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From: General Secretariat of the Council

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To: Permanent Representatives Committee/Council

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Subject: Recommendation for a COUNCIL RECOMMENDATION on the 2022 National Reform Programme of Belgium and delivering a Council opinion on the 2022 Stability Programme of Belgium

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Delegations will find attached the abovementioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2022) 602 final.

## COUNCIL RECOMMENDATION

of ...

**on the 2022 National Reform Programme of Belgium and delivering a Council opinion on the 2022 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 Articles 121(2) and 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<sup>1</sup>, 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,

Whereas:

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<sup>1</sup> OJ L 209, 2.8.1997, p. 1.

- (1) Regulation (EU) 2021/241 of the European Parliament and of the Council<sup>2</sup>, which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transitions, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility will be updated in June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

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<sup>2</sup> 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 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy coordination. It took due account of the Porto Social Commitment signed on 7 May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011 of the European Parliament and of the Council<sup>3</sup>, the Commission also adopted the Alert Mechanism Report, in which it did not identify Belgium as one of the Member States for which an in-depth review would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2022 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<sup>4</sup> ('2022 Recommendation on the euro area') on 5 April 2022 and the Joint Employment Report on 14 March 2022.

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<sup>3</sup> 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).

<sup>4</sup> Council Recommendation of 5 April 2022 on the economic policy of the euro area (OJ C 153, 7.4.2022, p.1).

- (3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt through, inter alia, higher prices for energy, food and raw materials, and weaker growth prospects. The higher energy prices weigh particularly heavily on the most vulnerable households experiencing or at risk of energy poverty as well as on firms most vulnerable to energy prices hikes. The Union is also seeing an unprecedented inflow of people fleeing Ukraine. The economic effects stemming from Russia's war of aggression have impacted Member States asymmetrically. In this context, on 4 March 2022, Council Directive 2001/55/EC<sup>5</sup> was triggered for the first time by Council Implementing Decision (EU) 2022/382<sup>6</sup>, granting displaced persons from Ukraine the right to legally stay in the Union, as well as access to education and training, the labour market, healthcare, housing and social welfare.

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<sup>5</sup> Council Directive 2001/55/EC of 20 July 2001 on minimum standards for giving temporary protection in the event of a mass influx of displaced persons and on measures promoting a balance of efforts between Member States in receiving such persons and bearing the consequences thereof (OJ L 212, 7.8.2001, p.12).

<sup>6</sup> Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection (OJ L 71, 4.3.2022, p. 1).

- (4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 European Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for the recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any other country-specific recommendations issued up to the date of submission of such revised, updated or amended recovery and resilience plans.
- (5) The general escape clause of the Stability and Growth Pact has been active since March 2020. In its communication of 3 March 2021 entitled ‘One year since the outbreak of COVID-19: fiscal policy response’, the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the Union or euro area compared to pre-crisis levels (end of 2019) as a key quantitative criterion. 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.

- (6) Following the approach in the Council Recommendation of 18 June 2021<sup>7</sup> on the 2021 Stability Programme of Belgium, 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) but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds, relative to medium-term potential growth<sup>8</sup>. 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<sup>9</sup> primary current expenditure (net of discretionary revenue measures and excluding temporary emergency measures related to the COVID-19 crisis) and investment.

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<sup>7</sup> 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).

<sup>8</sup> The estimates on the fiscal stance and its components in this Recommendation are Commission estimates based on the assumptions underlying the Commission's 2022 spring forecast. 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 that can boost potential growth.

<sup>9</sup> Not financed by grants under the Recovery and Resilience Facility or other Union funds.

- (7) On 2 March 2022, the Commission adopted a communication providing broad guidance for fiscal policy in 2023 ('the fiscal guidance') aimed at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination. The Commission noted that, on the basis of the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020–2022 to a broadly neutral aggregate fiscal stance, while standing ready to react to the evolving economic situation, would appear appropriate in 2023. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate between Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its European Semester spring package of late May 2022.
- (8) With respect to the fiscal guidance, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the Commission's 2022 winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transitions and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second-round effects via targeted and temporary measures. Fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, including challenges that arise from Russia's war of aggression against Ukraine with regard to defence and security, and has to differentiate between Member States according to their fiscal and economic situation, including as regards their exposure to the crisis and the inflow of displaced persons from Ukraine.



- (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<sup>10</sup>. 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.
- (10) On 30 April 2022, Belgium submitted its 2022 National Reform Programme and its 2022 Stability Programme, in line with the deadline established in Article 4 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 2022 National Reform Programme also reflects Belgium's biannual reporting on the progress made in implementing its recovery and resilience plan.

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<sup>10</sup> ST 10161/21 INIT; ST 10161/21 ADD 1.

- (11) The Commission published the 2022 country report for Belgium on 23 May 2022. It assessed Belgium's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Belgium's implementation of the recovery and resilience plan, building on the recovery and resilience scoreboard. On the basis of that analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. 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) On 23 May 2022, 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 2021 exceeded the Treaty reference value of 3 % of gross domestic product (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. In line with the communication of 2 March 2022, the Commission considered, within its assessment of all relevant factors, that compliance with the debt-reduction benchmark would involve an overly demanding frontloaded fiscal effort that could jeopardise growth. Therefore, in the view of the Commission, compliance with the debt-reduction benchmark is not warranted under the current exceptional economic conditions. As announced, the Commission did not propose to open new excessive-deficit procedures in spring 2022 and will reassess whether it is necessary to propose the opening of such procedures in autumn 2022.

(13) In its Recommendation of 20 July 2020<sup>11</sup>, the Council recommended Belgium to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the COVID-19 pandemic, sustain the economy and support the ensuing recovery. It also recommended Belgium to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, according to data validated by Eurostat, Belgium's general government deficit fell from 9,0 % of GDP in 2020 to 5,5 %. The fiscal policy response by Belgium supported the economic recovery in 2021, while temporary emergency measures declined from 4,4 % of GDP in 2020 to 2,9 % in 2021. The measures taken by Belgium in 2021 were in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of permanent increases in minimum pensions and health sector wages. According to data validated by Eurostat, general government debt fell from 112,8 % of GDP in 2020 to 108,2% of GDP in 2021.

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<sup>11</sup> Council Recommendation of 20 July 2020 on the 2020 National Reform Programme of Belgium and delivering a Council opinion on the 2020 Stability Programme of Belgium (OJ C 282, 26.8.2020, p. 1).

(14) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is favourable. The government projects real GDP to grow by 3,0 % in 2022 and 1,9 % in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 2,0 % in 2022 and 1,6 % in 2023, mainly due to the earlier cut-off date for the macroeconomic projections underlying the 2022 Stability Programme, which was before the start of Russia's war of aggression against Ukraine. In its 2022 Stability Programme, the government expects that the headline deficit will decrease to 5,2 % of GDP in 2022 and to 3,6 % in 2023. The decrease in 2022 mainly reflects the solid growth in economic activity and the unwinding of most emergency measures. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to (marginally) decrease to 108,0 % in 2022, and to rise to 108,8 % in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission's 2022 spring forecast projects a government deficit for 2022 and 2023 of 5,0 % of GDP and 4,4 % respectively. In 2022, this is in line with the deficit projected in the 2022 Stability Programme, despite the less favourable macroeconomic scenario in the Commission's 2022 spring forecast, as the budgetary projections in the 2022 Stability Programme take into account a technical correction reflecting the budget impact of the consequences of Russia's war of aggression against Ukraine in 2022 only. In 2023, the Commission's 2022 spring forecast projects a higher general government budget deficit, mainly due to a less favourable macroeconomic scenario and measures not yet specified in the outer years of the 2022 Stability Programme. The Commission's 2022 spring forecast projects a broadly similar general government debt-to-GDP ratio of 107,5 % in 2022 but a lower ratio of 107,6 % in 2023, reflecting the lower increase in the GDP deflator in the 2022 Stability Programme. According to the Commission's 2022 spring forecast, the medium-term (10-year average) potential output growth is estimated at 1,4 %. However, that estimate does not include the impact of the reforms that are part of the recovery and resilience plan and can boost Belgium's potential growth.

(15) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency measures are projected to decline from 2,9 % of GDP in 2021 to 0,4 % in 2022. The government deficit in 2022 is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission's spring 2022 forecast are estimated at 0,5 % of GDP in 2022 and 0 % of GDP in 2023<sup>12</sup>. Those measures mainly consist of lump sum transfers to households and cuts to indirect taxes on energy consumption. Those measures have been announced as temporary and concern 2022. However, in the event that energy prices remain elevated in 2023, some of those measures could be continued. Some of those measures are not targeted, in particular across-the-board transfers to households to support energy consumption and cuts in VAT rates on gas and electricity and excise duties on petrol. The government deficit is also impacted by the cost of offering temporary protection to displaced persons from Ukraine, which in the Commission's 2022 spring forecast is projected at 0,1 % of GDP in both 2022 and 2023<sup>13</sup>, as well as by the increased cost of defence expenditure (0,1 % of GDP in 2022).

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<sup>12</sup> 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.

<sup>13</sup> It is assumed that the total number of persons displaced from Ukraine to the Union will gradually reach 6 million by the end of 2022, and their geographical distribution is estimated on the basis of the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the Union as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

- (16) In its Recommendation of 18 June 2021, the Council recommended that in 2022 Belgium should use 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 Belgium to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term and, at the same time, to enhance investment to boost growth potential.

(17) In 2022, according to the Commission's 2022 spring forecast and including the information incorporated in Belgium's 2022 Stability Programme, the fiscal stance is projected to be supportive at -2,4 % of GDP<sup>14</sup>. 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. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to increase by 0,2 % percentage points of GDP compared to 2021. Nationally financed investment is projected to provide a neutral contribution to the fiscal stance in 2022<sup>15</sup>. Therefore, Belgium plans to preserve 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) in 2022 is projected to provide an expansionary contribution of 2,1 percentage points to the overall fiscal stance. That significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0,5 % of GDP) as well as the costs to offer temporary protection to displaced persons from Ukraine (0,1 % of GDP). Furthermore, the increase in government spending due to the automatic indexation of public-sector wages and social benefits, and to a lower extent to higher government consumption of goods and services, is also projected to contribute to the expansionary contribution of nationally financed net primary current expenditure. According to the Commission's forecast, these measures and drivers of higher expenditure are not fully matched by offsetting measures.

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<sup>14</sup> 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.

<sup>15</sup> Other nationally financed capital expenditure is projected to provide an expansionary contribution of 0,1 percentage point of GDP.

- (18) In 2023, the fiscal stance is projected in the Commission's 2022 spring forecast at 0,0 % of GDP on a no-policy change assumption<sup>16</sup>. Belgium is projected to continue using the grants under the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by grants under the Recovery and Resilience Facility and other Union funds is projected to remain stable compared to 2022. Nationally financed investment is projected to provide an expansionary contribution to the fiscal stance of 0,1 percentage point in 2023<sup>17</sup>. At the same time, the growth in nationally financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of 0,1 percentage point to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0,5 % of GDP).
- (19) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 3,4 % of GDP in 2024 and to 2,7 % by 2025. Therefore, the general government deficit is planned to go below 3 % of GDP by 2025. These projections are based on a macroeconomic scenario elaborated prior to the Russian invasion of Ukraine, and assume measures not yet specified in the outer years of the 2022 Stability Programme, in particular a so-called 'flexible budgetary effort' amounting to 0,8 % of GDP between 2023 and 2025. According to the 2022 Stability Programme, the general government debt-to-GDP ratio is expected to increase by 2025, specifically with an increase to 109,7 % in 2024, and a rise to 110,1 % in 2025. According to the Commission's analysis, debt sustainability risks appear high over the medium term.

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<sup>16</sup> 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.

<sup>17</sup> Other nationally financed capital expenditure is projected to provide a neutral contribution.



(20) Under unchanged policies, the rapidly ageing population is expected to worsen the impact of ageing-related expenditure on public finances. The Commission 2021 Ageing Report<sup>18</sup> projects an increase of 3,6 percentage points by 2040 and by 5,4 percentage points of GDP by 2070 in ageing-related spending, mostly due to pension and long-term care expenditure. In its recovery and resilience plan, Belgium has committed to implementing a pension reform inter alia to improve the financial and social sustainability of the system and promote convergence amongst different pension schemes. With regard to long-term care, Belgium was already one of the highest spenders in the Union in 2019, and its spending is expected to further increase by 14 % by 2030 and by 2,2 percentage points of GDP by 2070. Reforms to improve the cost-efficient use of the different care settings, in particular to avoid and delay unnecessary or premature institutionalisation, which concerns one in four people in residential care<sup>19</sup>, have started, although large regional differences are observed. The COVID-19 crisis has stalled the implementation of planned cost-saving measures. This suggests that there may be scope to further reduce over-institutionalisation while strengthening the use of quality home care services and, addressing financial barriers that limit access to these services for the most-vulnerable groups. A swift and ambitious implementation of reforms would help address sustainability concerns.

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<sup>18</sup> European Commission, 2021, The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070), Institutional Paper 148.

<sup>19</sup> Devos C, Cordon A, Lefèvre M, Obyn C, Renard F, Bouckaert N, Gerken S, Maertens de Noordhout C, Devleeschauwer B, Haelterman M, Léonard C, Meeus P (2019), Performance du système de santé belge – Rapport 2019 – Synthèse. Health Services Research (HSR). Bruxelles: Centre Fédéral d’Expertise des Soins de Santé (KCE). KCE Reports 313B. D/2019/10.273/33.

(21) The Belgian tax system is characterised by a high labour tax burden, with relatively high tax rates, and narrow tax brackets. This limits the real progressivity of the tax system and further weakens labour participation. While the 2016 tax reform reduced the tax burden on labour for the lowest-income earners, the tax wedge remains the highest in the Union for those earning the average wage. High labour taxation may also discourage participation in lifelong learning. In addition, some design features of the unemployment benefit system risk undermining incentives to work for jobseekers and may reduce the effectiveness of activation policies. The complexity of social support and limited possibilities to combine income from work and social benefits may also create disincentives to take up work, in particular for those with a low earning potential. Furthermore, partly to temper the high tax rates, tax bases are eroded by numerous exemptions, deductions and reduced rates, which create efficiency losses and introduce distortions. Some features of the tax system contribute to distorting investment choices and lead to overinvestment in certain assets. For instance, rents from immovable property are undertaxed and interest on housing loans for secondary residences are tax-deductible. Moreover, tax incentives for savings and the rigid design of the tax rules applying to long-term savings and pension schemes, create obstacles to a better allocation of capital. The tax on securities accounts, introduced by the law of 17 February 2021, also acts as a disincentive to invest in financial instruments. Moreover, there is scope to develop environmental taxation, by reducing fossil-fuel subsidies and by encouraging investment in the low-carbon economy. For instance, reviewing excise duties on fossil fuels used for heating (e.g. gas oil and natural gas), which are low when compared to electricity, would encourage investment in low-carbon heating solutions. Policy options such as introducing road charging for private vehicles (as for lorries), while ensuring a sufficient level of public transport provision, could be used to address congestion (the average number of hours per year spent in traffic jams is among the highest in the Union). It could also help reduce greenhouse-gas emissions not covered by the emissions trading schemes. Combining a shift away from labour and broadening the tax base could improve the fairness of the tax system, boost employment as well as promote social and environmental objectives.

(22) 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 with an indicative timetable for implementation to be completed by 31 August 2026. These help address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Belgium by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a recovery and resilience plan. In particular, the recovery and resilience plan of Belgium is expected to help address a significant subset of the challenges identified in the relevant country-specific recommendations. To improve the quality and efficiency of public spending, the recovery and resilience plan of Belgium includes the systematic integration of spending reviews in the budgetary planning cycles of all government levels. Against the background of increasing public pension expenditure, the plan includes a pension reform, which aims inter alia at improving the financial and social sustainability of the pension system. The recovery and resilience plan of Belgium also includes several measures to address labour market challenges and strengthen the social and labour market integration of vulnerable groups, such as people with a migrant background, women, youth, people with disabilities and people at risk of digital exclusion. Under the recovery and resilience plan, Belgium will ensure 5G deployment. The recovery and resilience plan of Belgium also contains a reform of the company-car tax scheme, aiming for the full electrification of company-car fleets.

- (23) The implementation of the recovery and resilience plan of Belgium is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Belgium account for 49,6 % of the recovery and resilience plan's total allocation, while measures supporting digital objectives account for 26,6 % of the recovery and resilience plan's total allocation. The fully fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Belgium swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of 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 the recovery and resilience plan, to ensure broad ownership of the overall policy agenda.
- (24) Belgium has not yet submitted the Partnership Agreement provided for in Regulation (EU) 2021/1060 of the European Parliament and of the Council<sup>20</sup> or the other cohesion policy programmes provided for in that Regulation. In line with Regulation (EU) 2021/1060, Belgium is to take into account the relevant country-specific recommendations in the programming of the 2021–2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting coordination, complementarity and coherence between those cohesion policy funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transitions and balanced territorial development.

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<sup>20</sup> Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy (OJ L 231, 30.6.2021, p. 159).

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan, Belgium faces a number of additional challenges related to its labour market and education system. The record high job vacancy rate in Belgium indicates that employers are finding it increasingly difficult to hire employees with the right skills. Labour shortages concern all skills levels and are persistent in various sectors, including information and communication technologies, education, the care sector and construction. In particular, there are too few graduates in science, technology, engineering and mathematics (STEM), both among upper secondary graduates from vocational programmes and among tertiary graduates. Skills mismatches are also explained by low participation in adult learning, in particular for the low-educated, for whom upskilling could offer better employment opportunities. Under the recovery and resilience plan, individual learning accounts and individual learning rights will be developed for employees. However, the share of expenditure on active labour market policies devoted to training is limited and only a small – although increasing – proportion of jobseekers follow a training related to a job in shortage. 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.

- (26) In terms of labour shortages and skills mismatches, there are concerns in particular about the performance and inclusiveness of the education system, also in the light of high public spending on education<sup>21</sup>. 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. More than one in three young adults with disabilities do not finish secondary education. Moreover, only 6,2 % of students participated in work-based learning in Belgium in 2019, well below the Union average (29 %). Increasing the labour market relevance of the vocational education and training (VET) systems is particularly warranted in the French Community as only 3 out of the 10 most popular upper secondary VET options prepare for occupations with labour shortages. Overall, concerns in Belgium remain on the attractiveness of VET as a track of excellence, as reflected in the large share of the population with a negative perception of VET. Strengthening the teaching profession would help to retain teachers and reduce a growing shortage of qualified teachers. This poses a particular challenge to disadvantaged schools, risking further increasing existing inequalities in the education system. Despite measures already taken, the attractiveness of the teaching profession would be strengthened by providing better initial education and continuous professional development, and by developing more flexible and attractive career paths.
- (27) In response to the mandate by the Union Heads of State or Government set out in the Versailles Declaration, the Commission's proposal for a REPowerEU plan aims to phase out the Union's dependence on fossil-fuel imports from Russia as soon as possible. For this purpose, the Commission intends to identify the most-suitable projects, investments and reforms at national, regional and Union level in dialogue with Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil-fuel imports away from Russia.

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<sup>21</sup> OECD – PISA Results 2018, Volume 1.

(28) Around 70 % of Belgium's gross inland energy consumption is covered by fossil fuel imports. According to 2020 data, dependency on fossil fuel imports from Russia is of 30 % for crude oil (share of total imports), higher than the EU-27 average (26 %) and comparatively lower for natural gas (7 % versus 44 % for the Union) and for coal (39 % versus 54 %)<sup>22</sup>. The shares in the energy mix of oil (39 % of gross inland consumption versus 33 %) and natural gas (30 % versus 24 %) are both above the Union average, while the share of coal is lower (5 % versus 11 %). The share of nuclear energy in the energy mix is 16 % of gross inland consumption. Renewable energy accounted for only 13 % of final energy consumption in 2020. Belgium will need to take significant additional steps to accelerate the development of renewable energy sources in order to make progress towards climate neutrality in 2050 and reduce its dependency on imported fossil fuels. The development of onshore wind projects and the related expansion of the power grid are, however, severely hampered by long delays for building permits in particular due to numerous, repetitive and lengthy appeal procedures. Alignment between all governmental levels (federal, regional, local) on the objectives and strategy needed to achieve Belgium's renewable targets would provide for a clearer framework for investors, and reduce the number of appeals and accelerate renewables deployment and related grid reinforcement. Furthermore, permitting could be made easier by reinforcing the capacity of appeal bodies and adopting further measures to reduce the length of appeal procedures and the likelihood of successive appeals, by easing restrictions in the neighbourhood of airports, radars and military zones, and by updating minimum distance requirements (to wind turbines). The introduction of spatial planning that takes into account the resource potential of territories and higher participation of municipalities in renewable energy generation projects could increase acceptability among local residents.

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<sup>22</sup> Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil and hard coal. For the EU-27 average, the total imports are based on extra-EU-27 imports. For Belgium, total imports include intra-EU trade. Crude oil does not include refined oil products.

The potential of rooftop solar (for both small scale and large scale installations) could be better harnessed by adopting framework conditions that are predictable and sufficient to stimulate self-consumption, energy sharing and demand side response. To accommodate the increased level of variable energy sources in the electricity grid, the grid would need to be strengthened and made smarter. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels.

- (29) Additional means to further boost energy efficiency and reduce energy consumption, emissions and dependency on fossil fuels include investments in the hydrogen value chain, the energy renovation and the decarbonisation of buildings. This implies that subsidies are redirected to low carbon heating sources and that regional bans on oil-fired boiler or gas boiler installations in new buildings are introduced or accelerated. The fuel switch will be made easier if energy consumption is reduced and energy-efficiency improvements are stepped up (by encouraging deeper renovation) and conducted in parallel to the fuel switch. A further increase in ambition in respect of reducing greenhouse-gas emissions and increasing renewables and energy efficiency will be needed in order for Belgium to be in line with the ‘Fit for 55’ objectives. In transport, the high share of private car use accounts for a large part of the oil consumption in Belgium. Promoting ‘soft mobility’ (for example, cycling, shared mobility) and the use of public transport, including through improved public transport services, would help reduce the use of private cars and the related oil consumption.



- (30) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Belgium can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socioeconomic impact of the transition in the most affected regions. In addition, Belgium can make use of the European Social Fund Plus, established by Regulation (EU) 2021/1057 of the European Parliament and of the Council<sup>23</sup>, to improve employment opportunities and strengthen social cohesion.
- (31) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion<sup>24</sup> is reflected in recommendation (1).
- (32) 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 the euro-area Member States take action, including through their recovery and resilience plans, to implement the recommendations set out in the 2022 Recommendation on euro area. For Belgium, this is reflected in particular in recommendations (1), (2) and (3).

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<sup>23</sup> Regulation (EU) 2021/1057 of the European Parliament and of the Council of 24 June 2021 establishing the European Social Fund Plus (ESF+) and repealing Regulation (EU) No 1296/2013 (OJ L 231 30.6.2021, p. 21).

<sup>24</sup> Under Article 5(2) of Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Belgium take action in 2022 and 2023 to:

1. In 2023, ensure prudent fiscal policy, in particular by limiting the growth of nationally financed primary current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. 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, 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. Prioritise reforms to improve the fiscal sustainability of long-term care, including by promoting a cost efficient use of the different care settings. 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. Reduce tax expenditures and make the tax system more investment-neutral.
2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Submit the 2021–2027 cohesion policy programming documents with a view to finalising the negotiations with the Commission and subsequently starting their implementation.
3. Address labour shortages and skills mismatches, in particular by improving the performance and inclusiveness of the education and training system, enhancing the quality and labour market relevance of the vocational education and training and developing more flexible and attractive career paths and training for teachers.

4. Reduce overall reliance on fossil fuels by stepping up energy efficiency improvements and the reduction of fossil fuel use in buildings, promoting the use and supply of public transport as well as soft mobility and accelerating the deployment of renewable energies and related grid infrastructure by further streamlining the permitting procedures including by reducing the length of appeal procedures and adopting framework conditions to boost investments in solar energy installations.

Done at Brussels,

*For the Council*

*The President*

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