The EU Recovery Plan: bouncing back better together towards a green, digital and resilient Europe. What are the opportunities for Belgium?[1]

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ABSTRACT

This article highlights what the European Semester, the annual coordination cycle of economic, employment and social policies of Member States, stands for, with an emphasis on how it has evolved over time (part I). The diagnosis by the European Commission services of the economic dimension of this unprecedented crisis is also summarised (part II). We will then set out the contours of the economic response the Commission has proposed, i.e. an EU Recovery Plan, as amended and validated by all 27 EU Leaders on 21 July 2020 (part III). We focus on the backbone of this plan – the Recovery and Resilience Facility - which is to radically increase the European Semester's relevance in driving the socio-economic repair and recovery of the European economy (part IV). We also describe the reform and investment opportunities for Belgium, as identified in the context of the European Semester, that could be part of a Belgian

[1] This article follows the structure of the presentation by Veerle Nuyts and Xavier Vanden Bosch during the Financial Forum webinar of 25 June 2020. Video and powerpoint presentation are available on the Financial Forum website (link).

recovery and resilience plan that can help Belgium recover and emerge stronger from this crisis (part V). In a last section, we set out the next steps for the implementation of the EU Recovery Plan as well as our conclusions (part VI).

I. The European Semester: a well established and dynamic economic policy coordination surveillance framework

The European Semester is the annual coordination cycle of economic, employment and social policies. The rollout of this framework, almost 10 years ago now, was one of Europe's key answers to the financial crisis.

The Semester promotes sustainable and inclusive economic growth with specific monitoring of Member States' (i) fiscal policies under the Stability and Growth Pact[2], which aims for sound public finances, and (ii) broader macroeconomic policies under the Macroeconomic Imbalance Procedure[3] to identify, prevent and address the emergence of potentially harmful macroeconomic imbalances that could adversely affect economic stability in a particular Member State, the euro area or the EU as a whole.

Since its introduction, the European Semester has evolved in line with the new political and socio-economic priorities for the European Union. It is a dynamic and highly agile tool. The social dimension has been gradually increased. Since 2017, the implementation of the European Pillar of Social Rights[4] is one of the objectives of the Semester. Last year, the Commission strengthened the link between the reforms recommended under the Semester and EU cohesion policy, proposing priority areas Member States will have to invest in during the 2021-2027 programming period[5].

This year also, the European Semester has evolved further. The 2020 recommendations to Member States have been tailored to the current socio-economic challenges linked to the COVID-19 pandemic. They focus on the measures required across policy areas to ensure a swift repair and a sustainable recovery response. Decisive policy action to preserve employment and ensure income support to affected workers, to increase the resilience of the healthcare sector, to ensure liquidity measures for the corporate sector that are

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[2] More information on the Stability and Growth Pact: see [link].

[3] More information on the Macroeconomic Imbalance Procedure: see [link].

[4] The European Pillar of Social Rights (link).

[5] For Belgium, see Annex D of 2019 Belgium Country Report (link).

effectively rolled out and to protect the flow of essential goods in the internal market are needed to mitigate the economic damage. Recommendations to Member States also include guidance on the reforms and investments required to rebuild the economy, putting growth back on track while supporting a fair, green transition and digital transformation, as well as a more resilient European Union. As will be further developed infra, the relevance of the Semester in assisting Member States to repair damages and emerge stronger post-crisis has increased further under the EU Recovery Plan.

The European Semester is not limited to six months as the name might suggest. Work continues throughout the year with a permanent dialogue between the European level and Member States and a very wide range of stakeholders. The cycle is kick-started towards the beginning of the year by the definition by the Commission of the political priorities of the Union and of the euro area in the Annual Sustainable Growth Strategy[6]. Late February, the Commission analyses in the so-called Country Reports[7] the development of the socio-economic situation of each Member State, the progress made on the recommended structural reforms and the key outstanding socio-economic reform priorities. In April, Member States submit their National Reform Programmes to the Commission. Belgium, as a euro area Member State also submits its stability programme that specifies the country's budgetary target in the medium term, as well as the draft budgetary plan for the year ahead. Based on this input and an intensive dialogue, the European Commission then proposes recommendations to the Member States tailored to the challenges of each Member State and in line with EU priorities. These recommendations are discussed in different Council committees and also with the European Parliament. The European Council ultimately endorses the recommendations towards the end of June.

The European Commission presided by Ursula von der Leyen reinforced the green dimension in the Semester, with the European Green Deal[8] as the new European economic growth strategy to create an "economy that works for people and the planet". The objective is in particular to achieve carbon neutrality in 2050, with a just transition for all. Effective and coordinated policies at national level are needed for the EU to become the first carbon neutral continent. This coordinated action across Member States is exactly what the Semester aims to achieve. Thus turning the new economic agenda into concrete policies, an investment vision, responsible fiscal policies and structural reforms. The new

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[6] "Annual Sustainable Growth Strategy" – 2020 Semester (link), previously known as the "Annual Growth Survey". The document is accompanied by a proposal for euro area recommendations.

[7] All 2020 Country Reports, including the Belgium 2020 Country Report are available under [link]).

[8] For more information on the European Green Deal and its actions, please consult [link].

growth strategy includes four interrelated dimensions, which need to be mutually reinforcing, with "competitive sustainability"[9] as the guiding principle of the European social market economy. These four dimensions are: (i) productivity growth, (ii) macroeconomic stability, (iii) fairness and (iv) the environment. This economic agenda also sets Member States on track towards the 2030 United Nations Sustainable Development Goals[10] and climate neutrality in 2050. The Commission monitors the implementation of these goals by Member States as of this year's European Semester cycle.

II. COVID-19 causes a deep and uneven recession

This crisis is the deepest crisis the European Union has ever faced. Confinement measures and the ensuing socio-economic impact have reduced economic activity dramatically. We are also witnessing higher unemployment levels, a steep fall in company earnings, and higher public deficits. According to the European Commission's latest economic forecast[11], the European economy is expected to contract by 7.4% of GDP in 2020. Based on a partial 6.1% recovery in 2021, the EU economy will not have returned to its pre-crisis level at the end of 2021 (being still at about 1pp of GDP below its pre-crisis level). The Commission forecast underlined many downside risks. We know that the recession may well be even deeper, in particular in case of a major second wave of the pandemic and a further deteriorating global outlook.

A key fact became apparent from the very onset of the crisis: Member States would be unevenly affected and not all countries would be able to recover in the same way. So far, Member States have put in place considerable fiscal and liquidity support measures to alleviate the impact on businesses and people. However, the extent of national support varies significantly across EU countries. This can potentially further fuel divergence across Member States in the recovery phase, making the recovery in the EU unequal and asymmetric.

If we look specifically at State aid measures approved by the European Commission since the outbreak of the pandemic, we observe a skewed picture, with over 50% of State aid granted by Germany alone. In Belgium, by June 2020, support measures accounted for about 11% of GDP. This includes in particular the €50 billion guarantee scheme for the banking sector, put in place in mid-April (and further amended in July 2020).

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[9] See fn. 6 supra.

[10] For more information on the EU approach to sustainable development, see [link].

[11] Interim Summer Economic Forecast, see [link].

Estimated economic losses are also strongly diverging across sectors, with the art, entertainment & recreation industry, as well as accommodation and food services being particularly hard hit. The equity repair needs amount to at least €720 billion in the baseline scenario and could easily run up to €1.2 trillion in the worst-case scenario according to the European Commission services' assessment of Europe's recovery needs[12]. Faced with these needs, 25 to 35% of firms could experience financing shortfalls in the very short term, after depleting their cash and working capital buffers.

Yet another way to look at the challenge ahead is to look at the evolution of investment needs. Due to the uncertainty weighing on the private sector in particular, the investment shortfall is expected to reach €850 billion by 2021. Moreover, we should not forget the investment needs that were not met before the crisis which are still there to be addressed. These include investments required for the green and digital transition. To cover this large gap, it is conservatively estimated that an overall extra €1.5 trillion are needed for the recovery.

III. Dealing with the economic consequences of COVID-19: EU action since the outbreak and the EU Recovery Plan

Major economic decisions at EU level have complemented decisive action at Member State level ever since the outbreak of the crisis.
Very early on in the crisis, in March 2020, the Commission took action to allow Member States to respond to the economic shock flexibly and decisively[13]. First, by allowing Member States to use rapidly all of the cohesion policy funds still available[14]. Belgium seized this opportunity in Wallonia for example, to grant support to SMEs and the self-employed. Second, by relaxing the State aid rules under a new temporary framework for State aid. To date, the Commission has approved 16 Belgian schemes and this in record time[15]. Finally, the activation of the general escape clause that offers the highest degree of flexibility under the EU fiscal rules was a major step.
In the crisis repair phase, three safety nets were put in place for a total of €540 billion. These loan mechanisms aim to (i) help workers keep their job through the financing of

[12] European Commission, "Identifying Europe's recovery needs", 27/05/2020, SWD(2020) 98 final (link).

[13] European Commission Communication of 13 March 2020 on a coordinated economic response to the COVID-19 outbreak, see: [link].

[14] For more information on the Coronavirus Response Investment Initiative and the cohesion programme amendment that the framework facilitated, please consult [link].

[15] For more information on the Temporary State aid Framework and to consult the European Commission decisions under this framework, see [link].

temporary unemployment schemes, with the SURE program[16] – and this instrument is a tremendous success, with many Member States intending to make use of it; (ii) provide liquidity to SMEs through the European Investment Bank[17], and (iii) support Member States in the financing of their direct and indirect public expenditure on health, thanks to the European Stability Mechanism[18].

These three loan mechanisms agreed on 9 April 2020 by the Eurogroup complement the European Central Bank's Pandemic Emergency Purchase Programme[19], the temporary asset purchase programme of private and public sector securities, which amounts to €1,350 billion today.

More was needed however to avoid fragmentation of the single market and avoid an uneven recovery. Upon request from the European Council and the European Parliament, the European Commission proposed an ambitious EU Recovery Plan on 27 May 2020. This plan is anchored in the European budget and supported by a new temporary and capped financing instrument, called "Next Generation EU".

The plan is revolutionary as for the first time, the European Commission will be able to borrow up to €750 billion on the financial markets to finance EU programmes. To achieve this, the own resources ceiling of the EU budget will be raised, allowing for a larger headroom that is to act as guarantee. The money raised will in turn be used to reinforce important programmes in the next 2021-2027 EU budget and to create a series of new support instruments. The overarching objectives of the EU Recovery Plan are to mitigate the immediate social and economic effects of the crisis, boost the single market and foster an economic recovery that invests in the EU priorities of green and digital transition and the resilience of our economies.

After almost 100 hours of intense negotiations, EU Leaders reached a historic agreement on both the 2021-2027 EU budget and Next Generation EU on 21 July 2020, giving the European Union unprecedented financial firepower of €1.8 trillion over the next seven years. This deal sent a strong message of hope and solidarity in Europe amidst a vast

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[16] SURE is the temporary support to mitigate unemployment risks in an emergency, see Council decision [link]

[17] For more information on the Pan-European Guarantee Fund (EGF) to tackle the economic consequences of the COVID-19 pandemic, please consult the European Investment Bank website (link).

[18] For more information on the European Stability Mechanism's Pandemic Crisis Support, please consult (link).

[19] For more information on the European Central Bank's pandemic emergency purchase programme, please consult (link).

economic crisis[20]. The agreement is a major step towards the full rollout of the EU Recovery Plan as of 1 January 2021. The Council – under the steer of the German Presidency of the Council – is now to adapt the relevant legal texts in order to reflect the outcome of the summit. These will serve as a basis for negotiations with the European Parliament. For Next Generation EU to become operational, the new Own Resources Decision still needs to go through national ratification, the legal basis of the Recovery and Resilience Facility must be adopted, and the 2021-2027 EU budget agreed with the European Parliament.

IV. The Recovery and Resilience Facility

We will now turn to the very heart of the EU Recovery Plan approved by the European Council: the Recovery and Resilience Facility. What is the general idea and how will this instrument work in practice?

As part of the European Semester process, each Member State is to establish its own national Recovery and Resilience Plan, defining a coherent set of reforms and public investments it intends to carry out over the years 2021-2023, following bilateral discussions between the respective Member State and the European Commission.
The European Commission will assess whether the plan is coherent and effectively addresses the country-specific challenges and priorities identified in the European Semester. The highest score of the assessment will be based on the consistency with the country-specific recommendations, as well as strengthening the growth potential, job creation and economic and social resilience of the Member State. Effective contribution to the green and digital transition will also be a prerequisite for a positive assessment. In turn, the Council, by qualified majority, is to approve the European Commission's assessment of the national recovery and resilience plans.

The Commission will monitor the execution of the plan and the satisfactory fulfilment of the relevant milestones and targets. Before it adopts a decision allowing for disbursement of the grant, the European Commission will ask the opinion of Member States via the Economic and Financial Committee. In case a Member State disagrees with the assessment it will, exceptionally, have the possibility to refer to the European Council for a discussion on the matter.

The facility would have a total capacity of €672.5 billion: €312.5 billion of grants and €360 billion of loans. Financial support will be available to all Member States but will be

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[20] On 21 July 2020, the European Council adopted conclusions on the recovery plan and multiannual financial framework for 2021-2027(link).

concentrated on the countries hardest hit and where the resilience needs are greatest. For grants committed over 2021 and 2022 and representing 70% of the total available, the distribution key is based on population, GDP per capita and the structural unemployment rate as proposed by the Commission. For the remaining 30% committed for 2023, the European Council decided to replace the 2015-2019 unemployment criterion, in equal proportion, by the loss in real GDP observed over 2020 and by the cumulative loss in real GDP observed over the period 2020-2021 (as calculated mid-2022).

On top of grants, Member States will be able to request additional support in the form of loans for additional reforms and investments. The maximum volume of the loans will not exceed 6.8% of their GNI.

V. Reforms and investments opportunities in Belgium as part of the recovery

What are the opportunities for Belgium under the Recovery and Resilience Facility?
Belgium has made limited progress so far on certain European Semester recommendations. The Recovery and Resilience Facility could change this, as it offers an opportunity to accelerate their implementation. Belgium can benefit of about €5 billion in grants and could top this up further with loans[21]. This will require Belgium to propose a coherent package of reforms and public investments in its national recovery and resilience plan (see supra).

The relevance of the European Semester in Belgium is undisputed. For 10 years now, the European Commission has analysed the socio-economic challenges and opportunities at EU level and for every EU Member State, including Belgium. Moreover, throughout the negotiations in the Council on the EU Recovery Plan, there was always broad support for the central role of the European Semester in this plan.

In addition, there is a lot of consensus among Belgian stakeholders on the EU's analysis and recommendations for reforms and investment priorities for Belgium. This is because the European Commission does not work in isolation. As described above, a permanent and very rich dialogue with stakeholders takes place throughout the year, with the different parliaments, governments, administration, social partners, businesses, academia and civil society in Belgium.

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[21] This estimate is based on the European Commission's initial proposal of a Regulation establishing a Recovery and Resilience Facility (link). The amount will be updated by the time of regulation has been adopted base on the new allocation key as specified by the European Council.

What are the 2020 recommendations to Belgium, endorsed by the European Council on 20 July 2020[22]?

Figure 1 Main topics under the 2020 Country-specific recommendations to Belgium

Fiscal measures to address the crisis

This concerns taking all measures necessary to effectively address the pandemic, sustain the economy and support the recovery, in line with the general escape clause. This includes measures to safeguard the liquidity of businesses and prevent sharp drops in investment.

When economic conditions allow, Belgium should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring sustainability of its debt, while enhancing investment.

Strengthening the resilience of the health system

The Belgian healthcare system performs well in providing acute care in hospitals. But now is also the time, for Belgium and all other Member States, to improve the resilience of the overall health system. This is needed for the short term to be ready to effectively manage additional peaks of the pandemic, but also to increase resilience in the longer term. The Commission draws the attention to some specific challenges: the provision of critical

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[22] The European Council adopted Country-specific recommendations addressed by the Council to Belgium were adopted on 20/07/ July 2020. See [link] for the full text.

medical products; a public healthcare strategy that is fully coordinated with prevention and long-term care policies – requiring seamless cooperation across government levels; and the structural shortage of certain categories of health workers, especially nurses.

Mitigating the employment and social impact of the crisis

Belgium is recommended to have more efficient activation policies in place. This is a structural issue predating the crisis. Many unemployed and inactive people still find it difficult to find their way to the labour market, despite broad participation in activation measures. Reforms are needed to improve the effectiveness of the support available, for vulnerable groups in particular, such as the low-skilled, people with a migrant background and people with disabilities.

In the employment and education policy domains, investment in skills should be high up on the agenda. This is a key lever for the transition towards a greener and more digital economy. Upskilling and reskilling efforts can improve the resilience and productivity of the entire workforce, including the temporary unemployed. Educational outcome inequalities due to socio-economic background are high in Belgium. Attention should go towards preventing that this issue is not exacerbated further because of the crisis. Increasing the performance of the educational system in general is also an important challenge. According to a recent Commission study[23], 60,000 extra jobs would be created in Belgium if climate action policies are enacted to fully implement the Paris Agreement. This is among the highest employment impact of these policies in the EU. Sectors active in renewable technologies, construction, the circular economy as well as the services sector are expected to benefit the most.

Ensuring effective implementation of measures supporting liquidity of firms and improving the business environment

Belgium has taken measures to support the liquidity of businesses and mitigate the impact of the crisis on SMEs and the self-employed. It is essential to ensure that all these support measures are effectively implemented. Measures should be monitored and adapted where necessary. Support measures should also be efficient and well targeted in light of the medium-term sustainability of public finances.

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[23] European Commission, *Employment and Social Developments in Europe, Sustainable growth for all: choices for the future of Social Europe,* 5 September 2019, Publications Office of the European Union, Luxembourg, (link)

A sound business environment is even more important in times of crisis and for the recovery of the economy. Currently, the annual administrative burden on businesses in Belgium amounts to about €7 billion. Root causes identified range from the complexity of the tax and payroll system, over long delays for building permits, slow and expensive property transfer processes, to the need for an accelerated digitalisation of public services.

Productive investments for the green and digital transition

Productive investments are central for a swift recovery and a sustainable green and digital economy. All Member States are recommended to frontload mature public investments to foster the economic recovery. Private sector investment is to be encouraged too thanks to a clear and stable legal framework. The 10-year Belgian national energy and climate plan[24] plays a central role in defining the reforms and investments needed for Belgium to reduce greenhouse gas emissions by 35% below 2005 levels by 2030.

In this context, four priority investments areas are recommended:

(i) sustainable transport – tackling congestion and emissions at the same time;
(ii) more energy-efficient buildings – an important challenge for Belgium, as 80% of buildings pre-date the introduction of energy norms - and clean energy, for decarbonisation but also to ensure adequate energy supply. This is about renewable energy as well as investments in smart grids and new interconnections;
(iii) digital infrastructure – ensuring high speed networks and 5G are in place; and
(iv) research and innovation – which remains a key building block for increasing productivity growth in Belgium.

These investment priorities require significant investments, but must go hand in hand with structural, coordinated policy reforms in each of these domains.

VI. Conclusions

The agreement reached at the European Council on 21 July 2020 on an EU Recovery Plan was a historic milestone: this crisis is unprecedented and the EU delivered an unprecedented economic response.

The EU Recovery Plan fosters a coordinated and even recovery throughout the EU, supporting all Member States, including Belgium. The Recovery and Resilience Facility is

[24] For information on the process and content of National Energy and Climate Plans, including the final plan of Belgium, please consult [link].

the cornerstone of the plan, with massive EU support for country-specific policy reforms and investments needed to increase the resilience of the EU and address the twin challenge of the green and digital transition.

Behind every challenge lies an opportunity. The country-specific recommendations to Belgium in the context of the European Semester highlight Belgium's key socio-economic challenges. With EU support, the implementation of a national recovery and resilience plan that effectively addresses these challenges can accelerate much needed policy reforms and investments in Belgium and assist Belgium to repair and emerge stronger from the crisis, on track towards a greener, digital and more resilient economy.