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March 26, 2020

Statement from Ms. Mannathoko and Ms. Nainda on
Belgium—Staff Report for the 2020 Article IV Consultation (SM/20/69)

We thank staff for their comprehensive set of papers and Messrs. de Lannoy and Cools for their informative Buff statement. Our sympathies go to the people of Belgium as they deal with the impacts of the COVID-19 crisis. We welcome the measures adopted by both the outgoing and the new Federal Government in response to the COVID-19 outbreak, as outlined in the Buff statement. These measures provide much-needed immediate support to households and businesses.

With the emergence of the COVID-19 outbreak, the outlook for Belgium has deteriorated further. While staff projected a slowdown at the time of the Article IV mission, we note that the impacts seen so far and those expected going forward from the COVID-19 pandemic, will probably necessitate further downward revisions. We therefore encourage staff to remain engaged with the authorities so as to be able to monitor developments and assist if needed.

Looking beyond the measures required in the short-term to contain the virus and its economic impacts, the Belgian economy which had recorded sustained growth for several years following the great recession, nevertheless still faces key fiscal and structural challenges that need to be addressed. Beyond the short term, therefore, we hope for a resumption of reform measures needed to tackle demographic challenges and restore competitiveness.

We concur with staff on the need for a robust and sustained medium-term consolidation strategy to build fiscal buffers and restore long-term fiscal sustainability. We note that the fiscal balance deteriorated as demographic pressures placed increasing demands on social expenditure. This has had a significant impact on already-high public debt, which is projected to increase further as large pension and long-term care costs associated with the country's aging population and its generous benefit indexation, kick in. We therefore agree with staff on the need to create adequate fiscal space to deal with looming demographic challenges, and if necessary, to counter new negative shocks. We also encourage labor market reforms to boost labor force participation for youth and women, and product market reframe to boost productivity.

Although the financial sector remains resilient, emerging pressures warrants close monitoring and risk mitigation. Growing profitability concerns for major banks due to the low interest rate environment, are now combined with pressures from the coronavirus outbreak and deferred loans to businesses. We therefore welcome the National Bank of Belgium's counter-cyclical capital buffer to support the financial sector, but nevertheless encourage the authorities to remain vigilant with respect to credit risks, systemic risk and supervision of systemic financial conglomerates. The authorities' progress with technical standards on the reporting of intra-group transactions, risk concentration, and capital adequacy for systemic financial conglomerates, is welcome. We also note the authorities' intent to take additional measures if warranted, and to implement the remaining FSAP recommendations.

With this, we wish the new administration success in overcoming the COVID-19 crisis and progress on their reform agenda beyond the short term.