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COMMISSION OPINION

of 21.11.2023

on the Draft Budgetary Plan of Belgium

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(Only the Dutch and French texts are authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013¹ lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the Stability and Growth Pact and the European Semester for economic policy coordination.
2. Article 6 of Regulation (EU) No 473/2013 requires Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.
3. On 8 March 2023, the Commission adopted a Communication² providing fiscal policy guidance for 2024, which confirmed that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023.
4. On 26 April 2023, the Commission presented three legislative proposals³ to implement a comprehensive reform of the EU fiscal framework. The central objective of the proposals is to strengthen public debt sustainability and to promote sustainable and inclusive growth through reforms and investments. In its proposals, the Commission aims at improving national ownership, simplifying the framework and moving towards a greater medium-term focus, combined with effective and more coherent enforcement. According to the Council Conclusions adopted on 14 March 2023⁴ and on 27 October 2023⁵, the objective is to conclude the legislative work in 2023. As a new legal framework, based on the outcome of the ongoing economic governance review, is not yet in place, the current legal framework continues to apply. The fiscal component of the Spring 2023 country-specific recommendations

¹ Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area (OJ L 140, 27.5.2013, pp. 11).

² Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

³ Commission Proposal for a Regulation of the European Parliament and of the Council on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, 26.4.2023, COM(2023) 240 final; Commission Proposal for a Council Regulation amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure, 26.4.2023, COM(2023) 241 final; Commission Proposal for a Council Directive amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States, 26.4.2023, COM(2023) 242 final.

⁴ Council Conclusions on 'Orientations for a reform of the EU economic governance framework' of the ECOFIN Council meeting, 14.3.2023, 6995/1/23 – REV 1.

⁵ European Council meeting (26 and 27 October 2023) – Conclusions, EUCO 14/23.

included elements of the legislative proposals of 26 April 2023 that were consistent with the existing legislation.

5. As announced in its fiscal policy guidance for 2024⁶, the Commission will propose to the Council to open deficit-based excessive deficit procedures in spring 2024 on the basis of the outturn data for 2023, in line with the existing legal provisions. Member States were invited to take this into account when executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024.
6. The Recovery and Resilience Facility⁷ provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives')⁸. The Facility will strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.
7. Economic policy should continue to tackle the risks linked to high inflation and address long-term challenges. Despite declining, inflation in the euro area remains a concern. It is essential that inflation continues to fall and that inflation expectations remain well anchored, with consistent monetary and fiscal policies, while remaining agile in the face of high uncertainty. In particular, emergency energy support measures taken to respond to the energy price shock should be wound down, using the related savings to reduce the government deficits, as soon as possible in 2023 and 2024. Should renewed energy price increases necessitate new or continued support measures, these should be targeted at protecting vulnerable households and firms, as well as be fiscally affordable and preserve incentives for energy savings. Furthermore, Member States should continue to preserve nationally financed public investment and ensure the effective absorption of grants under the Recovery and Resilience Facility and of other EU funds, in particular to foster the green and digital transitions.

CONSIDERATIONS CONCERNING BELGIUM

8. On 16 October 2023, Belgium submitted its Draft Budgetary Plan for 2024. On that basis and taking into account the Council Recommendation to Belgium of 14 July 2023⁹, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013. The Commission sent a letter to Belgium on 27 October 2023 with preliminary observations on the Draft Budgetary Plan and asking

⁶ Communication from the Commission to the Council, 'Fiscal policy guidance for 2024', 8.3.2023, COM(2023) 141 final.

⁷ Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

⁸ Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023, p. 1).

⁹ Council Recommendation on the 2023 National Reform Programme of Belgium and delivering a Council opinion on the 2023 Stability Programme of Belgium, OJ C 312, 1.9.2023, p. 11-12.

for further information. Belgium replied on 3 November 2023¹⁰. This information has been taken into account in the Commission's assessment of budgetary developments and risks.

9. On 24 May 2023, the Commission adopted a report under Article 126(3) of the TFEU¹¹. That report assessed the budgetary situation of Belgium, as its general government deficit in 2022 exceeded the Treaty reference value of 3% of GDP, while its general government debt in that year exceeded the Treaty reference value of 60% of GDP. The report concluded that the deficit criterion was not fulfilled.
10. According to the Draft Budgetary Plan, Belgium's real GDP is projected to grow by 1.3% in 2024 (1% in 2023), while CPI inflation is forecast at 4.1% in 2024 (4.4% in 2023). In turn, according to the Commission 2023 autumn forecast, Belgium's real GDP is projected to grow by 1.4% in 2024 (also 1.4% in 2023), while HICP inflation is forecast at 4.2% in 2024 (2.4% in 2023). The marked difference between the inflation projections for 2023 reflects the use of the national consumer prices (CPI) index in the DBP instead of the HICP measure, which differs notably by the set of weights and treatment of heating fuel.

Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission 2023 autumn forecast for 2023 and 2024.

Belgium complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently produced macroeconomic forecasts.

11. According to the Draft Budgetary Plan, Belgium's general government deficit is projected to decrease to 4.6% of GDP in 2024 (from 5.2% in 2023)¹², remaining above 3% of GDP. This decrease is driven by revenue windfalls and by the planned phase-out of energy measures. The general government debt-to-GDP ratio is set to broadly stabilise at 108.1% at the end of 2024 (108.3% at the end of 2023). In turn, according to the Commission 2023 autumn forecast, Belgium's general government deficit is projected to stabilise at 4.9% of GDP in 2024 (also 4.9% in 2023), while the general government debt-to-GDP ratio is set to remain broadly unchanged at 106.4% at the end of 2024 (106.3% at the end of 2023). The main differences between both sets of projections in 2023 reflect slightly higher revenue growth in the Commission 2023 autumn forecast in view of the most recent notified data from Eurostat. The main difference in 2024 stems from higher revenue windfalls from direct income taxes in the Draft Budgetary Plan.

¹⁰ The Commission's letter and the reply by Belgium have been published: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2024_en.

¹¹ Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 24.5.2023, COM(2023) 631 final.

¹² According to the Draft Budgetary Plan, one-off measures have a deficit-increasing impact of 0.25% of GDP in 2024 (0.2% of GDP in 2023). These one-off measures relate essentially to the introduction of new tax regulations (a reform of the withholding tax) and to independent rulings. This is broadly in line with the assessment embodied in the Commission 2023 autumn forecast.

12. Based on the Commission's estimates, the fiscal stance¹³ is projected to be contractionary at 0.3% of GDP in 2024, following an expansionary fiscal stance in 2023 of 1.3% of GDP.
13. The Draft Budgetary Plan assumes that expenditure amounting to 0.2% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.2% of GDP in 2023. This is in line with the assumptions underlying the Commission 2023 autumn forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Belgium.
14. According to the Commission 2023 autumn forecast, taking into account the information contained in the Draft Budgetary Plan, the measures adopted to mitigate the economic and social impact of the increase in energy prices are planned to be wound down by the end of 2023. In addition, the Draft Budgetary Plan includes several new revenue and expenditure measures for 2024 that are not directly related to energy price developments. Additional corporate income tax revenue expected from Euroclear (whose extra profits related to the re-investment of frozen Russian assets are expected to yield additional government revenues estimated at 0.3% of GDP) are planned to be used entirely to fund a so-called 'Ukraine provision'. The 'Ukraine provision' aims to cover new spending for an amount of 0.3% of GDP in 2024, of which about 0.1% of GDP is dedicated to finance social assistance to persons fleeing Ukraine, and about 0.2% of GDP is planned to be spent to finance humanitarian and military support to Ukraine. New deficit-increasing measures on the expenditure side include higher spending on childcare, the strengthening of the job bonus scheme, additional financing for the higher education system, and reinforced migration and asylum management policies; on the revenue side it includes a VAT reduction on demolition and reconstruction. These deficit-increasing measures are broadly offset by new deficit-reducing revenue measures, including a tax on the banking sector and a higher coverage of the kilometre charge for heavy goods vehicles. The aggregate budgetary impact of the new measures contained in the Draft Budgetary Plan is estimated by the Commission to be broadly budget-neutral in 2024.
15. On 14 July 2023, the Council recommended that Belgium ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure¹⁴ in 2024 to not more than 2%.

According to the Commission 2023 autumn forecast, Belgium's net nationally financed primary expenditure is projected to increase by 3.8% in 2024¹⁵, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure

¹³ The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

¹⁴ Net primary expenditure is defined as nationally financed expenditure net of discretionary revenues measures and excluding interest expenditure as well as cyclical unemployment expenditure.

¹⁵ This takes into account 0.2% of GDP one-off measures in 2024, relating to the introduction of a new tax regulation (a reform of the withholding tax) and to independent rulings (as well as 0.2% of GDP in 2023, relating to one-off factors of a similar nature).

corresponds to 0.9% of GDP in 2024. This risks being not in line with what was recommended by the Council.

16. Moreover, the Council recommended that Belgium take action to wind down the emergency energy support measures in force, using the related savings to reduce the government deficit, as soon as possible in 2023 and 2024. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Belgium should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings.

According to the Commission 2023 autumn forecast, the net budgetary cost¹⁶ of energy support measures is projected at 0.4% of GDP in 2023 and 0% in 2024 and 2025. If the related savings in 2024 were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.4% of GDP in 2024, whereas net nationally financed primary expenditure¹⁷ provides a contractionary contribution to the fiscal stance of 0.2% of GDP in that year. The energy support measures are projected to be wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation.

17. In addition, the Council recommended that Belgium preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions.

According to the Commission 2023 autumn forecast, nationally financed public investment is projected to increase to 3% of GDP in 2024 (from 2.8% of GDP in 2023) and, therefore, it is expected to be preserved. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.3% of GDP in 2024 (from 0.3% of GDP in 2023).

18. Furthermore, on 14 July 2023, the Council also recommended that, for the period beyond 2024, Belgium continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, to achieve a prudent medium-term fiscal position.
19. Finally, on 14 July 2023, the Council also recommended Belgium to strengthen efforts to improve the efficiency of long-term care; pursue the reform of the taxation and benefits system to reduce disincentives to work by shifting the tax burden away from labour and by simplifying the tax and benefits system; and review tax expenditures in order to reduce their economic, social and environmental harmful impact. In the Draft Budgetary Plan, Belgium mentions an increase of the minimum wage by EUR 50 net in 2024, in order to incentivise work, and an extension of the

¹⁶ The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

¹⁷ This contribution is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

flexi-jobs system to 12 new sectors, including childcare, education, food, events, sports and agriculture.

20. According to the Commission's forecast, the growth of net nationally financed primary expenditure is projected to not respect the recommended maximum growth rate in 2024.

However, according to the Commission 2023 autumn forecast, and taking into consideration the information included in Belgium's Draft Budgetary Plan, the emergency energy support measures are expected to be wound down by the end of 2023. At the same time, the related savings are not projected to be fully used to reduce the general government deficit in 2024.

On the other hand, Belgium is expected to preserve nationally financed public investment. Belgium should also continue to ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds.

Overall, the Commission is of the opinion that the Draft Budgetary Plan of Belgium risks being not in line with the Council Recommendation of 14 July 2023. Therefore, the Commission invites Belgium to take the necessary measures within the national budgetary process to ensure that fiscal policy in 2024 will be in line with the Council Recommendation of 14 July 2023.

Moreover, the Commission projects Belgium's headline budget deficit at 4.9% of GDP in 2024, above the Treaty reference value of 3% of GDP, and the general government debt ratio at 106.4% in 2024, above the Treaty reference value of 60% of GDP.

The Commission is also of the opinion that Belgium has made limited progress with regard to the structural elements of the fiscal recommendations made by the Council on 14 July 2023, and thus invites the Belgian authorities to accelerate progress.

A comprehensive description of progress made with the implementation of the Council's country-specific recommendations will be included in the 2024 Country Report and assessed in the context of the Council's country-specific recommendations to be recommended by the Commission in spring 2024.

Table: Key macroeconomic and fiscal figures

		2022	2023		2024	
		Outturn	DBP	COM	DBP	COM
Real GDP (% change)		3.0	1	1.4	1.3	1.4
HICP inflation (%; annual average)		10.3	4.4	2.4	4.1	4.2
General government balance (% of GDP)		-3.5	-5.2	-4.9	-4.6	-4.9
Primary balance (% of GDP)		-2	-3.3	-3.1	-2.5	-2.8
General government gross debt (% of GDP; at end-year)		104.3	108.3	106.3	108.1	106.4
		COM	COM		COM	
Fiscal stance (*) (% of GDP)		-1.8	-1.3		0.3	
Fiscal adjustment (**) (% of GDP)		-1.8	-1.2		0.2	
Change in total net budgetary cost of energy support measures (***) (% of GDP)		0.8	-0.4		-0.4	
Growth in net nationally financed primary expenditure (% change) (A)					3.8	
Recommended maximum growth rate of net nationally financed primary expenditure (****) (% change) (B)					2.0	
Difference from recommended growth in net nationally financed primary expenditure (pps.) (A-B)					1.8	
<u>[If net expenditure grows above CSR]</u>						
Impact on fiscal adjustment of deviation in net nationally financed primary expenditure compared with the Council recommendation (*****) (% of GDP)					0.9	

Notes:

(*) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal stance.

(**) Change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures (and COVID-19 pandemic-related temporary emergency measures), excluding one-off and cyclical unemployment expenditure, as well as expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate. A negative (positive) sign indicates an excess (a shortfall) of net nationally financed primary expenditure growth over medium-term potential GDP growth, corresponding to an expansionary (a contractionary) fiscal adjustment.

(***) Energy support measures less revenue from new taxes and levies on windfall profits by energy producers.

(***) According to the Council Recommendation ‘on the 2023 National Reform Programme of Belgium and delivering a Council opinion on the 2023 Stability Programme of Belgium’ (OJ C 312, 1.9.2023, p. 11).

(****) Excess in growth of net nationally financed primary expenditure over the recommended maximum growth rate, expressed as a percentage of GDP.

‘DBP’ 2024 Draft Budgetary Plan, ‘COM’ Commission 2023 autumn forecast.

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For the Commission
Paolo GENTILONI
Member of the Commission