INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/209

BELGIUM

September 2021

2021 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BELGIUM

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2021 Article IV consultation with Belgium, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 8, 2021 consideration of the staff report that concluded the Article IV consultation with Belgium.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 8, following discussions that ended on June 28, with the officials of Belgium on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 20, 2021.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Belgium.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2021 Article IV Consultation with Belgium

FOR IMMEDIATE RELEASE

Washington, DC – September 8, 2021: On September 8, 2021, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belgium.

Belgium entered the pandemic with an economy running at full capacity, unemployment at historic lows, and a resilient financial sector, but also with long-standing fiscal and structural challenges unaddressed. The fiscal deficit widened in 2019, eroding buffers. Public debt was high and on an upward path with aging pressures despite a favorable interest-growth differential. Other long-standing challenges included labor-market rigidities, difficulties integrating vulnerable groups, slowing productivity growth, and weak business dynamism.

Belgium has navigated the challenges of Covid-19 well, with a timely, strong, and sustained health and economic policy response containing the impact on activity. Support to households and firms cushioned income and job losses and prevented a sharp rise of bankruptcies. A coalition government took office in October 2020, ending a prolonged period of policy uncertainty, and prioritizing the Covid-19 crisis.

A strong recovery is now underway, underpinned by a well-targeted vaccination strategy that facilitated reopening and boosted confidence, and continued policy support. Growth is expected to remain robust as domestic and external demand recovers, reaching 5.4 and 3.1 percent in 2021-22 before returning to potential of 1.3percent over the medium term. Uncertainty remains high, dominated by Covid-19 dynamics. Near-term risks are balanced, with a stronger recovery as vaccination/reopening proceeds an important upside and a prolonged pandemic, tighter financing conditions, and post-pandemic loss of policy momentum key downsides. Scarring will likely be more contained than initially feared. However, resource reallocation is hampered by deep-rooted labor and product market rigidities, while the pandemic deepened pre-existing fiscal and structural challenges.

[1] 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.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for the timely, strong, sustained policy response to the pandemic that cushioned impacts on households, firms, and activity. Noting that uncertainty remains high, Directors called for targeted support to remain in place until the crisis abates and recovery is firmly entrenched. Policies should then refocus on long-standing fiscal and structural challenges, steering the recovery towards a greener, more inclusive economy.

While welcoming continued, targeted support in the near term, Directors stressed the importance of rebuilding buffers, anchored on a credible, expenditure-led adjustment plan. They called for ambitious and steady deficit reduction, carefully calibrated over the medium term, to put debt on a firmly downward path, while also protecting critical social spending and creating space for additional growth-enhancing public investment outlays. Directors agreed that this effort should be underpinned by spending reviews and concrete reforms aimed at containing aging and benefits pressures and improving efficiency. They also welcomed tax reforms under preparation, including those aimed at enhancing compliance.

Directors noted the resilience of the financial sector, and the timely adoption of micro- and macroprudential polices to support intermediation. They stressed the need to avoid premature policy tightening to allow for use of available buffers to bolster the recovery. They called for vigilance to real estate risks, including possible macroprudential measures. They emphasized the role of policymakers to assist the financial sector in adapting to challenges from low interest rates, digitalization, and climate change. Efforts to continue strengthening the AML/CFT framework were also encouraged.

Directors noted the disproportionate impact of the pandemic on vulnerable groups, deepening labor market fragmentation. While commending efforts to preserve jobs, they stressed that policies should pivot to fostering reallocation and participation, as the recovery firms, through active labor market policies. They called for more fundamental reforms of social benefits, wage-setting, and employment-protection to ease rigidities and meet ambitious employment objectives.

Directors agreed that complementary reforms are needed to limit scarring, boost productivity, and enhance business dynamism. While welcoming recent insolvency reforms, they called for further enhancing debt-restructuring and insolvency frameworks and reducing regulatory barriers to firm entry and competition. Directors welcomed investment and reform initiatives in the National Resilience and Recovery Plan and encouraged ambitious labor and product

[2] 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.

reforms. Finally, they noted that meeting the country's climate targets will require substantial additional effort, federal-regional coordination, and speedy policy execution.

It is expected that the next Article IV consultation with Belgium will be held on the standard 12-month cycle.

Table 1. Belgium: Selected Economic Indicators, 2019-22

	2019	2020	2021	2022
			Proj.	
Real economy				
Real GDP	1.8	-6.3	5.4	3.1
Domestic demand	1.6	-6.0	4.6	4.1
Foreign balance[1]	0.2	-0.3	0.9	-0.9
Exports, goods and services	1.0	-4.6	6.6	5.3
Imports, goods and services	0.8	-4.3	5.6	6.5
Potential output growth	1.1	-2.7	3.5	1.7
Output gap (in percent)	0.1	-3.7	-1.7	-0.3
Employment				
Unemployment rate (in percent)	5.4	5.6	6.2	6.1
Employment growth	1.6	0.0	-0.5	0.8
Prices				
Consumer prices	1.2	0.4	2.3	2.1
GDP deflator	1.7	1.1	2.2	2.1
Public finance				
Revenue	50.2	50.6	50.3	50.2
Expenditure	52.1	60.0	57.4	54.6
General government balance	-1.9	-9.4	-7.1	-4.5
Structural balance	-2.2	-7.4	-6.3	-4.4
Primary balance	0.1	-7.4	-5.4	-3.1
General government debt	98.1	114.1	113.6	113.1
Balance of payments				
Goods and services balance	0.6	0.4	0.4	-0.2
Current account	0.3	-0.2	0.0	-0.5
Exchange rates				
Euro per U.S. dollar, period average	0.9	0.9	...	...
NEER, ULC-styled (2005=100)	98.0	98.2	...	...
REER, ULC-based (2005=100)	98.0	97.8	...	...
Memorandum items				
Nominal GDP (in billions of euros)	476.3	451.2	486.4	512.1
Population (in millions)	11.5	11.5	11.5	11.6

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

[1] Contribution to GDP growth.

INTERNATIONAL MONETARY FUND

BELGIUM

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION

August 20, 2021

KEY ISSUES

Context: Belgium was hit hard early by Covid-19, but a timely, strong, and sustained health and economic policy response helped cushion impacts. A coalition government took office in October 2020, giving greater policy clarity and rightly prioritizing the Covid-19 crisis. A highly-effective vaccine rollout has facilitated reopening and recovery.

Outlook: Growth is projected to recover to 5.4 percent in 2021, before returning to potential of 1.3 percent over the medium term. The fiscal deficit is expected to narrow from 9.4 percent of GDP in 2020 to 4.5 percent in 2022, as Covid-19 support is unwound, but to widen to 5.3 percent in the medium term, driven by social benefit pressures. Uncertainty is high, dominated by Covid-19 dynamics, but near-term risks are balanced.

Policies: Support should continue until the crisis abates and recovery firms, targeted to hard-hit households and firms. Policies should then refocus on long-standing challenges:

- Rebuilding fiscal buffers through medium-term consolidation, focused on addressing aging pressures, better benefit targeting, and spending efficiency. The authorities have ambitious plans to raise public investment spending and foster green-digital transformation; additional savings will be needed to create space. Tax reforms rightly aim to lower labor taxes, simplify the tax system, and meet climate objectives, with base broadening and enhanced compliance.

- Financial sector policies should avoid a premature policy tightening and facilitate use of buffers, if needed, while monitoring risks related to bank asset quality, real estate and low-for-long interest rates, and adjust prudential policies where appropriate. Efforts to address challenges from digitalization, climate change, and AML/CFT issues should continue to ensure long-term resilience.

- To enhance labor force participation, mobility, and flexibility, and boost productivity, active labor market policies and reforms of benefits, wage-setting, and employment protection are needed, complemented by enhanced debt restructuring/insolvency frameworks, reduced regulatory barriers to firm entry and competition, and actions to promote business dynamism. The National Recovery and Resilience Plan (NRRP) should boost reforms and green-digital transformation. Substantial, coordinated federal-regional efforts will be required to meet ambitious climate targets.

Approved By
Laura Papi (EUR) and Maria Gonzalez (SPR)

Discussions took place (virtually) during June 14-29, 2021. The team comprised Mark Horton (head), Ruud Vermeulen and André Geis (EUR) and Patrick de Mets and Nariné Nersesyan (FAD), and was assisted at headquarters by Paola Castillo and Karen Cerrato. Luc Dresse and Dries Cools (OED) joined the mission. The team met with Prime Minister De Croo, NBB Governor Wunsch, Federal ministers Van Peteghem, Vandenbroucke, Lalieux, Khattabi, and Van Quickenborne (Finance, Health, Pensions, Environment, Justice) and State Secretaries De Bleeker and Dermine (Budget, Economic Recovery and Strategic Investments), Finance Ministers of the three regional governments, other senior government officials, and representatives of the private sector, think tanks, academia, and trade unions.

CONTENTS

TABLES

ANNEXES

CONTEXT

1. **Belgium entered the pandemic with sound recent growth and a resilient financial sector, but also political fragmentation and long-standing fiscal and structural challenges**. Growth in 2018-19 exceeded the euro-area (EA) average, with strong job creation. Bank liquidity and capital were well above regulatory minima. However, fragmentation hindered government formation after May 2019 elections, halting reforms. The fiscal deficit widened in 2019, and debt was high and rising over the medium term. Export growth had slowed. Long-standing challenges included labor-market rigidities, integration of vulnerable groups, slowing productivity growth, and weak business dynamism.

2. **A caretaker administration led the initial fight against Covid-19; a broad coalition government took office in October 2020.** Policies have centered on crisis management and initiating reforms aimed at inclusive-green-digital transformation.[1]

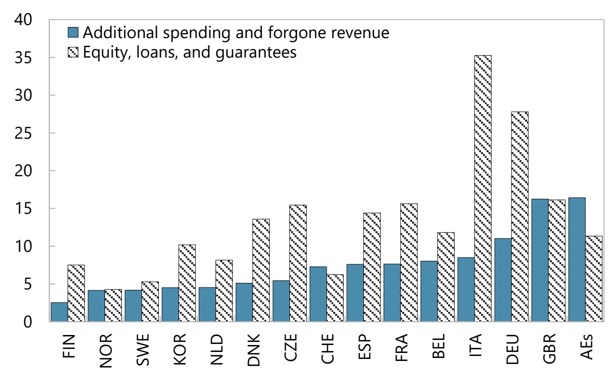
DEVELOPMENTS AND POLICY RESPONSE

3. **COVID-19 hit Belgium in waves.** A March 2020 lockdown contained the initial outbreak. Restrictions reimposed in November were more limited in scope. Infections rose again in March 2021; containment measures were reinstated, again with more limited impact. The Delta variant has not translated into higher hospitalizations, due to concentration among younger cohorts and high vaccination rates (>67 percent with at least one dose; 50 percent fully-vaccinated).[2] The target of full vaccination for 70 percent by September is within reach.

4. **The economy contracted by 6.3 percent in 2020, in line with the EA average**. GDP fell by 15 percent in H1 as consumption and investment slumped. Contact-intensive firms (one-fifth of GDP) and younger, temporary, and lower-skilled workers were particularly affected. Further waves hampered recovery, but policy support, targeted containment, and firm and household adaptation moderated impacts. Most sectors returned to pre-crisis output levels by Q1:2021. Inflation fell in 2020 with lower energy prices and weak demand; pressures emerged in H1:2021 with rebounding commodity prices and supply constraints.

Discretionary Fiscal Response

(Percent of GDP)



Source: IMF Fiscal Monitor Database (April 2021).

5. **The fiscal response was strong and timely and adapted to developments**. The caretaker government responded quickly by

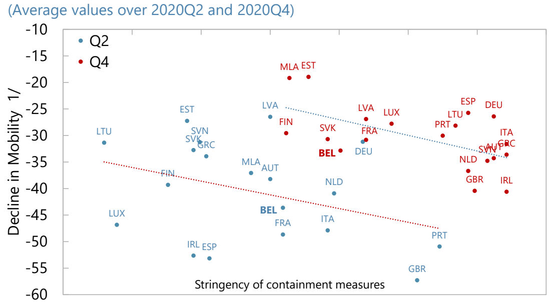
[1] See Annex I for a discussion of implementation of past recommendations.

[2] An innovative vaccine roll-out utilized insurance and health provider data to identify those with comorbidities for targeted prioritization (with frontline workers and elderly).

boosting health outlays, expanding employee (short-time work program, STW) and self-employed (SE) support programs, and providing tax deferrals, loan moratoria, and guarantees, complemented by business grants and numerous other federal and regional measures (Annex II). As the situation evolved, measures were adjusted, targeting hard-hit households and firms and supporting reopening through rehiring and investment incentives. Support was 5 percent of GDP in 2020 (¾ STW, SE, and regional grants); the deficit widened from 1.9 percent to 9.4 percent of GDP.[3] Debt rose from 98 percent to 114 percent of GDP.[4] ECB debt purchases (~80 percent of net issuance) lowered yields; interest payments remained at 2 percent of GDP.

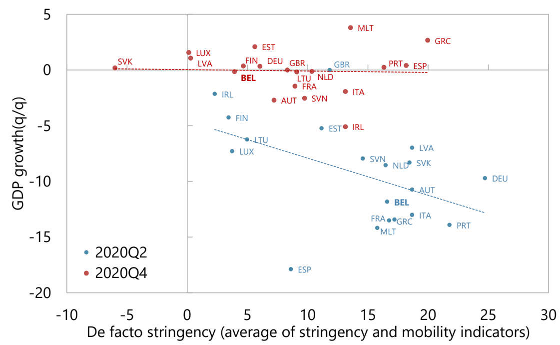
Figure 1. Belgium: Economic Impact of the Covid-19 Pandemic

Stringency of Containment Measures and Mobility
(Average values over 2020Q2 and 2020Q4)



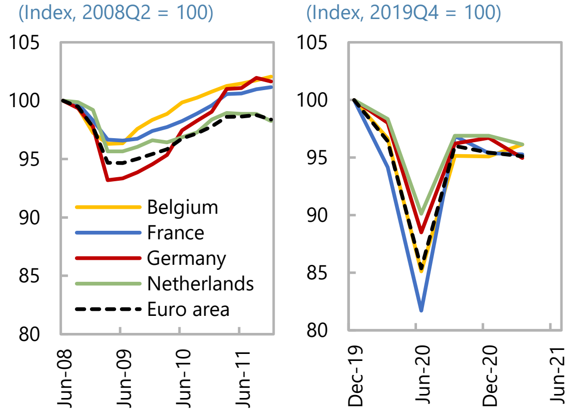
Sources: Google Mobility Report; Oxford University; and IMF staff calculations.
1/ Average percent change of "transition stations" and "workplaces" from baseline (median value over Jan 3-Feb 6, 2020).

Growth vs. Restrictions on Movement
(Percent)



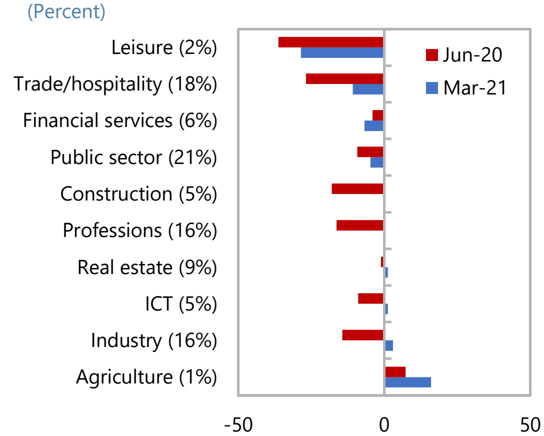
Sources: Google mobility report; Oxford university; and IMF staff calculations.

Real GDP
(Index, 2008Q2 = 100) (Index, 2019Q4 = 100)



Sources: Eurostat and IMF staff calculations.

Change in gross value added compared to 2019Q4
(Percent)

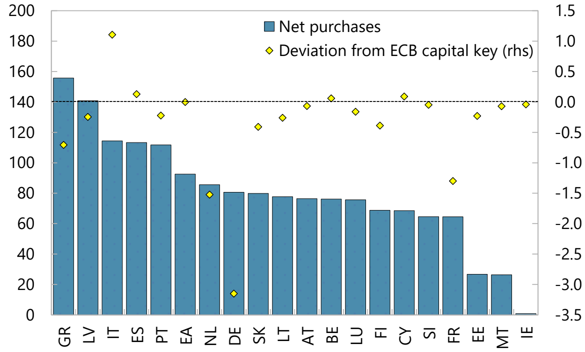


Sources: Eurostat and IMF staff calculations.
Notes: Percentage values on the y-axis indicate the sectoral share in total gross value added at the end of 2019.

[3] The remaining deterioration was due to lower nominal GDP and impacts on expenditure ratios.

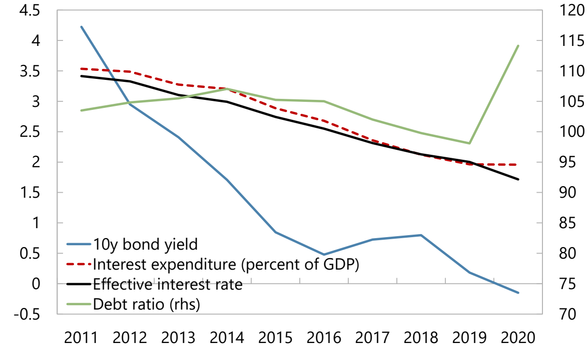
[4] 36.5 percent of employees and 50 percent of SE were covered at the April 2020 peak.

ECB Net Purchases of Sovereign Debt in 2020
(In percent of net debt issuance)



Source: Eurostat, ECB, and IMF Staff calculations.

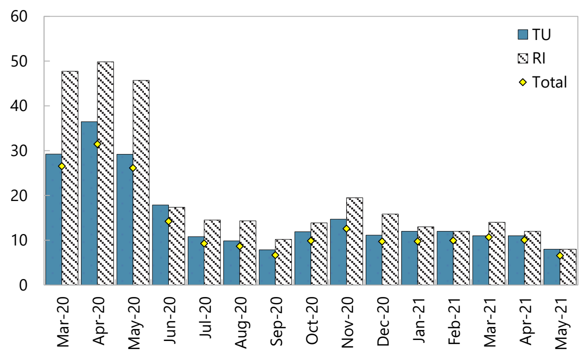
Interest Burden
(Percent and percent of GDP)



Source: NBB and IMF Staff calculations.

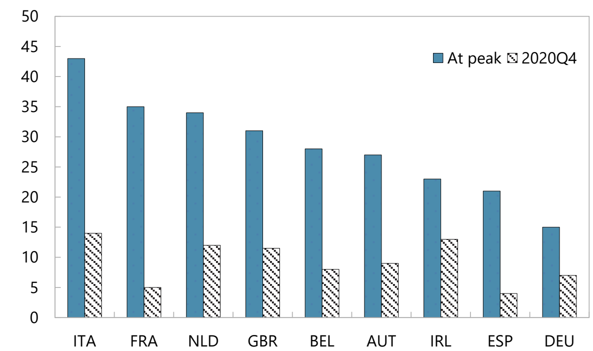
Figure 2. Belgium: Covid-19 Fiscal Support

Use of STW scheme and Replacement Income for SE
(Percent of employees, self-employed, and total employment)



Source: NBB and IMF Staff calculations.

Use of STW Schemes
(Percent of employees)



Source: IMF April 2021 Fiscal Monitor.

Table 1. Belgium: Overview of Fiscal Measures[1/]

	EUR bn		Percent of GDP	
	2020	2021	2020	2021
Above-the-line 2/	**21.3**	**13.4**	**4.7**	**2.8**
Health expenditure	5.3	3.1	1.2	0.6
Support to households	8.8	5.0	1.9	1.0
STW scheme - Federal	3.9	1.8	0.9	0.4
Replacement income SE - Federal	3.3	2.1	0.7	0.4
Other social benefits and transfers	1.5	1.2	0.3	0.2
Support to firms and self-employed (SE)	7.2	4.9	1.6	1.0
Grants - Regional	3.1	1.5	0.7	0.3
Tax exemption for regional grants - Federal	0.8	0.3	0.2	0.1
Solvency-enhancing revenue measures - Federal 3/	0.8	0.7	0.2	0.1
Support for specific sectors	2.6	2.3	0.6	0.5
Below-the-line	**53.1**	**12.2**	**11.8**	**2.5**
Equity injections / subordinated debt	1.1	0.6	0.2	0.1
Guarantees	52.0	11.6	11.5	2.4

Sources: FOD BOSA, FOD Finance, FOD WASO, FPB, Regions & Communities, NBB.

1/ Figures for 2020-21 are based on outturns and projections, respectively.

2/ Excludes local government measures.

3/ Some of the tax measures are recorded under subsidies in the fiscal accounts.

6. **Monetary and regulatory measures reversed an early tightening of financial conditions, but private-credit growth remained sluggish.** European guidance on capital, liquidity and operational relief was adopted, and the counter-cyclical capital buffer released (with reinstatement from Q2:2022 at the earliest). A large envelope for loan guarantees was announced (table), but just a fraction was utilized, despite modifications to encourage take-up and extension until end-2021.[5] Moratoria affected €35bn of loans—3½ percent of portfolios—at the summer 2020 peak, but ended in June 2021.[6] Caps on dividends and bonuses were enacted (until September 2021). Still, private-credit growth slowed, continuing a trend from 2018, reflecting weakening demand and tightening lending standards. Recently, easing lending standards have supported mortgage borrowing, and NFC loan demand has picked up.

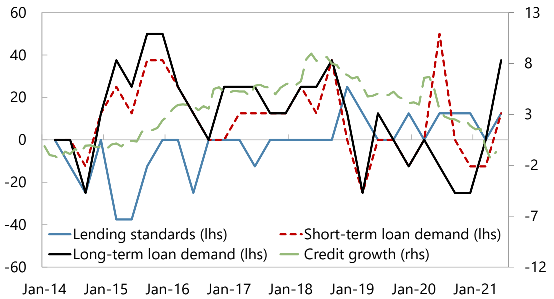
[5] Low take-up reflected short maturities (up to 12 months), tight eligibility (e.g., pre-Covid viability), and loss-sharing unfavorable to banks in the first federal program (€50 billion). A second program (€10 billion of the original €50 billion) addressed these issues. The first program expired at end-2020; the second remains in place until end-2021.

[6] Credit moratoria that are to continue beyond June 2021 will have to be agreed on between borrowers and banks on a case-by-case basis (Annex II).

Figure 3. Belgium: Credit Developments

NFC credit, lending standards and loan demand

(LHS: net percentage balance w/r to 3m; RHS: percent)

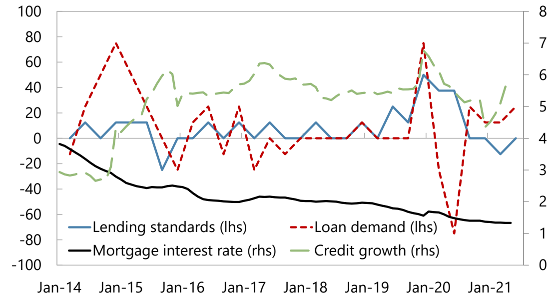


Source: NBB.

Notes: a negative net balance indicates a tigenting of lending standards and lower loan demand.

Mortgage credit, lending standards and loan demand

(LHS: net percentage balance w/r to 3m; RHS: percent)



Source: NBB.

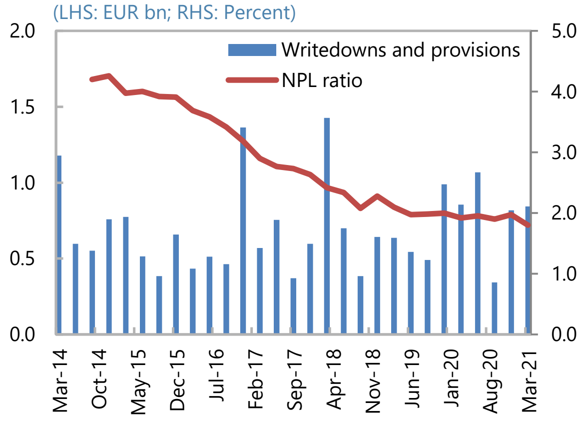
Notes: a negative net balance indicates a tigenting of lending standards and lower loan demand.

7. **Public borrower support and supervisory measures helped the financial sector weather the crisis.** Public support, moratoria, and suspension of government claims provided liquidity to households and firms and limited job losses and bankruptcies. A pick-up of unemployment through mid-2020 subsided, and bankruptcies dropped by a third last year. Aggregate NPL ratios remained stable, amid some uptick in impaired exposures to hard-hit firms. Bank profitability held up, aided by low-cost Eurosystem funding, and capital cushions strengthened. Still, low interest rates are pressuring margins, and provisions set aside during the crisis may be called on as support and moratoria are phased out. Real estate (RE) segments performed well despite the crisis. Households channeled additional savings (€25 billion in 2020) into renovation and purchases; commercial RE prices held up despite higher vacancies.

Figure 4. Belgium: Banking Sector Developments

Bank asset quality

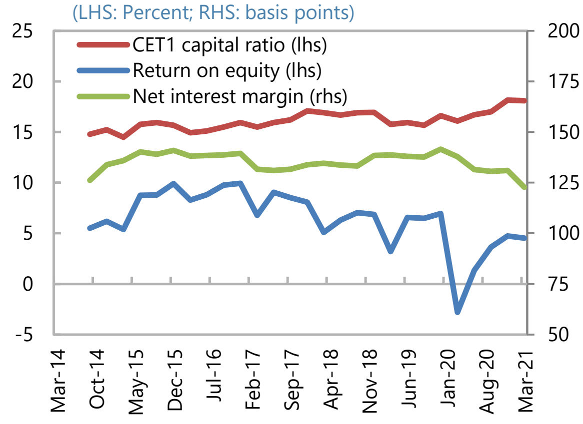
(LHS: EUR bn; RHS: Percent)



Sources: NBB and EBA.

Bank profitability and capital adequacy

(LHS: Percent; RHS: basis points)

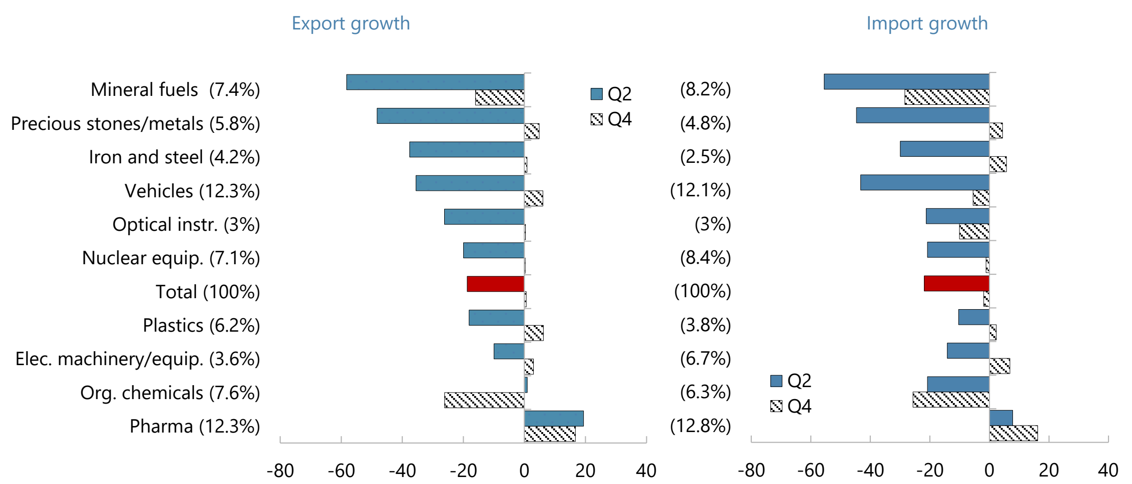


Sources: EBA.

8. **The external position was moderately weaker in 2020 than implied by fundamentals and desirable policies** (Annex III). The current account (CA) turned into a small deficit, driven by lower trade and secondary-income balances, including lower manufacturing exports. This was mitigated by lower energy prices and sustained pharmaceutical exports, as well as an improved services balance (lower net travel/transport service imports). Adjusting for transitory Covid-19 impacts, the CA gap was assessed to be -1.8 percent of GDP and the REER overvalued by 4.3 percent.

Belgium: Exports and Imports of Top 10 Products in 2020

(Percent change, y/y; share of total in percent in brackets)



Source: NBB and staff calculations.

OUTLOOK AND RISKS

9. With continued policy support, vaccination roll-out, scaled-back containment, and an improved global outlook, growth should rebound in 2021-22 to 5.4 and 3.1 percent.[7] Private consumption and investment should lead the recovery, with impetus from Next Generation EU funding (NGEU). Over the medium term, growth should return to 1.3 percent, leaving output slightly below the pre-crisis baseline by 2026. A pick-up of inflation is expected in 2021-22, with strong base effects and transitory supply bottlenecks.

Belgium: Selected Economic Indicators, 2019–26

			Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
Real GDP (change in percent)	1.8	-6.3	5.4	3.1	1.8	1.4	1.3	1.3
Private consumption	1.5	-8.7	3.8	6.8	2.3	1.5	1.7	1.6
Public consumption	1.6	0.7	3.6	0.3	1.2	1.6	1.8	1.9
Gross fixed investment	3.5	-6.9	11.2	2.5	2.6	2.0	1.3	1.8
Exports of goods and services	1.0	-4.6	6.6	5.3	4.1	3.6	3.4	3.4
Imports of goods and services	0.8	-4.3	5.6	6.5	4.4	4.0	3.8	3.8
CPI (year average)	1.2	0.4	2.3	2.1	1.9	1.9	1.8	1.8
Output gap (percent of potential GDP)	0.1	-3.5	-1.7	-0.3	-0.1	-0.1	-0.1	0.0

Sources: Haver Analystics, Belgian authorities, and IMF staff calculations.

10. The outlook is subject to significant uncertainty, with risks balanced (Annex IV). Confidence indicators point to substantial upside with full reopening. Strengthened, decisive reforms in connection with NGEU would provide an additional boost. A protracted pandemic would slow recovery and require further support, although fiscal space is narrowing. Post-pandemic fatigue/complacency, lack of policy consensus, or tighter financing conditions would expose vulnerabilities. Climate risks are materializing—floods in July caused significant damage, particularly in Wallonia, with the federal and regional governments providing support.

Authorities' Views

11. The authorities shared staff's views on the outlook and risks. They expect slightly higher output growth in 2021 (5.5 percent), and somewhat lower growth in 2022-23. Like staff, they see growth returning to potential (~1.3 percent), with modest scarring, although they cautioned that this would become clearer now that loan moratoria have mostly ended and after other broad support measures are phased out later this year. They consider inflationary pressures to be transitory, but also noted risks from wage indexation. After focusing intensively on Covid-19 thus far in its tenure, the government has a strong appetite to continue advancing reforms.

[7] Brexit is expected to have a small, transitory effect, as customs bottlenecks ease and given trade diversion since 2016. The EU Brexit Adjustment Reserve will also mitigate impacts.

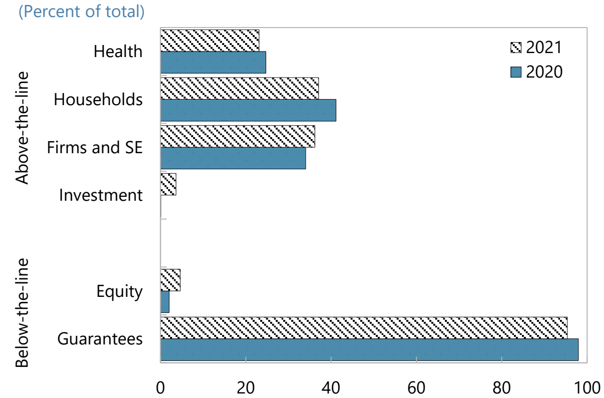
POLICY DISCUSSIONS

Policies should focus on securing a strong recovery in the near term and on fiscal and structural challenges. In particular, fiscal policy should remain supportive in the near term, with support measures targeted. Buffers should be rebuilt from 2022 through a credible, sustained expenditure-led consolidation, with tax reforms aimed at simplification, strengthening compliance, easing the burden on labor income, and achieving climate goals.

A. Fiscal Policy

12. **In 2021, the fiscal stance remains appropriately supportive, with measures increasingly targeted**. Support is projected at 3 percent of GDP, down from 4.7 percent. Key measures (STW, SE) were extended through September, with SE and regional grants more targeted. Funding for public investment vehicles has been increased to provide (quasi-) equity support to viable firms.

Fiscal Support By Beneficiary
(Percent of total)



Source: Authorities and IMF Staff calculations.

13. **Fiscal support should be maintained until recovery firms, targeted and focused on solvency needs and hard-hit households**. Solvency needs, although below peers, could lead to bankruptcies and job/credit losses if unaddressed.[8] Measures should increasingly focus on solvency support, leveraging private-sector resources and expertise. They should be coordinated across governments, closely monitored for cost/effectiveness, and tapered as risks abate and recovery is secured. If downside risks materialize, narrowing fiscal space may need to be deployed, likely STW/SE extension.[9] Further support should be targeted and measured, particularly to avoid a rapid erosion of remaining space in case of a protracted, adverse shock.

14. **Recent expansions of social spending add to fiscal pressures and should be addressed through reforms or offsetting adjustments.** This reflects both pandemic- and non-pandemic-related structural spending increases. Pandemic-related spending should remain temporary and be phased out with recovery. Non-pandemic-related policies include increases for health, minimum pensions, and social assistance (totaling ½ percent of GDP).[10] A higher annual cap on real health-

[8] Staff estimates additional solvency needs of 0.5-2 percent of GDP. See Selected Issues Paper on corporate vulnerability.

[9] Fiscal space has been expanded by low borrowing costs and NGEU support. A credible, medium-term strategy that reduces borrowing requirements and debt and addresses long-term challenges would expand space. A quick, sharp increase in interest rates would limit fiscal space.

[10] These were in addition to Covid-19-linked structural health spending increases—on wages and employment, working conditions, and mental health.

spending growth may add to drift, although efforts are underway to identify innovations, efficiencies, and savings.[11] A June 2021 social agreement included a gradual increase in minimum wages, with the government compensating the first increase in 2022. These structural spending increases add to underlying benefit and aging pressures, and have not yet been accompanied by offsetting measures or reforms that would ensure sustainability—key to the medium-term adjustment. Plans are under development in some areas, with links to the structural agenda (e.g., labor-market reforms). For example, a strategy to reduce poverty and inequality was launched in July, focusing on enhanced access to employment and benefits for young, old, and low-skilled workers. Also, pension reform plans are to be presented in September that aim to increase the effective retirement age by keeping older workers employed. In both cases, parametric adjustments are not under consideration. While employment gains are desirable, more fundamental reforms of unemployment, pension, and other social benefits should be considered, including to contain drift from indexation and real benefit increases.[12]

15. Looking forward, policies should rebuild fiscal space once recovery is secured. Major shocks in short succession (global financial crisis, European debt crisis, Covid-19) demonstrate the importance of buffers/space. While low interest rates and extended maturities offer comfort now, conditions may change, possibly quickly if inflation picks up. Well-defined, upfront commitments would boost credibility, especially with elections in 2024.[13] The federal government's current adjustment plan incorporates a fixed annual effort of 0.2 percent of GDP from 2021 and a variable effort of up to 0.4 percent from 2022, depending on the level and growth rate of GDP. The plan has important shortcomings. The fixed effort is defined in isolation of new, deficit-increasing measures (and is lower than 2021-22 structural spending increases) and reliant on ambitious yields from not-yet-defined reforms (e.g., actions to combat tax fraud, measures to facilitate labor-market participation, changes to taxation of digital services and global corporations). The overall adjustment is uncertain and modest; it does not stabilize debt. A more ambitious adjustment is needed to place debt on a downward trajectory from 2024 and bring the medium-term objective (MTO) of structural balance into reach by 2029. This would involve an effort averaging at least 0.7 percent of GDP annually during 2022-29, lower in 2022 to ease the drag on growth (Box 1).[14] Reforms should be identified, fleshed out and enacted, with adjustment allocated across federal and regional governments, via binding targets that include investment.[15] Even with this, debt would remain well above pre-pandemic levels and trends; additional/accelerated effort would further strengthen resilience, including to interest-rate and aging risk (Annex V).

---

[11] A cap of 1.5 percent was suspended in 2020-21; it will increase to 2.5 percent from 2022 (on a much higher base).

[12] Real social benefit increases are governed by a 2005 agreement and exceed (projected) productivity and wage growth, adding to aging-related pressures. Unemployment benefit replacement rates are high compared to peers, with unlimited duration and low phase-out (degressivity). See IMF Reports 20/91 and 19/74.

[13] Credibility gains could be substantial, reflected in lower yields. See October 2021 Fiscal Monitor (forthcoming).

[14] Effort is defined as the deviation of the change in the structural balance from its change under the baseline; hence, the withdrawal of Covid-19 measures does not affect the effort.

[15] Regional governments have excluded specific, large, strategic investments from their targets.

16. Adjustment should be expenditure-led and create room for green-digital transformation. Given the high tax burden, efforts should focus on containing aging costs (pensions, health), improving benefit targeting and incentives, improving spending efficiencies (health, education), and reducing duplication and subsidies.[16] Federal and regional spending reviews are a key tool and should be expanded and integrated in the annual budget process. Public investment is at the low end of EU members, constraining productivity and growth (e.g., mobility bottlenecks). The authorities appropriately aim to increase investment spending by 1½ ppts to 4 percent of GDP by 2030, initially relying on RRF grants. Additional savings (or higher revenues) of 0.2 percent of GDP need to be generated by 2027 to replace RRF grants; a further 0.2-0.3 percent is needed annually thereafter to reach the 4-percent 2030 investment target.

17. Tax reforms under development rightly aim to strengthen compliance and reduce labor taxes, given the high tax wedge, and should be extended in key areas.[17]

- A high-level anti-fraud plan adopted in June seeks to improve tools and coordination across agencies (tax, social security, employment, law enforcement), with ambitious yields by 2024 (0.2 percent of GDP). Resourcing, program management, and risk identification/mitigation will be critical. Access to third-party data, especially of financial institutions, should be addressed to facilitate fraud detection. Compliance risks of high-wealth individuals should also be addressed. Integration of collections of social security contributions and personal income taxes (PIT) should be considered—international experience suggests that integration lowers compliance costs and helps address fraud risks.

- A comprehensive, revenue-neutral reform to lower the tax burden on labor is also under preparation. The reform should address the tight tax-bracket structure at lower incomes, enhance incentives for labor-market participation—especially for low/medium income and second earners—restore tax neutrality across different forms of investment, income, and savings to minimize arbitrage, and offset revenue losses through base broadening. Reducing favorable PIT treatments, including for in-kind compensation, is needed to restore horizontal equity. Reducing consumption tax expenditures would help rebalance the tax mix and reduce reliance on labor taxes. The reform also aims rightly at simplifying an exceptionally complex tax system, which will reduce compliance and administration costs. Efforts are needed to update/modernize real estate taxation and address climate objectives. Also, expected international tax changes—especially introduction of a global minimum corporate income tax—may boost revenues.

[16] Bringing spending closer to peers would yield significant savings in subsidies (tax expenditures); health, disability, family, unemployment benefits; and compensation (civil servants, teachers). See IMF Report 20/91.

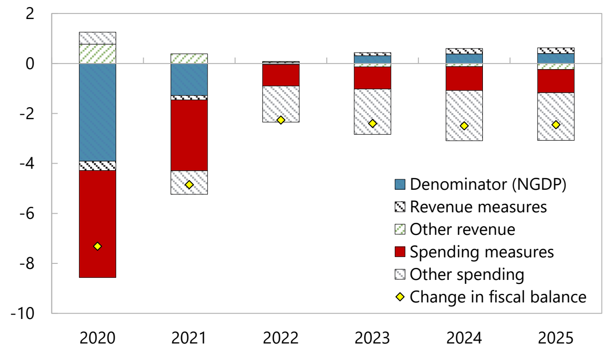
[17] See the Selected Issues Paper on tax reforms.

Box 1. Post-Pandemic Fiscal Adjustment

Adjustment needs have increased sharply. The structural deficit is expected to widen from 2 percent of GDP in 2019 to 5 percent in 2026, driven by spending increases (0.3 and 0.6 percent for COVID-19 and new policies, respectively), higher aging-related and other benefits (0.9 percent).

Deviation of Fiscal Balance from Pre-Pandemic Forecast 1/

(In percent of GDP, 2020-25)



1/ Pre-pandemic forecast is January 2020 WEO Update.
Source: NBB and IMF Staff projections.

The timing and pace of adjustment should be state-contingent. Adjustment should start once growth is sustained and slack subsiding, based on deviation of output and unemployment from 2019 levels, output vs. pre-crisis projections, and the output gap. This is expected in 2022, as output will have recovered to 2019 levels by 2022Q1 (although 1.8 percent below pre-crisis projections in 2022); the output gap will have narrowed to the SGP ±1.5 percent "normal times" range (triggering minimum annual adjustment of 0.6 percent); and unemployment will be declining.

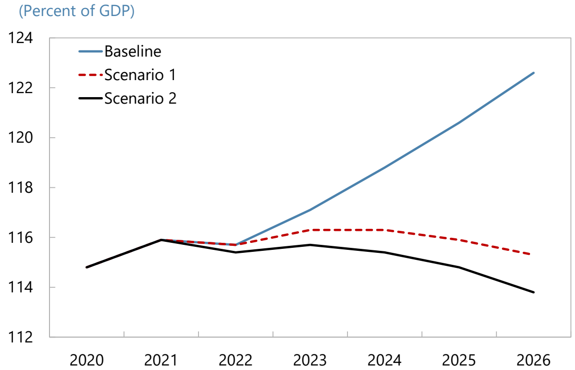
The authorities' planned adjustment does not stabilize debt. The plan envisages effort of 1.4 percent of GDP over 2021-24, with a variable component based on the level and growth of output (table). Regional plans aim for budget balance excluding strategic investment (Brussels, Wallonia) or halving the deficit (Flanders) by 2024. Debt dynamics are favorable during 2021-22, but debt then resumes an upward path.

The High Council of Finance (HCF), Belgium's fiscal council and advisory body, has recommended two scenarios to put debt on a downward path. One is more frontloaded; both consider additional support in 2022, with a corresponding corrective effort. They meet the minimum annual effort of 0.6 percent, primarily via unwinding of support in 2022 and lower interest expenditures.

A more ambitious path is needed. Under staff's baseline projections, the primary balance remains well below its debt-stabilizing level (by 2.5 ppts of GDP in 2026), and debt 21 ppts above the pre-crisis baseline, leaving finances vulnerable to shocks. To bring debt on a downward path from 2024, when the output gap is nearly closed, and to reach structural balance by 2029, staff recommends an annual structural effort of at least 0.7 percent of GDP over 2022-29, underpinned by credible, concrete reforms. Additional savings will be needed to cover higher public investment from 2027, when RRF funding expires.

HCF Public Debt Projections

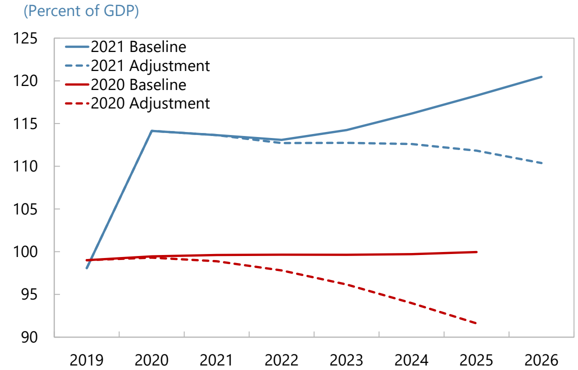
(Percent of GDP)



Sources: HCF, MC, 2021 Stability Program.

IMF Public Debt Projections

(Percent of GDP)



Source: IMF Staff calculations.

Table 2. Belgium: Illustrative Medium-Term Fiscal Adjustment Paths

			2020	2021	2022	2023	2024	2025	2026	2024-2022
IMF										
	Baseline	Fiscal balance	-9.4	-7.1	-4.5	-4.7	-4.9	-5.0	-5.3	-0.5
		Structural balance	-7.4	-6.3	-4.4	-4.6	-4.9	-5.0	-5.2	-0.5
		ΔSB		1.1	1.9	-0.2	-0.3	0.0	-0.3	1.4
		Debt	114.1	113.6	113.1	114.3	116.2	118.3	120.5	3.1
	Alternative	Fiscal balance	-9.4	-7.1	-4.0	-3.3	-2.6	-2.0	-1.5	1.3
		Structural balance	-7.4	-6.3	-3.9	-3.3	-2.6	-1.9	-1.5	1.3
		ΔSB		1.1	2.4	0.6	0.7	0.7	0.5	3.7
		Effort 2/		0.0	0.5	0.8	0.9	0.7	0.7	2.3
		Debt	114.1	113.6	112.7	112.8	112.7	111.9	110.4	-0.1
HCF 1/										
	Baseline	Fiscal balance	-9.7	-7.0	-5.0	-5.0	-5.1	-5.0	-5.2	-0.1
		Structural balance	-6.2	-5.3	-4.7	-4.9	-5.2	-5.1	-5.1	-0.5
		ΔSB (automatic)		0.8	0.7	-0.2	-0.3	0.1	-0.1	0.2
		Debt	114.8	115.9	115.7	117.1	118.8	120.6	122.6	3.1
	Scenario 1	Fiscal balance	-9.7	-7.0	-5.0	-4.2	-3.4	-2.8	-2.3	1.6
		Structural balance	-6.2	-5.3	-4.7	-4.1	-3.5	-2.9	-2.3	1.2
		ΔSB		0.8	0.7	0.6	0.6	0.6	0.6	1.9
		Effort 2/		0.0	0.0	0.8	0.9	0.5	0.7	1.7
		Debt	114.8	115.9	115.7	116.3	116.3	115.9	115.3	0.6
	Scenario 2	Fiscal balance	-9.7	-7.0	-4.7	-3.9	-3.1	-2.5	-2.0	1.6
		Structural balance	-6.2	-5.3	-4.4	-3.8	-3.2	-2.6	-2.0	1.2
		ΔSB		0.8	1.0	0.6	0.6	0.6	0.6	2.2
		Effort 2/		0.0	0.3	0.8	0.9	0.5	0.7	2.0
		Debt	114.8	115.9	115.4	115.7	115.4	114.8	113.8	0.0
MC 3/										
	July	Fiscal balance	-9.4	-7.8	-4.7	-4.4	-4.4	-4.5	-5.0	0.3
		Structural balance	-5.71	-6.6	-4.5	-4.3	-4.4	-4.4	-4.9	0.1
		ΔSB		-0.9	2.1	0.3	-0.1	0.0	-0.5	2.2
		Debt	114.1	114.6	115.3	116.6	118.1	119.7	121.8	2.8
	March	Fiscal balance	-9.4	-7.6	-4.8	-4.5	-4.4			0.4
		Structural balance	-5.7	-6.0	-4.5	-4.4	-4.5			0.0
		ΔSB		-0.2	1.4	0.1	-0.1			1.5
		Debt	114.1	116.2	116.2	117.5	118.9			2.7
Government 4/										
		Fiscal balance	-9.4	-7.7	-4.5	-4.0	-3.7			0.8
		Structural balance	-5.8	-6.1	-4.2	-3.9	-3.7			0.5
		ΔSB		-0.3	1.8	0.4	0.2			-1.7
		Implied effort 5/			0.4	0.2	0.3			0.9
		Effort federal government 6/		0.2	0.4	0.4	0.4			1.2
		Fixed		0.2	0.2	0.2	0.2			
		Variable (see table below)			0.2	0.2	0.2			
		Debt	114.1	116.3	116	116.7	117.4			1.4

Variable effort as a function of output level and growth rate: threshold in matrix format /7

	Growth Rate =>	<1	1-1.5	1.5-2	>2
Level 7/	<99	0.0	0.0	0.0	0.0
	99-100	0.0	0.0	0.1	0.2
	100-101	0.0	0.1	0.2	0.3
	>101	0.0	0.2	0.3	0.4

1/ In its April 2021 advice for the Stability Program, the High Council of Finance (HCF) prepared two scenarios given lack of unanimity, with Scenario 1 garnering the majority of votes.
2/ Effort defined as the deviation of the change of the structural balance from its change under the baseline.
3/ In its March and July 2021 reports, the Monitoring Committee presents the outlook for 2021-24 and 2021-26. respectively.
4/ Based on projections for general government in the 2021 Stability Program.
5/ Implied effort defined as deviation of the change in the structural balance from its change in the MC March baseline.
6/ Effort defined as deficit-reducing structural measures; implied by projected level and growth rate of real GDP.
7/ Real GDP in percent of pre-crisis (2019) real GDP.

Authorities' Views

18. The authorities agreed that fiscal policy should remain supportive in the near term and focus on rebuilding buffers thereafter, although with adjustment drawing more on growth and employment gains. They agreed that targeted support may be needed after broad support is phased out in October. They recognized risks of higher borrowing costs and the desirability of rebuilding buffers and agreed that adjustment should be expenditure-led and draw on spending reviews, making room for additional investment spending. However, they also highlighted strong, positive effects on public finances from structural reforms that boost employment and growth. The NBB and HCF cautioned against extrapolating the currently favorable interest-growth differential and agreed that a strong, well-articulated, upfront commitment and steady consolidation would secure credibility and mitigate the drag on growth.

19. The authorities welcomed initial views on tax reform. They stressed that detailed action plans to fight fraud are being developed annually to underpin ambitious yields targeted for 2022-24. On tax reforms, they agreed that priorities of fairness, simplicity, and efficiency should be satisfied, with neutrality achieved by broadening individual income and consumption tax bases. Reduction/elimination of unproductive tax expenditures is another priority. An important first step taken earlier this year is restricting tax advantages for company cars to zero-emissions vehicles only from 2026.

B. Financial and Macroprudential Policies

20. Support measures have cushioned pandemic impacts, but strains may emerge, calling for policy flexibility and active engagement of borrowers by banks. Banks have adequate buffers, including under stress, which should be deployed to mitigate pressures on households and corporations once aid is scaled back.[18] Pockets of vulnerability include deteriorating credit quality of loans that benefited from moratoria, those under guarantee, and exposures to pandemic-affected sectors (chart).[19] Credit losses should be recognized promptly to facilitate resource reallocation. To help restore debt-servicing capacity for viable-but-temporarily-challenged borrowers, banks should engage early and offer tailored forbearance within established supervisory/regulatory frameworks. Policymakers should avoid a premature policy tightening by allowing the use of existing buffers as needed.

21. Increased vulnerabilities from real estate call for supervisory vigilance and possible use of macroprudential policies to mitigate stability risks. Despite the crisis, prices of residential and some commercial RE segments (e.g., logistics) have risen, also supported by low interest rates. In addition, house prices benefitted from the channeling of some of the excess savings accumulated during the pandemic (€25 billion, 5½ percent of GDP, in 2020) into residential properties. In a

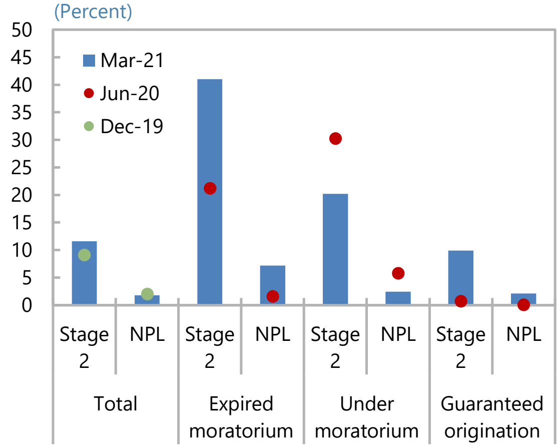
[18] For recent stress test results, see EBA, "2021 EU-Wide Stress Test Results", July 30, 2021.

[19] In Q1:2021, loans subject to (active or expired) moratoria or originated with public guarantee were less than €50 billion, from a portfolio of €960 billion. Borrowing by heavily-affected firms was €65 billion.

market correction the quality of RE assets, which account for a sizable share of financial-sector portfolios, may deteriorate. The NBB has appropriately maintained a risk-weight add-on for housing loans in place since December 2013 and affirmed December 2019 supervisory expectations that set limits on riskier mortgage lending. Market developments should be closely monitored for price misalignments. If imbalances mount, macroprudential tightening should be considered to constrain lending to highly-leveraged borrowers and strengthen buffers, also encompassing the commercial segment.

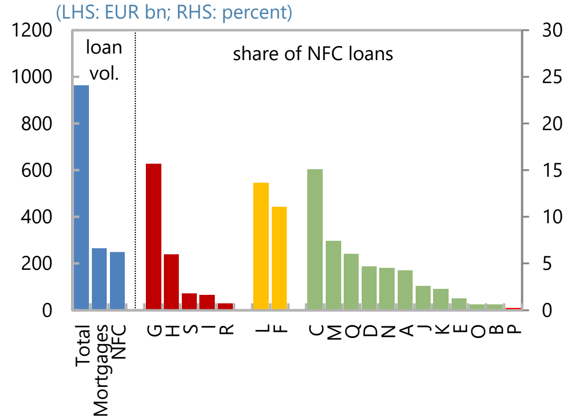
Figure 5. Belgium: Structure of Bank Loan Portfolios

Bank loan quality
(Percent)



Sources: EBA.

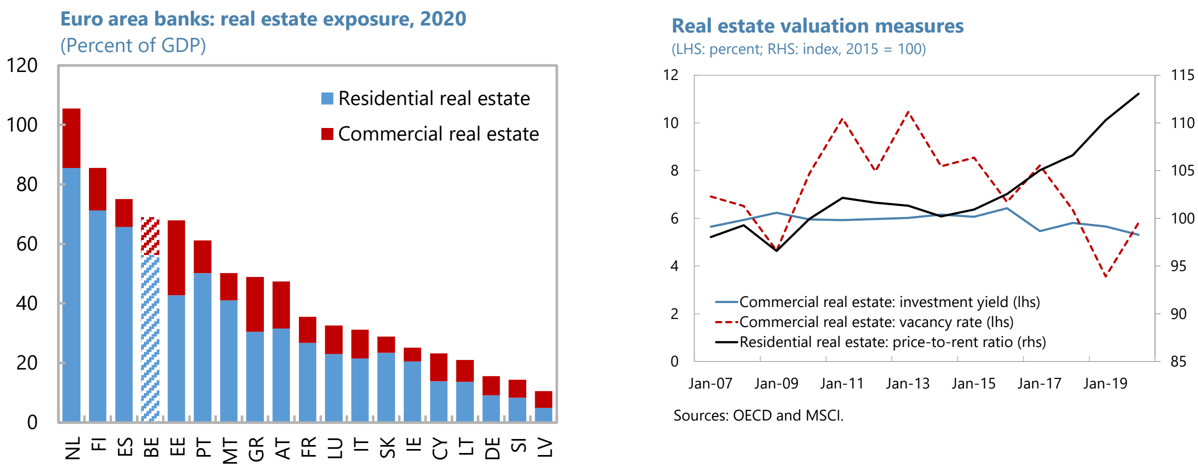
Bank loan volumes and sectoral exposures
(LHS: EUR bn; RHS: percent)



Sources: EBA.
Notes: sectors particulary vulernable to the pandemic (red): trade (G), transport and storage (H), other services (S), hospitality (I), entertainment (R); real estate industry (orange): real estate activities (L), construction (F); other businesses (green): manufacturing (C), professions (M), health and social services (Q), electricity and heating (D), , administrative and support services (N), agriculture (A), ICT (J), finance (K), water supply (E), public sector (O). mining (B), education (P).

22. **Beyond near-term risks, long-term financial sector challenges call for industry and policy action to bolster resilience.** Home-host issues remain a particular concern, given the large presence of foreign banks, calling for sufficient buffers at local affiliates. Prolonged low interest rates are testing business models, encouraging search for yield at higher risk. Supervisors should continue to stay alert to developing vulnerabilities, particularly among non-bank financial institutions. Other challenges have emerged—especially digitization and cybersecurity risks and climate-affected assets. Information-gathering—e.g., required data collection on energy efficiency of RE exposures and testing of cyber defenses—is welcome and should be incorporated into systemic assessments to improve resilience. Successful translation of the 5th European AML/CFT Directive into national law is commendable, and ongoing reinforcement of the AML/CFT framework, also by enhancing collaboration between supervisory, tax, and judicial authorities, should be pursued.

Figure 6. Belgium: Real Estate Exposures and Valuation Measures

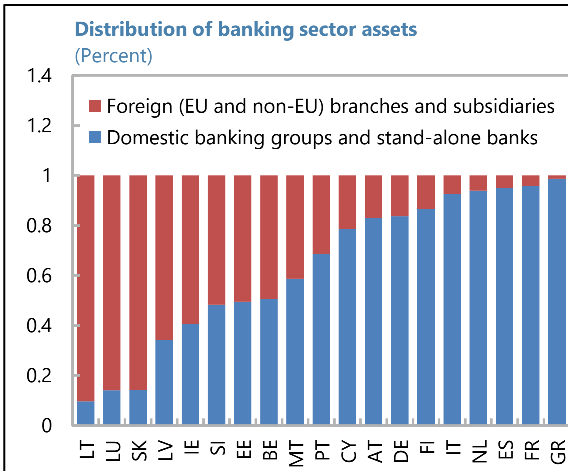


Sources: EBA and IMF staff calculations

Sources: OECD and MSCI.

Authorities' Views

23. The authorities shared staff's assessment of financial stability risks and indicated their readiness to adjust policies as needed. They emphasized the role banks played in supporting households and firms during the crisis. Ample buffers should be deployed to absorb losses, grant forbearance to viable-yet-temporarily-challenged borrowers, and ensure credit provision for the recovery. They highlighted the effectiveness of macroprudential measures in mitigating RE risks but acknowledged remaining vulnerabilities, particularly in light of possible lasting changes from the pandemic (business travel, e-commerce, teleworking), calling for close monitoring and timely policy adjustment where needed. They reiterated concerns on low-interest-rate challenges and adequate buffers at subsidiaries of foreign banks.

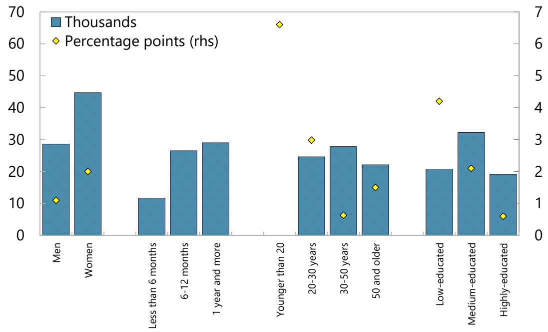


Sources: ECB and IMF staff calculations.

C. Structural Reforms

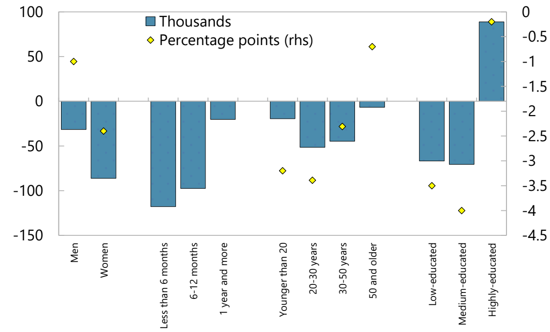
24. The pandemic has deepened labor-market fragmentation. Women and younger, lower-skilled, lower-income, and foreign-born workers have been particularly affected. These workers are overrepresented in temporary contracts used in hard-hit sectors (hospitality, retail trade), and in STW. While broad pandemic-related support (STW, SE) has helped preserve jobs, this will phase out in October. Vulnerable workers risk losing jobs, adding to pre-existing challenges (skills shortages/mismatches, automation/digitalization, language and other barriers). Beside job losses, the young have faced education/training disruptions that may impede job prospects.

Change in Unemployment Level and Rate
(In thousands and percentage points; 2021Q1 relative to 2019Q4)



Sources: Eurostat and IMF staff calculations.

Change in Employment Level and Rate
(In thousands and percentage points; 2021Q1 relative to 2019Q4)



Sources: Eurostat and IMF staff calculations.

25. Policies should pivot from protecting jobs to facilitating reallocation as recovery strengthens. Broad support should be replaced by targeted measures. Unlike SE, STW is not targeted to hard-hit firms or scaled by losses and could be conditioned on seeking training/education or redeployment.[20] As the recovery strengthens, support should shift to facilitating reallocation through hiring subsidies and increased focus on retraining, and other active labor-market policies (ALMPs, e.g., language, life-long learning), especially given continuing (STEM)[21] and emerging (low-skilled) shortages. While more vulnerable groups should be protected, support should also avoid deepening existing unemployment/inactivity traps. The temporary freeze of unemployment benefit (UIB) degressivity should be lifted, and planned increases in social assistance should be carefully targeted.

26. Further reforms are needed to meet the authorities' ambitious employment goals. The aim is to raise the employment rate to 80 percent by 2030, a sharp hike (+10 ppts) concentrated in Brussels and Wallonia and among disadvantaged groups. Plans include: (i) reducing benefit claw-back when combining work with unemployment or minimum social benefits; (ii) improving working conditions to reduce sickness/disability; (iii) incentivizing later labor-market exit by reintroducing a "pension bonus" and expanding partial retirement; (iv) increasing parental leave and childcare affordability; (v) combatting discrimination; and (vi) enhancing training (e.g., entitling workers to 5 training days annually). Formulation of specific measures is at early stages, with implementation foreseen in 2023-24. In addition, the June social agreement made concessions on access to different forms of end-career jobs–a possible step backwards. More fundamental reforms of benefits, wage-setting, and employment-protection legislation should be considered, including increasing UIB

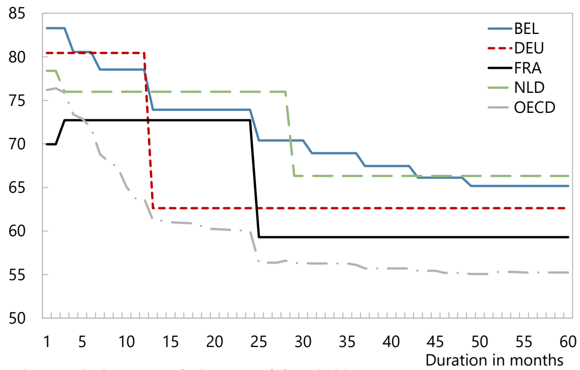
[20] STW was modified during the pandemic to allow for re-employment in critical sectors. Just 0.1 percent of those on STW did so, likely reflecting safety concerns, lack of incentives, the tight pre-crisis labor market, and expectations of recovery/rehiring.

[21] Science, technology, engineering, mathematics.

degressivity and cutting its duration, revisiting the mechanism governing real benefit increases, reducing seniority pay, allowing greater flexibility to align wages and productivity, and reforming collective dismissals.

Net Replacement Rate by Unemployment Duration

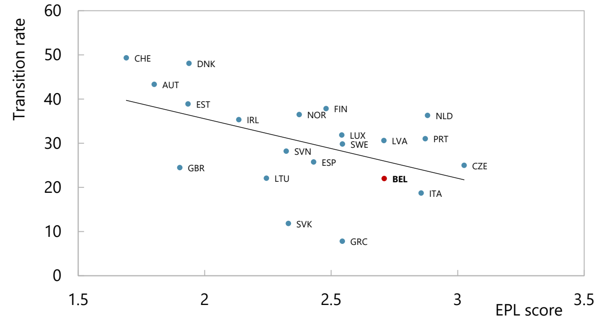
(Benefit level in percent of last earned income)



Source: OECD Economic Survey: Belgium 2020.

EPL Score and Transition Rate 1/

(Percent, 2019)



1/ EPL score increasing with legal barriers to individual and collective dismissals; transition rate from inactive/unemployed to employed in percent of unemployed.
Source: Eurostat, OECD EPL Database 2020, and IMF Staff calculations.

27. Product-market reforms are needed to boost competition and productivity. Working-time regulations were eased during Covid-19, but restrictions and costs meant that higher e-commerce/logistics demand was met largely by foreign firms. In other areas, plans need to be firmed up and strengthened—notably, reducing red tape, especially for start-ups, and easing entry barriers, especially in retail distribution and services.[22] Though Belgium scores well on some measures of innovation, this is concentrated among the largest firms, and more could be done to reverse the trend decline in productivity, including improving risk capital availability (e.g., facilitating venture-capital financing and eliminating favorable tax treatment of safe assets) and R&D tax incentive efficiency (rationalizing overlapping schemes), along with increased infrastructure investment.[23]

28. Enhancing restructuring and insolvency frameworks would foster reallocation and exit and mitigate scarring. Pre-pandemic reforms made resolving insolvencies easier, but left gaps (e.g., only debtors may initiate restructuring; no dedicated SME out-of-court procedures).[24] Temporary measures introduced in March 2021 aimed to improve access to judicial reorganization, especially for SMEs, and facilitate early restructuring with limited court involvement. This may save time and costs and improve restructuring prospects for smaller firms, alleviating court-system pressures. However, risks of system congestion remain, if bankruptcies mount once support is scaled back. To

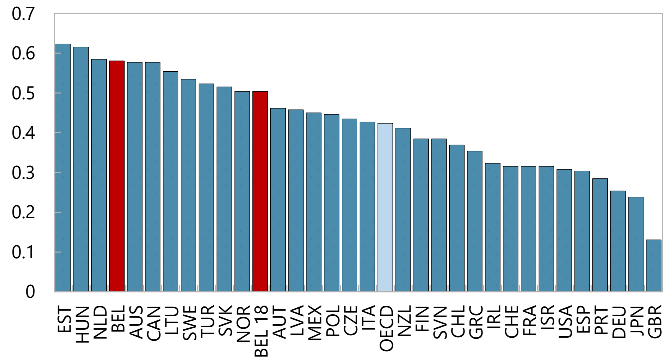
[22] Firm creation increased in recent years and during COVID-19, reflecting legal/tax changes for gig workers. Bringing the regulatory burden to the OECD average could lift productivity by ½ ppts (IMF, 2018). OECD (2019) estimates that lowering barriers to entrepreneurship by 10 percent would lift productivity by 1.2 percent after 5 years.

[23] Belgium ranks 4th on the EC's 2021 Innovation Scoreboard and performs well in terms of R&D expenditure, patenting, and the role of universities relative to peers (see Swartenbroekx, 2021).

[24] See OECD (2020), Economic Surveys Belgium.

mitigate risks and enhance prevention and early intervention, plans to strengthen early-warning mechanisms, introduce special SME out-of-court procedures, boost resources, and allow creditors to initiate procedures in the context of the transposition of the EU Restructuring and Insolvency Directive next year are welcome and should be accelerated where possible. The government could incentivize restructuring through tax relief/haircuts on its claims.[25]

Insolvency Regime Indicator
(Composite indicator ranging from 0 to 1, 2016) 1/



1/ Aggregates 13 design indicators; increasing in the extent to which the regime may delay the initiation and resolution of proceedings.
Source: Adalet Mc Gowan, M., D. Andrews and V. Millot (2017), OECD (2020).

29. The RRF provides an opportunity to boost investment, transformation, productivity, and growth. Belgium will receive 1.3 percent of 2021 GDP of grants over 2021-26. The Recovery and Resilience Plan (RRP) contains federal and regional components and investment and reforms in decarbonization, digitalization, mobility, inclusion, and productivity.[26] It will lift public investment by 0.1-0.2 ppts and (ideally) crowd-in private investment, raise output by 0.2 percent at peak and by 0.1 percent in the long run, and narrow gaps to emissions-reduction targets.[27] The largest components are building-renovation and transport infrastructure (17 and 11 percent) to reduce emissions, congestion, and mobility bottlenecks.[28] Implementation challenges include administrative hurdles (e.g., permitting), supply constraints (transitory price pressures, labor shortages in construction), and competencies divided among federal-regional governments (e.g., ALMPs). As in other areas (taxes, pensions, labor, product markets), RRP reforms need to be further elaborated.

30. Meeting ambitious climate targets will require additional efforts and a heightened focus on policy coordination and execution. While Belgium has made commendable strides to reduce emissions on aggregate, some areas (transport, buildings, and parts of industry) are lagging.[29] Stocktaking by the authorities to delineate focus areas—fuel subsidies, taxing carbon in non-EU ETS sectors—is welcome, as are studies gauging macroeconomic and distributional impacts.[30] However, execution is key: modifying company-car taxation to favor zero-emissions

[25] The stay on government claims expired on July 1.

[26] Green (51 percent) and digital (25) investment allocations are well-above required thresholds (37, 20). Spending foreseen in regional recovery plans is only partially financed by RRF grants. Non-RRF grant investments are 0.1 percent of GDP annually over 2021-26, with more limited additionality (see FPB 2021a). Some funding will be diverted to flood-reconstruction efforts, with adjustments (investments, reforms, timelines) to prioritize these efforts.

[27] See FPB 2021b, 2021c. Staff's estimates of investment and growth impacts are similar.

[28] Infrastructure investment is focused on rail, following decades of underinvestment.

[29] See Selected Issues Paper on climate change.

[30] See, for instance, SPF Finances (2021), "Inventaire Fédéral des Subventions aux Énergies Fossiles" or various publications by SPF Santé Publique, Sécurité de la Chaine Alimentaire et Environnement, including "Belgian National

(continued)

vehicles and incorporating carbon pricing into tax reforms are timely initiatives. Still, substantial, accelerated, and coordinated federal-regional efforts will be needed to achieve EU "Green Deal" climate goals by discouraging emissions by households and firms and compensating for nuclear decommissioning. Fuel subsidies should be eliminated, and a credible long-term carbon-pricing framework put in place to guide consumption and investment decisions. Complementary measures–regulation, feebates, transition support for particularly-affected sectors—are needed to provide incentives and maintain public support. To enhance coherence and efficiency, federal and regional climate proposals should be detailed in a clear, monitorable action plan with close links to commitments.

Authorities' Views

31. The authorities agreed that labor- and product-market reforms are needed to spur reallocation, participation, productivity, and growth, but also noted constraints. Many initiatives are currently in early technical stages, with policy proposals to follow later this year. Time is needed to get design right and build broad support, including with social partners. The scope of reforms is bound by the coalition agreement. Likewise, they agreed that efforts are needed to reduce red tape, facilitate reallocation, and boost business dynamism, building on administrative simplification and digitalization initiatives. In most areas, objectives are shared, along the lines of the NRRP. They underscore the importance of coordinated action, as competencies are divided among the federal and regional authorities.

32. The authorities share climate priorities highlighted by staff and see the EU Green Deal as an opportunity to strengthen efforts. With revision of EU targets and legislation, national policies and strategies need updating, providing scope for sharpening goals, streamlining decision-making, and accelerating change. The authorities support the phase-out of fuel subsidies and carbon pricing in an effective, predictable manner, complemented by measures to address distributional consequences. Exploration of options for environmental fiscal reform is underway. Political agreement on burden sharing of emission reductions across federal-regional governments is needed; some options to improve coordination may require constitutional change.

STAFF APPRAISAL

33. Belgium has navigated the Covid-19 shock well, with a timely, strong, and sustained policy response. A well-targeted vaccination rollout has facilitated reopening and kickstarted recovery. Growth is expected to remain robust, driven by private consumption and investment and an improving global environment. Scarring will likely be more contained than initially feared. However, uncertainty remains high, dominated by Covid-19 dynamics. Near-term risks are balanced. Confidence indicators point to substantial upside with full reopening, although a prolonged global pandemic and tighter financing conditions may weaken the outlook. As Covid-19 recedes, renewed

Debate on Carbon Pricing", 2018, "Macroeconomic Impacts of the Low Carbon Transmission in Belgium", 2018, and "Scenarios for a Climate Neutral Belgium by 2050", 2021.

policy momentum at the federal level and federal-regional coordination may face headwinds/lack of consensus.

34. Fiscal support should be maintained until recovery firms, while putting in place a credible medium-term adjustment plan to rebuild buffers. Broad support was rightly extended in 2021, phasing out from October. Continued support, if needed, should be carefully targeted and measured, including given limited, narrowing fiscal space. As recovery is secured, policies should pivot to rebuilding buffers. The government's adjustment plan foresees a modest consolidation that does not stabilize debt, with many measures remaining to be specified, and public finances left vulnerable to shocks. More ambitious, well-defined, upfront commitments would boost credibility. Adjustment of at least 0.7 percent of GDP annually during 2022-29, allocated across the federal and regional governments with binding targets, would bring deficit and debt on a firmly downward path and restore buffers for future shocks. Additional savings (or higher revenues) would build greater resilience and will be needed to create space to reach the authorities' objectives of increasing public investment and green-digital transition.

35. Concrete spending reforms should underpin the adjustment. These should focus on containing aging costs, improving benefit targeting and labor-market incentives, reducing public administration duplication and subsidies, while increasing spending efficiency, informed by spending reviews. However, new policies include higher structural social spending, adding to aging pressures. While health care, poverty-reduction, and pension reforms are under development, these rely heavily on employment gains and refrain from unemployment, pension, and benefit reforms in line with past recommendations. Spending reviews are an important instrument and should move from pilots to major expenditure areas, with decisive follow-up. Tax reforms under preparation to enhance compliance and lower labor taxes, offset by base-broadening, are welcome.

36. Financial sector policy should foster deployment of buffers to bolster the recovery, while remaining vigilant to systemic risks and structural challenges. A premature policy tightening should be avoided, with bank buffer utilized, as needed, to absorb losses, aid viable-but-temporarily-challenged debtors, and meet credit demand. Real estate risks should be monitored for misalignment between prices and fundamentals that may require macroprudential measures. Continuing challenges from low interest rates, digitalization, climate change, and AML/CFT issues call for appropriate policy action to guide and assist successful industry adaptation/transformation.

37. Labor policies should shift from preserving jobs to facilitating reallocation and participation. Any further near-term support should be well-targeted and timebound. Policies should pivot to facilitating reallocation through hiring subsidies, (re-) training, and other ALMPs, especially given re-emergence of labor shortages and acceleration of digitalization and automation. Beyond refining plans to target increased employment opportunities for vulnerable groups, more fundamental reforms of social benefits, wage-setting, and employment-protection along the lines of past staff advice are needed to ease impediments to labor mobility/flexibility and meet ambitious employment objectives. These reforms can also help strengthen Belgium's external position, which is moderately weaker than implied by fundamentals and desirable policies. Mixed federal-regional competencies in these and other policy areas underscore the need for effective coordination.

38. Complementary reforms are needed to facilitate reallocation, limit scarring, and boost productivity. In the near term, these include strengthening restructuring/insolvency provisions, especially for SMEs. Introduction of a preliminary agreement that reduces timelines and court involvement and improves access to judicial reorganization is a welcome step. To avoid system congestion as support is unwound, plans to strengthen early warning mechanisms, introduce dedicated SME out-of-court procedures, boost resources, and allow creditors to initiate procedures should be accelerated, while restructuring could be incentivized through tax relief or haircuts on government claims. In the medium term, efforts should aim to reduce red tape for start-ups and other entry barriers, improve access to risk capital and efficiency of R&D incentives, and boost public investment. The RRF provides an opportunity to boost investment, productivity, and growth, although labor- and product-market reform plans need to be further developed and strengthened.

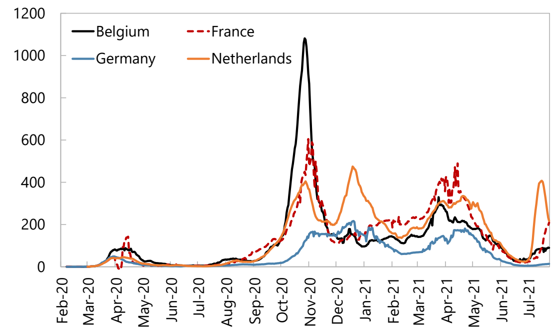
39. Climate-policy coordination and execution are key to moving ahead with speed and scale to meet ambitious targets. Modifying tax incentives to encourage a shift to emissions-free company cars and plans to phase out fuel subsidies are a promising start. More will be needed, and federal and regional authorities should work in unison at an accelerated pace to roll-out policies to discourage emissions-intensive activities by households and firms within a credible, predictable long-term framework. Carbon pricing should form a central part of the mix, complemented by incentive and regulatory mechanisms. Federal-regional climate proposals should aim for coherence with clear and monitorable links to commitments.

40. It is proposed that the next Article IV consultation take place on the standard 12-month cycle.

Figure 7. Belgium: Covid-19 Developments

Belgium experienced several waves of the pandemic, with infections peaking in the fall of 2020, …

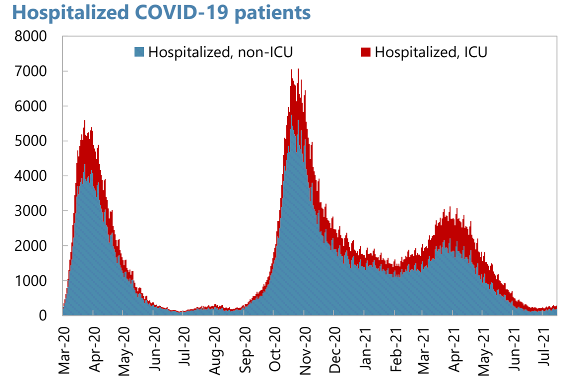
New cases
(7-day moving average per 100,000 population)



Sources: OWID.

…yet with the relative number of hospitalized Covid-19 patients improving over time.

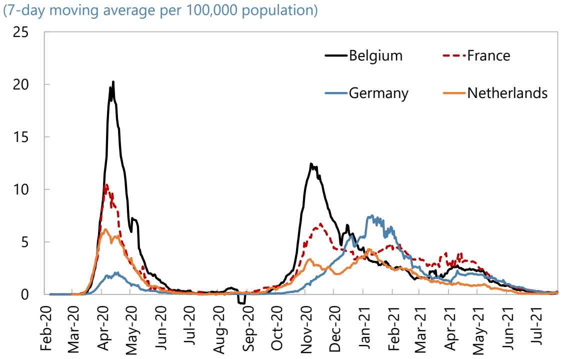
Hospitalized COVID-19 patients



Sources: Sciensano; and IMF staff calculations.

Mortality has progressively ebbed over the course of the pandemic, …

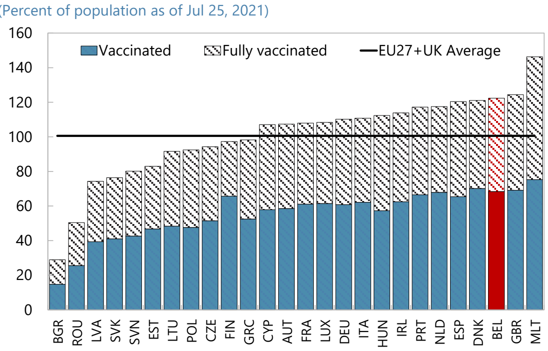
Deaths
(7-day moving average per 100,000 population)



Sources: OWID.

…also reflecting impressive progress with vaccinating the population.

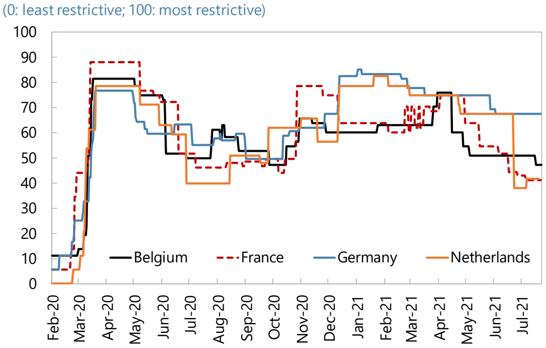
COVID-19 vaccinations
(Percent of population as of Jul 25, 2021)



Sources: OWID; and WEO IMF.

Following the renewed tightening of restrictions until the spring of 2021, economic reopening is underway….

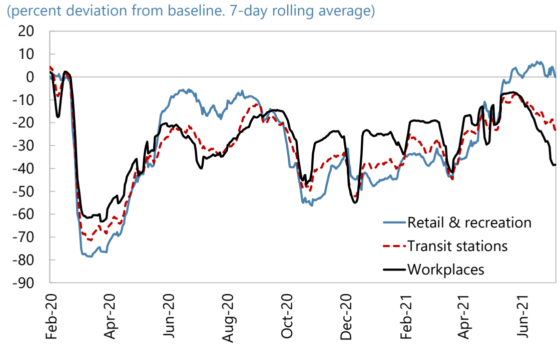
Stringency of containment measures
(0: least restrictive; 100: most restrictive)



Sources: OWID.

…with mobility gradually approaching pre-pandemic levels.

Mobility
(percent deviation from baseline. 7-day rolling average)



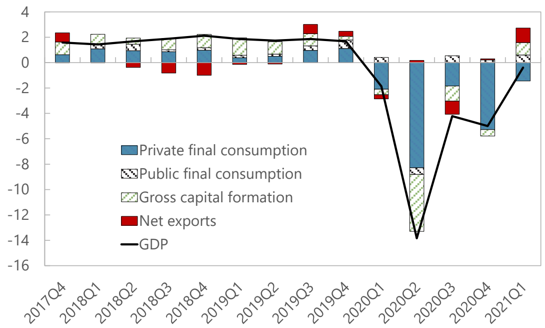
Sources: Google mobility report; and IMF staff calculations.
Note: The baseline is the median value, for the corresponding day of the week, during the 5-week period Jan 3–Feb 6, 2020.

Figure 8. Belgium: Macroeconomic Developments

Output contracted sharply in 2020 as private consumption and investment slumped...

Real Growth by Components

(Percent, Y-o-Y)

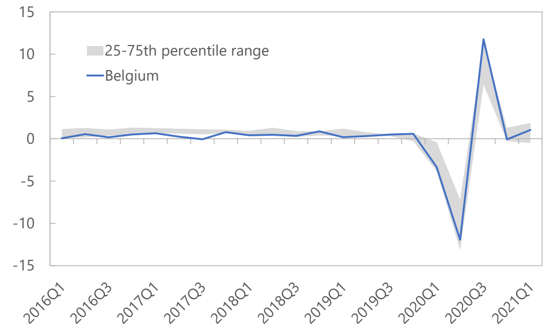


Sources: Haver Analytics and IMF staff calculations.

...with swings in output exceeding those in most other euro area countries.

Real GDP

(Percent, Q-on-Q growth)

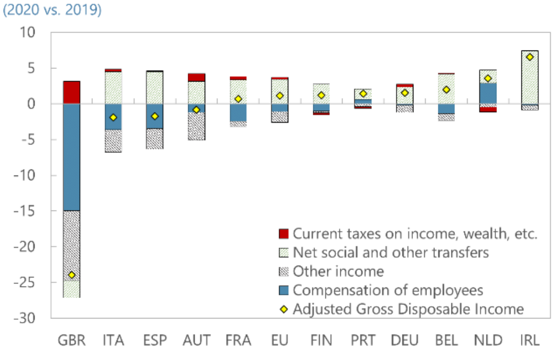


Sources: WEO and IMF staff calculations.

Despite the output contraction, disposable income growth remained positive thanks to support measures.

Drivers of Household Disposable Income

(2020 vs. 2019)

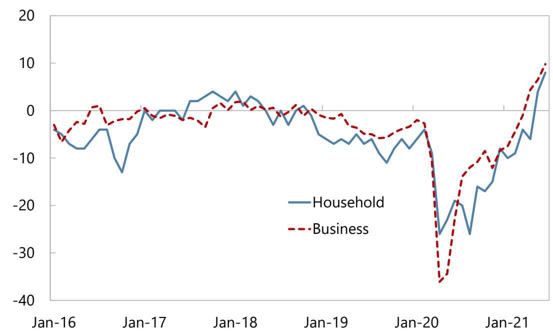


Sources: Eurostat and IMF staff calculations.

Regardless of lingering uncertainty, confidence has surpassed its pre-pandemic levels...

Business and Household Confidence

(Percent point difference between positive and negative responses)

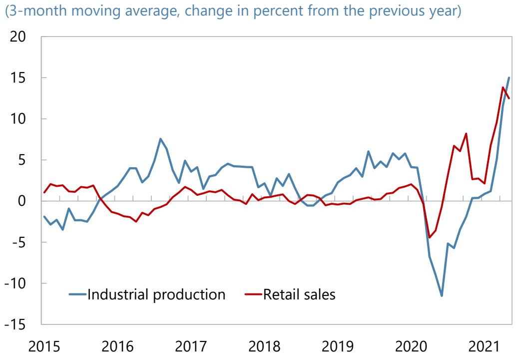


Source: National Bank of Belgium.

...leading a strong recovery of industrial production and retail sales.

Industrial production and retail sales

(3-month moving average, change in percent from the previous year)

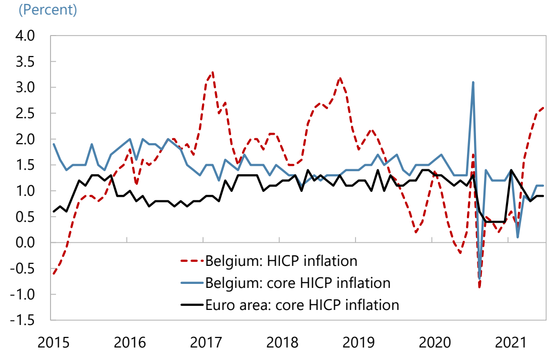


Sources: Haver Analytics, IMF WEO, and IMF staff calculations.

Inflation is subject to considerable volatility as the economic dislocations from the pandemic feed into prices

Annual Inflation

(Percent)

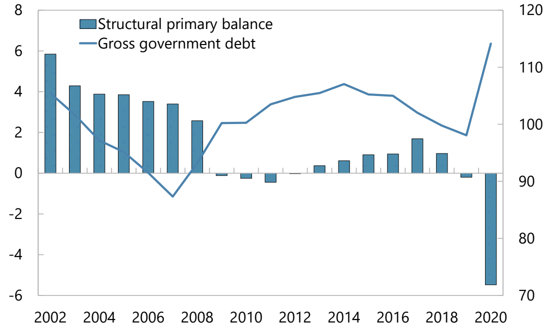


Source: Eurostat and Haver Analytics.

Figure 9. Belgium: Fiscal Developments

The post-GFC rebuilding of fiscal buffers halted in 2018, leaving debt and deficit levels well-above pre-GFC levels.

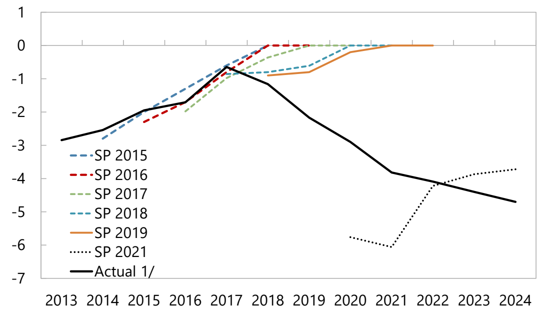
Structural Primary Balance and Public Debt
(In percent of GDP)



Source: NBB and IMF staff calculations.

Efforts consistently fell short of plans.

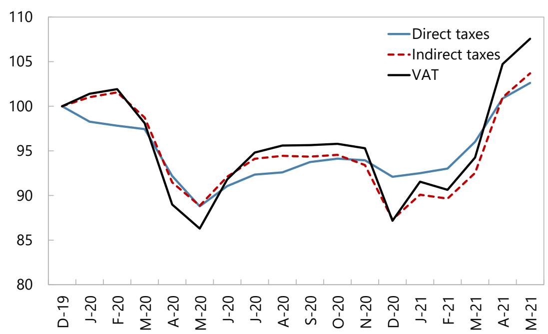
Structural Deficit Projections in Stability Programs
(Percent of Potential GDP)



Sources: Belgian authorities; and IMF staff calculations.
1/ Based on staff calculations. Data for 2021 and beyond are projections.

Indirect taxes collapsed with the decline in consumption; support mitigated the decline in incomes and direct taxes.

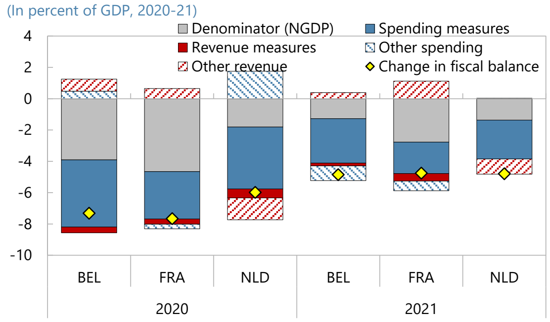
Treasury Tax Collection
(Index of 12-month rolling sum, December 2019=100)



Source: NBB and IMF Staff calculations.

...expenditure measures and lower output drive the deficit increase relative to the pre-Covid-19 baseline.

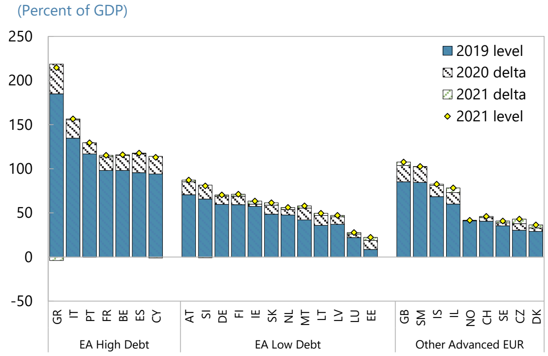
Deviation of Fiscal Balance from Pre-Pandemic Forecast 1/
(In percent of GDP, 2020-21)



1/ Latest forecast for FRA and NLD based on April 2021 WEO. Pre-pandemic forecast is January 2020 WEO Update.
Source: WEO, IMF staff calculations.

Leaving Belgium among the most-indebted in the EA.

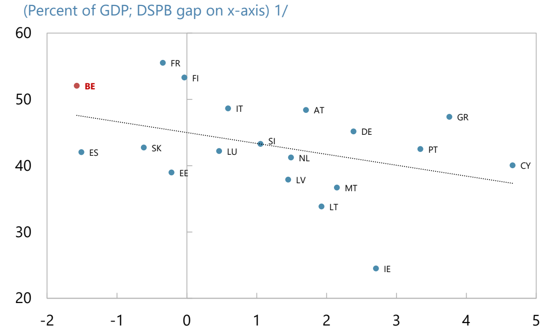
Public Debt 2021
(Percent of GDP)



Source: WEO and Staff calculations.

With debt trending up and expenditure among the highest in Europe, expenditure-led consolidation will be needed.

Adjustment Needs and 2019 Expenditure Ratio
(Percent of GDP; DSPB gap on x-axis) 1/



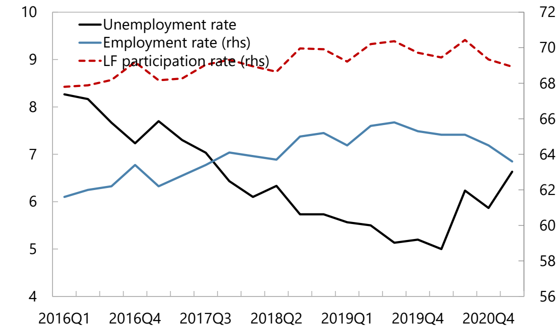
1/ Deviation of primary balance from its debt-stabilizing level in 2026.
Source: IMF WEO and Staff calculations.

Figure 10. Belgium: Labor Market Developments

Recent labor market gains were interrupted by Covid-19 shock, though the impact on job losses was limited…

Unemployment, Employment and Participation Rates

(In percent)

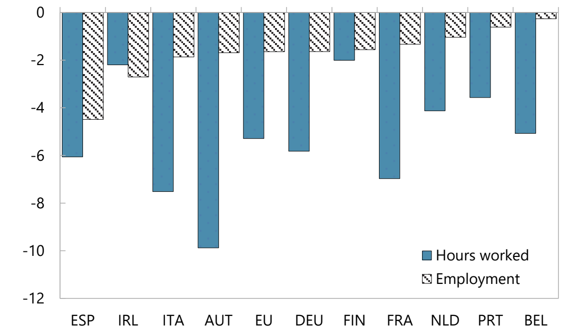


Source: Haver Analytics and IMF calculations.

… as the shock has been largely absorbed through working hour reductions facilitated by the expanded STW scheme.

Change in Employment in 2020

(Percent change in employment and hours worked 2019Q4-2020Q4)

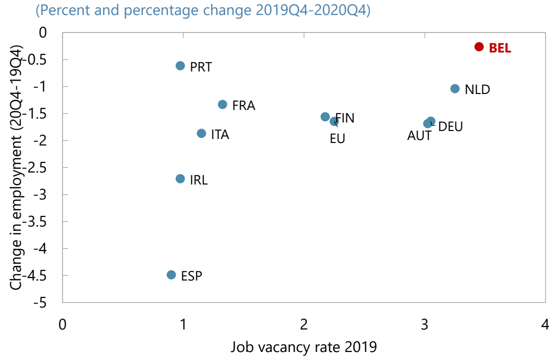


Source: Eurostat and IMF Staff calculations.

And possible labor hoarding due to the tight pre-crisis labor market even as job vacancies plummeted.

Job Vacancies and Job Losses

(Percent and percentage change 2019Q4-2020Q4)

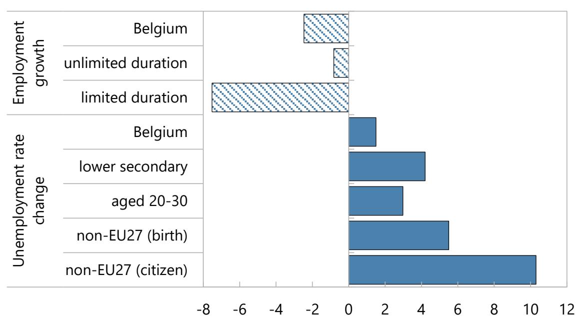


Sources: Eurostat and IMF staff calculations (Haver Analytics).

Vulnerable workers have been hit hard, adding to pre-existing labor market fragmentation.

Labor Market Developments, 2021Q1

(Percentage points, relative to 2019Q4)

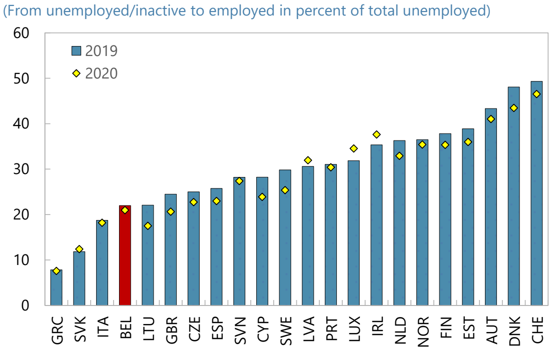


Sources: Eurostat and IMF staff calculations.
Notes: Employment growth by contract type is 2020 vs 2019.

While prospects and incentives to find work have deteriorated from an already low base.

Total Transition Rate

(From unemployed/inactive to employed in percent of total unemployed)

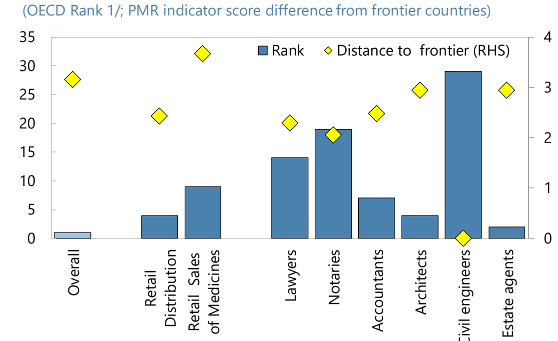


Sources: Eurostat and Haver Analytics.

Excessive regulation of retail and service sectors may impede needed reallocation.

Sectoral Indicators for Retail and Services Sectors

(OECD Rank 1/; PMR indicator score difference from frontier countries)

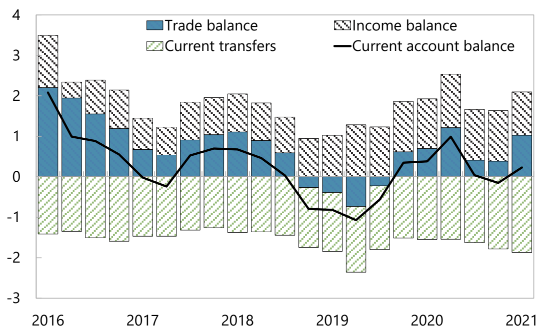


1/ Ranked from high (1) to low (34) regulatory burden out of 34 OECD countries.
Sources: OECD and IMF staff calculations.

Figure 11. Belgium: External Sector Developments

The Covid-19 shock reversed a recent improvement of the current account balance…

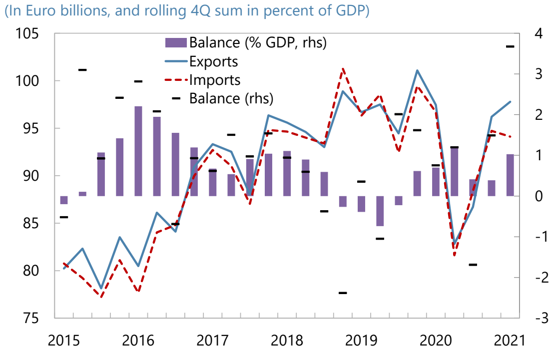
Current Account
(Moving 4Q sum, in percent of GDP)



Source: Haver Analytics and Staff calculations.

The trade surplus narrowed in 2020 as exports contracted more than imports, mitigated by improvements in ToT…

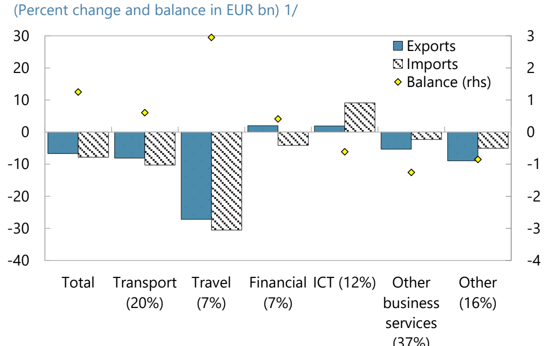
Trade Balance
(In Euro billions, and rolling 4Q sum in percent of GDP)



Source: NBB.

… and the services balance that turned into a surplus, driven by transport and travel.

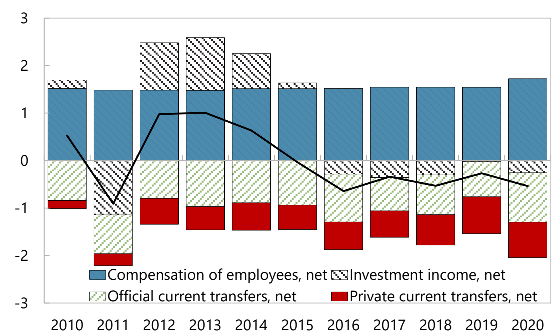
Services Exports and Imports in 2020
(Percent change and balance in EUR bn) 1/



1/ Share in total services exports in 2019 in brackets.
Source: NBB and staff calculations.

Net income remained unchanged despite lower net investment income; net transfers declined.

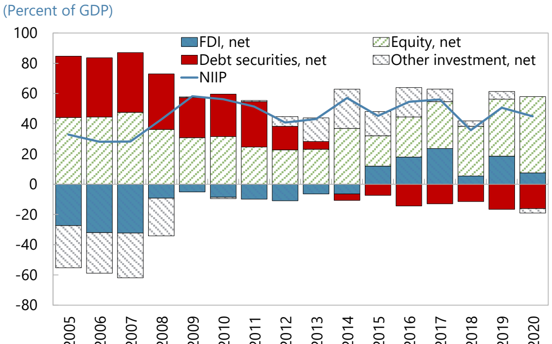
Primary and Secondary Income Balance
(Percent of GDP)



Source: NBB and IMF Staff calculations.

Belgium continues to enjoy a comfortable net asset position.

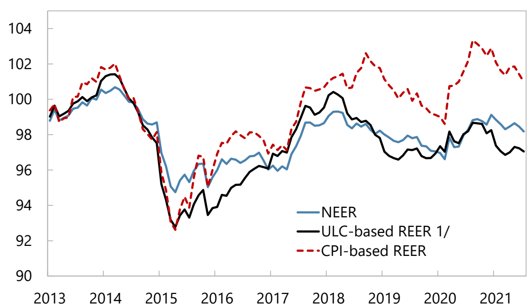
Net International Investment Position
(Percent of GDP)



Source: IMF.

Real and nominal exchange rates appreciated in 2020, with the increase in ULC reflecting labor market effects.

Exchange Rates
(Index, 2005=100)

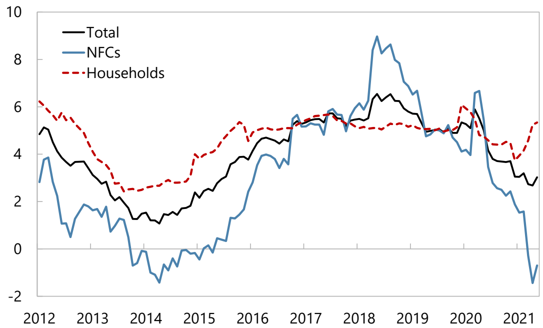


Source: IMF staff calculations.
1/ ULC-based REER calculated based on ULCs in manufacturing sector.

Figure 12. Belgium: Financial Sector Developments

As household borrowing has held up comparatively well, credit growth to non-financial corporations has ebbed…

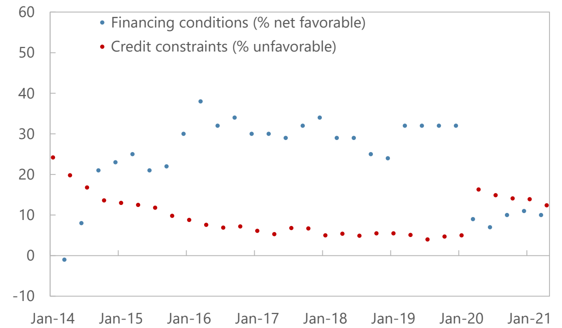
Private Sector Lending
(Year-on-year percent change)



Source: Haver (NBB) and Staff calculations.

…in part reflecting a considerably tighter financing environment since the onset of the pandemic

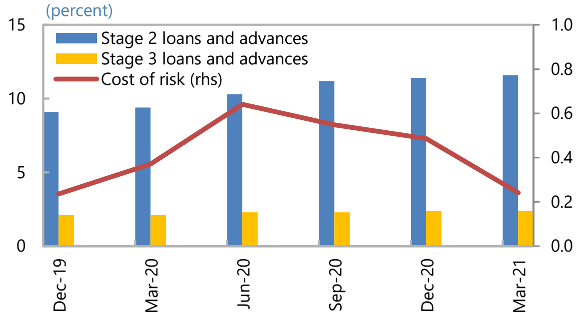
NFC financing conditions and credit constraints
(Percentages)



Source: NBB.

Loans with a worsened risk profile (stage 2) have shown an increase with impaired exposures (stage 3) stable.

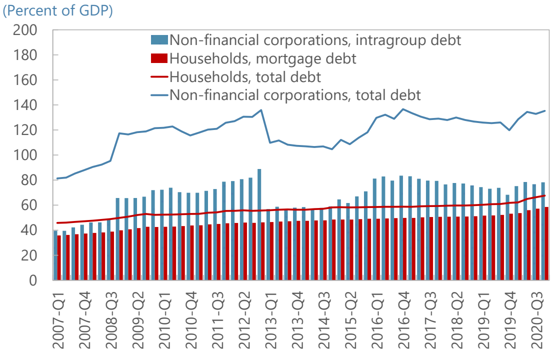
Bank loan classification and cost of risk
(percent)



Sources: EBA.

The crisis has further contributed to already elevated private sector indebtedness…

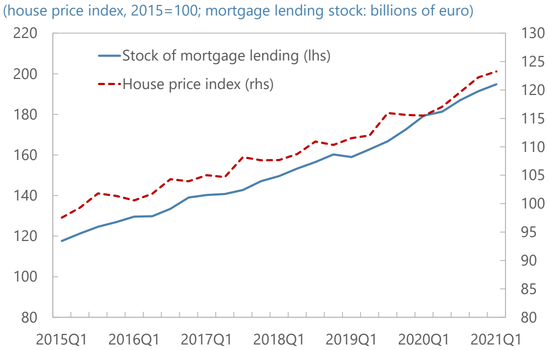
Household and corporate indebtedness
(Percent of GDP)



Source: BNB.

…as mortgage lending has grown at a robust pace, accompanied by sustained house price inflation, …

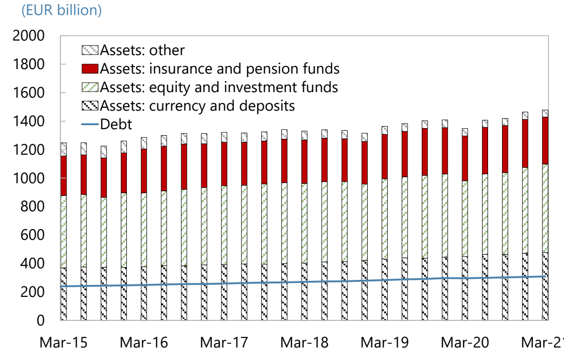
House prices and mortgage lending
(house price index, 2015=100; mortgage lending stock: billions of euro)



Sources: national authorities.

…yet financial assets of households provide some cushion against elevated debt levels.

Household debt and financial assets
(EUR billion)



Sources: BNB and ECB.

Table 3. Belgium: Selected Economic Indicators, 2019-26

			Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
	(Percent change, unless otherwise indicated)							
Real economy								
Real GDP	1.8	-6.3	5.4	3.1	1.8	1.4	1.3	1.3
Domestic demand	1.6	-6.0	4.6	4.1	2.1	1.6	1.6	1.7
Private consumption	1.5	-8.7	3.8	6.8	2.3	1.5	1.7	1.6
Public consumption	1.6	0.7	3.6	0.3	1.2	1.6	1.8	1.9
Gross fixed investment	3.5	-6.9	11.2	2.5	2.6	2.0	1.3	1.8
Stockbuilding 1/	-0.4	0.0	-1.0	0.0	0.0	0.0	0.0	0.0
Foreign balance 1/	0.2	-0.3	0.9	-0.9	-0.3	-0.3	-0.3	-0.4
Exports, goods and services	1.0	-4.6	6.6	5.3	4.1	3.6	3.4	3.4
Imports, goods and services	0.8	-4.3	5.6	6.5	4.4	4.0	3.8	3.8
Household saving ratio	13.0	21.9	17.1	14.3	14.0	13.7	13.4	13.0
Potential output growth	1.1	-2.7	3.5	1.7	1.6	1.3	1.3	1.3
Potential output growth per working age person	0.9	-2.9	3.5	1.6	1.4	1.2	1.2	1.2
Output gap (in percent)	0.1	-3.5	-1.7	-0.3	-0.1	-0.1	-0.1	0.0
Employment								
Unemployment rate (in percent)	5.4	5.6	6.2	6.1	5.9	5.8	5.7	5.7
Employment growth	1.6	0.0	-0.5	0.8	0.8	0.8	0.7	0.7
Prices								
Consumer prices	1.2	0.4	2.3	2.1	1.9	1.9	1.8	1.8
GDP deflator	1.7	1.1	2.2	2.1	1.8	1.8	1.7	1.7
	(Percent of GDP; unless otherwise indicated)							
Public finance								
Revenue	50.2	50.6	50.3	50.2	50.1	50.2	50.0	50.0
Expenditure	52.1	60.0	57.4	54.6	54.7	55.1	55.1	55.3
General government balance	-1.9	-9.4	-7.1	-4.5	-4.7	-4.9	-5.0	-5.3
Structural balance	-2.2	-7.4	-6.3	-4.4	-4.6	-4.9	-4.9	-5.2
Structural balance (excl. Covid measures)	-2.2	-2.9	-3.7	-4.1	-4.4	-4.7	-4.9	-5.2
Structural primary balance	-0.2	-5.7	-4.8	-3.0	-3.4	-3.7	-3.7	-4.0
Primary balance	0.1	-7.4	-5.4	-3.1	-3.4	-3.7	-3.8	-4.0
General government debt	98.1	114.1	113.6	113.1	114.2	116.2	118.3	120.5
Balance of payments								
Goods and services balance	0.6	0.4	0.4	-0.2	-0.2	-0.1	0.1	0.3
Current account	0.3	-0.2	0.0	-0.5	-0.5	-0.3	-0.1	0.1
Exchange rates								
Euro per U.S. dollar, period average 2/	0.9	0.9	...	...	...	...	...	...
NEER, ULC-styled (2005=100) 2/	97.6	98.0	...	...	...	...	...	...
REER, ULC-based (2005=100) 2/	96.9	98.0	...	...	...	...	...	...
Memorandum items								
Nominal GDP (in billions of euros)	476.3	451.2	486.4	512.1	531.0	548.1	564.8	582.3
Population (in millions)	11.5	11.5	11.5	11.6	11.6	11.7	11.7	11.8

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

1/ Contribution to GDP growth.

2/ As of December 2020.

Table 4. Belgium: Balance of Payments, 2019-26

	2019	2020	2021	2022	2023	2024	2025	2026
			Projections					
			(In percent of GDP)					
Balance on current account	0.3	-0.2	0.0	-0.5	-0.5	-0.3	-0.1	0.1
Balance on goods and services	0.6	0.4	0.4	-0.2	-0.2	-0.1	0.1	0.3
Balance of trade (f.o.b., c.i.f.)	117.1	115.7	118.9	119.4	119.7	120.1	120.1	119.9
Exports of goods and services	81.8	80.5	82.7	82.8	83.0	83.3	83.4	83.4
Exports of goods	58.9	58.0	59.6	59.6	59.8	60.0	60.1	60.0
Exports of services	22.9	22.5	23.2	23.2	23.2	23.3	23.4	23.3
Imports of goods and services	-81.2	-80.1	-82.3	-83.0	-83.2	-83.4	-83.3	-83.1
Imports of goods (f.o.b.)	-58.2	-57.7	-59.3	-59.8	-60.0	-60.1	-60.0	-59.9
Imports of services	-23.0	-22.4	-23.0	-23.2	-23.2	-23.3	-23.3	-23.2
Income, net	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.4
Current transfers, net	-1.5	-1.8	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6
Balance on capital account	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance on financial account	-0.3	-0.7	0.1	-0.4	-0.3	-0.2	0.0	0.3
Direct investment, net	-0.2	0.3	0.6	0.8	1.0	1.2	1.4	1.6
Portfolio investment, net	-1.4	4.5	5.1	4.0	3.5	3.2	3.1	3.0
Financial derivatives, net	0.2	0.0	-0.2	0.0	0.2	0.1	0.0	0.0
Other investment, net	1.1	-5.7	-5.5	-5.3	-5.1	-4.9	-4.7	-4.5
Reserve assets	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Errors and omissions, net	-0.8	-0.7	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 5. Belgium: General Government Statement of Operations, 2019-26

			Projections					
	2019	2020	2021	2022	2023	2024	2025	2026
Revenue	50.2	50.6	50.3	50.2	50.1	50.2	50.0	50.0
Taxes	29.8	29.8	29.7	29.6	29.6	29.7	29.7	29.7
Personal income tax	11.6	12.2	12.0	11.9	11.8	11.9	11.9	11.9
Corporate income tax	3.8	3.4	3.3	3.3	3.3	3.3	3.3	3.3
Taxes on property	1.9	1.9	2.0	2.0	2.0	2.0	2.0	2.0
VAT	6.8	6.6	6.7	6.8	6.8	6.8	6.8	6.8
Excise	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Other taxes	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Social contributions	15.4	16.1	15.7	15.5	15.5	15.5	15.5	15.5
Actual social contributions	13.3	13.7	13.4	13.3	13.3	13.3	13.3	13.3
Imputed social contributions	2.2	2.4	2.3	2.2	2.2	2.2	2.2	2.2
Other revenue (incl. grants)	4.9	4.7	4.9	5.0	5.0	5.0	4.9	4.9
Expenditure	52.1	60.0	57.4	54.6	54.7	55.1	55.1	55.3
Current expenditure	48.7	56.3	53.5	50.7	50.7	51.0	51.3	51.6
Compensation of employees	12.3	13.4	12.8	12.5	12.4	12.4	12.4	12.4
Use of goods and services	4.1	4.3	4.2	4.1	4.1	4.0	4.0	4.0
Interest	2.0	2.0	1.7	1.4	1.2	1.2	1.2	1.2
Subsidies	3.8	5.1	4.4	4.1	4.1	4.1	4.1	4.1
Grants	1.1	1.3	1.3	1.2	1.2	1.2	1.2	1.2
Social benefits	24.6	28.4	27.7	26.5	26.7	27.2	27.4	27.7
Pensions	10.5	11.5	11.3	11.3	11.6	11.9	12.0	12.2
Unemployment	1.0	2.8	2.1	1.2	1.1	1.1	1.1	1.1
Health care	6.7	7.0	7.4	7.2	7.2	7.3	7.4	7.5
Early retirement, sickness and disability	2.3	2.6	2.5	2.5	2.5	2.6	2.7	2.7
Family allowances	1.5	1.6	1.5	1.5	1.5	1.5	1.5	1.5
Other social benefits	2.6	2.9	2.9	2.8	2.8	2.8	2.8	2.8
Other expense	0.9	1.8	1.4	0.9	0.9	0.9	0.9	0.9
Capital expenditure	3.4	3.7	3.9	3.9	4.0	4.0	3.8	3.7
Gross operating balance	1.5	-5.7	-3.2	-0.6	-0.7	-0.9	-1.3	-1.6
Net lending/borrowing	-1.9	-9.4	-7.1	-4.5	-4.7	-4.9	-5.0	-5.3
Memorandum items								
Primary expenditure	50.1	58.0	55.7	53.2	53.5	53.9	53.8	54.0
Primary balance	0.1	-7.4	-5.4	-3.1	-3.4	-3.7	-3.8	-4.0
Structural balance	-2.2	-7.4	-6.3	-4.4	-4.6	-4.9	-4.9	-5.2
Structural balance (excluding Covid-19 measures)	-2.2	-2.9	-3.7	-4.1	-4.4	-4.7	-4.9	-5.2
Structural primary balance	-0.2	-5.5	-4.7	-3.0	-3.4	-3.7	-3.7	-4.0
Structural fiscal adjustment	-1.0	-5.2	1.1	1.9	-0.2	-0.3	0.0	-0.3
Structural fiscal primary adjustment	-1.2	-5.3	0.8	1.7	-0.4	-0.3	0.0	-0.3
Gross government debt	98.1	114.1	113.6	113.1	114.2	116.2	118.3	120.5
Real growth of primary expenditure	1.9	8.5	1.3	-1.5	2.3	2.1	1.2	1.7

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

Table 6. Belgium: General Government Consolidated Balance Sheet, 2010-20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					(In percent of GDP)						
Net financial worth	-82.0	-84.0	-91.7	-88.0	-95.7	-92.5	-90.8	-85.2	-83.6	-84.5	-101.9
Financial assets	26.8	27.8	29.4	30.8	35.1	34.0	37.0	35.7	34.8	36.5	41.4
Currency and deposits	4.9	5.0	4.7	4.4	4.3	4.2	4.6	4.5	4.2	3.5	4.5
Securities other than shares	0.6	0.5	0.5	0.4	0.3	0.3	0.4	0.4	0.5	0.5	0.6
Loans	6.0	6.4	7.7	8.1	9.0	8.7	8.8	8.7	8.8	8.9	9.8
Shares and other equity	10.8	11.0	11.8	13.0	16.1	15.5	17.4	16.8	15.6	18.0	19.9
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.5	0.6
Other accounts receivable	4.6	4.9	4.8	4.9	5.3	5.3	5.7	5.3	5.2	4.9	6.0
Liabilities	108.8	111.7	121.1	118.8	130.8	126.5	127.8	120.9	118.3	121.0	143.3
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Securities other than shares	89.0	90.5	99.0	95.9	105.1	101.9	103.5	98.3	96.2	99.9	120.7
Loans	15.2	16.7	17.5	18.4	20.9	19.9	19.4	18.0	17.2	16.2	17.2
Shares and other equity	0.1	0.1	0.1	0.1	0.2	0.3	0.1	0.0	0.0	0.0	0.0
Insurance technical reserves	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	0.7	0.9
Other accounts payable	4.0	4.0	4.0	4.0	4.2	4.1	4.4	4.2	4.0	3.9	4.2

Sources: Haver Analytics and IMF staff calculations.

Table 7. Belgium: Financial Soundness Indicators for the Banking Sector, 2010-20[1/]

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Earnings and profitability											
Return on assets	0.5	0.0	0.1	0.3	0.5	0.6	0.6	0.6	0.5	0.6	0.4
Return on equity	10.7	0.7	3.0	5.9	7.7	10.1	9.1	8.7	8.0	8.7	5.9
Net interest income to total income	68.3	71.2	71.6	62.6	70.2	67.7	66.0	61.2	63.5	63.3	64.3
Interest margin	1.2	1.2	1.3	1.2	1.6	1.8	1.8	1.6	1.6	1.6	1.5
Average yield on assets	2.8	2.9	2.9	2.6	2.7	2.6	2.4	2.1	2.1	2.1	1.8
Average cost of funding	1.6	1.7	1.7	1.4	1.1	0.8	0.6	0.5	0.5	0.5	0.3
Noninterest income to gross income	31.7	28.8	28.4	37.4	29.8	32.3	34.0	38.8	36.5	36.7	35.7
Of which: Net fee and commission income	25.6	26.8	28.3	27.7	25.8	26.7	25.1	24.3	24.6	24.1	25.3
(Un)realized capital gains booked in P&L	-0.2	-3.9	0.2	6.0	-0.3	5.3	6.7	3.7	5.4	2.3	0.0
Cost/income ratio	66.0	67.3	73.4	62.4	61.2	58.6	58.4	58.2	61.3	59.5	61.2
Structure assets											
Total assets (in percent of GDP)	323.2	310.2	278.7	251.0	249.0	236.5	266.1	227.3	215.7	220.0	250.9
Of which (in percent of total assets):											
Loans to credit institutions	17.0	15.2	12.4	12.3	9.1	8.5	7.5	6.8	6.7	7.9	4.3
Debt securities	20.1	18.5	18.4	18.9	19.6	18.0	16.4	14.4	13.3	12.3	12.1
Equity instruments	0.5	0.4	0.6	0.4	0.6	0.7	0.4	0.4	0.4	0.4	0.2
Derivatives	11.6	14.6	11.5	6.8	8.4	6.4	5.8	4.4	3.5	3.8	3.8
Loans to customers	44.0	44.4	48.1	53.9	54.1	56.4	55.4	59.4	62.3	61.9	57.2
Of which: Belgian residents (in percent of loans)	64.0	69.7	72.0	69.4	69.2	69.2	71.0	70.7	71.6	71.2	72.5
Other EMU residents (in percent of loans)	19.0	16.9	15.0	15.7	16.2	16.1	15.1	15.0	15.1	14.9	15.4
Rest of the world (in percent of loans)	17.0	13.4	13.0	14.9	14.5	14.7	13.9	14.2	13.3	13.9	11.9
Mortgage loans (in billions euros) 2/	178.5	183.9	188.3	190.8	202.4	216.1	229.7	227.4	243.3	261.4	274.1
Consumer loans (in billions euros) 2/	23.7	23.2	24.0	26.9	17.2	19.7	24.8	26.2	25.3	28.0	27.8
Term loans (in percent of loans)	42.3	40.0	39.3	40.8	n.a	n.a	n.a.	n.a.	n.a.	n.a.	n.a.
Reverse repo operations (in percent of loans)	7.3	4.2	3.3	3.1	1.7	1.5	1.0	1.1	0.5	0.5	0.3
Funding and liquidity (in percent of total assets)											
Debts to credit institutions	15.4	11.2	11.0	10.7	9.1	8.5	10.3	9.0	8.6	9.0	6.2
Bank bonds and other debt securities 3/	10.9	8.8	10.6	10.1	9.3	9.1	9.3	9.6	8.9	7.7	6.5
Customer deposits	46.0	46.5	49.3	54.7	58.5	61.0	58.4	62.2	63.9	64.6	64.3
Of which: Sight deposits 4/	13.7	12.6	15.1	18.1	24.2	28.4	26.4	30.3	31.1	31.7	33.6
Saving deposits 5/	16.2	16.0	18.9	21.0	19.9	23.0	22.8	23.5	24.7	25.1	24.7
Term deposits 4/	8.5	9.6	9.2	9.6	8.9	8.1	6.2	5.7	5.7	5.1	3.6
Retail deposits 5/	26.1	26.5	30.6	34.8	33.5	35.1	35.6	37.7	39.2	39.6	39.1
Repo's	5.0	5.2	2.3	2.7	2.3	1.7	0.2	0.1	0.0	0.0	0.0
Liquid assets 6/	32.5	34.3	36.4	36.8	32.8	32.2	32.5	31.7	29.2	26.8	35.0
Asset quality											
Sectoral distribution of loans (in percent of total assets)											
Credit institutions	17.0	15.2	12.4	12.3	9.1	8.5	6.1	6.8	6.5	7.7	4.2
Corporate (until 2013) /Non financial corporations (as of 2014)	17.2	16.4	16.3	18.5	20.6	22.0	21.4	22.7	24.8	24.2	21.5
Retail (until 2013) / Households (as of 2014)	22.1	22.9	26.3	29.4	25.5	27.4	27.5	29.6	29.9	30.4	29.1
Central governments (until 2013)/ General government (as of 2014)	1.0	0.8	0.8	1.0	4.4	4.3	4.1	4.3	4.4	4.0	3.6
Non-credit institutions (until 2013) / Other financial corporations (as of 20	3.8	4.3	4.7	5.0	3.5	2.7	2.4	2.9	2.9	3.1	2.9
Non-performing loans (NPL) as percent of gross loans 6/	2.8	3.2	3.2	3.1	2.7	2.6	2.4	2.1	1.9	1.9	2.1
Provisions and write-offs as percent of NPL 6/	53.0	49.4	53.0	54.1	57.1	54.3	55.7	57.2	61.6	60.4	60.6
Capital adequacy											
Regulatory capital to risk-weighted assets	19.3	18.5	18.1	18.7	17.3	18.7	18.8	19.0	18.8	18.8	20.3
Regulatory Tier 1 capital to risk-weighted assets	15.5	15.1	15.8	16.4	15.1	16.0	16.2	17.0	16.5	16.7	18.2
Capital to assets	5.0	4.6	5.8	6.4	6.6	6.5	7.1	7.1	7.2	7.0	7.0
NPL net of provisions as percent of Tier 1 capital 6/	12.2	14.2	13.4	12.3	12.0	12.9	10.7	7.9	6.5	6.3	6.3
Net open position in foreign exchange to capital	3.3	1.4	2.1	2.1	3.4	2.6	2.1	1.6	1.9	2.1	2.0

Sources: National Bank of Belgium.

1/ Consolidated data. Data are based on the International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) reporting scheme.

2/ Only loans to households as of 2014

3/ Excluding saving certificates as of 2014

4/ Deposits booked at amortized cost only.

5/ Only household deposits as of 2014

6/ Unconsolidated data.

Table 8. Belgium: Main Recommendations from the 2017 FSAP Mission		
Recommendation	**Timing***	**Status**
Systemic risk analysis		
Enhance the risk analytical framework by: (i) incorporating bank stress testing to the toolkit for systemic risk assessment and macroprudential policy; (ii) extending the horizon of insurance stress tests; (iii) intensifying monitoring of insurers' mortgage loan portfolios and related underwriting standards; (iv) in cooperation with the FSMA, further developing the shadow banking monitoring framework; (v) enhancing the coverage and quality of commercial real estate data. (NBB)	ST	(i) In 2020 the NBB undertook a full top-down stress test for six LSIs and—for the first time—the two SI subsidiaries (BNPP Fortis and ING BE). The methodology was designed to be as close as possible to that used by the SSM for its 2020 top-down vulnerability analysis for SIs to enable comparison of results across SIs. The NBB has developed a tool for making NII projections under differing interest rate scenarios that is currently used to analyze the potential NII impact on SIs/LSIs of a long period of low or negative interest rates. (ii) No new actions since 2020. (iii) NBB supervisory expectations for credit standards for Belgian mortgage loans, applicable since 1 January 2020, also apply for insurance companies and a formal comply or explain report is requested for 4 insurance companies that have mortgage loan production exceeding the threshold set for this comply or explain report. (iv) A new update of the NBB-FSMA report on asset management and non-bank financial intermediation in Belgium was published on 6 May 2021. (v) The NBB is pursuing further work on closing data gaps for CRE analysis, in line with the ESRB Recommendation on Closing Data Gaps in real estate.
Prudential policy, supervision, and oversight		
Approve promptly the new macroprudential measure proposed by the NBB and enhance the NBB's ability to implement cyclical macroprudential tools in a timely manner. (MoF)	ST	(i) The macroprudential measure dedicated to risks in the residential real estate market was extended by one year in 2020 and by another year in 2021 and runs until end-April 2022. The extensions were enacted by two new royal decrees. (ii) The CCyB was de-activated in Belgium in March 2020. (iii) The NBB supervisory expectations regarding credit standards for new mortgage lending (LTV, DTI, DSTI) are maintained.
Continue to strengthen bank supervision by: (i) ensuring the reliability and consistency of internal models and (ii) proactively assessing loan classifications to ensure prudent provisioning practices. (NBB/SSM)	C	(i) NBB continues the follow-up of TRIM, including the review of banks' preparedness to EBA Repair implementation. (ii) The ECB sent a communication to SI's to provide banks with additional guidance on credit risk identification and measurement in the context of the pandemic, with a focus on timely identifying and reporting asset quality deterioration and the build-up of NPLs in accordance with existing rules. The NBB also sent this letter to several LSI's and requested the other LSI's to provide an action plan to indicate how credit risk is assessed in a timely manner for exposures subject to a moratorium. Additionally, the NBB started its consultation on its implementation of the EBA GL on loan origination for LSI and liaised with FSMA and FPS Economy to exchange views on the application of the guidelines to other retail lenders (still under discussion). These guidelines have been applicable since June 30, 2021.
Adjust to insurers' evolving risk profiles by: (i) seeking to address the sector's increasing liquidity risk; (ii) continuing to analyze the business growth of reinsurance operations; and (iii) engaging with the industry to gradually improve the quality of insurers' capital. (NBB)	ST	(i) No new actions since 2020. (ii) In line with recent developments at EIOPA, the NBB is planning to align its national framework with the recommendations/insights of EIOPA's upcoming statement on the use of risk mitigation techniques by insurance and reinsurance undertakings and the statement on supervision of runoff undertakings. These statements also contain a set of specific recommendations applicable to insurers characterized by either an extensive, or a-typical use of reinsurance. (iii) No new actions since 2020.

Table 8. Belgium: Main Recommendations from the 2017 FSAP Mission (Concluded)		
Recommendation	**Timing***	**Status**
Enhance FC supervision by: (i) setting supervisory expectations for FC governance and risk management; and (ii) enhancing monitoring of intra-group transactions at FC level and the risk of regulatory arbitrage between insurance and banking sectors. (NBB/SSM)	ST	(i) The ECB has developed an FC supervisory guidance for joint supervisory teams (JSTs), that is now included in the SSM Operational Guidance. The guidance provides the JSTs a hands-on framework on how to assess the FC corporate governance and risk management. (ii) Draft technical standards on the reporting of intra-group transactions and risk concentration have been sent to the European Commission in 2021Q1, while preparation of draft implementing technical standards on the reporting of FC capital adequacy has been resumed.
Enhance SWIFT oversight by (i) aiming at complementing the NBB's use of moral suasion in the oversight of SWIFT with additional regulatory and supervisory powers; (ii) broadening membership in the SWIFT Oversight Forum; and (iii) improving information sharing on SWIFT oversight and assurance reports. (NBB)	ST	No new actions have been undertaken since January 2020, while actions that were taken already in response to the recommendations remain in place (including the conduct of on-site inspections and intensified interaction with SWIFT Oversight Forum central banks). As the organization of in-person meetings was not possible due to Covid-19, on-site inspection activities were held remotely. All oversight activities and associated international oversight meetings were maintained but organized in a decentralized fashion. Outreach activities beyond G20 central activities have been postponed until in-person meetings can be held again.
Financial safety net and crisis management		
Ensure the feasibility of resolution strategies for banking groups with systemically important subsidiaries (SRM) and prioritize resolution planning for the two less significant institutions with the highest share of insured deposits. (NBB)	MT	After adoption of a first wave of resolution plans for all LSIs in 2018, a new wave of resolution plans is currently being adopted. This will include a MREL requirement based on BRRD2 and taking into account the transition periods set in BRRD2. Internal MREL is in the process of being set for Belgian subsidiaries of systemic importance under the remit of the SRB. Double counting of internal MREL instruments in daisy chains is not addressed pending an EBA RTS. In accordance with the SRB policy, a market confidence buffers is not necessarily included in the calibration of internal MREL; several subsidiaries, which are not systemic but important for the Belgian economy, are not covered by an internal MREL. The NBB demonstrated its capacity to implement a resolution scheme during a SRB dry run exercise in December 2019.
Strengthen the DIS by (i) publicly committing to shortening the DIS pay-out period to seven days by 2019; (ii) establishing credit lines with the MoF; and (iii) segregating the Guarantee Fund from government funds. (MoF)	ST	(i) No new actions since 2020. (ii) No new actions since 2020. (iii) The Administration will submit a draft bill (as soon as the draft is completely finished (expected by Q3 2021)). The draft bill aims at segregating the Guarantee Fund's available financial means from the government funds.
AML/CFT		
Ensure adequate transparency of beneficial ownership of legal persons and arrangements. (MoF)	MT	The national UBO register is fully operational. The legal provisions relating to the register have been amended by the law of 20 July 2020 transposing the 5th AMLD..
*C=continuous; I=immediate (within one year); ST=short term (within 1–2 years); MT=medium term (within 3–5 years)		

Annex I. Status of Previous Article IV Recommendations

2020 Article IV Recommendations	Policy Actions
Fiscal Policy	
Contain the effects of the pandemic through targeted temporary support measures (ST).	Support measures amounting to 4.7 and 3.0 percent of GDP put in place in 2020 and 2021. These involved existing programs (STW, SE)—with timebound extensions of eligibility and benefits—as well as new, targeted, and temporary measures (see ¶5 and Annex II).
Design and implement a medium-term fiscal consolidation strategy underpinned by efficiency-enhancing spending reforms (MT).	The federal government has developed an adjustment plan with fixed and variable/conditional efforts over 2021-24. However, the plan is not yet supported by fully-elaborated reform plans and does not place debt on a downward trend (see ¶15 and Box 1).
Reduce current spending by containing healthcare and pension costs, improving the targeting and labor-market incentives of social benefits, strengthening the efficiency of subsidies, and reducing duplication in public administration (MT).	Events affected by Covid-19 response. Plans under consideration, with pilot spending reviews underway in three areas—working from home and government real estate, health care efficiency, and fiscal benefits for R&D—with the aim to identify new areas for spending reviews in September 2021.
Create space to lower the labor tax wedge by broadening tax bases and reducing exemptions (MT). Simplify taxation of capital income.	Tax reform plans have been initiated by the new government; these will focus on reducing the labor tax wedge and broadening bases (see ¶17 and SIP).
Financial Sector Policy	
Stand ready to take additional measures to address near-term risk related to the pandemic (ST).	Fiscal and financial support measures helped ease pandemic impacts (see ¶6-7 and ¶20-23).
Continue to implement FSAP recommendations (ST/MT), including: (i) use macroprudential policies as needed; (ii) complete technical standards on reporting for financial groups; (iii) ensure feasibility and effectiveness of bank-resolution strategies; (iv) strengthen deposit insurance by segregating the Guarantee Fund from government funds.	See Table 6.
Structural Reforms	
Once the health situation normalizes continue efforts to integrate vulnerable groups through active labor-market policies and training programs (ST).	Events affected by Covid-19 developments. Plans under consideration to strengthen integration of vulnerable groups, including in the context of measures to meet the government's objective of raising employment to 80 percent by 2030 (see ¶24-26).
Bolster female labor force participation, strengthen work incentives by reforming unemployment benefits, improve labor mobility, and boost flexibility (wage-setting, collective dismissals) (MT).	See above and discussion in ¶24-26.
Reduce red tape for startups, lower regulatory barriers to competition, support innovation (improve access to venture capital and the efficiency of R&D tax incentives; reduce tax distortions), and boost infrastructure investment (ST/MT).	Events affected by Covid-19 developments. Some reduced red-tape and new funds through public financing vehicles to support innovation in the context of pandemic response. Plans to boost infrastructure investment and broad reform objectives outlined in NGEU/RRP (see ¶27-29).
Prepare a comprehensive policy strategy to meet emission reduction targets (ST/MT).	New, more ambitious European targets announced in July. A comprehensive strategy will be needed to meet the targets, including in light of limited emissions reduction in transport and buildings and the transitional replacement of nuclear power generation with gas (see ¶30 and SIP).

Source: IMF staff; see IMF Country Report 20/91 for 2020 recommendations.

Annex II. Covid-19 Response

Measure	Description	Timing	Objective
Fiscal: Above-the-line			
Health-related	- Provision for Covid-19 costs (PPE, testing, IC capacity, etc.) - Advance payments to hospitals - Support to hospital staff, GPs, etc. - Structural increase health care / mental health care - Health care support regional governments		
STWP scheme	Expansion of "temporary unemployment" (TU) by easing access (pandemic qualifying as "force majeure") and increasing the replacement rate from 65 to 70%, subject to a wage ceiling, and daily allowance for up to 26 days. Eligibility narrowed from Sept to firms in hard-hit sectors or having used TU for 20% of workforce in Q2, before reversing back to broad eligibility under "force majeure" from mid-Nov.	- Mar-Aug 20 - Sep-Dec 20 - Nov 20-Sep 21	Employ-ment / income / liquidity
Transfers to SE	- Expansion of replacement income (RI) for self-employed (SE) by easing access (forced closure of 7 days/month) and extending coverage to partial/retired SE. Extension from Sept limited to SE forced to close. - "Recovery RI" initially June-Aug, extended to Dec; separately for SE in hard-hit sectors forced to close 7 days/month and reduced turnover of 10%. - "Double RI" for SE in hospitality (later extended to all) sector(s) forced to close, with benefit levels temporarily doubled. - "Parental leave RI" for SE whose activity is interrupted by at least 7 days to take care of children (quarantine; school closure). - "Crisis RI" for SE with reduced turnover of at least 40%. - "Crisis RI" for SE still forced to close, with benefits scaled by days of closure.	- Mar-Dec 20 - June-Dec 20 - Nov 20-Sep 21 - Sep 20-Jun 21 - Feb-Sep 21 - From July 21	Income
Other social transfers	- Support to local social services and top-up of minimum social benefits. - End-year bonus for LT temporary unemployed and workers in hospitality sector. - Freezing of degressivity of unemployment benefits. - Supplemental allowance for work incapacity (align with TU and RI).	- Jun 20-Jun 21 - Nov-Dec 20 - Apr 20-Jun 21 - Nov 20-Jun 21	Income
Business grants	One-off compensation to firms forced to close or with significantly reduced turnover; eligibility, conditionality, amounts, and timelines varying by region. Tax exempt (federal govt measure).	- Mar 20-June 21	Income / liquidity
Tax relief	- Loss carry-backward: deduction of expected 2020 losses from 2019 tax liabilities - Partial exemption withholding tax for hard-hit sectors (50% of increase) - Exemption social security contribution for SE - Increased investment allowance: CIT (SMEs) and PIT (from 8 to 25%) - Recovery reserves: profits in 2021-2023 will be CIT exempt up to the amount of 2020 losses, provided equity and employment are at or above pre-crisis levels.	- June-Aug 20 - Mar-Dec 20 - Mar-Dec 20	Liquidity / solvency
Sector support	- Revenue measures targeting hard-hit sectors (VAT reduction hospitality, exemption employers' SSC, etc.) - Subsidies to national railway company, air traffic control. - Various measures at regional level to support care, childcare, education, culture, tourism, sports, media, and other affected sectors and activities.		Solvency

Fiscal: Below-the-line			
Public guarantees	- Guarantee scheme for new bank loans with maturity up to 12mo (envelope of €50bn); banks assuming first loss tranche up to 3%; equal loss sharing for losses between 3 and 5%; and 20-80 loss sharing between banks and state for losses over 5%. €[3.3]bn used. Claims up to June 30, 2023. - Second guarantee scheme for new bank loans to SMEs with maturity up to 36mo (envelope of €10bn carved out of the first scheme), extended in Dec to 60mo; uniform 20-80 loss distribution between banks and state. €[338]mn used. Claims up to June 30, 2025. [Scheme for loans up to 36mo extended until end-Dec 2021.] - Guarantee schemes for firms in need of bridge loans at regional level (envelope €2bn). €[379]mn used.	- April-Dec 20 - July 20—Dec 21 - Mar-Dec 20	Liquidity
Equity support	- Capital injections: convertible loans to Brussels Airlines (€250mn) and Aviapartner (€25mn) - Subordinated loans (in addition to bridge and restart loans) and capital injections through federal/regional investment vehicles, with new funds created: - Federal (FPIM/SFPI): Transformation Fund (target €1.5bn, o/w €750mn public) - Flanders (PMV): Welfare Fund (target €500mn, o/w €240mn public) - Wallonia (Sowalfin/Sogepa/SRIW): Solvency and Recovery Fund (€400mn) - Brussels (finance&invest.brussels): capital injection (target €160mn, o/w €106mn public), new regional fund (€40mn)	- Jun/Jul 20 - Feb 21 - Jun 20 - Jun 20 | Mar 21 - May 20 | Mar 21	Solvency
Financial and Macroprudential			
Loan moratoria	Moratoria on eligible business loans (principal) and mortgage loans (principal and interest). Recuperation of mortgage interest payments from non-vulnerable households over remaining maturity to ensure NPV neutrality. Maximum duration of up to 6 months initially (until end-September 2020) extended to 9 months (to end-December 2020 and later to end-June 2021), with possibility of further extension for viable firms on a case-by-case basis introduced in February 2021.	- Apr 20 – Jun 21	Liquidity
Capital relief	Deactivation of 0.5 percent CCyB that was to become effective in June 2020; repeated extension of the duration of CCyB suspension to at least 2022Q1.	- Mar 20-Mar 22	
Dividend ban	Application of ESRB/ECB recommendation on dividend and variable remuneration payments to financial institutions under NBB supervision. In force until end-2020, then extended to end September 2021.	- Jul 20-Sep 21	
Short-selling ban	Short-selling ban on shares traded on Euronext Brussels.	- Mar-May 20	
Other			
Bankruptcy	- Moratorium on bankruptcy proceedings during first and second lockdowns - Moratorium on government claims (tax and SSC)	- Apr-Jun 20 & Nov 20-Jan 21 - Apr 20-Jun 21	

Sources: Authorities.

Annex III. External Sector Assessment

<table>
<tr><td colspan="8">Overall Assessment: The external position in 2020 was moderately weaker than the level implied by medium-term fundamentals and desirable policies.

Potential Policy Responses: In the near term, the overarching policy priority remains mitigation of the health and economic impact of the COVID-19 pandemic, avoiding a premature unwinding of policy support. However, narrowing policy space will require measures to be increasingly targeted as the recovery firms up, balancing protection of vulnerable households and viable firms with facilitating resource reallocation to mitigate scarring. In light of imbalances that existed before the COVID-19 outbreak, in the medium term, policies should refocus on strengthening competitiveness by addressing structural challenges—including labor and product market reforms and other reforms to foster green, digital, and inclusive growth that will support competitiveness through investment in infrastructure, education, and training—as well as on rebuilding fiscal space. These steps could contribute to bringing the external position more in line with medium-term fundamentals and desirable policy settings.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="7">Background. The NIIP declined from 51 percent of GDP at the end of 2019 to 45 percent at the end of 2020, driven by valuation changes, to just below its five-year average of 48 percent. Belgium’s large creditor position is underpinned by sizable net household financial wealth. While household savings increased thanks to income support measures and precautionary savings during the pandemic, the impact on the NIIP was offset by external borrowing by the government. Gross foreign assets reached 467 percent of GDP in 2020 (up 22 percentage points from 2019 despite a modest decline in nominal terms), inflated by intragroup corporate treasury activities. Gross foreign assets of the banking sector stood at 81 percent of GDP at the end of 2020, well below the pre-global-financial-crisis peak of more than 200 percent, following a decade of consolidation and deleveraging. External public debt increased to 75 percent of GDP in 2020, up from 64 percent in 2019, reflecting a sharp increase in financing needs and demand from international investors, and is predominantly denominated in euros. Though declining as support measures are unwound, public sector financing needs are projected to remain high over the medium term as deficits remain well above precrisis levels and large redemptions come due. TARGET2 balances averaged −€49.6 billion (−11 percent of GDP) in 2020, up from −€27.4 billion in 2019.

Assessment. Belgium’s large gross international asset and liability positions are inflated by the presence of corporate treasury units, which do not appear to create macro-relevant mismatches. Looking ahead, based on the projected CA and growth paths, the NIIP-to-GDP ratio is expected to decline. The large and positive NIIP and its trajectory do not raise sustainability concerns.</td></tr>
<tr><td>2020 (% GDP)</td><td>NIIP: 45.1</td><td colspan="2">Gross Assets: 466.7</td><td>Debt Assets: 172.8</td><td colspan="2">Gross Liab.: 421.6</td><td>Debt Liab.: 195.0</td></tr>
<tr><td>Current Account</td><td colspan="7">Background. The CA averaged 0.4 percent of GDP over 2015–19 and has been on a downward but volatile path since its post-global-financial-crisis peak of 1.4 percent in 2015. Volatility in the trade and primary income balances is driven by sizable operations of multinationals and large revisions.[1] In 2020 the CA turned into a deficit of 0.2 percent of GDP from a surplus of 0.3 percent of GDP in 2019, driven by a deterioration in net current transfers (0.3 percent of GDP) linked to a higher EU contribution and a modest decline in the trade balance (0.2 percent of GDP). The latter reflects a decline in net exports of goods in volume terms that was only partially offset by improvements in the terms of trade (energy prices) and in the services balance driven by travel and transportation (especially tourism, where Belgium is a net importer and spending abroad declined more than receipts). For 2021 the CA deficit is projected to widen further, as import growth is expected to outpace export growth, due to the recovery in domestic and external demand—given the large foreign content of exports—and gradual reversal of temporary factors that supported the CA in 2020. The income balance is expected to remain broadly unchanged.

Assessment. EBA model estimates yield a CA gap of −1.5 percent of GDP for 2020, based on a cyclically adjusted CA balance of −0.1 percent of GDP. Adjustment for transitory COVID-19 effects on the CA of −0.3 percent of GDP (driven by −0.4 percent of GDP for travel services, including tourism) and 0.1 and −0.1 percent of GDP for the shift in household consumption from services to consumer goods and the impact on medical goods trade, respectively, brings the gap to −1.8 percent of GDP (relative to an estimated norm of 1.4 percent of GDP). This is within a range estimated by the IMF staff for the CA gap of between −2.8 and −0.8 percent of GDP, applying a standard range for the CA gap of ±1 percent of GDP.</td></tr>
<tr><td>2020 (% GDP)</td><td>CA: -0.2</td><td>Cycl. Adj. CA: -0.1</td><td>EBA Norm: 1.4</td><td>EBA Gap: -1.5</td><td>COVID-19 Adj.: -0.3</td><td>Other Adj.: —</td><td>Staff Gap: -1.8</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. After depreciating in 2019 by about 2 percent, in excess of euro depreciation (NEER depreciated by 1.1 percent), the ULC- and CPI-based REER appreciated by 3 and 1.4 percent, respectively, relative to the 2019 average. This brings the cumulative appreciation of the ULC- and CPI-based REER, respectively, to 6 and 7 percent over the past five years, thus reversing the sharp depreciation in 2014–15 brought about by wage moderation. The ULC- and CPI-based REER depreciated by 0.9 percent and remained unchanged, respectively, by the end of July 2021 relative to the 2020 average.

Assessment. The IMF staff CA gap implies a REER gap of 4.3 percent in 2020 (applying an estimated elasticity of 0.42). EBA model estimates point to a REER overvaluation of between 9.6 and 18.2 percent, based on the CPI-based REER index and level models. The IMF staff assesses the REER to be overvalued in the range of 1.8 to 6.8 percent, with a midpoint of 4.3 percent.[2]</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. Gross financial outflows and inflows were on an upward trend during the pre-GFC period as banks expanded their cross- border operations. These flows have shrunk considerably and become more volatile as banks have deleveraged. Short-term external debt accounted for 25 percent of gross external debt in 2020. The capital account is open.

Assessment. Belgium remains exposed to financial market risks, but the structure of financial flows does not point to specific vulnerabilities. The large and positive NIIP reduces the vulnerabilities associated with high external public debt.</td></tr>
<tr><td>FX Intervention and Reserves Level</td><td colspan="7">Background. The euro has the status of a global reserve currency.

Assessment. Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.</td></tr>
<tr><td colspan="8">[1] Methodological and source data changes led to major revisions of the 2015-19 CA, distorting comparison with previous assessments.

[2] The error bands are based on the range for the CA gap (-2.8 to -0.8 percent), with a mid-point of -1.6 percent, and an estimated semi-elasticity of the CA balance to the REER of 0.42.</td></tr>
</table>

Annex IV. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Global Risks				
Global resurgence of the Covid-19 pandemic. Local outbreaks lead to a global resurgence of the pandemic (possibly due to vaccine-resistant variants), which requires costly containment efforts and prompts persistent behavioral changes rendering many activities unviable.	Medium	ST, MT	High Renewed Covid-19 outbreaks and associated containment measures would disrupt economic activity, leading to lower GDP growth, rising unemployment as well as liquidity and solvency pressures among firms.	Focus public health measures on containing renewed pandemic flare-ups and immunity by widespread vaccination. Use available fiscal space for targeted measures for affected households and corporations to relieve liquidity and solvency challenges yet without preventing resource reallocation through efficient bankruptcy proceedings and re-skilling of the workforce.
Disorderly transformations. Covid-19 triggers structural transformations, but the reallocation of resources is impeded by labor market rigidities, debt overhangs, and inadequate bankruptcy resolution frameworks. This, coupled with a withdrawal of Covid-19-related policy support, undermines growth prospects and increases unemployment, with adverse social/political consequences. Adjustments in global value chains and reshoring (partly driven by geostrategic and national security concerns) shift production activities across countries.	Medium	ST, MT	Medium Long-standing labor and product market rigidities may hamper resource reallocation and structural transformation in the wake of the Covid-19 pandemic, sapping potential growth and exacerbating existing inequalities. The small open economy may suffer from disintegration of global value chains.	Transition from broad-based to targeted support measures for vulnerable households and challenged yet viable corporations in need of assistance. Accelerate structural reform efforts to ensure rapid and efficient resource reallocation and foster economic dynamism.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia. A fast recovery in demand (supported by excess private savings and stimulus policies), combined with Covid-19-related supply constraints, leads to sustained above-target inflation readings and a de-anchoring of expectations. The Fed reacts by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia, including for credit, equities, and emerging and frontier market currencies.	Medium	ST, MT	High The public and nonfinancial private sectors are highly indebted. A front-loaded tightening of financial conditions would further constrain narrowed fiscal policy space and put pressure on leveraged borrowers with possible negative repercussions for macroeconomic and financial stability.	Pursue fiscal consolidation once the health emergency subsides and the recovery is secured to sustainably steer public debt onto a downward path. Make use of available financial sector buffers to resolve non-performing exposures and grant flexibility to allow creditor support to viable but temporarily challenged borrowers within established supervisory and regulatory frameworks.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Belgium-Specific Risks				
Political uncertainty and fragmentation may slow the recovery from the pandemic, undermine efforts at fiscal consolidation and delay reforms necessary to lift potential growth onto a higher trajectory and to meet challenges arising from climate change or digital transformation.	Medium	ST, MT	High Prolonged inaction in policy areas demanding near-term attention may dampen economic output, weaken competitiveness, aggravate social frictions, and undermine fiscal sustainability.	Develop and build consensus around policies furthering Belgium's economic potential and addressing its long-term challenges, also by involving affected stakeholders at an early stage. Strive for an efficient co-ordination across governing bodies in order to achieve desired policy outcomes in an expedient and effective manner.
Early withdrawal of fiscal policy support, depressing GDP growth and deepening scarring of corporate balance sheets and the labor market.	Medium	MT	Medium Non-financial corporates would face elevated liquidity and solvency challenges, particularly among industries worst affected by the pandemic. Widespread layoffs may depress household incomes, aggravating social disparities.	Allow for a well-timed withdrawal of support measures. Adjust policies based on pandemic and economic developments. Target assistance to households and firms most severely affected by the crisis.
Prolonged low-growth and low-inflation environment, leading to persistent very low interest rates that increase risk of search-for-yield behavior and a significant adjustment in real estate prices and financial stability risks.	Medium	MT	High Continued low interest rates could encourage search for yield. Particularly real estate valuations appear elevated. A downturn in residential and/or commercial property markets in combination with leveraged balance sheets could adversely affect financial and macroeconomic stability.	Adapt and deploy the macroprudential toolkit to address emerging vulnerabilities. Consider a further strengthening of bank buffers against real estate-related exposures. Monitor banks and non-bank financial intermediaries for excessive risk-taking and consider appropriate policy action where needed.
Cases of money laundering or other illicit activities have the potential to affect Belgium's reputation as a financial center, and possibly undermine financial stability.	Low	MT	High Litigation costs and associated penalties may undermine the viability of individual financial institutions with potential wider financial stability and reputational consequences.	Build on progress with enhancing the anti-corruption and AML/CFT frameworks to further strengthen the protection of financial institutions against illicit activities.

Annex V. Debt Sustainability Analysis

Public debt sustainability risks have increased over the past year under Staff's baseline scenario, given higher levels of debt and gross financing needs. Factors mitigating these risks include an extended maturity profile, active debt management to smooth long-term debt redemptions, and a relatively-stable domestic (and euro-resident) investor base.

1. **Public debt sustainability risks have increased and remain high over the medium term.** The fiscal response and output contraction led to a 16-percentage point increase in the debt ratio to 114 percent of GDP in 2020. Debt is projected to remain on an upward path over the medium term, reaching 121 percent in 2026, even as the economy regains its footing, the output gap closes, and interest rates remain low. This reflects the combined effect of structural spending increases (some linked to COVID-19), a small permanent output loss relative to pre-pandemic projections (1.4 percent), and aging pressures. Gross financing needs are expected to be 18.2 percent of GDP in 2021 and remain around that level over the medium term. The debt path is especially sensitive to a real interest rate shock, and to a lesser extent, a real growth shock, as well as to combined shocks (macro-fiscal shock, contingent liability shock affecting growth).

2. **Low interest rates have mitigated sustainability concerns related to Belgium's high debt level.**[1] Government gross debt increased significantly after 2007, reflecting large fiscal stimulus and substantial support to the banking sector. After peaking at 107 percent of GDP in 2014, debt has declined gradually to 98 percent in 2019, supported by a favorable interest-growth differential. Debt service has been declining with lower interest rates; average bond yields declined from a peak of 5.6 percent in 2000 to 0.2 percent in 2019 and turned negative in 2020 (-0.1 percent). The weighted average maturity of debt has nearly doubled in the same period, to 10.4 (second-longest in the euro area, after Greece), while the effective interest rate declined by 4.4 ppts to 1.7 percent. Around 85 percent of the debt is owed by the federal government, all of which is denominated in euros. Some 44 percent of debt is held by domestic investors, just below the 5-year average, of which less than a third by banks (about 6 percent of assets), leaving scope for residual needs to be absorbed domestically (or by wider euro-area financial institutions).

Baseline Scenario and Realism of Projections

3. **The debt ratio will continue to increase over the medium term under current policies and assumptions of an incomplete recovery, moderate growth, and low real interest rates**. More specifically:

[1] Belgium's high debt level calls for using the higher scrutiny framework. For advanced economies that (i) have a current or projected debt-to-GDP ratio above 60 percent; or (ii) have current or projected gross financing needs-to-GDP ratio above 15 percent; or (iii) have or are seeking exceptional access to Fund resources; teams are required to use an extended set of tools to identify and assess specific risks to debt sustainability. For these "higher scrutiny" cases, teams are also required to produce a standardized summary of risks in a heat map and prepare a write-up to discuss risks, including any country-specific considerations.

- **Macroeconomic assumptions.** Growth rebounds to 5.4 percent this year and gradually returns to 1.3 percent over the medium term, in line with potential growth, while the output gap closes in 2026. Output would remain some 1.4 percent below pre-crisis projections in 2025. Inflation picks up sharply this year and stabilizes at close to 2 percent in the medium term.
- **Fiscal assumptions.** The baseline assumes current policies, incorporating measures in the 2021 medium-term budget that are sufficiently specified, as well as recovery plan spending (RRF-and non-RRF-funded). The fiscal deficit narrows to 7.1 percent in 2021 due to the unwinding of support and lower effect of automatic stabilizers as the economy recovers, as well as lower interest spending. After further narrowing to 4.5 percent in 2022, the deficit widens again over the medium term. With the output gap near zero from 2023, the structural deficit moves in step. The primary deficit widens to 4 percent by 2026, well-above its debt-stabilizing level of 1.5 percent and the pre-crisis projection of 1.4 percent (2025).
- **Debt levels and gross financing needs.** Debt is projected to decrease to 113.6 percent in 2021 before increasing to 120.5 percent in the medium term, as primary deficits more than offset the still favorable automatic debt dynamics. While long-term interest rates (benchmark 10-year sovereign bond yield) are projected to gradually increase to 1.7 percent in 2026, the effective rate will continue to decline as maturing debt is refinanced at lower rates. Gross financing needs average 19 percent of GDP over the projection horizon.
- **Realism of baseline assumptions.** The median forecast error for real GDP growth is close to zero (-0.04 percent), while those for the primary balance (-0.31 percent), and inflation (-0.15 percent) are relatively small, measured over the period 2011–19. The projected adjustment and level of the cyclically-adjusted primary balance (CAPB) are not unreasonably large, based on a distribution of historical, cross-country experiences. At 2.3 percent of GDP in 2023, the largest 3-year adjustment in the CAPB in the projection horizon remains below the threshold of 3 percent of GDP, and primarily reflects the unwinding of measures.
- **Heat map.** Risks from the debt level are high, with the 85 percent threshold breached under all scenarios. Gross financing needs are just below the benchmark of 20 percent of GDP, except for 2024 when it is breached. The external financing requirement, at 86 percent of GDP in 2020, is significantly above the upper threshold, and the share of debt held by foreigners is relatively high at 56 percent of total.[2]

Stress Tests

- **Growth shock.** Under this scenario, real GDP growth is reduced by one standard deviation (measured over 2010-19 instead of 2011-20) in 2022–23, i.e., 0.7 percentage points each year relative to the baseline scenario. The assumed decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth). Under this scenario, the increase in the debt-to-GDP ratio reaches 3.1 ppts in 2023 and remains broadly constant thereafter.

[2] Belgium has one of the strongest net international investment positions in the euro area, and a substantial portion of the external financing needs of non-financial corporations stems from intragroup lending.

- **Interest rate shock.** This scenario examines the implications for debt sustainability of an increase in interest rates by 266 basis points (calibrated on the difference between the maximum real effective interest rate observed in 2011-20 and the average over the projection horizon) starting in 2022. The debt-to-GDP ratio increases more rapidly, reaching 124 percent in 2026 (similar to that under the growth shock). Gross financing needs are 2 percentage points of GDP higher in 2026 relative to the baseline scenario.
- **Exchange rate shock.** This scenario assumes 13 percent depreciation in the real exchange rate in 2021. This shock has no material effect as virtually all debt is denominated in euro.
- **Primary balance shock.** This scenario examines the implications of a revenue shock and a rise in interest rates leading to a cumulative 0.8 percentage points of GDP deterioration in the primary balance (one standard deviation: measured over 2010-19, thus excluding 2020) in 2022–23. This shock leads to a modest increase in the debt-to-GDP ratio (1.2 ppts).
- **Combined macro-fiscal scenario.** This scenario aggregates shocks to real growth, the interest rate, the exchange rate, and the primary balance while avoiding double-counting the effects of individual shocks. Debt and gross financing needs reach 127.6 (+7.1) and 22.1 (+2.4) percent of GDP in 2026.
- **Contingent liability shock.** In this scenario, non-interest expenditures in 2022 increase by the equivalent of 10 percent of banking sector assets, and growth slows by 1 standard deviation for two years (2022–23). Debt increases to 135.9 percent of GDP in 2022 and continues to increase over the medium term to reach 147 percent in 2026.

Figure V.1. Belgium: Public Sector Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

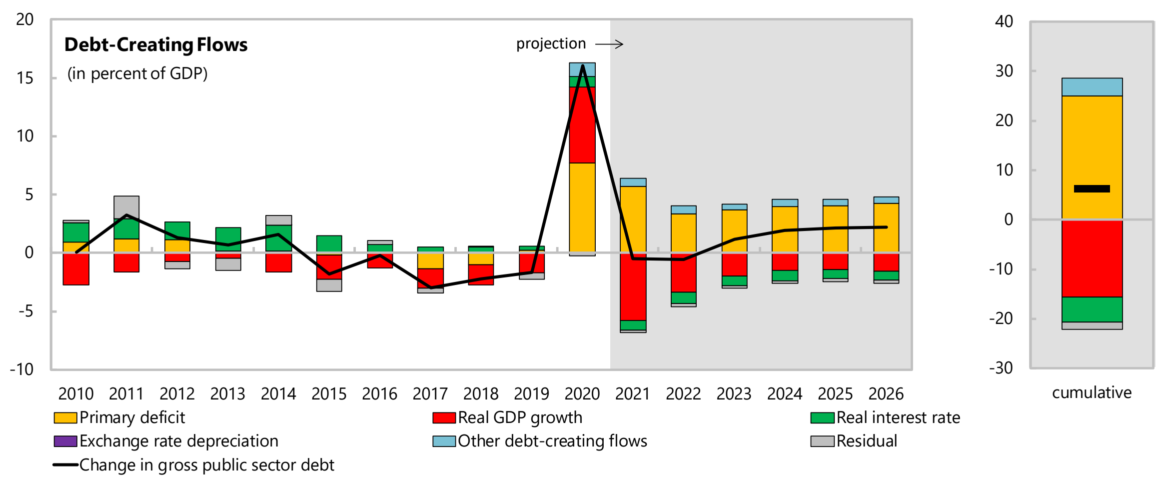
Debt, Economic and Market Indicators [1/]

	Actual	Est.		Projections					
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	2026
Nominal gross public debt	103.7	98.1	114.1	113.6	113.1	114.2	116.2	118.3	120.5
Public gross financing needs	12.3	14.3	21.4	18.2	19.8	18.3	20.0	17.9	19.7
Real GDP growth (in percent)	1.6	1.8	-6.3	5.4	3.1	1.8	1.4	1.3	1.3
Inflation (GDP deflator, in percent)	1.6	1.7	1.1	2.2	2.1	1.8	1.8	1.7	1.7
Nominal GDP growth (in percent)	3.2	3.5	-5.3	7.8	5.3	3.7	3.2	3.0	3.1
Effective interest rate (in percent) [4/]	3.0	2.0	1.9	1.6	1.3	1.1	1.1	1.1	1.1

As of August 04, 2021		
Sovereign Spreads		
10Y bonds (bp) 3/		34
5Y CDS (bp)		12
Ratings	Foreign	Local
Moody's	Aa3	Aa3
S&Ps	AA	AA
Fitch	AA-	AA-

Contribution to Changes in Public Debt

	Actual	Est.		Projections							
	2010-2018	2019	2020	2021	2022	2023	2024	2025	2026	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	0.0	-1.7	16.1	-0.5	-0.6	1.2	1.9	2.1	2.2	6.3	-1.8
Identified debt-creating flows	-0.1	-1.2	16.3	-0.2	-0.3	1.4	2.2	2.4	2.5	7.9	
Primary deficit	0.1	0.2	7.7	5.7	3.3	3.7	4.0	4.1	4.3	25.1	
Primary (noninterest) revenue and grants	51.1	49.9	50.3	50.0	49.9	49.8	49.9	49.8	49.7	299.1	
Primary (noninterest) expenditure	51.3	50.1	58.0	55.7	53.2	53.5	53.9	53.8	54.0	324.2	
Automatic debt dynamics [5/]	-0.2	-1.4	7.4	-6.6	-4.3	-2.8	-2.4	-2.2	-2.3	-20.6	
Interest rate/growth differential [6/]	-0.2	-1.4	7.4	-6.6	-4.3	-2.8	-2.4	-2.2	-2.3	-20.6	
Of which: real interest rate	1.4	0.3	0.9	-0.8	-0.9	-0.8	-0.9	-0.8	-0.8	-5.0	
Of which: real GDP growth	-1.6	-1.7	6.5	-5.8	-3.4	-2.0	-1.5	-1.4	-1.5	-15.6	
Exchange rate depreciation [7/]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	1.2	0.7	0.7	0.5	0.6	0.5	0.5	3.5	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Stock-flow adj. and debt management	0.0	0.0	1.2	0.7	0.7	0.5	0.6	0.5	0.5	3.5	
Residual, including asset changes [8/]	0.0	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.6	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi(1+g)$ and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

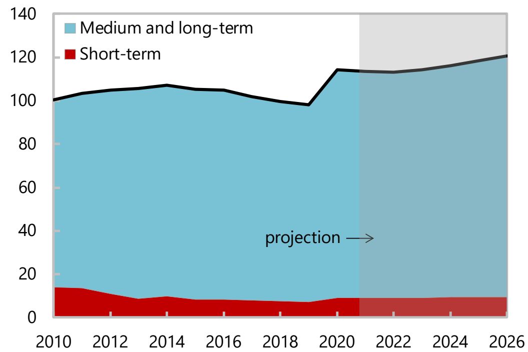
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure V.2. Belgium: Public DSA—Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

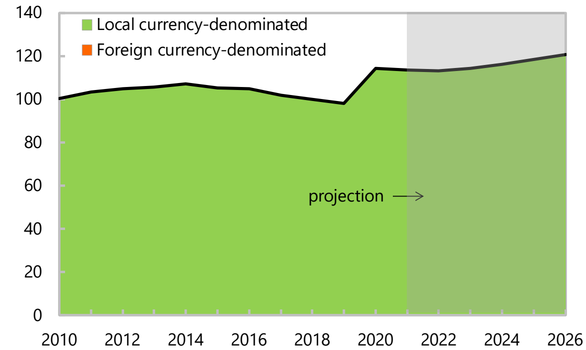
By Maturity

(in percent of GDP)



By Currency

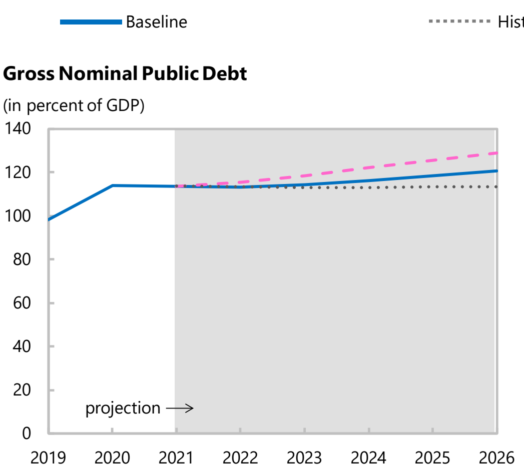
(in percent of GDP)



Alternative Scenarios

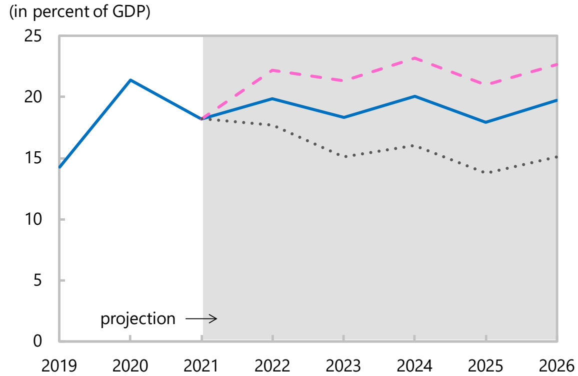
Gross Nominal Public Debt

(in percent of GDP)



Public Gross Financing Needs

(in percent of GDP)



Underlying Assumptions

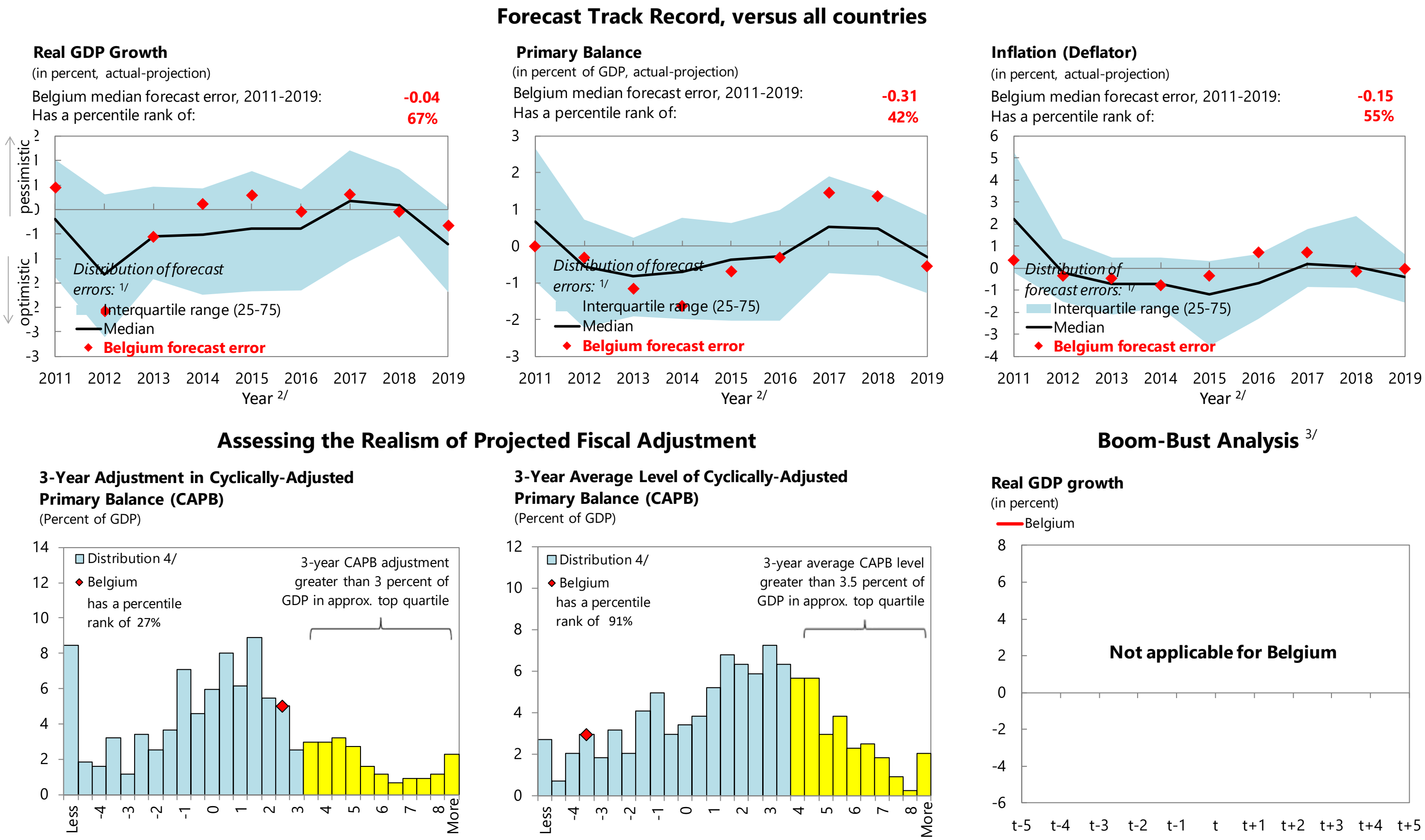
(in percent)

Baseline Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.4	3.1	1.8	1.4	1.3	1.3
Inflation	2.2	2.1	1.8	1.8	1.8	1.7
Primary Balance	-5.7	-3.3	-3.7	-4.0	-4.1	-4.3
Effective interest rate	1.6	1.3	1.1	1.1	1.1	1.1
Constant Primary Balance Scenario						
Real GDP growth	5.4	3.1	1.8	1.4	1.3	1.3
Inflation	2.2	2.1	1.8	1.8	1.8	1.7
Primary Balance	-5.7	-5.7	-5.7	-5.7	-5.7	-5.7
Effective interest rate	1.6	1.3	1.1	1.1	1.1	1.1

Historical Scenario	2021	2022	2023	2024	2025	2026
Real GDP growth	5.4	0.7	0.7	0.7	0.7	0.7
Inflation	2.2	2.1	1.8	1.8	1.8	1.7
Primary Balance	-5.7	-0.8	-0.8	-0.8	-0.8	-0.8
Effective interest rate	1.6	1.3	1.4	1.5	1.6	1.7

Source: IMF staff.

Figure V.3. Belgium: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

1/ Plotted distribution includes all countries, percentile rank refers to all countries.

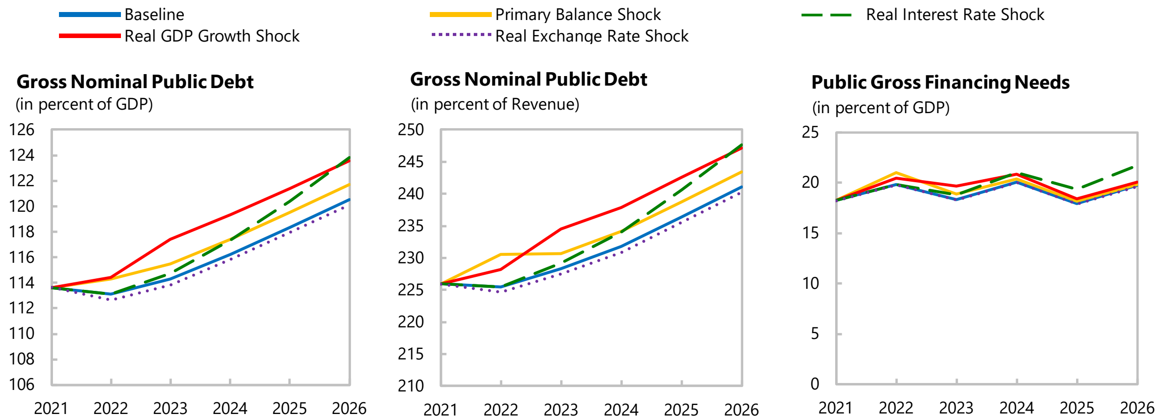
2/ Projections made in the spring WEO vintage of the preceding year.

3/ Not applicable for Belgium, as it meets neither the positive output gap criterion nor the private credit growth criterion.

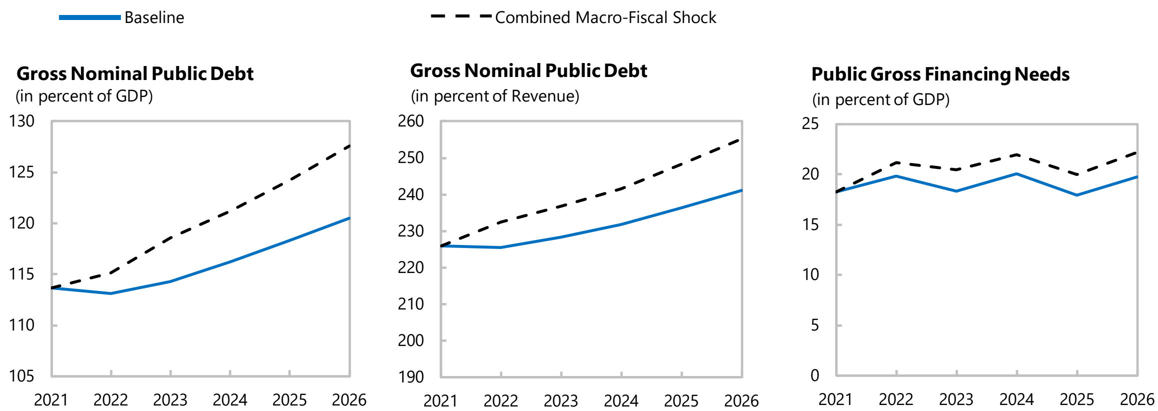
4/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure V.4. Belgium: Public DSA—Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

	2021	2022	2023	2024	2025	2026
Primary Balance Shock						
Real GDP growth	5.4	3.1	1.8	1.4	1.3	1.3
Inflation	2.2	2.1	1.8	1.8	1.8	1.7
Primary balance	-5.7	-4.5	-3.7	-4.0	-4.1	-4.3
Effective interest rate	1.6	1.3	1.2	1.1	1.1	1.1
Real Interest Rate Shock						
Real GDP growth	5.4	3.1	1.8	1.4	1.3	1.3
Inflation	2.2	2.1	1.8	1.8	1.8	1.7
Primary balance	-5.7	-3.3	-3.7	-4.0	-4.1	-4.3
Effective interest rate	1.6	1.3	1.5	1.7	2.0	2.1
Combined Shock						
Real GDP growth	5.4	2.5	1.1	1.4	1.3	1.3
Inflation	2.2	1.9	1.7	1.8	1.8	1.7
Primary balance	-5.7	-4.5	-4.6	-4.0	-4.1	-4.3
Effective interest rate	1.6	1.3	1.5	1.7	2.0	2.2

	2021	2022	2023	2024	2025	2026
Real GDP Growth Shock						
Real GDP growth	5.4	2.5	1.1	1.4	1.3	1.3
Inflation	2.2	1.9	1.7	1.8	1.8	1.7
Primary balance	-5.7	-3.8	-4.6	-4.0	-4.1	-4.3
Effective interest rate	1.6	1.3	1.1	1.1	1.1	1.1
Real Exchange Rate Shock						
Real GDP growth	5.4	3.1	1.8	1.4	1.3	1.3
Inflation	2.2	2.5	1.8	1.8	1.8	1.7
Primary balance	-5.7	-3.3	-3.7	-4.0	-4.1	-4.3
Effective interest rate	1.6	1.3	1.1	1.1	1.1	1.1

Source: IMF staff.

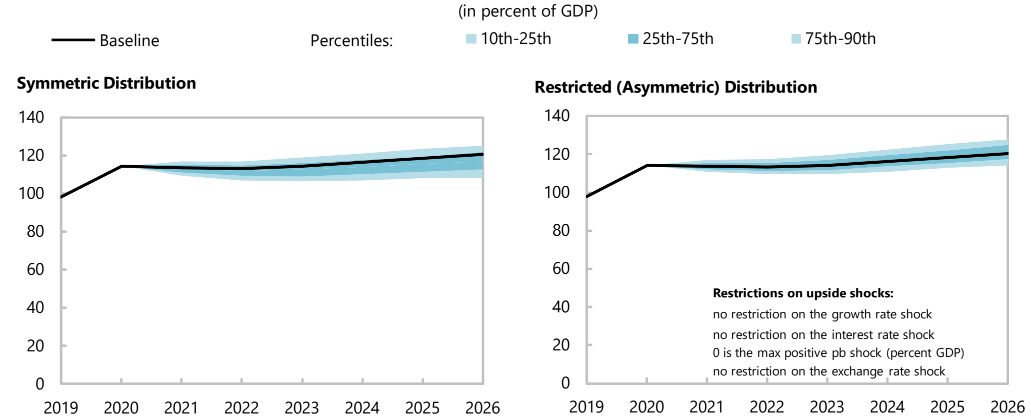
Figure V.5. Belgium: Public DSA—Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

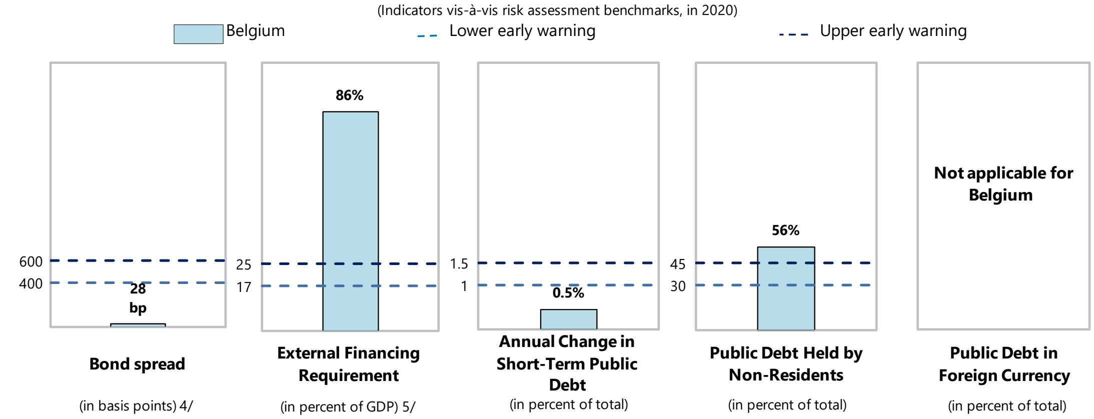
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2020)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 85% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 20% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.

Lower and upper risk-assessment benchmarks are:

400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 07-Feb-21 through 08-May-21.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

INTERNATIONAL MONETARY FUND

BELGIUM

August 20, 2021

STAFF REPORT FOR THE 2021 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS

(As of August 5, 2021)

Membership Status: Joined December 27, 1945; Article VIII.

General Resources Account:

	SDR Million	Percent of Quota
Quota	6,410.70	100.00
IMF's Holdings of Currency (Holdings Rate)	4,923.51	76.80
Reserve Tranche Position	1,487.23	23.20
Lending to the Fund		
New Arrangements to Borrow	109.22	

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	4,323.34	100.00
Holdings	3,892.10	90.03

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 19, 1952	Jun 18, 1957	50.00	50.00

Overdue Obligations and Projected Payments to Fund [1/]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2021	2022	2023	2024	2025
Principal					
Charges/Interest	0.11	0.29	0.29	0.29	0.29
Total	0.11	0.29	0.29	0.29	0.29

[1/] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments: Not applicable

Exchange Rate Arrangements:

- The exchange rate arrangement of the euro area is free floating. Belgium participates in a currency union (EMU) with 18 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. Belgium has accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payment and transfers for current international transactions, except for restrictions maintained solely for security reasons, which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Last Article IV Consultation:

The last Article IV consultation was concluded on March 31, 2020. The Executive Board assessment is available at link and the staff report (IMF Country Report No. 20/91) at link. Belgium is on the standard 12-month consultation cycle.

Capacity Development

Belgium is a major financial supporter of IMF externally-financed capacity development (TA and training), including country-specific and regionwide projects globally as well as IMF's multi partner vehicles (regional and thematic trust funds and capacity development centers). Belgium has also been a financial supporter of other IMF initiatives, including for low-income countries via the Poverty Reduction and Growth Trust and for debt relief.

Financial Sector Assessment Program (FSAP) Participation:

- **Belgium: Financial System Stability Assessment** — IMF Country Report No. 18/67

Summary: The FSAP conducted in late 2017 concluded that the Belgian financial sector has become more resilient as a result of structural changes experienced since the global financial crisis, but is facing growing vulnerabilities, mostly in the form of risky mortgages. Nonetheless, banks and insurance companies remain capable of absorbing credit, sovereign, and market losses in the event of a severe deterioration in macro financial conditions. To contain rising mortgage-related risks, macroprudential policies recently proposed by the NBB should be enacted promptly. Other risks, including banks' capacity to cope with interest rate shocks, credit risk vulnerabilities in selected portfolios, and growing liquidity risk in insurance companies, should be monitored closely.

Financial sector supervision and crisis management arrangements have been upgraded markedly. However, the transition to a full banking union must be carefully managed by national and European authorities given the presence in Belgium of large subsidiaries of euro area banks. Sufficient capital and loss absorbing capacity should be kept in these subsidiaries to ensure the viability of group resolution strategies. The NBB and European authorities should continue ongoing efforts to upgrade their supervisory and crisis management frameworks and operational capacity, including by prioritizing the resolution planning for important banks and strengthening the deposit insurance system. It will also be important to address the challenges posed by complex financial conglomerates, ongoing changes in the risk profile of the insurance sector, and potential challenges arising from the low quality of some insurers' capital.

The oversight arrangement for the Belgium-based Society for Worldwide Interbank Financial Telecommunication (SWIFT) has proven effective but is being challenged by new risks. To strengthen the NBB's ability to exercise its role as overseer and protect Belgium's reputation as a key hub for financial market infrastructures, the authorities should consider complementing the NBB's use of moral suasion with regulatory and supervisory powers and should enhance the NBB's ability to share information with foreign authorities.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT):

Belgium underwent a mutual evaluation of its AML/CFT regime by the Financial Action Task Force (FATF) in 2015. The FATF 2015 report noted that Belgium has the core elements of a sound AML/CFT regime, although some elements are not yet fully in line with the 2012 FATF Recommendations. Following the adoption of the mutual evaluation report, Belgium was placed in enhanced follow-up process. The latest report (third enhanced follow-up) noted Belgium's progress in strengthening its framework to tackle money laundering and terrorist financing since the mutual evaluation. However, efforts need to continue to fully implement the FATF Standard, including Recommendations 13 and 14 on corresponding banking, and money and value transfer services.

STATISTICAL ISSUES

Belgium's economic and financial statistics are adequate for surveillance purposes. The National Bank of Belgium (NBB) regularly publishes a full range of economic and financial data and provides calendar dates of main statistical releases. On-line access to these comprehensive databases is facilitated by the NBB's data search engine, NBB.Stat. Belgium is a SDDS subscriber. Statistics for International Financial Statistics on banking institutions and monetary aggregates are prepared on a monthly basis and are timely.

Belgium adopted the European System of Integrated Economic Accounts 2010 (ESA 2010) in 2014. Revisions of national accounts were released in September 2014 to comply with EUROSTAT requirements to provide national accounts statistics in ESA 2010. Unlike in other countries, the central bank is responsible for compiling national accounts statistics. Quarterly accounts are published within a lag of three months. Both annual and quarterly accounts data are of good quality, with shortcomings mainly related to export and import deflators, which are based on unit values, rather than prices collected directly from exporters and importers.

Belgium compiles and publishes a complete set of general government accounts on an accrual basis (ESA 2010). The NBB publishes annual and quarterly data on general government revenue, expenditure, and net lending/borrowing; transactions in financial assets and liabilities and a financial balance sheet data; and details on the consolidated gross debt.

The overall quality and availability of financial indicators are good. The authorities are providing quarterly updates of financial sector indicators (FSIs) in a timely manner.

Key publicly accessible websites for macroeconomic data and analysis are:

NBB.Stat, http://stat.nbb.be/?lang=en

National Statistics Institute, www.statbel.fgov.be

National Bank of Belgium, www.nbb.be

Federal Planning Bureau, www.plan.be

High Council of Finance, https://www.highcounciloffinance.be

Central Economic Council, www.ccecrb.fgov.be

Belgium: Common Indicators Required for Surveillance

(As of August 2021)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	7/21	8/21	M	M	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	7/21	8/21	M	M	M
International Investment Position	2021:Q1	6/21	Q	Q	Q
Reserve/Base Money	7/21	8/21	M	M	M
Broad Money	7/21	8/21	M	M	M
Central Bank Balance Sheet	7/21	8/21	M	M	M
Consolidated Balance Sheet of the Banking System	7/21	8/21	M	M	M
Interest Rates[2]	7/21	8/21	M	M	M
Consumer Price Index	7/21	8/21	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2020	4/21	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[5]	6/21	7/21	M	M	M
Stock of Central Government Debt	2021:Q1	7/21	Q	Q	Q
External Current Account Balance	03/21	6/21	M	M	M
Exports and Imports of Goods and Services	03/21	6/21	M	M	M
GDP/GNP	2021:Q2	7/21	Q	Q	Q
Gross External Debt	2021:Q1	6/21	Q	Q	Q

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, and rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds), and state and local governments.
[5] This information is provided on a budget-accounting basis (not on a national accounts basis).
[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA)

Statement by Mr. Luc Dresse, Alternate Executive Director and Mr. Dries Cools, Advisor to the Executive Director on Belgium
September 8, 2021

The authorities warmly thank Mr. Horton and his team for the outstanding and detailed report and the in-depth interactions, including on the areas covered in the Selected Issues Paper. They agree with the thrust of the analysis and will duly consider the report's recommendations. They look forward to continued interaction on the policy recommendations.

Recovery

As staff notes, Belgium's fiscal and financial Covid response has been swift and effective. So has its vaccination campaign. As of August 30, 70.3% of the total population had been fully vaccinated. These vaccination levels have allowed the government to end most of the remaining containment measures and to reopen the economy. That said, the rising share of Delta cases among new infections warrants continued close monitoring.

Supported by sound economic fundamentals, effective support measures for households and businesses, as well as the ECB's monetary policy, the Belgian economy has rebounded more quickly than expected. In 2021 Q2, the economy grew 1.4% quarter on quarter. The pre-crisis GDP level is expected to be reached by the end of this year.

According to the National Bank of Belgium, business investment has largely made up its 2020 losses, but will continue to support growth as its underlying fundamentals remain favorable. Business confidence is at a historic high in all branches of industry. Household confidence indicator levels largely exceed pre-pandemic levels. As staff notes, the labor market has weathered the crisis well. Unemployment rate was at 5.4% in 2019, at 5.6% in 2020, and the National Bank expects the unemployment rate in 2021 to be at 5.8% in 2021 and 6.0% in 2022. Pre-crisis labor shortages have re-emerged for specific segments.

Belgium has managed to keep the level of inequality stable and low for decades. Its automatic stabilizers were effective throughout the health crisis, which Belgium will likely exit without a significant rise in inequality. To address poverty in specific groups, which might have worsened during the crisis, the Federal government approved an extensive poverty plan in July.

Economic Transition

Whereas the Federal and regional governments had first focused on containing the Covid crisis, they have now squarely shifted to investment and the reform needs for the green and digital transition. In line with staff recommendations, the authorities are committed to maintaining only targeted support measures for specifically affected sectors. As staff writes in the Selected Issues Paper, public support has mitigated liquidity and solvency pressures. Specific (quasi-) equity support schemes leveraging private sector resources are being rolled out for the hardest hit sectors. The authorities are grateful for staff's outreach to the federal and regional investment companies, for the advice on optimal equity support design, as well as for the recommendations to build on recent reforms of the restructuring and insolvency framework.

Belgium's Recovery and Resilience Plan ('RRP') worth €5.9 bn (1.3% of 2020 GDP) was one of the first European RRPs to be approved by the Council of the EU on July 13, 2021. The plan was drafted with close cooperation between the Federal government and the regional governments. It addresses the European country-specific recommendations for Belgium. 50% of the plan's funds are allocated to the green economy and 27% is set aside for digitalization, far exceeding the European minimum requirements. More broadly, the Federal and regional governments are committed to boosting public investment to 3.5% of GDP by 2025 and to 4% of GDP by 2030, after decades of under-investment.

Belgium's RRP contains a road map for ambitious structural reforms, including binding targets. Comprehensive reform proposals are under preparation. A comprehensive pension reform, further building on the previous pension reforms, will be discussed by the Council of Ministers in the coming weeks. The Global Tax Reform is currently under preparation and will lead to proposals next year.

Reforms in a consensus-driven federal country can only be successful if the social and political climate is supportive. As proven by the Covid-handling this year and by the successful federal concertation for the RRP, Belgium's federalism has led to productive outcomes. Social partners also reached a national wage bargaining agreement, effectively keeping wage developments within the boundaries of the 1996 Wage Law. A well-functioning federalism and constructive social concertation are key ingredients for in depth reforms to reach consensus.

Recent Developments

In July of this year, climate change exacted its toll in Belgium and in neighboring countries. Heavy floods left 36 people dead, thousands of people homeless, and entire communities devastated. Reconstruction will take years. The government of Wallonia, the hardest hit region, has budgeted 2 billion EUR for reconstruction, but the final costs are likely to exceed this amount. Parts of planned investments will be rechanneled for reconstruction of the affected areas.

Public Finances

In line with staff recommendation, the authorities are committed to a return to sustainable public finances, as Belgium did in the 1990s, as well as after the GFC. The timing and intensity of the consolidation path should take possible further targeted support into account, as well as structural needs. The coalition agreement envisages an annual structural improvement contingent on the size of the output gap. Increasing the employment rate through pension and labor market reforms (below) will be the cornerstone to stem the cost of aging, to create space for investments in the green and digital transition, and to improve Belgium's public finances. In terms of expenditure management, the authorities are increasingly making use of spending reviews. The High Council of Finance is working on the elaboration of spending reviews and an expenditure rule for the Federal government. An in-depth federal health care spending review is also underway. The Flemish government, from its side, has recently announced it will introduce spending reviews as a standard instrument in its budgeting procedures, together with an expenditure rule. Finally, the Belgian Debt Agency is proactively managing Belgian debt. Average debt maturities are now the second-longest in the Euro Area, mitigating the budgetary impact of any increase in interest rates.

Pension Reform and Labor Market

The Pension Reform will be taken up by the Council of Ministers in the coming weeks. Staff notes that parametric reforms are not under consideration. To this we should add that the 2013 pension reform is already gradually raising the legal retirement age until it reaches 67 by 2030. Age and career length requirements for early retirement have also been repeatedly increased over the last 10 years.

Belgium has considerable room to further increase its labor force participation rate, as it successfully did prior to the Covid crisis. The Federal government is committed to lifting the employment rate to 80% by 2030. This will significantly expand the income tax base and the base for social security contributions. To that effect, the Federal government is currently preparing a broad labor market reform in concertation with social partners. This will include measures to curb the increase in long-term illness.

The authorities support staff's advice to strengthen job reallocation. It should be noted that the regional employment agencies have developed effective active labor market policies over the years. This includes individual coaching, skills- and language trainings, as well as the exchange of job vacancies between low unemployment and high unemployment regions. As said, previous federal governments have also significantly reduced early retirement schemes. Finally, the RRP sets aside 450 million EUR to improve and expand training aimed at the integration of vulnerable groups, including people with a migrant background, the low-skilled, and people with disabilities; and to improve access to the labor market for young people and job seekers. This is key to address the re-emerging skills shortage and to continue increasing the labor force participation rate.

Financial Sector

The authorities agree with staff's analysis on the financial sector. Belgian banks have withstood the crisis well, as recently demonstrated by the EBA stress test for Belgian significant credit institutions. NPL levels have not increased during the financial crisis, and the end of moratoria and guarantees in the banking sector is expected to be manageable in terms of impacts on NPL levels. Staff point to the reasons for the relatively low uptake of loan guarantees. The key reason is that broad income support has reduced the need for using the available loan guarantees. In addition, thanks to their strong capital buffers, banks have been able to offer forbearance and debt restructuring solutions to solvent borrowers.

The authorities also subscribe to staff's advice to keep sufficient levels of financial buffers at subsidiary level, especially as long as a further completion of the banking union remains to be achieved. The National Bank continues to closely monitor developments in the residential and commercial real estate market. It has made extensive use of its macroprudential toolkit in the residential real estate sector, through capital add-ons and prudential expectations, and stands ready to continue doing so as needed. The authorities have also strengthened their anti-money-laundering framework, including by giving the AML division at the National Bank significant additional personnel resources.

Tax Reform and Tax Compliance

The authorities are deeply grateful to staff for their engagement with the Belgian authorities on both tax reform as well as on tax compliance issues. They look forward to deepening this engagement with FAD in the months to come on the tax reform under preparation. Bringing a tax reform to a good end is a politically difficult matter. External advice from a trusted advisor like the IMF can help to garner consensus for needed reforms.

The authorities share the staff analysis on areas of improvement of the Belgian tax system. Simplification and increased fairness should be the prime goals of the reform. There is significant room to reduce tax expenditures. Broadening the tax base can help bring down personal income tax rates. Reducing the labor tax wedge is indeed a key goal of the reform, as it will help reach the government's target to increase the employment rate to 80%.

The current government has already advanced some parts of the tax reform. In line with Fund advice to increase the share of capital taxation, the authorities have introduced a tax on securities accounts. Second, the in-kind benefits of company cars will only apply to zero emission vehicles from 2026 onwards. Given the large size of the company car fleet in Belgium and its short replacement cycle, this measure is expected to lead to a speedy greening of the Belgian automobile fleet, as well as a significant further reduction in CO2 emissions.

The authorities agree with the thrust of the proposals on tax compliance and look forward to deepening their interaction with staff on these recommendations as well as on their rollout. The Federal government has embarked on an ambitious program to improve tax compliance. On June 10th, a comprehensive annual plan to combat tax and social fraud was agreed upon by the Federal government, identifying a detailed list of 29 actions points. This plan will be updated on an annual basis. A broad effort is currently underway in the Federal Public Service Finance to identify and reduce the VAT gap. The authorities are planning to engage in an RA Tax Gap Analysis in close coordination with staff to address tax gaps in other areas of taxation as well.

Climate

The Federal coalition agreement fully endorses the Green Deal. The Federal government will adapt its 2030 Climate and Energy Plan in line with the Green Deal, in close coordination with the regions. The Federal government is also committed to phasing out nuclear energy, which might temporarily mute the downward trend of CO2 emissions. The commitment by the Federal and regional governments towards the green transition is also evident in the Recovery and Resilience Plan. As noted, according to the European Commission's analysis, the RRP's contribution to the green transition amounts to 50% of its total allocation of €5.9 bn, far exceeding the 37% required by the RRF Regulation.

Furthermore, the abovementioned greening of the fiscal company car regime will lead to a significant CO2 reduction. Finally, the authorities have taken good note of the recommendations for increased carbon taxation. Given the broader distributional implications, this issue will be addressed in the Global Tax Reform under preparation.

Going Forward

The authorities look forward to deeper engagement on tax issues and on climate issues. Considering the spirit of the Comprehensive Surveillance Review, they would also invite staff to cover data on inequality in the next iteration of the Article IV Report.

With that, the authorities warmly thank staff for what has been a successful virtual Article IV. They look forward to hosting Mr. Horton and the team in Brussels in due time.