Brussels, 22.11.2022
C(2022) 9502 final

COMMISSION OPINION

of 22.11.2022

on the Draft Budgetary Plan of Belgium

{SWD(2022) 950 final}

(Only the Dutch and French texts are authentic)

COMMISSION OPINION

of 22.11.2022

on the Draft Budgetary Plan of Belgium

(Only the Dutch and French texts are authentic)

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 outlook of the general government and its subsectors for the forthcoming year.

3. The General Escape Clause of the Stability and Growth Pact has been active since March 2020[1]. On 23 May 2022, the Commission indicated, in its Communication on the European Semester,[2] that heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023 and it considered that the conditions to deactivate it as of 2024 were met. The continued activation of the general escape clause in 2023 will provide the space for national fiscal policy to react promptly when needed, while ensuring a smooth transition from the broad-based support to the economy during the pandemic times towards an increasing focus on temporary and targeted measures and fiscal prudence required to ensure medium-term sustainability.[3]

4. The Recovery and Resilience Facility, as established by Regulation (EU) 2021/241, provides financial support for the implementation of reforms and investment, notably to promote the green and digital transitions, thereby strengthening the economies' resilience and potential growth. Part of this support is in 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 RRF is supporting a fair and inclusive recovery in the EU in line with the European Pillar of Social Rights. It also boosts growth and job creation in the medium and long term, and thereby strengthens sustainable public finances. According to the Commission

[1] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, COM(2020) 123 final of 20 March 2020.

[2] COM(2022) 600 final.

[3] On 17 June 2022, the Council agreed its recommendations on the 2022 National Reform Programmes and the opinions on the 2022 Stability and Convergence Programmes, which takes into account the continuation of the Stability and Growth Pact's general escape clause into 2023. (See: https://www.consilium.europa.eu/en/meetings/ecofin/2022/06/17/)

proposal of 18 May 2022[4], the Facility should also aim at increasing the resilience of the Union energy system by reducing dependence on fossil fuels and diversifying energy supplies at Union level ('REPowerEU objectives').

5. On 12 July 2022, in the recommendations delivering Council opinions on the 2022 Stability Programmes,[5] the Council recalled that the overall fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis), including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth[6]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is consistent with the green and digital transitions, energy security and ensuring social and economic resilience, attention is also paid to the evolution of nationally financed primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

6. The shocks unleashed by the Russian invasion of Ukraine are impacting the EU economy both directly and indirectly, setting it on a path of lower growth and higher inflation. Intensifying and broadening inflationary pressures have been prompting faster normalisation of monetary policy in the euro area. Public spending on measures containing the social and economic impact of high energy costs, on security and defence and on humanitarian assistance to the displaced persons from Ukraine is weighing on public finances. The specific nature of the macroeconomic shock imparted by Russia's invasion of Ukraine, as well as its long-term implications for the EU's energy security needs, call for a careful design of fiscal policy in 2023. A broad-based fiscal impulse to the economy in 2023 does not appear warranted. The focus should instead be on protecting the vulnerable, allowing automatic stabilisers to operate and providing temporary and targeted measures to mitigate the impact of the energy crisis and to provide humanitarian assistance to people fleeing from Russia's invasion of Ukraine, while maintaining the agility to adjust, if needed. Fiscal policy should combine higher investment with controlling the growth in nationally financed primary current expenditure. Full and timely implementation of the Recovery and Resilience Plans is key to achieving higher levels of investment. Fiscal policies should aim at preserving debt sustainability as well as raising the growth potential in a sustainable manner, thus also facilitating the task of monetary policy to ensure the timely return of inflation to the ECB's 2% medium-term target. Fiscal plans for 2023 should be anchored by prudent medium-term adjustment paths reflecting fiscal sustainability challenges associated with high debt-to GDP levels that have increased further due to the pandemic as well as reforms and investment challenges associated with the twin transition, energy security and social and economic resilience.

7. Russia's war of aggression against Ukraine has resulted in substantial additional increases in and volatility of the prices of energy. The price shock in imported energy implies a substantial terms-of-trade loss to Member States' economies. In parallel, the exceptionally high temperatures in summer 2022 pushed up demand for

[4] COM(2022) 231 final.

[5] Council Recommendation of 12 July 2022 on the National Reform Programme of Belgium and delivering a Council opinion on the 2022 Stability Programme of Belgium, OJ C 334, 1.9.2022, p. 9/10.

[6] The estimates on the fiscal stance and its components in this Opinion are Commission estimates based on the assumptions underlying the Commission 2022 autumn forecast.

electricity, while, at the same time, energy production from certain technologies has been significantly below historical levels due to technical and weather-dependant circumstances. All Member States have been negatively affected by the current energy crisis, albeit to a different extent, calling for a rapid and coordinated response.

8. Given that budgetary resources are limited and need to be used in the most efficient way, in order to manage a durable and equitable adjustment across society, the quality and design of the policy response is highly important. Therefore, also in line with the Council Regulation on an emergency intervention to address high energy prices adopted on 6 October 2022, measures should focus on providing temporary support, targeted to households and firms most vulnerable to energy price increases, while maintaining the right incentives to reduce energy demand and increase energy efficiency, in line with the European Green Deal[7]. Policies should also help reducing the energy consumption and develop the energy autonomy of the Union.

CONSIDERATIONS CONCERNING BELGIUM

9. On 15 October 2022, Belgium submitted the Draft Budgetary Plan for 2023. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

10. On 12 July 2022, the Council recommended that Belgium[8] take action to ensure in 2023 a prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth[9], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Belgium should stand ready to adjust current spending to the evolving situation. Belgium was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. For the period beyond 2023, Belgium should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms.

11. On 23 May 2022, the Commission issued a report under Article 126(3) of the Treaty.[10] That report assessed the budgetary situation of Belgium, as its general government deficit in 2021 exceeded the Treaty reference value of 3% of GDP, while its general government debt exceeded the 60%-of-GDP Treaty reference value and did not respect the debt-reduction benchmark. The report concluded that the deficit and debt criteria were not fulfilled.

12. According to the Commission 2022 autumn forecast, the Belgian economy is expected to grow by 2.8% in 2022 and by 0.2% in 2023, while inflation is forecast at 10.4% in 2022 and 6.2% in 2023.

---

[7] Communication from the Commission, the European Green Deal, COM(2019) 640 final.

[8] Council Recommendation of 12 July 2022 on the National Reform Programme of Belgium and delivering a Council opinion on the 2022 Stability Programme of Belgium OJ C 334, 1.9.2022, p. 9/10

[9] Based on the Commission 2022 autumn forecast, the medium-term (10-year average) potential output growth of Belgium is estimated at 6.5% in 2023 in nominal terms.

[10] Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, COM(2022) 630 final of 23 May 2022.

According to the Draft Budgetary Plan, Belgium's economy is expected to grow by 2.6% in 2022 and 0.5% in 2023, while inflation is projected at 9.4% in 2022 and 6.5% in 2023. In both sets of projections, private consumption is expected to be the main growth driver in 2022, while the growth of public consumption is also projected to support real growth in 2022. Both sets of projections expect a slightly negative contribution from gross fixed capital formation in 2022. While the scenario in the Draft Budgetary Plan expects a negative contribution of net exports in 2022, the Commission forecast projects a mild positive contribution. In 2023, both projections expect a negative contribution from net exports and a lower, albeit still positive, contribution from private consumption. Both projections expect a positive contribution from gross fixed capital formation in 2023. The mild differences between the inflation scenarios mainly stem from the differences in the energy price assumptions that primarily reflect different cut-off dates across the two sets of projections.

Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in both 2022 and 2023.

Belgium complies with the requirement of Regulation (EU) No 473/2013 since the draft budget is based on independently produced macroeconomic forecasts.

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.2% of GDP in 2022, 0.2% in 2023 and 0.2% in 2024 will be financed by non-repayable financial support (grants) from the Recovery and Resilience Facility. Expenditures financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government deficit and debt of Belgium. The Commission 2022 autumn forecast includes a similar amount of expenditures financed by Recovery and Resilience Facility grants.

14. In its 2023 Draft Budgetary Plan, Belgium's general government deficit is planned to increase from 5.2% of GDP in 2022 to 5.8% of GDP in 2023, mainly due to the deterioration of the macroeconomic outlook and the budgetary impact from the automatic indexation of public sector wages and social benefits. The general government debt ratio is planned to increase from 105.3% of GDP in 2022 to 108.2% of GDP in 2023. These projections are in line with the Commission 2022 autumn forecast.

The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including macroeconomic risks related to the Russian invasion of Ukraine, energy price hikes and continued supply chain disturbances.

15. The Draft Budgetary Plan contains new measures with a total net budgetary cost of 0.1% of GDP in 2022 and 0.8% of GDP in 2023.

In 2022, the Draft Budgetary Plan mentions new deficit-increasing expenditure measures to support households in the face of soaring energy bills for an amount of about 0.3% of GDP. At the same time, deficit-decreasing revenue measures amount to an estimated 0.1% of GDP in 2022.

In 2023, new deficit increasing expenditures amount to about 0.8% of GDP concerning in particular support measures to households and firms in response to higher energy prices (see details below). On the revenue side, the measures mentioned in the Draft Budgetary Plan have a broadly neutral net budgetary impact in 2023. A reduction of employers' social contributions during the first two quarters

of 2023 to support firms' competitiveness has a deficit-increasing impact amounting to about 0.2% of GDP, which is offset by deficit-decreasing revenue measures of an equivalent amount.

The government deficit is impacted by the measures adopted to counter the economic and social impact of the exceptional increases in energy prices, which aggravated over the course of the summer.[11] The budgetary cost of these measures is projected in the Commission 2022 autumn forecast to amount to 1.0% of GDP in 2022 and 0.7% of GDP in 2023. They consist of measures reducing government revenue, namely a cut in excise duties on petrol fuel and VAT reductions on electricity and gas, and increasing expenditure, such as income transfers to households directly through their gas and electricity energy bills ('energy package'), earmarked lump sum transfers (for those households using heating oil, propane, or pellet fuel), and direct support to help companies faced with rising energy costs. The cost of these measures is partly offset by new taxes on windfall profits of energy producers, namely on a gas international network system operator (Fluxys), and on the electricity and oil sectors, which are projected to bring budgetary revenues of 0.1% of GDP in 2022 and 0.2% of GDP in 2023. Taking these revenues into account, the net budgetary cost of these measures in the Commission autumn 2022 forecast is estimated at 0.9% of GDP in 2022 and 0.4% of GDP in 2023.[12] Measures have been announced as temporary, expiring for the largest part after the first quarter of 2023. In addition, a permanent reduction to 6% of the VAT rate on gas and electricity, not yet included in the Draft Budgetary Plan nor reflected in the Commission 2022 autumn forecast, is foreseen to be introduced together with an increase in excise duties. Most measures do not appear targeted to vulnerable households or firms[13], and most of them do not fully preserve the price signal to reduce energy demand and increase energy efficiency[14]. As a result, the amount of temporary and targeted support to households and firms most vulnerable to energy prices, that can be taken into account in the assessment of compliance with the fiscal country-specific recommendation for 2023, is estimated in the Commission 2022 autumn forecast at 0.2% of GDP in 2022 and 2023.

The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 autumn forecast are projected at 0.2% of GDP in 2022 and 0.1% in 2023.

16. Based on the Commission's 2022 autumn forecast and including the information incorporated in Belgium's 2023 Draft Budgetary Plan, gross fixed capital formation is expected to amount to 2.9% of GDP in 2022 and 3.0% of GDP in 2023, compared to 2.7% of GDP recorded in 2021. This includes investment for the green and digital transitions and for energy security (such as measures to stimulate and accelerate the energy efficiency renovation of social housing and public buildings, projects supporting the modal shift by investing in rail, green buses, local public transport and cycling paths, the deployment of electric charging stations, investment for upgrading

[11] Deficit developments in 2023 are also affected by the complete phasing out of COVID-19 emergency temporary measures, which are estimated in the Commission autumn 2022 forecast at 0.5% of GDP in 2022.

[12] The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

[13] Targeted measures amount to 0.2% of GDP in 2022 and 2023, while untargeted measures amount to 0.7% of GDP in 2022 and 0.5% of GDP in 2023.

[14] Income measures amount to 0.3% of GDP in 2022 and 2023, while price measures amount to 0.6% of GDP in 2022 and 0.3% of GDP in 2023

the digitalisation of public administration and of the justice system) partly funded by the Recovery and Resilience Facility and other EU funds.

17. In 2023, the fiscal stance is projected in the Commission 2022 autumn forecast to be expansionary (-0.3% of GDP[15]), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (- 2.3% of GDP).

    The growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide an expansionary contribution of 0.3 percentage points[16]. This includes the reduced impact from the support measures adopted to counter the economic and social impact of the exceptional increases in energy prices by 0.3% of GDP[17], of which temporary and targeted support measures to households and firms most vulnerable to energy prices account for 0.1% of GDP. This also includes lower costs to offer temporary protection to displaced persons from Ukraine (by 0.1% of GDP). Therefore, the growth of nationally financed primary current expenditure in excess of the medium-term potential output growth is not due to the temporary and targeted support to households and firms most vulnerable to energy prices and to people fleeing Ukraine. Instead, the expansionary growth in nationally financed primary current expenditure (net of new revenue measures) is mainly driven by the net budgetary costs resulting from the automatic indexation of public sector wages and social benefits[18], and structurally rising social expenditure (notably reflecting demographic ageing and the permanent increase in the minimum pension) that are not yet offset by compensatory measures.

    The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to remain stable in 2023 compared to 2022. Nationally financed investment is projected to provide a neutral contribution to the fiscal stance in 2023.[19]

18. The Draft Budgetary Plan does not include budgetary projections beyond 2023.

19. On 12 July 2022 the Council also recommended Belgium to prioritise reforms to improve the fiscal sustainability of long-term care, including by promoting a cost efficient use of the different care settings, to reform the taxation and benefit systems to reduce disincentives to work by shifting the tax burden away from labour and by simplifying the tax and benefit system and to reduce tax expenditures and make the tax system more investment-neutral. The 2023 Draft Budgetary Plan informs that the Ministry of Finances has been tasked to submit by December 2022 a proposal for a tax reform targeting a reduction in the taxes on labour income with the objective to implement the first step of such a reform already before the end of the current government term (May 2024).

20. In 2023, based on the Commission's forecast and including the information incorporated in the Draft Budgetary Plan, the growth of nationally-financed current expenditure is not projected to be below the medium-term potential output growth.

[15] A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy. The fiscal stance includes the fiscal impulse funded by the Union.

[16] This follows an expansionary contribution from this component of 2 percentage points in 2022.

[17] The budgetary impact of targeted price and income measures is projected to decrease by 0.1% of GDP and remain stable respectively, while the budgetary impact of untargeted price and income measures is projected to decrease by 0.2% of GDP and remain stable respectively.

[18] The direct budgetary cost is only partly offset by the impact of higher wages and purchasing power on the revenue side,

[19] Other nationally financed capital expenditure is projected to provide a neutral contribution.

This is not the result of temporary and targeted support to households and firms most vulnerable to energy prices and the cost to assist people fleeing Ukraine. Therefore, the growth of nationally financed primary current expenditure is not in line with the recommendation of the Council. Belgium plans to finance additional investment through the RRF and other EU funds and it also preserves nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security.

Overall, the Commission is of the opinion that the Draft Budgetary Plan for Belgium is partly in line with the fiscal guidance contained in the Council recommendation of 12 July 2022. The Commission invites Belgium to take the necessary measures within the national budgetary process to ensure that the 2023 budget is consistent with the recommendation adopted by the Council on 12 July 2022.

While Belgium rapidly deployed energy measures as part of the emergency policy response to the exceptional energy price hikes, a prolongation of existing and/or an enactment of new support measures in response to high energy prices would contribute to higher growth in net nationally financed current expenditure and to an increase in the projected government deficit and debt in 2023. Therefore, it is important that Member States better focus such measures to the most vulnerable households and exposed firms, to preserve incentives to reduce energy demand, and to be withdrawn as energy price pressures diminish.

The Commission is also of the opinion that Belgium has made limited progress with regard to the structural part of the fiscal recommendations contained in the Council Recommendation of 12 July 2022 in the context of the European Semester and thus invites the authorities to accelerate progress. A comprehensive description of progress made with the implementation of the country-specific recommendations will be made in the 2023 Country Report and assessed in the context of the country-specific recommendations to be proposed by the Commission in spring 2023.

Done at Brussels, 22.11.2022

For the Commission
Paolo GENTILONI
Member of the Commission