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COMMISSION STAFF WORKING DOCUMENT

Analysis of the Draft Budgetary Plan of Belgium

Accompanying the document

COMMISSION OPINION

on the Draft Budgetary Plan of Belgium

{C(2020) 8501 final}

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EXECUTIVE SUMMARY

- In 2020, economic activity is set to contract by 7.4% according to the Draft Budgetary Plan and by 8.4% according to the Commission ad hoc forecast for Belgium.¹ For 2021, the Draft Budgetary Plan projects GDP to expand by 6.5%, in spite of which real GDP in 2021 is set to remain 1.4% below its 2019 level. In turn, the Commission projects GDP to grow by 4.5% in 2021.
- In the Draft Budgetary Plan, the headline balance is expected to deteriorate sharply, reaching a deficit of 10.7% of GDP in 2020 and 6.9% of GDP in 2021. According to the Commission, Belgium is projected to have a headline deficit of 11.4% of GDP in 2020 and 8.0% of GDP in 2021.
- The fiscal outlook continues to be affected by high uncertainty due to the COVID-19 pandemic. According to the Draft Budgetary Plan, measures adopted in 2020 to fight the pandemic and to mitigate its impact amount to 3.9% of GDP in 2020. They comprise, among others, more generous benefits for temporary unemployment, eased replacement income for the self-employed, higher healthcare expenditure, and tax exemptions.
- For 2021, planned measures are expected to increase the deficit by 0.6 percentage points. They include both temporary spending related to the crisis and permanent expenditure measures accounting for around 0.3% of GDP. In particular, these concern rising wages in healthcare and an increase in the minimum pension. On the revenue side, permanent revenue-increasing measures, such as an increase in the tobacco excise tax or improvements in combating tax fraud, are compensated by temporary revenue-decreasing measures related to the crisis. Public guarantees amounting to 2.6% of GDP and other liquidity measures aimed at supporting firms do not entail an immediate budgetary impact.
- Public debt stood at 98.1% of GDP at end of 2019. On 20 May 2020, the Commission therefore prepared a report under Article 126(3) TFEU analysing whether Belgium was compliant with the deficit and debt criteria of the Treaty. Overall, the analysis suggests that both criteria as defined in the Treaty and in Regulation (EC) No 1467/1997 were not fulfilled. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken. According to the Draft Budgetary Plan, the debt is planned to rise to 116.5% of GDP in 2020, before declining to 114.4% in 2021. In the Commission forecast, the public debt-to-GDP ratio is projected to reach 117.8% of GDP in 2020, and to further increase to 118.4% in 2021.

¹ Given the submission of the updated Draft Budgetary Plan after the cut-off date of the Commission's 2020 autumn forecast, the Commission produced an ad hoc macroeconomic and budgetary projection for Belgium for the purpose of the assessment of the updated Draft Budgetary Plan for 2021.

- Overall, the Commission considers that the measures in the Draft Budgetary Plan of Belgium support economic activity against the background of considerable uncertainty. Given the level of Belgium's government debt and high sustainability challenges in the medium term already before the outbreak of the COVID-19 pandemic, it is important for Belgium to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved.. At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances.

1. INTRODUCTION

This document assesses the economic and budgetary projections contained in the 2021 Draft Budgetary Plans of Belgium (hereafter called the Plan), which was submitted for 2020, following the formation of a federal government on 30 October. On 15 October 2020, Belgium had submitted a Draft Budgetary Plan for 2021 on the basis of unchanged policies.

On 20 March 2020, the Commission adopted a Communication on the activation of the general escape clause of the Stability and Growth Pact and on 23 March 2020 the Ministers of Finance agreed with the Commission assessment. The clause facilitates the coordination of budgetary policies in times of severe economic downturn. As indicated in the Annual Sustainable Growth Strategy 2021² and as communicated in the letter of 19 September 2020 from the Commission to the EU Ministers of Finance³, the activation of the general escape clause allows for a temporary departure from the adjustment path towards the medium-term budgetary objective of each Member State, which should continue to provide targeted and temporary fiscal support in 2021, provided that this does not endanger fiscal sustainability in the medium term. 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.

Public finances in 2021 are also expected to be influenced by the proposed establishment of the Recovery and Resilience Facility (RRF), alongside the proposal for the reinforced long-term budget of the EU for 2021-2027. The RRF is envisaged to provide a total envelope of €672.5 billion in loans and non-repayable financial support (grants) to support the implementation of investments and reforms in the EU Member States. The 2021 Draft Budgetary Plan of Belgium does not take into account the implementation of significant reforms and investments, and their associated costs, envisaged under the RRF.

² Communication from the Commission on Annual Sustainable Growth Strategy 2021, Brussels, 17.9.2020, COM(2020) 575 final.

³ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2021_en

On 20 May 2020, the Commission issued a report under Article 126(3) TFEU, as Belgium's general government deficit in 2020 was planned to exceed the 3% of GDP Treaty reference value and Belgium did not comply with the debt reduction benchmark in 2019. The report concluded that, after the assessment of all relevant factors, the deficit criterion was not fulfilled and the debt criterion was not complied with. In light of the exceptional uncertainty created by the outbreak of COVID-19 and its extraordinary macroeconomic and fiscal impact, including for designing a credible path for fiscal policy, which will have to remain supportive in 2021, the Commission considered that a decision on whether to place Member States under the Excessive Deficit Procedure should not be taken.

As the debt ratio is projected to be 117.8% of GDP at the end of 2020, exceeding the 60% of GDP reference value of the Treaty, Belgium also needs to comply with the debt reduction benchmark.

2. MACROECONOMIC DEVELOPMENTS UNDERLYING THE DRAFT BUDGETARY PLAN

The Belgian economy has been severely hit by the COVID-19 pandemic. To contain it, the government introduced generalised lockdown measures in March. These measures have been gradually relaxed as of May. The restrictions resulted in a contraction in economic activity. After an expansion by 1.4% in 2019, the 2021 Draft Budgetary Plan forecasts a GDP contraction of 7.4% in 2020 (see Table 1). For 2021, the Draft Budgetary Plan projects GDP to expand by 6.5%. These figures however do not take into account the recent national accounts revision (which revised real GDP growth up to 1.7% in 2019) or the development of the pandemic which led to the introduction of new lockdown measures to fight the second wave. The macroeconomic and fiscal outlook continue to be affected by high uncertainty due to the COVID-19 pandemic.

The abrupt drop in economic activity over the first two quarters of 2020 (-3.5% and -12.1% according to the Plan, -3.4% and -11.8% according to more recent national accounts) is set to be followed by a strong recovery in the third quarter of 2020. According to the 2020 Plan, private consumption and exports are projected to be the main drivers of the rebound. Private consumption is expected to decrease strongly due to the restrictions in 2020 (-8.7%), but is projected to rebound in 2021 (+9%). As support measures like temporary unemployment are expected to largely mitigate the loss of household disposable income in 2020 (-0.3%), the strong drop in consumption is forecast to lead to a surge in the saving rate. The latter is expected to decrease in 2021 with higher private consumption. Regarding investment, the rebound of corporate investment might take more time to materialise as uncertainty remains. Overall, investment is forecast to decrease by 11.5% in 2020 and grow by 11.2% in 2021.

Table 1. Comparison of macroeconomic developments and forecasts

	2019	2020			2021		
	COM	SP	DBP	COM	SP	DBP	COM
Real GDP (% change)	1.7	-8.0	-7.4	-8.4	8.6	6.5	4.5
Private consumption (% change)	1.5	-5.7	-8.7	-10.0	7.1	9.0	5.3
Gross fixed capital formation (% change)	3.4	n.a.	-11.5	-14.5	n.a.	11.2	7.0
Exports of goods and services (% change)	1.0	n.a.	-7.3	-8.6	n.a.	7.0	5.0
Imports of goods and services (% change)	0.8	n.a.	-6.7	-8.7	n.a.	8.6	5.5
<i>Contributions to real GDP growth:</i>							
- Final domestic demand	2.0	n.a.	-7.2	-8.4	n.a.	7.7	4.8
- Change in inventories	-0.4	n.a.	0.2	0.0	n.a.	0.0	0.0
- Net exports	0.2	n.a.	-0.4	0.0	n.a.	-1.2	-0.3
Output gap ¹	1.6	n.a.	-6.6	-7.5	n.a.	-1.4	-4.1
Employment (% change)	1.6	n.a.	-0.5	-0.7	n.a.	-1.1	-1.0
Unemployment rate (%)	5.4	n.a.	5.4	5.9	n.a.	6.6	7.0
Labour productivity (% change)	0.2	n.a.	-6.9	-7.7	n.a.	7.7	5.5
HICP inflation (%)	1.2	1.3	0.8	0.4	1.5	1.4	1.4
GDP deflator (% change)	1.7	1.5	0.7	1.7	1.6	1.6	1.6
Comp. of employees (per head, % change)	2.1	n.a.	-4.0	1.9	n.a.	7.9	1.2
Net lending/borrowing vis-à-vis the rest of the world (% of GDP)	0.5	n.a.	n.a.	1.1	n.a.	n.a.	0.9

Note:

¹In percent of potential GDP, with potential GDP growth recalculated by Commission services on the basis of the programme scenario using the commonly agreed methodology.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission ad hoc forecast (COM); Commission calculations

The Commission's macroeconomic scenario is more pessimistic than the Draft Budgetary Plan. According to the Commission ad hoc forecast, GDP is projected to decline by 8.4% in 2020, before rebounding by around 4.5% in 2021. These figures take into account recent developments of the health crisis and the new lockdown measures designed to rein in the second wave of the pandemic.

The macroeconomic forecast underpinning the budget was prepared in September 2020 by the Federal Planning Bureau (FPB), commissioned by the National Accounts Institute. The Draft Plan indicates that the scenario does not incorporate recent measures taken to contain the second wave of the pandemic.

3. RECENT AND PLANNED FISCAL DEVELOPMENTS

On 20 July 2020 the Council addressed recommendations to Belgium in the context of the European Semester. In the area of public finances and in line with the general escape clause, the Council recommended Belgium to take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery. When economic conditions allow, Belgium should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment.

3.1. Deficit developments

The 2021 Draft Budgetary Plan projects a rise in the general government headline deficit from 1.9% in 2019 to 10.7% of GDP in 2020, whereas Belgium's latest Stability Programme targeted a deficit of 7.5% in 2020 (see Table 2). The difference between the two projections stems mostly from new measures taken to mitigate the impact of the COVID-19 crisis. In comparison, the Commission ad hoc forecast projects a higher headline deficit of 11.4% of GDP. The difference with the Draft Budgetary Plan arises mostly from lower expected revenues, in turn due to a larger projected contraction of GDP in the Commission's forecast.

For 2021, the Draft Budgetary Plan plans a deficit of 6.9% of GDP. The improvement with respect to 2020 is explained by the expected economic rebound and the phasing out of the temporary measures implemented to contain the economic effects of the pandemic. The Stability Programme did not provide projections for 2021.

In turn, the Commission's ad hoc forecast projects a higher headline deficit of 8.0% of GDP in 2021. The difference between the two projections lies mostly on the expenditure side. The Draft Budgetary Plan expects expenditure in 2021 to decline more sharply than in the Commission's forecast. This is mostly due to higher projections for social transfers, notably unemployment benefits, and higher investments in the Commission forecast. The revenue projections are slightly lower in the Commission forecast, driven by lower projected GDP growth. Different estimates of discretionary fiscal measures planned for 2021 also explain part of the difference (see Section 4).

The Draft Budgetary Plan does not assume significant revenue and expenditure related to the Recovery and Resilience Facility as the government has not yet indicated measures to be financed under the Recovery and Resilience Facility in 2021. It only refers to EUR 1 billion (0.2 % of GDP) in federal investments that could be financed by the Recovery and Resilience Facility, spread over 2021-2024. Submission of the Recovery and Resilience Plan and its subsequent approval is expected to take place in 2021. In line with its no-policy change assumption, the Commission forecast includes expenditure related to the Recovery and Resilience Facility of less than 0.1% of GDP that is sufficiently detailed and credibly announced. For the time being, the Commission forecast assumes in the budgetary projections for 2021⁴ the 10% pre-financing of Recovery and Resilience Facility grants. In the

⁴ The treatment of the Recovery and Resilience Facility (RRF) in the Commission's 2020 autumn forecast is explained in detail in Box I.4.3 of the European Commission's Economic Forecast Autumn 2020 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip136_en.pdf). The forecast only incorporates those measures that are credibly announced and sufficiently detailed in the Draft Budgetary Plans, irrespective of whether they are planned to be part of Recovery and Resilience Plans. No financing from the RRF has been included on the revenue side of the budgetary projections. Only the pre-financing of RRF grants is included in the forecast for 2021. The assumptions on expenditure measures linked to the RRF in the Commission forecast are without prejudice to the assessment of the Recovery and Resilience Plans.

case of Belgium, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 557 million in 2021.⁵ It is treated as a financial transaction with no impact on the budget balance in 2021, but with a public debt-reducing impact. The evolution of the deficit in 2021 could turn out more favourable as a result of the higher growth from the implementation of measures financed by the Recovery and Resilience Facility.

Table 2. Composition of the budgetary adjustment

(% of GDP)	2019		2020		2021				Change: 2019-2021
	COM	DBP	SP	DBP	COM	SP	DBP	COM	DBP
Revenue	50.1	50.1	n.a.	50.5	50.1	n.a.	49.5	49.4	-0.6
<i>of which:</i>									
- Taxes on production and	13.5	13.5	n.a.	13.1	12.9	n.a.	13.3	13.2	-0.2
- Current taxes on income,	15.7	15.7	n.a.	15.9	15.7	n.a.	15.2	15.1	-0.5
- Capital taxes	0.7	0.7	n.a.	0.7	0.8	n.a.	0.7	0.7	0.0
- Social contributions	15.5	15.5	n.a.	15.8	15.8	n.a.	15.7	15.6	0.2
- Other (residual)	4.8	4.8	n.a.	5.0	4.9	n.a.	4.6	4.8	-0.2
Expenditure	52.1	52.1	n.a.	61.3	61.5	n.a.	56.4	57.4	4.3
<i>of which:</i>									
- Primary expenditure	50.1	50.1	n.a.	59.2	59.4	n.a.	54.6	55.6	4.5
<i>of which:</i>									
Compensation of employees	12.3	12.3	n.a.	13.6	13.6	n.a.	12.8	13.1	0.5
Intermediate consumption	4.1	4.1	n.a.	4.6	4.6	n.a.	4.3	4.5	0.2
Social payments	24.6	24.6	n.a.	29.3	29.3	n.a.	27.3	28.0	2.7
Subsidies	3.8	3.8	n.a.	5.2	5.6	n.a.	4.1	4.7	0.3
Gross fixed capital formation	2.6	2.6	n.a.	2.5	2.6	n.a.	2.7	3.0	0.1
Other (residual)	2.7	2.7	n.a.	4.0	3.8	n.a.	3.4	2.3	0.7
- Interest expenditure	2.0	2.0	n.a.	2.0	2.1	n.a.	1.8	1.8	-0.2
General government balance (GGB)	-1.9	-1.9	-7.5	-10.7	-11.4	n.a.	-6.9	-8.0	-5.0
Primary balance	0.0	0.0	0.0	-8.7	-9.3	n.a.	-5.1	-6.2	-5.1
One-off and other temporary measures	0.2	0.2	n.a.	0.1	0.1	n.a.	0.0	0.0	-0.2
GGB excl. one-offs	-2.1	-2.1	n.a.	-10.8	-11.5	n.a.	-6.9	-8.0	-4.8
Output gap ¹	1.6	1.6	n.a.	-6.6	-7.5	n.a.	-1.4	-4.1	-2.9
Cyclically-adjusted balance ¹	-2.9	-2.9	0.0	-6.6	-6.7	n.a.	-6.1	-5.5	-3.2
Structural balance (SB)²	-3.1	-3.1	n.a.	-6.7	-6.9	n.a.	-6.1	-5.5	-3.0
Structural primary balance ²	-1.1	-1.1	n.a.	-4.7	-4.8	n.a.	-4.3	-3.7	-3.1

Notes:

¹ Output gap (in % of potential GDP) and cyclically-adjusted balance according to the DBP/Programme as recalculated by Commission on the basis of the DBP/Programme scenario using the commonly agreed methodology.

² Structural (primary) balance corresponds to cyclically-adjusted (primary) balance excluding one-off and other temporary measures.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission ad hoc (COM); Commission calculations

The main risk to the budgetary targets for 2021 stems from the still uncertain costing of the COVID-19 related measures.

⁵ The amount of pre-financing is based on the Council Presidency compromise proposal for the RRF regulation (11538/20) of 7 October 2020, on which the Council Presidency obtained a mandate for conducting the negotiations with the European Parliament.

In structural terms, the Draft Budgetary Plan projects an improvement in the recalculated structural balance⁶ of 0.7 percentage points of GDP in 2021, while the Commission forecast points to an improvement of 1.3 percentage points of GDP. However, a mechanical reading of traditional indicators is not well suited at the current juncture to assessing the fiscal stance. The introduction and subsequent withdrawal of sizeable temporary emergency measures distort the picture, as the corresponding changes in the level of public spending from one year to the next affect the indicators used to assess the fiscal stance.⁷ Excluding the temporary emergency measures from the calculation of the fiscal stance indicators provides a more representative assessment of the underlying fiscal support to economic activity.⁸

3.2. Debt developments

In the Draft Budgetary Plan, the public debt-to-GDP ratio is planned to rise from 98.1% of GDP in 2019 to 116.5% of GDP at the end 2020 (see Table 3). The increase is due both to a significant fall in economic activity in 2020 and sizable crisis measures taken by the authorities. The primary deficit will add 9 additional percentage points to the debt ratio, mainly due to the increase in expenditure to counter the impact of the COVID-19 pandemic and automatic stabilisers. Likewise, the snowball effect is expected to entail a sizeable debt-increasing impact, primarily driven by the considerable contraction in GDP growth. Stock-flow adjustments will also contribute to an increase in the debt, mainly as a result of VAT tax deferrals adopted in response to the COVID-19 crisis.

For 2021, the Draft Budgetary Plan projects the debt ratio to decline by 2.1 percentage points, to 114.4% of GDP. The decline stems mostly from a favourable snowball effect caused by the rebound in economic activity and inflation in 2021. This more than offsets the debt increasing impact from the primary balance deficit. Stock-flow adjustments contribute marginally to the projected debt decrease. The debt projections for 2020 presented in the Draft Budgetary Plan are higher than in the Stability Programme due to the larger expected deficit which, for a significant part, can be explained by an increase in COVID-19 related expenditure. The Stability Programme did not provide figures for 2021.

The Commission ad hoc forecast projects a larger increase in the debt ratio, by 19.8 percentage points to 117.8% of GDP in 2020. The difference with the Draft Budgetary Plan stems mostly from a higher primary balance deficit and higher stock flow adjustments. For 2021, the Commission expects a further increase in the debt

⁶ Cyclically adjusted balance net of one-off and temporary measures, recalculated by the Commission using the commonly agreed methodology. The estimates of the structural budget balance are affected by high uncertainty due to the economic consequences of the COVID-19 pandemic.

⁷ COVID-19 related emergency measures are not considered one-offs, although most of them have been introduced for a temporary period in order to complement automatic stabilisers.

⁸ This is no denial that the emergency measures are essential to preserve the health sector and keep households and businesses afloat, with a further positive impact on the economy. However, they are likely to be less efficient to support the recovery when the health-related emergency gradually vanes. Indeed, because of their very nature, the short-term multipliers of temporary emergency measures are likely to be low in the context of restrictions in economic activity, as confirmed by the sharp rise in the private sector's propensity to save (rather than consume) in 2020.

ratio to 118.4%, compared to a decline in the Draft Budgetary Plan. The difference is due to a smaller debt-reducing snowball effect driven by lower real growth and a higher primary balance deficit in 2021 in the Commission forecast.

Table 3. Debt developments

(% of GDP)	2019	2020			2021		
		SP	DBP	COM	SP	DBP	COM
Gross debt ratio¹	98.1	115.0	116.5	117.8	n.a.	114.4	118.4
Change in the ratio	-1.7	n.a.	18.5	19.8	n.a.	-2.1	0.6
Contributions ² :							
1. Primary balance	0.0	n.a.	8.7	9.3	n.a.	5.1	6.2
2. “Snow-ball” effect	-1.3	n.a.	9.1	9.1	n.a.	-6.9	-5.0
<i>Of which:</i>							
Interest expenditure	2.0	n.a.	2.0	2.1	n.a.	1.8	1.8
Real growth effect	-1.7	n.a.	7.7	8.8	n.a.	-7.0	-5.0
Inflation effect	-1.6	n.a.	-0.7	-1.8	n.a.	-1.7	-1.8
3. Stock-flow adjustment	-0.3	n.a.	0.7	1.2	n.a.	-0.2	-0.5
<i>Of which:</i>							
Cash/accruals difference		n.a.	n.a.		n.a.	n.a.	
Net accumulation of financial of which privatisation		n.a.	n.a.		n.a.	n.a.	
Valuation effect & residual		n.a.	n.a.		n.a.	n.a.	

Notes:

¹ End of period.

² The snow-ball effect captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator). The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets and valuation and other residual effects.

Source:

Stability Programme 2020 (SP); Draft Budgetary Plan for 2021 (DBP); Commission ad hoc forecast (COM); Commission calculations

4. MEASURES UNDERPINNING THE DRAFT BUDGETARY PLAN

The Draft Budgetary Plan focuses on the policy response undertaken in the context of the COVID-19 outbreak in 2020. Supportive fiscal measures should be tailored to the specific situation of each Member State, but as a rule, they should be well targeted and temporary. Their use and effectiveness should be regularly reviewed by the Belgian authorities. Depending on the development of the pandemic, emergency fiscal measures should be adjusted and combined with other measures that improve economic fundamentals, support the green and digital transition and have a positive impact on demand.

4.1. Measures in 2020

In response to the COVID-19 pandemic, and as part of a coordinated Union approach, Belgium adopted in 2020 timely 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 (see Table 4.1a). According to the Draft Budgetary Plan, those budgetary measures amount to 3.9% of GDP in 2020. On the expenditure side, those measures account for around 3.6% of GDP. They notably include the total cost of a scheme granting more generous benefits for temporary unemployment amounting to 0.9% of GDP; additional expenditure of 0.8% of GDP for healthcare and the purchase of personal protective material; and 0.6% of GDP replacement income for the self-employed. Moreover, several regional schemes provide direct support to companies forced to fully or partially close their activities or facing a significant reduction in turnover. On the revenue side, measures account for around 0.3% and include tax deductions and tax exemptions aimed at providing support to companies in difficulties. In addition, Belgium took measures that contributed to providing liquidity support to businesses. Those measures include loan guarantees for companies and tax and social contributions deferrals. The latter is assumed not to be fully collected in 2021. The guarantees amount to 11.8% of GDP but have so far had relatively low take-up rates as they were not perceived as sufficiently attractive (0.3% of GDP worth of guarantees have been taken up) (see Table 4.1b).

Most of the measures taken in response of the COVID-19 pandemic in 2020 have been decided ahead of the Draft Budgetary Plan. They are all included in the Commission ad hoc forecast and their expected impact is broadly similar in both projections. However, while the Draft Budgetary Plan includes the total cost of the temporary unemployment scheme as a discretionary measure, the Commission considers as such only the top-up of the scheme. The part of expenditure linked to the scheme existing before the crisis is considered by the Commission as part of automatic stabilisers. The Commission estimates the total cost of the scheme, including a top-up and the part stemming from automatic stabilisers, to be higher than in the Draft Budgetary Plan.

Overall, the measures taken by Belgium in 2020 were in line with the guidelines of the Commission Communication of 30 March 2020 on a coordinated economic response to the COVID-19 outbreak.

4.2. Measures in 2021

For 2021, the Plan presents a set of new measures aimed both at mitigating the impact of the on-going COVID-19 crisis and at supporting the envisaged recovery. Overall, the new measures presented in the Draft Budgetary Plan have a deficit-increasing impact of around 0.6% of GDP.

Most of the measures are taken on the expenditure side. Roughly half of them concern temporary increases in spending related to the crisis. In particular, at the federal level they include an increase in a global COVID-19 expenditure envelope of the federal government planned for 2021, new measures such as reductions in electricity bills and further extensions of existing measures. At the regional level, significant temporary COVID-19 related measures are planned. Together, the federal and regional COVID-19 expenditure accounts for around 0.3% of GDP. At the same time, some measures set out in the Draft Budgetary Plan, while supporting economic activity against the background of considerable uncertainty, appear not to be

temporary and matched by offsetting measures. According to the Commission forecast, these measures have a budgetary impact of 0.3% of GDP and include wage increases for healthcare workers, increases in the minimum pension and additional spending for education.

On the revenue side, permanent revenue-increasing measures of around 0.1 % GDP, such as an increase in excise duties on tobacco, improvements in combating tax and benefit fraud, and taxation of e-commerce, are offset by temporary revenue-decreasing measures related to the COVID-19 crisis.

Moreover, the Draft Budgetary Plan indicates that additional guarantee schemes will be available in 2021 at both the federal and regional levels, accounting for around 2.6% of GDP.

The Commission's projection includes all the measures presented in the Draft Budgetary Plan. However, the projected yield of some deficit-reducing measures is lower due to insufficient details about their implementation. These concern combating tax and benefits fraud, efficiency gains in public administration and e-commerce taxation. Moreover, the Commission's forecast did not take into account some second round effects of measures or measures considered as automatic stabilisers. The Draft Budgetary Plan assumes that planned federal investments of less than 0.1% of GDP could be funded by grants from the Recovery and Resilience Facility (RRF) in 2021, and therefore would not have an impact on the headline deficit. The Commission forecast, in line with its no-policy change assumption, includes these expenditure related to the Recovery and Resilience Facility that is sufficiently detailed and credibly announced. Since the submission of the Recovery and Resilience Plans and subsequent approval are only expected to take place in 2021, the Commission forecast assumes in the budgetary projections for 2021 the 10% pre-financing of Recovery and Resilience Facility grants. In the case of Belgium, the 10% pre-financing of Recovery and Resilience Facility grants is equivalent to EUR 557 million in 2021. It is treated as a financial transaction with no impact on the budget balance, but with a public debt-reducing impact.

Finally, as the baseline scenario in the Commission's forecast foresees a continuation of the restrictions linked to the pandemic until the end of the first quarter of 2021, additional costs linked to the temporary unemployment benefit scheme have been included for 2021. In comparison, the Draft Budgetary Plan does not plan any additional spending on the scheme for 2021.

Overall, based on the information presented in the Draft Budgetary Plan and taking into account the Commission ad hoc forecast, the measures planned by Belgium in 2021 support economic activity against the background of considerable uncertainty. The measures set out in the Draft Budgetary Plan are mostly temporary. Given the level of Belgium's government debt and high sustainability challenges in the medium term before the outbreak of the COVID-19 pandemic, it is especially important for Belgium to ensure that, when taking supportive budgetary measures, fiscal sustainability in the medium term is preserved..

At the same time, it would be useful to regularly review the use, effectiveness and adequacy of the support measures and stand ready to adapt them as necessary to changing circumstances. It is anticipated that Belgium will submit its Recovery and Resilience Plan in 2021. The Regulation establishing a Recovery and Resilience

Facility will set out how the Commission is to assess that the reforms and investments included in the Recovery and Resilience Plan are coherent with the policy priorities of the Union and the challenges identified in the context of the European Semester. This assessment by the Commission will inform the approval of the Plan by the Council and the information to the European Parliament.

Table 4.1.a. Main discretionary measures adopted/announced with budgetary impact reported in the Draft Budgetary Plan

List of measures	Description	ESA Code (Expéditeur / Revenue component)	Adoption Status	Budgetary impact (% of GDP - change from previous year)	
				2020	2021
1.	Temporary unemployment scheme	D.62	Adopted	0.8	-0.8
2.	General COVID-19 expenditure envelope	P.2	Adopted	0.8	-0.6
3.	Replacement income for self-employed persons	D.62	Adopted	0.6	-0.6
4.	Premiums for companies and self-employed persons forced partially or fully to close in Flanders	D.3	Adopted	0.3	-0.3
5.	Various support measures for SMEs and self-employed persons in Wallonia	D.29+D.4+D.5+D.7+P.52+P.53+K.2+D.8 - Other (other than D.41)	Adopted	0.2	-0.2
6.	Delay in social security contributions	D.61	Adopted	0.1	-0.1
7.	Carry back losses for PIT and CIT	D.5	Adopted	0.1	-0.1
8.	Partial exemption from withholding taxation in severely hit sectors	D.5	Adopted	0.1	-0.1
9.	Temporary VAT decrease in Horeca sector	D.2.	Adopted	0.1	-0.1
10.	Support of semi-public sector in Flanders	D.3	Adopted	0.1	-0.1
11.	COVID-19 package in Wallonia	various	Planned		0.2
12.	Federal social agreement	P.2.	Adopted		0.1

13.	COVID-19 provision in Flanders	D.29+D.4+D.5+D.7+P.52+P.53+K.2+D.8 - Other (other than D.41)	Adopted			0.1
14.	Increase in minimum pension	D.62	Planned			0.1
15.	Job bonus for lower income categories in Flanders	D.3	Planned			0.1
16.	Welfare provision in Flanders	D.1	Planned			0.1
17.	Investment in education in Flanders	D.5	Planned			0.1
18.	Others	various	-		0.8	-03
				Total	4.1	-2.6

Table 4.1.b. Guarantees adopted/announced in response to COVID-19 outbreak

List of measures	Description	Adoption Status	Maximum amount of contingent liability* (% of GDP)		Current take-up (actual contingent liability, % of GDP)
1.	Federal guarantee scheme	Adopted		11.3	0.3
2.	Flemish guarantee PMV and Gigarant NV	Adopted		0.4	
3.	Walloon guarantee	Adopted		0.1	
			Total	11.8	

* Any budgetary impact related to expected losses or actual calls should be provided in the standard table 5.1 Description of discretionary measures included in the draft budget (see Code of Conduct,

https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/2014-11-07_two_pack_coc_amended_en.pdf)

5. ANNEX

Mandatory variables not included in the Draft Budgetary Plan

The following mandatory data were not explicitly provided:

- Table 1b. Price developments: 2019 levels of GDP, private consumption, export and import deflators and HICP index.
- Table 1c. Labour market developments: 2019 unemployment rate.
- Table 1d. Net lending/borrowing vis-a-vis the rest of the world, Statistical discrepancy.
- Table 2a. One-offs by type.
- Table 4b. 2019 levels, Investment expenditure fully matched by EU funds revenue, Revenues increased mandated by law.
- Table 4c. General government expenditure by function: data on healthcare, education and employment expenditure.

Not included mandatory variables do not impede the Commission's ability to assess the Draft Budgetary Plan based on the plan's assumptions.