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Recommendation for a

COUNCIL RECOMMENDATION

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

{SWD(2025) 201 final}

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Recommendation for a

COUNCIL RECOMMENDATION

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 Article 121(2) and Article 148(4) thereof,

Having regard to 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:

General considerations

(1) Regulation (EU) 2024/1263, which entered into force on 30 April 2024, specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments, and preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the TFEU. The European Semester includes, in particular, the formulation, and the surveillance of the implementation of country-specific recommendations. The Regulation also promotes national ownership of fiscal policy and emphasises its medium-term focus, combined with more effective and coherent enforcement. Each Member State must submit to the Council and the Commission a national medium-term fiscal-structural plan, containing its fiscal, reform and investment commitments, over 4 or 5 years, depending on the length of the national legislative term. The net expenditure[2] path in these plans has to comply with the

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

[2] Net expenditure as defined in Article 2, point (2), of Regulation (EU) 2024/1263: 'net expenditure' means government expenditure net of (i) interest expenditure; (ii) discretionary revenue measures; (iii) expenditure on programmes of the Union fully matched by revenue from Union funds; (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.

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Regulation's requirements, including the requirements to put or keep general government debt on a plausibly downward path by the end of the adjustment period, or for it to remain at prudent levels below 60% of gross domestic product (GDP), and to bring and/or maintain the general government deficit below the 3%-of-GDP Treaty 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 the Regulation, the adjustment period may be extended by up to three years.

(2) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility (the 'RRF'), entered into force on 19 February 2021. The RRF provides financial support to Member States for implementing reforms and investments, delivering a fiscal impulse financed by the Union. In line with the priorities of the European Semester for economic policy coordination, the RRF fosters economic and social recovery while driving sustainable reforms and investments, in particular promoting the green and digital transitions and making Member States' economies more resilient. It also helps strengthen public finances and boost growth and job creation in the medium and long term, improve territorial cohesion within the Union and support the continued implementation of the European Pillar of Social Rights.

(3) Regulation (EU) 2023/435 of the European Parliament and of the Council[4] (the 'REPowerEU Regulation'), which was adopted on 27 February 2023, aims to phase out the Union's dependence on Russian fossil fuel imports. This helps achieve energy security and diversify the Union's energy supply, while increasing the uptake of 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.

(4) 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 that Regulation, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines set out in Annex V. On 13 July 2021, the Council adopted its Implementing Decision approving the assessment of the recovery and resilience plan for Belgium[5], which was amended under Article 18(2) on 8 December 2023 to update the maximum financial contribution for non-repayable financial support, as well as to include the REPowerEU chapter[6]. The release of instalments is conditional on the adoption of a decision by the Commission, in accordance with Article 24(5), stating that Belgium has satisfactorily achieved the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory achievement requires that the

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[3] 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).

[4] 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).

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

[6] 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).

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achievement of preceding milestones and targets for the same reform or investment has not been reversed.

(5) On [Date] the Council, upon the recommendation of the Commission, adopted a recommendation endorsing the national medium-term fiscal-structural plan of Belgium[7]. The plan was submitted in accordance with Article 11 and Article 36(1), point (a), of Regulation (EU) 2024/1263, covers the period from 2025 until 2029 and presents a fiscal adjustment spread over seven years.

(6) On 26 November 2024, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2025 Alert Mechanism Report, in which it did not identify Belgium as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area and a proposal for the 2025 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area[8] on 13 May 2025 and the Joint Employment Report on 10 March 2025.

(7) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the EU's global competitiveness over the next five years. It identifies the three transformative imperatives of sustainable economic growth: (i) innovation; (ii) decarbonisation and competitiveness; and (iii) security. To close the innovation gap, the EU aims to foster industrial innovation, support the growth of start-ups through initiatives like the EU Start-up and Scale-up Strategy, and promote the adoption of advanced technologies like artificial intelligence and quantum computing. In pursuit of a greener economy, the Commission has outlined a comprehensive Affordable Energy Action Plan and a Clean Industrial Deal, ensuring that the shift to clean energy remains cost-effective, competitiveness-friendly, particularly for energy-intensive sectors, and is a driver for growth. To reduce excessive dependencies and increase security, the Union is committed to strengthening global trade partnerships, diversifying supply chains and securing access to critical raw materials and clean energy sources. These priorities are underpinned by horizontal enablers, namely regulatory simplification, deepening of the single market, financing competitiveness and a Savings and Investments Union, promotion of skills and quality jobs, and better coordination of EU policies. The Competitiveness Compass is aligned with the European Semester, ensuring that Member States' economic policies are consistent with the Commission's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(8) In 2025, the European Semester for economic policy coordination continues to develop alongside the implementation of the RRF. The full implementation of the recovery and resilience plans remains essential for delivering on 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

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[7] Council Recommendation of [Date] 2025 endorsing the medium-term fiscal-structural plan of Belgium, OJ C/2025/[xxx/xxx], [dd.mm].2025.

[8] Council Recommendation of 13 May 2025 on the economic policy of the euro area (OJ C, C/2025/2782, 22.5.2025, ELI: http://data.europa.eu/eli/C/2025/2782/oj).

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issued in recent years. These country-specific recommendations remain equally relevant for the assessment of amended recovery and resilience plans in accordance with Article 21 of Regulation (EU) 2021/241.

(9) The 2025 country-specific recommendations cover the key economic policy challenges that are not sufficiently addressed by measures included in the recovery and resilience plans, taking into account the relevant challenges identified in the 2019-2024 country-specific recommendations.

(10) On 4 June 2025, the Commission published the 2025 country report for Belgium. It assessed Belgium's progress in addressing the relevant country-specific recommendations and took stock of Belgium's implementation of the recovery and resilience plan. Based on this analysis, the country report identified the most pressing challenges Belgium is facing. It also assessed Belgium's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

Assessment of the Annual Progress Report

(11) On [date], the Council recommended the following maximum growth rates of net expenditure for Belgium: 3.6% in 2025, 2.5% in 2026, 2.5% in 2027, 2.1% in 2028 and 2.1% in 2029, which correspond to the maximum cumulative growth rates calculated by reference to 2024 of 3.6% in 2025, 6.1% in 2026, 8.8% in 2027, 11.1% in 2028 and 13.4% in 2029. In 2025-2029, these maximum growth rates of net expenditure coincide with the corrective path in accordance with Article 3(4) of Regulation 1467/97, as recommended by the Council on [date] with a view to bringing an end to the situation of an excessive deficit[9] and has replaced the Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit.[10] On 30 April 2025 Belgium submitted its Annual Progress Report[11] on action taken in response to the Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit, the implementation of the set of reforms and investments underpinning the extension of the adjustment period and the implementation of reforms and investments responding to the main challenges identified in the European Semester country-specific recommendations. The Annual Progress Report also reflects Belgium's biannual reporting on the progress made in achieving its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(12) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission recommended to activate the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending and this proposal was welcomed by the European Council of 6 March 2025. Following the request of Belgium on 30 April 2025, on [date] the Council, upon the recommendation of the Commission, adopted a recommendation allowing Belgium to

[9] Council recommendation of [date] with a view to bringing an end to the situation of an excessive deficit in Belgium, C/2025/[6xx/xxx].

[10] Council recommendation of 21 January 2025 with a view to bringing an end to the situation of an excessive deficit in Belgium, C/2025/5032.

[11] The 2025 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en

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deviate from, and exceed, the recommended maximum growth rates of net expenditure[12].

(13) Based on data validated by Eurostat[13], Belgium's general government deficit increased from 4.1% of GDP in 2023 to 4.5% in 2024, while the general government debt rose from 103.2% of GDP at the end of 2023 to 104.7% at the end of 2024. According to the Commission's calculations, these developments correspond to a net expenditure growth rate of 4.2% in 2024. In the Annual Progress Report, Belgium estimates the net expenditure growth in 2024 at 3.9%. Based on the Commission's estimates, the fiscal stance[14], which includes both nationally and EU financed expenditure, was expansionary, by 0.4% of GDP, in 2024.

(14) According to the Annual Progress Report, the macroeconomic scenario underpinning the budgetary projections by Belgium expects real GDP growth at 1.2% in 2025, while HICP inflation is projected at 2.8% in 2025. The Commission Spring 2025 Forecast projects real GDP to grow by 0.8% in 2025 and 0.9% in 2026, and HICP inflation to stand at 2.8% in 2025 and 1.8% in 2026.

(15) In the Annual Progress Report, the general government deficit is expected to increase to 5.5% of GDP in 2025, while the general government debt-to-GDP ratio is set to increase to 107.2% by the end of 2025. These developments correspond to net expenditure growth of 6.0% in 2025. The Commission Spring 2025 Forecast projects a general government deficit of 5.4% of GDP in 2025. The increase of the deficit in 2025 mainly reflects higher expenditure on ageing-related costs, defence and interest payments. According to the Commission's calculations, these developments correspond to a net expenditure growth of 5.0% in 2025. These lower projections of net expenditure growth than in the Annual Progress Report are due to lower projected expenditure growth in gross fixed capital formation and intermediate consumption, and a smaller impact of discretionary revenue-reducing measures in the Commission's forecast. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be expansionary, by 0.4% of GDP, in 2025. The general government debt-to-GDP ratio is set to increase to 107.1% by the end of 2025. The increase of the debt-to-GDP ratio in 2025 mainly reflects the persistence of a high general government deficit.

(16) General government expenditure amounting to 0.1% of GDP is expected to be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.1% of GDP in 2024, according to the Commission Spring 2025 Forecast. Expenditure financed by Recovery and Resilience Facility non-repayable support enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Belgium.

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[12] Council Recommendation allowing Belgium to deviate from, and exceed, the recommended net expenditure path (Activation of the national escape clause), 04.06.2025, COM(2025)600 final.

[13] Eurostat-Euro Indicators, 22.4.2025.

[14] 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 including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.

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(17) General government defence expenditure in Belgium amounted to 0.9% of GDP in 2021, 1.0% of GDP in 2022 and 0.9% of GDP in 2023[15]. According to the Commission Spring 2025 Forecast, expenditure on defence is projected at 1.3% of GDP in 2024 and 1.7% of GDP in 2025. This corresponds to an increase of 0.8 percentage points of GDP compared to 2021. The period when the national escape clause is activated (2025-2028) allows Belgium to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

(18) According to the Commission Spring 2025 Forecast, net expenditure in Belgium is projected to grow by 5.0% in 2025. Based on the Commission Spring 2025 Forecast, the net expenditure growth of Belgium in 2025 is projected to be above the maximum growth rate to be established by the corrective path recommended by the Commission., corresponding to a deviation[16] of 0.7% of GDP. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

(19) The Annual Progress Report does not include budgetary projections beyond 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2025 Forecast projects a general government deficit of 5.5% of GDP in 2026. The increase of the deficit in 2026 mainly reflects higher interest expenditure. These developments correspond to net expenditure growth of 3.0% in 2026. Based on the Commission's estimates, the fiscal stance, which includes both nationally and EU financed expenditure, is projected to be contractionary, by 0.3% of GDP, in 2026. The general government debt-to-GDP ratio is projected by the Commission to increase to 109.8% by the end of 2026. The increase of the debt-to-GDP ratio in 2026 mainly reflects the persistence of a high general government deficit.

(20) The recommendation endorsing the medium-term plan of Belgium specifies the set of reforms and investments underpinning the extension of the adjustment period, together with a timeline for their implementation. They include existing and stepped-up measures from the recovery and resilience plan, such as the pension reform and public spending reviews, as well as additional reforms and investments such as, labour market reforms, tax reform, budgetary coordination and business environment and regulation. The reforms and investments underpinning an extension are all due after 30 April 2025.

(21) Long-term fiscal sustainability risks are high in Belgium[17]. In addition to the unfavourable initial budgetary position, pension expenditure is projected to increase by 3.5 percentage points of GDP over the period 2022-2070, against the EU average of 0.4 percentage points of GDP, according to the Commission's 2024 Ageing Report[18]. 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 on the labour market after meeting early retirement conditions and ensuring a greater degree of convergence

15 Eurostat, government expenditure by classification of functions of government (COFOG).

16 From 2026 these figures will appear in the control account that is established in Article 22 of the Regulation (EU) 2024/1263.

17 European Commission, 2024, Debt Sustainability Monitor.

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

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between and within pension systems. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, Belgium committed to implementing a reform addressing this challenge.

(22) Labour taxes (personal income taxes and social contributions) are one of the highest in the EU at all income levels, which creates financial disincentives to work. For second earners, specific tax features like the 'marital quotient'[19] lead to shorter working hours or unemployment. The high tax burden on labour is offset by many wage subsidies, creating economic inefficiencies and making the tax system complex. Moreover, revenues from consumption taxes are below the EU average, due to the extensive use of VAT exemptions and reduced rates. The design of capital taxation distorts investment behaviour by creating tax-induced over-investment in certain types of assets. Shifting the tax burden away from labour to other tax bases and reducing the use of tax expenditure could help increase the efficiency of the tax system and reduce disincentives to work. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, Belgium committed to implementing some measures that will result in some progress in addressing the taxation challenge.

(23) The design of social benefits discourages people from taking up work or from 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 exacerbates the unemployment trap. Reforming the design of the social benefit system and increasing its transparency could increase the incentives to work. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, Belgium committed to implementing a reform to tackle the social benefits challenge.

(24) The composition and efficiency of public spending can be improved to create space for more public investment, which would also benefit from improved project preparation. Despite some measures taken by all levels of government under the recovery and resilience plan, total public spending as a share of GDP in Belgium remains among the highest in the euro area. This suggests that there is scope for more spending-based fiscal adjustment, for instance by adopting compulsory saving targets. Spending reviews and policy evaluations can help Belgium prioritise and improve the efficiency of public spending. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, Belgium committed to implementing some measures that will result in some progress in addressing the public spending challenge.

(25) Effective budgetary coordination is essential in a federal Member State like Belgium, where a large share of the spending power has been devolved to sub-national governments. There is still no formal agreement on multiannual budgetary targets at all levels of government, despite the cooperation agreement signed in 2013, and this complicates budget coordination. As part of its medium-term fiscal-structural plan and to underpin an extension of the fiscal adjustment period, Belgium committed to implementing a reform to tackle the budget coordination challenge.

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[19] Belgium applies an income-splitting system ('marital quotient') which allows the earning partner to attribute a proportion of his/her professional income to the non-earning partner.

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Key policy challenges

(26) Public spending on long-term care 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, according to the Commission's 2024 Ageing Report[20]. By 2070, long-term care expenditure is projected to increase by 1.7 percentage points of GDP, against an EU average increase of 0.8 percentage points, increasing risks to the long-term fiscal sustainability risks in Belgium. Available data suggest that the share of individuals who are independent or mildly dependent on care and living in residential care facilities was high in the Brussels Region and Wallonia. Moreover, 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. The federated government authorities have started reforms to make the use of the different care settings more cost-effective, particularly to avoid and delay unnecessary or premature use of residential care. These measures would need to be implemented through impactful actions, notably to achieve the cost-effectiveness of certain long-term care options such as institutional care, while keeping access to care and services affordable.

(27) In accordance with Article 19(3) point (b), of Regulation (EU) 2021/241 and criterion 2.2 of Annex V to that Regulation, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. 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, finalising the effective implementation of the recovery and resilience plan, including the REPowerEU chapter, is essential to boost Belgium's long-term competitiveness through the green and digital transitions, while ensuring social fairness. The systematic involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the recovery and resilience plan.

(28) The implementation of cohesion policy programmes, which encompass support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+), has accelerated in Belgium. It is important to continue efforts to ensure the swift implementation of these programmes, while maximising their impact on the ground. Belgium is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, Belgium continues to face challenges, including those relating to competitiveness, regional disparities, including in regard to the risk of poverty and social exclusion, which in some regions is exacerbated by the situation on the housing market, access to employment and activation measures, skills development and quality education. In accordance with Article 18 of Regulation (EU) 2021/1060, Belgium is required – as part of the mid-term review of the cohesion policy funds – to review each programme taking into account, among other things, the challenges identified in the 2024 country-specific recommendations. The Commission proposals adopted on 1 April 2025[21] extend the deadline for submitting an assessment – for each programme – of the

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

21 Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review - COM(2025) 123 final.

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outcome of the mid-term review beyond 31 March 2025. It also provides flexibilities to help speed up programme implementation and incentives for Member States to allocate cohesion policy resources to five strategic priority areas of the Union, namely competitiveness in strategic technologies, defence, housing, water resilience and energy transition.

(29) The Strategic Technologies for Europe Platform (STEP) provides the opportunity to invest in a key EU strategic priority by strengthening the EU's competitiveness. STEP is channelled through 11 existing EU funds. Member States can also contribute to the InvestEU Programme supporting investments in priority areas. Belgium could use these initiatives to support the development or manufacturing of critical technologies, including clean and resource-efficient technologies.

(30) Beyond the economic and social challenges addressed by the recovery and resilience plan and other EU funds, Belgium faces several additional challenges related to innovation, the business environment, the regulatory and administrative burden and complexity, restrictions in the service sector, the decarbonisation of industry and transport, the roll-out of renewables, fossil fuel subsidies, excessive nitrogen deposition, labour shortages and skills mismatches, the integration of disadvantaged groups into the labour market, the education system and the teaching profession.

(31) Although Belgium ranks as one of the EU's innovation leaders and it has a high level of R&D intensity, Belgian R&D activity is concentrated in a few industries and large companies. High levels of tax relief fail to reach companies with the highest growth potential. Stronger performance in innovation and sustained productivity growth would require increasing the spread of knowledge across sectors of the economy. There seems to be scope for improving the efficiency and effectiveness of public support for research and innovation, in particular in avoiding crowding-out effects and in better allocating resources to high-growth businesses. Moreover, the low rate of job mobility in Belgium, which may be due to factors such as high seniority pay and low pay transparency, also limits the spread of innovation to the rest of the economy.

(32) As set in the Competitiveness Compass, all the EU, national, and local institutions must make a major effort to produce simpler rules and to accelerate the speed of administrative procedures. The Commission has set ambitious goals for reducing administrative burden: by at least 25% and by at least 35% for SMEs; and has created new tools to achieve these goals, including systematic stress test of the stock of EU legislation and enhanced stakeholders' dialogue. To match this ambition, Belgium also needs to take action. 71% of businesses consider the complexity of administrative procedures to be a problem for their company when doing business in Belgium[22]. 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 laws. 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[23]. Despite a recent increase, the rate of business creation remains comparatively 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

[22] 'Businesses' attitudes towards corruption in the EU' Flash Report, Eurobarometer Report (April 2024)

[23] National Bank of Belgium, Competitiveness scoreboard indicators, 2024 report.

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dynamism. Action to lift the restrictions on regulated professions would also be merited. According to the 2023-2024 Product Market Regulation, Belgium has more restrictions on most professions, namely architects, accountants and real estate agents. Entry requirements remain especially high for these professions and for lawyers.

(33) In addition, electricity for industrial use is priced substantially higher in Belgium than gas. Since the manufacturing sector generates 30% of Belgium's greenhouse gas emissions, further incentives are needed to decarbonise industrial processes and shift to cleaner energy. Fostering circular economy practices and sustainable supply chains could also help reduce industrial energy demand. Greenhouse gas emissions from the aviation and maritime sectors, including fuel consumption related to international transport activities, are well above the EU average[24]. Rail transport is an insufficiently attractive option, both for passenger and freight transport, and the number of passenger cars has steadily increased leading to high congestion costs. Differentiated road charging for all types of vehicles, further investment in public transport and promoting car sharing and active mobility would make transport more sustainable.

(34) With a share of renewable energy in final energy consumption of only 14.7% in 2023, the roll-out of renewables is among the lowest in the EU. Belgium will need to make significant efforts to reach its renewables target of 21.7% by 2030, which remains below Belgium's expected contribution to the EU 2030 target. Although grid congestion related to solar power generation has become a serious issue, no new onshore grid investments were announced. In addition, Belgium's regulatory framework still hampers the development of flexible resources such as demand-side response and storage. Investing in grid infrastructure and speeding up permit-granting procedures would promote the roll-out of renewables. In addition, energy sharing, self-consumption and demand-side flexibility could be promoted. Despite a relatively high share of nuclear in the energy mix, electricity prices for households are high compared to gas and heating oil in Belgium, which hinders the transition to electricity and the switch to greener heating systems. Shifting excise duties from electricity to heating oil and gas would make electricity more affordable than fossil fuels.

(35) Belgium records sizeable fossil fuel subsidies, which it does not plan to phase out before 2030. A recent report by the Belgian authorities[25] estimated federal direct fossil fuel subsidies to amount to EUR 12 billion (2.4% of GDP) in 2021. In particular, fossil fuel subsidies that neither tackle energy poverty in a targeted way nor genuine energy security concerns, hinder electrification and are not crucial to industrial competitiveness could be considered a phase-out priority. In Belgium, fossil fuel subsidies such as reduced excise duties on fuel oil and professional diesel, company fuel cards and reduced VAT on gas are economically inefficient, perpetuate reliance on fossil fuels and do not contribute to Belgium's climate commitments. Fossil fuel subsidies also hold back the energy renovation of buildings and Belgium risks failing to meet its renovation and energy efficiency targets for 2030. Stepping up the current level of investment in energy renovations and complementing investment with policy reforms to shift the incentives to energy renovation and low-carbon heating solutions would help accelerate the energy transition.

(36) Water quality and nature degradation are major causes of concern, as most water bodies in Belgium are affected by diffuse pollution sources. Declining levels of

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24 EU transport in figures: Statistical pocketbook 2024.

25 FPS Finance (2024), Inventory of federal fossil-fuel subsidies.

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biodiversity put at risk economic sectors that are highly dependent on ecosystem services. Nature-based solutions are key to building climate resilience and to shielding the economy from the impacts of extreme weather events. Intensive agriculture, in particular livestock farming, releases large volumes of air, soil and water pollutants. Electricity production, the metal sector and chemicals production also cause pollution. While the Flemish government adopted a revised seventh nitrates action programme, further action is needed to reduce nutrients and chemicals in surface waters and to help make farming more sustainable.

(37) The job vacancy rate in Belgium is currently one of the highest in the EU (4.1% against the EU average of 2.3% in 2024) and employers are finding it difficult to hire employees with the right skills. Labour shortages and the lack of skilled staff hinders business and investment activity, including for the green transition. Regional disparities in the share of the population in work, however, are significant and there is scope to improve interregional labour mobility. An ongoing concern is to integrate disadvantaged groups, including people with a lower level of education, older workers, people with a migrant background and persons with disabilities. This suggests scope to increase the effectiveness of labour activation policies, particularly by improving the efficiency of public employment services and by better targeting measures to help integrate disadvantaged groups into the labour market. Skills mismatches are also explained by the low rate of adults upskilling and reskilling.

(38) Despite high levels of public spending on education, learning outcomes have deteriorated and the share of top-performers has fallen sharply[26]. Socio-economic and migrant backgrounds are still important predictors of student performance. While all Communities are pursuing large-scale reforms to address these challenges, further revising grade retention policies, giving students more flexibility to transfer between general and vocational tracks and strengthening personalised learning could help address inequalities and declining student performance. Improving the basic skills of all students is crucial to improve their prospects on the labour market, including disadvantaged groups. Labour shortages could be tackled by strengthening the labour market relevance of vocational education and training (VET) in technical professions and by increasing the number of ICT (information and communications technology) and STEM (science, technology, engineering and mathematics) students and graduates in VET and tertiary education. Teacher shortages also remain critical across the country and disproportionately affect schools with higher shares of disadvantaged students[27]. Greater action is merited to boost the teaching profession, in particular by ensuring job stability and providing attractive and differentiated career paths.

(39) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the economic and monetary union, in 2025, the Council recommended that euro area Member States take action, including through their recovery and resilience plans, to implement the 2025 Recommendation on the economic policy of the euro area. For Belgium, recommendations (2), (3), (4) and (5) help implement the first euro area recommendation on competitiveness, while recommendations (4) and (5) help implement the second euro area recommendation on resilience, and recommendation

[26] 2022 OECD Programme for International Student Assessment.

[27] Gambi, L., & De Witte, K. (2023), The uphill battle: The amplifying effects of negative trends in test scores, COVID-19 school closures and teacher shortages. FEB Research Report Department of Economics.

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(1) helps implement the third euro area recommendation on macro-economic and financial stability set out in the 2025 Recommendation.

HEREBY RECOMMENDS that Belgium take action in 2025 and 2026 to:

1. Reinforce overall defence spending and readiness in line with the European Council conclusions of 6 March 2025. Adhere to the maximum growth rates of net expenditure recommended by the Council on [date], with a view to bringing an end to the situation of an excessive deficit while making use of the allowance under the national escape clause for higher defence expenditure. Implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on [date] 2025. Make the long-term care system more cost-effective.

2. In view of the applicable deadlines for the timely completion of reforms and investments under Regulation (EU) 2021/241, ensure the effective implementation of the recovery and resilience plan, including the REPowerEU chapter. Accelerate the implementation of cohesion policy programmes (ERDF, JTF, ESF+), building, where appropriate, on the opportunities offered by the mid-term review. Make optimal use of EU instruments, including the scope provided by Invest EU and the Strategic Technologies for Europe Platform, to improve competitiveness.

3. Simplify regulation, improve regulatory tools, reduce administrative burden, and remove barriers to trade and competition, in particular in the services sector and regulated professions, to improve the business environment and business dynamics. Increase innovation diffusion by targeting R&D public support to companies with the highest growth potential and by fostering the job mobility of workers.

4. Reduce overall reliance on fossil fuels, including by stepping up energy efficiency improvements and reducing fossil fuel use in buildings, and by further incentivising industry to decarbonise. Provide incentives and remove barriers to increase the use and supply of public transport, low-emission transport and active mobility. Accelerate the roll-out of renewable energies and upgrade grid infrastructure by further streamlining permitting procedures, by adopting legal frameworks to boost investment in renewable energy installations and by facilitating energy sharing. Take specific steps to phase out fossil fuel subsidies, in particular in the transport and heating sector, including by shifting excise duties from electricity to fossil fuels. Take further action on sustainable agriculture by improving water quality and by reducing nutrient losses.

5. Address labour shortages and skills mismatches, including for the green transition. Strengthen the effectiveness and targeting of active labour market policies to further integrate disadvantaged groups into the labour market, in particular people with a low level of education, older workers, people with a migrant background and persons with disabilities. Improve the performance and equity of the education and training systems and enhance their labour market relevance, in particular in ICT and STEM fields. Continue reforms to strengthen the teaching profession by developing more flexible and attractive career paths and training for teachers.

Done at Brussels,

For the Council
The President

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