



## IMF Executive Board Concludes 2020 Article IV Consultation with Belgium

FOR IMMEDIATE RELEASE

**WASHINGTON, DC – March 31, 2020** the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Belgium.

Economic activity held up well over the last year, with 2019 growth reaching 1.4 percent, supported by robust domestic demand. The labor market also improved, with the unemployment rate falling to a record-low of 5.4 percent. However, given the rapidly unfolding global coronavirus outbreak, growth is projected to decline substantially this year and to gradually recover to 1.3 percent over the medium term. The outlook is clouded by unusually high uncertainty and risks are firmly on the downside as the Covid-19 pandemic represents a new and urgent challenge for policymakers.

Belgium has been without a full-fledged government since December 2018, which has constrained its ability to address long-standing structural challenges stemming from high public and rising private debt burdens, an aging population, slowing productivity growth, and climate change.

### Executive Board Assessment<sup>2</sup>

In concluding the Article IV consultation with Belgium, Executive Directors endorsed the staff's appraisal as follows:

**Economic activity has held up relatively well over the last year, but the outlook is clouded by unusual uncertainty and risks.** Growth was resilient and job rich in 2019, while the unemployment rate reached a historical low, in part reflecting previous reforms. Nonetheless, the inability to form a new government has paralyzed policymaking, while the public finances have deteriorated. The coronavirus outbreak is expected to reduce growth this year, and the outlook is highly uncertain and subject to risks, including more widespread and damaging effects of the coronavirus, escalating trade tensions, a sharper euro-area growth slowdown, and prolonged domestic political gridlock.

**Policies should focus on addressing the coronavirus outbreak in the near term and rebuilding resilience and addressing structural challenges in the medium run.** The immediate policy priority is to contain the spread and damaging effects of the coronavirus through targeted temporary support measures to affected firms and individuals, while ensuring that the healthcare system has adequate resources to address the crisis. Should banks face difficulties related to losses due to the impact of the coronavirus, if needed, the authorities

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<sup>1</sup> Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

could also support financial intermediation by considering additional temporary measures on capital relief. A new government should use its fresh mandate to implement comprehensive reforms to address remaining medium-term structural challenges: high public and rising private debt, an aging population, slowing productivity growth, and climate change.

**Belgium will need a credible medium-term consolidation to build fiscal buffers against future shocks and safeguard sustainability.** Under the baseline scenario, the deficit will continue to widen, and public debt will remain high in the medium run and be on a rising trajectory in the long run, due to population aging pressures. To safeguard fiscal sustainability and build buffers against future shocks, the new government needs to put in place a credible medium-term consolidation strategy aiming to reach structural fiscal balance by 2024. Avoiding a further deterioration in the structural balance this year (net of emergency measures to address the coronavirus outbreak) and aiming for a structural adjustment of ½ percent of GDP during 2021–24 could balance near and long-term considerations.

**Growth-friendly spending reforms should underpin the medium-term adjustment.** A sustained medium-term effort to reduce primary spending while improving its efficiency can support deficit targets and reorient the budget toward more growth-friendly areas. Reforms should focus on containing medium-term healthcare costs, bolstering the sustainability of the pension system, improving the targeting and labor-market incentives of social benefits, strengthening the efficiency of subsidies, and reducing duplication in the public administration. Complementary tax base-broadening reforms could create space to lower the labor tax wedge in the medium run.

**Additional reforms to boost labor-force participation, especially for vulnerable groups, are needed.** Despite recent reforms, Belgium’s labor-force participation rate remains among the lowest in Europe, especially for the young, low-skilled, non-EU born, and women. Efforts should thus focus on active labor-market policies and training programs targeted at vulnerable groups and should be followed by further reforms to bolster female labor-force participation, mobility, and labor-market flexibility. These can also help strengthen Belgium’s external position, which is weaker than implied by fundamentals.

**Complementary product-market reforms can help boost productivity growth.** Reversing the declining trend in productivity growth is essential to support higher standards of living and safeguard fiscal sustainability. Thus, reform efforts would need to focus on reducing red tape for startups, lowering regulatory barriers to competition in key sectors, supporting access to venture capital for innovative firms, and boosting public investment in infrastructure, fiscal space permitting. A comprehensive policy strategy is needed to fulfill the government climate change commitments and take advantage of the opportunities from the transition to a green economy.

**The authorities should continue to bolster the resilience of the financial sector over the medium run.** Staff welcomes the recent macroprudential measures addressing risks stemming from easy credit and rising corporate and household debt as well as the more recent decision to release the countercyclical capital buffer in response to the coronavirus crisis. Looking forward, they should stand ready to continue to support the banking sector as needed and revisit the framework for macro-prudential decision-making to ensure the ability to deploy macro-prudential policies effectively and timely. Efforts should continue to improve reporting, bank resolution, and deposit insurance frameworks. The authorities should also encourage banks to rationalize costs, strengthen governance, and adapt business models to prepare for the challenges of digitalization.

## Belgium: Selected Economic Indicators (2017–20)

	2017	2018	2019 Est.	2020 Proj.
<b>Real economy</b>				
Real GDP	2.0	1.5	1.4	0.8
Domestic demand	1.2	2.2	1.5	1.1
Foreign balance 1/	0.7	-0.7	-0.1	-0.2
Exports, goods and services	5.3	1.2	1.0	1.6
Imports, goods and services	4.4	2.1	1.2	1.9
Potential output growth	1.4	1.3	1.3	1.2
Output gap (in percent)	0.2	0.4	0.5	0.1
<b>Employment</b>				
Unemployment rate (in percent)	7.1	6.0	5.4	5.6
Employment growth	1.6	1.4	1.5	0.3
<b>Prices</b>				
Consumer prices	2.2	2.3	1.2	1.1
GDP deflator	1.7	1.5	1.6	1.3
<b>Public finance</b>				
Revenue	51.2	51.4	50.3	50.0
Expenditure	51.9	52.1	51.9	52.3
General government balance	-0.7	-0.7	-1.7	-2.3
Structural balance	-1.3	-1.5	-2.0	-2.3
Primary balance	1.6	1.4	0.2	-0.6
General government debt	101.8	100.0	99.0	99.5
<b>Balance of payments</b>				
Goods and services balance	1.4	-0.2	0.0	0.2
Current account	1.2	-1.0	-1.2	-1.0
<b>Exchange rates</b>				
Euro per U.S. dollar, period average	0.8	0.9	0.9	...
NEER, ULC-styled (2005=100)	98.7	98.3	98.0	...
REER, ULC-based (2005=100)	98.5	97.8	97.4	...
<b>Memorandum items</b>				
Nominal GDP (in billions of euros)	446.4	459.8	473.6	484.0
Population (in millions)	11.4	11.4	11.5	11.5

Sources: Haver Analytics, Belgian authorities, and IMF staff projections.

1/ Contribution to GDP growth.