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February 23, 2023

**Joint Statement by Mr. Stephan, Mr. Vasiliauskas, Ms. Allika, and Mr. Bruns on
Belgium
(Preliminary)
Executive Board Meeting
February 27, 2023**

We thank staff for the comprehensive set of reports and Mr. Dresse and Mr. Verhelst for their helpful Buff statement. We associate ourselves with the Gray issued by Mr. Buissé and broadly share staff's appraisal, offering the following comments for emphasis.

We agree with staff that more ambitious multi-year, expenditure-led fiscal adjustment is needed to reduce high deficits, replenish buffers, and stabilize public debt levels over the medium-term. Fiscal policy should also help support monetary policy in an environment of high inflation. Expenditure-led consolidation is advisable given the already substantial tax burden in Belgium. In addition, there is potential for efficiency gains from better targeting of support measures and subsidies as well as better alignment of federal and regional fiscal policies. Reaping such gains would also help create fiscal space for important, growth enhancing investment. Any additional energy support measures should be targeted, temporary, and aim at maintaining price signals to encourage energy savings and the green transition. Since public debt sustainability risks remain elevated and debt is projected to resume an upward trajectory over the medium-term, additional actions are necessary to address the persistent challenges to medium and long-term sustainability of public finances. Further reforms to contain wage-bill, social-benefit, and aging costs will be key.

To safeguard financial stability vulnerabilities and risks should be monitored vigilantly, while standing ready to take appropriate policy actions if necessary. The housing market deserves careful monitoring due to accumulated vulnerabilities, high household indebtedness and high mortgage exposures. While the authorities' decision to postpone the reactivation of the countercyclical capital buffer given the highly uncertain outlook was reasonable we

believe that a CCyB of 0.5% would have helped to strengthen the resilience further. We welcome that NBB has increased its focus on the prevention of money laundering and terrorist financing. *In this regard, could staff comment more on risks associated with weaknesses in AML/CFT measures of some financial institutions and envisaged activities to deal with identified deficiencies?* We positively note the authorities' efforts to gather information on cyber-preparedness and housing stock energy efficiency to assess risks and consider possible mitigation measures. We look forward to the findings of the forthcoming FSAP for a more detailed assessment of risks and vulnerabilities in the financial system.

Labor and product market reforms are key to improve productivity and competitiveness ensuring strong and resilient economic growth. The lingering loss of external competitiveness, which is exacerbated by wage indexation in the current high-inflation environment, should be addressed with priority. We therefore agree with staff that reforms of the wage-setting mechanism are important. Revisiting measures to improve the efficient allocation of the labor force across the economy, including labor market flexibility and incentive setting in the social security and pension system, would also be worthwhile in this context. Income tax reforms could contribute to bring labor force participation closer to the Euro Area average. Since relatively low public investment is constraining productivity and growth, we welcome the authorities' aim to increase investment outlays to 4 percent of GDP by 2030 and encourage to improve the public investment management framework at the federal and regional levels, with support from an IMF PIMA.

We agree with staff that further efforts are needed to ensure that Belgium's commitments to emissions reduction at the EU and international level will be met. The energy crisis presents opportunities to accelerate the green transition and decarbonization. In this regard, we thank staff for their detailed analysis on fiscal policy options to accelerate emissions reductions in Belgium. Ambitious and broad-based carbon pricing would seem to be an efficient way of bringing down emissions more quickly. We encourage the authorities to intensify their efforts considering a comprehensive set of measures, aiming to unlock renewable potential in Belgium as well as improving energy efficiency. We positively note that significant new investments are envisaged to facilitate the green transition, including with support from the NGEU RRP.