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Recommendation for a

# COUNCIL RECOMMENDATION

## on the economic, social, employment, structural and budgetary policies of Belgium

{SWD(2024) 600 final} - {SWD(2024) 601 final}

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## on the economic, social, employment, structural and budgetary policies 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 (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97[1], and in particular Article 3(3) 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) Regulation (EU) 2021/241 of the European Parliament and of the Council[2], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support to the Member States for the implementation of reforms and investment, entailing a fiscal impulse financed by the EU. In line with the European Semester priorities, it helps achieve the economic and social recovery and implement sustainable reforms and investment, in particular to promote the green and digital transitions and 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 EU and support the continued implementation of the European Pillar of Social Rights.

(2) The REPowerEU Regulation[3], adopted on 27 February 2023, aims to phase out the EU's dependency on Russian fossil fuel imports. This would help achieve energy security and diversify the EU's energy supply, while increasing the uptake of

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1 OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

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), ELI: http://data.europa.eu/eli/reg/2021/241/oj.

3 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), ELI: http://data.europa.eu/eli/reg/2023/435/oj.

renewables, energy storage capacities and energy efficiency. Belgium added a new REPowerEU chapter to its national recovery and resilience plan in order to finance key reforms and investments that will help achieve the REPowerEU objectives.

(3) On 16 March 2023, the Commission issued a Communication on the 'Long-term competitiveness of the EU: looking beyond 2030'[4], in order to inform policy decisions and create the framework conditions for increasing growth. The Communication frames competitiveness along nine mutually reinforcing drivers. Among these drivers, access to private capital, research and innovation, education and skills, and the single market emerge as paramount policy priorities for reform and investment to address current productivity challenges as well as to build up the long-term competitiveness of the EU and its Member States. On 14 February 2024, the Commission followed this Communication with the Annual Single Market and Competitiveness Report[5]. The report details the competitive strengths and challenges of Europe's Single Market, tracking yearly developments according to the nine competitiveness drivers identified.

(4) On 21 November 2023, the Commission adopted the 2024 Annual Sustainable Growth Survey[6], marking the start of the 2024 cycle of the European Semester for economic policy coordination. The European Council endorsed the priorities of the survey around the four dimensions of competitive sustainability on 22 March 2024. On 21 November 2023, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the 2024 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, and for which an in-depth review would be needed. On the same date, the Commission also adopted an opinion on the 2024 draft budgetary plan of Belgium. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which the Council adopted on 12 April 2024, as well as the proposal for the 2024 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which the Council adopted on 11 March 2024.

(5) On 30 April 2024, the EU's new economic governance framework came into force. The framework includes the new Regulation of the European Parliament and of the Council (EU) 2024/1263 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes the amended Regulation (EC) No 1467/97 on the implementation of the excessive deficit procedure and the amended Directive 2011/85/EU on the budgetary frameworks of Member States[7]. The objectives of the new framework are public debt sustainability and sustainable and inclusive growth through gradual fiscal consolidation as well as reforms and investments. It promotes national ownership and has a greater medium-term focus, combined with more effective and coherent enforcement. Each Member State should submit to the Council and to the Commission a national medium-term fiscal-structural plan. National medium-term fiscal-structural plans contain the fiscal, reform and investment

4 COM(2023) 168 final.
5 COM(2024) 77 final.
6 COM(2023) 901 final.
7 Council Regulation (EU) 2024/1264 of 29 April 2024 amending Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 2024/1264, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1264/oj) and Council Directive (EU) 2024/1265 of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States (OJ L, 2024/1265, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj).

commitments of a Member State, covering a planning horizon of 4 years or 5 years depending on the regular length of the national legislature. The net expenditure[8] path in the national medium-term fiscal-structural plans should comply with the requirements of Regulation (EU) No 2024/1263, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period at the latest, or for it to remain at prudent levels below 60% of GDP, and to bring and/or maintain the government deficit below the 3% of GDP reference value over the medium term. Where a Member State commits to a relevant set of reforms and investments in accordance with the criteria set out in Regulation (EU) No 2024/1263, the adjustment period may be extended by 3 years at most. For the purpose of supporting the preparation of those plans, on [21 June] 2024, the Commission is set to provide Member States with guidance on the content of the plans and the subsequent annual progress reports that they will need to submit and, in accordance with Article 5 of Regulation (EU) No 2024/1263, will transmit to them technical guidance on the fiscal adjustments (reference trajectories and technical information, where applicable). Member States should submit their medium-term fiscal-structural plans by 20 September 2024, unless the Member State and the Commission agree to extend the deadline by a reasonable period of time. Member States should ensure the involvement of their national parliaments, and the consultation of independent fiscal institutions, of social partners and other national stakeholders, as appropriate.

(6) In 2024, the European Semester for economic policy coordination continues to evolve in line with the implementation of the Recovery and Resilience Facility. The full implementation of the recovery and resilience plans remains essential for delivering the policy priorities under the European Semester, as the plans help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent years. The 2019, 2020, 2022 and 2023 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241.

(7) 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 of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Belgium[9], which was amended on 8 December 2023 following Article 18(2) of Regulation (EU) 2021/241 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[10]. The release of instalments is conditional on a decision by the Commission,

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8 Net expenditure as defined in Article 2 of Council Regulation (EU) 2024/1263 of 29 April 2024 (OJ L 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj). Net expenditure means government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on programmes of the Union fully matched by Union funds revenue, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure, and (vi) one-offs and other temporary measures.

9 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Belgium (10161/2021).

10 Council Implementing Decision of 8 December 2023 amending the Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Belgium (15570/2023).

taken in accordance with Article 24(5) of Regulation (EU) 2021/241, 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.

(8) On 30 April 2024, Belgium submitted its 2024 National Reform Programme, in line with Article 4(1) of Regulation (EC) No 1466/97. In accordance with Article 27 of Regulation (EU) 2021/241, the 2024 National Reform Programme also reflects Belgium's biannual reporting on the progress made in achieving its recovery and resilience plan.

(9) The Commission published the 2024 country report for Belgium[11] on 19 June 2024. It assessed Belgium's progress in addressing the relevant country-specific recommendations adopted by the Council between 2019 and 2023 and took stock of Belgium's implementation of the recovery and resilience plan. Based on this 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. It also assessed Belgium's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(10) Based on data validated by Eurostat[12], Belgium's general government deficit increased from a deficit of 3.6% of GDP in 2022 to a deficit of 4.4% in 2023, while the general government debt rose from 104.3% of GDP at the end of 2022 to 105.2% at the end of 2023. As announced in the fiscal policy guidance for 2024[13], the Commission is taking the first step for the opening of deficit-based excessive deficit procedures on the basis of the outturn data for 2023, in line with existing legal provisions. On 19 June 2024, the Commission adopted a report under Article 126(3) of the TFEU[14]. That report assessed the budgetary situation of Belgium, as its general government deficit in 2023 exceeded the reference value of 3% of GDP. The report concluded that in the light of this assessment, and after considering the opinion of the Economic and Financial Committee as established under article 126(4) TFEU, the Commission intends to propose in July to open an excessive deficit procedure, by recommending to the Council to adopt a Decision under Article 126(6) establishing the existence of an excessive deficit, for Belgium.

(11) On 12 July 2022, the Council recommended[15] 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[16], 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 was also

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11 SWD(2024) 601 final.

12 Eurostat-Euro Indicators, 22.4.2024

13 COM(2023) 141 final.

14 Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 19.6.2024, COM(2024)598 final.

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

16 Based on the Commission 2024 spring forecast, the medium-term potential output growth of Belgium in 2023 is estimated at 5.7% in nominal terms, based on the 10-year average real potential growth rate and the 2023 GDP deflator.

recommended to stand ready to adjust current spending to the evolving situation. Belgium was also recommended to expand public investment for the green and digital transitions, and for energy security taking into account the REPowerEU initiative, including by making use of the Recovery and Resilience Facility and other Union funds. In 2023, according to the Commission estimates, the fiscal stance[17] was expansionary, by 0.7% of GDP, in a context of high inflation. The growth in nationally financed primary current expenditure (net of discretionary revenue measures) in 2023 provided an expansionary contribution to the fiscal stance of 0.4% of GDP. This includes the reduced cost of the targeted emergency 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 medium-term potential output growth was therefore not due to the targeted support to households and firms most vulnerable to energy price hikes. The expansionary growth in nationally financed primary current expenditure (net of discretionary revenue measures) was driven by permanent increases in public sector wages and social benefits resulting from the mechanism of automatic indexation, a temporary reduction in employers' social contributions in 2023, and rising budgetary costs related to demographic ageing. In sum, the growth of nationally financed primary current expenditure in 2023 was not in line with the Council recommendation. Expenditure financed by Recovery and Resilience Facility grants and other EU funds amounted to 0.3% of GDP in 2023. Nationally financed investment amounted to 2.8% of GDP in 2023, representing an increase of 0.1 percentage points as compared to 2022. Belgium financed additional investment through the Recovery and Resilience Facility and other EU funds. It financed public investment for the green and digital transitions, and for energy security, such as investment in rail and cycling infrastructures, renovation of public buildings, and hydrogen infrastructure, which are partly funded by the Recovery and Resilience Facility and other EU funds.

(12) The key projections in the 2024 Stability Programme can be summarised as follows. The macroeconomic scenario underpinning the budgetary projections foresees real GDP growth at 1.4% in 2024 and 1.3% in 2025, while it projects CPI inflation at 2.8% in 2024 and 1.8% in 2025. The general government deficit is expected to increase to 4.6% of GDP in 2024 and decrease to 3.6% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 106.2% by the end of 2024 and 106.8% by the end of 2025. After 2025, the general government balance is projected to decrease to 2.9% of GDP in 2026 and 2.3% in 2027. Therefore, the general government deficit is planned to go below the 3% of GDP deficit reference value in 2026. In turn, after 2025, the general government debt-to-GDP ratio is projected to decrease gradually to 106.6% in 2026, and 106% in 2027.

(13) The Commission Spring 2024 Forecast projects real GDP to grow by 1.3% in 2024 and 1.4% in 2025, and HICP inflation to stand at 4% in 2024 and 2.3% in 2025.

[17] The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures (and excluding temporary emergency measures related to the COVID-19 crisis) and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

(14) The Commission Spring 2024 Forecast projects a government deficit of 4.4% of GDP in 2024, while the general government debt-to-GDP ratio is set to remain at 105% in 2024. The stabilisation of the debt-to-GDP ratio in 2024 mainly reflects a temporary excess of cash buffer accumulated end-2023 as a result of an emission of state bonds. Based on the Commission's estimates, the fiscal stance is projected to be contractionary by 0.1% of GDP in 2024.

(15) Expenditure amounting to 0.2% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2024, compared to 0.1% of GDP in 2023, according to the Commission Spring 2024 Forecast. Expenditure financed by Recovery and Resilience Facility grants will enable high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Belgium.

(16) On 14 July 2023, the Council recommended[18] that Belgium ensure a prudent fiscal policy, in particular by limiting the nominal increase in net nationally financed primary expenditure[19] in 2024 to not more than 2%. When executing their 2023 budgets and preparing their Draft Budgetary Plans for 2024, Member States were invited to take into account that the Commission would propose to the Council the opening of deficit-based excessive deficit procedures based on the outturn data for 2023. According to the Commission Spring 2024 Forecast, Belgium's net nationally financed primary expenditure is projected to increase by 4% in 2024, which is above the recommended maximum growth rate. This excess spending over the recommended maximum growth rate in net nationally financed primary expenditure corresponds to 1% of GDP in 2024. This risks being not in line with what was recommended by the Council.

(17) Moreover, the Council recommended that Belgium take action to 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. The Council further specified that, should renewed energy price increases necessitate new or continued support measures, Belgium should ensure that these were targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings. According to the Commission Spring 2024 Forecast, the net budgetary cost[20] of emergency energy support measures is estimated at 0.4% of GDP in 2023 and projected at 0% of GDP in 2024 and 2025. If the related savings were used to reduce the government deficit, as recommended by the Council, these projections would imply a fiscal adjustment of 0.4% of GDP in 2024, whereas net nationally financed primary expenditure[21] provides a contractionary contribution to the fiscal stance of 0.1% of GDP in that year. The emergency energy support measures are projected to be

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18 Council Recommendation of 14 July 2023 on the 2023 National Reform Programme of Belgium and delivering a Council opinion on the 2023 Stability Programme of Belgium, OJ C 312, 1.9.2023, p. 12.

19 Net primary expenditure is defined as nationally financed expenditure net of (i) discretionary revenue measures, (ii) interest expenditure, (iii) cyclical unemployment expenditure, and (iv) and one-offs and other temporary measures.

20 The figure represents the level of the annual budgetary cost of those measures, including revenue and expenditure and, where applicable, net of the revenue from taxes on windfall profits of energy suppliers.

21 This contribution is measured as the change in general government primary expenditure, net of (i) the incremental budgetary impact of discretionary revenue measures, (i) one-offs, (iii) cyclical unemployment expenditure and (iv) expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential nominal GDP growth rate, expressed as a ratio to nominal GDP.

wound down as soon as possible in 2023 and 2024. This is in line with what was recommended by the Council. However, the related savings are not projected to be fully used to reduce the government deficit. This risks being not in line with the Council recommendation.

(18) In addition, the Council also recommended that Belgium preserve nationally financed public investment and ensure the effective absorption of Recovery and Resilience Facility grants and other EU funds, in particular to foster the green and digital transitions. According to the Commission Spring 2024 Forecast, nationally financed public investment is projected to increase to 2.9% of GDP in 2024 from 2.8% of GDP in 2023. This is in line with what was recommended by the Council. In turn, public expenditure financed from revenues from EU funds, including Recovery and Resilience Facility grants, is expected to remain stable at 0.3% of GDP in 2024.

(19) Based on policy measures known at the cut-off date of the forecast and on a no-policy-change assumption, the Commission Spring 2024 Forecast projects a government deficit of 4.7% of GDP in 2025. The general government debt-to-GDP ratio is set to increase to 106.6% by the end of 2025. The increase of the deficit and of the debt-to-GDP ratio in 2025 mainly reflects structurally rising current expenditure, driven in particular by costs related to demographic ageing, and by higher interest payments on public debt.

(20) Long-term fiscal sustainability risks are high in Belgium. Beyond the unfavourable initial budgetary position, the driving factor behind the assessment of high risks is the impact of the projected increase in age-related expenditure on public finances given the country's rapidly ageing population. In the Commission's 2024 Ageing Report[22], ageing-related expenditure is projected to steadily increase from 26.8 percentage points of GDP in 2022 to 31.9 percentage points of GDP in 2070. The increase of 5.1 percentage points of GDP by 2070 is mostly due to pension and long-term care expenditure. Pension expenditure is projected to increase by 3.5 percentage points of GDP over 2022-2070, compared to 0.4 percentage points of GDP on average in the EU. 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 2.3% of GDP in 2022 (EU average 1.7%), which made Belgium one of the countries with the highest spending on long-term care in the EU. By 2070, long-term care expenditure is projected to increase by 1.7 percentage points of GDP, against an average increase of 0.8 percentage points in the EU. In 2022, spending on institutional care at 1.4 percentage points of GDP in Belgium was substantially higher than on average in the EU (0.8 percentage points of GDP). Available data suggest that the share 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 who are independent or mildly dependent on care and living in residential care facilities was high in Brussels and Wallonia. The federated entities have started reforms to make the use of the different care settings more cost-efficient, particularly to avoid and delay unnecessary or premature

[22] European Commission and Economic Policy Committee, 2024 Ageing report, available at: https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en

institutionalisation. However, the level of progress made on addressing the fiscal sustainability challenge needs to be improved.

(21) Belgium belongs to the countries that have the highest tax and spending levels in the EU. Total spending includes a high level of tax expenditure and wage subsidies. Moreover, the design of its tax system and social benefits creates financial disincentives to work and contributes to the low labour market participation rate in Belgium (76.1% vs the EU average of 80.0% in 2023 (20-64 age group)). Labour taxes (personal income taxes and social contributions) are the highest in the EU for low wage and average wage earners, while revenues from consumption taxes, including energy taxes, are below the EU average. For second earners, specific tax features like the 'marital quotient'[23] create strong disincentives to work. Moreover, the design of social benefits discourages people from taking up work or working more hours. Many social benefits are status-dependent and not means-tested, hampering the efficiency of the benefits system. Unemployment benefits are unlimited in time and not means-tested for the long-term unemployed, which worsen existing unemployment traps. Shifting the tax burden away from labour to other tax bases and improving the efficiency of the tax and benefit system could help increase employment.

(22) In a context of structural consolidation needs, a labour tax reduction would need to be fully financed, including by reducing tax expenditure and by gradually phasing out fossil fuel tax subsidies. The heavy tax burden on labour is offset by many wage subsidies and tax deductions are extensively used in Belgium. Analysis by the High Council of Finance[24] found that tax expenditures are costly for the budget, tend to favour high-income earners and create inefficiencies. Tax expenditure with the highest budgetary cost include the company car scheme and the withholding tax exemption for R&D and shift work. Wage subsidies and other tax expenditure also make the tax system complex, adding to the high regulatory burden and weighing on the business environment. Moreover, R&D tax support is not targeted towards companies with the highest growth potential[25]. Some features of the tax system also distort investment choices and risk leading to overinvestment in certain assets. In 2021, Belgium's direct fossil fuel subsidies were estimated to amount to EUR 12 billion (2.4% of GDP) and indirect subsidies to more than EUR 2.6 billion[26]. Direct fossil fuel subsidies include low excise duties on gas and heating oil as compared to electricity. In combination with high electricity network costs, this creates high price differences between fossil fuels and electricity, hindering the switch to greener heating systems[27]. Moreover, this persistent support for heating oil and natural gas contradicts Belgium's commitments to reduce greenhouse gas emissions and improve air quality. Transport and pollution taxes are underused (e.g. smart road pricing only applies to heavy-duty vehicles) and could also help generate additional revenue. In a context of increasing traffic congestion and air pollution, tax expenditure, like the partial refund of excise duties on diesel for professional road transporters, are particularly costly and harmful to the environment.

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23 Belgium applies an income-splitting system ('marital quotient') which allows attributing a proportion of the professional income of the earning partner to the non-earning partner.

24 High Council of Finance, 2020, *Reducing the tax burden on labour and financing options*.

25 Schoonackers, R., 2020, *Tax incentives for R&D: Are they effective?* NBB Economic Review.

26 FPS Finance, 2024, *Inventory of federal fossil fuel subsidies*.

27 FPS Health and Finance, 2023, *The landscape of carbon and energy pricing and taxation in Belgium*.

(23) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2 of Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These are expected to help effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations. Within this tight timeframe, proceeding swiftly with the effective implementation of the plan, including the REPowerEU chapter is essential to boost Belgium's long-term competitiveness through the green and digital transition, while ensuring social fairness. To deliver on the commitments of the plan by August 2026, it is essential for Belgium to significantly accelerate the implementation of reforms and investments, by ensuring effective governance. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(24) As part of the mid-term review of the cohesion policy funds, in accordance with Article 18 of Regulation (EU) 2021/1060, Belgium is required to review each programme by March 2025, taking into account, among other things, the challenges identified in the 2024 country-specific recommendations, as well as its national energy and climate plan. This review forms the basis for the definitive allocation of the EU funding included in each programme. Belgium has made progress in implementing cohesion policy and the European Pillar of Social Rights, but challenges remain. Intra-regional disparities in terms of economic and social development continue to be high in Belgium. It is crucial that the implementation of cohesion policy be stepped up. The priorities agreed in the programmes remain relevant. It is particularly important that there be a quick implementation of the investments to help boost research, innovation and digitalisation as well as those related to the green transition, climate change adaptation and energy efficiency. Improving access to employment and activation measures, particularly for vulnerable groups, long-term unemployed people and young people remains a priority. Continuing support to lifelong learning to improve the mobility and adaptability of workers is of key importance. Furthermore, encouraging active inclusion and employability of disadvantaged groups continues to be necessary. Belgium could also make use of the Strategic Technologies for Europe Platform initiative to support industrial transformation, by further developing advanced digital technologies and services, circular and advanced materials as well as capacities related to sustainable clean energy, resilient housing and innovation for health.

(25) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Belgium faces several further challenges related to labour shortages and skills mismatches, the integration of disadvantaged groups into the labour market, the performance and equity of the education system, the teaching profession and also challenges related to the business environment, the regulatory burden and complexity, as well as restrictions in the service sector. Addressing these challenges could help improve the skills of workers and educational outcomes of all students, resulting in increasing labour productivity, and bring employment closer to the national 2030 target of 80%.

(26) The high job vacancy rate points to persisting labour shortages, more pronounced among technical occupations that are needed to accelerate the green transition. The integration of disadvantaged groups, including people who attained a lower level of education, come from a migrant background or with disabilities, continues to pose a concern. The number of graduates, especially women, in science, technology, engineering and mathematics (STEM) remains low (16.4 per 1 000 inhabitants aged

20-29 vs 21.9 in the EU). In addition, the transition rate from unemployment to employment is below the EU average. This suggests scope to increase the effectiveness of activation policies, particularly by improving the efficiency of public employment services, better targeting measures to support the labour market integration of disadvantaged groups and of workers on long-term sick leave. Increasing the number of STEM graduates and the labour market relevance of vocational education and training (VET) in technical professions could further help to address labour shortages. The participation of adults in learning is low, especially among people with lower level qualifications. While measures, such as an individual right of 5 days of training per year for employees and individual learning accounts, have been implemented to increase adult learning, their impact needs time to materialise and these measures warrant an evaluation.

(27) Despite high public spending on education, learning outcomes have deteriorated and there remain concerns regarding the inclusiveness and equity of the education and training systems. The 2022 OECD Programme for International Student Assessment results show a long-term deterioration in reading, mathematics and science among 15-year-olds (25% underperformed in mathematics, 25.3% in reading and 22.4% in science). While Belgium had the highest share of top performers in mathematics in the EU in 2012 (19.5%), this sharply declined over the following 10 years (11.5% in 2022, Flemish Community: 15%, French Community: 6.9%, German-speaking Community: 6.4%). In addition, the gap in underachievement between advantaged and disadvantaged students has widened since 2018. The underachievement rate of disadvantaged students increased by 9.2 percentage points, reaching 45.8% in mathematics (EU: 48%, Flemish Community: 41.4%, French Community: 51.1%, German-speaking Community: 35.6%). Improving the proficiency in basic skills of all students are crucial to favour labour market participation, including of disadvantaged groups. Increasing the attractiveness of the teaching profession, in particular by ensuring job stability and providing continuous training adapted to evolving needs, would help reduce a growing shortage of qualified teachers, which risks further increasing educational inequalities[28].

(28) Belgium's business environment is impaired by a high regulatory burden and a high level of complexity. The administrative burden on firms is heavy, particularly in relation to tax and labour law. The costs that SMEs face in complying with labour and tax systems are comparatively high in Belgium, in particular for companies that need to manage multiple regional systems. Moreover, Belgium has one of the lowest levels of business dynamism in the EU. In spite of a recent increase, the rate of new businesses starting up remains low, notably for firms with employees. The share of high-growth firms in Belgium is significantly below the EU average. High trade restrictions in the service sector may play a role in weakening business dynamism. Lifting restrictions on regulated professions would also need to be addressed.

(29) In view of the close interlinkages between the economies of euro area Member States and of their collective contribution to the functioning of the Economic and Monetary Union, in 2024 the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Belgium,

[28] European Commission, 2023, *Education and Training Monitor: Belgium*.

recommendations (1), (2), (3) and (4) help implement the first, second, third and fourth euro area recommendations.

HEREBY RECOMMENDS that Belgium take action in 2024 and 2025 to:

1. Submit the medium-term fiscal-structural plan in a timely manner. In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure[29] in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit towards the 3% of GDP Treaty reference value. Address the expected increase in age-related expenditure, including by making the long-term care system more cost-effective. Reform the tax and benefits system to strengthen incentives to work by shifting the tax burden away from labour and by reviewing the design of benefits. Finance the labour tax reduction, including by reducing tax expenditure. In particular, take steps to phase out fossil fuel subsidies, including by shifting excise duties from electricity to fossil fuels.

2. Significantly accelerate the implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026, by ensuring effective governance. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review, continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.

3. Address labour shortages and skills mismatches, including for the green transition, and strengthen activation policies to further 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. Improve the business environment and business dynamics by reducing regulatory burden and complexity, and by easing the restrictions in the service sector.

Done at Brussels,

*For the Council*
*The President*

[29] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.