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**Statement by Mr. Stephan and Mr. Fragin on Belgium
(Preliminary)
Executive Board Meeting
September 8, 2021**

We thank staff for an instructive set of reports and Mr. Dresse and Mr. Cools for their helpful Buff statement. We broadly concur with the thrust of the staff assessment. We associate ourselves with Mr. Pösö's statement and would like to make the following remarks for emphasis:

Belgium is quickly recovering from the Covid-19 crisis on the back of a decisive health and economic policy response and – more recently – a quickly advancing vaccination campaign. Despite already high government debt ratios before the Covid-19 pandemic, Belgium was able to implement comprehensive fiscal support measures during the crisis. The Eurosystem's accommodative monetary policy has supported the policy response. At the same time, considerable and long-standing structural challenges persist. Since the beginning of the pandemic, public debt levels have been further increasing (2020: 114 % of GDP). Staff points to the tax and social security system in Belgium, which is deemed to be fiscally costly and produce disincentives to work in a fragmented labor market.

We strongly encourage the authorities to seize the post-crisis momentum for reform to lift Belgium's growth potential while strengthening fiscal sustainability. We agree with staff that strong coordination between the regional and federal levels of government could be an integral part of such post-crisis reform efforts.

On fiscal policy, we support staff in calling for ambitious consolidation to rebuild buffers, preserve fiscal space for investments (e.g. as regards the green and digital transformation), and prevent public debt from increasing further. We also agree with staff that expenditure-led consolidation seems advisable given Belgium's already substantial tax burden. While additional targeted support for viable firms and the most affected parts of the working population seems warranted until the recovery takes a firm hold, the authorities should pursue an ambitious fiscal consolidation plan to maintain sustainability of public debt.

A comprehensive and revenue-neutral tax reform could increase growth potential by incentivizing labor-market participation and helping to reduce the need for costly subsidies. In particular, taxation of labor often seems to provide disincentives for work with tax-brackets for lower incomes being unduly narrow and the top marginal tax rate (50 percent) already starting to apply around the average wage (para. 4 ff., SIP on Tax Reform). We take note that staff suggests reforming income taxes, particularly by broadening tax-brackets for low- and medium-earners and introducing more progressivity towards high incomes. This could entail considerable positive effects as well as the potential for lower administrative costs. Introducing a carbon tax to achieve higher CO₂ prices could also be one useful way – besides reduction in GHG emissions – of compensating any overall revenue impact of an income tax reform.

We encourage the financial supervisory authorities to stay alert with regard to financial sector vulnerabilities, especially in non-bank institutions, and closely monitor risk from rising private sector indebtedness as crisis measures are being unwound. While banks' buffers as well as households' financial assets provide some cushion against stress, the financial consequences of the lockdown could still materialize in the system for some time to come; this seems particularly relevant as support measures and loan moratoria are being discontinued.

We agree with staff that additional efforts are needed to ensure that Belgium's emission targets and its commitments at the EU and international level will be met. Introducing comprehensive carbon pricing for more sectors of the economy would seem to be an effective as well as efficient way of bringing down emissions more quickly. Going forward, we also see a need for more climate-change adaptation as extreme weather events are likely becoming more frequent.