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COMMISSION OPINION

of 18.11.2020

on the Draft Budgetary Plan of Belgium

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(Only the French and Dutch texts are authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 sets out provisions for enhanced monitoring of budgetary policies in the euro area, 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, presenting the main aspects of the budgetary situation of the general government and its subsectors for the forthcoming year.

3. On 20 March 2020, the Commission adopted a Communication[1] on the activation of the general escape clause[2] of the Stability and Growth Pact. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the conditions to activate the general escape clause were met. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission.[3] As indicated in the Annual Sustainable Growth Strategy 2021[4] and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance[5], Member States should continue to provide targeted and temporary fiscal support in 2021 in a context where the general escape clause is activated, while safeguarding fiscal sustainability in the medium term.

4. On 27 May 2020, the European Commission put forward its proposal for the creation of a new recovery instrument Next Generation EU[6], alongside the proposal for the reinforced long-term budget of the EU for 2021-2027.[7] This proposal includes the

1 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

2 The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn.

3 https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

4 Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

5 https://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-2021_en

6 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - Europe's moment: Repair and Prepare for the Next Generation, Brussels, 27.5.2020, COM(2020) 456 final.

7 Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions - The EU budget powering the recovery plan for Europe, Brussels, 27.5.2020, COM(2020) 442 final.

establishment of a Recovery and Resilience Facility offering large-scale financial support for both public investments and reforms. By contributing to the economic recovery and by providing financial support to strengthen the economy's long-term growth, the Recovery and Resilience Facility will help public finances to return to more favourable positions in the near term and will contribute to strengthening their sustainability in the medium and long term.

CONSIDERATIONS CONCERNING BELGIUM

5. On 15 October 2020, Belgium submitted the Draft Budgetary Plan for 2021, on the basis of unchanged policies. Following the formation of a federal government on 1 October 2020, Belgium submitted an updated Draft Budgetary Plan on 30 October 2020. On the basis of that document, the Commission has adopted an opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

6. On 20 July 2020, the Council recommended Belgium[8] to take all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Belgium to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

   On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Belgium's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value and Belgium did not comply with the debt reduction benchmark in 2019. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled and that the debt criterion was not complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

7. According to the Commission ad hoc forecast for Belgium[9], the Belgian economy is expected to contract by 8.4% in 2020 and rebound by 4.5% in 2021. These figures take into account the recent development of the health crisis and the new lockdown measures designed to rein in the second wave of the pandemic. According to the Draft Budgetary Plan, the Belgium economy is expected to contract by 7.4% in 2020 before rebounding by 6.5% in 2021, driven by the fall and subsequent recovery of domestic demand, in particular private consumption. A strong increase in exports is also projected to be a main driver of the rebound. As support measures such as temporary unemployment are expected to largely mitigate the loss of household disposable income in 2020 (-0.3%), the forecast strong drop in consumption is accompanied by a surge in the savings rate. The latter is expected to partially unwind in 2021, and private consumption to rebound. Corporate investment is forecast to fall by 11.5% in 2020 and grow by 11.2% in 2021. This scenario is more favourable than the Commission's projection. Belgium complies with the requirement of Regulation

[8] Council Recommendation of 20 July 2020 on the national Reform Programme of Belgium and delivering a Council opinion on the 2020 Stability Programme of Belgium, OJ C 282, 26.8.2020, p 54.

[9] Given the submission of the updated Draft Budgetary Plan after the cut-off date of the Commission's 2020 autumn forecast, the Commission produced an ad hoc macroeconomic and budgetary projection for Belgium for the purpose of the assessment of the updated Draft Budgetary Plan for 2021.

EU No 473/2013 as the draft budget is based on an independently produced macroeconomic forecast by the Federal Planning Bureau commissioned by the National Accounts Institute. The Draft Plan indicates that the scenario does not incorporate recent measures taken to contain the second wave of the pandemic.

8. For 2020, the Draft Budgetary Plan expects the general government deficit to rise from 1.9% of GDP in 2019 to 10.7% of GDP. The increase stems both from automatic stabilisers, which led to a contraction in revenue and an increase in cyclical expenditure, and from COVID-19-related measures totalling 3.9% of GDP. Among others, these include a scheme providing replacement income for the self-employed; a scheme granting more generous benefits for temporary unemployment; and additional expenditure for healthcare and the purchase of personal protective material. According to the Draft Budgetary Plan, the deficit is expected to narrow to 6.9% of GDP in 2021, mostly due to the rebound in economic activity and phasing out of the temporary measures taken in 2020. In comparison, the Commission expects a higher headline deficit in both 2020 and 2021. In 2020, the difference arises mostly from lower expected revenues, in turn due to the Commission's larger projected contraction of GDP. In 2021, the difference is mostly driven by higher assumptions on social transfers, notably unemployment benefits, and higher investments. The revenue forecast for 2021 is also slightly lower in the Commission's forecast, driven by lower GDP growth. Different estimates of discretionary fiscal measures planned for 2021 also explain part of the difference between the two projections in headline deficit in 2021. The Draft Budgetary Plan does not assume significant revenue and expenditure related to the Recovery and Resilience Facility. It only refers to relatively small federal investments to be financed by the Recovery and Resilience Facility in 2021. For the time being, since the submission of the Recovery and Resilience Plans and their subsequent approval are expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants. In the case of Belgium, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 557 million in 2021[10]. It is treated as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact. On the expenditure side, in line with its no-policy change assumption, the Commission forecast includes expenditure related to the Recovery and Resilience Facility of less than 0.1% of GDP that is sufficiently detailed and credibly announced.[11] The Draft Budgetary Plan projects the government debt-to-GDP ratio to increase significantly to 116.5% at the end of 2020 and to decline to 114.4% in 2021. The Commission projects higher debt-to-GDP ratios, at 117.8% for

10 Indicative number based on the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

11 The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

2020 and 118.6% in 2021, due to the higher primary deficits and lower GDP growth in its forecast.

9. According to the 2020 Draft Budgetary Plan, Belgium adopted budgetary measures amounting to 3.9% of GDP in 2020 in response to the COVID-19 pandemic. On the expenditure side, those measures account for around 3.6% of GDP. They notably include the total cost of an extended temporary unemployment scheme, additional expenditure for healthcare and purchase of personal protective material, and replacement income for the self-employed. Moreover, several regional schemes provide direct support to companies forced to close fully or partially their activities or facing a significant reduction in turnover. On the revenue side, measures account for around 0.3% of GDP and include tax deductions and tax exemptions aimed at providing support to companies in difficulties. In addition, Belgium took measures that contributed to providing liquidity support to businesses. Those measures include loan guarantees for companies and tax and social contributions deferrals. The latter are assumed not to be fully collected in 2021. The guarantees amount to 11.8% of GDP. The take-up of those guarantees is currently relatively low (0.3% of GDP). The Commission forecast includes a broadly similar total impact of COVID-19 measures taken in 2020, except for a higher estimate of the temporary unemployment scheme. However, the Commission considers only the top-up of the temporary unemployment scheme as a discretionary measure. Overall, the measures taken by Belgium in 2020 were in line with the guidelines of the Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak.

10. For 2021, the Plan presents a set of new measures aimed both at mitigating the impact of the on-going COVID-19 crisis and at supporting the recovery. Overall, the new measures presented in the Draft Budgetary Plan have a deficit-increasing impact of around 0.6% of GDP. On the revenue side, according to the Commission forecast permanent revenue-increasing measures of around 0.1 % GDP (such as an increase in excise duties on tobacco, improvements in combating tax and benefit fraud, and taxation of e-commerce) are taken in conjunction with a similar amount of temporary revenue-decreasing measures related to the COVID-19 crisis. New expenditure measures amount to around 0.6% of GDP. While roughly half of them concern temporary increases in spending related to the crisis, some measures set out in the Draft Budgetary Plan, while supporting economic activity against the background of considerable uncertainty, appear not to be temporary or matched by offsetting measures. According to the Commission forecast, this is the case for measures amounting to 0.3% of GDP. They in particular include wage increases for healthcare workers, increases in the minimum pension and additional spending for education. Moreover, the Draft Budgetary Plan indicates that additional guarantee schemes will be available in 2021. At the level of the general government, they will amount to around 2.6% of GDP. The Commission's projection includes all the measures presented in the Draft Budgetary Plan. However, some of them are included only partly due to insufficient details about their implementation. This concerns improvements in combating tax and benefit fraud, taxation of e-commerce and efficiency gains in public administration.

11. The Commission is of the opinion that the Draft Budgetary Plan of Belgium is overall in line with the recommendation adopted by the Council on 20 July 2020. Most of the measures set out in the Draft Budgetary Plan of Belgium are supporting economic activity against the background of considerable uncertainty. Given the level of Belgium's government debt and high sustainability challenges in the medium

term before the outbreak of the Covid-19 pandemic, it is important for Belgium to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved. Belgium is invited to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

It is anticipated that Belgium will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Done at Brussels, 18.11.2020

For the Commission
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Member of the Commission