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**Statement by Mr. Guzmán and Ms. Mira on Belgium
(Preliminary)
Executive Board Meeting 09/22
March 4, 2009**

We thank staff for a useful set of papers and Mr. Kiekens and Mr. Rottier for their insightful Buff statement. As a very open and financially integrated economy, Belgium is facing a difficult situation as a result of the international financial crisis. The authorities have decisively reacted to the financial difficulties, though the circumstances are still challenging. Furthermore, as the paper illustrates, the crisis has uncovered the underlying structural weaknesses; determined action to improve and remove these obstacles would be critical to ensure recovery and growth once the crisis has been overcome. We share Mr. Stein and Mr. von Stenglin's comments, so we would just add a few observations:

- On fiscal policy, the authorities have thus far succeeded in striking a balance between the short-term need to support the economy and the longer-term requirement to ensure fiscal sustainability. The envisaged stance for 2009—based on allowing automatic stabilizers to work and a 1 percent of GDP stimulus—does not leave much margin for additional impulse. We are thus reassured that no further impulse is in principle considered by the authorities. We concur with Mr. Kiekens and Mr. Rottier that, given the limited fiscal space, it is key to ensure the quality and effectiveness of public intervention.
- The budget process can make a positive contribution to ensure medium term sustainability, including through the establishment of binding expenditure rules in the medium-term budgetary framework, and through the reform of the fiscal federalism arrangements so that the communities and regions' incentive and for fiscal discipline is enhanced.
- The authorities have intervened swiftly in the banking system, though there might be a need to do more, given increased risks stemming from exposure to Eastern Europe, particularly in the case of KBC. The authorities actions—which have thus far been

coordinated and jointly implemented with other countries—can provide useful lessons about crisis management and intervention, including on the legal difficulties that may subsequently arise. *Staffs comments would be welcome.*

Staff recommends to move to a more systematic intervention strategy that includes *pre-established rules for future interventions*. While we see the merit in establishing a systematic strategy, detailed pre-established rules should not run against a degree of flexibility which we consider key in decision-making under the current challenging circumstances. In particular, it seems that staff's recommendation includes the establishment of a new, publicly announced, legal framework for interventions. As a matter of general principle, we believe the authorities should be able to retain the flexibility to decide when and whether to disclose their plans, as discussed in the context of the seminar on the legal, institutional and regulatory framework for bank insolvency (as stated in SM/09/23, in para. 7).

- Finally, despite the challenging short-term outlook, structural rigidities need to be tackled. In particular, we concur with the recommendation to enhance competition on the areas where downward price rigidities have prevented the fall in commodity and energy prices to be fully passed on to prices. In the labor market, we believe greater emphasis should be made to the need to improve labor productivity through measures such as training and activation policies (and not just the modification of indexation mechanisms).

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