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FOR INFORMATION

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September 1, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Belgium—Statement by the European Central Bank Representative**

Board Action:	Executive Directors' **information**
Additional Information:	For the Executive Board discussion on Belgium to be held on Wednesday, September 8, 2021.

September 1, 2021

Statement by Rasmus Rueffer (ECB representative) and Sander Tordoir on Belgium – 2021 Article IV Consultation
(Preliminary)

IMF Executive Board Meeting

8 September, 2021

We thank Mr. Dresse and Mr. Cools for their informative Buff statement and Staff for their report. We associate ourselves with the Statement of Mr. Pösö and would like to highlight the following issues:

Regarding macroeconomic developments, we broadly concur with the growth and inflation outlooks projected by Staff, which foresee a strong recovery in the years 2021-2023.. Compared to Staff's projections, we see a somewhat stronger growth profile for 2021-22 followed by somewhat weaker growth in 2023. This reflects a stronger recovery of private consumption in 2021-22, and a weaker net trade contribution in 2023 compared with the Staff's projections. We broadly concur with the Staff's estimated longer-term real GDP growth over the years 2024-2026. Staff's inflation projections are also broadly with our assessment.

We share Staff's assessment that conjunctural risks related to the macroeconomic outlook are overall balanced but would point to the particular importance of external factors for a small open economy such as Belgium's. These are primarily related to possible longer lasting detrimental impacts of the COVID-19 pandemic on global trade via disruptions of global value chains, incentives to firms to re-shore operations, and obstacles to international trade.

We agree with Staff that fiscal policy should remain supportive in the near term until the recovery firms, with targeted measures to preserve the ability to respond to a protracted, adverse shock. Staff's figures for the level of fiscal support, namely around 3% of GDP in 2021, down from 4.7% of GDP in 2020, are very close to our assessment . We agree that pandemic-related spending should remain temporary and be phased out with recovery and that the timing and pace of adjustment should be state-contingent. We also agree that policies should aim at putting public debt on a downward path and rebuilding fiscal space once the recovery is secured, as this will help in achieving prudent fiscal positions, ensuring fiscal sustainability in the medium term and sustaining public investments and a green-digital transformation in the spirit of the NGEU . In this context, we share Staff's view that the bulk of the fiscal effort should come from the expenditure side. In that respect, the attention given in the report to improving the quality of public finances both on the revenue and expenditure side of the budget is welcome and is in line with the European Commission's 2021 Country Specific Recommendations. The focus of the selected issues chapter on a comprehensive tax reform and reducing the tax compliance gap is a very timely and useful complement to the discussion on improving the quality of public finances.

With respect to the financial sector, we broadly concur with Staff's analysis and recommendations. Policies have been crucial in supporting borrowers and financial institutions and helping averting credit supply constraints. As regards bank institutions, we agree that supporting the usability of capital buffers, also via targeted communication from relevant authorities, remains a key priority for the next months, and that a premature policy tightening should be avoided. The phasing-out of support measures to borrowers might lead to a deterioration of asset quality, potentially restraining banks' risk bearing and financing capacities especially in case the recovery should fall short of current expectations. Hence, like Staff suggests, a gradual stage-dependent phasing-out of government support measures seems warranted, with support extensions targeted to the most sensitive sectors and adversely affected but viable firms. The residential real estate market remains unaffected by the pandemic so far, as prices grew robustly leading to the further build-up of medium-term vulnerabilities. Main vulnerabilities in real estate relate to sustained growth in mortgage credit and household indebtedness and signs of potential house price overvaluation. We agree with Staff that close monitoring of these developments is warranted, and that the policy mix to deal with them should consist of capital and borrower-based measures addressing both flow and stock vulnerabilities.

Finally, as regard structural policies, we fully concur with Staff's suggestions on the structural front. Against the background of the existing macroeconomic risks, the COVID-19 pandemic has exacerbated pre-existing structural vulnerabilities which weigh on Belgium's growth prospects. The policy measures implemented so far have helped to stabilise employment and avoid a major wave of bankruptcies, but, as Staff's analysis shows, this may also come with negative side effects in the long-term. Against this backdrop, exit strategies will need to address the central challenge of preserving viable businesses while incentivising the emergence of new business models, replacing the existing ones which are no longer viable. In this context, we would like to echo Staff's policy assessment that, first, support measures should be increasingly targeted and focused on solvency support to mitigate risks of prolonged assistance and, second, recapitalisation programs should focus on supporting SMEs through subordinated loans, leveraging on private-sector resources.