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**Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mr. Carvalho da Silveira on
Belgium
(Preliminary)
Executive Board Meeting
September 8, 2021**

We thank staff for the comprehensive set of reports, and Mr. Dresse and Mr. Cools for their insightful Buff statement.

We praise the Belgian authorities for the comprehensive and decisive policy response which, together with the ECB support, have helped alleviate the impact of the Covid-19 pandemic and facilitate a swift recovery. The substantial assistance provided to the most affected households and businesses and the vaccine rollout plan were instrumental in allowing a more rapid reopening of the economy. In this connection, we are pleased to note that real GDP growth is expected to rebound strongly from -6.3 percent in 2020 to 5.4 percent in 2021 while near-term risks remain broadly balanced, and scarring is limited. We share the view that efforts going forward should aim at preserving the support to the economy in the near-term, and—once the recovery is entrenched—rebuilding buffers, strengthening the resilience of the financial sector and addressing longstanding structural bottlenecks. We broadly agree with staff’s analysis and policy recommendations and will confine our comments to the following issues.

We agree that sustaining fiscal support to the most vulnerable while improving its efficiency remains essential in the near-term but further efforts are needed to achieve medium-term fiscal objectives. We welcome the indication that key measures, including the short-time work and self-employed programs, were extended through September 2021, and that they have been better targeted. However, we note that the increase in structural spending, particularly for wages, pension, and health, do not appear to have been accompanied by offsetting steps to safeguard its sustainability. While we understand that some efforts are

underway to review spending, enhance tax compliance and advance labor market and pensions reforms, we share the view that the overall adjustment is limited and will not reduce public debt in the medium-term. Looking ahead, given the already high tax burden, focus should be placed on an expenditure-led fiscal adjustment, rebuilding buffers while making room for green and digital transformation. The ongoing work by the High Council of Finance, highlighted in the Buff statement, will be important.

As the measures to alleviate the impact of the Covid-19 pandemic are phased out, monitoring potential risks to financial stability will be essential. Although bank profitability and capital were adequate to help weather the crisis, we concur that bank asset quality may deteriorate with the eventual undoing of moratoria and other support schemes. Therefore, banks should stand ready to take action if risks materialize, including using buffers to absorb losses, recognizing credit losses to ease resource reallocation and offering tailored forbearance to viable borrowers, amongst others. With this in mind, we encourage the authorities to continue to proactively monitor and address potential risks in the mortgage and insurance markets and prepare to deploy further macro-prudential measures, as appropriate. Work to strengthen the AML/CFT framework should be pursued.

Finally, we concur with staff's assessment that labor and product market reforms could provide a major boost to the country's growth potential. We appreciate the several initiatives that are under way. While we understand that building broad support in this area may take time, we encourage the authorities to continue to advance much-needed reforms to enhance labor market efficiency and support mobility while incentivizing labor participation, especially for the vulnerable segments of the population. *We will appreciate staff's elaboration on this latter front, notably as regards education, vocational training and skill enhancing with digitalization/automation.* Further reform efforts are still needed to remove the existing bottlenecks to firm entry, innovation and restructuring, as well as for the green transition, which will be helpful to foster reallocation and bolster productivity and competition. In this regard, the National Recovery and Resilience Plan and the endorsement expressed for the EU Green Deal represent steps in the right direction.

With these remarks, we wish the authorities success in their future endeavors.