

**FOR  
INFORMATION**

FO/DIS/18/35

March 6, 2018

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, March 7, 2018.



5 March 2018

**Statement by Rasmus Ruffer (ECB Representative) and Aidan Meyler on  
Belgium – Article IV Consultation and FSSA**

**(Preliminary)**

**IMF Executive Board Meeting**

7 March 2018

We would like to thank Mr. De Lannoy and Mr. Clicq for their Buff statement and Staff for their reports. We associate ourselves with the statement by Mr. Just.

**Overall, we broadly share staff's view of current macroeconomic developments in Belgium with real GDP growth above potential contributing to rising employment and a declining unemployment rate.** Past reform efforts and favourable financing conditions have supported the growth momentum which is expected to be maintained in 2018. However, over the medium-term, a modest slowdown in growth toward potential is likely. In this context, we welcome staff's focus on fiscal and structural policies to raise the growth potential of the Belgian economy. Furthermore, in view of vulnerabilities, in particular high public debt, these policies should also serve to enhance the resilience of the Belgian economy.

**In view of Belgium's still elevated fiscal vulnerabilities, related to the high level of public debt, the favourable economic environment should be used to rebuild fiscal buffers.** In this regard, we fully support staff's view that continued fiscal consolidation remains a priority. Like staff, we consider that the bulk of the fiscal effort should come from the expenditure side particularly as Belgium's public spending-to-GDP-ratio is among the highest in the EU. In addition, efforts need to intensify towards achieving a more growth-friendly composition of fiscal policies, in particular to redirect spending to growth-enhancing public investments. The reform of corporate income taxation as well as in labour taxation are welcome steps as they will help in improving competitiveness and stimulating employment rates and investment. However, considering fiscal vulnerabilities, staff's calls for broadening tax bases and reducing distortions in the tax system that could enable revenue neutral taxation changes are welcome.

**We agree with staff's assessment that the overall soundness of the Belgian financial sector has improved significantly since the financial crisis.** However, we also agree with staff that housing market developments require ongoing monitoring in view of the wide range of indicators that suggest a degree of overvaluation. Lastly, with respect to the issue of systemically important subsidiaries, we consider that this underscores the need to complete the Banking Union (with the EDIS and a fully-implemented backstop fund). We caution against using macroprudential tools to impose minimum funding requirements, including capital requirements, to significant institutions as this may interact with the ECB's supervisory powers and risks further complicating the interplay of different prudential requirements.

**To boost growth potential, we agree with staff's assessment and recommendations regarding the need for reform measures aimed at fostering employment and productivity.** In addition to the recommendations put forward by staff - strengthening labour supply via training and education, enhancing competition, as well as tackling bottle-necks in public transport networks - we would emphasise retail market regulations – an area flagged in previous years' Article IV Reports. With respect to wage developments, a comprehensive reform of the wage setting system towards a more decentralised framework - which would help in better aligning wage developments with productivity developments at the sector and firm level - would facilitate the preservation of the gains from recent discretionary measures to the wage setting mechanism.