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COMMISSION OPINION

of 24.11.2021

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 473/2013 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 that Communication, the Commission set out 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]

4. On 3 March 2021, the Commission adopted a Communication providing further policy orientations to facilitate the coordination of fiscal policies.[4] In that Communication, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken on the basis of an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative criterion. On 2 June 2021, on the basis of the Commission's 2021 spring forecast, the Commission considered that the conditions to continue to apply the general escape clause in 2022 and to deactivate it as of 2023 were met.[5] Country-specific situations will continue to be taken into account after the deactivation of the general escape clause.

5. Next Generation EU, including the Recovery and Resilience Facility, supports a sustainable, inclusive and fair recovery. Regulation (EU) 2021/241 established the

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[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 to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

[5] Communication from the Commission on economic policy coordination in 2021: overcoming COVID-19, supporting the recovery and modernising our economy, Brussels, 2.6.2021, COM(2021) 500 final.

Recovery and Resilience Facility[6] which provides financing support for the implementation of reforms and investments, 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 EU budget. By contributing to economic recovery and to strengthening long-term growth, it supports public finances, growth and job creation in the medium and long term.

6. On 2 June 2021, the Commission emphasised in its communication that the coordination of national fiscal policies remains crucial to underpin the recovery. In this context, the Commission set out its view that the overall fiscal stance, taking into account national budgets and the Recovery and Resilience Facility, should remain supportive in 2021 and 2022. Fiscal policy should remain agile and adjust to the evolving situation as warranted, and a premature withdrawal of fiscal support should be avoided. Once health risks diminish, fiscal measures should gradually pivot to more targeted measures that promote a resilient and sustainable recovery. Finally, with economic activity gradually normalising in 2021, Member States' fiscal policies should become more differentiated in 2022, taking into account the state of the recovery, fiscal sustainability and the need to reduce economic, social and territorial divergences. All Member States should preserve nationally financed investment. As the recovery takes hold, fiscal policy should prioritise higher public and private investment, supporting the transition towards a green and digital economy.

   In its recommendations on the 2021 Stability Programmes on 18 June 2021, the Council also recommended that, when economic conditions allow, Member States should pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, investment should be enhanced to boost growth potential.

   The Council, on 13 July 2021, further recommended to euro area Member States[7] to take action, individually and collectively within the Eurogroup, in the period 2021–2022 to ensure a policy stance that supports the recovery from the COVID-19 crisis. When the epidemiological and economic conditions allow, emergency measures should be phased out while combatting the social and labour-market impact of the crisis. Recalling the need for prudent medium-term fiscal positions and debt sustainability, while enhancing investment, the Council also called for particular attention to the quality of budgetary measures.

   The recovery of the European economy has been strengthening, thanks to the improved health situation and easing of pandemic control restrictions. The volume of output in the euro area is expected to return to its pre-pandemic level by the end of the year. However, bottlenecks in global supply and rising energy and commodity prices have been increasingly weighing on activity in the EU. This together with production bottlenecks, due to the shortage of some input components and raw materials, and capacity constraints vis-à-vis booming demand both in the EU and internationally have been putting upward pressure on consumer prices.

7. On 18 June 2021, in its recommendations on the 2021 Stability Programmes, the Council highlighted that the established indicators of fiscal adjustment set out in

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[6] OJ L57, 18.2.2021, p.17.

[7] Council Recommendation of 13 July 2021 on the economic policy of the euro area, OJ C 283, 15.7.2021, p. 1–7

Regulation (EC) No 1466/97 need to be considered in the context of the current circumstances. Specifically, the assessment of the overall fiscal stance at the current juncture should take into account the transfers from the EU budget (such as those from the Recovery and Resilience Facility). Furthermore, the assessment also needs to take into account the phasing-out of crisis-related temporary emergency measures that were designed to support health systems and compensate workers and firms for the losses in income due to lockdowns and supply chain disruptions, while their withdrawal is accompanied by the easing of lockdown restrictions that will support growth.

Accordingly, the fiscal stance in 2021 and 2022 is measured by the change in primary expenditure (net of discretionary revenue measures), excluding crisis-related temporary emergency measures but including expenditure financed by grants under the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed primary current expenditure (net of discretionary revenue measures and excluding crisis-related temporary emergency measures) and investment.

CONSIDERATIONS CONCERNING BELGIUM

8. On 15 October 2021, Belgium submitted the Draft Budgetary Plan for 2022. On that basis, the Commission has adopted the following opinion in accordance with Article 7 of Regulation (EU) No 473/2013.

9. On 18 June 2021, the Council recommended that in 2022 Belgium[9] uses the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Moreover, it should preserve nationally financed investment.

The Council also recommended to pay particular attention to the composition of public finances, on both the revenue and expenditure sides of the national budget, and to the quality of budgetary measures in order to ensure a sustainable and inclusive recovery; to prioritise sustainable and growth-enhancing investment, in particular investment supporting the green and digital transition; and to give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including, where relevant, by strengthening the coverage, adequacy and sustainability of health and social protection systems for all.

On 2 June 2021, the Commission issued a report under Article 126(3) TFEU.[10] This report discussed the budgetary situation of Belgium, as its general government deficit in 2020 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value and did not

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[8] The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and can boost Belgium's potential growth.

[9] Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Belgium, OJ C 304, 29.7.2021, p. 1.

[10] Report from the Commission prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, Brussels, 2.6.2021, COM(2021) 529 final.

respect the debt reduction benchmark. The report concluded that the deficit criterion was not fulfilled and the debt criterion was not complied with.

10. According to the Commission 2021 autumn forecast, the Belgian economy is expected to grow by 6% in 2021 and by 2.6% in 2022, while inflation is forecast at 2.7% in 2021 and 2.3% in 2022. Private consumption is forecast to grow by 5.1% in 2021 and 5.3% in 2022 and the growth in gross fixed capital formation is projected at 10.5% in 2021, and 2% in 2022. According to the Draft Budgetary Plan GDP growth is set to be somewhat lower in 2021 and slightly higher in 2022, respectively at 5.7% and 3%. The Draft Budgetary Plan forecasts lower inflation rates, at 1.9% in 2021 and 2.1% in 2022. The differences with the Draft Budgetary Plan scenario essentially reflect the fact that the Commission forecast takes into account more recent data, such as the revisions of annual and quarterly GDP figures of 2020 and 2021 that have been published in October, while the Draft Budgetary Plan's macroeconomic projection is based on earlier data. Overall, the macroeconomic assumptions underpinning the Draft Budgetary Plan are plausible in 2021 and 2022. Belgium complies with the requirement of Regulation (EU) No 473/2013 as the Draft Budgetary Plan is based on an independently produced macroeconomic forecast by the Federal Planning Bureau commissioned by the National Accounts Institute.

11. Belgium submitted its Recovery and Resilence Plan on 30 April 2021. The Council approved the assessment of Belgium's Recovery and Resilence Plan on 13 July 2021. A pre-financing payment of Recovery and Resilience Facility grants of 0.16% of GDP was made to Belgium in August 2021. The Draft Budgetary Plan assumes that expenditure amounting to 0.1% of GDP in 2021, 0.3% in 2022, 0.2% in 2023, 0.2% in 2024, 0.1% in 2025, and 0.1% in 2026 will be funded 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. While the Commission 2021 autumn forecast includes a similar amount of expenditures financed by Recovery and Resilience Facility grants in its budgetary projections in 2021 and 2022, it assumes a slightly higher amount in 2023, at 0.3% of GDP. Simulations by the Commission services show that the Recovery and Resilience Plan, together with the rest of measures of the European Union Recovery Instrument, has the potential to increase the GDP of Belgium by between 0.5% and 0.9% by 2026, not including the possible positive impact of structural reforms, which can be substantial[11].

12. In its 2022 Draft Budgetary Plan, Belgium's general government deficit is planned to decrease from 8.1% of GDP in 2021 to 4.9% of GDP in 2022, mainly due to the withdrawal of most temporay crisis-related measures. The general government debt ratio presented in the Draft Budgetary Plan is planned to increase from 113.9% of GDP in 2021 to 114.3% of GDP in 2022 due to the projected general government budget deficit and to a debt-increasing stock flow adjustment. These projections are in line with the Commission 2021 autumn forecast.

    The outlook for public finances continues to be subject to the high uncertainty that surrounds the macroeconomic projections, including risks related to the evolution of the pandemic and possible scarring effects.

[11] These simulations reflect the overall impact of NGEU, which also includes funding for ReactEU, and increased funding for Horizon Europe, InvestEU, JTF, Rural Development and RescEU.

13. The Draft Budgetary Plan reports several new measures that have a total deficit-increasing impact of 0.3% of GDP in 2021 and 0.3% of GDP in 2022. New expenditure measures account for 0.3% of GDP in 2021 and 0.4% of GDP in 2022. These are mainly temporary. The main new expenditures presented in the Draft Budgetary Plan concern the emergency support and reconstruction costs in relation to the floods that hit the country in July 2021, which amount to an estimated ¼% of GDP, both in 2021 and in 2022, and are considered as one-off both in the Draft Budgetary Plan and in the Commission autumn 2021 Forecast. The Draft Budgetary Plan mentions specific measures to mitigate the socio-economic impact of rising energy prices, with a total impact of about 0.05% of GDP in 2021 and 0.1% of GDP in 2022; and additional investment in 2022 (0.04% of GDP). On the revenue side, the measures have a marginal deficit-reducing impact on public finance of 0.03% of GDP in 2022. The Draft Budgetary Plan presents a budgetary neutral 'tax shift' (equivalent to 0.05% of GDP) which consists in a reduction in special social security contributions and extended 'work bonuses' that are largely offset by higher excise duties on tobacco, a new tax on flight tickets, and a reform of the exoneration scheme for withholding taxes. Several other small revenue-increasing measures are mentioned, including higher diesel excise duties for professionals and increased social security contributions for professional sportsmen.

    Based on the Commission 2021 autumn forecast, the crisis-related temporary emergency measures will decrease from 4.4% of GDP in 2020, to 2.8% in 2021 and 0.1% in 2022.

    According to the Draft Budgetary Plan gross fixed capital formation is expected to increase from 2.7% of GDP in 2020, to 3% in 2021 and 3.1 % in 2022, including the impact in 2022 of a new federal investment plan presented in the Draft Budgetary Plan. These projections are in line with the Commission 2021 autumn forecast.

    Some of these measures, such as a provision equivalent to 0.2% of GDP for new federal public investment in 2022-2024 is aimed at supporting the green and digital transition as recommended by the Council on 18 June 2021. A tax shift amounting to around 0.05% of GDP in 2022 will reduce social contributions on labour and is to be financed by a tax on short-haul flights, higher excise duties on tobacco, and a reform of withholding tax exemptions. A complete assessment of the fiscal-structural reforms implemented by Belgium will be done in the context of the assessment of the implementation of the Recovery and Resilience Plans and the 2022 Country Report.

14. The fiscal stance, which excludes crisis-related temporary emergency measures while including the impact on aggregate demand from investment financed by both the national and the EU budgets, notably the Recovery and Resilience Facility, is projected in the Commission 2021 autumn forecast at -0.7% of GDP in 2022.[12] Belgium is projected to use the Recovery and Resilience Facility in 2022 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.2 percentage points of GDP in 2022 compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.1 percentage points of GDP in

[12] A negative sign of the indicator corresponds to an excess of primary expenditure growth compared with medium-term economic growth, indicating an expansionary fiscal policy.

2022.[13] The growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 0.4 percentage points to the overall fiscal stance.

15. The Draft Budgetary Plan does not include budgetary projections beyond 2022.

16. In 2022, based on the Commission's forecast and including the information incorporated in Belgium's Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be supportive. As recommended by the Council, Belgium plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment. As recommended by the Council, Belgium also plans to preserve nationally financed investment. Given the level of Belgium's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, when taking supportive budgetary measures, it is important to preserve prudent fiscal policy in order to ensure sustainable public finances in the medium term.

    The Commission recalls the importance of the composition of public finances and the quality of budgetary measures, including through growth-enhancing investment, notably supporting the green and digital transition. The measures announced in the Draft Budgetary Plan are in line with the recommendation, while small in size.

    Taking into account the strength of the recovery, 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.

Done at Brussels, 24.11.2021

For the Commission
Paolo GENTILONI
Member of the Commission

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