Council of the European Union

Brussels, 30 June 2023
(OR. en)

11129/23

ECOFIN 656
UEM 190
SOC 482
EMPL 333
COMPET 677
ENV 756
EDUC 269
RECH 301
ENER 392
JAI 902
GENDER 133
ANTIDISCRIM 127
JEUN 171
SAN 408

NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee/Council
No. prev. doc.:	9822/1/23 REV 1
No. Cion doc.:	COM(2023) 601 final
Subject:	COUNCIL RECOMMENDATION on the 2023 National Reform Programme of Belgium and delivering a Council opinion on the 2023 Stability Programme of Belgium

Delegations will find attached the above-mentioned draft Council Recommendation, as discussed by the Council and European Council, based on the Commission Recommendation COM(2023) 601 final.

COUNCIL RECOMMENDATION

of …

on the 2023 National Reform Programme of Belgium and delivering a Council opinion on the 2023 Stability Programme of Belgium

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(2) and Article 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

1 OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility ('the Facility'), entered into force on 19 February 2021. The Facility provides financial support to the Member States for the implementation of reforms and investments, entailing a fiscal impulse financed by the Union. In line with the priorities of the European Semester, the Facility contributes to economic and inclusive recovery and to the implementation of sustainable and growth-enhancing reforms and investments, in particular reforms and investments to promote the green and digital transitions and to make the Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights. The maximum financial contribution per Member State under the Facility was updated on 30 June 2022, in accordance with Article 11(2) of Regulation (EU) 2021/241.

[2] 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).

(2) On 22 November 2022, the Commission adopted the 2023 Annual Sustainable Growth Survey, marking the start of the 2023 European Semester for economic policy coordination. On 23 March 2023, the European Council endorsed the priorities of the 2023 Annual Sustainable Growth Survey, which are centred around the four dimensions of competitive sustainability. On 22 November 2022, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council[3], the Commission also adopted the 2023 Alert Mechanism Report, in which it did not identify Belgium as one of the Member States that may be affected or may be at risk of being affected by imbalances. As such, an in-depth review would not be needed. On the same date, the Commission also adopted an opinion on Belgium's 2023 draft budgetary plan. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2023 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[4] ('2023 Recommendation on the euro area') on 16 May 2023 and the Joint Employment Report on 13 March 2023.

(3) While the Union's economies are showing remarkable resilience, the geopolitical context continues to have a negative impact. As the Union stands firmly with Ukraine, the Union's economic and social policy agenda is focused on reducing the negative impact of energy shocks on both vulnerable households and firms in the short term, and on keeping up efforts to deliver on the green and digital transitions, support sustainable and inclusive growth, safeguard macroeconomic stability and increase resilience in the medium term. It also focuses heavily on increasing the union's competitiveness and productivity.

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3 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances (OJ L 306, 23.11.2011, p. 25).

4 Council Recommendation of 16 May 2023 on the economic policy of the euro area (OJ C 180, 23.5.2023, p. 1).

(4) On 1 February 2023, the Commission issued a communication entitled 'A Green Deal Industrial Plan for the Net-Zero Age' ('the Green Deal Industrial Plan'). The aim of the Green Deal Industrial Plan is to boost the competitiveness of the Union's net-zero industry and support the fast transition to climate neutrality. It complements ongoing efforts under the European Green Deal and REPowerEU. It also aims to provide a more supportive environment for scaling up the Union's manufacturing capacity for the net-zero technologies and products required to meet the Union's ambitious climate targets, and to ensure access to relevant critical raw materials, including by diversifying sourcing, properly exploiting geological resources in Member States and maximising the recycling of raw materials. The Green Deal Industrial Plan is based on four pillars: a predictable and simplified regulatory environment, faster access to finance, the enhancement of skills, and open trade for resilient supply chains. On 16 March 2023, the Commission issued a further communication entitled 'Long-term competitiveness of the EU: looking beyond 2030', structured along nine mutually reinforcing drivers with the objective of working towards a growth-enhancing regulatory framework. It sets policy priorities aimed at actively ensuring structural improvements, well-focused investments and regulatory measures for the long-term competitiveness of the Union and its Member States. The recommendations below help address those priorities.

(5) In 2023, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in recent years. The 2019, 2020 and 2022 country-specific recommendations remain equally relevant for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(6) Regulation (EU) 2023/435 of the European Parliament and of the Council[5] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to rapidly phase out the Union's dependence on Russian fossil-fuel imports. This will contribute to energy security and the diversification of the Union's energy supply, while increasing the uptake of renewables, energy storage capacities and energy efficiency. The REPowerEU Regulation enables Member States to add a new REPowerEU chapter to their national recovery and resilience plans in order to finance key reforms and investments that will help achieve the REPowerEU objectives. Those reforms and investments will also help boost the competitiveness of the Union's net-zero industry as outlined in the Green Deal Industrial Plan and address the energy-related country-specific recommendations issued to the Member States in 2022 and, where applicable, in 2023. The REPowerEU Regulation introduces a new category of non-repayable financial support, made available to Member States in order to finance new energy-related reforms and investments under their recovery and resilience plans.

[5] 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).

(7) On 8 March 2023, the Commission adopted a communication providing fiscal policy guidance for 2024 ('the communication of 8 March 2023'). It aims to support the preparation of Member States' stability and convergence programmes and thereby strengthen policy coordination. The Commission recalled that the general escape clause of the Stability and Growth Pact will be deactivated at the end of 2023. It called for fiscal policies in 2023–2024 that ensure medium-term debt sustainability and raise potential growth in a sustainable manner and invited Member States to set out in their 2023 stability and convergence programmes how their fiscal plans will ensure that the Treaty reference value of 3 % of gross domestic product (GDP) is adhered to and ensure plausible and continuous debt reduction, or for debt to be kept at prudent levels in the medium term. The Commission also invited Member States to phase out national fiscal measures introduced to protect households and firms from the energy price shock, starting with the least targeted ones. It indicated that, if support measures needed to be extended because of renewed energy price pressures, Member States should better target such measures at vulnerable households and firms. The Commission stated that the fiscal recommendations would be quantified and differentiated. Moreover, as proposed in its communication of 9 November 2022 on orientations for a reform of the EU economic governance framework, the fiscal recommendations would be formulated on the basis of net primary expenditure. It recommended that all Member States continue to protect nationally financed investment and ensure the effective use of the Facility and other Union funds, in particular in light of the green and digital transitions and resilience objectives. The Commission indicated that it 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 existing legal provisions.

(8) On 26 April 2023, the Commission presented legislative proposals to implement a comprehensive reform of the Union's economic governance rules. The central objective of the proposals is to strengthen public debt sustainability and promote sustainable and inclusive growth in all Member States through reforms and investments. In its proposals, the Commission aims to improve national ownership, simplify the framework and move towards a greater medium-term focus, in combination with effective and more coherent enforcement. According to the Council conclusions of 14 March 2023 on orientations for a reform of the EU economic governance framework, the objective is to conclude the legislative work in 2023.

(9) On 30 April 2021, Belgium submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V to that Regulation. On 13 July 2021, the Council adopted its Implementing Decision on the approval of the assessment of the recovery and resilience plan for Belgium[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5) of Regulation (EU) 2021/241, stating that Belgium has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

[6] ST 10161/21 INIT; ST 10161/21 ADD 1.

(10) On 30 April 2023, Belgium submitted its 2023 National Reform Programme and its 2023 Stability Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2023 National Reform Programme also reflects Belgium's biannual reporting on the progress made in achieving its recovery and resilience plan.

(11) On 24 May 2023, the Commission published the 2023 country report for Belgium. It assessed Belgium's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2022 and took stock of Belgium's implementation of the recovery and resilience plan. On the basis of that analysis, the country report identified gaps with regard to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges. It also assessed Belgium's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(12) According to data validated by Eurostat, Belgium's general government deficit decreased from 5,5 % of GDP in 2021 to 3,9 % in 2022, while general government debt fell from 109,1 % of GDP at the end of 2021 to 105,1 % at the end of 2022. On 24 May 2023, the Commission issued a report under Article 126(3) of the Treaty. That report discussed the budgetary situation of Belgium, as its general government deficit in 2022 exceeded the 3 %-of-GDP Treaty reference value. The report concluded that the deficit criterion was not fulfilled. In line with the communication of 8 March 2023, the Commission did not propose to open new excessive deficit procedures in spring 2023. The Commission subsequently stated that it would propose to the Council to open deficit-based excessive deficit procedures in spring 2024, on the basis of the outturn data for 2023. Belgium should take account of this in the execution of its 2023 budget and in preparing its draft budgetary plan for 2024.

(13) The general government balance has been impacted by the fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices. In 2022, such fiscal policy revenue-decreasing measures included a cut in excise duties on petrol fuel and VAT reductions on residential electricity and gas contracts, while such fiscal policy expenditure-increasing measures included extended coverage of the social tariff on electricity and natural gas for vulnerable households, across-the-board income transfers to households directly through their gas and electricity energy bills ('the 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 those measures was partly offset by new taxes on windfall profits of energy producers and suppliers, namely on the electricity and oil sectors. The Commission estimates the net budgetary cost of those measures at 0,9 % of GDP in 2022. The general government balance has also been impacted by the budgetary cost of offering temporary protection to displaced persons from Ukraine, which is estimated at 0,1 % of GDP in 2022. At the same time, the estimated cost of temporary emergency measures related to the COVID-19 crisis dropped to 0,5 % of GDP in 2022, from 3 % in 2021.

(14) On 18 June 2021, the Council recommended that in 2022 Belgium[7] use the Facility to finance additional investment in support of the recovery, while pursuing a prudent fiscal policy. Moreover, the Council recommended that Belgium preserve nationally-financed investment.

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7 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).

(15) According to the Commission estimates, the fiscal stance[8] in 2022 was supportive, at -2 % of GDP. As recommended by the Council, Belgium continued to support the recovery with investments to be financed by the Facility. Expenditure financed by grants under the Facility and other Union funds amounted to 0,2 % of GDP in 2022 (0,2 % of GDP in 2021). Nationally financed investment provided a neutral contribution to the fiscal stance[9]. Belgium therefore preserved nationally financed investment, as recommended by the Council. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) provided an expansionary contribution of 1,9 percentage points to the fiscal stance. That significant expansionary contribution included the additional impact of fiscal policy measures taken to mitigate the economic and social impact of the increase in energy prices (additional net budgetary cost of 0,8 % of GDP compared to 2021), as well as the cost of offering temporary protection to displaced persons from Ukraine (0,1 % of GDP). At the same time, rising current expenditure, driven in particular by the automatic indexation of social benefits and public-sector wages and other structurally increasing current expenditure, reflecting, in particular demographic ageing, also contributed to the growth in net primary current expenditure. That significant expansionary contribution of nationally financed current expenditure was thus only partially due to the measures to address the economic and social impact of the increase in energy prices, as well as the cost of offering temporary protection to displaced persons from Ukraine. Belgium therefore did not sufficiently limit the growth in nationally financed current expenditure.

[8] The fiscal stance is measured as the change in primary expenditure (net of discretionary revenue measures), excluding temporary emergency measures related to the COVID-19 crisis but including expenditure financed by non-repayable support (grants) from the Facility and other Union funds, relative to medium-term potential growth. For more details see Box 1 in the Fiscal Statistical Tables.

[9] Other nationally financed capital expenditure provided a neutral contribution of 0 percentage points of GDP.

(16) The macroeconomic scenario underpinning the budgetary projections in the 2023 Stability Programme is in line with the Commission's 2023 spring forecast for 2023 and thereafter. The government projects real GDP to grow by 1 % in 2023 and 1,7 % in 2024. By comparison, the Commission's 2023 spring forecast projects a real GDP growth of 1,2 % in 2023 and 1,4 % in 2024.

(17) In its 2023 Stability Programme, the government expects that the general government deficit will increase to 5,1 % of GDP in 2023. The increase in 2023 mainly reflects increasing permanent current spending, notably due to the automatic indexation of social benefits and public-sector wages as well as to demographic ageing, the budgetary impact of a temporary decrease in firm's social contributions during the first half of 2023, and a deficit-increasing reform of the taxation of residential energy products. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 105,1 % at the end of 2022 to 106,7 % at the end of 2023. The Commission's 2023 spring forecast projects a government deficit of 5 % of GDP for 2023. This is in line with the deficit projected in the 2023 Stability Programme. The Commission's 2023 spring forecast projects a slightly lower general government debt-to-GDP ratio of 106 % at the end of 2023. The difference is due to a somewhat higher projected nominal GDP in 2023 in the Commission's 2023 spring forecast.

(18) The general government balance in 2023 is expected to continue to be impacted by the fiscal measures taken to mitigate the economic and social impact of the increase in energy prices. They consist of measures extended from 2022, in particular a cut in excise duties on petrol fuel that ended on 31 March 2023, VAT reductions on electricity and gas residential contracts, an extension of the coverage of the social tariff on energy products, the energy package, earmarked lump sum transfers (for those households using heating sources other than gas and electricity), and direct support to help companies faced with rising energy costs. The cost of those measures continues to be partly offset by taxes on windfall profits of energy suppliers, namely by taxes on the electricity and oil sectors, that have been in place since 2022, and by a tax in 2023 on a gas international network system operator (Fluxys). Taking those revenues into account, the net budgetary cost of the support measures is projected in the Commission's 2023 spring forecast at 0,4 % of GDP in 2023[10]. Most measures in 2023 do not appear to be targeted at the most vulnerable households or firms, although many of them preserve the price signal to reduce energy demand and increase energy efficiency. As a result, the amount of targeted support measures, to be taken into account in the assessment of compliance with the Council Recommendation of 12 July 2022[11], is estimated in the Commission's 2023 spring forecast at 0,1 % of GDP in 2023 (compared to 0,2 % of GDP in 2022). The budgetary cost of temporary protection to displaced persons from Ukraine is projected to remain stable compared to 2022. Finally, the general government balance in 2023 is expected to benefit from the phasing-out of temporary emergency measures related to the COVID-19 crisis, which have been estimated at 0,5 % of GDP.

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10 That figure represents the level of annual budgetary cost of those measures, including current revenue and expenditure as well as, where relevant, capital expenditure measures.

11 Council Recommendation of 12 July 2022 on the 2022 National Reform Programme of Belgium and delivering a Council opinion on the 2022 Stability Programme of Belgium (OJ C 334, 1.9.2022, p. 1).

(19) In its Recommendation of 12 July 2022, the Council recommended that Belgium 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[12], taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. At the same time, 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 Facility and other Union funds.

[12] On the basis of the Commission's 2023 spring forecast, the medium-term (10-year average) potential output growth of Belgium is estimated at 5,4 % in nominal terms.

(20) In 2023, the fiscal stance is projected in the Commission's 2023 spring forecast to be expansionary (- 1,1 % of GDP), in a context of high inflation. This follows an expansionary fiscal stance in 2022 (-2 % of GDP). The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 is projected to provide an expansionary contribution of 0,7 % of GDP to the fiscal stance. This includes the reduced cost of the targeted support measures to households and firms most vulnerable to energy price hikes by 0,1 % of GDP. The growth of nationally financed primary current expenditure in excess of the medium-term potential output growth is therefore not due to the targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) is also driven by permanent increases in public-sector wages and social benefits (due to the indexation of such wages and benefits), by structurally rising current expenditure resulting from demographic ageing, by a reform of residential energy contract taxation, and by a temporary decrease in firm's social contributions during the first half of 2023. In sum, the projected growth of nationally financed primary current expenditure is not in line with the Council Recommendation of 12 July 2022. Expenditure financed by grants under the Facility and other Union funds is projected to amount to 0,3 % of GDP in 2023, while nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0,1 percentage points[13]. Therefore, Belgium plans to finance additional investment through the Facility and other Union funds, and it also plans to preserve nationally-financed investment. It plans to finance public investment for the green and digital transitions, and for energy security, such as investment projects in the renovation of buildings, sustainable mobility and the decarbonisation of the energy sector, and key investments to accelerate the digital transition, including digitalising the public administration, promoting digital inclusion and reinforcing cyber security, which are funded by the Facility and other Union funds.

13 Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,1 percentage points of GDP.

(21) According to the 2023 Stability Programme the general government deficit is expected to decline to 4,2 % of GDP in 2024. The decrease in 2024 also reflects the withdrawal of temporary support measures that were adopted in the context of rising energy prices. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase to 107,1 % at the end of 2024. On the basis of policy measures known at the cut-off date of the forecast, the Commission's 2023 spring forecast projects a government deficit of 4,7 % of GDP in 2024. This is higher than the deficit projected in the 2023 Stability Programme, mainly due to deficit-reducing measures not yet specified in the 2023 Stability Programme amounting to 0,2 % of GDP (therefore not taken into account in the Commission's 2023 spring forecast) and to a less favourable projection of government revenue, in particular as regards corporate taxes. The Commission's 2023 spring forecast projects a similar general government debt-to-GDP ratio of 107,3 % at the end of 2024.

(22) The 2023 Stability Programme envisages the phasing-out of all of the energy support measures in 2024. The Commission also currently assumes the full phasing-out of energy support measures in 2024. This is based on the assumption of no renewed energy price increases.

(23) Regulation (EC) No 1466/97 calls for an annual improvement in the structural budget balance toward the medium-term budgetary objective, with 0,5 % of GDP as a benchmark[14]. Taking into account fiscal sustainability considerations and the need to reduce the deficit to below the 3 %-of-GDP Treaty reference value, an improvement in the structural balance of at least 0,7 % of GDP for 2024 would be appropriate, according to the Commission. To ensure such an improvement, and in accordance with the Commission's methodology, the growth in net nationally-financed primary expenditure[15] in 2024 should not exceed 2 %, as reflected in this Recommendation. At the same time, the remaining energy support measures (currently estimated by the Commission at 0,4 % of GDP in 2023) should be phased out, if energy-market developments so permit and starting with the least targeted measures, and the related savings should be used to reduce the government deficit. In addition, according to the Commission's 2023 spring forecast, the growth in net nationally-financed primary current expenditure in 2023 is not in line with the Council Recommendation of 12 July 2022. If this is confirmed, lower growth in net primary expenditure in 2024 would be appropriate.

(24) Assuming unchanged policies, the Commission's 2023 spring forecast projects the net nationally financed primary expenditure to grow by 2,7 % in 2024, which is above the recommended growth rate.

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14 Article 5 of Regulation (EC) No 1466/97 also requires an adjustment of more than 0,5 % of GDP for Member States with a government debt exceeding 60 % of GDP, or with more pronounced debt sustainability risks.

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

(25) According to the 2023 Stability Programme, government investment is expected to increase from 2,9 % of GDP in 2023 to 3,1 % of GDP in 2024. The higher investment reflects higher nationally financed investment and investment financed by the Union, namely through the Facility. The 2023 Stability Programme refers to reforms and investments that are expected to contribute to fiscal sustainability and sustainable and inclusive growth. Those reforms and investments include a project for a fiscal reform of the tax and benefits system aimed at boosting employment and economic activity, thereby fostering the sustainability of public finances, and a pension reform (as foreseen in the recovery and resilience plan) to improve the financial sustainability of the pensions system. In addition, the recovery and resilience plan intends to step up efforts to bolster public investment with a view to speeding up the green and digital transitions, including through the implementation of the recovery and resilience plan.

(26) The 2023 Stability Programme outlines a medium-term fiscal path until 2026. According to the 2023 Stability Programme, the general government deficit is expected to decline to 3,3 % of GDP in 2025 and to 2,9 % by 2026. Therefore, the general government deficit is planned to decrease below 3 % of GDP in 2026. According to the 2023 Stability Programme, the general government debt-to-GDP ratio is expected to increase from 107,1 % at the end of 2024 to 107,8 % by the end of 2026.

(27) Belgium faces substantial fiscal sustainability challenges. Those challenges relate to both the high level of government debt and the expected worsening, under unchanged policies, of the impact of ageing-related expenditure on public finances in the face of a rapidly ageing population. In the Commission's 2021 Ageing Report, ageing-related expenditure is projected to increase by 3,6 percentage points of GDP by 2040 and by 5,4 percentage points of GDP by 2070, mostly due to pension and long-term care expenditure. Pension expenditure is projected to increase by 3 percentage points of GDP over 2019–2070, compared to 0,1 percentage point of GDP on average in the euro area. In the case of Belgium, the bulk of the projected increase would already occur by 2040, when pension expenditure would increase by 2,7 percentage points of GDP to 14,9 % of GDP. Belgium's recovery and resilience plan includes a pension reform that aims to help address this challenge, alongside other objectives such as improving the social sustainability of the system, incentivising people to remain active in the labour market after meeting early retirement conditions and ensuring greater convergence between and within pension systems. On long-term care, public spending amounted to 2,2 % of GDP in 2019 (Union average 1,7 %), which made Belgium one of the countries with the highest spending on long-term care in the Union. By 2070, long-term care expenditure is projected to increase further to 4,3 % of GDP in the baseline scenario. However, those costs could increase to 6,0 % of GDP in the most negative scenarios[16]. Evidence suggests a possible overuse of residential care and unnecessary or premature institutionalisation of older people. Available data suggest that the number of older people placed unnecessarily or at least prematurely in a residential care facility remains high, although it has been decreasing over the last decade. In particular, the data pointed out that the share of individuals affected by this issue was high in Brussels and Wallonia. Reforms to improve the cost-efficient use of the different care settings, in particular to avoid and delay unnecessary or premature institutionalisation, have been initiated by the federated entities, to which responsibility for long-term care has been devolved since 2019. However, they do not focus enough on addressing the fiscal sustainability challenge.

[16] European Commission, 2021 Ageing Report. Belgium long-term care spending is projected to reach 6 % of GDP in the cost convergence scenario and in the cost and coverage convergence scenario.

(28) Despite recent reforms, the tax wedge (social security contributions and taxation of labour income) in Belgium remains well above the Union average at all wage levels, except for very low wage earners (50 % of the average), which may create disincentives to work. Some measures have been introduced to increase the net income of low wage earners, such as the job bonus (in Flanders) and in-work benefits for the long-term unemployed or for interregional mobility (at federal level). However, those measures also further increase the high marginal tax rate for lower-middle-income earners ('low wage trap'), which may discourage investments in lifelong learning as well as increase the number of hours worked. Unemployment benefits are unlimited in time and not means-tested for the long-term unemployed. Moreover, several non-cash social benefits are linked to the unemployment status of beneficiaries, which may contribute to existing inactivity, unemployment and low wage traps. A broad review of the benefits system would improve transparency in terms of work incentives and could contribute to increase the effectiveness of activation policies.

(29) The extensive use of tax expenditure, partly to counterbalance the high tax rates, creates inefficiencies and tends to favour certain types of remuneration and expenses. This leads to economic, social and environmental distortions. Special schemes like meal vouchers, commuting subsidies or withholding tax exemption for overtime, research and development work and night/shift work are costly for the budget and have been found to create inefficiencies. Some personal income tax deductions (e.g. deduction for service vouchers) disproportionally benefit high-income earners. There are still tax incentives for immovable property investments at federal level (cadastral values that underestimate actual rental income, interest deductibility for secondary housing loans) and at regional level (*chèque-habitat* in Wallonia). Those tax incentives distort resource allocation and potentially generate tax-induced overinvestment in certain types of assets. Tax-related environmentally harmful subsidies have increased. The reduction of the VAT rate on electricity and gas for residential contracts, while providing household support, continues to favour fossil fuels in the long term and discourages further diversification and energy savings. In the face of increasing traffic congestion and air pollution issues, transport taxes and pollution taxes still seem to be underused. The broader tax reform, which the government plans to phase in by 2024, is expected — if adopted and implemented — to reduce the tax burden on labour and reduce some of the distortions.

(30) In accordance with Article 19(3), point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. The implementation of Belgium's recovery and resilience plan is underway, albeit with increasing risk of delays. Belgium has not yet submitted a payment request. An effective governance will be needed to allow for a swift and steady implementation. The recovery and resilience plan is expected to be revised in 2023, to include among others a REPowerEU chapter, while taking into account the downward revision of the Facility maximum grant allocation to Belgium. The swift inclusion of the new REPowerEU chapter in the recovery and resilience plan will allow additional reforms and investments to be financed in support of Belgium's strategic objectives in the field of energy and the green transition. In accordance with Article 14(6) of Regulation (EU) 2021/241, on 31 March 2023, Belgium expressed its intention to request EUR 1 024 900 000 of additional loan support under the Facility. The systematic and effective involvement of local and regional authorities, social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond that plan, in order to ensure broad ownership of the overall policy agenda.

(31) The Commission approved all Belgium's cohesion policy programming documents in 2022 apart from the European Regional Development Fund for the Brussels-Capital Region, which was adopted in 2023. Proceeding with the swift implementation of the cohesion policy programmes in complementarity and synergy with the recovery and resilience plan, including the REPowerEU chapter, is key to achieving the green and digital transitions, increasing economic and social resilience and achieving balanced territorial development in Belgium.

(32) Beyond the economic and social challenges addressed by the recovery and resilience plan and cohesion policy programmes, Belgium faces a number of additional challenges related to its labour market, education system, energy policy and the green transition. The job vacancy rate in Belgium is currently one of the highest in the Union and employers are finding it increasingly difficult to hire employees with the right skills. Regional disparities in labour market participation, however, are significant. Labour shortages are high in both low- and high-skilled occupations with shortages in several sectors, including information and communication technologies, professional, technical and scientific jobs, hospitality and healthcare. The number of graduates, especially women, in science, technology, engineering and mathematics (STEM) remains low and their share is only slowly increasing, despite dedicated STEM action plans. Skills mismatches are also explained by low participation in adult learning. The current incentives for adult learning may not reach the low-educated, for whom upskilling could offer better employment opportunities. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. Addressing labour shortages and skills mismatches is a key lever for tackling the digital transformation and enabling the green transition, as well as for achieving the 2030 Union headline targets on employment and skills.

(33) In addition to reducing work disincentives from the tax and benefits system, more effective and targeted activation measures could help unlock the large untapped labour potential and alleviate the growing labour and skills shortages. Disadvantaged groups, including people with low education attainment, a migrant background or with disabilities, are less integrated in the labour market. There is a low transition rate on average from unemployment or inactivity to employment. This suggests that there is still scope to strengthen the effectiveness of active labour market policies, in particular with more systematic evaluations and integrated pathways for jobseekers who face multiple barriers to finding a job. Pursuing policies to boost the reintegration of workers on long-term sick leave, in particular due to burnout and depression (25 % of cases), who now largely exceed the number of unemployed, will also be necessary to further increase the employment rate.

(34) On labour shortages and skills mismatches, there are concerns about the performance, inclusiveness and equity of the education systems, also in light of high public spending on education. The gap in educational outcomes is closely linked to students' socioeconomic and migrant background and is among the largest in the Union, leading to inequalities in education. Increasing the labour market relevance and attractiveness of vocational education and training will be key. Strengthening the teaching profession by providing better teacher training and continuous professional development, and by developing more flexible and attractive career paths, would help reduce a growing shortage of qualified teachers, which risks further increasing existing educational inequalities. Some steps have been recently taken or are planned to strengthen the teaching profession. It will be essential to continue and monitor the implementation of those measures and their impact.

(35) Around 70 % of Belgium's gross inland energy consumption is covered by fossil fuel imports. In 2021, oil provided 45 % of Belgium's energy mix and natural gas 23 %. Belgium's consumption of natural gas dropped by 15 % in the period between August 2022 and March 2023, compared with the average gas consumption over the same period in the preceding five years, in line with the 15 % reduction target laid down in Council Regulation (EU) 2022/1369[17]. Belgium could keep pursuing efforts to temporarily reduce gas demand until 31 March 2024 pursuant to Council Regulation (EU) 2023/706[18]. Renewable energy accounted for only 13 % of final energy consumption in 2021. Belgium will need to significantly increase its renewable energy target by 2030, which is currently 17,5 % and considered unambitious in the Commission's 2020 assessment, to reflect the more ambitious Union objectives. To meet the planned reduction of nuclear energy and projected rise in electricity demand, energy efficiency and the share of electricity from renewable sources will need to significantly increase. The development of onshore wind projects and the related expansion of the power grid are, however, still severely hampered by low public acceptance and long delays related to permitting procedures, in particular due to repetitive and lengthy appeal procedures. Further steps can be taken to accelerate the deployment of onshore wind power and related grid reinforcement. Spatial planning and a review of the minimum distance rules of wind turbines from airports, radars and military zones could free up more space for wind energy. Furthermore, permitting could be made easier by granting wind and grid infrastructure projects the status of overriding public interest and processing appeals faster. The participation of municipalities and citizens in renewable energy generation projects could increase local acceptability.

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[17] Council Regulation (EU) 2022/1369 of 5 August 2022 on coordinated demand-reduction measures for gas (OJ L 206, 8.8.2022, p. 1).

[18] Council Regulation (EU) 2023/706 of 30 March 2023 amending Regulation (EU) 2022/1369 as regards prolonging the demand-reduction period for demand-reduction measures for gas and reinforcing the reporting and monitoring of their implementation (OJ L 93, 31.3.2023, p. 1).

The expansion of rooftop solar power (both small-scale and large-scale installations) could be further stimulated by adopting reforms that provide for binding requirements for large public and commercial buildings, incentives for landlords, and legal frameworks that facilitate energy sharing. In addition, self-consumption and demand-side flexibility could be promoted. The proactive development of more integrated and consistent ten-year electricity network investment plans could avoid delays in connecting new wind energy projects (and other renewable sources) as well as end users (heat pumps, charging points for electric cars), and should anticipate the expected surge in industrial electricity consumption.

(36) Further policy reforms and additional investments to reduce greenhouse gas emissions in the energy, industry, building and transport sectors would help reduce Belgium's high overall dependency on fossil fuel imports. Energy efficiency gains in industry could be incentivised by improving voluntary agreements, introducing energy savings and decarbonisation plans for the largest fossil fuel users, stimulating electrification and the deployment of industrial heat pumps and further embedding circular production methods. Belgium risks not reaching its renovation and energy efficiency targets for 2030. The challenge of reducing fossil fuel consumption in buildings is still considerable. The current investment efforts on energy renovations should therefore be stepped up and complemented with policy reforms such as a ban on fossil fuels in new buildings, mandatory energy-efficient renovations, phasing out fossil fuel-based heating and shifting incentives towards low carbon heating solutions such as heat pumps and heat networks supplied with recovered and renewable energy. This should be matched by adapting education and training to the relevant emerging green technical skills and ensuring sufficient and appropriately skilled technicians and construction workers. In transport, the high share of private car use accounts for a large part of oil consumption in Belgium. Promoting 'soft mobility' (for example, cycling and shared mobility) and the use of public transport would help reduce the use of private cars, together with road congestion costs. In 2022, cycling increased as a method of commuting to work, particularly in Flanders and Brussels, thanks to continuous investments in cycling infrastructure, promotion initiatives and targeted incentives. However, there is still scope to further encourage this form of soft mobility through investments in cycling infrastructure and in road safety for cyclists. The use of public transport has not yet fully recovered after the COVID-19 crisis and could be further promoted by improvements to suburban and intercity services, investments in fleet renewal and higher frequency of services.

(37) Labour and skills shortages in sectors and occupations key for the green transition, including manufacturing, deployment and maintenance of net-zero technologies, are creating bottlenecks in the transition to a net-zero economy. High-quality education and training systems that respond to changing labour market needs and targeted upskilling and reskilling measures are key to reducing skills shortages and promoting labour inclusion and reallocation. To unlock untapped labour supply, those measures need to be accessible, in particular for individuals and in sectors and regions most affected by the green transition. In 2022, labour shortages were reported for several occupations that require specific skills or knowledge for the green transition, including civil engineering functions and power-plant operators.

(38) In the light of the Commission's assessment, the Council has examined the 2023 Stability Programme and its opinion[19] is reflected in recommendation (1).

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[19] Under Article 5(2) of Regulation (EC) No 1466/97.

(39) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, the Council recommended that euro-area Member States take action, including through their recovery and resilience plans, to (i) preserve debt sustainability and refrain from broad-based support to aggregate demand in 2023, better target fiscal measures taken to mitigate the impact of high energy prices and reflect on appropriate ways to wind down support as energy price pressures diminish; (ii) sustain a high level of public investment and promote private investment to support the green and digital transitions; (iii) support wage developments that mitigate the loss in purchasing power while limiting second-round effects on inflation, further improve active labour-market policies and address skills shortages; (iv) improve the business environment and ensure that energy support to companies is cost-effective, temporary and targeted to viable firms and that it maintains incentives for the green transition; and (v) preserve macro-financial stability and monitor risks while continuing to work on completing the banking union. For Belgium, recommendations (1), (2), (3) and (4) contribute to the implementation of the first, second and third recommendations set out in the 2023 Recommendation on the euro area,

HEREBY RECOMMENDS that Belgium take action in 2023 and 2024 to:

1. 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. Should renewed energy price increases necessitate new or continued support measures, ensure that such support measures are targeted at protecting vulnerable households and firms, are fiscally affordable and preserve incentives for energy savings.

   Ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 2 %[20].

   Preserve nationally financed public investment and ensure the effective absorption of grants under the Facility and of other Union funds, in particular to foster the green and digital transitions.

   For the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to higher sustainable growth, in order to achieve a prudent medium-term fiscal position.

   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. Review tax expenditures in order to reduce their economic, social and environmental harmful impact.

[20] Which is estimated to correspond to an annual improvement in the structural budget balance of at least 0,7 % of GDP for 2024, as described in recital 23.

2. Ensure effective governance in order to allow for a swift and steady implementation of its recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting the implementation thereof. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.

3. Address labour shortages and skills mismatches, in particular by strengthening activation policies (including guidance) in order to integrate disadvantaged groups into the labour market. Improve the performance and equity of the education and training systems, and continue reforms to strengthen the teaching profession.

4. Reduce overall reliance on fossil fuels by stepping up energy efficiency improvements and the reduction of fossil fuel use in buildings, by further stimulating the decarbonisation of industry and by promoting the use and supply of public transport and soft mobility. Accelerate the deployment of renewable energies and related grid infrastructure by further streamlining permitting procedures, including by reducing the length of appeal procedures, and by adopting legal frameworks to further boost investments in renewable energy installations and facilitate energy sharing. Step up policy efforts aimed at the provision and acquisition of skills and competences needed for the green transition.

Done at Brussels,

For the Council
The President