taxes—both of which the government is pursuing—seem somewhat effective. But general classroom training and public employment programs, which are also prevalent in Belgium, appear to be of little value. Some observers even claim they have a negative effect because they make people unavailable for the private sector. Streamlining the many programs could lead to substantial budgetary savings. But even without savings, a reallocation of resources toward the most effective programs would improve the functioning of the labor market.

Health care sector must cap costs

Reforms will also be needed in the health care sector. Rising living standards, technological progress, and population aging will keep pushing up health care expenditure for the foreseeable future. Continuing spending at the current budget norm, or even at recent historic rates, is fiscally unsustainable: publicly funded health care costs as a share of GDP would rise rapidly and absorb most, if not all, of the savings that pension and labor market reforms could generate. The government is aware of the need to reduce spending growth in the health sector but, as experience in other countries has shown, there is no magic recipe for success. Lowering the spending norm will be a necessary first step, but it is unlikely to be sufficient. Mechanisms to increase all stakeholders' cost-consciousness will also be needed. In the end, while the public should be allowed to choose its desired level of service, it should also be made aware of the costs.

Creating a virtuous circle

If implemented, all of these measures would result in a substantial improvement in Belgium's fiscal position. But savings should probably not be used only to retire public debt. Belgium's tax burden is clearly too high; cutting taxes would deliver a significant boost to economic growth by encouraging more people to work and businesses to invest. Also, the fiscal gains from comprehensive reforms could result in savings beyond what is required for a long-term improvement in the budget position, thus creating considerable scope for reducing taxes. Most of the tax burden currently falls on labor, through social security contributions and income taxes, or on consumers (who already have their income taxed) through indirect taxes. Lowering this burden, with reductions targeted to those groups that face the highest tax rates, will create new jobs, one of the government's key objectives.

Taking advantage of the synergies between fiscal consolidation and labor market reform would do more than just trigger a virtuous circle on public debt dynamics. Combined with tax cuts, it would also be likely to set in motion a virtuous growth circle, with positive feedback on public finances. Provided that reforms are implemented soon, Belgium should be able to maintain its high level of income and its welfare accomplishments—including an accessible and equitable health care system. ■

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Press Releases

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04/38: IMF Managing Director Horst Köhler's Statement During His Visit to Korea, February 26

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04/43: IMF Managing Director Horst Köhler Resigns Following Nomination as German President, March 4

04/44: IMF Completes Third Review Under the Democratic Republic of the Congo's PRGF Arrangement and Approves $39 Million Disbursement, March 4

Note: PRGF = Poverty Reduction and Growth Facility

Public Information Notices

04/12: IMF Concludes 2003 Article IV Consultation with Kuwait, February 25

04/13: IMF Concludes 2003 Article IV Consultation with Belgium, February 27

04/14: IMF Concludes 2003 Article IV Consultation with the Republic of Palau, March 2

04/15: IMF Concludes 2003 Article IV Consultation with the United Kingdom, March 5

Speeches

"Northeast Asia: Seizing the Opportunities of Globalization," Horst Köhler, IMF Managing Director, International Conference on a New Vision and Strategy Under Changing Leadership in Northeast Asia, Seoul, February 27

"Perspectives for Economic Integration in Central America," Markus Rodlauer, Senior Advisor, IMF Western Hemisphere Department, 40th Anniversary of the Central American Monetary Council, Tegucigalpa, Honduras, February 27