

GREEN/20/35

March 26, 2020

**Green Statement from Mr. Bevilaqua, Mr. Saraiva, and Mr. Antunes on Belgium—
Staff Report for the 2020 Article IV Consultation (SM/20/69)**

We thank staff for the insightful report and Mr. De Lannoy and Mr. Cools for the informative statement. Belgium, like several other countries, will need to postpone important structural reforms to focus on the urgent needs related to the COVID-19 outbreak. This Article IV report includes many valuable assessments and policy suggestions for the long run, offering an important reference point for the authorities to return to once the pandemic is controlled. Meanwhile, extraordinary macroeconomic measures may be necessary to avoid a prolonged depression and facilitate a rapid recovery of economic activity towards the end of the year. We are encouraged by the formation of a new government with a specific mandate to address the COVID-19 crisis, which will be able to unleash all the state capabilities needed to fight the pandemic and minimize its macroeconomic costs.

The top priority must be offsetting the contractionary effects of the public health measures set in place to slow down the COVID-19 outbreak. The social distancing measures in Belgium and across Europe will have immediate effects on aggregate demand. At the same time, the consequences of the disruption of global value chains on aggregate supply are already weighting on several countries, particularly on small open economies like Belgium. Taking into account the simultaneous supply and demand shocks, we agree with staff's assessment that the current priority is containing the spread and the damaging effects of the novel coronavirus through well-targeted support measures to affected firms and individuals.

In the medium run, a balanced fiscal consolidation strategy will be necessary. Even before factoring in the effects of the pandemic, the debt trajectory was already a cause for concern. On the back of stagnant revenues and rising spending, growing deficits were projected for the upcoming years, pushing debt above 100 percent of GDP. In face of the COVID-19 outbreak, tax revenues are likely to contract due to subdued economic activity, while extraordinary spending will take place. In particular, making sure that the public health system is adequately funded and putting in place targeted compensation schemes for affected businesses and workers are well-warranted fiscal responses. As a result, a stronger fiscal consolidation effort may be necessary once the pandemic is over.

Increasing productivity through enhanced participation of vulnerable groups in the labor market and better-focused public investments are ways to foster the long-term

sustainability of Belgium's high living standards. Staff makes a convincing case for targeted training and active policies to better integrate relatively disadvantaged social groups such as female, young, low-skilled, and non-EU born workers into the labor market. We take note that, prior to the outbreak, the Belgium labor market was already operating in an all-time high, and we welcome the active policies put in place last year by the three regional governments with a view to increase labor force participation among vulnerable groups. Supporting innovation, boosting investments in infrastructure and accelerating the transition towards a greener economy are important additional steps to reverse the long-term declining trend in productivity growth, supporting higher standards of living while safeguarding fiscal sustainability.