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Recommendation for a

COUNCIL RECOMMENDATION

**on the 2020 National Reform Programme of Belgium and delivering a Council opinion
on the 2020 Stability Programme of Belgium**

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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 policies¹, 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:

- (1) On 17 December 2019, the Commission adopted the Annual Sustainable Growth Strategy, marking the start of the 2020 European Semester for economic policy coordination. It took due account of the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. On 17 December 2019, on the basis of Regulation (EU) No 1176/2011, 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 carried out. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area.
- (2) The 2020 country report for Belgium² was published on 26 February 2020. It assessed Belgium's progress in addressing the country-specific recommendations adopted by the Council on 9 July 2019³, the follow-up given to the recommendations adopted in previous years and Belgium's progress towards its national Europe 2020 targets.
- (3) On 11 March 2020, the World Health Organization officially declared the COVID-19 outbreak a global pandemic. It is a severe public health emergency for citizens,

¹ OJ L 209, 2.8.1997, p. 1.

² SWD(2020) 500 final.

³ OJ C 301, 5.9.2019, p. 117.

societies and economies. It is putting national health systems under severe strain, disrupting global supply chains, causing volatility in financial markets, triggering consumer demand shocks and having negative effects across various sectors. It is threatening people's jobs, their incomes and companies' business. It has delivered a major economic shock that is already having serious repercussions in the European Union. On 13 March 2020, the Commission adopted a Communication⁴ calling for a coordinated economic response to the crisis, involving all actors at national and Union level.

- (4) Several Member States have declared a state of emergency or introduced emergency measures. Any emergency measures should be strictly proportionate, necessary, limited in time, and in line with European and international standards. They should be subject to democratic oversight and independent judicial review.
- (5) On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact⁵. The clause, as set out in Articles 5(1), 6(3), 9(1) and 10(3) of Regulation (EC) 1466/97 and Articles 3(5) and 5(2) of Regulation (EC) 1467/97, facilitates the coordination of budgetary policies in times of severe economic downturn. In its Communication, the Commission shared with the Council its view that, given the expected severe economic downturn resulting from the COVID-19 outbreak, the current conditions permit activation of the clause. On 23 March 2020, the Ministers of Finance of the Member States agreed with the assessment of the Commission. The activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term. For the corrective arm, the Council may also decide, on a recommendation from the Commission, to adopt a revised fiscal trajectory. The general escape clause does not suspend the procedures of the Stability and Growth Pact. It allows Member States to depart from the budgetary requirements that would normally apply while enabling the Commission and the Council to undertake the necessary policy coordination measures within the framework of the Pact.
- (6) Continued action is required to limit and control the spread of the pandemic, strengthen the resilience of the national health systems, mitigate the socio-economic consequences through supportive measures for business and households and to ensure adequate health and safety conditions at the workplace with a view to resuming economic activity. The Union should fully use the various tools at its disposal to support Member States' efforts in those areas. In parallel, Member States and the Union should work together to prepare the measures necessary to get back to a normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all lessons from the crisis.
- (7) The COVID-19 crisis has highlighted the flexibility that the single market offers to adapt to extraordinary situations. However, in order to ensure a swift and smooth transition to the recovery phase and the free movement of goods, services and workers, exceptional measures that prevent the single market from functioning normally must be removed as soon as they are no longer indispensable. The current crisis has shown the need for crisis preparedness plans in the health sector, which include in particular improved purchasing strategies, diversified supply chains and strategic reserves of

⁴ COM(2020) 112 final.

⁵ COM(2020) 123 final.

essential supplies. They are key elements for developing broader crisis preparedness plans.

- (8) The Union legislator has already amended the relevant legislative frameworks⁶ to allow Member States to mobilise all unused resources from the European Structural and Investment Funds so they can address the exceptional effects of the COVID-19 pandemic. Those amendments will provide additional flexibility, as well as simplified and streamlined procedures. To alleviate cash flow pressures, Member States can also benefit from a 100% co-financing rate from the Union budget in the 2020-2021 accounting year. Belgium is encouraged to make full use of those possibilities to help the individuals and sectors most affected by the challenges.
- (9) The socio-economic consequences of the pandemic are likely to be unevenly distributed across regions because of different specialisation patterns. This entails a substantial risk of widening inter- and intra-regional disparities within Belgium. Combined with the risk of a temporary unravelling of the convergence process between Member States, the current situation calls for targeted policy responses.
- (10) On 30 April 2020, Belgium submitted its 2020 National Reform Programme and its 2020 Stability Programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.
- (11) Belgium is currently in the preventive arm of the Stability and Growth Pact and subject to the debt rule.
- (12) On 13 July 2018, the Council recommended Belgium to ensure that the nominal growth rate of net primary government expenditure⁷ does not exceed 1,8% in 2019, corresponding to an annual structural adjustment of 0,6% of GDP. As Belgium was assessed to qualify for the requested temporary deviation of 0,5% of GDP under the structural reform clause, the required structural adjustment for 2019 was reduced to 0,1% of GDP, corresponding to a nominal growth rate of net primary expenditure that does not exceed 2,8% in 2019. The Commission's overall assessment confirms a significant deviation from the recommended adjustment path towards the medium-term budgetary objective in 2019 and over 2018 and 2019 taken together. This is a relevant factor in the Commission report prepared in accordance with Article 126(3) of the Treaty assessing Belgium's compliance with the debt criterion in 2019.
- (13) In its 2020 Stability Programme, the government plans the headline balance to deteriorate from a deficit of 1,9% of GDP in 2019 to a deficit of 7,5% of GDP in 2020. After decreasing to 98,6% of GDP in 2019, the general government debt-to-GDP ratio is expected to increase to around 115% in 2020 according to the 2020 Stability

⁶ Regulation (EU) 2020/460 of the European Parliament and of the Council of 30 March 2020 amending Regulations (EU) No 1301/2013, (EU) No 1303/2013 and (EU) No 508/2014 as regards specific measures to mobilise investments in the healthcare systems of Member States and in other sectors of their economies in response to the COVID-19 outbreak (Coronavirus Response Investment Initiative) (OJ L 99, 31.3.2020, p. 5) and Regulation (EU) 2020/558 of the European Parliament and of the Council of 23 April 2020 amending Regulations (EU) No 1301/2013 and (EU) No 1303/2013 as regards specific measures to provide exceptional flexibility for the use of the European Structural and Investments Funds in response to the COVID-19 outbreak (OJ L 130, 24.4.2020, p. 1).

⁷ Net primary government expenditure comprises total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

Programme. The macroeconomic and fiscal outlook is affected by high uncertainty due to the COVID-19 pandemic.

- (14) In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Belgium has adopted budgetary measures to increase the capacity of its health system, contain the pandemic, and provide relief to those individuals and sectors that have been particularly affected. According to the 2020 Stability Programme, those budgetary measures amounted to 2,3% of GDP. The measures include a federal temporary unemployment benefit scheme, replacement income for self-employed, federal provision for crisis-related expenditure, various regional allowances for companies and sectoral subsidies. The quantification of the deficit-increasing measures broadly coincides with the Commission's estimates, once the different treatment of the cost of automatic stabilisers is taken into account. In addition, Belgium has announced measures that, while not having a direct budgetary impact, will contribute to support liquidity to businesses. Those measures concern both federal and regional loan guarantees for companies and the self-employed, which the 2020 Stability Programme estimates at 11,8% of GDP. Tax deferrals, notably for personal and corporate income taxes and social contributions, have also been implemented but the 2020 Stability Programme does not quantify them. Overall, the measures taken by Belgium are in line with the guidelines set out in the Commission Communication on a coordinated economic response to the COVID-19 outbreak. The full implementation of those measures, followed by a refocusing of fiscal policies towards achieving prudent medium-term fiscal positions when economic conditions allow, will contribute to preserving fiscal sustainability in the medium term.
- (15) Based on the Commission 2020 spring forecast under unchanged policies, Belgium's general government balance is forecast at -8,9% of GDP in 2020 and -4,2% in 2021. The general government debt ratio is projected to reach 113,8% of GDP in 2020.
- (16) On 20 May 2020, the Commission issued a report prepared in accordance with Article 126(3) of the Treaty due to Belgium's non-compliance with the debt rule in 2019 and the planned breach of the 3% of GDP deficit threshold in 2020. Overall, the analysis suggests that the deficit and debt criteria as defined in the Treaty and in Regulation (EC) No 1467/1997 are not fulfilled.
- (17) In response to the outbreak of the COVID-19 pandemic, the Belgian authorities have adopted a comprehensive package of measures to mitigate the social and economic impact of the sharp economic downturn. A EUR 50 billion guarantee scheme is in place for new short-term credit granted to viable businesses. The regions and communities have also introduced guarantees for bridge and regular business loans, liquidity support to businesses in the form of direct loans and measures to financially support businesses most affected by the crisis. The reimbursement of existing mortgages and business loans can be extended. A temporary moratorium on bankruptcy proceedings for hard-hit businesses is available. Different incentives to encourage more workers to stay at work or take up work again to ensure business continuity have been introduced. Social security contributions and tax payments, such as value-added tax, corporate and personal income taxes, may be deferred or are exempted in some cases. The federal government has made the temporary unemployment scheme due to force majeure available for companies affected by the crisis, with increased benefits. A monthly replacement income is available for the self-employed whose activity has been interrupted for at least seven consecutive days. The degressivity of unemployment benefits is temporarily frozen. The federal government

is also preparing an additional set of measures to counter insolvency of businesses, such as a corporate and personal income tax exemption for the 2020 fiscal year.

- (18) The Belgian health system performs well in providing acute care in hospitals. Nonetheless, the COVID-19 outbreak has highlighted a number of shortcomings in the health system's resilience when faced with a severe public health crisis. It has made apparent that Belgium faces a structural shortage of health workers that needs to be addressed. In the immediate future, ensuring sufficient critical medical products, including protective equipment in particular for health workers and workers in other exposed occupations, will remain key. A public healthcare strategy, which is fully coordinated with prevention and long-term care policies, will remain essential in the short and medium term to ensure that public health crisis such as COVID-19 are effectively managed. The smooth implementation of the Inter Ministerial Conference agreement on public healthcare to make hospital staff and infrastructure (a federal competence) available to long-term care facilities (a community competence) is an important building block in this context.
- (19) After reaching record high levels of employment in 2019 and in the beginning of 2020, the COVID-19 crisis has abruptly halted employment growth in Belgium. Belgium's existing public income support schemes such as the system of temporary unemployment for employees and the bridging right for self-employed provide partial compensation for income losses due to reduced working time. These short-time working schemes play a major role in reducing the impact of lowered production output on employment levels. Nevertheless, unemployment is expected to rise to 7% in 2020 and to reduce somewhat to 6,6% in 2021. In order to prevent that the increase in unemployment becomes structural, further efforts will be needed to strengthen the effectiveness of the existing active labour market policies, which remain low as a high share of unemployed participating in active labour market measures coexists with a low transition from unemployment to employment. Particular attention should be paid to ensuring a comprehensive approach for those furthest from the labour market that are likely to be the most affected by the negative socio-economic consequences of the crisis. Vulnerable groups include in particular the low-skilled, people with a migrant background and people with disabilities. In addition, the labour tax wedge remains on average high at all wage levels, except for the very low wage earners (50% of the average wage). This is an important driver of the relatively high cost of labour, which may negatively affect labour demand, in particular for low productivity jobs.
- (20) Labour mobility should be fostered towards the sectors where there are major shortages, including health, information and communication technologies (ICT) and technical and professional occupations. This will be accompanied with important needs in terms of re- and up-skilling and will require to increasing the level of adult participation in education and training, including by using periods of reduced working hours. There are concerns that the existing training incentives schemes do not reach those that would benefit the most, such as the low-skilled, older workers and people with a migrant background. Poor language skills are a major barrier, in particular in bilingual Brussels. The communities are taking action to increase the uptake of science, technology, engineering and mathematics studies, but there is scope for more comprehensive strategies to meet future labour market demand. The overall level of digital skills is good, but remains stagnant. Among young people, and in particular among those with low education, the level of digital skills is lower than the EU average and has been worsening over the past years. Availability of adequate equipment and internet connection for all students accompanied by the necessary

teacher training and mentoring schemes, is essential to ensure access to distance learning. This is also needed to ensure existing inequalities in the education system are not exacerbated due to the crisis.

- (21) Belgium has adopted many schemes to support the liquidity of firms, including a State guarantee scheme to loans and several regional schemes notified under the temporary framework for State aid measures to support the economy in the current COVID-19 outbreak. An efficient and effective implementation of such schemes, including by intermediaries, is key to ensure that firms, and especially small and medium enterprises and self-employed, benefit from them in order to protect them and to allow for a faster recovery. In the process of designing and implementing these measures the resilience of the banking sector, including the intermediaries, needs to be taken into account
- (22) Despite government efforts, the administrative burden on firms weights some EUR 7 billion per year (1,6% of GDP), most of which comes from complying with tax and labour law. The tax system is complex because of various tax expenditures. The payroll management for a company is complex, in particular for companies that need to manage the various regional systems. Businesses experience increasing delays in payment by public authorities contributing to businesses' failures and a deteriorating business climate. There are long delays for building permits, electricity and water connections. The process of transferring a property is among the slowest and the most expensive in the EU. There are major regional discrepancies in entry requirements for craft/construction services. Rules on shop opening hours, sales promotions, discounts and distribution channels for non-prescription medicines weight on the operational environment for retailers. The roll-out of 5G is being held back amongst others by strict radiation limits (notably in Brussels) varying in each region, by expensive antennae taxes in Brussels and the long delivery time of permits to deploy antennae. In the area of insolvency, there is no special simplified out-of-court settlement procedure for small and medium enterprises and only debtors can start insolvency procedures. Despite gradual improvements, insufficient digitalisation and a lack of resources remain a challenge for the justice system. Lengthy proceedings in administrative justice cause significant delays for public procurement and building permit cases. Key enforcers in market surveillance, competition and rail transport are understaffed to perform their tasks.
- (23) To foster the economic recovery, it will be important to front-load mature public investment projects and promote private investment, including through relevant reforms. As expressed in its 2021-2030 National Energy and Climate Plan (NECP), Belgium has significant investment needs in sustainable transport, notably to tackle congestion and electric mobility. Before the crisis, Belgian regions had announced major multi-annual transport infrastructure plans. Major investment is taking place in suburban rail around Brussels, signalling, port and cross-border rail connections. The NECP also identified important investment needs in renewable and flexible power generation, interconnections, smart grids, storage and in energy efficiency to meet European energy targets, to realise Belgium's commitment to fully phasing out nuclear energy by 2025 and to renovate 80% the building stock which was built before the introduction of energy norms. In contrast to the relatively high private research and development (R&D) intensity, the public R&D intensity remains slightly below that of most Member States with a similar level of economic development. Belgium risks lagging behind in 5G deployment as it is not planning to assign the 5G pioneer bands within the deadlines provided in Union legislation. In March 2020, the Belgian

authorities opened a public consultation for temporary national licenses for the 200 MHz of available spectrum in the band 3.6-3.8 GHz as a temporary solution. The programming of the Just Transition Fund for the period 2021-2027 could help Belgium to address some of the challenges posed by the transition to a climate neutral economy, in particular in the territories covered by Annex D to the country report. This would allow Belgium to make the best use of that fund.

- (24) While the present recommendations focus on tackling the socio-economic impacts of the pandemic and facilitating the economic recovery, the 2019 country-specific recommendations adopted by the Council on 9 July 2019 also covered reforms that are essential to address medium- to long-term structural challenges. Those recommendations remain pertinent and will continue to be monitored throughout next year's European Semester annual cycle. That also applies to recommendations regarding investment-related economic policies. The latter recommendations should be taken into account for the strategic programming of cohesion policy funding post-2020, including for mitigating measures and exit strategies with regard to the current crisis.
- (25) The European Semester provides the framework for continuous economic and employment policy coordination in the Union, which can contribute to a sustainable economy. Member States have taken stock of progress regarding United Nations' Sustainable Development Goals (SDGs) implementation in their 2020 National Reform Programmes. By ensuring the full implementation of the recommendations below, Belgium will contribute to the progress towards the SDGs and to the common effort of ensuring competitive sustainability in the Union.
- (26) Close coordination between economies in the economic and monetary union is key to achieve a swift recovery from the economic impact of the COVID-19. Belgium should, as a Member State whose currency is the euro – and taking into account political guidance by the Eurogroup – ensure its policies remain consistent with the euro area recommendations and coordinated with those of the other euro area Member States.
- (27) In the context of the 2020 European Semester, the Commission has carried out a comprehensive analysis of Belgium's economic policy and published it in the 2020 country report. It has also assessed the 2020 Stability Programme and the 2020 National Reform Programme and the follow-up given to the recommendations addressed to Belgium in previous years. It has taken into account not only their relevance for sustainable fiscal and socioeconomic policy in Belgium, but also their compliance with Union rules and guidance, given the need to strengthen the Union's overall economic governance by providing Union-level input into future national decisions.
- (28) In the light of that assessment, the Council has examined the 2020 Stability Programme and its opinion⁸ is reflected in particular in recommendation (1) below,

HEREBY RECOMMENDS that Belgium take action in 2020 and 2021 to:

1. In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, pursue fiscal policies aimed at achieving prudent

⁸ Under Article 5(2) of Council Regulation (EC) No 1466/97.

medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. Reinforce the overall resilience of the health system and ensure the supply of critical medical products.

2. Mitigate the employment and social impact of the crisis, notably by promoting effective active labour market measures and fostering skills development.
3. Ensure effective implementation of the measures to provide liquidity to assist small and medium-sized enterprises and the self-employed and improve the business environment. Front-load mature public investment projects and promote private investment to foster the economic recovery. Focus investment on the green and digital transition, in particular on infrastructure for sustainable transport, clean and efficient production and use of energy, digital infrastructure, such as 5G and Gigabit Networks, and research and innovation.

Done at Brussels,

*For the Council
The President*