energy projects	6,277	6,277
Q	QD	Housing fire safety action plan	5,000	5,000
		Balance of balanced budget target (12 = 10-11)		3,558

BD	PR/Institution		Policy appropriations	Payment appropriations
		Government balance AB 2018 (13 = 12-9)		-1,214,618

2 THE ECONOMIC ENVIRONMENT

When estimating the resources at Flanders' disposal, inflation and economic growth (GDP) play an important role. To adjust the 2018 budget Flanders uses the economic growth and inflation set out in the Economic Budget of 7 February 2018. Interest rate trends also have an effect on the interest revenues and expenditure.

Table 2-1: In-budget inflation and growth prognoses

Budget year	IB 2018		AB 2018	
	2017 presumed	2018 initial	2017 final	2018 adjusted
Parameters				
Inflation (CPI)	2.10%	1.20%	2.13%	1.70%
Economic growth (GDP)	1.70%	1.70%	1.70%	1.80%

3. THE FEDERAL GOVERNMENT BUDGET

3.1. Total resources

Table 3-1 shows a summary of the major ESA revenues for the 2018 financial year.

As opposed to the 2018 budget proposal, personal income tax (surcharges) is estimated using the HCF method and rests on the estimate of State taxation for the 2016 - 2018 tax assessment years, made available to the Regions and Communities by the FPS Finance on 06 March 2018. The FPS Finance estimate of State taxation and gross surcharges for the 2017 and 2018 assessment years is based on the estimates for the 2016 assessment year and the regional breakdown of those estimates. This is because the normal return period for the 2016 assessment year is confirmed on 30 June 2017, meaning that the actual figures for the assessment year (2016) are available and provide the basis for ensuing tax year estimations.

Table 3-1: Major items of the ESA revenues (in thousands of euros)

	IB 2018	AB 2018	BP - BA	IB - BA (%)
Gross supplementary income tax charge	7,600,134	7,604,701	4,568	0.1%
Regional resources SFA	2,398,114	2,415,031	16,917	0.7%
Community resources SFA	22,290,646	22,458,458	167,811	0.8%
Recalculation 2018	-1,004,982	-1,005,074	-93	0.0%
Specific grants SFA	87,818	88,280	463	0.5%
Regional taxes	6,577,752	6,556,570	-21,182	-0.3%
Own non-tax allocated revenues	432,320	500,531	68,211	15.8%
Self-generated non-fiscal, non-allocated revenues	201,962	204,566	2,604	1.3%
Lottery funds	29,999	30,099	100	0.3%
Institutions scope of consolidation	3,620,854	3,772,239	151,385	4.2%
TOTAL	42,234,617	42,625,401	390,784	0.9%
<i>incl. commuter allocation contribution</i>	0	0	0	
<i>incl. contribution for consolidation of overall public finances</i>	-1,630,381	-1,639,606	-9,225	
<i>incl. contribution for cost of demographic ageing</i>	-76,975	-79,806	-2,831	
<i>incl. contribution to civil servants' pension plans</i>	-112,417	-112,417	0	

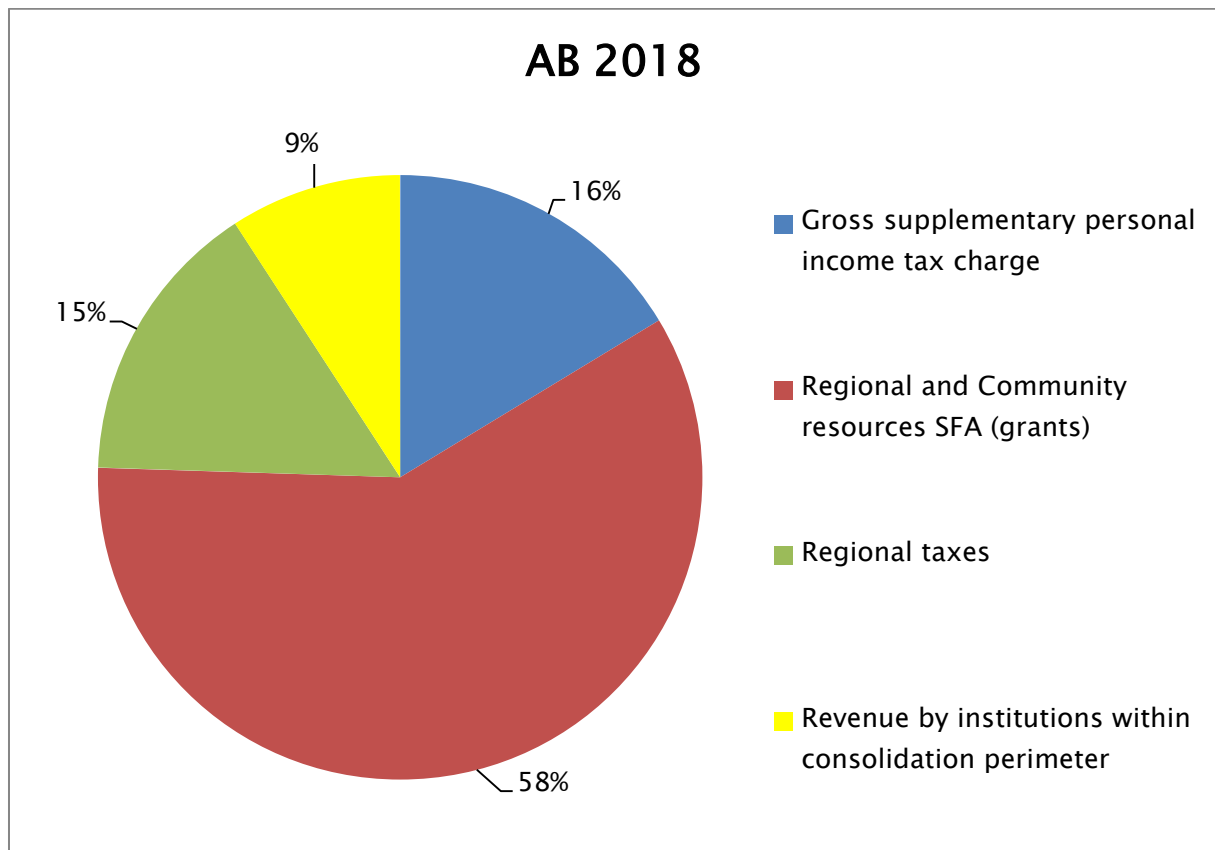
	IB 2018	AB 2018	BP - BA	IB - BA (%)
<i>Total contributions</i>	-1,819,773	-1,831,829	-12,056	

The ESA corrected revenues for the 2018 financial year are budgeted at 42.6 billion euros. That is 390.1 million euros, or 0.9% less than at the 2018 budgetary adjustment. The 2018 estimate includes the review (as announced in the Special Finance Act) of the autonomy factor and fiscal expenditure grant to the amount of -1 billion euros.

With effect from the 2018 budget proposal, the contribution to the commuter allocation in the Brussels-Capital Region is no longer costed as a revenue shortfall, but an expense.

Figure 3-1 shows the relative share of the revenues in proportion to total resources. This figure shows that Flemish surcharges represent 16% of (ESA-corrected) Flemish revenue. Regional taxes represent 15%.

Figure 3-1: Major items of the ESA revenues, AB 2018



The Sixth State Reform has given Flanders increased tax autonomy, partially made up of proceeds from regional taxes and partially from regional surcharges. This autonomy was at 19.4% in 2014 and has risen to 33.2% by the 2018 budgetary adjustment.

3.2. Surcharges and allocated portion of the VAT and PIT (personal income tax)

3.2.1 Parameters

For the 2018 budgetary adjustment, the resources deriving from the Special Funding Act (gross regional supplementary personal income tax charge (regional surcharges), regional and community grants, and other federal allocations) are estimated on the basis of the rates of inflation and economic growth (GDP) specified in the Economic Budget of 07 February 2018.

The other parameters on which the present revenue estimate is based are the parameters communicated to the regions and communities on 06 March 2018 by FPS Finance.

Alongside the traditional economic growth and inflation rate parameters, the fiscal capacity of the regions and communities and the number of students and under-18s in the communities play an important role in determining the resources allocated under the Special Funding Act. The enactment of the amended Special Funding Act which has had an impact for the first time on the budget of 2015, takes two additional parameters into account: the number of 0 to 18-year-olds and the number of people aged 80 or over.

In addition, from the 2015 assessment year, fiscal capacity is also interpreted as the regional apportionment of revenue from the federal personal income tax component. Therefore, the fiscal capacity for the 2017 assessment year is applied in the 2018 financial year.

The "State taxation" parameter is of importance when estimating the surcharges for the 2017 and 2018 assessment years. With regard to State taxation for the 2017 and 2018 assessment years, as stated above, the estimate is based on actual figures of the assessments at 30 June 2017 in respect of the 2016 assessment year. Moreover, the estimate of State taxation also factors in the effects of the recent Tax Shift and the other federal measures. Table 3-2 shows the cumulative impact of the federal Tax Shift and other federal measures on the Flemish surcharges, calculated according to the HCF method.

Table 3-2: Cumulative impact Tax Shift and other federal measures on Flemish surcharges (in million euros)

	2016 assessment year	2017 assessment year	2018 assessment year
Impact TS I	-56.6	-130.2	-130.2
Impact TS II	0.0	-178.4	-178.4
Total delta surcharges	-56.6	-308.6	-308.6

Source: FPS Finances

It should be emphasised that the Flemish budget absorbs the expected revenue shortfall as a result of the federal measures in personal income tax. Therefore the Government of Flanders has decided - for 2018 too - not to counteract the negative impact of the federal measures on the Flemish budget, but to implement the federal Tax Shift in the broadest possible sense to the benefit of the citizen.

It should also be stressed that the estimate of Flemish gross surcharges is made against the backdrop of the full review of the autonomy factor (from 25.990% up to and including the 2017 assessment year, to 24.957% from the 2018 assessment year) and the ensuing reduction of the surcharge rate (from 35.117% to 33.257%). The autonomy factor is the Flemish share in income tax. In other words, the Government of Flanders

does not nullify the reduction in the surcharge rate (even though it is competent to do so).

The population-related parameters are actual figures as per 1 January 2017, supplemented with estimates as communicated by FPS Finance on 6 March 2018, which are based on the population forecasts of February 2018.

3.2.2 Results

Table 3-3 shows the expected revenues in 2018, based on the parameters described above. This takes into account the impact of the Sixth State Reform.

Generally speaking, the revenues from the gross supplementary income tax surcharge and the allocated share of income tax and VAT increase by 189.2 million euros in the 2018 budgetary adjustment.

Table 3-3: Gross supplementary income tax charge and allocated portion of PIT and VAT (in thousands of euros)¹

	IB 2018	AB 2018	IB 2018 - AB 2017
Region: gross surcharges	7,600,134	7,604,701	4,567
Region: appropriations for various authorities	2,829,988	2,846,090	16,102
Region: transition mechanism	-321,557	-321,557	0
Region: correct funding Brussels institutions	0	0	0
Community: VAT appropriations	9,401,417	9,475,848	74,431
Community: Income tax appropriations	5,351,988	5,382,214	30,226
Community: appropriations for various authorities	7,316,503	7,358,088	41,585
Community: transition mechanism	152,795	152,795	-0
Reg. & Com.: recalculation 2018	-1,004,982	-1,005,074	-93
Reg. & Com.: contribution to civil servants' pension plans	-112,417	-112,417	0
Sub-total	31,213,870	31,380,689	166,819
Reg. & Com.: settlement over year t-1	70,043	92,427	22,384
Total resources Reg & Com	31,283,913	31,473,115	189,202

¹ A detailed explanation of resources made available to Regions and Communities after the Sixth State Reform can be found via this web link (NL): <https://fin.login.kanooh.be/de-financi%C3%ABle-middelenvoorziening-voor-gemeenschappen-en-gewesten-na-de-zesde-staats hervorming>
The detailed explanation also stresses the non-recurrent recalculation in the 2018 financial year.

3.3. Specific grants from the federal government

Table 3-4 shows the estimated resources relating to the (other) specific allocations from the federal government.

The additional allocations received by the communities since 2015 for the additional powers conferred under the Sixth State Reform (family benefits, elderly care, healthcare, hospital infrastructure (as of 2016), houses of justice and inter-university attraction poles (as of 2018), are listed in paragraph 3.2.

Table 3-4: Specific allocations from the federal government (in thousands of euros)

	IB 2018 incl settlement. 2017 aggregated	2017 at AB 2017 excl settlement 2016	2017 at AB 2018 excl settlement 2016	2017 Settlement at AB 2018	AB 2018 incl settlement 2017 aggregated	AB 2018 incl settlement 2017 integrated	AB 2018 - IB 2018
	(a)	(b)	(c)	(d) = (c) - (b)	(e)	(f)	(g) = (e) - (a)
Employment programmes	-	-	-	-	-	-	-
Foreign students	38,881	38,420	38,432	11	39,085	39,096	204
Allocation to offset TV and Radio Licence	-	-	-	-	-	-	-
Assumption of road tax	15,608	15,423	15,427	5	15,689	15,694	82
Allocation National Botanical Garden	7,315	7,086	7,109	23	7,360	7,383	46
Assumption of registration and inheritance taxes	25,370	25,069	25,076	7	25,503	25,510	133
Compensation mortmain	623	623	623	0	597	597	-26
Sub-total allocations from federal government	87,797	86,621	86,667	46	88,234	88,280	438
Settlement over the year t-1	21				46		25
Total allocations from federal government	87,818	86,621	86,667	46	88,280	88,280	463

3.4. Regional taxes

Regional tax estimates for the 2018 budgetary adjustment are based firstly on estimates by FPS Finances and secondly on the parameters of the Economic Budget of February 2018. Concerning regional taxes under the Government of, the Flemish government provides its own estimates based on the real figures for the 2017 financial year. Estimates for the 2018 budget proposal are based on a prognosis for 2017 (August 2017 prognosis).

Following the 2018 budgetary adjustment, regional taxation is estimated at 21.2 million euros below the 2018 budget proposal. Table 3-5 gives an overview of the various regional taxes and estimates.

With respect to revenues from gaming and betting and from automatic amusement machines are concerned, a service handled by FPS Finances, the estimate first proposed by FPS Finances in March 2018 was adopted.

Registration taxes (sales duties, mortgage registration duty and gift taxes) fall by a total of 31.8 million euros against the 2018 budget proposal. In the case of sales duties a growth of 1.8% is assumed in the number of transactions, along with a price effect of 1.5%.

Notwithstanding the volume effect of 1.8% and price effect of 1.5%, ESA revenues from sales duties rise by just 1.7% against 2017. This is due to the faster processing of deeds in 2017, or, in other words, the shortened time between recording the deed and submitting the tax return, which led to a non-recurrent increase in revenues in 2017. The estimate of sales duties does not take the reform of sales duty into account. This is due to the assumed budget neutrality of that reform. Potential anticipation effects upstream of its introduction are also seen as budget-neutral in the 2018 financial year, due to market stimulation after the introduction of the decree (1 June 2018).

Revenues from mortgage registration duties are down 20.7 million euros compared with the 2018 budget proposal. In the second half of 2017 the large number of refinancing operations came to an end. As a result the ESA revenues for 2017 remained 15.5 million euros below the August prognosis. In 2018 an even further fall in the number of mortgages is anticipated. Provision was made for a fall of 10% in the first quarter and 5% in the second quarter. In second half of the year mortgage numbers evolved in line with sales duties. Overall, provision is made for a 2.3% fall in the number of mortgages compared with 2017. The average duty per mortgage deed is expected to remain constant.

As regards gift taxes, in 2018 the number of gifts is expected to stabilise at the 2017 level. No increase is expected in the average revenue per deed. The drop in ESA revenues against the figures for 2017, despite the assumption of constant volume and constant prices, is largely to do with extra non-recurrent revenues in 2017 as the result of a faster processing of the deeds. Revenues drop by 2.3 million euros compared to the budget proposal.

Revenues from property taxes (excluding tax amnesties) are up by 25.3 million euros against the 2018 budget proposal. The estimate rests on the number of deaths anticipated and the average property taxes payable in relation to them. Average taxation per death is growing faster than anticipated in the 2018 budget proposal. Revenues from tax amnesties remain constant, at the figure of 75 million euros set in the budget proposal.

Estimated revenues from property tax remain almost constant compared to the 2018 budget proposal. An entirely new bottom-up estimate was made based on the KI for the 2016 assessment year and the new rates following the transfer of provincial powers.

The estimate of traffic-related regional taxes is based on the real figures for the 2017 financial year. The estimate of annual road tax takes inflation into account along with a volume effect of +2% and a price effect of -1% as the result of greener purchasing behaviour and technological improvements in the fleet. The estimate for vehicle registration tax takes inflation into account along with a volume effect of +0.8%.

Revenues from the kilometre charge increase by 4.2 million euros against the 2018 budget proposal. The estimate rests on average daily income in 2017, to which inflation and GDP growth are applied. Both the average daily income and the inflation and growth parameters are a little higher than anticipated in the budget proposal, resulting in a small increase in revenues.

Table 3-5: Regional taxes (in thousands of euros)

(in thousands of euros)	2017 August Prognosis	2017	IB 2018	AB 2018	AB 2018 - 2017	%	AB 2018 - IB 2018	%
Gaming and betting	40,457	41,150	43,610	44,356	3,206	7.8%	746	1.7%
Automatic amusement machines	24,784	25,489	25,535	26,261	772	3.0%	726	2.8%
Tax on the opening of establishments	44	28	0	0	-28	-100.0%	0	0.0%
Sales duties and division duty	2,385,423	2,394,897	2,441,792	2,432,946	38,049	1.6%	-8,846	-0.4%
Mortgage registration duty	177,139	161,569	177,140	156,461	-5,108	-3.2%	-20,679	-11.7%
Gift tax	383,898	402,099	390,970	388,699	-13,400	-3.3%	-2,271	-0.6%
Registration tax fiscal amnesty		100			-100	-100.0%	0	0.0%
Inheritance tax excl. Fiscal amnesties	1,389,865	1,443,839	1,407,390	1,432,653	-11,186	-0.8%	25,263	1.8%
Inheritance tax fiscal amnesties	25,000	9,996*	75,000	75,000	65,004	650.3%	0	0.0%
Property tax	108,953	107,863	211,660	210,710	102,847	95.3%	-950	-0.4%
Road tax	1,088,249	1,068,027	1,121,962	1,097,369	29,342	2.7%	-24,593	-2.2%
Vehicle registration tax (Flemish Tax Service)	246,079	244,024	242,659	247,848	3,824	1.6%	5,189	2.1%
Eurovignette (Fed)	26	-5,507	0	0	5,507	-100.0%	0	0.0%
Eurovignette (Flemish Tax Service)	-122	-93	0	0	93	-100.0%	0	0.0%
Mileage Charge	430,411	430,394	440,034	444,267	13,873	3.2%	4,233	1.0%
Total	6,300,207	6,323,875	6,577,752	6,556,570	232,695	3.7%	-21,182	-0.3%

* Concerns only ESA chargeable sum on 2017 returns.

3.5. Earmarked revenue

Earmarked revenue or assigned to a budget fund – which cannot be designated as revenue from lending or holdings – is revenue that is reserved to cover certain clearly defined expenditures. The estimate of the earmarked revenues for the 2018 financial year amounts to 500.5 million euros. Compared to the 2018 budget proposal this estimate reflects an increase of 68.2 million euros. The increase in allocated revenues in 2018 is largely explained by the trend in revenues from the Climate Fund (+27.6 million euros) and the Energy Fund (+ 44.8 million euros).

The estimated revenues from the Climate Fund were adjusted upward by 27.6 million euros. The increase is explained by an increase in the average price of EU ETS allowances. Energy Fund revenues increase with 44.8 million euros, mainly through revenues from the energy tax. The energy tax was abolished by the Constitutional Court in 2017, but revenues from the 2016 and 2017 tax years were retained. The tax came into effect on 1 January 2018. In 2018, ESA attributable revenues from the old tax will gradually reduce and the new tax will commence, meaning that revenues will gradually be picking up again. Therefore, in 2018, revenues from the old and new taxes will run concurrently.

Other important earmarked revenues in the resource budget are:

- reimbursement of salary and salary bonuses in the education sector;
- income in the framework of medical-social policy;
- income from the Fund in support of road traffic and road safety policy.

3.6. Other revenues

Other revenues are non-tax, on-allocated revenues that cannot be classed as revenue from lending or holdings or as allocations from institutions in the consolidation perimeter.

Other revenues (excluding Lotto resources) for the 2018 financial year are estimated at 204.6 million euros. Compared to the 2018 budget proposal this estimate shows a slight increase of 2.6 million euros. The variation in the 'other revenues' category is partly explained by the higher estimate of revenue from taxes on unsuitable or uninhabitable housing and/or buildings (+1.8 million euros).

3.7. Lottery resources

Pursuant to article 62bis of the Special Funding Act every community is allocated a percentage of the shared profit from the National Lottery. The federal council of ministers decides the profit for appropriation. These lottery resources are estimated at 30,099 thousand euros in the 2018 budgetary adjustment. The estimate is based on the provisional distribution plan for the 2017 fiscal year.

3.8. Consolidated institutions

Table 3-6 summarises the ESA attributable revenues from the Flemish institutions in the consolidation perimeter. The ESA attributable revenues from the consolidated institutions

rise by 151.4 million euros against the 2018 budget proposal. Institutions with significant amounts of self-generated revenue are mentioned separately.

Table 3-6: Consolidated institutions (in thousands of euros)

	IB 2018	AB 2018	IB - BA
MINA	127,109	133,699	6,590
FIF	57,272	64,122	6,850
Pilotage	85,904	86,088	184
Other institutions with SMS form	29,297	31,265	1,968
VDAB	119,830	156,547	36,717
Flemish Public Broadcaster	175,678	179,293	3,615
Child and Family Agency	185,929	183,380	-2,549
FSP	251,104	257,649	6,545
Flemish Transport Agency	221,049	225,864	4,815
Flemish Agency for Public Sector Energy Saving	241,214	241,214	0
FITR	71,460	71,735	275
Liefkenshoek Tunnel	65,816	67,946	2,130
FHF	63,072	63,898	826
FSHC	212,172	232,233	20,061
Colleges and universities	921,338	976,527	55,189
Other institutions not taking on the form of an SMS	792,610	800,779	8,169
Total	3,620,854	3,772,239	151,385

4. EXPENDITURE BUDGET

4.1. Introduction

In the budget adjustment of 2018, the consolidated policy appropriations increase by 641.9 million euros and the consolidated payment appropriations by 561.0 million euros. Thus, the increase of the policy appropriations is 80.8 million euros higher than the payment appropriations.

Table 4-1: Consolidated policy and payment appropriations (in thousands of euros)

	2018 IB (1)	2018 AB (2)	Evolution AB (3=2-1)
Policy appropriations	44,783,531	45,425,405	641,874
Payment appropriations	44,492,029	45,053,071	561,042
Policy minus payment	291,502	372,334	80,832

This chapter on the expenditure budget opens with an explanation of how the transition is made from the expenditure appropriations in the administrative table and the budgets of the institutions to the consolidated policy and payment appropriations shown in Table 4-1.

The next part gives an overview of the consolidated policy and payment appropriations for each policy area as well as the trend per policy area.

The fourth and final part of this chapter describes the most important trends per policy area.

4.2. Policy and payment appropriations

4.2.1 Policy appropriations

The starting point for ministries' policy appropriations is the sum of the policy appropriations. These appropriations are supplemented by income expected from budget funds.

A number of corrections are applied to these policy appropriations, most of which must also be applied to the calculation of payment appropriations:

- Firstly, the sum of the appropriations is corrected for the appropriations provided for -lendings and holdings (ESA-8), and for capital repayments (ESA-9). That is to say, these appropriations must not be included when calculating the Flemish Community's financial balance.
- Secondly, a correction is applied to the appropriations intended for the consolidated institutions of the Flemish Community. The policy that is conducted with these appropriations is further included in the section regarding consolidated institutions(see below).

A final remark concerns the interest appropriations recorded for outstanding direct and indirect debt. Since these interest charges must actually be paid and no provision was previously made for them in policy appropriations, the interest appropriations are retained in the policy appropriations. Nevertheless, appropriations set aside for the payment of interest cannot be used to fund policy.

This is why the principle of primary expenditure (in this case, expenditure excluding interest) is also applied to the government balance (see Section 6).

Table 4-2: Balance calculation – Policy appropriations of ministries (in thousands of euros)

Policy		AB 2018
Policy appropriations (PA)	+	42,369,777
Anticipated income from budget funds (TI)	+	536,165
<i>Corrections for:</i>		
Holdings and lending (ESA code 8)	-	2,045,564
Government debt repayments (ESA code 9)	-	8,785
Allowances to institutions & corrections (including buffer correction in the budget monitoring context)	-	12,000,019
TOTAL	=	28,851,574

To calculate the policy appropriations for the consolidated institutions, a distinction is made between the consolidated institutions which divide their budget into policy appropriations and payment appropriations, and the other institutions with a budget for payment appropriations only.

For institutions implementing a budget based upon both policy and payment appropriations, the policy appropriation is taken (corrected for lending and holdings, debt repayment, allocations to other consolidated institutions, reserve accumulation and balance to be carried forward). In any event, the recorded policy appropriations also contain the authorisations and the policy appropriation of the allocations to the institutions that are registered in the ministries' budgets.

For the other consolidated institutions, the policy appropriations are assumed to be equal to the recorded payment appropriations (corrected for lending and holdings, debt repayment, allocations to other consolidated institutions, reserve accumulation and balance to be carried forward). However, these policy appropriations are corrected even further if an authorisation is recorded in the ministries' budgets. In such a case, the difference between the authorisation included in the ministries' budgets and the settlement appropriation included in the ministries' budgets is corrected for the total appropriations recorded for the institution (the settlement appropriation may be further supplemented by the appropriation of historical budget balances).

The remarks regarding the ministries also apply to interest appropriations.

Table 4-3: Balance calculation – Policy appropriations for consolidated institutions (in thousands of euros)

		AB 2018
Institutions with policy and payment expenditure side		
Policy appropriations	+	9,301,165
<i>Corrections for:</i>		
Holdings and lending (ESA code 8)	-	114,080
Government debt repayments (ESA code 9)	-	43,000
Allocations to Flemish ministries and other consolidated institutions	-	116,856
Internal transactions	-	35,380
SUB-TOTAL		8,991,849
Institutions with payment expenditure side only		
Payment appropriations	+	13,739,832
<i>Corrections for:</i>		
Holdings and lending (ESA code 8)	-	2,697,322
Government debt repayments (ESA code 9)	-	1,851,545
Allocations to Flemish ministries and other consolidated institutions	-	276,131
Internal transactions	-	1,386,041
Commitment authorisations - Payment authorisations	+	53,189
SUB-TOTAL	=	7,581,982
TOTAL	=	16,573,831

Table 4-4 summarises the total payment appropriations for ministries and consolidated institutions as recorded in the 2018 budget adjustment.

The policy appropriations rise by 641.9 million euros, or 1.4% against the 2018 budget proposal.

Table 4-4: Balance calculation – Total policy appropriations (in thousands of euros)

	2018 IB (a)	2018 AB (b)	(c) = (b) – (a)	%
Policy appropriations for ministries	28,496,992	28,851,574	354,582	1.2%
Policy appropriations for institutions	16,286,539	16,573,831	287,292	1.8%
TOTAL	44,783,531	45,425,405	641,874	1.4%

4.2.2 Payment appropriations

To calculate the payment appropriations, a distinction is also made between payment appropriations for the ministries (excluding SMS) and those for consolidated institutions.

The payment appropriations are based on the aggregate of the payment appropriations and the variable appropriations.

A few corrections are made to this sum, such as in the calculation of the ESA financial balance of the Government of Flanders. Thus a correction is made for the expenditure on lending and holdings (ESA-8), debt repayments (ESA-9) and appropriations destined for consolidated institutions.

No correction is implemented for the interest appropriations recorded.

Table 4-5: Balance calculation – Payment appropriations for ministries (in thousands of euros)

Payment		AB 2018
Payment appropriations (VA)	+	42,053,538
Variable appropriations (VRA)	+	574,839
<i>Corrections for:</i>		
Holdings and lending (ESA code 8)	-	1,675,712
Government debt repayments (ESA code 9)	-	9,230
Allowances to institutions & corrections (including buffer correction in the budget monitoring context)	-	12,190,558
TOTAL	=	28,752,877

The determination of payment appropriations for the consolidated institutions is based on the expected payment appropriations in the institutions' respective budgets. Corrections are applied to this for lending and holdings, debt repayment, allocations to other consolidated institutions, reserve accumulation and balance to be carried forward.

Table 4-6: Balance calculation – Payment appropriations for consolidated institutions (in thousands of euros)

		AB 2018
Payment appropriations	+	24,216,900
<i>Corrections for:</i>		
Holdings and lending (ESA code 8)	-	2,810,840
Government debt repayments (ESA code 9)	-	1,894,720
Allocations to Flemish ministries and other consolidated institutions	-	449,068
Internal transactions	-	2,762,078
TOTAL	=	16,300,194

Table 4-7 summarises the total payment appropriations for ministries and consolidated institutions as recorded in the 2018 budgetary adjustment.

Generally speaking, total payment appropriations rise by 561,0 million euros in the 2018 budgetary adjustment, or 1.3% compared to the budgetary adjustment.

Table 4-7: Balance calculation – Total payment appropriations (in thousands of euros)

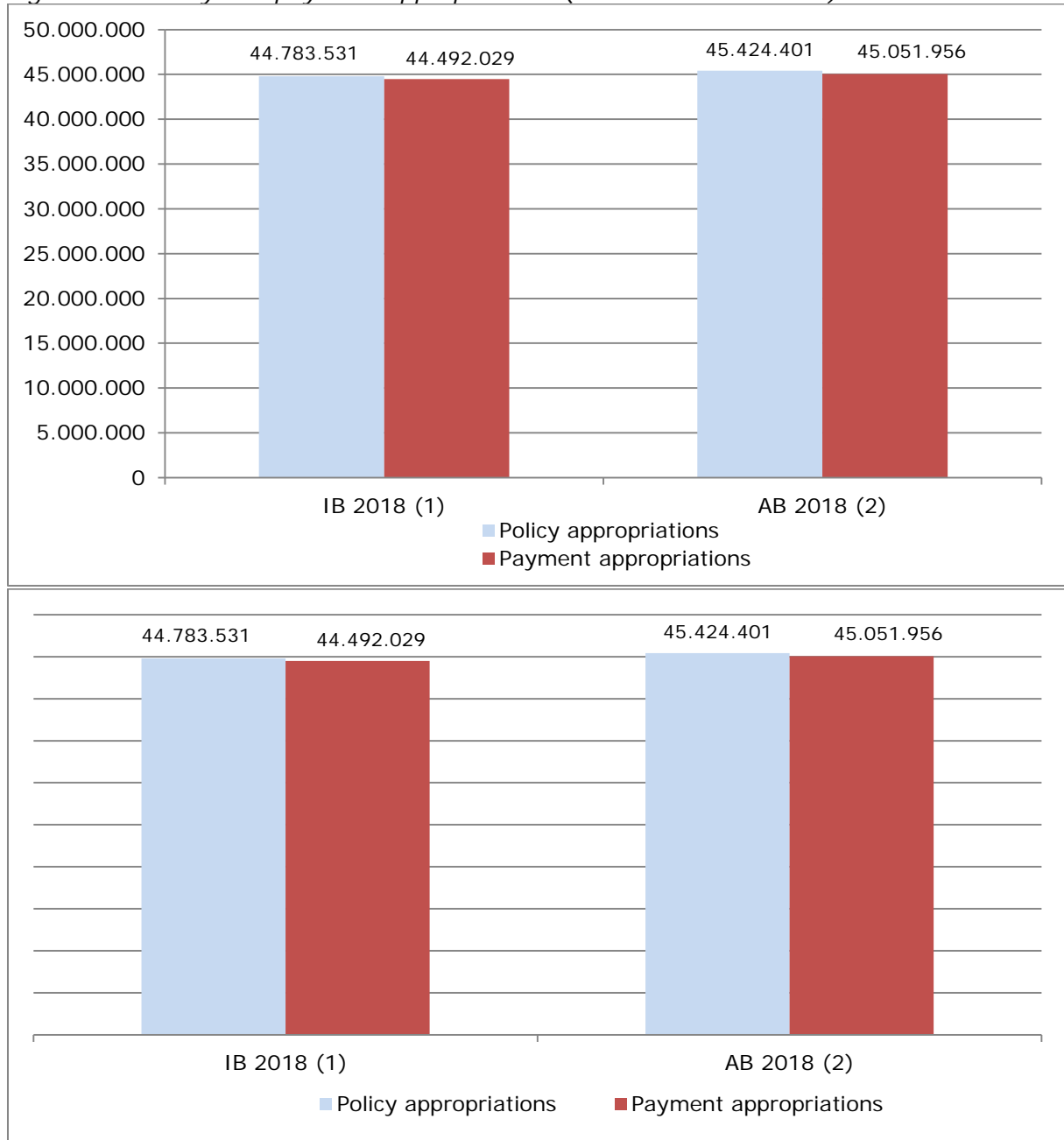
	2018 IB (a)	2018 AB (b)	(c) = (b) – (a)	%
Payment appropriations for ministries	28,436,767	28,752,877	316,110	1.1%
Payment appropriations for institutions	16,055,262	16,300,194	244,932	1.5%
TOTAL	44,492,029	45,053,071	561,042	1.3%

4.2.3 Overall evolution of policy and payment appropriations

Figure 4-1 shows that policy appropriations are 372.3 million euros higher than payment appropriations in the 2018 budget adjustment. The initial budget showed a difference of 291.5 million euros.

Largely as the result of an update in several payment schedules assuming unchanged policy and the visualisation of the carryover effect among consolidated institutions, the increase in payment appropriations is not as pronounced as that in policy appropriations following the budgetary adjustment.

Figure 4-1: Policy and payment appropriations (in thousands of euros)



4.3. Policy and payment appropriations spread over the 12 policy areas

The Table 4-8 and Table 4-9 show the trend in policy and payment appropriation figures, for the 2018 initial budget and the 2018 budget adjustment, respectively, in each policy area.

Table 4-8: Policy appropriations per policy area (in thousands of euros)

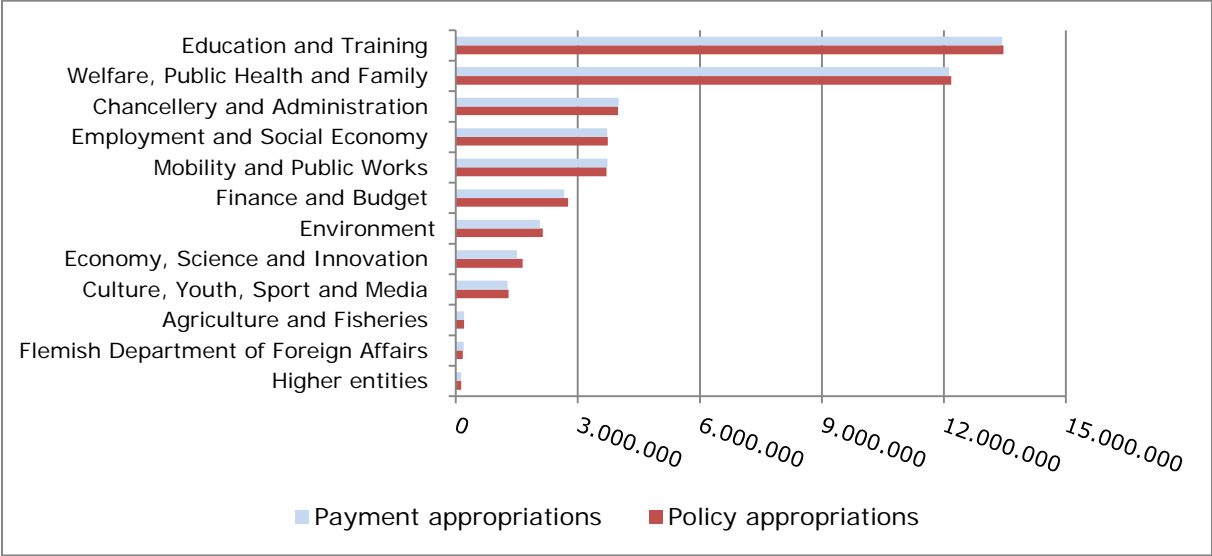
Policy area	2018 IB (a)	2018 AB (b)	(c)=(b) - (a)	%
Higher entities	130,698	130,698	0	0.0%
Finance and Budget	2,544,066	2,758,096	214,030	8.4%
Flemish Department of Foreign Affairs	166,612	174,123	7,511	4.5%
Economy, Science and Innovation	1,642,210	1,644,928	2,718	0.2%
Education and Training	13,307,839	13,465,039	157,200	1.2%
Welfare, Public Health and Family	12,145,970	12,180,669	34,699	0.3%
Culture, Youth, Sport and Media	1,263,611	1,295,307	31,696	2.5%
Employment and Social Economy	3,691,668	3,736,595	44,927	1.2%
Agriculture and Fisheries	192,684	203,072	10,388	5.4%
Mobility and Public Works	3,706,901	3,704,018	-2,883	-0.1%
Chancellery and Administration	3,948,575	3,989,226	40,651	1.0%
Environment	2,042,697	2,143,634	100,937	4.9%
TOTAL	44,783,531	45,425,405	641,874	1.4%

Table 4-9: Payment appropriations per policy area (in thousands of euros)

Policy area	2018 IB (a)	2018 AB (b)	(c)=(b) - (a)	%
Higher entities	130,698	130,698	0	0.0%
Finance and Budget	2,463,266	2,663,665	200,399	8.1%
Flemish Department of Foreign Affairs	191,539	196,236	4,697	2.5%
Economy, Science and Innovation	1,520,746	1,500,777	-19,969	-1.3%
Education and Training	13,284,336	13,433,878	149,542	1.1%
Welfare, Public Health and Family	12,121,283	12,123,662	2,379	0.0%
Culture, Youth, Sport and Media	1,262,450	1,271,484	9,034	0.7%
Employment and Social Economy	3,694,613	3,723,952	29,339	0.8%
Agriculture and Fisheries	196,041	201,142	5,101	2.6%
Mobility and Public Works	3,672,278	3,729,200	56,922	1.6%
Chancellery and Administration	3,979,298	4,008,490	29,192	0.7%
Environment	1,975,481	2,069,887	94,406	4.8%
TOTAL	44,492,029	45,053,071	561,042	1.3%

Figure 4-2 shows the policy and payment appropriations for each policy area.

Figure 4-2: Policy and payment appropriations per policy area – 2018 AB (in thousands of euros)



5. ESA CORRECTIONS

To arrive at a financial balance in conformity with the ESA 2010 regulation, a number of corrections have to be applied to the financial balance of the Flemish Community.

Table 5-1: Summary of ESA corrections (in thousands of euros)

	Item charged	Expenditure under ministry or legal person item (a)	ESA chargeable expenditure (b)	ESA-correction AB 2018 (a)-(b)
SRF correction	SRF code 41.50	31,693	24,213	7,480
Correction institutions Flemish Parliament	VP0-1VDA2AY-IS	93,721	94,198	-477
Expected building expenditure in DBFM Schools of Tomorrow	Agency for Infrastructure in Education: DBFM allocations	0		
	Activity resources education	0	4,098	-4,098
Reclassification FIPM alternative funding	GBK-AGID2AA-WT	164,184	71,695	92,489
VIAPASS	CEO-1CDX2DD-WT	91,921	90,454	1,467
Positive correction Amoras	MB0-1MIF2AE-WT	34,000	29,300	4,700
De Lijn Depot Tongeren	Flemish Transport Agency code 12.11-7 Availability comp. Depots	597	425	172
De Lijn Depots BOVZO		3,919	3,286	633
De Lijn Depots Cluster II		6,077	4,083	1,994
De Lijn Depots Oostende		3,404	1,428	1,977
Ghent University Hospital	FD0-1FGE2AI-WT	0	0	0
Hospital infrastructure A1/A3	GBK-AGID2AA-WT	403,820	124,086	279,734
Effect of the unsolicited provisional amounts A1/A3 with regard to investments before 2016	GBK-AGID2AA-WT	0	40,000	-40,000
Terneuzen lock	MB0-1MIF2AH-WT	59,500	83,642	-24,142

Below we explain the new ESA corrections and those which differ from the ESA correction applied in the initial budget. For a discussion of the remaining ESA corrections please see the general notes on the initial budget.

The institutions of the Flemish Parliament (the Flemish Parliament, the Office of the Flemish Ombudsman, the Flemish Office of the Children's Rights Commissioner and the Flemish Peace Institute) are not required to draft a budget for the Government of Flanders. They are, however, consolidated, and therefore their budgetary impact must be taken into account to arrive at a balance. The 2018 initial budget worked on the theory that any impact on the balance would be equivalent to the allowance. When the draft budget for 2018 was submitted these institutions were found to have a negative impact of 477 thousand euros on the balance, because their expenditure exceeded their allowance and self-generated revenues combined. In the budgetary adjustment this impact was recorded as an ESA correction relating to the perimeter.

The first change to affect ESA corrections under the strengthened European budgetary surveillance position relates to the VAT adjustment on schools supplied under the DBFM 'Schools of Tomorrow' programme. Given that the schools (school groups) are not consolidated it is still necessary to apply an ESA correction to the VAT payable by the schools on completion. The increased VAT correction is due to the anticipated rise in the price of the completed schools.

In the wake of the EDP notification of March 2018 another PPP project at De Lijn, i.e. the DBF Depots Oostende project, was classed as a state-owned asset. This is a project involving Infrabel, for which the investments were received in 2016. This means that (the repayment of) the capital component must be corrected as part of Infrabel's availability compensation to allow a calculation of the ESA-chargeable component of the availability compensation (in this case interest).

As regards funding the hospitals' infrastructure and medical-technical services, the so-called A1 and A3 components of the Financial Resources Budget, an update has been made of the ESA chargeable expenditure following the advice of the Institute of National Accounts on the 2016 implementation figures. The extra ESA impact of 10.7 million euros is largely due to a more cautious estimate of diminishing interest charges (10 million euros) and an increase in equipment funding (of 0.7 million euros) yet to transit through the new fixed maintenance fee at the 2018 budget proposal. However, anticipated cash expenditure was adjusted by 2.1 million euros only, as a result of which the 2018 budget proposal's positive ESA correction of 288.3 million euros drops by 8.6 million euros to 279.7 million euros.

Where receivables due in respect of works on Terneuzen docks are concerned, we assume, following the meeting of the Flemish Dutch Scheldt Commission on 1 December 2017, a cost to Flanders of 83.6 million euros in 2018, meaning a negative ESA correction of 24.1 million euros with regard to the 59.5 million euros in cash resources set aside for this under the Mobility and Public Works Policy Area. Expenditure is expected to be 12.4 million euros over the 2018 initial budget, as a result of which the ESA correction will reduce by the same amount.

6. THE GOVERNMENT BALANCE

6.1. Government balance

Table 6-1 shows the calculation of the government balance of the Government of Flanders. The ESA revenues and ESA expenditure, respectively, of the ministries and the consolidated institutions are grouped together in order to calculate one overall government balance.

Table 6-1: Table summarising government balance (in thousands of euros)

	IB 2018	AB 2018	Delta
Consolidated ESA revenues (1)	42,234,617	42,625,400	390,783
Consolidated ESA expenditure (2)	44,492,029	45,053,071	561,042
Consolidated ESA balance (3=1-2)	-2,257,412	-2,427,671	-170,259
Under-utilisation (4)	709,031	891,124	182,093
Consolidated ESA balance after under-utilisation (5=3+4)	-1,548,381	-1,536,547	11,834
ESA corrections (6)	341,820	321,930	-19,890
Corrected financial balance (7=5+6)	-1,206,561	-1,214,617	-8,056
Outside budget objectives	1,218,083	1,218,175	92
Balance after corrections verification budgetary target (9=7+8)	11,522	3,558	-7,964
Budgetary target	0	0	0
Variation with budgetary target	11,522	3,558	-7,964

The financial balance of the Government of Flanders after settlement of the expected under-utilisation and addition of the ESA corrections amounts to -1,214.6 million euros.

When the financial balance was -matched with the budgetary target, and the initial budget, 4 elements were not taken into account. The only change affecting the initial budget relates to the autonomy correction factor calculation. For more information on these corrections and about why the Government of Flanders applies them in the framework of the balanced budget target please refer to chapter 7 on the European Framework and standardisation, and section 7.3 in particular.

The balance after corrections assessed against the budgetary target barely changes in response to the 2018 budget adjustment: from a positive balance of 11.5 million euros to 3.6 million euros. Therefore the Government of Flanders has a budget which meets the balanced budget target and is structurally balanced.

6.2. ESA revenues

Table 6-2: From revenue appropriations to consolidated ESA revenues (in thousands of euros)

	IB 2018	AB 2018	Delta
Receipts general budget (1)	38,855,522	39,117,545	262,023
Loans (2)	750	1,329	579
Holdings and lending (3)	204,288	199,366	-4,922
Allocations of institutions (4)	36,721	63,689	26,968
ESA revenues general budget (5=1-2-3-4)	38,613,763	38,853,161	239,398
Revenues institutions (6)	23,374,240	24,216,900	842,660
Loans (7)	2,582,773	2,676,755	93,982
Holdings and lending (8)	1,228,626	1,625,263	396,637
Allowances to Flemish ministries and other institutions (9)	12,458,352	12,474,796	16,444
Internal transactions (10)	3,483,635	3,667,847	184,212
ESA revenues institutions (11=6-7-8-9-10)	3,620,854	3,772,239	151,385
Consolidated ESA revenues (12=5+11)	42,234,617	42,625,400	390,783

Table 6-2 shows the ESA revenues of the Government of Flanders as the sum of the ESA revenues from the Flemish ministries (excl. SMS) (5) and those of the consolidated institutions (11). These amount to $38.85 + 3.77 = 42.63$ billion euros.

The revenues of the ministries (excl. SMS) are the total revenues (1) from the general resource budget. In order to arrive at the ESA revenues of the Flemish ministries (excl. SMS) (5), a number of corrections are applied. First, estimated income and expenditure with regards to lending and holdings (ESA code 8) (3) are neutralised. The financial debt is handled in the same way (ESA code 9) (2).

Calculating the consolidated general balance implies that the financial flows to and from the Flemish consolidated institutions must be neutralised. For this reason, the income is decreased with the allowances derived from the consolidated institutions.

Besides the ESA corrections set out above for holdings and lending (code 8) and government debt (code 9) and the neutralisation of the financial flows to and from the ministries and the Flemish consolidated institutions, the budgetary excesses carried forward from a previous financial year and the withdrawal from possible reserve funds are not included (these are considered internal transactions) as part of the income side.

6.3. ESA expenditure

Table 6-3: From expenditure appropriations to consolidated ESA expenditure (in thousands of euros)

	IB 2018	AB 2018	Delta
Expenditure general budget (1)	42,277,173	42,628,377	351,204
Holdings and lending (2)	1,650,921	1,675,712	24,791
Allowances to institutions (3)	12,080,692	12,090,558	9,866
Debt repayments (4)	8,793	9,230	437
Buffer in framework of budgetary monitoring (5)	100,000	100,000	0
ESA expenditure general budget (6=1-2-3-4-5)	28,436,767	28,752,877	316,110
Expenditure institutions (7)	23,374,240	24,216,900	842,660
Repayments (8)	1,667,207	1,894,720	227,513
Holdings and lending (9)	2,524,342	2,810,840	286,498
Allocations to Flemish ministries and institutions (10)	415,245	449,068	33,823
Internal transactions (11)	2,712,184	2,762,078	49,894
ESA expenditure institutions (12=7-8-9-10-11)	16,055,262	16,300,194	244,932
Consolidated ESA expenditure (13=6+12)	44,492,029	45,053,071	561,042

Table 6-3 shows the ESA expenditure of the Government of Flanders (13) as the sum of the ESA expenditure of the Flemish ministries (excl. SMS) (6) and of the consolidated institutions (12) and amounts to 28.75 + 16.3 or 45.05 billion euros.

For the expenditure of the ministries (excl. SMS) the total payment appropriations are taken from the administrative expenditure table. These are calculated as the sum of the payment appropriations) and variable appropriations and together amount to 42.63 billion euros.

To make the transition to ESA expenditure the same corrections are applied as on the income side: holdings and lending (code 8) (2), government debt repayment (code 9) (4) and the financial flows to the Flemish consolidated institutions (3) are neutralised.

The policy and payment buffer of 100 million euros for budget monitoring (5) is not included in the financial balance calculation. The Flemish Budget and Accounting Bill does not, at the moment, allow transfers to be made from one policy area to another. The policy and payment buffer offers a technical solution for budgetary challenges brought to light when the budget is monitored. Given that the buffer can only be used if warranted by the budget monitoring, it has no impact on the ESA government balance and can be cancelled out. The buffer remains unchanged in respect of the budget proposal.

In order to calculate the institutions' ESA expenditure (12), corrections similar to those applied to the ministries - minus the policy and payment buffer correction - are applied and account is not taken of the balance to be transferred to a following budgetary year or of allocations to the reserve fund (internal transactions) (11).

6.4. Under-utilisation

In the case of under-utilisation - as a rule - we take the average of the observed under-utilisation percentages for the last 2 years (in this instance the 2016 and 2017 financial years), and apply corrections for any non-recurrent factors that will have affected under-utilisation in those years.

Under-utilisation in 2016 – according to the preliminary implementation figures of 17 February 2017 – came to 744.8 million euros or 1.85% of the recorded payment appropriations in 2016.

These figures include the under-utilisation on powers transferred under the Sixth State Reform, which are still being implemented by the social security institutions – in the amount of 53.1 million euros. As a result of the non-definitive character of this under-utilisation and the high degree of uncertainty over the implementation figures, we omit from this calculation the under-utilisation of appropriations in relation to the powers under the Sixth State Reform.

However, the under-utilisation (powers under the Sixth State Reform excluded) was affected by a number of non-recurrent factors.

On the one hand, there was a one-off increase in under-utilisation in 2016 when appropriations remained unused by several institutions active in the area of public investment (FIF and BAM), in the amount of 70 million euros, as well as 128.4 million euros for the Energy Fund due to a temporary mismatch between ESA revenues and expenditure and a non-appropriation of 12.6 million euros for a non-recurrent provision for asylum appropriations.

And on the other, there was a non-recurrent under-utilisation of 79 million euros in 2016, through a one-off overspend by the Hermes Fund (39 million euros for ICL), FAPD (20 million euro settlement of past service years) and the subsidy for Strong Brand Limburg (20 million euros).

If we filter these factors from the under-utilisation recorded for 2016 we arrive at a corrected under-utilisation in 2016 of 559.7 million euros ($=744.8 - 53.1 - 70 - 128.4 + 79$) or 1.84 % of ESA payment appropriations (Sixth State Reform excluded) in 2016.

Under-utilisation in 2017 – according to the preliminary execution figures of 20 February 2017 – came to 728.3 million euros or 1.68% of the recorded payment appropriations for 2017, and of this 124 million euros is attributable to under-utilisation in the framework of the Sixth State Reform. This under-utilisation was again filtered from the general under-utilisation figures in 2017. The implementation figures for universities and colleges (over-utilisation of 18.7 million euros²) was initially left from consideration, because a separate under-utilisation assumption applies to universities and colleges (see below).

As is the case every year, the actual figures (abstraction made for competences under the Sixth State Reform and actual figures for universities and colleges) are affected by a number of non-recurrent factors which we have also left from consideration.

The first correction relates to the cancelling out of a non-recurrent expense decided in late 2017, for which an over-appropriation of the Finance and Budget (and FFRC) provision was permitted. On 27/10/2017, then, 135 million euros were redistributed as a result of a political decision on IB 2018. 100 million euros had already been set aside for the 2017 policy and payment buffer, meaning a cancelling out of 35 million euros in over-utilisation. On 15 December 2017 a second redistribution order by the Government of Flanders was approved for 112.6 million euros as was a FFRC intering balance of 24.5 million euros. Therefore a total of 172.1 million euros in over-utilisation was cancelled out through these non-recurrent case files.

² This over-utilisation is due to the fact that the BA 2017 budget figures remained unadjusted after the increase in resources allocated to colleges and universities over the financial year.

Under-utilisation in 2017 was also affected to the tune of 90.9 million euros in the shape of non-recurrent overspends at the FIF (47.7 million euros more than invoices receivable), FAPD (20 million euros in settlement of past service years) and an authorised intering for the Energy Fund (23.2 million euros).

On the other hand, there was a non-recurrent increase in under-utilisation in 2017 when appropriations remained unused by BAM (27.2 million euros), VIAPASS (10.5 million euros), provision for the KM charge (42.1 million euros), FPC (dividend of 35 million euros) and the Flemish support bonus of 6.4 million euros, giving a total of 121.2 million euros.

If we filter out these factors from the under-utilisation recorded for 2017 we arrive at a corrected under-utilisation in 2017 of 764.8 million euros ($=728.3 - 124 + 18.7 + 172.1 + 90.9 - 121.2$) or 2.52 % of ESA payment appropriations in 2017 (Sixth State Reform and universities and colleges excluded).

The average corrected under-utilisation percentage, i.e. 2.18% ($=(1.84+2.52)/2$), is applied to the payment appropriations available in 2018, excluding appropriations for powers transferred under the Sixth State Reform and consolidated payment appropriations for the universities and colleges, or 29.8 billion euros, to arrive at the under-utilisation anticipated in the 2018 budgetary adjustment. $29.8 \text{ billion euros} \times 2.18\% = 651.1 \text{ million euros}$.

In view of the under-utilisation of appropriations noted in 2016 and 2017 to fund powers transferred in the framework of the Sixth State Reform, we increase under-utilisation, as we did in 2016 and 2017, by 90 million euros (average under-utilisation of appropriations for Sixth State Reforms in 2016 and 2017) to bring it to 741.1 million euros.

As in 2017, the consolidation of colleges and universities can be expected to have a neutral effect on the ESA financial balance in 2018.

To account for the difference between the financial balance calculated from the university and college budgets on the one hand, and the ESA impact on net allocations (allocations from ministries and consolidated institutions to universities and colleges, minus allocations from universities and colleges to ministries and consolidated institutions) on the other, the under-utilisation hypothesis was increased by an additional 150 million euros (or 32.1 million euros more than the 2018 budget proposal).

6.5. ESA corrections and corrections to check the balanced budget target

For the ESA corrections, we refer to section 5 of the General explanatory remarks. For the corrections to check the balanced budget target please refer to Chapter 7 and to section 7.3 in particular.

6.6. Government balance

The Flemish government shows a government budgetary balance of -1,214.7 million euros.

In the context of the balanced budget target the budget result comes to 3.6 million euros, meaning that the Flemish budget is and remains structurally in balance.

Table 6-4: Government balance

	IB 2018	AB 2018	BA-IB
Income general budget	38,855,522	39,117,545	262,023
Loans	750	1,329	579
Holdings and lending	204,288	199,366	-4,922
Allocations of institutions	36,721	63,689	26,968
ESA revenues general budget (1)	38,613,763	38,853,161	239,398
Revenues institutions	23,374,240	24,216,900	842,660
Loans	2,582,773	2,676,755	93,982
Holdings and lending	1,228,626	1,625,263	396,637
Allowances to Flemish ministries and institutions	12,458,352	12,474,796	16,444
Internal transactions	3,483,635	3,667,847	184,212
ESA revenues institutions (2)	3,620,854	3,772,239	151,385
Consolidated ESA revenues (3=1+2)	42,234,617	42,625,400	390,783
Expenditure general budget	42,277,173	42,628,377	351,204
Holdings and lending	1,650,921	1,675,712	24,791
Allowances to institutions	12,080,692	12,090,558	9,866
Debt repayments	8,793	9,230	437
Buffer in budget monitoring context	100,000	100,000	0
Interest payments	92,171	88,467	-3,704
Primary ESA expenditure general budget (4)	28,344,596	28,664,410	319,814
Expenditure institutions	23,374,240	24,216,900	842,660
Repayments	1,667,207	1,894,720	227,513
Holdings and lending	2,524,342	2,810,840	286,498
Allowances to Flemish ministries and institutions	415,245	449,068	33,823
Internal transactions	2,712,184	2,762,078	49,894
Interest payments	312,294	318,705	6,411
Primary ESA expenditure institutions (5)	15,742,968	15,981,489	238,521
Consolidated primary ESA expenditure (6=5+4)	44,087,564	44,645,899	558,335
Consolidated primary ESA balance (7=3-6)	-1,852,947	-2,020,499	-167,552
Under-utilisation Colleges and Universities	117,896	150,000	32,104
Under-utilisation others	591,135	741,124	149,989
Under-utilisation (8)	709,031	891,124	182,093
Consolidated primary ESA balance after under-utilisation (9=7+8)	-1,143,916	-1,129,375	14,541
Interest payments (10)	404,465	407,172	2,707
Consolidated ESA balance after under-utilisation (11=9+10)	-1,548,381	-1,536,547	11,834
SRF correction	7,480	7,480	0
Correction Flemish Parliament	0	-477	-477
Water Mains charge			0
Reclassifications of financial transactions			0
ESA corrections perimeter and time of charge (12)	7,480	7,003	-477
Expected building expenditure in DBFM Schools of Tomorrow	0	0	0
VAT on completed schools DBFM Schools of Tomorrow	-3,702	-4,098	-396
Reclassification FIPM alternative funding	92,489	92,489	0
VIAPASS	1,467	1,467	0
Positive correction Amoras	4,700	4,700	0
De Lijn Depot Tongeren	172	172	0
De Lijn Depots BOVZO	633	633	0
De Lijn Depots Cluster II	1,994	1,994	0
De Lijn Depot Oostende		1,977	1,977
Hospital infrastructure A1/A3	288,348	279,735	-8,613
Effect of the unsolicited provisional amounts A1/A3 with regard to investments before 2016	-40,000	-40,000	0
Terneuzen lock	-11,761	-24,142	-12,381

	IB 2018	AB 2018	BA-IB
ESA corrections for strengthened European budgetary surveillance (13)	334,340	314,927	-19,413
Financial balance (14=11+12+13)	-1,206,561	-1,214,617	-8,056
Building costs Oosterweel (incl. interest)	76,447	76,447	0
Assumption of debt from Communities	96,654	96,654	0
A1/A3 (unsolicited provisional amounts with regards to investments before 2016)	40,000	40,000	0
2018 Settlement	1,004,982	1,005,074	92
Corrections before check of budgetary target (15)	1,218,083	1,218,175	92
Balance after corrections check of budgetary target (16=14+15)	11,522	3,558	-7,964

7. EUROPEAN FRAMEWORK AND STANDARDISATION

7.1. Background

Belgium is currently submitted to the preventive arm of the Stability and Growth Pact and must achieve an annual fiscal adjustment of at least 0.6% of GDP in line with the medium-term objective (MTO). In its 2016-2019 Stability Programme Belgium committed to an MTO on a path towards structural balance³. The adjustment path towards the MTO, which is influenced by the level of debt and the economic situation in which Belgium finds itself, must show a sufficiently rapid evolution towards the guarantee of sustainable public finances. In addition, public expenditure may not rise faster than a reference percentage below the potential growth in GDP in the medium term, unless the growth in expenditure is offset by discretionary measures on the revenues side. Finally, Belgium must still comply with the rules of the corrective arm of the Stability and Growth pact. The nominal deficit may not exceed the threshold of 3% of GDP and Belgium must ensure that the level of debt evolves sufficiently quickly in the direction of 60% of GDP.

As in previous years, the European Commission referred in its recommendations on the Belgian Draft Budget Plan for 2018⁴, published in November 2017, to the risk that Belgium might fail to satisfy the requirements of the Stability and Growth Pact. More specifically, there was a risk of a significant deviation from the path to the MTO in 2017 and 2018, and, based on the European Commission's 2017 autumn forecast⁵, Belgium could fail to satisfy the debt reduction rules. The European Commission invited Belgium to implement the necessary measures to ensure that the 2018 budget satisfies the Stability and Growth Pact and to use any windfall gains to accelerate the repayment of government debt. The Commission reiterated that staying on the path to the MTO is an important and relevant factor in assessing satisfaction of the debt reduction criterion.

However, if Eurostat confirms Belgium's better-than-expected results for 2017, it is possible that the European Commission will not compile a report under article 126(3) of the Treaty on the Functioning of the European Union. In this report, the first step in the excessive deficit procedure, the European Commission assesses whether or not a Member State has satisfied its nominal deficit and debt reduction obligations. The

³ The determination of a new MTO arose from the normal three-yearly review cycle laid down in the Stability and Growth Pact and linked to the publication of the European Commission's population ageing report. In the context of this revision, the European Commission recalculated a lower limit for the MTO of the Member States. This lower limit is the result of the mechanical application of the formula for the calculation of the MTO, but does not guarantee that all rules of the Stability and growth pact are met. For Belgium, the European Commission calculated a lower limit equal to a structural deficit of 0.5% of GDP, compared to the previous lower limit of a structural surplus of 0.75% of GDP. This important downwards revision of the lower limit was primarily the result of the decline of the implicit cost of the ageing through the pension reform. Had Belgium opted for this lower limit as MTO, it wouldn't have satisfied the debt reduction rule until 2019. By choosing for a more ambitious target than the minimum MTO, Belgium hopes to meet all budgetary rules, including the debt criterion, faster.

For the 2019-2022 Stability Programme Belgium will have to choose a new MTO for the 2020-2022 period.

⁴https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2018_en

⁵https://ec.europa.eu/info/business-economy-euro/economic-performance-and-forecasts/economic-forecasts/autumn-2017-economic-forecast_en?utm_source=ecfin_twitter&utm_campaign=ecforecast_autumn

Commission's analysis takes relevant factors into account, such as the economic circumstances, structural reforms and sufficiently rapid progress towards the MTO.

The Cooperation Agreement of 12 December 2013 between the Federal government, the Communities, the Regions and the Community Commissions concerning implementation of Article 3, §1 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union states that in the process of updating the Stability Programme, the annual balanced budget targets of the collective government, based on the recommendations of the High Council of Finance's Public Sector Borrowing Requirement section, be distributed across the different layers of government. The budgetary targets of the general government are discussed in advance in the so-called Concertation Committee in which representatives of the federal government and the governments of the federated entities have a seat. The individual budgetary targets, both in nominal and structural terms, for each party involved in the agreement and the target for the local authorities must be approved by a decision of the Concertation Committee.

7.2. Recommendations of the High Council of Finance (HCF)

The High Council of Finance's Public Sector Borrowing Requirement section issued recommendations on 31 March 2018 over the progress of budget preparations for the 2018-2021 Stability Programme, for submission to the European Commission by the end of April.

7.2.1 *Collective government path*

The HCF 's recommendations relate to the years 2018-2021, and the assumptions for 2018 play an important role.

As the budgetary adjustments were unknown at the time of the recommendations, the HCF assumes that the budgetary target set in the draft budget plan of October 2017 was achieved. Specifically, this means that the Belgian structural balance is set to improve by 0.25%point compared with the result for 2017. The Federal Planning Bureau's economic forecasts of March 2018 assume a structural deficit of 1.00% in 2017. In other words the HCF is operating on the basis that in 2018 the structural deficit would have to reduce to 0.75% GDP.

For the 2019-2020 period the HCF presents 2 scenarios. In the first **recommended path** Belgium must achieve by 2019 the minimum required structural improvement under the preventive arm of the Stability and Growth Pact, i.e. 0.6% GDP. By 2020 a remaining structural push of 0.15% GDP would then be required to achieve the structural balance.

The HCF presents an **alternative scenario** in which after 2018 the requisite improvement is proportionately distributed between 2019 and 2020, whereby a structural improvement of 0.38% GDP can be achieved in the financial balance in both years to reach structural balance by 2020. The recommendations do clearly state that this scenario is dependent on reaching the proposed structural improvement of 0.25% GDP in 2018. Any delay in realising this improvement would need to be clawed back in full in 2019.

7.2.2 *Shared path for Communities and Regions*

The Cooperation Agreement of 13 December 2013 provides that there should not be just one path for Belgium as a whole, but paths at various government levels and for individual communities and regions.

To decide the paths for the individual communities and regions the HCF works on the principle that every community and region that achieves a structural surplus in 2017 should be able to maintain structural balance by 2018 at least.

Communities and regions which still report a structural deficit in 2017 are required to achieve structural balance by 2020 at the latest. The shared effort needed to achieve this is decided according to the path chosen for the collective government.

7.2.3 Specific recommendations for Flanders

According to provisional estimates by the INA, which were in the HCF 's possession when the recommendations were formulated, Flanders shows a small nominal surplus of 349 million euros for 2017⁶. The Flemish Community also presented a surplus in structural terms, i.e. 89 million euros.

Table 7-1: From nominal HCF balance to structural HCF balance (in % GDP and millions of euros)

	% GDP	million euros
Nominal HCF balance (1)	0.080%	349
Correction autonomy factor (AF) (2)	0.074%	323
Cyclical effect (3)	-0.062%	-274
Non-recurrent transactions (excl. AF) (4)	0.031%	134
Correction transfers (5)	0.017%	77
Structural HCF balance (6=1-2-3-4-5)	0.020%	89

Source: HCF recommendations of March 2017, the Federal Planning Bureau's economic forecasts for 2018-2023 and own calculations.

To derive the structural balance the HCF first applies a correction for the autonomy factor. Surcharges are paid in accordance with an autonomy factor which was fixed for the 2015-2017 period. Since it was set too high, the regions received in the period 2015-2017 more than they needed to fund the powers transferred to them, as a result of which a negative settlement emerged in 2018. This, the first correction applied by the HCF, involves an assessment of how much lower the surcharge payments would have been had the definitive autonomy factor been applied in 2017. In 2017 it was 0.074% of GDP or 323 million euros.

The second correction relates the economic situation. As the economy was not running at its full potential Flemish revenues were adversely affected by the economic cycle in 2017. The HCF estimates the impact on Flanders at -0,062% of GDP or -274 million euros.

Federal advance payments of the surcharges are, by definition, based on estimated parameters. This was corrected in the budgetary adjustment for the following year (settlements). These corrections were made under the title "non-recurrent transactions (autonomy factor excluded)". In 2017 it was 0.031% GDP or 134 million euros.

Finally, another correction was made for federal grants (based upon the special finance act). These are not based on definitive parameters as this would lead to adjustments over many years. In February of the financial year t+1 the parameters for federal transfers are finalised. If federal payments were made according to actual parameters,

⁶ This is an estimate based on the result in the HCF 's recommendations of 31 March, which shown on a percentage GDP basis. According to a press release by the Institute of National Accounts on 20 April 2018, the final figure is 364 million euros (balance of the budget and estimate of surcharges in accordance with the HCF definition).

Flemish revenues would evolve differently and the financial balance would look very different. To measure the impact on Flemish revenues correctly the HCF applies this technical correction, which amounts to 0.017% or 77 million euros in 2017.

Thus the HCF estimates that in 2017 Flanders has a structural surplus of 0.02% GDP or 89 million euros.

As Flanders has a structural surplus in 2017, the alternative path matches the recommended path. According to the HCF's recommendations Flanders is able to run this surplus down to a structural balance in 2018 and so maintain the structural balance in the years to come. The objective is formulated in structural terms, but is then convertible to a nominal objective through the application of various corrections. The % GDP objective in the HFR tables was converted to nominal terms on the basis of estimates set out in the Federal Planning Bureau's economic forecasts for 2018-2023.

Table 7-2: HCF path (in millions of euros)

	2018	2019	2020	2021
Structural HCF balance (1)	0	0	0	0
Correction autonomy factor (AF) (2)	-883	0	0	0
Cyclical effect (3)	-124	7	49	57
Non-recurrent transactions (excl. AF) (4)	114	-9	0	0
Correction transfers (5)	22	-1	-9	-11
Nominal HCF balance (6=1+2+3+4+5)	-872	-4	40	46

Source: HCF recommendations of March 2017, the Federal Planning Bureau's economic forecasts for 2018-2023 and own calculations.

Due for the most part to the correction for the autonomy factor, Flanders can show a receivables deficit of 872 million euros in 2018 and yet achieve structural balance in accordance with the HCF's recommendations. In 2019 there can be a nominal deficit of 4 million euros and, due to the estimated positive output gap after 2020, there should be small nominal surplus.

7.2.4 Adjustment path in preparation for the stability programme

In principle the HCF's recommendations are taken as the basis for discussions in the intergovernmental working group which prepares the Belgian stability programme. However, during these discussions it transpired that the autonomy factor correction had been incorrectly calculated. The correction involved a non-recurrent factor which is only of relevance if the ESA calculation method (transactionalised cash) is used instead of the HCF method applied to calculate revenues from regional surcharges. Therefore the autonomy factor correction to be applied amounts to -1.016 million euros instead of -883 million euros in 2018. For the coming years there will be no changes to the table in the HCF's published recommendations, as this correction cannot be applied beyond 2018.

This leads to the following path.

Table 7-3: Corrected HCF path (in millions of euros)

	2018	2019	2020	2021
Structural HCF balance (1)	0	0	0	0
Correction autonomy factor (AF) (2)	-1,016	0	0	0
Cyclical effect (3)	-124	7	49	57
Non-recurrent transactions (excl. AF) (4)	114	-9	0	0
Correction transfers (5)	22	-1	-9	-11
Nominal HCF balance (6=1+2+3+4+5)	-1,005	-4	40	46

Source: HCF recommendations of March 2017, Federal Planning Bureau's economic forecasts for 2018-2023, preparations for the stability programme and own calculations

To achieve structural balance in 2018 as suggested in the HCF 's recommendations, Flanders can have a nominal deficit of 1,005 million euros.

7.3. Flemish vision of 2018-2021 path

The Government of Flanders has set itself a balanced budget target since 2017. In 2017 the target was achieved and Flanders hopes to achieve it again in 2018 and in years to come. This will keep the Flemish budget in structural balance.

To derive the balance needed to test the balanced budget target from the nominal financial balance to, one has to apply 4 corrections.

In 2018 a one-off correction of 1,005 million euros was applied to the balanced budget target for a full review of the **autonomy factor** (2018 settlement) in that year. This correction was also made by the HCF, although the figure used by the HCF is slightly higher than that of the Government of Flanders. The difference lies in the fact that Flanders employs more elements to calculate the correction than the HCF⁷.

The impact of the construction costs for the **Oosterweel link** (76 million euros), which the Government of Flanders considers as a one-off investment of huge economic importance at the local, regional, national and euregional level, were left from the balanced budget target. In its recommendations of March 2018 the HCF indicates that an increase in government investment is recommended, especially investment with a strong positive effect on economic activity, on the economy's production potential and on the sustainability of the debt. The report also explicitly states that the specific treatment of investment expenditure with earmarked revenues, thereby guaranteeing budgetary neutrality over time, is justifiable. The correction applied to the Oosterweel link by the Government of Flanders satisfies this requirement in full.

The potential impact of the **investment expenditure relating to the A1/A3 hospital infrastructure** (40 million euros), which should have been charged before the delegation of powers, has also been left from the budgetary target.

The negative budget effect of the **assumption of debt of the municipalities** in the framework of the voluntary mergers (97 million euros) is also left from consideration when assessing the structural budget balance, as this negative effect has a similarly sized positive effect on the municipalities. This was also explicitly recognised by the HCF in a letter of 20 November 2017 to the minister for the Budget, Finances and Energy. The HCF states that this partial assumption of debt has a neutral effect at the level of Entity

⁷ The figure used by the HCF to review the autonomy factor differs slightly from the correction for the 2018 settlement. This difference is explained in section 3.2.2.4.

II (Communities, Regions and local authorities), as was the case in similar operation in 2008. This means that the Government of Flanders may apply a correction in compliance with the advice of the HCF .

7.4. Concertation Committee

Article 2 §4 of the Cooperation Agreement of 12 December 2013 between the Federal Government, the Communities, the Regions and the Community Commissions concerning the implementation of Article 3, §1 of the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, states that formulations of the individual budgetary targets of the various channels of the collective government must be approved in nominal and structural terms by a decision of the Concertation Committee.

By 30 April at the latest Belgium must present its 2018-2021 Stability Programme to the European Commission. The assessment of the Stability Programme follows in May.

8. FINANCIAL MANAGEMENT

8.1. Consolidated debt: introduction

The gross debt of the Government of Flanders is calculated in accordance with the Institute of National Accounts (INA). The INA published its most recent list of consolidated institutions as a result of the April 2018 EDP notification. The financial and other debts of the institutions on this list are indicated below (see Table 8-5).

Together with the direct and indirect debt of the Flemish ministries (including current account) the consolidated gross debt also implies the financial debts of not only all the consolidated entities but also of the alternatively financed investment schedules which have been consolidated. Investments are not deducted from the outstanding gross debt. At consolidated level, the loans taken out between entities which belong to the consolidation scope of are not included in the calculation.

The consolidated gross debt amounts to 23.4 billion euros at the end of 2017. This is a slight drop against the figure for 2016 (23.5 billion euros in the INA's most recent debt figures) whereas a strong rise had been forecasted in the previous budget round.

8.2. Trend in consolidated debt in 2018

Development of the gross consolidated debt depends first and foremost on the budget balance. This effect on the debt can best be assessed by the expected financial balance in ESA terms of the Central Funding Unit (CFU) members. The debt evolution is also further influenced by the lending and holdings (ESA-8). Finally, account should also be taken of the financial assets already available.

8.2.1 Budget balance in ESA terms

Account taken of the Oosterweel construction costs, the one-off negative settlement under the Special Funding Act, the assumption of debt of the municipalities and the ESA chargeable subsidies for the hospital infrastructure built before the transfer of powers, the nominal budget deficit in 2018 amounts to -1.2 billion euros. This budget deficit is corrected for non-CFU members⁸. A rough calculation of its impact can be made by looking at the allocations on the one hand, and the ESA 9 trend together with the impact of the financial assets management decree on non-CFA members on the other.

Since NV BAM will pay the deficit of 76.4 million euros as a consequence of the construction costs for Oosterweel from its cash reserves in 2008, no account is taken of this deficit in the calculation of the consolidated debt.

8.2.2 Lending and holdings in 2018

The balance of lending and holdings also determines the consolidated debt. The cash income and expenditure of Government of Flanders equity participations are estimated on the basis of budget items included for this purpose.

⁸ The following institutions are members of the CFU (Central Funding Unit): Internally Autonomous Agencies (IVAs) with legal personalities, externally autonomous agencies under public law (EAAs), Flemish Public Institutions (VOIs), Strategic Advisory Councils and private equity holdings of the Agency for Nature and Forests and Research Institute for Nature and Forest. The list of CFU members is drafted annually by the Government of Flanders.

Account is taken only of ESA 8 revenues and expenditure for the ministry and CFU members, as non-CFU members can use its surplus ESA 8s (ESA 8 revenues greater than expenditure) in respect of. CFU members' surplus cash resources do find their way to the CFU cash pool, as a result of which they affect the ministry's cash and therefore its debt. This must also be taken into account.

In the past, the ministry's main ESA 8 receipt was the repayment by KBC of the aid granted to them in 2009. At the end of 2015, KBC has fully repaid the aid so that in 2018 the projected ESA 8 income for the ministry will be limited to 199 million euros.

Cash has an impact in determining the financial requirements, and for this reason payment appropriations are important. The 2018 budget review foresees 237 million euros in payment appropriations ESA 8 budgets for the current year. That amount was estimated on the basis of the payment schedules in the decisions of the Government of Flanders, taking into account new insights and the payments already made. The main beneficiaries are BAM (payment in full of the capital increase, worth 87.5 million euros), energy loans (55 million euros), the TINA Fund (39 million euros), Arkimedes (20 million euros) and the as yet unpaid portions of Fidimec (6.0 million euros) and Imec I-start (1.1 million euros). In total, there are 237 million euros in ESA 8 payment appropriations registered with the ministry for 2018. This amount does not include the Flemish Region's direct funding payments to FSHC and FHF as these debt withdrawals are processed on the ESA 9 line, revenues from these legal entities. Neither does it include payments to School Invest, as the Schools of Tomorrow construction costs are incorporated in the ESA result.

There are still 30 million euros in ESA 8 revenues and 123 million euros in ESA 8 expenditure recorded for CFA members in 2018.

The ESA 8 expenditures lead to a rise in consolidated debt whereas the ESA 8 revenues lead to a fall.

8.2.3 ESA 9 for non-CFA-members

In general terms, the change in debt equals the budget result plus the ESA 8 result. However, the outstanding debt may also be influenced by the rundown of financial assets belonging to non CFU members.

In principle, CFU members may have no new ESA 9 revenues (which are debt withdrawals). ESA 9 expenditure (debt repayment) generates a rise in the ministry's direct debt (it has to fund the repayments) and a fall in the debt of the institution concerned. The two transactions cancel each other out, as a result of which consolidated debt remains the same.

In the case of non-CFU members, withdrawals (ESA 9 revenues) lead to an increase in consolidated debt while repayments (ESA 9 expenditure) lead to a fall in consolidated debt.

A distinction is made between ESA 9 revenues (= debt withdrawals) and expenditure (= debt repayment) for FSHC and FHF, estimated at 2.3 billion euros and 1.4 billion euros respectively in 2018, and other non-CFA members (balance of 98 million euros).

The Financial Assets Management decree, which is introduced in the autumn of 2018 and obliges institutions in the consolidation perimeter to invest their surplus liquidity in the Flemish ministry, provided they meet certain conditions, should, according to initial rudimentary prognoses, lead to a 600 million euro reduction in consolidated debt. This mostly relates to short-term resources as long-term bonds can be held until maturity.

8.2.4 Summary

In 2018, an increase in the consolidated debt is expected as a consequence of the take-over of the debt of the merging municipalities, the settlement of the autonomy factor, the possible additional debt of the hospital infrastructure, the balance on ESA 8 transactions at ministry and institution members of the CFU, the ESA 9 transactions of non-CFU members and the estimated effects of the Financial Assets Management decree. To summarise, towards the end of 2018 consolidated debt is expected to further increase by an amount of 1.4 million euros.

Table 8-1: Estimated development of consolidated debt in 2018 (in thousands of euros)

	AB 2017	IB 2018	AB 2018
ESA result CFA members + allocations for non-CFA members	-2,464	-11,934	-67,128
Assumption of debt of municipalities	0	96,654	96,654
Settlement 2018 SFA including transitional account	0	1,004,982	1,005,074
Hospital infrastructure	33,717	40,000	40,000
ESA 8 revenues ministries	-125,738	-204,288	-199,366
ESA 8 expenditure ministries	109,433	229,351	237,184
ESA-8 income CFU members	-396,081	-31,715	-30,368
ESA-8 expenditure CFU members	616,724	137,476	123,023
ESA 8 revenues FSHC and VWF	2,148,000	2,300,200	2,300,200
ESA 9 expenditure FSHC and FHF	-1,341,274	-1,391,284	-1,387,541
Balance ESA 9 other non-CFA members	-63,404	-40,580	-98,116
Impact of financial assets management decree			-600,000
Net increase consolidated debt	978,913	2,128,862	1,419,617

8.3. Refinancing requirements and new financing requirements for Flemish ministries in 2018

In January 2018, a large EMTN from 2012 will mature, valued at 750 million euros. In addition, there are several smaller due dates for the loans assumed from the Municipal Holding Company (2.4 million euros) and Vismijn Oostende (222 thousand euros). Finally, this also includes capital repayments to the value of 6 million euros on the loans assumed from the merging municipalities.

When direct funding is taken into account the tables below show the gross funding requirements for 2018 of the Flemish ministries, FSHC, FHF and School Invest.

In the tables below a positive sign for ESA 9 transactions implies that ESA 9 expenditure (repayments) is greater than the ESA 9 revenues (withdrawals), as a result of which the ministry's funding requirements are increasing. This leads to a rise in direct debt. A positive sign in ESA 8 transactions implies that ESA 8 expenditure is greater than ESA 8 revenues, as a result of which the ministry's funding requirements are increasing and so direct debt is rising.

To ascertain the balance of receivables on the funding requirement a number of corrections (see budget deficit/surplus line corrected for strengthened European budgetary surveillance) have to be made to the government balance (but not corrections to check the budgetary target).

The first correction is the cancelling out of ESA corrections. This is because the ESA corrections relate to budget appropriations to arrive at the ESA-chargeable amount. However, the ESA-chargeable amount is not equivalent to the anticipated cash expenditure. Budget appropriations prior to ESA corrections offer a better approach here. One example is the FIPM appropriations for hospital and care home usage allocations. These usage allocations are paid to the facilities in cash but not fully ESA chargeable. The full capital portion of the usage allocation used to be ESA-chargeable to the facilities as debt (in the first year of payment of the annual usage allocation), as a result of which the capital component of the usage allocation was dispensed with in favour of ESA-chargeable expenditure. Therefore the cash payment results in a rise in direct debt but a fall in the debt for hospitals/care homes (see table 8.5), resulting in a neutral effect on the ESA corrected debt balances.

For our estimate of the funding requirement, therefore, we use the government balance for the ESA corrections, or -1.536 billion euros.

The second correction is one which relates to the settlement in 2018 of the definitive autonomy factor. The total 2018 recalculation is ESA-chargeable, and, as such, affects the government balance for 2018, the year in which the definitive autonomy factor was established by royal decree. However, the cash offset in favour of the federal government (the cash offset mechanism applies solely to the Regional aspect under the terms of the Special Funding Act) runs over a period of 16 years. The difference between the Regional settlement of 1.017 billion euros and the cash payment of 50 million euros to the federal government amounts to 967.6 million euros. That 967.6 million euros is therefore a component of the government balance, which does not give rise to a funding requirement, and as such is in need of correction. In years to come the only payments will be in cash and this will have no effect on the government balance. As is the case with the ESA corrections, these cash payments will result in an increase in direct debt, but have no effect on consolidated debt.

The third correction applies to the assumption of debt from the municipalities, in the amount of 96.7 million euros. This 96.7 million euros is not in the form of cash expenditure. The only cash expenditure in 2018 is the contractual capital repayment to the value of 6 million euros processed on the top line of the ministry's debt repayments.

The final correction applies to expenditure (76.4 million euros) planned by BAM in 2018 for the main works for the Oosterweel link (and which impact on the government balance for ESA corrections), although BAM will fund this from its existing reserves.

Table 8-2: Funding requirement ministry without direct funding (in thousands of euros)

	AB 2017	IB 2018	AB 2018
Debt Repayment, Ministry	2,796	759,042	758,866
Repayments BCP	0	0	0
Balance ESA-9 CFU members	-5,372	-43,629	32,508
Budget deficit/surplus corrected for strengthened European budgetary surveillance and other corrections	334,858	419,561	395,860
Balance ESA 8 ministries	-16,305	25,063	37,818
Balance ESA 9 ministries	-46,146	-8,043	7,901
Balance ESA 8 CFA members	85,969	105,761	92,655
Cash surpluses + investments	0	0	0
Impact of financial assets management decree			-600,000
Total	355,800	1,257,755	725,608
Repayments	2,796	759,042	758,866
Net increase direct debt	353,004	498,713	-33,258

Table 8-3: Net debt increase of FSHC, FHF and School Invest (in thousands of euros)

FSHC	AB 2017	IB 2018	AB 2018
New debt (ministry)	1,000,000	1,000,000	1,000,000
New short-term debts (other than ministry)	945,000	947,000	947,000
Repayment of ministry debt	62,013	94,723	92,002
Repayment LT debt (former secured debt)	223,056	230,850	230,171
Repayment ST debt	900,000	900,000	900,000
Net debt increase	759,931	721,427	724,827

FHF	AB 2017	IB 2018	AB 2018
New debt ministry	200,000	350,000	350,000
New debt FS3	3,000	3,200	3,200
Repayment of ministry debt	9,990	14,873	14,873
Repayment LT debt (former secured debt)	146,215	150,838	150,495
Net debt increase	46,795	187,489	187,832

School Invest	AB 2017	IB 2018	AB 2018
New debt	442,823	71,570	88,528
Repayment of debt	6,473	28,479	27,000
Net debt increase	436,350	43,091	61,528

Since mid 2015 the Government of Flanders has assumed the direct funding of the social housing companies FSHC and FHF. For 2018, 907 million euros is provided for FSHC and 335 million euros for FHF. This includes the repayment of this new debt. The best possible match with the lending requirements of these institutions, from a multi-annual perspective, will be sought for the withdrawals.

Total direct financing of 89 million euros is provided in 2018 via capital and bonds issued via the x/n settlement system and the BCP programme for the takeover of the long-term funding of the DBFM Schools of Tomorrow by NV School Invest. When these new debt repayments are taken into account we arrive at a net debt increase of 62 million euros to be funded directly by the Government of Flanders in 2018.

These withdrawals will lead to an increase in direct debt while the debts of the institutions will decrease through repayment of their existing portfolio of (secured) debt (see table 8-5 below).

The table below summarises the gross funding requirements of the ministries for 2018, account taken of this direct funding.

Altogether, the ministry has a total financing requirement of 1.9 billion euros in 2018.

Table 8-4: Funding requirement ministries (in thousands of euros)

	AB 2017	IB 2018	AB 2018
Debt Repayment, Ministry	2,796	759,042	758,866
Repayments BCP	0	0	0
Balance ESA 9 CFU members	-5,372	-43,629	32,508
Budget deficit/surplus corrected for strengthened European budgetary surveillance	334,858	419,561	395,860
Balance ESA 8 ministries	-16,305	25,063	37,818
Balance ESA 9 ministries	-46,146	-8,043	7,901
Balance ESA-8 CFU members	85,969	105,761	92,655
Cash surpluses + investments	0	0	0
Refinancing VIPA	0	0	0
Refinancing FSHC	937,987	905,277	907,998
Refinancing FHF	190,010	335,127	335,127
Financing School Invest	436,350	43,091	61,528
Impact of financial assets management decree			-600,000
Total	1,920,147	2,541,250	2,030,261
Repayments	2,796	759,042	758,866
Net increase direct debt	1,917,351	1,782,208	1,271,395

8.4. Trend in consolidated debt in 2017 and 2018 per entity

Finally, the table below compares the real consolidated debt situation at the 2017 year-end and consolidated debt anticipated for IB 2018 and AB 2018 at the 2017 year-end and 2018 year-end. The table shows only the largest institutions. The full details can be found in annex 1.

Table 8-5: Trend in consolidated gross debt of the Government of Flanders per entity (in thousands of euros)

	2017 REA	IB 2018	AB 2018
Direct debt of MFC (excluding negative current account balance)	5,051,621	8,323,925	6,318,353
Correction for Flemish Community bonds held by VG S.1312 entities	-37,950	0	-37,950
Indirect debt of MFC	0	1,189	0
Negative MFC current account balance and CFA to be consolidated VOIs	262,272	0	262,272
VG S.1312 entities			
Agency for Infrastructure in Education	374,699	381,160	374,699
BAM	120,731	104,634	104,633
RCCs	595,405	623,905	603,714
FIPM	1,670,244	1,578,221	1,577,755
FPC	30,000	0	30,000
FSHC	6,112,954	5,920,597	5,929,783
Flemish Transport Agency	151,588	171,300	139,934
FHF	2,705,571	2,551,807	2,558,276
LRM group	7,941	4,600	9,518
PMV group	5,072	5,530	5,072
Universities and colleges	517,396	463,093	522,715
Hospital infrastructure	4,726,931	4,478,583	4,487,196
Other	164,725	202,559	151,673
Correction VG S1312 entities holding partial promissory notes from other VG S1312 entities in their portfolio*	-12,350	0	-12,350
PPS			
DBFM "Schools of Tomorrow"	181,961	132,837	127,904
Brabo I	178,216	157,926	175,218
Livan I	95,887	168,423	93,452
Depots, depots BOvZO, depots cluster 2 and depots Oostende	140,692	34,667	135,916
Through invest zaventem	55,982	54,260	54,840
R4	91,450	341,396	89,331
North South Kempen	190,300	0	184,683
Tourism - Youth Hostels	4,400	0	4,400
Assumption of debt of municipalities and transitional account re. settlement 2018 SFA			
Assumption of debt of municipalities	0	96,654	90,593
Transitional account re. settlement 2018 SFA	0	955,307	967,586
Total consolidated debt	23,385,738	26,752,573	24,949,179

* FPC in U Gent 10 million euros; PMV in Lak Invest 2.35 million euros

** FSP 8.4 million euros; Flemish Parliament 5 million euros; KU Leuven 25 million euros

The consolidated debt amounts to 23.4 billion euros at the 2017 year-end, which is 1.3 billion euros lower than estimated in the previous spending round. This is due to the lower direct debt, following a result which was better-than-estimate in the budget and fewer withdrawals than planned.

At the request of the Belgian Court of Audit 2 separate lines were inserted containing corrections for promissory notes that had been retained in S.1312.

Estimated consolidated debt at the 2018 year-end amounts to 25 billion euros, or an increase of 1.6 billion euros compared to the situation at the 2017 year-end. On the other side of this consolidated debt we have assets. As in previous years, the asset position update at the 2017 year-end will be included with the general notes to the 2019 budget proposal.

The table above shows consolidated debt only. As the majority of the PPP debt is consolidated it is also included in the table above. For non-reclassified PPP debt please refer to the annual report of the PPP Knowledge Centre.

The Government of Flanders also has a number of conditional obligations. The table below gives an overview of secured debt at the 2017 year-end as well as a projection for 2018.

Table 8-6: Trend in secured debt (in millions of euros)

	2017	2018
Guarantees to (local) authorities	486.35	368.89
De Watergroep	187.02	194.48
EAA Flemish Transport Company De Lijn	35.02	24.09
Universities (social sector)	4.5	3.78
Ghent University Hospital	48.4	46.18
EAA Syntra Flanders	0.44	0.3
The City of Antwerp	110.91	0
City of Sint-Niklaas - Cross Border Lease (*)	50.58	50.58
City of Dendermonde - Cross Border Lease (*)	32.26	32.26
Municipality of Hamme - Cross Border Lease (*)	17.22	17.22
Guarantees covered by assets	11,916.99	11,610.10
Social Housing	686.00	700.00
EAA FSHC (Flemish Social Housing Association)	4340.23	4146.01
Flemish Housing Fund	2697.25	2544.03
Agency for Infrastructure in Education	329.9	350
IAA FIPM (Flemish Infrastructure Fund for Person-related Matters)	2,321.26	2,283.26
Antwerp Mobile Management Company nv	120.34	104.08
Project Brabo 1 nv	118.30	118.30
Schools of Tomorrow	1142.62	1203.33
Deurganckdoksluis	161.09	161.09
Economic guarantees	985.66	1,030.05
Waarborgbeheer nv	655.14	700.00
Gigarant nv	205.59	205.59
Flemish Agricultural Investment Fund	22.33	22.33
VIB (Flemish Institute for biotechnology)	3.17	2.7
Interuniversity Micro-Electronics Centre	31.93	31.93
ARKimedes Fund	67.5	67.5
Rest	0	0
NPO De Gezinsbond	0	0
TOTAL	13,389.00	13,009.04

The majority of the secured debt is already accounted for under consolidated debt. At the 2017 year-end only 2.0 billion of the 13.4 billion euros in secured debt is not consolidated. As the table above shows, secured debt is expected to fall in 2018 (and the years beyond) as a result of the Government of Flanders' direct funding of the leading institutions by means of guarantees and as a result of ending the guarantee provision in the welfare sector, given the application of fixed rates for investment subsidies.

On the other side of these guarantees we have income from the guarantee premiums payable by the institutions in question.

8.5. Interest sensitivity analysis

Below a brief illustration of the sensitivity of the interest on revenues and expenditure to a change in interest rates.

We show the effect of a 100 base point linear increase on the yield curve. The implication for 2018 would be additional budgetary costs of 3.59 million euros. The small rise in 2018 is largely explained by significant revenues from interest at a variable rate. In addition, a 100 base point linear increase on the yield curve will not affect long-term, fixed-interest debt until 2019. A rise on the yield curve in the 2018-2020 period would have an impact of 35.02 million euros in 2020.

Table 8-7: 100 base point change in yield curve (euros)

2018	2019	2020
3,594,014.54	20,660,896.19	35,018,547.05