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Green Statement from Mr. Jin and Mr. Huang on Belgium—Staff Report for the 2020 Article IV Consultation (SM/20/69)

We thank staff for insightful report and Mr. De Lannoy for the helpful Buff statement. With robust growth in 2019, Belgium is facing new challenges, including the recent outbreak of COVID-19. We concur with staff that in the near term, the policy priority should be focused on containing the virus spread and mitigating the negative impact. Once the pandemic is over, the authorities are encouraged to resume reforms to tackle long-term structural challenges. We broadly agree with staff's appraisal and would limit our comments to the following for emphasis.

The economic outlook is subject to downside risk due to the outbreak of COVID-19. We thank staff for the updated growth projection. However, it might be too optimistic. We encourage staff to continue closely monitoring how the situation evolves and to update the forecast, taking into account the authorities' response.

The COVID-19 outbreak underscores the importance of rebuilding fiscal buffer. We welcome all the targeted measures which the authorities have taken to support the enterprises and households that are heavily hit. Given the high level of public debt and deteriorating fiscal conditions, a credible and growth-friendly medium-term fiscal consolidation plan is needed once the COVID-19 crisis abates. We take note that the healthcare spending in Belgium is relatively higher than peer countries, while spending efficiency is below the frontier. The authorities are encouraged to take advantage of the current public health crisis to identify weaknesses in the health sector and address them thereafter. Given the relatively high fiscal expenditure in Belgium, we are wondering how the authorities are keeping a balance between economic presence of government and free market competition. *Staff's comments are welcome.*

Structural reforms are essential to boost long-term growth potential. It is regrettable to note that due to the political gridlock, little progress has been made in structural reforms since the end of 2018. The authorities are encouraged to renew the momentum in labor and product market reforms. With one of the lowest employment and labor-force participation rates in Europe, Belgium needs a more flexible labor market. In this regard, we see merit in staff's suggestion including strengthening work incentives, supporting labor mobility, and aligning wages with productivity. Boosting innovation is key to bolster productivity growth. We take good note that the Belgian growth fund is supporting venture funding of innovative firms. Further efforts are needed to facilitate the start of businesses and increase the efficiency of tax incentives for R&D. *In addition, could staff shed light on the role of SOEs in the Belgium's economy, including in what industries they are and what percentage they contribute to the total GDP, cross-border trade, employment, and tax revenue?*

The financial sector is broadly resilient but requires close monitoring amid recent market turmoil. The authorities' most recent decision to remove the countercyclical capital buffer (CCyB) is a step in the right direction. Going forward, further measures might be needed if the situation gets worse. In the long run, the authorities are encouraged to continue addressing remaining vulnerabilities in the financial sector, including the elevated macro leverage ratio and overvalued housing market. The authorities' efforts in implementing the FSAP recommendation is welcome. Nevertheless, more needs to be done, including reviewing the macroprudential policy framework and allowing the central bank to play a leading role.

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