

GREEN/20/36

March 26, 2020

**Green Statement from Mr. Ronicle and Ms. Andreicut on
Belgium—Staff Report for the 2020 Article IV Consultation (SM/20/69)**

We thank staff for the comprehensive report and Mr. de Lannoy and Mr. Cools for the helpful buff statement. We welcome Belgium's robust growth in recent years, accompanied by strong job creation and record-low unemployment. Nonetheless, we agree with staff that domestic developments, most notably the lack of a fully-fledged government and the sharp deterioration in public finances, along with the significant disruption caused by COVID-19, present major risks to the outlook.

Immediate challenges and medium-term reforms

We agree with staff that containing the spread of the coronavirus outbreak through targeted fiscal and financial support measures, supported by ECB monetary actions, is an urgent policy priority. We commend the authorities for the comprehensive measures taken in response to the COVID-19 outbreak, as highlighted by the buff statement. We also thank staff for the supplement updating on the latest COVID-19 developments.

Given the ongoing escalation in the severity of the outbreak, we suspect that staff's projection of 0.8% growth in 2020 may now be rather optimistic. Nevertheless, we were struck by the lack of an acceleration in growth in 2021 to make up lost output, suggesting staff view the hit to GDP from COVID-19 as permanent; although the supplement acknowledges the additional negative news for the near-term outlook, it is silent on staff's medium-term expectations. *Staff comments welcome.*

Beyond the immediate crisis, we encourage the authorities to pursue reforms which enhance the economy's resilience to shocks, while supporting inclusive and sustainable growth.

As outlined by staff, political gridlock impacts the momentum for structural reforms and market confidence. Combined with the COVID-19 outbreak, political uncertainty could reduce Belgium's resilience to shocks. In this context, we welcome the establishment of a temporary government tasked with responding to the coronavirus emergency. Over the medium term, we share staff's view that a new Belgian government should focus on implementing a package of reforms focused on addressing fiscal risks through growth-friendly medium-term fiscal consolidation, monitoring macro-financial risks and reinvigorating growth-enhancing structural reforms.

Climate

We welcome staff calls for a comprehensive and coordinated policy strategy to address climate change and make the most of the opportunities provided by the transition to a greener economy. We found Box 2 particularly helpful in understanding Belgium's climate policies as well as its remaining challenges. We encourage staff to include this type of climate analysis also in the Article IV reports of other European economies.

Financial sector

We take note of the resilience of the banking sector following post-crisis reforms, in particular in relation to stronger capital and liquidity buffers. Nonetheless, we acknowledge staff concerns that low interest rates can put pressure on profitability and lead to an easing of credit standards; macroprudential policy should be the first line of defense against such risks, so monetary policy can remain focused on delivering the ECB's inflation target.

Against this background, we welcome the stricter macroprudential measures taken by the supervisory authorities to mitigate rising housing-market vulnerabilities during 2019. Like staff however, we appreciate that COVID-19 is posing unprecedented challenges for the financial sector and agree that the recent decision to release the countercyclical capital buffer was warranted. Navigating financial stability concerns, while responding to COVID-19, will require a delicate balancing act.

Finally, we take note of the good progress made in implementing the 2018 FSAP recommendations and staff's analysis of areas for further work. We welcome the inclusion of this section in the report, along with the more detailed table in the annex, and judge this analysis to be a good step towards enhancing the integration between FSAPs and Article IVs.