INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/386

BELGIUM

December 2023

2023 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 2023 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 December 6, 2023, 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 December 6, 2023, following discussions that ended on October 24, 2023, 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 November 17, 2023.
- 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.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR23/429

IMF Executive Board Concludes 2023 Article IV Consultation with Belgium

FOR IMMEDIATE RELEASE

WASHINGTON, DC – December 8, 2023: *On December 6, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV Consultation with Belgium.*[1]

Though resilient to shocks, the Belgium economy and financial sector face significant cyclical and structural challenges and risks to the outlook. Owing to a strong and timely policy response, the economy resisted the covid and energy crises. Still, growth is slowing, core inflation remains high, and the pandemic and energy crisis increased already-high public debt and structural fiscal deficits. An aging population and the climate transition are putting pressure on public finances while low productivity and labor participation are dampening potential growth. Risks related to geopolitical fragmentation, global financing conditions, and the domestic political cycle could worsen the outlook.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They commended the Belgian authorities' strong and timely policy responses, which helped the economy and financial sector withstand a series of shocks in the past three years. Noting cyclical and structural challenges ahead as well as risks to the outlook, Directors encouraged the authorities to undertake fiscal consolidation while simultaneously implementing structural reforms to increase potential growth.

Directors stressed that an expenditure-led, sustained fiscal consolidation is needed to reduce debt vulnerabilities, restore buffers to absorb future shocks, support disinflation, and ultimately ensure the sustainability of the social model. In this context, many Directors encouraged the authorities to consider a frontloaded adjustment. Directors agreed that the fiscal consolidation should primarily focus on rationalizing spending and increasing its efficiency at all levels of government, while preserving high-return public investment to boost potential growth.

Directors emphasized that fiscal reforms are key to sustaining the consolidation efforts. They agreed that tax reforms should proceed to help improve labor force participation and make the tax system fairer, while efforts to further strengthen tax administration will help improve tax collections. Given population aging, Directors called for further reforms to ensure pension sustainability and achieve efficiency gains in healthcare. They underscored that fiscal

[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.

[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.

management would benefit from enhanced coordination among federal entities, within a consistent consolidation plan and strict spending limits applied at all levels of government.

Directors welcomed the findings of the Financial System Stability Assessment that the financial sector remains resilient. Noting rising systemic risks from cooling real estate markets, higher interest rates, and weaker economic activity, they recommended that financial policies continue to focus on preserving resilience and building up buffers to absorb losses when needed. In this context, Directors welcomed the recent macroprudential policy tightening. They underscored that the well-developed financial policy framework could be buttressed more by further strengthening supervision, crisis management and resolution preparedness, the macroprudential framework, and systemic risk assessment.

Directors stressed that continuing structural reforms is critical for lifting productivity and potential growth, advancing the green transition, and improving competitiveness. They noted the need to continue reforms in tax policy, social benefits, and the labor market— including to increase its flexibility, address disincentives to work, and promote greater inclusion in employment. Reducing skill mismatches would also help. Directors encouraged deeper product-market reforms to help raise productivity. They underscored that efforts to advance the green transition should be accelerated in a coordinated manner among federal entities.

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, 2022-24

	2022	2023	2024
		Projections	
Real economy			
Real GDP	3.0	1.4	1.0
Domestic demand	2.9	2.4	1.3
Foreign balance[1/]	0.1	-0.9	-0.3
Exports, goods and services	4.9	-0.2	1.5
Imports, goods and services	4.9	0.8	1.9
Potential output growth	1.8	1.8	1.5
Output gap (in percent)	1.2	0.8	0.3
Employment			
Unemployment rate (in percent)	5.6	5.6	5.6
Employment growth	2.0	1.0	0.6
Prices			
Consumer prices	10.3	2.5	4.4
GDP deflator	5.9	3.8	3.3
Public finance			
Revenue	49.6	50.5	51.3
Expenditure	53.2	55.0	55.7
General government balance	-3.5	-4.5	-4.4
Structural balance	-4.1	-4.6	-4.4
Primary balance	-2.0	-2.7	-2.4
General government debt	104.3	105.5	104.7
Balance of payments			
Goods and services balance	-1.6	-1.4	-0.9
Current account	-1.0	-0.9	-0.3
Exchange rates			
Euro per U.S. dollar, period average	0.9	…	…
NEER, ULC-styled (2005=100)	96.3	…	…
REER, ULC-based (2005=100)	98.7	…	…
Memorandum items			
Nominal GDP (in billions of euros)	554.0	583.7	609.1
Population (in millions)	11.6	11.7	11.7

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

1/ Contribution to GDP growth.

INTERNATIONAL MONETARY FUND

BELGIUM

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

November 17, 2023

KEY ISSUES

Context: Supported by strong and timely policy response, the Belgium economy and its financial sector showed resilience in withstanding a series of shocks in the past three years. Still, as in most euro area countries, growth is slowing, and core inflation remains high. Furthermore, the pandemic and energy crisis increased already-high public debt and structural fiscal deficits. Meanwhile, an aging population and the climate transition are putting pressure on public finances while low productivity and labor participation are dampening potential growth.

Outlook and risks: Growth is expected to decelerate further in 2024, before returning to potential. Private consumption will normalize, as momentum from wage and social benefit indexation, lower energy prices, and post-pandemic pent-up demand ebbs. Headline inflation is projected to drop in 2023 and return to 4.4 percent in 2024, mostly due to fading effects from energy price support measures. With unchanged policies, the fiscal deficit will remain elevated over the medium term, at around 5½ percent of GDP, and public debt will continue rising. Amid considerable uncertainty, key risks include deeper geoeconomic fragmentation dampening activity and rekindling inflation, and a protracted government formation after the June 2024 elections that could further slow reforms, increase risk premia, and worsen debt dynamics.

Policy Recommendations:

- **Sustained and, ideally, front-loaded fiscal consolidation** is needed to support disinflation, restore buffers, reduce debt, and preserve Belgium's redistributive and solidarity-focused social model. The consolidation needs to be buttressed by a rationalization and greater efficiency of spending at all levels of government, and significant reforms in tax policy, pensions, and healthcare.
- **Recent macroprudential policy tightening** to guard against rising systemic risks is welcome. Strengthening supervision, crisis management and resolution preparedness, the macroprudential framework, and systemic risk assessment will further insulate the economy from macro-financial shocks.
- **Structural reforms in labor and product markets and further progress in green transition** are key to boost potential growth, mitigate the impact of fiscal consolidation, and address medium-term challenges.

Approved by:
Mark Horton (EUR) and Peter Dohlman (SPR)

Discussions took place in Brussels during October 11-24, 2023. The team comprised Jean-François Dauphin (head), Yu Ching Wong, André Geis and Jean-Jacques Hallaert (all EUR). Padamja Khandelwal (MCM), FSAP mission chief, joined the concluding meetings. Xun Li and Caroline Leroy assisted from IMF HQ. Luc Dresse and Stijn Verhelst (OED) participated in the mission. The team met with Prime Minister De Croo, National Bank of Belgium (NBB) Governor Wunsch, Deputy Prime Minister (DPM) Van Peteghem (Finance), DPM Clarinval (Self-Employed, SMEs and Agriculture, Institutional Reforms and Democratic Renewal), and State Secretaries Bertrand (Budget), and Dermine (Economic Recovery and Strategic Investments). The mission also met with finance minister of Flanders Diependaele, other senior officials from the federal and regional governments, and representatives of the private sector, academia, and labor unions.

CONTENTS

FIGURES

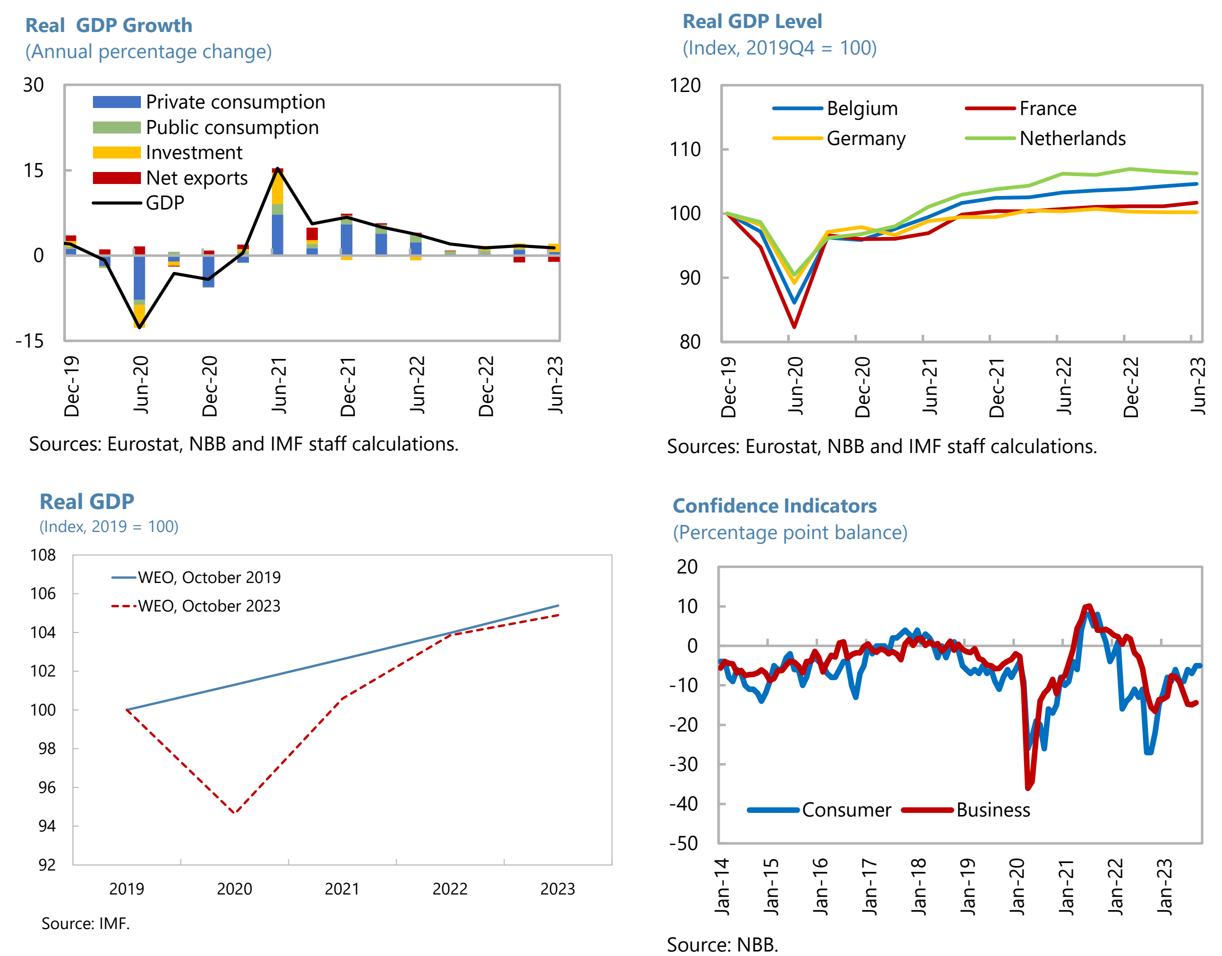
TABLES

ANNEXES

CONTEXT AND RECENT DEVELOPMENTS

1. **Policy support helped the economy through the energy price shock, but activity has been slowing.** Growth was robust in 2022, at 3.0 percent, benefitting from strong and timely policies cushioning energy price pressures on households and firms, and measures to enhance energy security. Amid historically high inflation, rapidly tightening financial conditions, waning confidence, and elevated uncertainty, consumer purchasing power continued to be sustained by near-universal wage and social benefit indexation and a robust labor market, while pandemic-related factors provided additional support, including household excess savings and the dissipation of supply-chain constraints. As these factors gradually dissipated, growth decelerated in 2023H1, reaching 0.4 and 0.3 percent q/q in 2023Q1 and Q2, respectively, before rebounding to 0.5 percent q/q in Q3.

Economic Developments



Sources: Eurostat, NBB and IMF staff calculations.

Sources: Eurostat, NBB and IMF staff calculations.

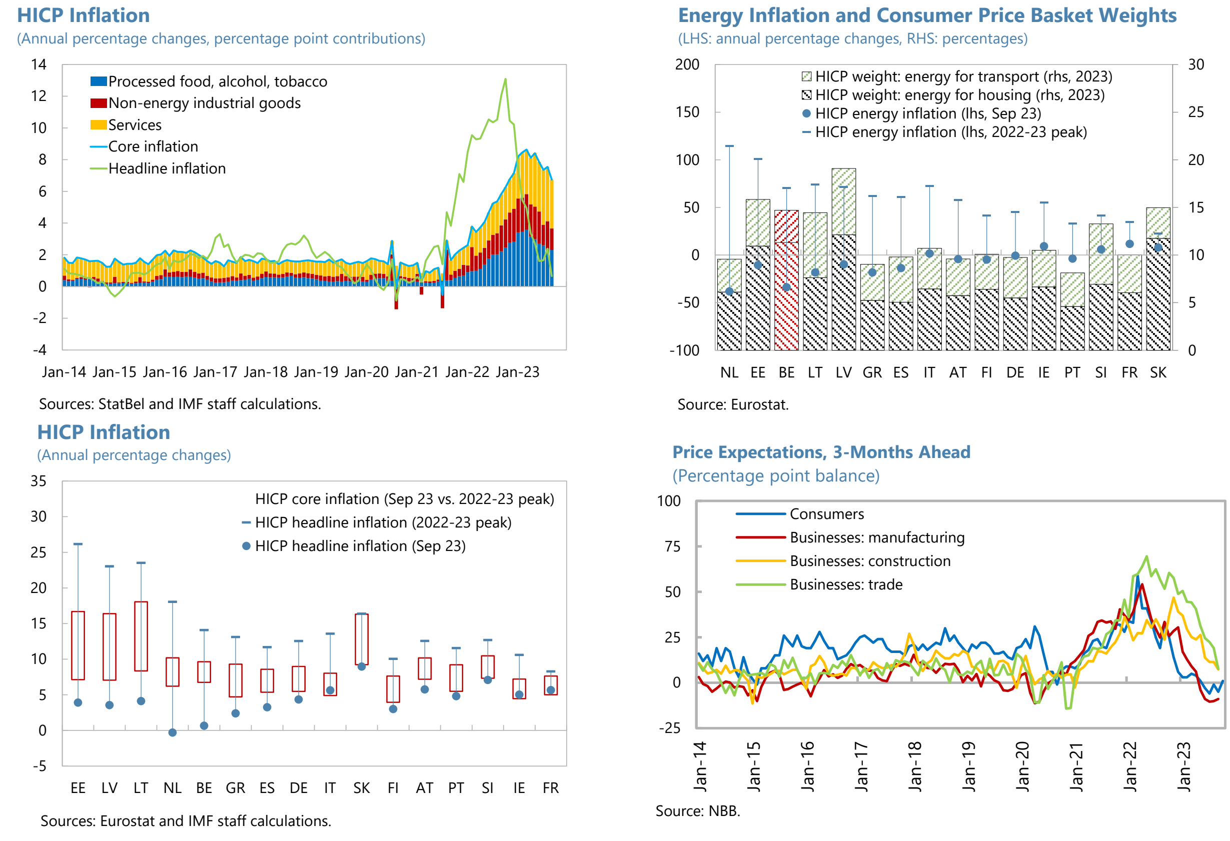
Source: IMF.

Source: NBB.

2. **Headline inflation has fallen sharply but core inflation remains high**. After a peak of 13.1 percent y/y in October 2022, declining energy prices led to a drop in headline inflation to -1.7 percent y/y in October 2023. Core inflation, however, has moderated only slowly, from a peak of 8.6 percent y/y in March 2023 to 6.7 percent y/y in September 2023, sustained by resilient household spending and the pass-through of cost pressures by firms. Support measures by the government

have kept energy prices in check but boosted demand. Looking ahead, price expectations by consumers and businesses have come down and corporate profit margins have started to contract, limiting the risk of a wage-price spiral (Figure 1).

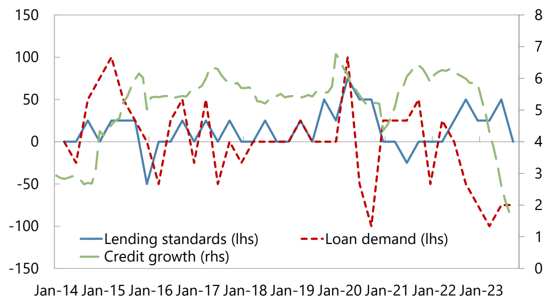
Inflation Developments and Price Expectations



3. Tighter financial conditions and a weaker economic outlook have constrained credit demand. Higher mortgage rates and stricter lending standards have slowed household credit growth to 2.7 percent y/y in August 2023, down from 5-7 percent in recent years. Corporate credit growth slowed to 3.6 percent y/y with waning demand, yet remains near its pre-pandemic range, as higher borrowing costs have not been accompanied by a noteworthy tightening of lending standards. Despite a substantially worsening financing environment, firms' funding situation appears comfortable, bolstered by liquidity cushions and pre-existing credit lines at still favorable terms.

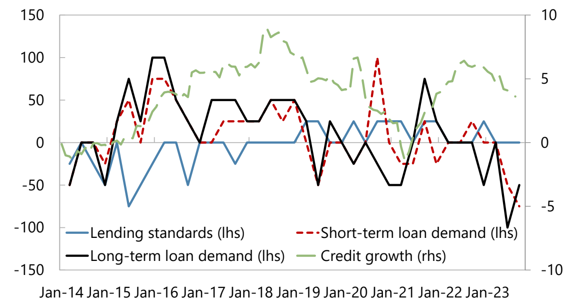
Credit Developments

Mortgage Credit, Lending Standards and Loan Demand
(LHS: net percentage balance w/r to 3m; RHS: percent)



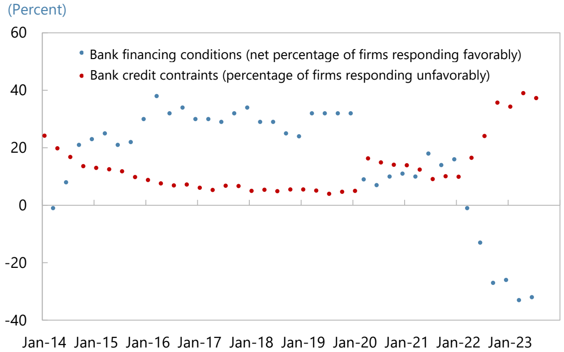
Source: NBB.
Note: a negative net balance indicates a loosening of lending standards and lower loan demand.

NFC Credit, Lending Standards and Loan Demand
(LHS: net percentage balance w/r to 3m; RHS: percent)



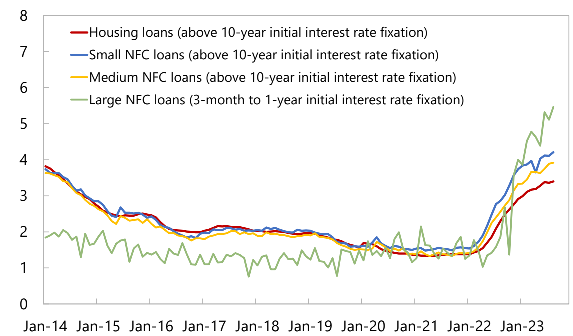
Source: NBB.
Note: a negative net balance indicates a loosening of lending standards and lower loan demand.

NFC Financing Conditions and Credit Constraints
(Percent)



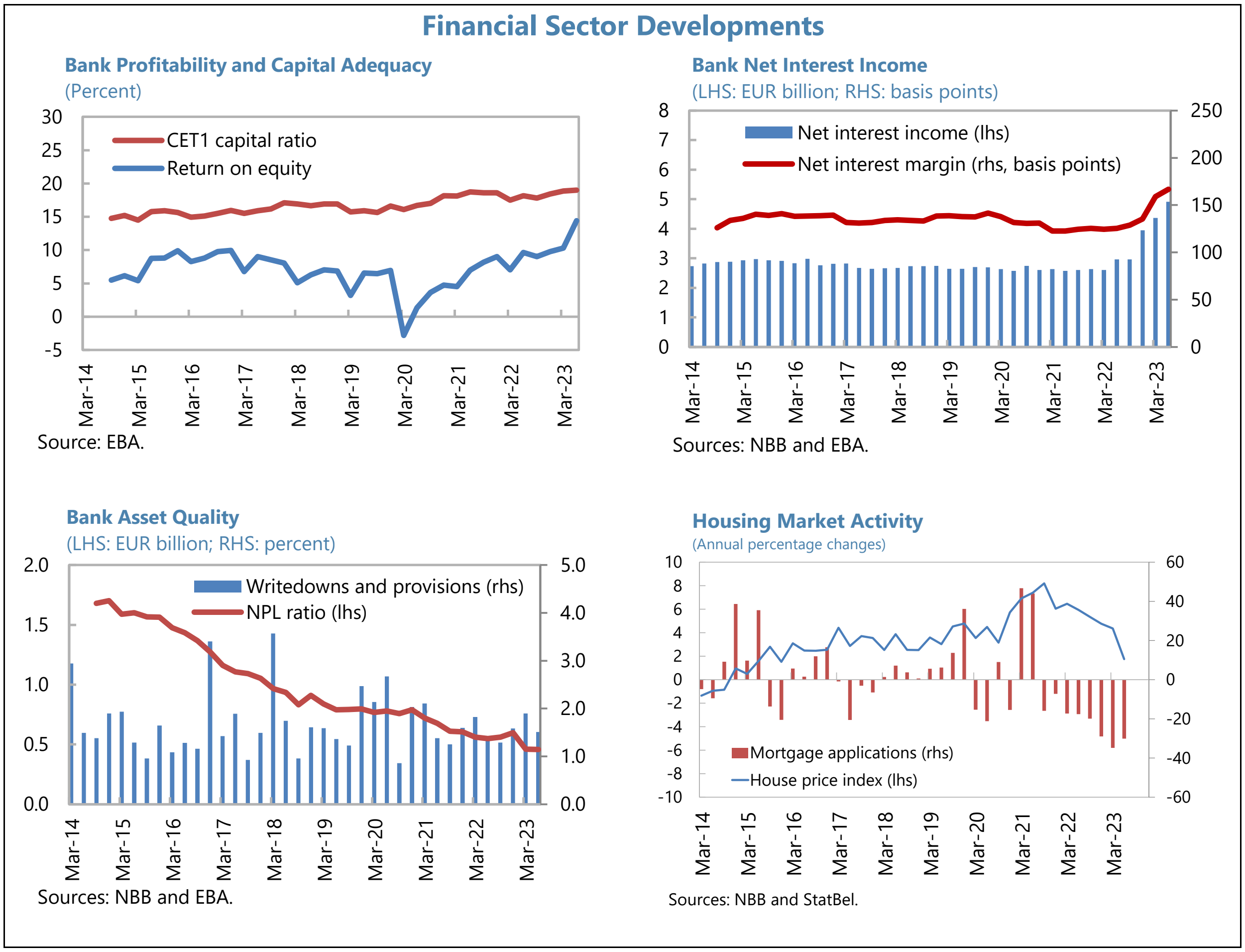
Source: NBB.

Interest Rates for New Loan Origination
(Percent)



Source: NBB.

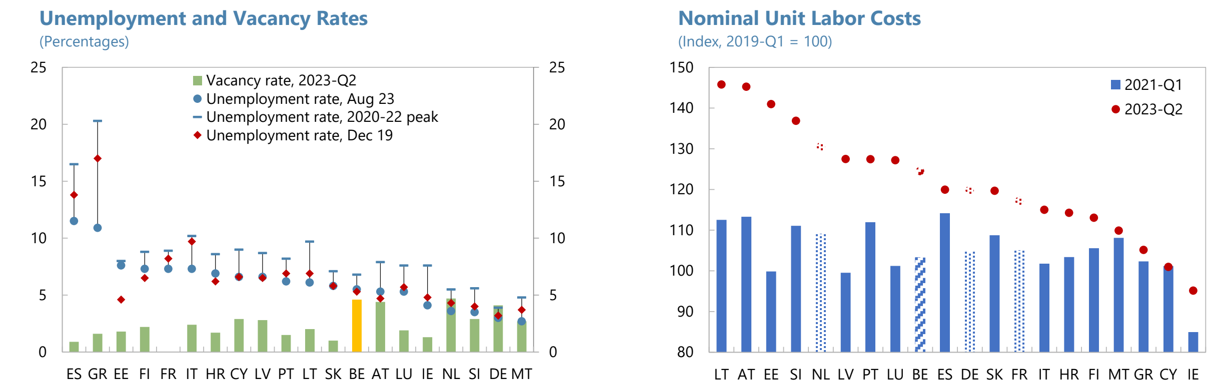
4. The financial sector has been resilient through a series of shocks. Bank profitability and capital adequacy have increased since the pandemic. Despite weaker activity and rising risks, provisioning has remained limited. The repricing of assets outpaced that of deposits, boosting net interest income. To incentivize banks to improve depositor remuneration, the government launched a one-year bond in August 2023 offering a net yield slightly above prevailing saving rates and favorable taxation. It raised €22 billion, largely originating from the about €300 billion in household saving accounts. Despite deposit outflows and repayments of ECB liquidity, banks' liquidity buffers remain well above regulatory thresholds. Bank failures abroad had limited impact. The insurance sector is profitable and solvent. Investment funds also show a comfortable degree of resilience. The real estate cycle has turned orderly, moderating somewhat-elevated valuations but increasing risks from sizeable financial sector exposures (Figure 2).



5. Labor markets are tight, and labor-cost competitiveness has deteriorated. Unemployment has returned close to historic lows. Vacancy rates have remained among the highest in the euro area. Employment has risen notably, helped by increasing labor force participation. Yet, structural rigidities, including insufficient net income gains to incentivize employment, skill mismatches and low interregional mobility, have limited a stronger expansion. As indexation ensured a rapid transmission of inflation to wages and productivity growth stayed sluggish, nominal unit labor costs soared. Accelerating wage growth in key export markets (France, Germany, the Netherlands) has started to narrow the hourly nominal wage gap, yet it remains notably above its pre-energy price shock level.

6. The external position in 2022 was weaker than implied by medium-term fundamentals and desirable policies (Annex I). The current account (CA) deteriorated to a deficit of 1.0 percent of GDP in 2022, reflecting elevated fiscal deficits, loss of wage competitiveness, high fuel imports, and lower COVID vaccine exports. So far in 2023, exports growth declined more than imports reflecting weaker external demand, while energy imports eased with lower prices. The CA deficit was 0.3 percent of GDP in 2023H1 (Figure 3).

Labor Market Developments

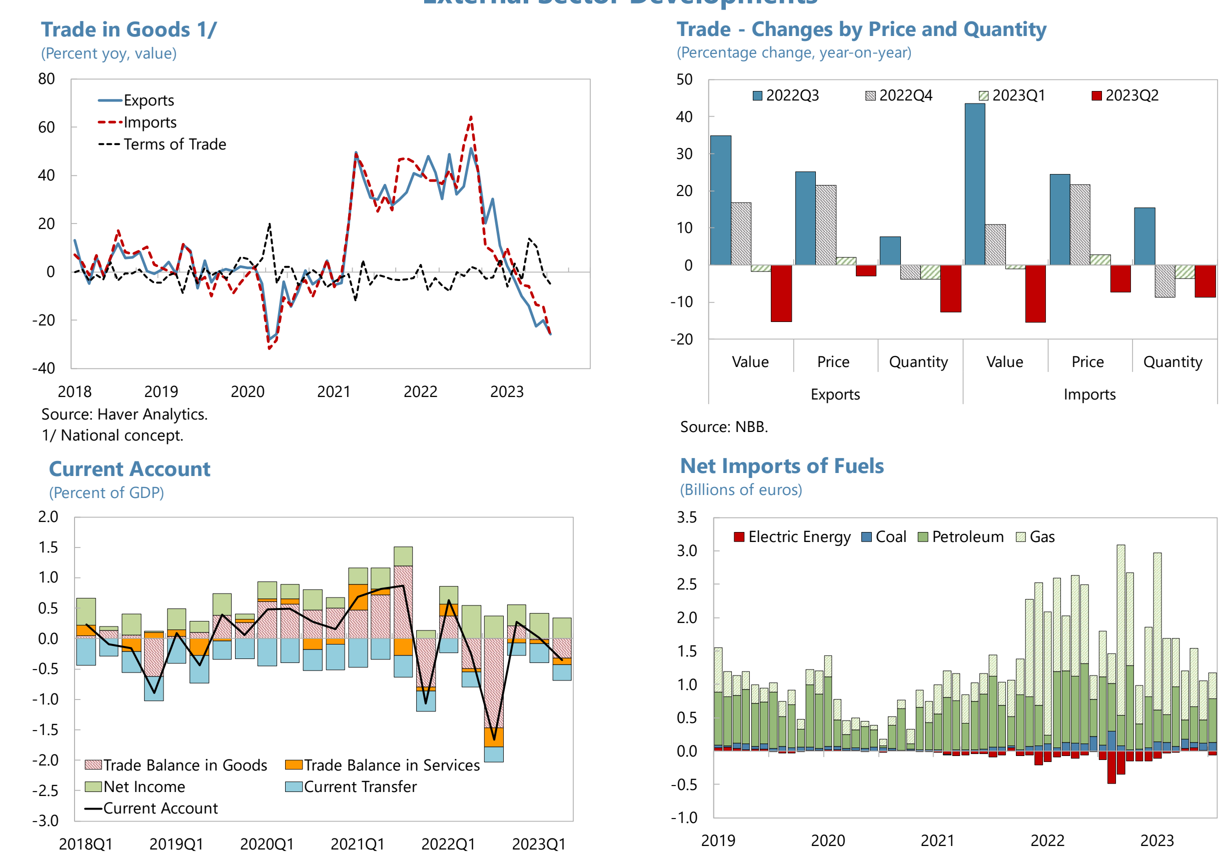


Source: Eurostat.

Sources: Eurostat and IMF staff calculations.

7. The fiscal deficit is expected to widen in 2023. Some measures taken during the pandemic and the energy crisis are being unwound. However, the general government deficit is likely to rise to 4.5 percent of GDP in 2023 from 3.5 percent in 2022, mainly due to higher interest costs and rising permanent current expenditure. The latter mostly reflects the effect of higher inflation on wages and social benefits due to indexation, and higher outlays due to the aging population (Figure 4).

External Sector Developments



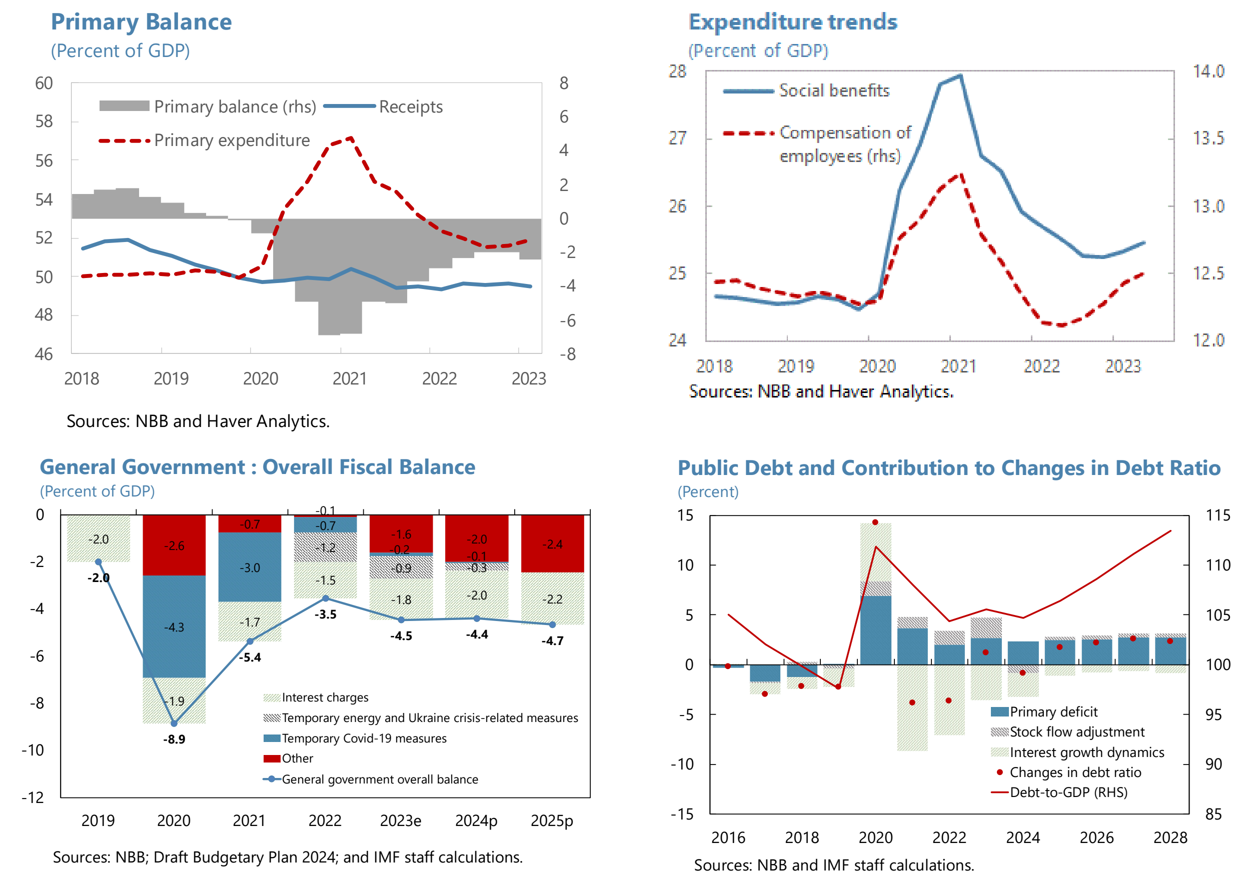
Source: Haver Analytics.
1/ National concept.

Source: NBB.

Sources: Haver Analytics and IMF staff calculation.

Sources: Haver Analytics and IMF staff calculations.

Fiscal Developments



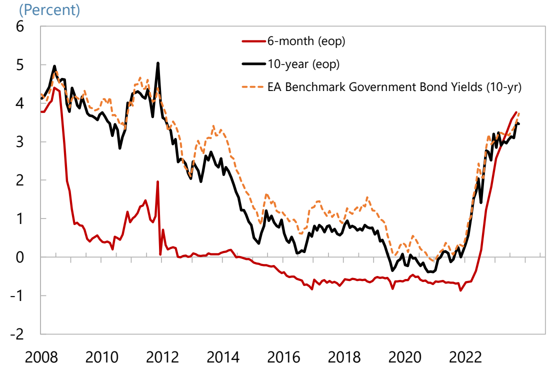
8. Public debt is well above pre-pandemic levels and rising. In 2021-22, despite the elevated deficit, strong growth and high inflation helped ease the debt ratio by 7.5 ppts of GDP to 104 percent of GDP. However, a wider deficit and slowing nominal growth are expected to increase it again from 2023. With financial tightening, government bond yields returned to levels prevailing before the ECB's launch of public-sector bond-purchase programs in 2014, although spreads have remained contained. The recently-issued one-year state bond met about one-quarter of 2023 gross financing needs. Belgium's overall risk of sovereign stress is assessed as moderate, hinging on sustaining fiscal adjustments over the medium term under the EU economic governance framework and owing to the high quality of debt management. The latter is evidenced by the debt stock refinancing at low interest rates in 2017-21 and the longest average residual maturity among euro area peers.

9. Belgium faces an increasingly fractious political environment ahead of June 2024 elections. The seven-party coalition government (liberals, greens, socialists, Christian Democrats) was formed in October 2020, after 16-month negotiations, impacted by the pandemic. The pandemic and the energy price shock have kept the government largely focused on crisis management while differences on fiscal, labor-market, pension, and structural policies within the coalition have limited the scope for break-through reforms before next elections (Annex II). Polarized political preferences appear to be gaining ground in Flanders and Wallonia.

Borrowing Costs and Public Debt Management

Interest Rates

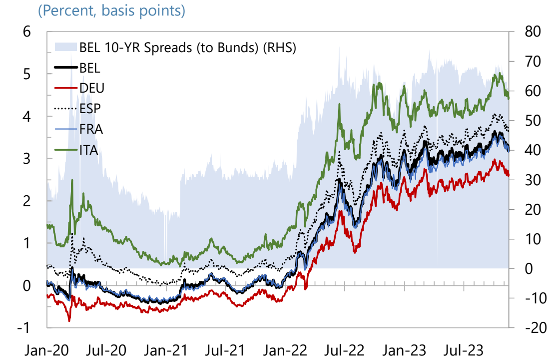
(Percent)



Source: Haver Analytics.

Government Bond Yields and Spread

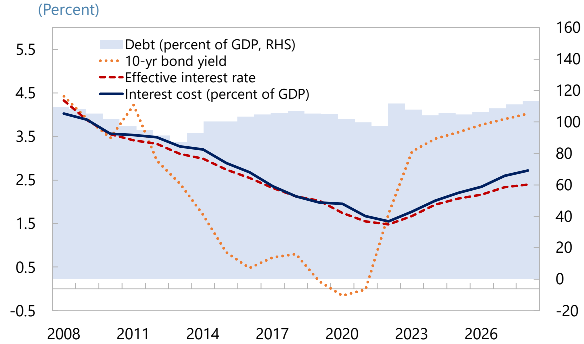
(Percent, basis points)



Sources: Haver Analytics and IMF staff calculations.

Interest Burden

(Percent)

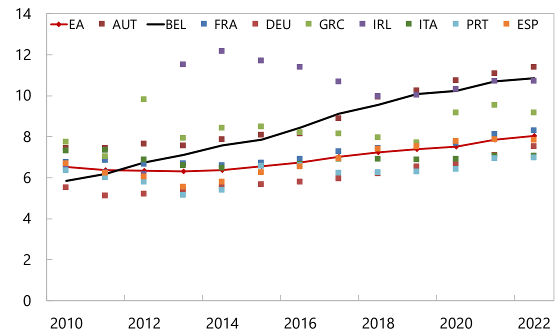


Sources: NBB and IMF staff projections.

1/ 2023 and beyond are projections.

Average Residual Maturity

(Years)



Source: Haver Analytics.

OUTLOOK AND RISKS

10. Growth is expected to decelerate further in 2024 and inflation will pick up again. Private consumption is expected to continue normalizing as momentum from wage indexation, lower energy prices and post-pandemic pent-up demand ebbs further. Despite weak residential construction, private investment will remain robust, reflecting corporate spending on cost-saving and green technologies. Public investment will benefit from pre-election spending. Growth is projected to slow to 1.4 percent in 2023 and 1.0 percent in 2024, before returning to its 1.2-1.3 percent potential rate. Headline inflation is projected to drop to 2.5 percent in 2023 due to sharply lower energy prices, but increase again to 4.4 percent in 2024, mostly due to fading effects from energy price support measures. Under unchanged policies, the fiscal deficit will remain elevated over the medium term, around 5½ percent of GDP, well above its pre-pandemic level (2 percent in 2019). As a result, debt will rise to about 113 percent of GDP in 2028, surpassing the 2019 level by 16 ppts. The external CA deficit is expected to narrow marginally in 2023 from 1.0 percent in 2022, and return to small surpluses in the medium term as energy prices ease, external demand recovers and competitiveness improves.

11. The outlook is subject to considerable uncertainty and risks (Annex III). Escalating geopolitical tensions, coupled with trade and financial flows disruptions, could dampen activity in the highly-open Belgian economy, undermine confidence, and reignite inflationary pressures.[1] In such an environment, monetary and financial conditions may tighten more or for longer than presently expected, challenging financial sector resilience, sapping credit dynamics, and reducing consumption and investment. Heterogeneity across financial intermediaries could further increase vulnerability to confidence effects at times of stress. Conversely, insufficient central bank responses to stem renewed price pressures would increase the risk of a wage-price spiral, especially considering wage indexation. A protracted government formation after the elections would risk delaying the fiscal adjustment and reforms and increase risk premia. The latter—or spillovers from higher global interest rates—would worsen debt dynamics.

Authorities' Views

12. The authorities broadly agreed on outlook and risks. They noted that volatile oil and gas prices and their impact on inflation remain a key concern and saw some risks of higher interest rates and spreads in euro area. They emphasized that automatic wage indexation has helped protect purchasing power in time of stress. They noted that while faster-than-expected wage increase in neighboring economies and the enforcement of wage norm have limited the loss in competitiveness, wage growth has been higher than productivity growth, and wage rigidities impede filling jobs that are in higher demand.

POLICY DISCUSSIONS

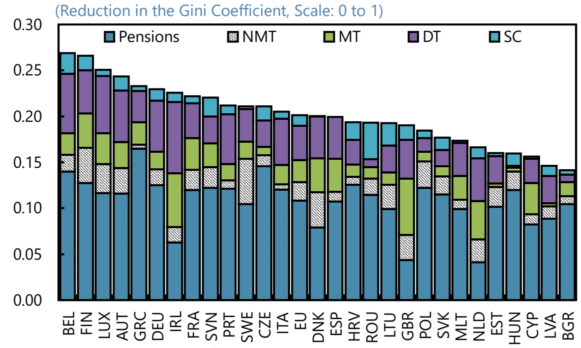
The consultation focused on addressing a confluence of cyclical and structural challenges*. The pandemic and energy crisis left Belgium with higher debt and structural deficits, as an aging population and the energy transition were already putting pressure on public finances. Furthermore, persistently-high core inflation also calls for a tighter fiscal stance to complement monetary tightening while tighter global financial conditions are testing the financial sector. In this context, the consultation focused on achieving sustained fiscal consolidation, measures to buttress the resilience of the financial sector, and structural policies to foster the green transition and increase potential growth—a key ingredient to restoring macro-economic buffers and cushioning the impact of fiscal consolidation.*

A. Advancing Fiscal Consolidation

13. Fiscal consolidation is needed to preserve Belgium's social model, reduce debt, rebuild buffers, and lower inflation.

- *Social model*. Belgium's social contract is characterized by a high level of redistribution and wide-reaching safety nets. It is reflected in high fiscal revenue and expenditure-to-

Fiscal Redistribution by Instrument (2020)
(Reduction in the Gini Coefficient, Scale: 0 to 1)

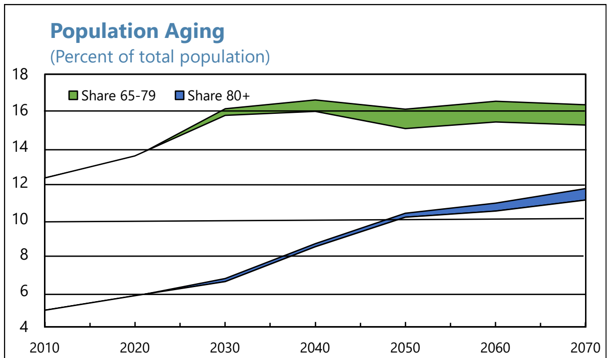


Sources: Euromod; and IMF staff calculations.
Notes: SC = Social Contributions; DT = Direct Taxes; MT = Means-tested social spending; and NMT = Non-means-tested social spending.

[1] Belgium implements EU sanctions, including on Russia.

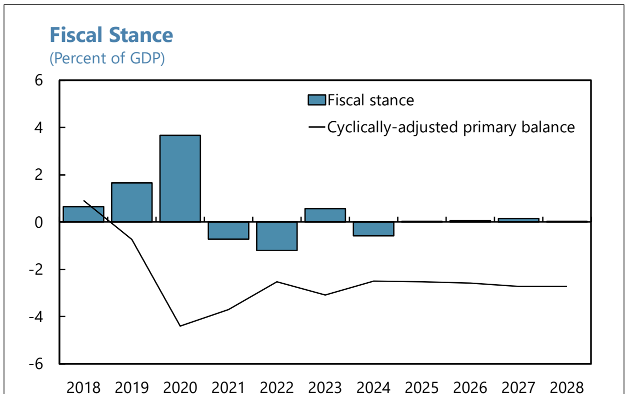
GDP ratios. The model has been successful in reducing inequality. However, the fiscal position is structurally in large deficits and public debt is rising. Meanwhile, an aging population is adding further pressure on social programs. Furthermore, some social benefits disincentivize labor market participation, ultimately lowering potential growth and the scope for redistribution. In this context, sustaining the existing social contract requires reforms to make the model more efficient.

- *Rising debt, eroded buffers, and spending pressures.* The limited fiscal space is constraining Belgium's ability to address future shocks while risks to the outlook abound. To avoid an abrupt adjustment should a risk or a combination of risks materialize, Belgium needs to rebuild the fiscal buffers that the pandemic and energy crisis eroded. At the same time, rising spending pressures from aging (0.3 ppt of GDP per year), defense needs, the green transition and other needed capex investment make fiscal consolidation particularly challenging.



Sources: Eurostat; EC (2021 Ageing Report); FPB (Study Committee on Ageing- Annual Report 2023); and IMF staff calculations.
Note: Shaded areas are differences of share of each age group between 2023 national estimates and 2021 Ageing Report.

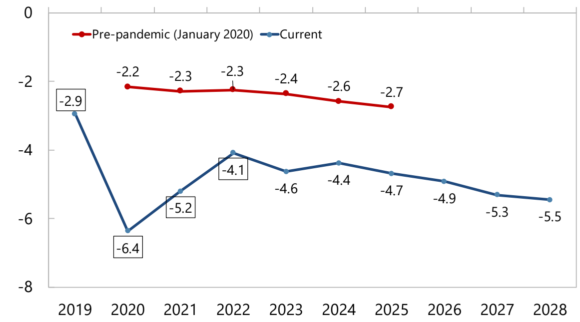
- *Inflation*. With euro area inflation still above target, monetary policy needs to remain tight until core inflation is unambiguously declining. Fiscal consolidation is needed to support monetary policy in moderating demand. It would help reduce the risk that entrenched inflation would force greater tightening, pushing the economy into recession and, ultimately, requiring a new fiscal stimulus in absence of fiscal space. The looser cyclically-adjusted primary balance in 2023 suggests that fiscal policy likely contributed to core inflation. A tighter fiscal stance that would help meet the inflation target at lower policy rates and reduce the risks of higher spreads would also avoid further increases in debt service costs that would crowd out investment and social spending.



Sources: NBB; and IMF staff projections.
Note: fiscal stance - positive indicates expansionary policy.

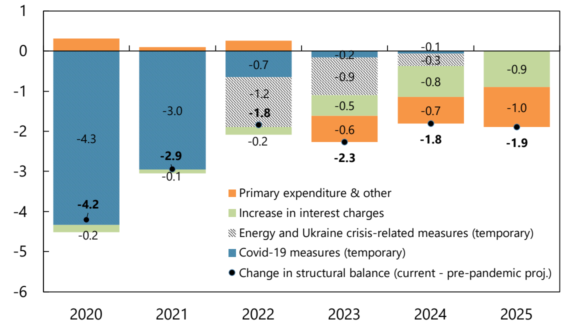
14. The fiscal position has structurally deteriorated since the pandemic and energy crisis. Although most temporary fiscal support measures were terminated, structural deficits in 2024-25 are expected to remain about 2 ppts larger than pre-pandemic projections. Higher growth in social benefits and public wages, mainly reflecting inflation indexation and permanent discretionary measures taken during COVID19 (e.g., increases in public health sector wages) drove an increase in primary current expenditure that is unlikely to be reversed. Higher debt and interest rates raise annual borrowing costs by close to 1 percent of GDP.

Structural Balance: Current vs Pre-pandemic Projection
(Percent of GDP)



Sources: NBB and IMF staff projections.
Note: numbers in square are actual.

Structural Balance: Drivers of Change
(Percent of GDP)



Sources: NBB; Draft Budgetary Plan 2024; and IMF staff calculations.

15. **The 2024 draft budget plan (DBP) will leave the fiscal deficit largely unchanged, in part because regions and communities' budgets do not contribute to the adjustment effort**. The DBP foresees an overall deficit of 4.6 percent of GDP (€27.5 billion) in 2024, 0.4 ppt of GDP higher than the deficit target of 4.2 percent of GDP (€25 billion) committed in the stability program. Staff's projections, based on GDP data that became available after the DBP issuance, foresee an overall deficit in 2024 at 4.4 percent of GDP, a marginal reduction of 0.1 ppt from 2023 resulting in a too-loose fiscal stance. While the federal government's plan adheres to its target under the stability program, the expected aggregated deficit of regional and community governments is 0.4 percent above target, at 1.5 percent of GDP. The slippage is largely due to lower property revenue from the cooler real estate markets and higher spending. At the federal level, the efforts to reduce the deficit through successive rounds of budget adjustments are welcome, but for a large part reflect ad-hoc measures that will not structurally improve the fiscal position.

Overview of Fiscal Positions
(Percent of GDP)

	2023 SP	2024 SP	2023 DBP	2024 DBP	2022	2023 Proj	2024 Proj
General government							
Revenue	51.1	51.2	50.5	51.8	49.6	50.5	51.3
Expenditure	56.2	55.4	55.7	56.4	53.2	55.0	55.7
o/w Interest	1.7	2.0	1.9	2.1	1.5	1.8	2.0
Net Lending(+)/Borrowing (-)	-5.1	-4.2	-5.2	-4.6	-3.5	-4.5	-4.4
Entity I	-3.5	-3.0	-3.5	-2.9	-2.6	...	...
Federal government	-3.4	-3.0	-3.6	-3.0	-2.6	...	...
Social Security Funds	-0.1	0.0	0.1	0.0	0.0	...	...
Entity II	-1.5	-1.2	-1.6	-1.6	-0.9	...	...
Regions and Communities	-1.4	-1.1	-1.5	-1.5	-0.9	...	...
Local government	-0.1	-0.1	-0.1	-0.2	-0.1	...	...
Structural balance	-4.6	-3.8	-4.8	-4.1	-4.1	-4.6	-4.4
Consolidated Gross Debt	106.7	107.1	108.3	108.1	104.3	105.5	104.7

Sources: NBB; Stability Program (SP) 2023-26; Draft Budgetary Plan (DBP) 2024 and IMF staff calculations.

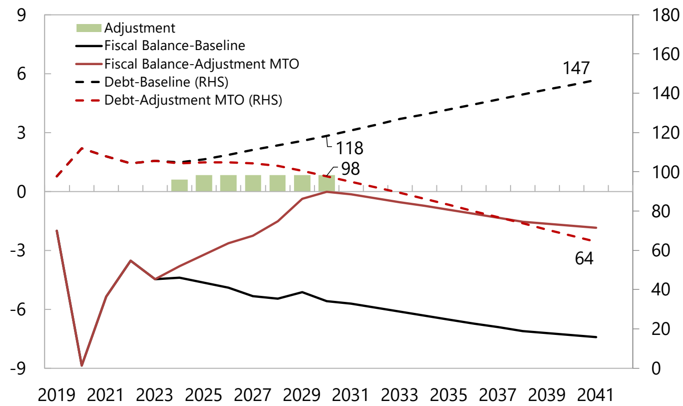
Consolidation Measures Taken in October 2023 for the 2024 Budget
(Million €)

Total	**1200**
Expenditure	406
o/w Under-execution of appropriation	150
Healthcare	100
Expansion of flexi-jobs	71
Revenue	385
o/w Bank contribution	150
Increased compliance and controls	71
Increase tobacco excise duties	50
Miscellaneous	409
Belfius: higher dividend & interim dividend	220
Higher corporate income tax from proceeds of frozen Russian assets	189

Source: Draft Budgetary Plan 2024.

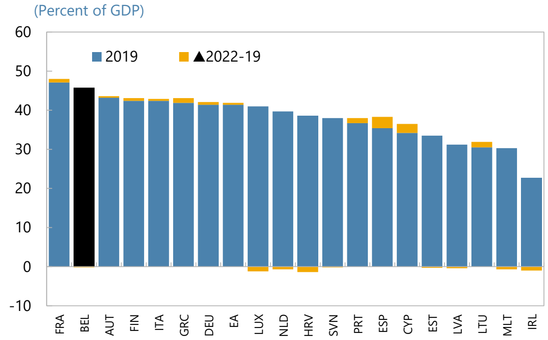
16. Belgium's cyclical and structural challenges call for a significant, sustained and, ideally, frontloaded consolidation. Reducing the fiscal deficit to below 3 percent of GDP in 2026, per the European Commission's March 2023 fiscal policy guidance, would help but seems insufficient. Instead, a fiscal path reaching structural balance by 2030 (Belgium's medium-term objective) would place debt solidly on a downward trajectory. Under such adjustment, a structural primary adjustment (compared to baseline) of 0.6 ppt (or more) in 2024 and 0.8 ppt per year (or more) during 2025-30 would be needed. The cumulative adjustment would amount to 5.6 ppts of GDP, more than offsetting the estimated increase in aging outlays of 4 ppts of GDP (2022-41). The debt-to-GDP ratio would steadily decline towards 60 percent of GDP in early 2040s. This adjustment path would be consistent with the overall fiscal deficit reaching about 4, 3, and 2½ percent of GDP in 2024, 2025 and 2026, respectively (Annex IV and Annex V). Under this scenario, growth would be about 0.2 ppt lower than in the baseline annually, absent structural reforms to increase productivity. Accordingly, accelerating implementation of investment and reforms–including those supported by the NGEU recovery and resilience plan (RRP)–would help.[2] Successful fiscal adjustment will also require commitment to a multi-year consolidation plan that avoids ad hoc year-to-year spending reduction. Ideally, the consolidation would be more frontloaded considering the current need to help reduce high core inflation. Additional savings would be needed to make space for higher investments that boost potential growth.

Fiscal Balance Target and Debt Path
(Percent of GDP)



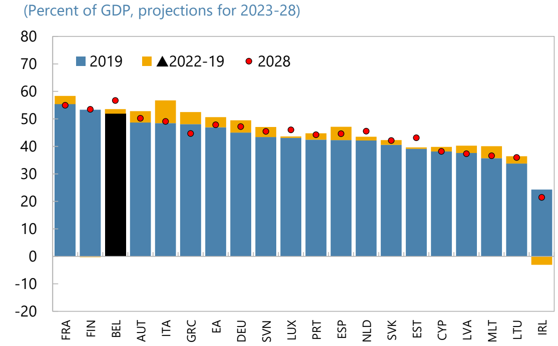
Source: IMF staff calculations.

Revenue from Taxes and Social Contributions
(Percent of GDP)



Source: Eurostat.

Public Expenditure
(Percent of GDP, projections for 2023-28)

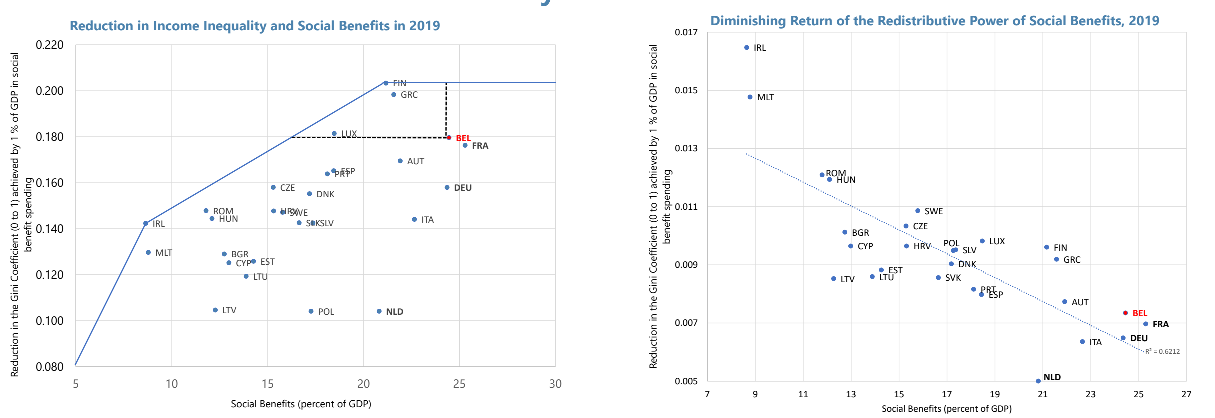


Sources: IMF World Economic Outlook, Oct 2023.

[2] Belgium's first payment request of RRP grants (€847 million) in September 2023 covered 20 milestones and targets, covering investments and reforms in the areas of clean mobility, digitalization, education and skills, social policy and the labor market, and retirements. On November 16, 2023, the EC endorsed Belgium's request to modify several reforms and investments in the RRP (updated to €5.3 billion), to adapt to the grant allocation reduction (from €5.9 billion to €4.5 billion), to request a loan support (€264.2 million), and to add a REPowerEU chapter (€281.7 million and a transfer of funds from the Brexit Adjustment Reserve of €228.9 million). A pre-financing of €770 million was received in August 2021.

17. The fiscal adjustment should primarily focus on rationalizing spending and increasing efficiency, notably in social benefits spending. Given the high level of taxation, room for mobilizing additional tax revenue appears relatively limited, although efficiency-enhancing tax reforms should proceed. Under current policies, Belgium's public spending is expected to top euro area economies in the medium-term from the third highest in 2019. Most of the fiscal consolidation will need to focus on reducing spending and increasing its efficiency, which lags best performers. Spending on social benefits and public wage bill have increased the most compared to pre-pandemic forecast, adding about 3 ppts and 0.6 ppt of GDP, respectively, by 2028. Belgium's social benefits spending was 5.2 ppts of GDP higher than the average of EU advanced economies in 2021, equivalent to one-fifth of current social benefits outlays, while social outcome did not outperform peers.[3] Social benefits and wages therefore appear as areas where saving could be sought, including by reviewing the automatic-indexation mechanisms (where even a temporary pause could also dampen current wage-price spiral pressures). In pursuing the adjustment, it will be important to preserve high-return public investment.

Efficiency of Social Benefits



Sources: Eurostat, Euromod, and IMF staff calculations.

18. Fiscal reforms are key to sustain the consolidation efforts.

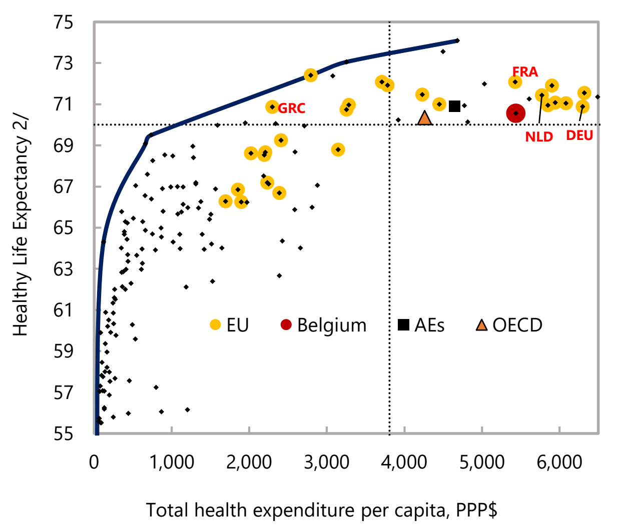
- *Pensions*. While the pension system was already facing rising costs from aging, the increase in minimum pension and the pension bonuses decided in 2020 and 2022, respectively, increased its projected deficit through 2022-70. Offsetting this increase is a key condition for EC NGEU funding. The reform agreement reached in July 2023, with an estimated saving of 0.5 percent of GDP by 2070, would broadly offset the net increase in total cost that resulted from benefit reforms in 2020-22. About 80 percent of this saving will come from limiting the mechanism that allows civil servants' pensions to rise along with the wages of active civil servants (in addition to price indexation) to 0.3 percent of the total pensions of the civil service scheme per year. Other measures include cancelling the increase in minimum pensions planned in phase 4 of the reform; introducing one-off bonuses to disincentivize early retirement; reducing gender pension gap; and raising the special social security contribution from 3 percent to 6 percent for very high

[3] Accompanying Selected Issues Paper on fiscal consolidation in Belgium, how much and by what means?

supplementary pensions. While these steps will be welcome, aging will continue to put pressure on the system over the medium term, calling for further sustainability reforms, including to foster a rise in the effective retirement age (60.9 years for men in 2020, compared to 63.8 years on average in the OECD).[4]

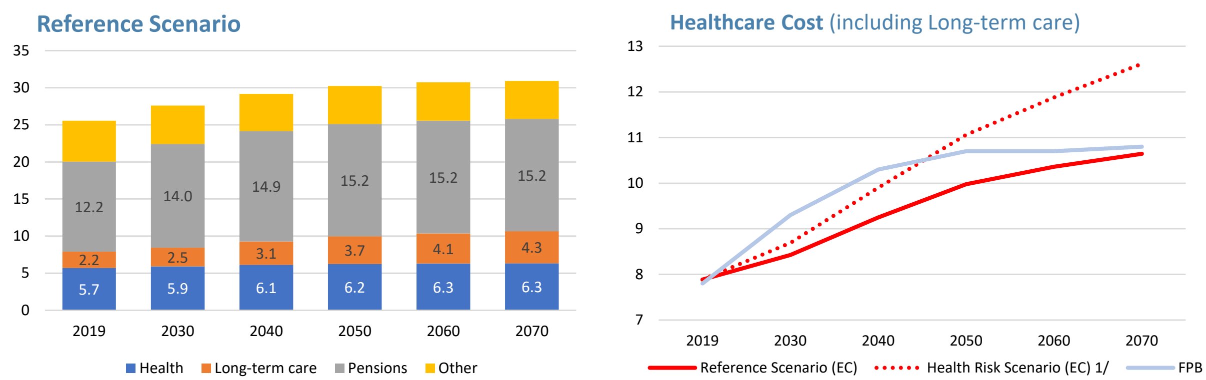
- *Healthcare*. Access to healthcare and health outcomes are comparatively good in Belgium but achieved at a relatively high cost, suggesting large potential efficiency gains. For example, if Belgium's health spending was as efficient as the EU or OECD average, the same healthy life expectancy could be achieved at a 20-30 percent lower cost. Realizing these efficiency gains would require significant reforms, including more emphasis on preventive care, reforming the organization and role of hospitals, and greater use of generic drugs This would free resources that could help absorb part of the projected increase in fiscal spending on health (including long-term care) due to aging.

Health Efficiency Frontier, Latest Value Available 1/



1/ Dashes show EU average.
2/ Healthy life expectancy estimates the number of years expected to be lived in full health.
Sources: IMF, World Bank, and WHO.

Fiscal Cost of Aging
(Percent of GDP)



Sources: EC (2021 Ageing Report) and FPB (Study Committee on Ageing Annual Report 2023).
1/ The health risk scenario captures the impact of non-demographic factors on health and long-term care expenditure. Notably, it assumes a continued increase in healthcare expenditure, in part due to technological progress, and a stronger increase in the cost and coverage of long-term care.

[4] Accompanying Selected Issues Paper on the pension and health cost of aging.

- *Tax policy*. The 2022 tax reform blueprint (which benefitted from FAD's input) aims to modernize and simplify the tax system, while enhancing its fairness and neutrality. The main objective is to reduce tax expenditures and increase the employment rate by reducing the tax burden on labor and addressing work disincentives (via tax rates, brackets, and alignment with social benefits). However, lack of consensus within the coalition stalled efforts to initiate the reform earlier in 2023. Staff support the thrust of the blueprint, whose key reforms should move forward in the next legislature. It will be essential to coordinate tax reform with social security reforms to ensure consistency and align incentives. Gradually reducing or eliminating rate differentials in the VAT is desirable, with measures to cushion the impact on low-income households. Capital taxation should be more consistent across income sources, particularly regarding real estate and capital gains. The reform should be at least budget neutral and, ideally, deficit reducing considering the magnitude of the needed fiscal consolidation.
- *Revenue administration.* Preliminary findings from a recent IMF assessment using the tax administration diagnostic assessment tool (TADAT) confirmed that Belgium has a well-rounded tax administration capability and makes good use of withholding tax regimes to secure significant amounts of government revenue in an automated fashion. Greater vigilance to ensure compliance with on-time filing and payment by business taxpayers would further strengthen the system. Additionally, focus on the "professional and managerial services sector" through a targeted compliance improvement plan could reduce the compliance gap of the VAT, which was estimated by the 2023 FAD analysis to be 2 percent of GDP.

19. Fiscal adjustment efforts need to be shared among all federal entities, and supported by enhanced coordination. There is substantial decentralization of fiscal competencies to regions and communities in Belgium and the devolution of expenditures has outpaced that of revenue.[5] Consecutive shocks have worsened the regions and communities' fiscal positions. Their aggregated deficit reached 0.9 percent of GDP in 2022, above pre-pandemic levels, and comprised a quarter of the general government deficit (Figure 5). However, fiscal coordination among federal entities is limited due to the complex expenditure assignment arrangements, the lack of hierarchy among the federal and regional governments, and the absence of an accountability mechanism for all levels. Going forward, fiscal adjustment at the region and community levels should be part of the general government fiscal consolidation plan, with strict spending limits applied at all levels of government. In addition, a strategic multi-annual fiscal framework should be adopted to support the adjustment, with systematic spending and tax expenditure reviews integrated in the budgetary process.

Authorities' Views

20. The authorities concur that fiscal consolidation is needed and emphasized the need for a step-by-step approach. They noted that against the backdrop of timely fiscal support provided during the pandemic and energy crisis, the federal government has delivered a strong fiscal consolidation effort for 2024 and continuing such efforts step by step in 2025-26, together with fiscal

[5] Wong, Yu Ching, "Fiscal Federalism in Belgium: Challenges in Restoring Fiscal Sustainability", IMF Selected Issues Paper (SIP/2023/016)

adjustments in regional entities, would meet the general government target as set out in the stability program. They noted that financing risk has remained low despite the deterioration in deficit and debt levels, owing to Belgium's positive net international investment position and the ability to tap domestic savings, as illustrated by the successful issuance of the one-year state bond. That said, they shared the views that fiscal consolidation is needed to contain debt vulnerabilities and protect the future of the welfare state.

21. The authorities also concurred that it will be important to avoid a political standstill after the elections that would delay needed reforms. They noted that the new EU governance framework is expected to inform the path of fiscal consolidation, which would need to be supported by reforms in taxation, pension, healthcare and labor market. They also highlighted constructive discussions that attempted to move the tax reform forward and reiterated that a future agreement should ensure that a tax shift away from labor does not have negative impact on the budget.

B. Preserving Financial Sector Resilience[6]

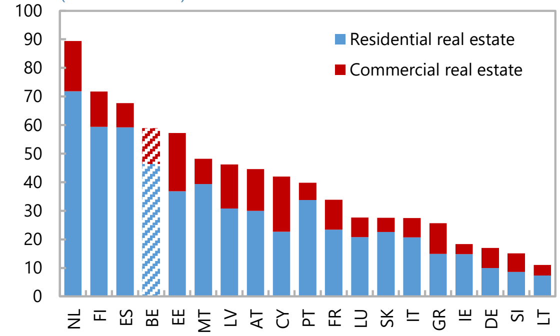
22. The financial sector is facing rising systemic risks from cooling real estate markets, rising interest rates, and weaker economic activity.

- *Real estate and mortgage lending*. The exposure of Belgian banks to loans collateralized by residential (RRE) and commercial real estate (CRE) is among the highest in the euro area, making them the most important driver of losses in the adverse scenario of the FSAP stress test. Property also accounts for nearly a fifth of insurers' investments. Although the real estate market has been cooling in an orderly manner, riskier segments of RRE and CRE lending may become vulnerable if the macro-financial environment deteriorates and structural changes (e.g., work-from-home) intensify, particularly in the event of steep rises in unemployment, sharp price corrections, declining borrower profitability, and lower recoverable collateral values. Mitigating factors include less dynamic market developments than in euro area peers keeping valuations in check, widespread use of fixed-rate and fully amortizing RRE mortgages, strong household financial positions, and relatively low CRE vacancy rates.
- *Interest rate risk*. Belgian banks have ably managed interest rate risk over several monetary policy cycles. However, rapid deposit repricing could sap profitability and weaken financial stability due to, for instance, an accelerated shift by households into higher-yielding term deposits or the adoption of political proposals for a rule-based compensation of the entire stock of savings deposits (about a fourth of total liabilities). Moreover, the phase-out of the ECB's favorably-priced liquidity facilities in June 2023 is raising funding costs.

[6] See accompanying Financial Sector Stability Assessment.

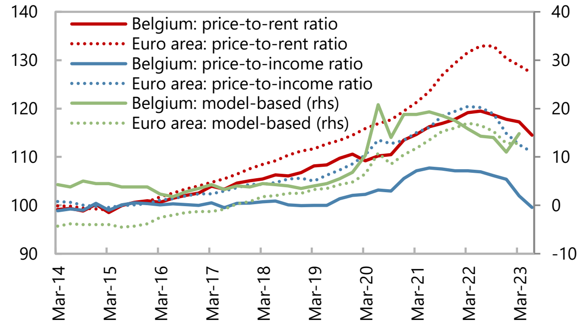
Real Estate Markets and Household Assets

Euro Area Banks: Real Estate Exposure, 2023Q2
(Percent of GDP)



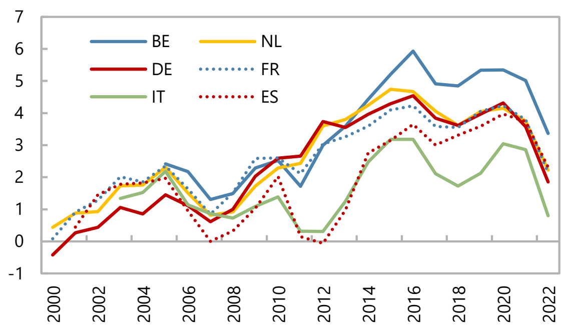
Sources: EBA and IMF staff calculations

Housing Valuations
(LHS: index, 2015 = 100; RHS: percent over-/undervaluation)



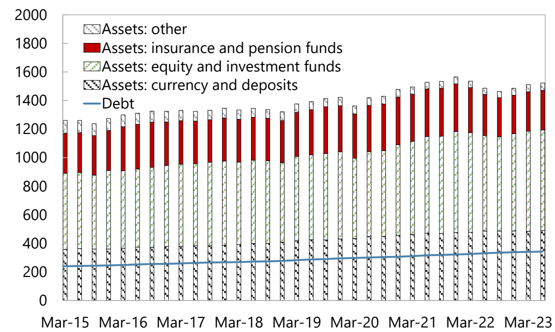
Sources: OECD and ECB.

Excess CRE Investment Yields to 10-year Government Bonds
(Percent)



Sources: MSCI, national authorities and IMF staff calculations.

Household Debt and Financial Assets
(EUR billion)

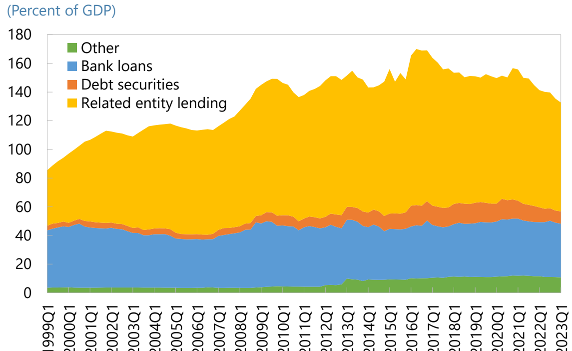


Sources: BNB and ECB.

- *Corporate credit risk*. Corporate indebtedness has remained moderate when abstracting from lending between related entities, which carries little risk. Still, pockets of vulnerability may emerge, affecting the quality of financial sector exposures. Particularly, businesses with weaker profitability and debt-servicing capacity may be challenged by cost pressures, tighter funding conditions and weaker growth. However, latest available (2021) corporate accounts show interest coverage ratios at comfortable levels for most firms, even amid the pandemic, while banks' loan exposure to weaker sectors appears relatively limited.

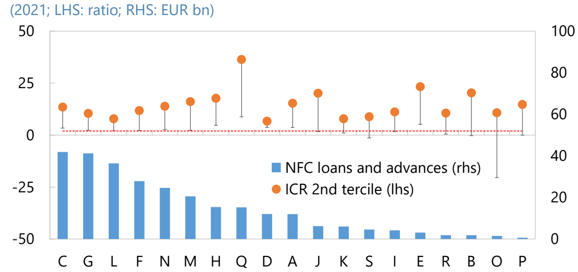
Corporate Sector Debt and Interest Coverage

Non-Financial Corporate Debt
(Percent of GDP)



Sources: NBB and IMF staff calculations.

NFC Loan Exposure and Interest Coverage Ratio
(2021; LHS: ratio; RHS: EUR bn)



Sources: EBA, NBB and IMF staff calculations.
Notes: The whisker represents the lowest (first) tercile of firms. The letters refer to manufacturing (C), trade (G), real estate activities (L), construction (F), administrative and support services (N), professions (M), transport and storage (H), health and social services (Q), electricity and heating (D), agriculture (A), ICT (J), finance (K), other services (S), hospitality (I), water supply (E), entertainment (R), mining (B), public sector (O), education (P).

23. FSAP stress tests show a high degree of financial sector resilience, albeit with some heterogeneity across institutions. Solvency and liquidity buffers of bank and nonbank financial intermediaries are sufficient to withstand plausible adverse conditions. All seven systemic institutions considered (90 percent of banking sector assets) meet minimum capital requirements under stress scenarios, including in the event of a forced sale of held-to-maturity bond portfolios under severe liquidity pressure. Some would need to tap into their capital conservation and other-systemically-important-institution buffers, and liquidity cushions need to be reinforced for some banks. For insurers, the quality of capital should be gradually strengthened. Investment funds are resilient to large redemptions. The domestic interconnectedness of financial intermediaries is modest and direct contagion risks are low. Significant cross-border exposures by banks, particularly to other EU countries and the United Kingdom, heighten vulnerabilities to external shocks.

24. Despite a turning financial cycle, the NBB's recent macroprudential policy tightening was appropriate. Reflecting the evolution of macro-financial risks, the NBB activated the counter-cyclical capital buffer (CCyB), at rates of 0.5 percent and 1 percent effective from April 1, 2024 and October 1, 2024, respectively. In parallel, the sectoral systemic risk buffer (SSyRB) maintained against risks from residential mortgages will be recalibrated from 9 percent to 6 percent from April 1, 2024, as the 2020 prudential guidelines setting caps on loan-to-value and debt-(service-)to-income ratios of new mortgages have lessened vulnerabilities. Additionally, banks were encouraged to lengthen new mortgage maturities to ease the debt servicing burden of households and pre-empt borrower distress. In all, the buffer adjustments will add €1.6 billion in capital to absorb unexpected losses from a broader deterioration in the macro-financial environment while also preserving the ability to cushion losses from a steep housing market correction. However, it would not be advisable to lower the SSyRB below 6 percent until the housing market outlook is clearer. The NBB should also remain vigilant to potential unexpected procyclical effects of macroprudential tightening, although this risk is mitigated by high bank capital and profitability, which limits adverse impacts on credit supply.

25. The financial policy framework is well developed but could be further strengthened in several areas (Annex VI).

- *Supervision*. There is scope for the NBB to further improve the corporate governance framework of banks and the monitoring of bank internal capital targets. The already-strong collaboration between the NBB and the Financial Services and Markets Authority (FSMA) could be further strengthened through greater information sharing and by incorporating consumer protection and conduct information into prudential supervision. The regulatory and supervisory framework for the insurance sector can also be enhanced further. Large exposures to real estate and mortgages call for closely monitoring the quantity and quality of mortgage loans and prudent valuation by insurers. Work to enhance climate resiliency would benefit from finalizing the legal framework for public-private partnerships for natural catastrophe risk. The AML/CFT sanction and supervisory framework (including over payment institutions) should also be enhanced.
- *Macroprudential policy*. In the near term, the NBB's ability to independently implement macroprudential policy would be fortified by removing the requirement for formal government approval of macroprudential measures at least for instruments foreseen in the Capital

Requirements Directive and Regulation. Ideally, the NBB should be granted full power to set macroprudential policy, while retaining a consultative role for the Ministry of Finance.

- *Crisis management and resolution*. The national resolution handbook should be finalized with attention to tools outside of preferred resolution strategies. Operational readiness of resolution plans and greater internal coordination should be ensured. The emergency liquidity assistance framework should be reinforced to enhance the readiness to provide emergency liquidity for bank resolution. Prompt passage of the draft law that aims to enhance the deposit insurance fund by separating it from the national budget and increasing its target level should remain a priority.
- *Systemic risk assessment*. The NBB's systemic risk assessment framework for setting macroprudential policy should be strengthened while technical improvements would enhance its stress testing approach. The FSMA's approach to assessing investment funds' structural vulnerabilities needs further developing.

Authorities' Views

26. The authorities shared staff's view on systemic risks. They agreed on the main financial sector risks and mitigating factors. They concurred that financial intermediaries are resilient to severe macroeconomic shocks, albeit with some heterogeneity and that individual institutions' liquidity needs close monitoring despite ample system-wide liquidity.

27. The authorities emphasized commitment to strengthening financial sector resilience and broadly agreed with staff's recommendations. They noted that the NBB and FSMA have initiated data sharing arrangements. While noting the success of the current system, they agreed that, in most cases, the macroprudential framework could be strengthened by granting the NBB powers to set macroprudential policy in consultation with, but without formal approval of, the government. They recognized the importance of strengthening crisis arrangements, operational readiness of resolution plans, the deposit insurance fund, and the ELA framework. They welcomed recommendations to improve stress testing and the assessment of systemic risks to investment funds.

C. Increasing Potential Growth and Advancing Green Transition

28. Further labor market reforms are needed to increase participation. Belgium's employment rate is lower than in peer countries. Some social benefits are at levels that limit incentives to find jobs. With low unemployment and high vacancies, especially in Flanders, attaining higher economic growth will require stronger productivity gains, increased labor participation rates, and greater interregional mobility. Continuing labor market, tax and social benefits reforms—to effectively widen the net income gap between non-work and work, are needed to get closer to the authorities' ambitious 80 percent employment target by 2030. Reducing skills mismatches and continuing to increase flexibility in the job market—e.g., building on recent measures regarding flexi-jobs—will also help. Effort should continue to focus on greater inclusion in the labor force of foreign-born workers, particularly women, low-skilled workers, older workers, and people with disabilities, through results-oriented activation policy, focusing on addressing inflexibility (wage-setting, redeployment), high dismissal costs, and red tape (Figure 6).

29. Product markets remain more restrictive than in peer economies. In recent years, the government has made important strides to improve the business environment, most notably by reshaping corporate restructuring and insolvency frameworks and removing regulatory barriers to mobile and high-speed communication infrastructure. However, product markets have not been a key focus of reform despite recent efforts to ease entry into professional services and some policies included in Belgium's National Recovery and Resilience Plan. Consequently, product market competition remains some distance away from the average in European advanced economies and practices in the least restrictive countries (Annex VII).

30. Further product market reforms could lift productivity and potential output. Although Belgium ranks among the most innovative economies in Europe, productivity growth has lagged the euro area average over the past two decades, leaving productivity levels below neighboring countries. Regulations of the retail sector and professional occupations stand out as particularly restrictive compared to other European advanced economies. Although the liberalization of network industries is generally at par with peers, further reduction of market barriers would be beneficial, including in the transport and telecommunication sectors. Relaxing price controls, evaluating and simplifying regulations, and reducing the administrative burden on startups also hold promise. Adopting reforms in these areas to align Belgium's business environment more closely with the average in European advanced economies or the three best-performing peers could lift the level of total factor productivity in the steady state by about 3½ percent and 7½ percent, respectively.

31. The energy crisis accelerated the transition towards a greener economy and greater energy-supply diversification. Greenhouse gas emissions and the carbon intensity of economic output have sustained a long-term decline. Improvements have primarily been driven by the power and manufacturing sectors, both subject to the EU emissions trading system (ETS), whereas gains in agriculture, buildings and transport have been more limited. The recent extension of two nuclear reactors' life by 10 years, investment in additional renewable energy and LNG capacity will help lower Belgium's carbon footprint and support energy security.

32. Meeting ambitious domestic climate goals will require accelerated and sustained efforts, and improved federal-regional coordination. Despite progress, emissions from activities not included in the ETS would decline by 43 percent under Belgium's updated Energy and Climate Plan (NECP), compared to a EU target of 47 percent in 2030. The NECP also lacks consolidation of climate measures across federal and regional entities into a national strategy, complicating the assessment of policy consistency and effectiveness. Moreover, agreement on federal-regional burden sharing has remained elusive. To meet climate targets, efforts should be stepped up, facilitated by better co-ordination to accelerate decisions and execution. The expansion of the EU ETS to buildings, road transport and small industry, expected by 2027, should be complemented by measures at the national level to ensure the desired emissions reductions, including higher carbon taxation, possibly implemented as part of tax reform, reduction of fossil fuel subsidies, sectoral feebates, and price floors/ceilings to ensure sufficient payback from investment in low-carbon technologies. Part of revenues from carbon taxation could be employed to protect vulnerable households.

Authorities' Views

33. The authorities agreed on the need for continuing labor and product markets reform and accelerating the green transition to foster stronger and more sustainable growth. The government reiterated its commitment to continue with labor market reforms to achieve the employment target of 80 percent by 2030. They noted progresses in introducing more flexible options in labor law, including the agreement to expand the eligible sectors for flexi-jobs that would help fill the large number of vacancies, while there is considerable room to narrow regional gaps in employment rates. They noted a win-win narrative on potential gains for both employers and employees could help to reduce labor market bottlenecks. They also agreed on the need to accelerate product market reforms, including on barriers to entry. They highlighted the success in strengthening energy security in Belgium, via reaching agreement with a private operator on the ten-year extension of two nuclear power plants and on obligations related to nuclear waste management, as well as in expanding renewable energy production.

STAFF APPRAISAL

34. Having demonstrated resilience to shocks, the Belgium economy and financial sector face significant cyclical and structural challenges and risks to the outlook. Owing to a strong and timely policy response, the economy resisted the Covid-19 and energy crises. Still, growth is slowing, core inflation remains high, and the pandemic and energy crisis have increased already-high public debt and structural fiscal deficits. An aging population and climate transition are putting pressure on public finances, while low productivity and labor participation are dampening potential growth. Risks related to geopolitical fragmentation, global financing conditions, and the domestic political cycle could worsen the outlook.

35. Fiscal adjustment is needed to preserve Belgium's social model, lower inflation, reduce debt, and rebuild buffers. The 2024 budget plan will only marginally lower the fiscal deficit, as regions and communities are not on track to meet targets set in Belgium's stability program. A tighter fiscal stance with a prolonged and, ideally, front-loaded fiscal adjustment is needed to ensure the sustainability of Belgium's redistributive and solidary social model, support monetary policy in reducing core inflation, restore buffers to absorb future shocks, and reduce debt vulnerabilities. This calls for forceful adjustment that more than offsets the increase in aging outlays and puts public debt solidly on a downward trajectory. The fiscal consolidation should primarily focus on rationalizing spending and increasing efficiency at all levels of government. Room for mobilizing additional tax revenue appears limited given the high taxation level, although efficiency-enhancing tax reforms should proceed. In pursuing the fiscal adjustment, high-return public investment, crucial to boost potential growth, should be preserved.

36. Fiscal reforms are key to sustaining the consolidation efforts, notably in tax policy, pensions, and healthcare. Tax reforms should proceed as planned to help improve labor force participation and make the tax system fairer. Efforts to continue strengthening tax administration will help improve collections. As an aging population will continue to put pressure on pension and healthcare systems over the medium term, further reforms to ensure pension sustainability will be needed while efficiency gains should be sought in healthcare. This should include placing more emphasis on preventive care, reforming the organization and role of hospitals, and promoting generic drugs. Further, fiscal management would benefit from enhanced coordination among federal entities. Fiscal adjustment at the region and community levels should be part of a broader consolidation plan, with strict spending limits applied at all levels of government.

37. With rising systemic risks, financial policies should continue to focus on preserving resilience and building up buffers to absorb losses when needed. The resilience of the financial sector is facing rising systemic risks from cooling real estate markets, higher interest rates, and weaker economic activity. With a rapid shift in financial conditions, the recently-decided macroprudential policy tightening will help preserve resilience. While well developed, the financial policy framework could be further buttressed: strengthening supervision, crisis management and resolution preparedness, the macroprudential framework, and systemic risk assessment will further insulate the economy from macro-financial shocks.

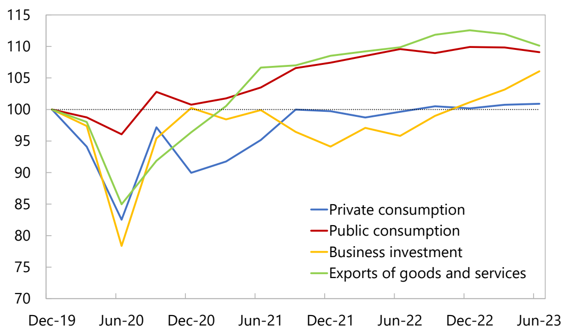
38. Further advancing structural reforms is critical for lifting productivity and potential growth, advancing green transition, and improving competitiveness. With tight labor markets, attaining higher economic growth will require improvements to productivity, labor participation, and interregional mobility. Continuing reforms in labor market, tax, and social benefit are needed, reducing skills mismatches, continuing to increase flexibility in the job market, and promoting greater inclusion in employment will also help. Deeper product-market reforms would help raise productivity. These reforms will also help mitigate the impact of fiscal consolidation and the cost of aging. Together with fiscal consolidation, structural reforms are also needed to strengthen competitiveness and improve Belgium's external position, which is weaker than implied by medium-term fundamentals and desired policies. Efforts to advance the climate transition should be accelerated in a coordinated manner among federal entities. The planned EU ETS expansion by 2027 should be complemented by measures at the national level to ensure the desired emissions reductions.

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

Figure 1. Belgium: Macroeconomic Developments

The economy has performed robustly through a series of shocks…

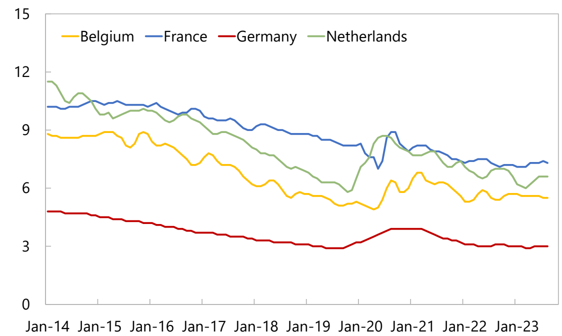
Level of Real GDP Components
(Index, 2019Q4 = 100)



Sources: Eurostat, NBB and IMF staff calculations.

…keeping labor markets at historically tight levels.

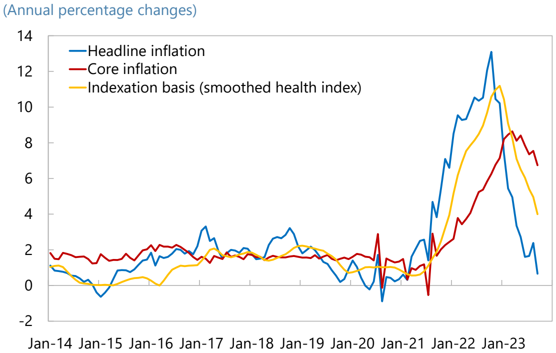
Unemployment Rate
(Percent)



Source: Eurostat.

Inflationary pressures have translated into a strong bout of wage and social benefit indexation…

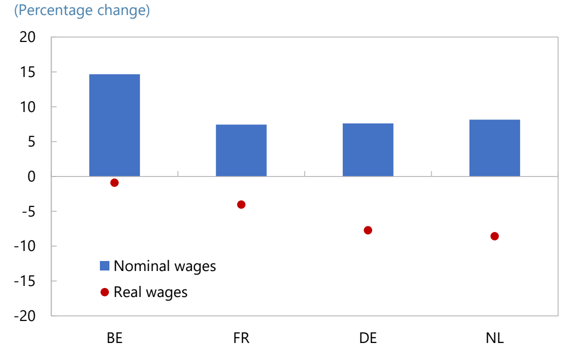
HICP Inflation and Wage Indexation Basis
(Annual percentage changes)



Sources: StatBel and IMF staff calculations.

…preserving household purchasing power, but eroding external competitiveness.

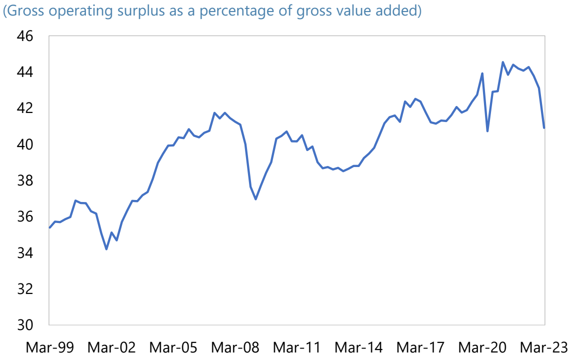
Private Sector Wage Developments, 2021Q1-2023Q1
(Percentage change)



Source: Eurostat and IMF staff calculations.

After a period of resilience against intense cost pressures, corporate profit margins have started to contract…

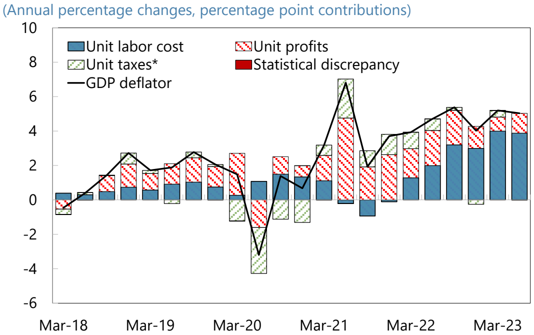
Corporate Profit Margins
(Gross operating surplus as a percentage of gross value added)



Sources: Eurostat and IMF staff calculations.

…as labor cost increases have eaten into profitability.

GDP Deflator
(Annual percentage changes, percentage point contributions)

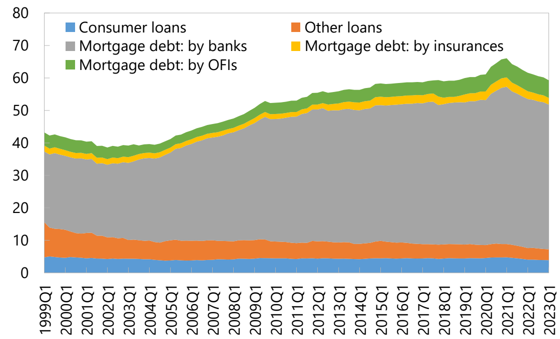


Sources: Eurostat and IMF staff calculations.
* Taxes on production and imports, net of subsidies.

Figure 2. Belgium: Financial Sector Developments

Following brisk housing market activity in recent years, mortgage debt has steadily increased…

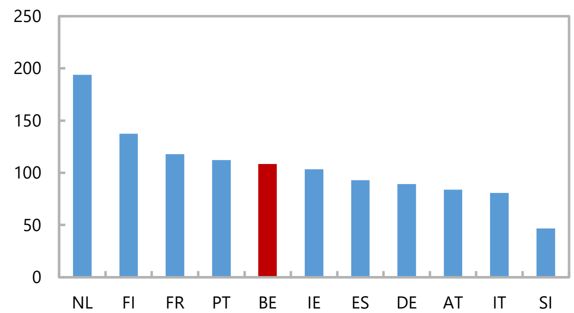
Household Debt
(Percent of GDP)



Source: NBB.

…with the aggregate household debt burden reaching elevated level.

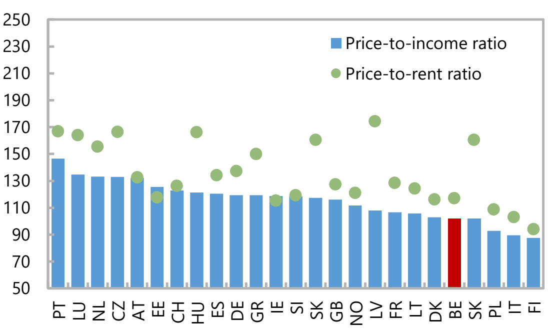
Household Debt to Gross Disposable Income, 2022
(Percent)



Sources: ECB, Eurostat and IMF staff calculations.

More moderate housing valuation and affordability metrics than in other European countries…

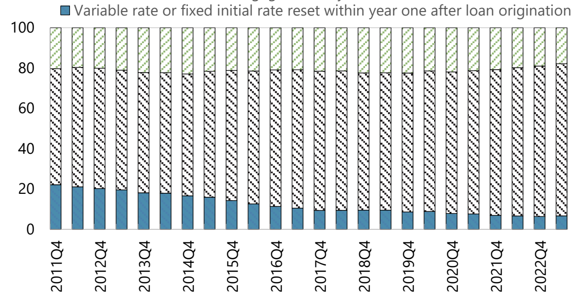
Housing Valuations, Q1 2023
(Index, 2015 = 100)



Source: OECD.

…and a prevalence of fixed rate, fully amortizing mortgages provide some comfort.

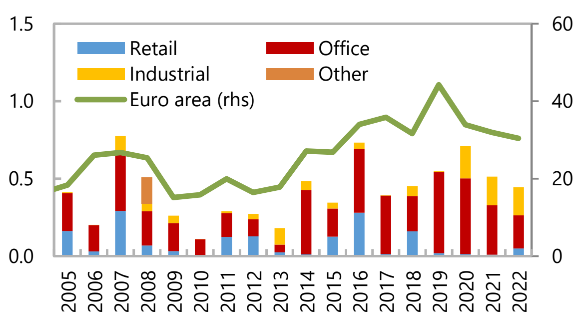
Mortgage Loans by Type of Interest Rate
(Percent)



Source: NBB.

Despite having cooled from its 2020 high, activity in commercial real estate markets remains robust…

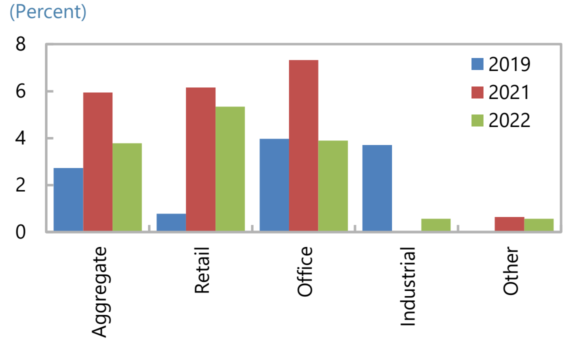
Gross CRE Investment Activity
(EUR billion)



Source: MSCI.

…while vacancy rates have declined from their pandemic peaks, particularly in the dominant office segment.

CRE vacancy rates
(Percent)

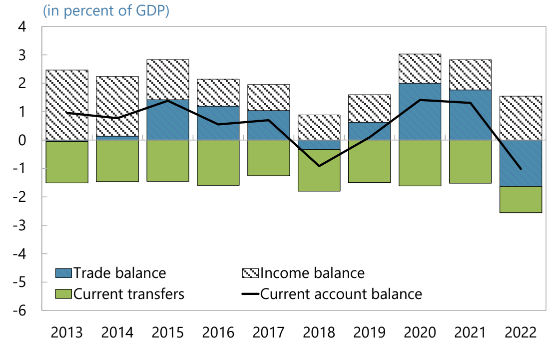


Source: MSCI.

Figure 3. Belgium: External Sector Developments

The current account swung to a deficit with a sharp deterioration of the trade balance in the energy crisis…

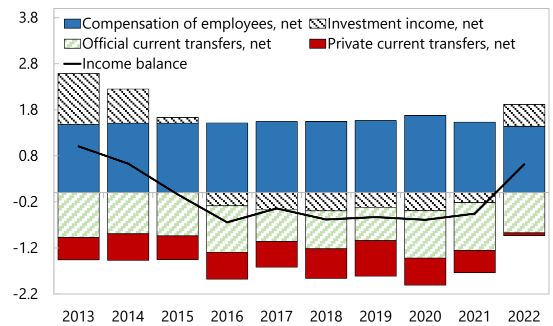
Current Account
(in percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

…while partly offset by a small income surplus due to a net inflow of investment income.

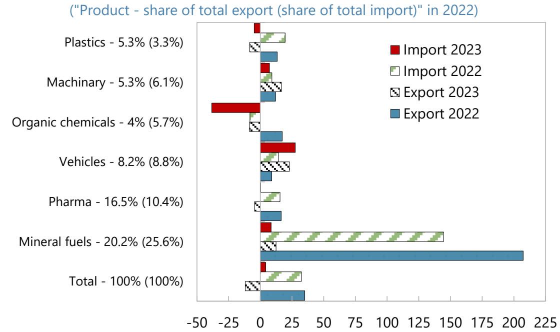
Primary and Secondary Income Balance
(percent of GDP)



Sources: NBB; and IMF staff calculations.

Increase in net imports of mineral fuels and decline in pharmaceutical exports drove the trade deficit…

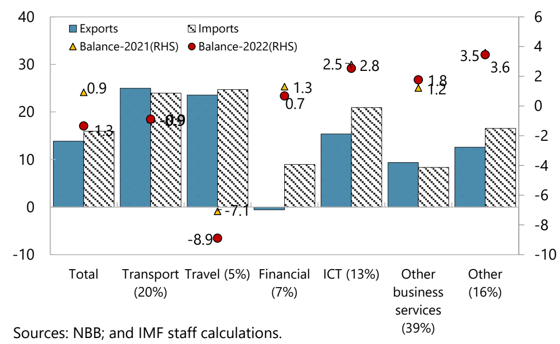
Exports and Imports of Top 5 Products Year-on-year Growth Rate (2022-2023)
("Product - share of total export (share of total import)" in 2022)



Note: Calculations for 2023 use 2023Q1 - Q2 data.
Sources: NBB; and IMF staff calculations.

…and the return of transport/travel to pre-pandemic trends worsened the services balance.

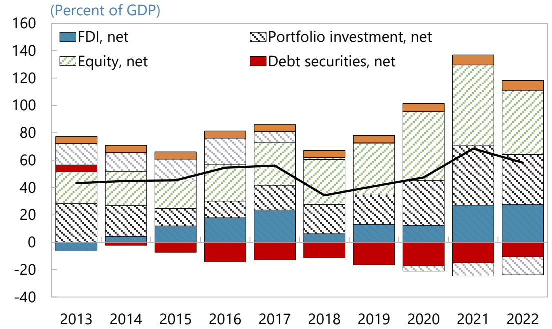
Services Exports and Imports in 2022
(Percent change year-on-year and balance in billions of euros) 1/



Sources: NBB; and IMF staff calculations.
Note: 1/ Share in total services exports in 2021 in brackets.

The net asset position continues to be sizable.

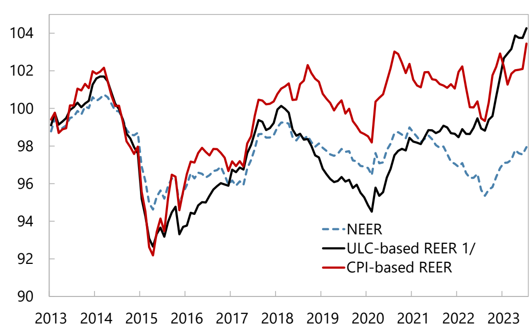
Net International Investment Position
(Percent of GDP)



Sources: NBB; and IMF staff calculations.

While real effective rates appreciated reflecting higher inflation and labor market effects.

Exchange Rates
(Index, 2010=100)



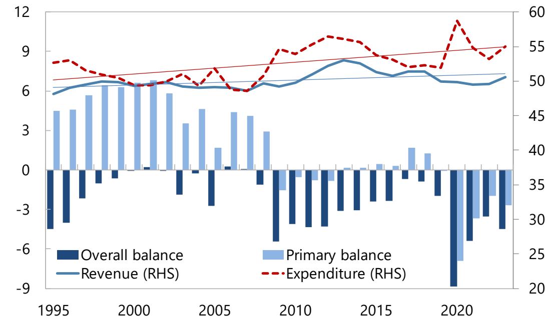
Source: IMF staff calculations.
1/ ULC-based REER calculated based on ULCs in manufacturing sector.

Figure 4. Belgium: Fiscal Developments

Fiscal response during the pandemic and the energy crisis eroded buffers…

Fiscal Positions

(Percent of GDP) 1/

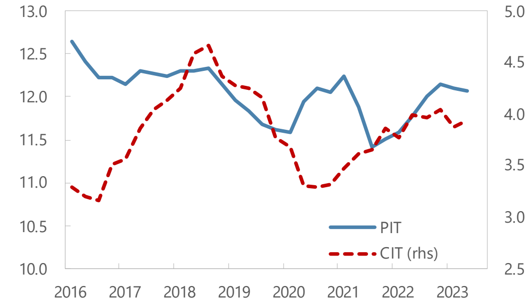


Sources: NBB and IMF staff calculations.
1/ Projections for 2023.

…revenues have recovered with output and higher prices…

Revenue trends

(Percent of GDP)

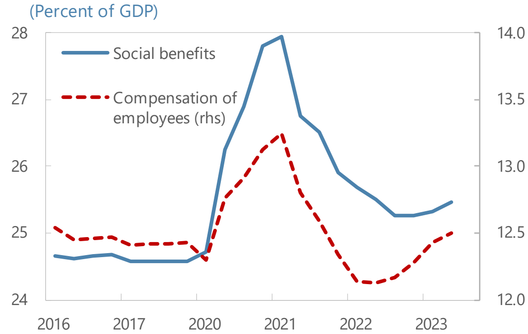


Sources: NBB and Haver Analytics.

…but high spending continued to drive deficits.

Expenditure trends

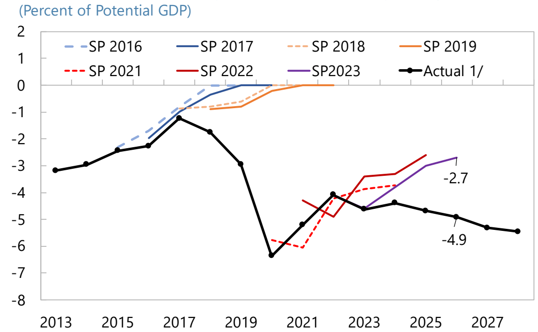
(Percent of GDP)



Stability programs' fiscal targets have been missed.

Structural Deficit Projections in Stability Programs

(Percent of Potential GDP)

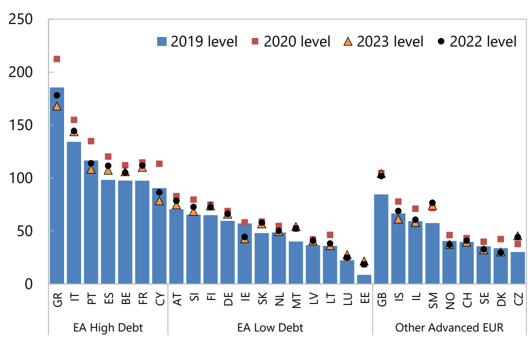


Sources: Belgian authorities; and IMF staff projections.
1/ Based on staff calculations. Data for 2023 and beyond are projections.

Belgium is among the most indebted euro-area countries…

Public Debt 2023

(Percent of GDP)

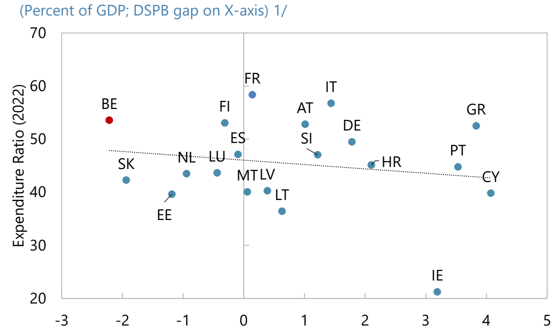


Sources: WEO (October 2023); and IMF staff calculations.

…and expenditure-led consolidation is needed.

Euro Area: Adjustment Needs and Expenditure Ratio

(Percent of GDP; DSPB gap on X-axis) 1/

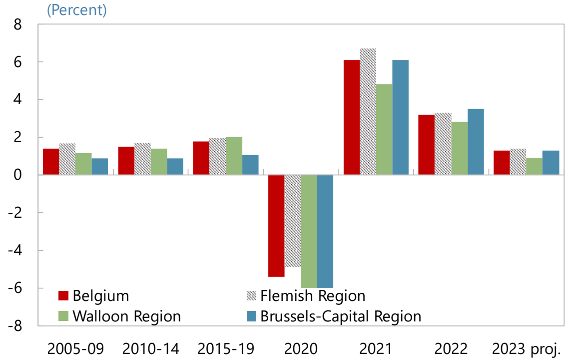


1/ Deviation of primary balance from its debt-stabilizing level in 2026.
Sources: WEO (Oct 2023); and IMF staff calculations.

Figure 5. Belgium: Regional Economic Performance

The Flemish economy rebounded more strongly…

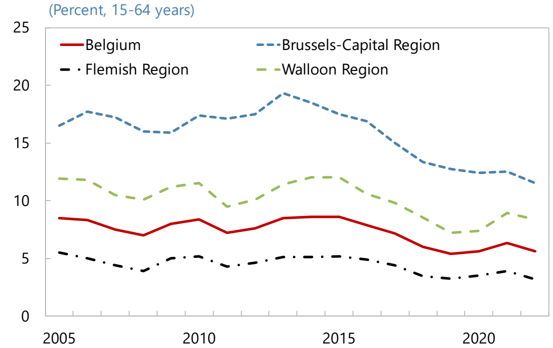
Real GDP Growth
(Percent)



Sources: FPB (July 2023); IBSA; IWEPS; Statistiek Vlaanderen; and IMF staff calculations

…while unemployment rates are higher in Brussels and Wallonia.

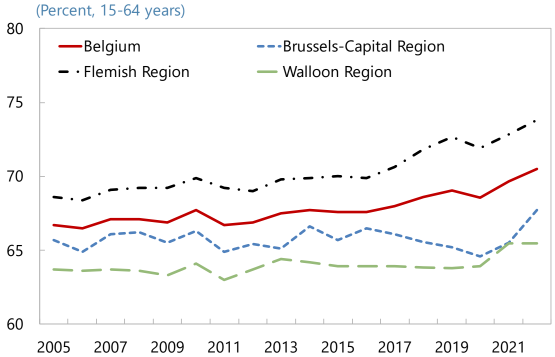
Unemployment Rates
(Percent, 15-64 years)



Source: Statbel.

Gaps in activity rates are large despite recent faster rise in Brussels.

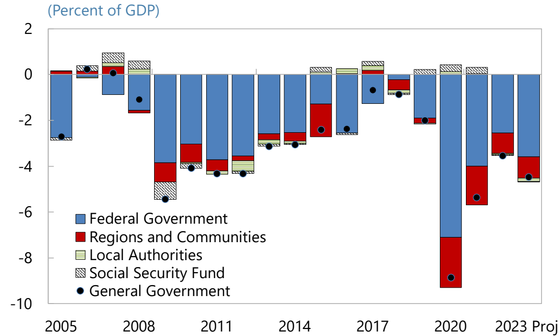
Labor Force Participation Rates
(Percent, 15-64 years)



Source: Statbel.

The fiscal deficit of the regions and communities is decreasing but remains higher than pre-pandemic…

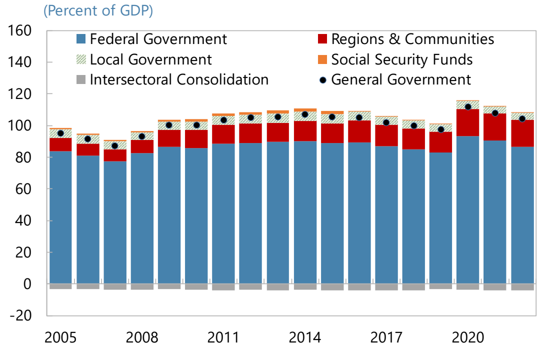
Overall Fiscal Balance By Government Accounts
(Percent of GDP)



Sources: NBB; and IMF staff projections.

…with increasing debt burden…

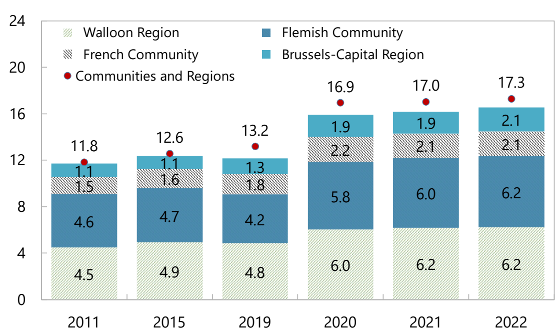
Consolidated Gross Debt
(Percent of GDP)



Sources: NBB; and IMF staff calculations.

…and rising interest rates would impact on the sustainability of regional finances.

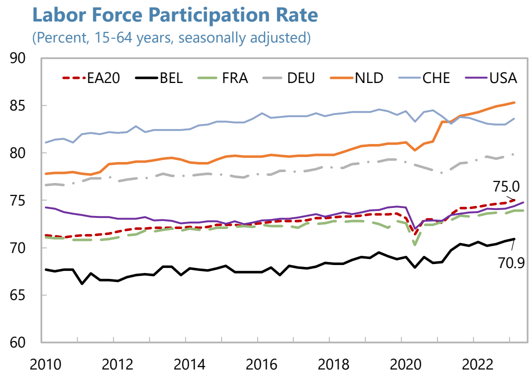
Debt Outstanding held by Communities and Regions
(Percent of GDP)



Sources: NBB; and IMF staff calculations.

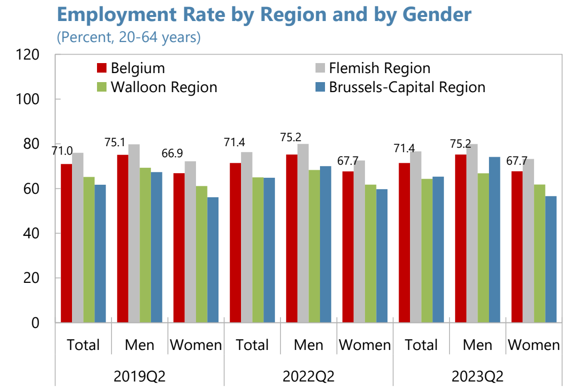
Figure 6. Belgium: Structural Reforms

Belgium lags peers in activating labor…



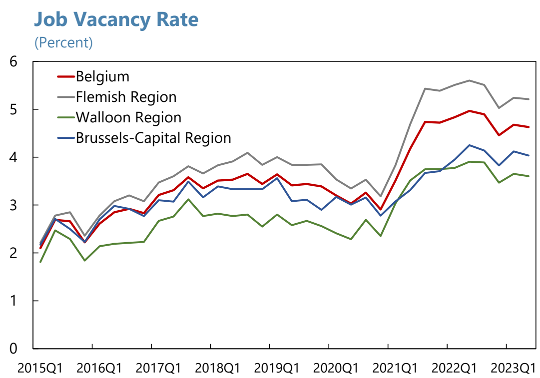
Source: Haver Analytics.

…reaching the authorities' 80 percent employment target requires closing regional and gender gaps.



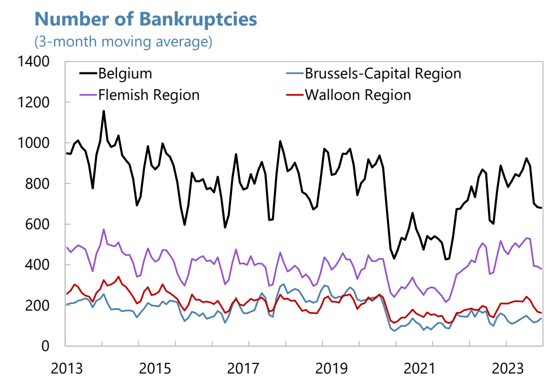
Source: Statbel.

Labor shortage remains a challenge, especially in Flanders.



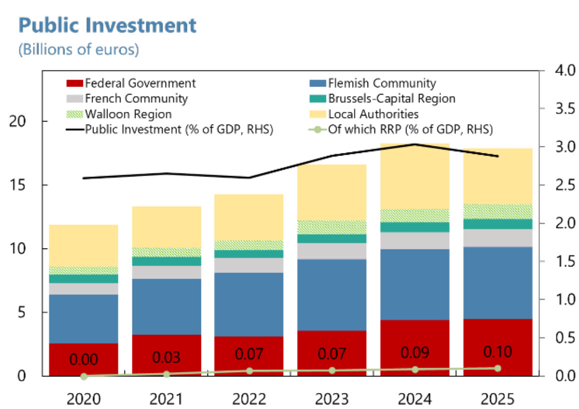
Sources: Statbel; and IMF staff calculations.

Bankruptcies are returning to pre-pandemic levels.



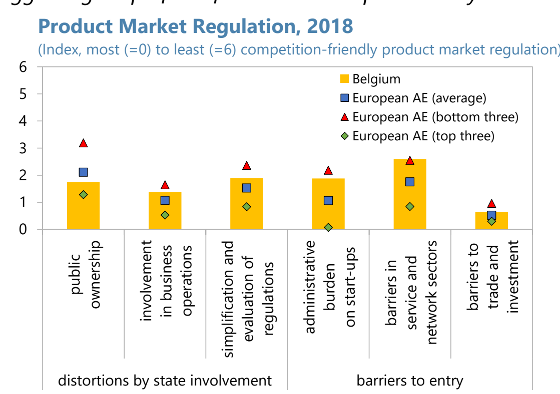
Sources: Belgian Statistical Office; and IMF staff calculations.

Public investment is expected to gradually increase; the Flemish community received a large part of the RRF grant.



Sources: NBB projections and IMF staff calculations.

Product market regulation is more restrictive than in peers, suggesting scope for reform to bolster productivity.



Sources: OECD and IMF staff calculations.

Table 1. Belgium: Selected Economic Indicators, 2019-28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
	(Percent change, unless otherwise indicated)									
Real economy										
Real GDP	2.2	-5.3	6.9	3.0	1.4	1.0	1.2	1.2	1.2	1.3
Domestic demand	1.9	-6.2	6.1	2.9	2.4	1.3	1.5	1.6	1.6	1.7
Private consumption	1.7	-8.2	6.3	3.2	1.3	0.9	1.6	1.6	1.6	1.6
Public consumption	2.2	-0.3	5.2	4.2	0.4	1.1	1.3	1.3	1.3	1.3
Gross fixed investment	5.1	-5.2	5.0	-0.2	5.6	2.2	1.6	2.1	2.0	2.4
Business investment	5.6	-5.6	4.7	1.0	7.9	2.6	2.3	2.1	2.0	2.0
Public investment	1.9	1.1	4.7	-1.6	8.3	3.4	-2.0	3.3	2.9	6.7
Dwellings	5.1	-7.2	6.0	-3.2	-3.8	0.0	1.4	1.4	1.4	1.4
Stockbuilding 1/	-0.7	-0.6	0.4	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Foreign balance 1/	0.4	1.0	0.8	0.1	-0.9	-0.3	-0.3	-0.4	-0.4	-0.4
Exports, goods and services	2.4	-6.3	13.9	4.9	-0.2	1.5	3.5	3.6	3.5	3.3
Imports, goods and services	2.0	-7.4	13.0	4.9	0.8	1.9	3.8	4.0	3.9	3.7
Household saving ratio	12.4	20.4	17.2	12.9	13.9	14.4	14.7	14.8	15.0	15.2
Potential output growth	1.3	1.0	1.9	1.8	1.8	1.5	1.4	1.3	1.3	1.3
Potential output growth per working age person	1.0	0.8	1.6	1.1	1.3	1.5	1.1	1.0	1.0	1.0
Output gap (in percent)	1.7	-4.7	0.0	1.2	0.8	0.3	0.1	0.1	0.0	0.0
Employment										
Unemployment rate (in percent)	5.4	5.6	6.3	5.6	5.6	5.6	5.5	5.5	5.4	5.4
Employment growth	1.6	0.0	1.9	2.0	1.0	0.6	0.4	0.6	0.6	0.5
Prices										
Consumer prices	1.3	0.4	3.2	10.3	2.5	4.4	2.0	1.8	1.8	2.0
Core CPI	1.5	1.4	1.3	4.0	6.1	3.5	2.3	2.0	2.0	2.0
GDP deflator	1.8	1.6	3.2	5.9	3.8	3.3	2.0	1.8	1.8	1.9
	(Percent of GDP; unless otherwise indicated)									
Public finance										
Revenue	49.9	49.9	49.5	49.6	50.5	51.3	51.1	51.0	51.0	51.2
Expenditure	51.9	58.8	54.8	53.2	55.0	55.7	55.8	55.9	56.4	56.6
General government balance	-2.0	-8.9	-5.4	-3.5	-4.5	-4.4	-4.7	-4.9	-5.3	-5.4
Structural balance	-2.9	-6.4	-5.2	-4.1	-4.6	-4.4	-4.7	-4.9	-5.3	-5.5
Structural balance (excl. Covid measures)	-2.9	-2.0	-2.3	-3.4	-4.5	-4.3	-4.7	-4.9	-5.3	-5.5
Structural primary balance	-0.9	-4.7	-3.5	-2.5	-2.8	-2.3	-2.5	-2.6	-2.7	-2.7
Primary balance	0.0	-6.9	-3.7	-2.0	-2.7	-2.4	-2.4	-2.5	-2.7	-2.7
General government debt	97.6	111.8	108.0	104.3	105.5	104.7	106.4	108.6	111.1	113.4
External Sector										
Goods and services balance	0.6	2.0	1.8	-1.6	-1.4	-0.9	-0.4	-0.2	0.0	0.1
Current account	0.1	1.4	1.3	-1.0	-0.9	-0.3	0.2	0.5	0.7	0.9
Exchange rates										
Euro per U.S. dollar, period average	0.9	0.9	0.8	0.9	...	...	...	...	...	...
NEER, ULC-styled (2005=100)	97.5	97.9	98.0	96.3	...	...	...	...	...	...
REER, ULC-based (2005=100)	96.0	96.0	97.3	98.7	...	...	...	...	...	...
Memorandum items										
Gross national savings (in percent of GDP)	25.1	25.6	27.0	26.1	27.8	28.6	29.0	29.2	29.5	29.7
Gross national investment (in percent of GDP)	25.0	24.2	25.7	27.1	28.7	28.9	28.7	28.7	28.7	28.8
Nominal GDP (in billions of euros)	478.7	460.7	507.9	554.0	583.7	609.1	628.8	648.0	667.7	689.6
Population (in millions)	11.5	11.5	11.6	11.6	11.7	11.7	11.8	11.8	11.9	11.9

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

1/ Contribution to GDP growth.

Table 2. Belgium: Balance of Payments, 2019-28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
					(In percent of GDP)					
Balance on current account	0.1	1.4	1.3	-1.0	-0.9	-0.3	0.2	0.5	0.7	0.9
Trade balance on goods and services	0.6	2.0	1.8	-1.6	-1.4	-0.9	-0.4	-0.2	0.0	0.1
Trade balance on goods (f.o.b.)	0.8	2.2	1.6	-1.4	-1.2	-0.8	-0.4	-0.3	-0.1	0.0
Exports of goods and services	82.4	78.6	87.9	95.7	85.6	83.6	84.1	84.7	85.9	87.3
Exports of goods	59.3	56.1	65.3	72.2	64.5	63.0	63.4	63.9	64.8	65.8
Exports of services	23.1	22.5	22.6	23.6	21.1	20.6	20.7	20.9	21.2	21.5
Imports of goods and services	-81.8	-76.6	-86.2	-97.4	-87.0	-84.5	-84.5	-85.0	-86.0	-87.2
Imports of goods (f.o.b.)	-58.5	-54.0	-63.8	-73.5	-65.7	-63.8	-63.9	-64.2	-64.9	-65.9
Imports of services	-23.2	-22.7	-22.4	-23.8	-21.3	-20.7	-20.7	-20.8	-21.0	-21.3
Income, net	1.0	1.0	1.1	1.5	1.6	1.7	1.8	1.8	1.9	1.9
Current transfers, net	-1.5	-1.6	-1.5	-0.9	-1.1	-1.1	-1.1	-1.1	-1.1	-1.1
Balance on capital account	0.1	-0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Balance on financial account	-0.6	1.2	1.7	-1.0	-0.7	-0.1	0.4	0.7	0.9	1.0
Direct investment, net	-0.9	1.1	4.3	2.3	2.1	2.1	2.1	2.1	2.1	2.1
Portfolio investment, net	-1.3	4.2	1.8	0.1	0.9	1.3	1.7	1.7	1.7	1.6
Financial derivatives, net	0.2	-0.3	-0.2	0.7	0.2	0.2	0.1	0.1	0.2	0.2
Other investment, net	1.4	-4.0	-5.8	-4.1	-3.9	-3.7	-3.5	-3.3	-3.1	-2.9
Reserve assets	0.0	0.2	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions, net	-0.8	-0.2	0.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Net International Investment Position	40.9	47.3	67.7	57.7						
Direct investment	13.1	12.4	26.9	27.3						
Portfolio investment	21.4	32.9	43.3	36.3						
Financial derivatives	0.8	0.0	-0.1	0.3						
Other investment	0.2	-3.8	-9.7	-13.3						
Reserve assets	5.4	5.9	7.3	7.0						

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

Table 3. Belgium: General Government Statement of Operations, 2019-28

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
					Projections					
					(In percent of GDP)					
Revenue	49.9	49.9	49.5	49.6	50.5	51.3	51.1	51.0	51.0	51.2
Taxes	29.7	29.3	29.7	29.7	30.3	30.7	30.4	30.3	30.4	30.4
Personal income tax	11.6	12.1	11.5	12.2	12.2	12.3	12.4	12.4	12.5	12.6
Corporate income tax	3.8	3.3	3.9	4.0	4.0	4.2	3.8	3.7	3.7	3.7
Taxes on property	1.9	2.0	2.0	1.8	1.9	1.8	1.8	1.8	1.8	1.8
VAT	6.7	6.5	6.8	6.6	6.7	6.8	6.8	6.8	6.8	6.8
Excise	2.6	2.5	2.4	2.1	2.4	2.6	2.7	2.8	2.8	2.8
Other taxes	3.1	3.0	3.1	3.0	3.1	3.0	2.9	2.8	2.7	2.6
Social contributions	15.4	15.8	15.1	15.1	15.6	15.9	16.0	16.0	16.1	16.2
Actual social contributions	13.2	13.5	12.9	12.9	13.3	13.6	13.6	13.6	13.7	13.9
Imputed social contributions	2.2	2.3	2.2	2.2	2.3	2.4	2.4	2.4	2.4	2.4
Other revenue (incl. grants)	4.9	4.7	4.7	4.8	4.7	4.7	4.8	4.7	4.5	4.5
Expenditure	51.9	58.8	54.8	53.2	55.0	55.7	55.8	55.9	56.4	56.6
Expense	48.6	55.1	51.0	49.5	51.2	51.9	52.1	52.2	52.6	52.7
Compensation of employees	12.3	13.1	12.3	12.3	12.8	12.9	12.9	12.9	12.9	12.9
Use of goods and services	4.1	4.3	4.2	4.3	4.2	4.1	4.0	4.0	4.0	4.0
Interest	2.0	1.9	1.7	1.5	1.8	2.0	2.2	2.3	2.6	2.7
Subsidies	3.7	4.9	4.4	3.8	3.9	3.8	3.8	3.8	3.8	3.7
Grants	1.1	1.3	1.4	1.2	1.1	1.1	1.1	1.1	1.1	1.1
Social benefits	24.5	27.8	25.9	25.3	26.5	26.8	27.1	27.2	27.2	27.3
Pensions	10.4	11.3	10.6	10.8	11.4	11.6	11.7	11.7	11.8	11.8
Unemployment	1.0	2.8	1.8	1.0	0.9	0.8	0.8	0.8	0.8	0.8
Health care	6.7	6.8	7.0	6.7	7.0	7.2	7.3	7.3	7.4	7.4
Early retirement, sickness and disability	2.3	2.5	2.3	2.4	2.4	2.4	2.5	2.5	2.5	2.5
Family allowances	1.4	1.5	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other social benefits	2.6	2.9	2.8	3.0	3.4	3.4	3.4	3.4	3.4	3.4
Other current transfers	0.9	1.6	1.2	1.2	1.0	1.2	1.0	0.9	1.1	1.1
Capital expenditure	3.4	3.6	3.8	3.6	3.8	3.8	3.7	3.7	3.7	3.9
Gross operating balance	1.4	-5.2	-1.6	0.1	-0.7	-0.6	-1.0	-1.2	-1.6	-1.6
Net lending/borrowing	-2.0	-8.9	-5.4	-3.5	-4.5	-4.4	-4.7	-4.9	-5.3	-5.4
Memorandum items										
Primary expenditure	49.9	56.8	53.2	51.6	53.2	53.7	53.6	53.6	53.8	53.9
Primary balance	0.0	-6.9	-3.7	-2.0	-2.7	-2.4	-2.4	-2.5	-2.7	-2.7
Structural balance	-2.9	-6.7	-5.2	-4.0	-4.6	-4.4	-4.7	-4.9	-5.3	-5.5
Structural balance (excl. Covid-19 measures)	-2.9	-2.1	-2.3	-3.4	-4.4	-4.3	-4.7	-4.9	-5.3	-5.5
Structural primary balance	-0.9	-4.7	-3.5	-2.5	-2.8	-2.3	-2.5	-2.6	-2.7	-2.7
Structural fiscal adjustment	-1.2	-3.8	1.5	1.2	-0.6	0.2	-0.3	-0.2	-0.4	-0.1
Structural fiscal primary adjustment	-1.3	-3.8	1.2	1.0	-0.3	0.5	-0.1	-0.1	-0.2	0.0
Gross government debt	97.6	111.8	108.0	104.3	105.5	104.7	106.4	108.6	111.1	113.4
Real growth of primary expenditure	1.8	7.8	0.0	0.0	4.6	1.8	0.9	1.3	1.6	1.6

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

Table 4. Belgium: General Government Consolidated Balance Sheet, 2013-22

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(In percent of GDP)									
Net financial worth	-88.0	-95.7	-92.5	-90.8	-85.1	-83.9	-84.4	-100.5	-90.2	-72.1
Financial assets	30.8	35.1	34.0	37.0	35.7	34.6	36.1	40.1	38.3	31.1
Currency and deposits	4.4	4.3	4.2	4.6	4.6	4.2	3.5	4.4	4.9	4.3
Securities other than shares	0.4	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5
Loans	8.1	9.0	8.7	8.8	8.7	8.8	8.8	9.6	9.1	8.8
Shares and other equity	13.0	16.1	15.5	17.4	16.8	15.6	17.9	19.5	17.7	11.5
Insurance technical reserves	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	0.3	0.4	0.4	0.3	0.2
Other accounts receivable	4.9	5.3	5.3	5.7	5.3	5.2	4.9	5.8	5.7	5.8
Liabilities	118.8	130.8	126.5	127.8	120.9	118.5	120.5	140.6	128.5	103.2
Special Drawing Rights	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	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Securities other than shares	95.9	105.1	101.9	103.5	98.3	96.3	99.4	118.2	106.7	83.0
Loans	18.4	20.9	19.9	19.4	18.0	17.2	16.1	16.8	16.6	15.6
Shares and other equity	0.1	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.1	0.1	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	0.7	0.8	1.1	0.8	0.3
Other accounts payable	4.0	4.2	4.1	4.4	4.2	3.9	3.8	4.1	4.2	4.1

Sources: Haver Analytics; Belgian authorities; IMF International Financial Statistics; and IMF staff calculations.

Table 5. Belgium: Financial Soundness Indicators for the Banking Sector, 2013-23H1 1/

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023H1
Earnings and profitability											
Return on assets	0.3	0.5	0.6	0.6	0.6	0.5	0.6	0.4	0.7	0.7	0.8
Return on equity	5.9	7.7	10.1	9.1	8.7	8.0	8.7	5.9	10.2	9.9	11.9
Net interest income to total income	62.6	70.2	67.7	66.0	61.2	63.5	63.3	63.4	65.3	65.8	67.8
Interest margin	1.2	1.6	1.8	1.8	1.6	1.6	1.6	1.5	1.4	1.5	1.5
Average yield on assets	2.6	2.7	2.6	2.4	2.1	2.1	2.1	1.8	1.5	2.0	3.1
Average cost of funding	1.4	1.1	0.8	0.6	0.5	0.5	0.5	0.3	0.1	0.5	1.6
Noninterest income to gross income	37.4	29.8	32.3	34.0	38.8	36.5	36.7	36.6	34.7	34.2	32.2
Of which: Net fee and commission income	27.7	25.8	26.7	25.1	24.3	24.6	24.1	25.0	29.3	28.2	25.5
(Un)realized capital gains booked in P&L	6.0	-0.3	5.3	6.7	3.7	5.4	2.3	0.0	2.5	3.5	2.3
Cost/income ratio	62.4	61.2	58.6	58.4	58.2	61.3	59.5	61.7	60.4	61	63.8
Structure assets											
Total assets (in percent of GDP)	251.0	249.0	236.5	266.1	227.3	215.7	220.0	250.9	227.4	210.0	207.7
Of which (in percent of total assets):											
Loans to credit institutions	12.3	9.1	8.5	7.5	6.8	6.7	7.9	4.3	3.3	2.5	3.6
Debt securities	18.9	19.6	18.0	16.4	14.4	13.3	12.3	12.1	10.9	10.8	11.0
Equity instruments	0.4	0.6	0.7	0.4	0.4	0.4	0.4	0.2	0.2	0.2	0.2
Derivatives	6.8	8.4	6.4	5.8	4.4	3.5	3.8	3.8	2.8	4.4	3.8
Loans to customers	53.9	54.1	56.4	55.4	59.4	62.3	61.9	57.2	59.0	62.9	61.8
Of which: Belgian residents (in percent of loans)	69.4	69.2	69.2	71.0	70.7	71.6	71.2	72.5	72.4	70.6	70.7
Other EMU residents (in percent of loans)	15.7	16.2	16.1	15.1	15.0	15.1	14.9	15.4	15.6	16.4	16.1
Rest of the world (in percent of loans)	14.9	14.5	14.7	13.9	14.2	13.3	13.9	11.9	12.0	13.0	13.2
Mortgage loans (in billions euros) 2/	190.8	202.4	216.1	229.7	227.4	243.3	261.4	274.1	289.0	309.5	313.7
Consumer loans (in billions euros) 2/	26.9	17.2	19.7	24.8	26.2	25.3	28.0	27.8	26.7	25.7	28.5
Term loans (in percent of loans)	40.8	n.a	n.a	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Reverse repo operations (in percent of loans)	3.1	1.7	1.5	1.0	1.1	0.5	0.5	0.3	0.3	0.3	0.2
Funding and liquidity (in percent of total assets)											
Debts to credit institutions	10.7	9.1	8.5	10.3	9.0	8.6	9.0	6.2	6.0	5.9	10.3
Bank bonds and other debt securities 3/	10.1	9.3	9.1	9.3	9.6	8.9	7.7	6.5	5.9	6.2	7.1
Customer deposits	54.7	58.5	61.0	58.4	62.2	63.9	64.6	64.3	65.9	68.4	66.6
Of which: Sight deposits 4/	18.1	24.2	28.4	26.4	30.3	31.1	31.7	33.6	36.3	35.3	31.1
Saving deposits 5/	21.0	19.9	23.0	22.8	23.5	24.7	25.1	24.7	24.9	25.2	24.2
Term deposits 4/	9.6	8.9	8.1	6.2	5.7	5.7	5.1	3.6	3.1	6.0	9.0
Retail deposits 5/	34.8	33.5	35.1	35.6	37.7	39.2	39.6	39.1	40.0	41.3	40.1
Repo's	2.7	2.3	1.7	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.7
Liquid assets 6/	36.8	32.8	32.2	32.5	31.7	29.2	26.8	35.0	35.4	36.4	37.4
Asset quality											
Sectoral distribution of loans (in percent of total assets)											
Credit institutions	12.3	9.1	8.5	6.1	6.8	6.5	7.7	4.2	3.2	2.4	3.5
Corporate (until 2013) /Non financial corporations (as of 2014)	18.5	20.6	22.0	21.4	22.7	24.8	24.2	21.5	23.6	25.6	25.1
Retail (until 2013) / Households (as of 2014)	29.4	25.5	27.4	27.5	29.6	29.9	30.4	29.1	29.3	30.8	30.5
Central governments (until 2013)/ General government (as of 2014)	1.0	4.4	4.3	4.1	4.3	4.4	4.0	3.6	3.5	3.7	3.7
Non-credit institutions (until 2013) / Other financial corporations (as of 20	5.0	3.5	2.7	2.4	2.9	2.9	3.1	2.9	2.4	2.6	2.4
Non-performing loans (NPL) as percent of gross loans 6/	3.1	2.7	2.6	2.4	2.1	1.9	1.9	2.1	1.9	1.8	2.1
Provisions and write-offs as percent of NPL 6/	54.1	57.1	54.3	55.7	57.2	61.6	60.4	60.6	62.0	59.6	50.5
Capital adequacy											
Regulatory capital to risk-weighted assets	18.7	17.3	18.7	18.8	19.0	18.8	18.8	20.3	20.5	20.1	20.2
Regulatory Tier 1 capital to risk-weighted assets	16.4	15.1	16.0	16.2	17.0	16.5	16.7	18.2	18.9	18.5	18.4
Capital to assets	6.4	6.6	6.5	7.1	7.1	7.2	7.0	7.0	6.7	6.5	6.4
NPL net of provisions as percent of Tier 1 capital 6/	12.3	12.0	12.9	10.7	7.9	6.5	6.3	6.3	5.7	6.3	9.2
Net open position in foreign exchange to capital	2.1	3.4	2.6	2.1	1.6	1.9	2.1	2.0	1.7	2.4	2.5

Sources: National Bank of Belgium.
1/ Consolidated data. Data are based on the IAS/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.

Annex I. External Sector Assessment[1]

Overall Assessment: *Belgium's external position in 2022 was* ***weaker*** *than the level implied by medium-term fundamentals and desirable policies.* The current account (CA) balance deteriorated to -1.0 percent of GDP, as the goods balance swung to deficit due largely to higher fuel imports reflecting price surges and lower vaccine exports. The outlook is highly uncertain, the CA deficit is expected to narrow marginally in 2023 and return to small surpluses in the medium term as energy prices ease, external demand recovers, and competitiveness improves. **Potential Policy Responses:** Outlays on energy bill support and other expenses related to spillovers from Russia's war in Ukraine have delayed fiscal and external adjustments. Given the elevated fiscal deficit and public debt and aging-related spending pressures, policies in the near and medium terms should focus on rebuilding fiscal buffers through a credible, expenditure-led consolidation that also creates space to support green and digital transformation through higher investment. Policies should also focus on strengthening competitiveness through structural reforms, including of the wage indexation system, social benefits, and the labor and product markets, as well as actions to foster green, digital, and inclusive growth. These steps are expected to bring the external position closer in line with medium-term fundamentals and desirable policy settings.	

Foreign Asset and Liability Position and Trajectory	**Background.** The net international investment position (NIIP) decreased to 58 percent of GDP in 2022 from 68 percent in 2021, as gross foreign assets went down 49 ppt of GDP from 2021 while gross foreign liabilities declined by 38 ppt of GDP. Net portfolio investment, the main component of the positive NIIP, declined to 36 percent of GDP (down 7 ppt of GDP from 2021) due largely to valuation changes reflecting poorly performing equity markets and sharply lower bond prices from the rise in interest rates. Net direct investment increased to 27 percent of GDP (up 0.4 ppt of GDP) reflecting a larger decline in liabilities than assets. Net other investment liabilities increased by 37 percent to a high of 13 percent of GDP in 2022, as cessation of payouts to the Bank of Russia due to sanctions remain outstanding as interbank debt. Belgium's large creditor position is underpinned by sizable net household financial wealth. Gross foreign assets of the banking sector continued to decline, to 70 percent of GDP at end-2022, well below the pre–GFC peak of more than 200 percent following a decade of consolidation and deleveraging. External public debt—mainly denominated in euros—continued to decline, to 53 percent of GDP in 2022 from 67 percent of GDP in 2021, a reversal following a sharp increase to 75 percent of GDP in 2020 due to financing needs of the fiscal response to the pandemic and a decline of nominal GDP. **Assessment.** Based on the projected CA deficit 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. Belgium's large gross international asset and liability positions are elevated by the presence of corporate treasury units, which do not appear to create macro-relevant mismatches.				
2022 (% GDP)	NIIP: 58	Gross Assets: 420	Debt Assets: 141	Gross Liab.: 362	Debt Liab.: 156
Current Account	**Background.** The CA balance averaged 0.5 percent of GDP over 2016-21. Volatility in the trade and primary income balances is driven in part by sizable operations of multinationals and large revisions.[2] In 2022, the CA balance swung to a deficit of 1.0 percent of GDP from a surplus of 1.3 percent of GDP in 2021, driven by a sharp deterioration of the trade balance. Net imports of fuels and related materials increased to 4.1 percent of GDP (€23 billion) in 2022, one ppt higher than in 2021, reflecting surges in energy prices. Net exports of pharmaceutical products declined to 3.5 percent of GDP in 2022 (from 4.4 ppt GDP in 2021), reflecting a slowdown in shipment of coronavirus vaccines. Income and current transfers balances remained broadly stable at 1.5 percent and -0.9 percent of GDP, respectively, in 2022. The cyclically adjusted CA in 2022 is projected at 0.8 percent of GDP, with a cyclical contribution of -1.8 percent of GDP largely due to the deterioration in the commodity terms of trade (-1.5 percent). **Assessment.** EBA model estimates for 2022 yield a CA gap of –2.0 percent of GDP, based on a cyclically-adjusted CA balance of 0.8 percent of GDP, relative to an estimated norm of 2.8 percent of GDP. Adjustment for transitory COVID-19 effects on the CA is 0 percent of GDP: -0.2 percent of GDP for travel services				

[1] Updated based on the 2023 External Stability Report.

<table>
<tr><td></td><td colspan="7">(including tourism), and 0.1 percent of GDP for transport. This is within a range estimated by IMF staff for the CA gap of between –2.5 and –1.7 percent of GDP, applying the standard error of the CA norm estimated at ±0.4 percent of GDP.</td></tr>
<tr><td>2022
(% GDP)</td><td>CA: -1.0</td><td>Cycl. Adj. CA: 0.8</td><td>EBA Norm: 2.8</td><td>EBA Gap: –2.0</td><td>COVID-19 Adj. 0.0</td><td>Other Adj.: –</td><td>Staff Gap: –2.1</td></tr>
<tr><td>Real Exchange Rate</td><td colspan="7">Background. After a cumulative appreciation of the CPI-based REER by 7 percent between end 2015-2021, it depreciated by 0.4 percent in 2022, largely mirroring the depreciation of NEER. In contrast, the ULC-based REER appreciated by 0.9 percent (y/y) in 2022, and by 7.7 percent in December 2022 from the trough in February 2020, reflecting higher wage increases due to automatic wage indexation in Belgium.

Assessment. Based on the staff-assessed CA gap range, the REER is overvalued in the range of 2.3 to 3.4 percent, with a midpoint of 2.9 percent (applying an estimated elasticity of the CA balance to the REER of 0.72). EBA model estimates point to a REER overvaluation of 16.9 percent based on the CPI-based REER index and 31.3 percent by the REER level models.</td></tr>
<tr><td>Capital and Financial Accounts: Flows and Policy Measures</td><td colspan="7">Background. The BOP financial account was negative in 2022 with flows of foreign liabilities exceeding flows of foreign assets by about €5 billion (1.0 percent of GDP): the portfolio investment balance was about €0.8 billion (0.1 percent of GDP), the direct investment balance was €13 billion (2.3 percent of GDP)and was offset by a large negative balance in other investment of €23 billion (4.1 percent of GDP) stemming from a sharp rise in foreign debts of commercial banks to Russia. Short-term external debt increased marginally to 31 percent of gross external debt in 2022 (from an average of 27 percent in 2017-2021). 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, 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">[2] Methodological and source data changes that took place in September 2019 led to major revisions of BOP data from 2015 onwards, causing a break in the data series.</td></tr>
</table>

Annex II. 2022 Article IV Recommandations

2022 Article IV Recommendations	Policy Actions
Fiscal Policy	
Aim for a tighter stance to complement monetary policy in curbing inflation.	Fiscal policy was expansionary in 2023. While energy bill support to households and firms is being phased out, the deficit widens due to rising permanent current expenditure (e.g., automatic indexation of wages and social benefits, aging population).
Rebuild fiscal buffers through a credible medium-term adjustment path, focus on addressing aging pressures, better benefit targeting, and improving spending efficiency.	Overtaken by continuing spillovers from Russia's invasion of Ukraine, the provision of energy support measures, and higher interest expenses. The government announced reduction efforts in the 2023 budget review but there were insufficient to prevent a rise in the fiscal deficit. Fiscal coordination among federal entities still needs improvement.
Energy support should be better targeted and remain temporary and limited.	With energy prices decreasing, the VAT rate cut on gas and electricity for households from 21 to 6 percent was made permanent since April 2023 but, to offset the cost, higher excises on gas and electricity were introduced, with the excise levels linked to international energy prices. The expanded beneficiaries for the social energy tariff will be phased out by 2024.
Further efforts to advance tax and benefit reforms to sustain rebuilding of buffers and higher growth.	Proposed measures in March 2023 to initiate the tax reform included a major shift of the tax burden from labor to wealth and consumption, but the effort stalled. Reforms to pension benefits focused on gaps (reintroducing a pension bonus for working after the statutory retirement age, re-setting minimum working conditions for access to minimum pensions) and the agreement reached in July included measures to offset some of the cost from increasing minimum pension and pension bonus and also capped the increase in pensions of public sector employees.
Financial Sector Policy	
Cooling of the housing market calls for heightened vigilance and release of buffers, if needed.	The NBB's supervisory expectations have been effective in reducing the share of high LTV-loans in new residential mortgage lending. The increase of mortgage maturities helped to offset impact of higher mortgage rates. The SsyRB was relaxed, yet parallel CcyB activation will create additional capital buffers.
Sectoral credit and cyber risk concerns call for a near-term halt to macroprudential tightening and enhanced operational preparedness.	Supervisors are closely monitoring vulnerabilities and risks. There is ongoing alertness to financial strains and preparedness to use available policy headroom should the macro-financial outlook deteriorate sharply.
Continue to ensure the adequate provisioning of credit, preserving resilience, and facilitating deployment of buffers to absorb losses when needed.	Banks' assets quality remains strong, but credit risk provisions have not been rising despite increasing systemic risks. CcyB activation in combination with SsyRB relaxation will provide additional capital buffers.
Structural Reforms	
The tight labor market calls for efforts in targeting, including younger workers and women, those receiving disability benefits and more fundamental reforms of wage-setting, hiring and dismissal, employment protection, social benefits, and employer flexibility.	Policy efforts continued. For instance, the Federal government introduced a back-to-work reintegration programs, and an incentive of 1000 euros for employers that enable partial work resumption. Part of the welfare budget will be used to increase the net income of low-paid workers through a work bonus.
Continue product market reforms to enhance flexibility, productivity, and competitiveness.	Product markets have not been a key focus of reforms in recent years.
Establish a wider set of initiatives and greater focus on execution and coordination to reach ambitious climate goals.	Difficulties in coordinating climate action plans among federal entities are delaying needed reforms.
Source: IMF staff; see IMF Country Report 23/98.	

Annex III. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
External Risks				
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	ST	High Direct energy, trade and financial links with Russia and Ukraine are limited. An escalation of the war would affect the economy mainly via indirect growth spillovers and rekindled inflation from higher commodity prices. Frozen assets of Russian entities held by Euroclear Bank raise litigation and reputational risks with potentially adverse consequences for financial stability.	Limited fiscal space and rebounding inflation would call for well-targeted, temporary support for groups most vulnerable to lower growth and higher inflation, possibly accompanied by a pause in automatic wage indexation to prevent the emergence of a wage-price spiral.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs. **Europe:** Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections.	Medium Medium	ST, MT	High As a highly open economy, spillovers from a sharp downturn in key trading partners (France, Germany, The Netherlands) would dampen economic growth. With elevated financial sector exposures to real estate markets, steep price corrections would weaken macro-financial stability.	With fiscal space highly constrained and core inflation slow to recede, fiscal stimulus should be limited to the operation of automatic stabilizers and well-targeted, temporary support for groups most vulnerable to an economic downturn, preferably offset by lower current spending in other parts of the budget to prevent increases in the overall deficit. A sharp deterioration in real estate markets would advocate the deployment of available capital buffers to absorb credit losses.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	Medium	ST, MT	High Near-universal automatic wage and benefit indexation may quickly translate de-anchored inflation expectations into wages and prices. International competitiveness would suffer, weakening the external balance and potential output.	With monetary policy setting beyond the direct control of the authorities, breaking the harmful effects of a wage-price spiral would require discretionary fiscal tightening, politically contentious pausing or modification of the indexation mechanism and multiannual real wage restraint.
Sovereign debt distress. Domino effects of higher global interest rates, a growth slowdown in Aes, and/or	Medium	ST, MT	High Elevated financing costs for a prolonged period would	Substantial, discretionary fiscal tightening may be needed to

[1] The risk assessment matrix (RAM) shows events that could materially alter the baseline path. 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.

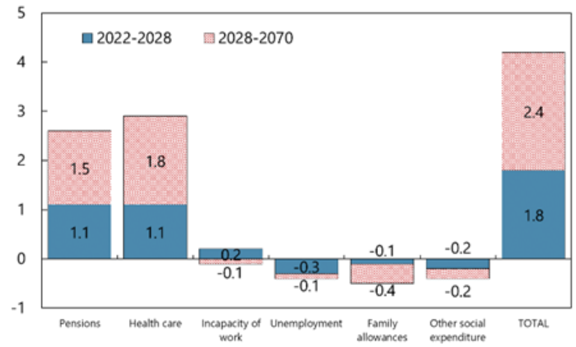
Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
disorderly debt events in some EMDEs spillover to other highly indebted countries, resulting in capital outflows, an increase in risk premia, and loss of market access.			undermine fiscal sustainability, given elevated debt and deficit levels. A favorable sovereign debt maturity profile provides support.	help re-affirm credibility, reduce government bond yields, and stabilize public debt.
Deepening geoeconomic fragmentation. Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**MT**	**Medium** Belgium is vulnerable to deglobalization due to strong cross-border real and financial linkages and the presence of multi-national corporations and large financial/payment services providers, heightening risks to economic dynamism and financial stability. Financial sector resilience and EU/euro area membership provide support.	Strengthen international competitiveness and accelerate diversification of export markets by advancing labor and product market reforms. Continue to enhance financial sector resilience by keeping an eye on emerging vulnerabilities, building appropriate buffers and developing adequate contingency plans.
Disorderly energy transition. Disorderly shift to net-zero emissions (e.g., owing to shortages in critical materials) and climate policy uncertainty cause supply disruptions, stranded assets, market volatility, and subdued investment and growth.	**Medium**	**MT**	**Medium** Despite a rather diversified energy supply, slow progress with reaching ambitious climate targets may require accelerated efforts in later years, triggering a disorderly transition with negative consequences for an energy-intensive, highly industrialized economy.	Strengthen efforts to promote an orderly energy transition by calibrating taxation towards carbon-intensive activities, accelerating the phase-out of fossil fuel subsidies and setting incentives for a shift to renewable energy sources. Devise well-targeted and temporary support schemes for vulnerable households and firms to cushion the near-term impact of higher energy costs. Develop a long-term energy supply strategy, harmonized across federal and regional entities.
Belgium-Specific Risks				
Political uncertainty and fragmentation may intensify in the context of the general and regional elections in 2024 and lead to a protracted government formation process, delaying fiscal consolidation and structural reforms in support of higher potential growth, energy security, climate transition and digital transformation.	**High**	**NT, MT**	**High** Fiscal sustainability concerns may result in a substantial increase in borrowing costs and a need for a sharper fiscal adjustment, with negative consequences for growth and financial stability. Prolonged inaction in policy areas demanding urgent attention may dampen economic output, weaken competitiveness, and aggravate social frictions.	Ensure an effective initial response within the constraints of a possible caretaker administration. Accelerate the building of political consensus to form a governing coalition and to quickly establish a credible and ambitious fiscal adjustment path, accompanied by ambitious tax, social benefit and structural reforms.

Annex IV. Fiscal Adjustment Scenarios

Belgium's cyclical and structural challenges call for a significant and sustained fiscal consolidation to reach structural balance by 2030 (medium-term objective). A structural primary adjustment of 0.6 ppt (or more) in 2024 and 0.8 ppt per year (or more) during 2025-30 would be needed, thereby reducing the debt-GDP ratio steadily to around 60 percent of GDP in early 2040s.

1. The structural deterioration in the fiscal position and rising debt call for a sustained consolidation to rebuild buffers. Under staff's baseline where no further adjustment would be made, the general government structural deficits are expected to remain elevated over the medium term and beyond, driven by recent structural spending increases and anticipated higher aging-related expenditures.[1] The fiscal cost of aging is projected to increase by 4.2 percentage points of GDP during 2022-70, of which 1.8 ppts of GDP in 2022-28 (FPB July 2023).[2] As a result, with unchanged policies, the fiscal deficit would increase from 5½ percent of GDP in 2028 to 7½ percent of GDP in 2041. The primary deficit would be 2.3 ppts of GDP larger than the debt stabilizing primary balance of -0.4 percent of GDP in 2028, putting gross public debt on a high and rising trajectory. It would approach 147 percent of GDP in 2041. This high level of debt increases debt service costs and makes high gross financing requirements vulnerable to credit-and-liquidity crisis events.

Fiscal Costs of Aging
(Percent of GDP)

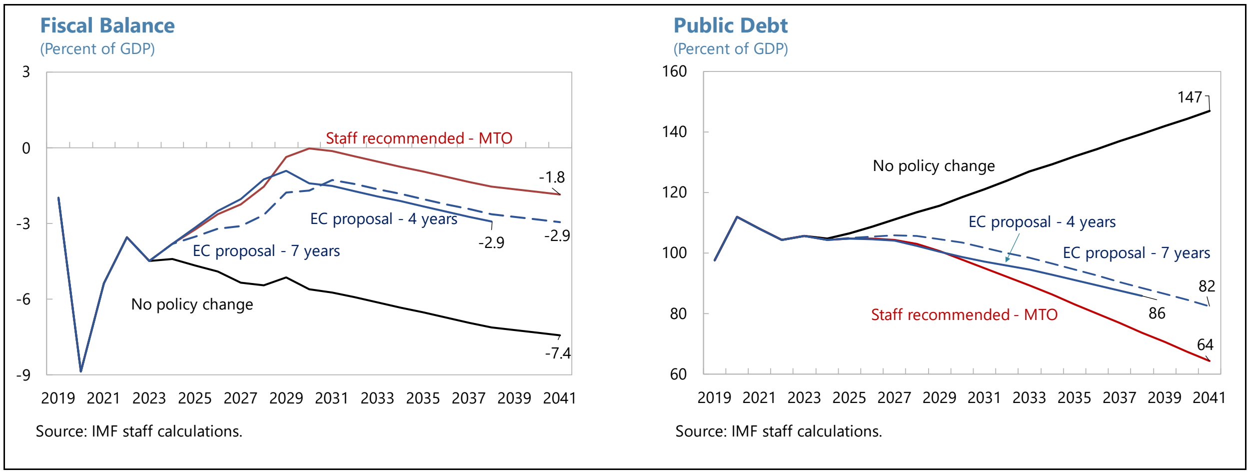


Source: FPB Study Commitee on Aging - Annual Report (July 2023)

2. The authorities' planned fiscal adjustment will not stabilize debt. Per the 2023–26 stability program, the authorities envisage a fiscal balance improvement of 2.2 ppts of GDP over 2024-26, bringing the fiscal deficit just below 3 percent of GDP in 2026 and the primary deficit to 0.5 percent of GDP, but gross public debt, at 108 percent of GDP, will continue to rise. The government implemented budgetary efforts (a deficit reduction assuming no other policy changes) of 1.9 percent of GDP in 2021-24, including annual fixed (0.2 percent of GDP each year) and variable components (0.3, 0.3, 0.6 percent of GDP in 2022-24) based on the level and growth of output. More ambitious plans (possibly via larger variable components) were overtaken by events in 2022 (war in Ukraine, energy crisis).

[1] Covid-19 related structural spending increases include permanent increases in healthcare and investment triggered by the pandemic.

[2] Social benefits costs are projected to increase from 25.7 percent of GDP in 2022, to 30.1 percent of GDP by 2050, before a slight decrease between 2050 and 2070 to 29.9 percent of GDP (FPB Study Committee on Ageing-Annual Report -July 2023). Healthcare and pensions spending will each increase by 1.1 ppts of GDP in 2022-28, in which the increase in pension expenditure reflects increase in minimum pensions in 2021 and 2024, tempered by the increase in statutory retirement age in 2025, while unemployment benefits and expenditure on childcare and other social spendings provide some offsets on the budgetary costs of aging.



3. **A more ambitious, upfront adjustment is needed.** An adjustment path to reach structural balance by 2030 (T+7, the previous EU medium-term objective, MTO) would appropriately place debt solidly on a downward trajectory. Such adjustment (Adjustment 1) would see the structural primary adjustment (measured as the deviation of the change of the structural primary balance from its change under the baseline) reduced by 0.6 ppt per year (or more) in 2024 and 0.8 ppt per year (or more) during 2025-30, anchored by cyclical and sustainability considerations as explained in ¶16 of the staff report.[3] This adjustment path would be consistent with the overall fiscal deficit reaching about 4, 3, and 2½ percent of GDP in 2024, 2025 and 2026, respectively and achieving a balance in 2030. Additional savings would continue to be needed to facilitate higher investment spending to boost medium-term growth. The cumulative adjustment would amount to 5.6 ppts of GDP, more than offsetting the estimated increase in aging outlays of 4 ppts of GDP (2022-41), with debt-GDP ratio declining steadily towards 60 percent of GDP in early 2040s. Under this scenario, growth would be about 0.2 ppt lower than in the baseline, absent structural reforms to increase productivity.[4]

4. **Staff's recommended adjustment path is more demanding than the likely fiscal adjustment paths envisaged under the EC's proposals for new EU fiscal framework.** For high-debt EU members such as Belgium, with public debt above 60 percent of GDP or a fiscal deficit exceeding 3 percent of GDP, the fiscal adjustment under the proposed risk-based surveillance framework would include (a) the fiscal deficit remains or is brought and maintained below 3 percent of GDP (deficit criterion); (b) debt at the end of the adjustment period is lower than debt in 2024 and continues on a downward path or stays at prudent levels for 10 years (debt criterion); (c) a minimum fiscal adjustment of 0.5 percent of GDP per year is to be implemented so long as the deficit remains above 3 percent of GDP; and (d) the average net expenditure growth is less than the medium-term nominal output growth (expenditure criterion).[5] Staff would strongly encourage achieving a structural primary adjustment (the deviation of the change of the structural primary balance from its change under the baseline) of 0.6 percent of GDP (or more) in 2024—the year before the start of the

[3] Measuring adjustment in structural primary terms reflects more directly the discretionary effort.

[4] Based on a fiscal multiplier of 0.25. This is broadly consistent with a lower multiplier range of 0.1 -0.3 with structural characteristics of a small open economy with relatively large automatic stabilizer (see IMF (2014)).

[5] EC Legislative proposals for reform of the EU economic governance framework, April 26, 2023. Further, the country specific recommendations (May 24, 2023) limit the nominal increase in nationally-financed net primary expenditure in 2024 to 2 percent to ensure prudent fiscal policy.

new EU fiscal framework. Under a 4-year adjustment scenario in 2025-28 (adjustment scenario 2), the required annual adjustment would be 0.9 percent of GDP, implying a cumulative adjustment effort of 4.2 ppts of GDP, reducing the debt-GDP ratio to 86 percent 10-year after in 2038. Alternatively, under a 7-year adjustment scenario with commitments on growth-enhancing reforms and public investments in 2025-31 (adjustment scenario 3), the annual adjustment effort will be lower at 0.5 percent of GDP, implying a broadly similar cumulative efforts of 4.4 ppts of GDP spread over 3 more years, with the 10-year debt trajectory reaching 83 percent of GDP in 2041.[6] In comparison, staff's recommended adjustment path targeting a structurally balance (adjustment scenario 1) would bring public debt closer to the 60 percent of GDP debt threshold.

Illustrative Medium-term Fiscal Adjustment Paths

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2038	2041	End of adjustment-2023	Cumulative
		(Percent of GDP)													
No policy change	Fiscal balance (FB)	-3.5	-4.5	-4.4	-4.7	-4.9	-5.3	-5.4	-5.1	-5.6	-5.7	-7.1	-7.4	-3.0	
(Baseline)	ΔFB		-0.9	0.1	-0.3	-0.2	-0.4	-0.1	0.3	-0.5	-0.1	-0.2	-0.1		
	Interest	1.5	1.8	2.0	2.2	2.3	2.6	2.7	2.3	2.7	2.9	3.6	3.8	2.0	
	Primary balance	-2.0	-2.7	-2.4	-2.4	-2.5	-2.7	-2.7	-2.8	-2.9	-2.8	-3.5	-3.6	-0.9	
	Structural balance (SB)	-4.1	-4.6	-4.4	-4.7	-4.9	-5.3	-5.5	-5.1	-5.6	-5.7	-7.1	-7.4	-2.8	
	Structural primary balance	-2.5	-2.8	-2.4	-2.5	-2.6	-2.7	-2.7	-2.8	-2.9	-2.9	-3.5	-3.6	-0.8	
	ΔSB	1.1	-0.5	0.2	-0.3	-0.2	-0.4	-0.1	0.3	-0.5	-0.1	0.0	0.0		
	ΔSPB	1.0	-0.3	0.5	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	0.1	0.0	0.0		
	Debt	104.3	105.5	104.7	106.4	108.6	111.1	113.4	115.7	118.4	121.1	139.4	146.9	**41.3**	
Staff recommended (MTO)	Fiscal balance		-4.5	-3.8	-3.2	-2.6	-2.3	-1.5	-0.4	0.0	-0.1	-1.5	-1.8	4.5	
(Adjustment 1)	ΔFB		-0.9	0.7	0.6	0.6	0.4	0.7	1.2	0.4					
	Primary balance		-2.7	-1.8	-1.0	-0.3	0.3	1.2	1.9	2.7	2.7	2.1	2.0	5.3	
	Structural balance		-4.6	-3.8	-3.3	-2.7	-2.2	-1.5	-0.4	0.0	-0.2	-1.6	-1.9	4.6	
	Structural primary balance		-2.8	-1.8	-1.0	-0.3	0.4	1.2	1.9	2.6	2.7	2.1	1.9	5.5	
	ΔSB		-0.5	0.8	0.5	0.6	0.4	0.7	1.2	0.4	-0.1	-0.2	-0.1		
	ΔSPB		-0.3	1.1	0.7	0.7	0.7	0.8	0.8	0.7	0.1	-0.1	0.0		
	Adjustment 1/			**0.6**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**	**0.8**					**5.6**
	Debt		105.5	104.2	104.7	104.8	104.4	102.9	100.6	97.8	94.9	73.7	64.3	**-7.7**	
EC proposal - 4 years	Fiscal balance		-4.5	-3.8	-3.2	-2.5	-2.0	-1.2	-0.9	-1.4	-1.5	-2.9		3.2	
(Adjustment 2)	ΔFB			0.7	0.6	0.7	0.5	0.8							
	Primary balance		-2.7	-1.8	-0.9	-0.1	0.6	1.5	1.4	1.3	1.4	0.7		4.2	
	Structural balance		-4.6	-3.8	-3.2	-2.5	-2.0	-1.3	-0.9	-1.4	-1.5	-2.9		3.4	
	Structural primary balance		-2.8	-1.8	-1.0	-0.2	0.6	1.4	1.4	1.3	1.3	0.7		4.3	
	ΔSB		-4.6	0.8	0.6	0.7	0.5	0.8	0.3	-0.5	-0.1	-0.2			
	Adjustment 1/			**0.6**	**0.9**	**0.9**	**0.9**	**0.9**							**4.2**
	Debt		105.5	104.2	104.7	104.6	104.0	102.3	100.3	98.8	97.3	85.8		**-3.2**	
	Primary expenditure (nominal, % change) 2/				1.0	1.1	1.4	1.5							
EC proposal - 7 years	Fiscal balance		-4.5	-3.8	-3.5	-3.2	-3.1	-2.6	-1.8	-1.7	-1.3	-2.6	-2.9	1.4	
(Adjustment 3)	ΔFB			0.7	0.3	0.3	0.1	0.4	0.9	0.1	0.4				
	Primary balance		-2.7	-1.8	-1.3	-0.8	-0.5	0.1	0.5	1.0	1.6	-2.6	-2.9	2.2	
	Structural balance		-4.6	-3.8	-3.5	-3.2	-3.1	-2.7	-1.8	-1.7	-1.3	-2.6	-2.9	1.6	
	Structural primary balance		-2.8	-1.8	-1.3	-0.9	-0.5	0.1	0.5	1.0	1.6	-2.6	-2.9	2.4	
	ΔSB		-4.6	0.8	0.2	0.3	0.2	0.4	0.9	0.1	0.4	-0.2	-0.1		
	Adjustment 1/			**0.6**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**	**0.5**				**4.4**
	Debt		105.5	104.2	104.9	105.5	105.9	105.5	104.5	103.4	101.7	88.5	82.5	**-3.8**	
	Primary expenditure (nominal, % change) 2/				1.8	1.9	2.2	2.3	1.8	1.8	1.4				
Memodandum item															
Stability Program 2023-26															
	Fiscal balance	-3.9	-5.1	-4.2	-3.3	-2.9									
	ΔFB		-1.2	0.9	0.9	0.4									
	Interest	1.5	1.7	2.0	2.2	2.4									
	Primary balance	-2.4	-3.4	-2.2	-1.1	-0.5									
	One-off and temporary measures	0.2	0.1	0.2	0.0	0.0									
	Cyclical component	0.0	-0.3	-0.2	-0.3	-0.3									
	Cyclically adjusted balance	-3.9	-4.7	-4.0	-3.1	-2.7									
	Structural balance	-4.1	-4.8	-4.2	-3.1	-2.7									
	ΔSB		-0.7	0.6	1.2	0.4									**2.2**
	Debt	105.1	106.7	107.1	107.6	107.8									

Sources: Stability Program 2023-26; and IMF staff calculations.
1/ Adjustment defined as the deviation of the change of the structural balance from its change under the baseline.
2/ Expenditure criterion requires average net expenditure growth to be less than medium-term nominal potential output growth (2028 : 3.2 percent)

[6] The simulations by the FPB, based on EU proposed Economic Governance Framework of November 2022, suggested broadly similar magnitude of adjustment for Belgium, requiring fiscal adjustment that could reach 4.0 percent of GDP (i.e., 1.0 percent additional adjustment per year) in 4 years, or up to 4.8 percent of GDP (i.e., 0.7 percent additional adjustment per year) in a longer adjustment period of 7 years contingent on proposing reforms and investments aiming at economic growth and debt sustainability. These adjustments are expressed as an increase in the primary balance of the general government compared to a projection under unchanged policies (see FPB January 26, 2023).

Annex V. SRDSF Debt Sustainability Analysis

Belgium's risk of sovereign distress is assessed as moderate. High public debt level is expected to rise from 104 percent of GDP in 2022, driven by higher primary deficits, as aging costs set in, and rising interest rates. Risks mitigating factors include an extended debt maturity profile and a large and stable domestic (and euro-resident) investor base.

A. Background

1. **Public debt is high and rising.** Belgium ranks among high-debt countries in the euro area with debt-to-GDP ratios above 100 percent. General government debt fell below 100 percent of GDP in 2018, for the first time since the GFC, but the large fiscal response during the pandemic pushed debt to 112 percent of GDP in 2020. The debt ratio fell cumulatively in 2021-22 by 7.5 ppts of GDP to 104 percent of GDP in 2022 due to favorable denominator effect from strong growth and high inflation. However, under current policies, with continued high primary deficits, moderate growth, and high interest rates, the debt ratio is projected to increase to 113 percent of GDP in 2028 and near 124 percent of GDP by 2032.

2. **An increase in debt-servicing costs over the medium term adds to challenges of fiscal and debt sustainability.** Higher borrowing costs will place strains on public finances at a time when fiscal resources are stretched. Belgium's 10-year bond yield rose from average 1.8 percent in 2022 to a monthly average of 3.5 percent in October 2023, the highest since mid-2012. Risk premia, measured by spreads over German bond yields, averaged 66 bps in January-October in 2023, up from 56 bps in 2022. It may increase further absent sufficient fiscal consolidation and growth-enhancing structural reforms to steadily reduce deficits and debt.

B. Baseline Scenario

3. **Macroeconomic assumptions.** Growth is projected to slightly slow to 1.0 percent of GDP in 2024 from 1.4 percent in 2023 by weaker domestic and external demand. It is expected to gradually recover to 1.2 percent potential over the medium term. Headline inflation is projected to increase to 4.4 percent in 2024 from 2.5 percent in 2023, boosted by the unwinding of the government's energy-price support measures and base effects, before gradually declining and stabilizing just below 2 percent in the medium term.

4. **Fiscal assumptions.** The baseline assumes unchanged current policies. The overall fiscal deficit remains elevated at 4.5 percent of GDP in 2023 and widens further to about 5.5 percent of GDP in 2028. Aging (+0.3 ppt of GDP per year) and social-benefit pressures keep the deficit elevated in the medium term. The primary deficit remains elevated at 2.7 percent of GDP in 2028, well-above its debt-stabilizing level of -0.4 percent and the pre-crisis projection of -1.4 percent (2025).

5. **Interest rates and gross financing needs (GFN).** Long-term interest rates (benchmark 10-year bond yield) are projected to increase to 4 percent (average) by 2028, a rise of 230 bps from

2022 (average). Refinancing of the debt stock to lengthen maturity at lower borrowing costs during the low-interest rates years from 2017 through early 2022 provided a buffer against rising interest rates in the near-term, but less so for medium-term. The effective rate is expected to gradually rise to 2.4. percent in 2028, an increase of 91 bps, from the historical low of 1.5 percent in 2022. Debt service costs would rise from 14 percent of GDP in 2022 to 18 percent of GDP in 2028. Gross financing needs are expected to increase from 16 percent of GDP in 2022 to around 21 percent of GDP in 2028.

C. Realism of Projections

6. Realism of baseline assumptions. Past projections of debt drivers do not reveal any systematic biases. The forecast errors for the primary deficit and debt-to-GDP ratio are well within norms. The projected change in public debt is similar to the past 5 years, with a slightly larger contribution from primary deficit.

D. Risk Assessment and Mitigating Factors

7. Belgium's overall risk of sovereign stress is assessed as moderate. A favorable debt profile and strong institutional capacity continue to mitigate sustainability concerns. The long weighted-average maturity of debt, which has doubled to 10.9 years in 2022 and is among the highest in euro area economies, helps limit refinancing risks. About 83 percent of the public debt are claims on the federal government and all debt is denominated in euros. Close to 45 percent of debt is held by residents, of which close to one-half by the central bank in 2022, after successive increases since 2015. There is scope for financing needs to be absorbed by domestic or wider euro-area financial institutions in time of stress.

Figure V.1. Belgium: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	Belgium's overall risk of sovereign stress is assessed as moderate. Public debt ratio is rising reflecting elevated primary deficits, rising interest costs, and spending pressures from population aging. Mitigating factors include Belgium's large institutional investor base, home bias, no foreign currency debt, and an average residual maturity for debt securities of 10.9 years – the second longest among EU peers.
Near term 1/			
Medium term	Moderate	Moderate	Staff's assessment of the medium-term risk of sovereign stress is moderate, consistent with the mechanical signal. Risks resulting from a high probability of debt non-stabilization and sizable financing needs are mitigated by the quality of Belgium's debt management capacity and market absorption capacity expected even under stress.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	...	...	
Long term	...	Moderate	Long-term risk is assessed moderate. Aging-related spending pressures on healthcare and pension is estimated to increase from 25.7 percent of GDP in 2022 to peak at 30.1 percent of GDP in 2050 before decreasing slightly to 29.9 percent of GDP in 2070 (2023 Annual Report by the Aging Committee). Mitigating factors include sustaining strong fiscal adjustments over the medium term under the EU economic governance framework and owing to the high quality of debt management.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Belgium is at a moderate overall risk of sovereign stress. The rising level of outstanding public debt, persistently elevated primary deficits, and rising interest costs over the medium term, with large financing needs are reflected in the moderate medium-term risk score. With higher financing cost increasingly weighing on debt service burden as lower-cost debt matures over the medium term, tailwinds from favorable debt dynamics will dissipate, requiring an increasingly large effort to stabilize debt at a time when investment needs for green and digital transformation are rising.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure V.2. Belgium: Debt Coverage and Disclosures

1. Debt coverage in the DSA: 1/

CG	GG	NFPS	CPS	Other

1a. If central government, are non-central government entities insignificant? n.a.

2. Subsectors included in the chosen coverage in (1) above:

					Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	
				2	Extra budgetary funds (EBFs)	No	Not applicable
				3	Social security funds (SSFs)	Yes	
				4	State governments	Yes	
				5	Local governments	Yes	
				6	Public nonfinancial corporations	No	
				7	Central bank	No	
				8	Other public financial corporations	No	

3. Instrument coverage:

Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/

4. Accounting principles:

Basis of recording		Valuation of debt stock		
Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:

Consolidated	Non-consolidated

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-government Debt Holdings

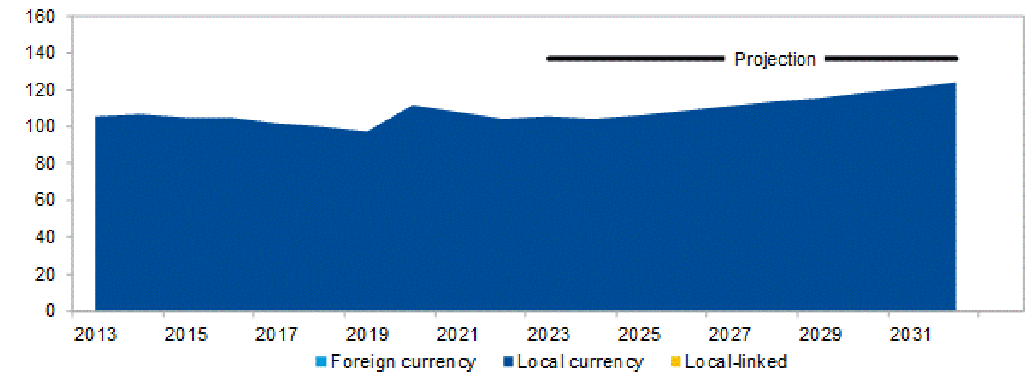
					Holder / Issuer	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt									0
				2	Extra-budget. funds									0
				3	Social security funds									0
				4	State govt.									0
				5	Local govt.									0
				6	Nonfin pub. corp.									0
				7	Central bank									0
				8	Oth. pub. fin. corp									0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The debt coverage is unchanged from recent Article IVs. It covers general government debt, with most debt issued by the federal (central) government. The consolidated gross debt of the federal government amounted to 83 percent of total public debt or 86 percent of GDP as of end-2022.

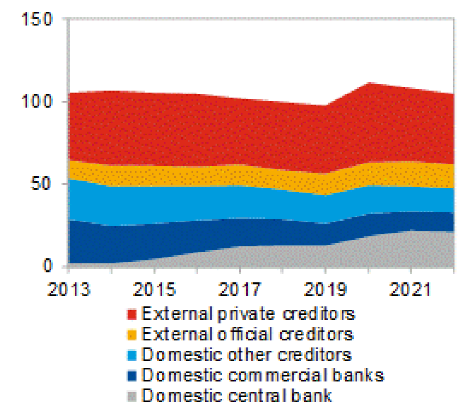
Figure V.3. Belgium: Public Debt Structure Indicators

Debt by Currency (percent of GDP)



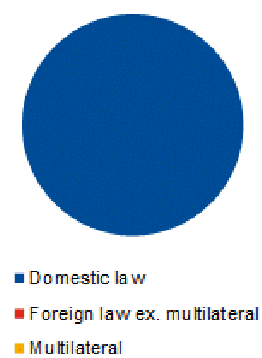
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



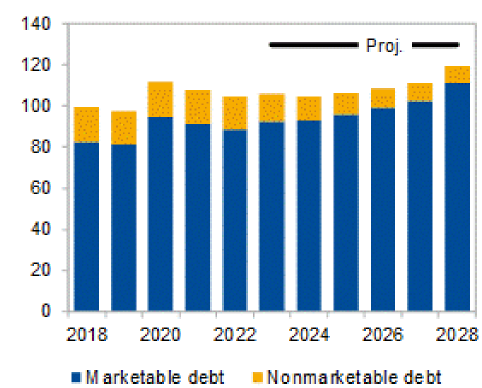
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2022 (Percent)



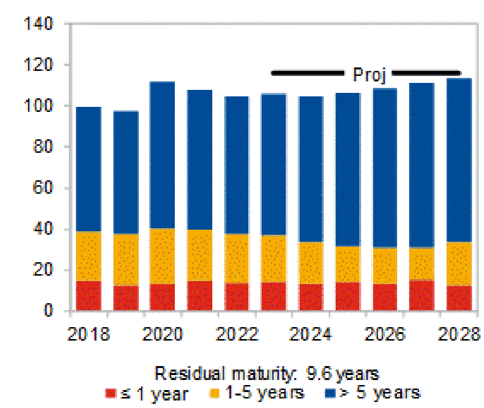
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Public debt is predominantly in domestic currency and marketable. The share held by the central bank has increased steadily over the last six years to 20 percent of outstanding debt in 2022, with corresponding decline in the share held by domestic commercial banks. All public debt is governed by domestic law. Public debt is predominantly long-term, with an average maturity of 10.4 years in 2022.

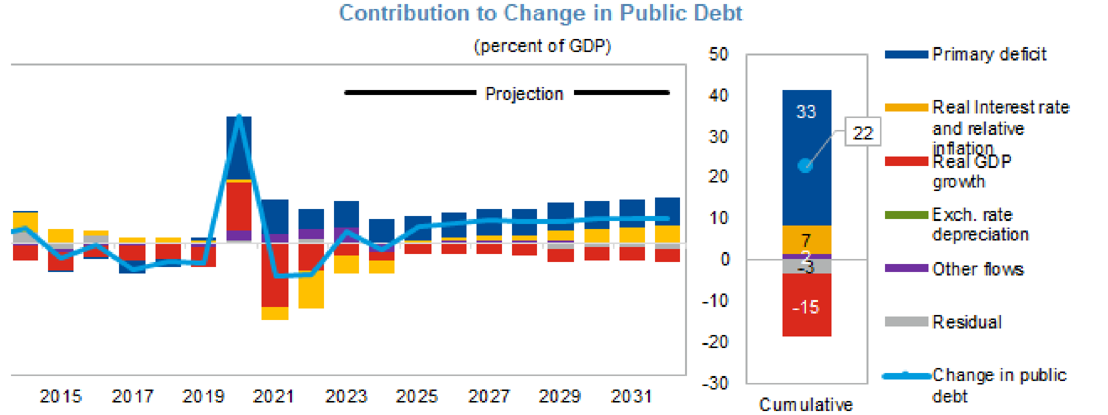
Figure V.4. Belgium: Baseline Scenario

(Percent of GDP unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Public debt	104.3	105.5	104.7	106.4	108.6	111.1	113.4	115.7	118.4	121.1	123.9
Change in public debt	-3.6	1.2	-0.8	1.7	2.2	2.5	2.3	2.3	2.7	2.7	2.7
Contribution of identified flows	-4.0	1.2	-0.8	1.7	2.2	2.5	2.3	3.0	3.3	3.3	3.5
Primary deficit	2.3	3.0	2.6	2.7	2.8	3.0	3.0	3.1	3.2	3.1	3.1
Noninterest revenues	49.4	50.3	51.1	50.8	50.8	50.7	50.9	50.9	50.9	50.8	50.8
Noninterest expenditures	51.6	53.2	53.7	53.6	53.6	53.8	53.9	53.9	54.0	53.9	54.0
Automatic debt dynamics	-7.4	-3.5	-2.4	-1.1	-0.8	-0.6	-0.8	-0.2	0.0	0.1	0.3
Real interest rate and relative inflation	-4.3	-2.0	-1.4	0.2	0.5	0.7	0.7	1.3	1.4	1.6	1.8
Real interest rate	-4.3	-2.0	-1.4	0.2	0.5	0.7	0.7	1.3	1.4	1.6	1.8
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-3.2	-1.5	-1.0	-1.2	-1.3	-1.3	-1.5	-1.5	-1.5	-1.5	-1.6
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	1.2	1.8	-1.1	0.1	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Stock-flow adj. and debt management	1.4	2.0	-0.8	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Contribution of residual	0.4	0.0	0.0	0.0	0.0	0.0	0.0	-0.7	-0.6	-0.6	-0.7
Gross financing needs	15.7	15.7	18.4	17.2	18.7	18.4	20.5	18.0	17.7	20.6	20.2
of which: debt service	13.8	13.0	16.0	14.8	16.1	15.6	17.8	15.2	14.8	17.8	17.3
Local currency	13.8	13.0	16.0	14.8	16.1	15.6	17.8	15.2	14.8	17.8	17.3
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	3.0	1.4	1.0	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3
Inflation (GDP deflator; percent)	5.9	3.8	3.3	2.0	1.8	1.8	1.9	1.6	1.6	1.6	1.6
Nominal GDP growth (percent)	9.1	5.4	4.3	3.2	3.0	3.0	3.3	2.9	2.9	2.9	2.9
Effective interest rate (percent)	1.6	1.8	2.0	2.2	2.3	2.5	2.5	2.7	2.9	3.0	3.2

Contribution to Change in Public Debt

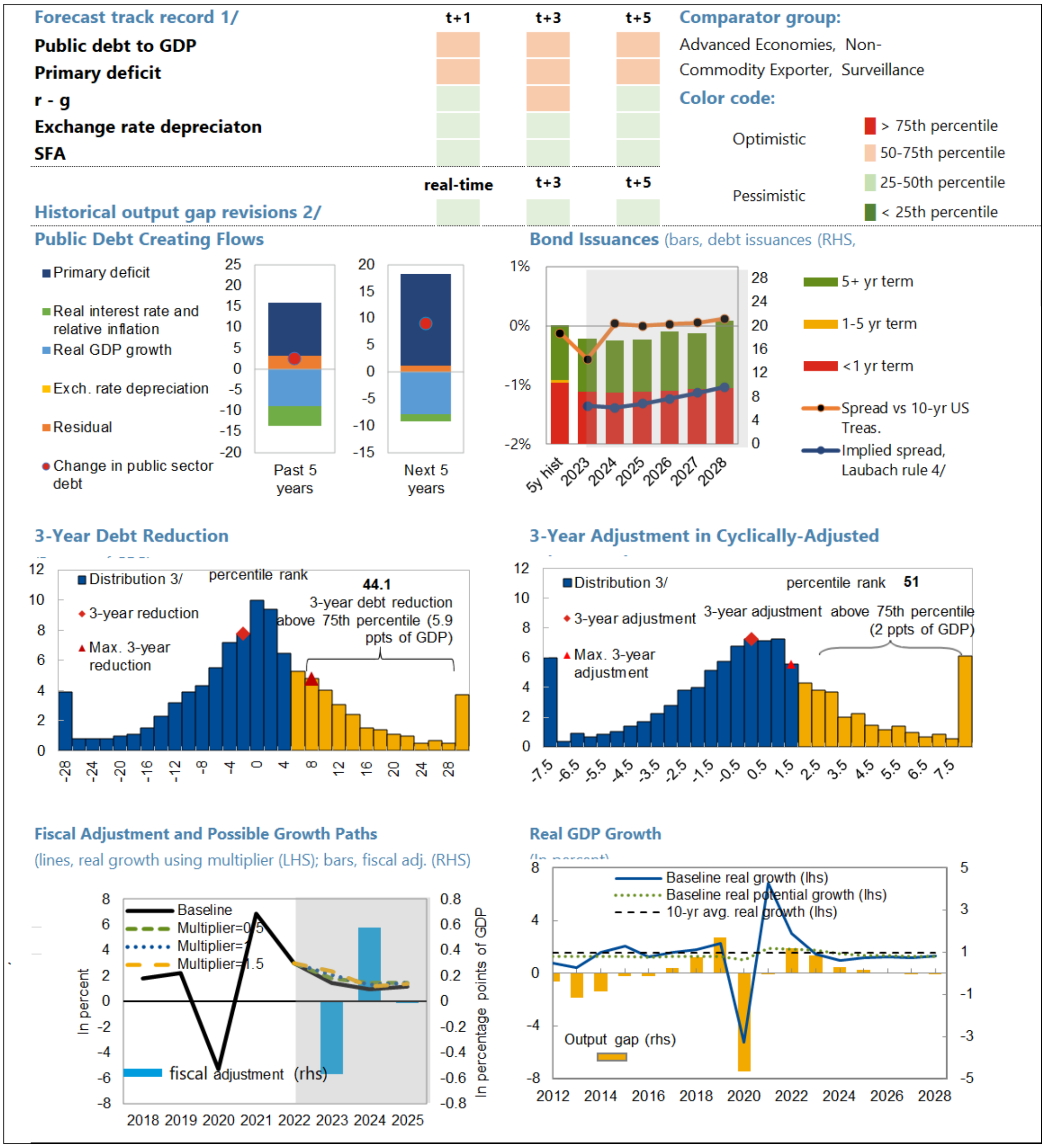
(percent of GDP)



Commentary: Public debt will continue rising over the forecast horizon, reflecting a primary deficit that remains at about 2.3 ppts of GDP below its debt-stabilizing primary balance of -0.4 percent of GDP.

Figure V.5. Belgium: Realism of Baseline Assumptions

(Percent of GDP unless indicated otherwise)



Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

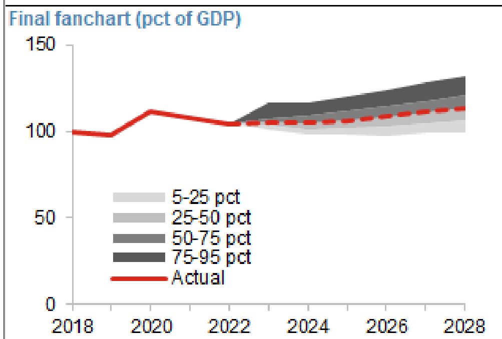
2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

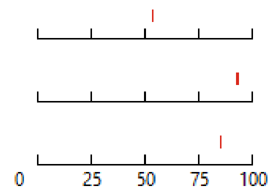
4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

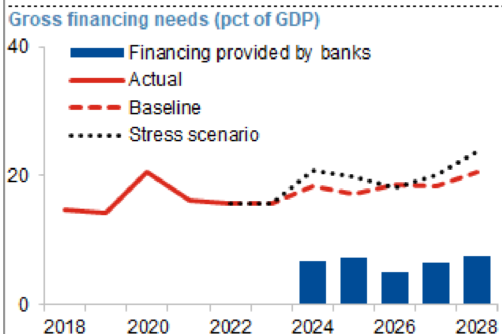
Commentary: Past forecast errors do not reveal any systematic biases and the projected fiscal adjustment and debt reduction are well within norms.

Figure V.6. Belgium: Medium-term Risk Analysis

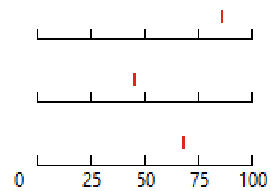


	Value	Contrib 1/	Percentile in peer group 2/
Stock-flow adj. and debt managment			
Fanchart width *(percent of GDP)*	32.9	0.5	
Probability of debt non-stabilizaiton *(percent)*	91.7	0.8	
Terminal debt-to-GDP x institutions index	30.5	0.7	
Debt fanchart index (DFI)		1.9	
Risk signal: 3/		Moderate	

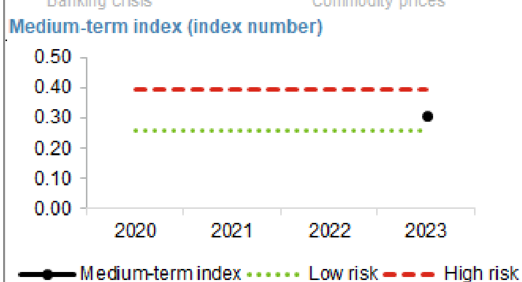




	Value	Contrib 1/	Percentile in peer group 2/
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	18.1	6.2	
Banks' claims on the gen. govt *(pct bank assets)*	4.8	1.5	
Chg. In banks' claims in stress *(pct banks' assets)*	6.6	2.2	
GFN financeability index (GFI)		10.0	
Risk signal: 4/		Moderate	



Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster



Medium-term risk analysis

	Value	Norm. Value	Weight	Contribution
Debt fanchart index	1.91	0.42	0.50	0.21
GFN finaceability index	9.95	0.19	0.50	0.10
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2023-2028, if stress not predicted: 18.2 pct.
Prob. of false alarms, 2023-2028, if stress predicted: 26.1 pct.

Sources: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.
2/ The comparison group is advanced economies, non-commodity exporter, surveillance.
3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.
4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Commentary: The debt fanchart and GFN Financeability Modules both point to moderate risk. The fanchart reflects a high probability of debt non-stabilization. Moderate financing risk reflects high average GFNs.

Annex VI. Key Recommendations from the 2023 FSAP

Table 1. Belgium: FSAP Key Recommendations			
	Recommendation	**Addressee**	**Timing[1]**
Systemic Risk Assessment			
1.	Further strengthen the NBB's Stress Testing Framework by (i) integrating individual models within the stress testing framework to offer a comprehensive impact analysis on banks' profitability and capital adequacy, (ii) incorporating the IFRS 9 Approach into Credit Risk Modeling and, (iii) continuing to adopt advanced analytical methods to better monitor ALM risks.	NBB	MT
2.	The NBB and the FSMA to establish a formal agreement for sharing data on investment funds' portfolio holdings and supervisory data. The FSMA to develop and adapt a stress test framework to assess structural vulnerabilities and risks in the investment funds sector, and to be integrated into the NBB's systemic risk assessment.	FSMA NBB	C, MT
3.	Increase insurers' resilience against macro-financial shocks, by i) engaging with industry to reduce dependence of insurers on lower tier capital and ii) implementing liquidity stress tests and scenario analysis to identify potential sources of stress.	NBB	MT, NT
Macroprudential Policy[2]			
4.	In the medium-term, align the powers of the NBB to set macroprudential policy at the national level with its financial stability mandate by giving it full discretion over the activation and calibration of all capital- and borrower-based instruments, without the need for government approval. In the near-term, the activation and calibration of capital-based measures under CRD/CRR should be at the sole discretion of the NBB at the national level, without the need for government approval.	Government	MT, NT
5.	For the activation, recalibration and extension of macroprudential policy instruments requiring government intervention, strengthen accountability by publishing the factors weighing on policy considerations and decisions.	NBB, Government	NT
6.	Strengthen the NBB's systemic risk assessment framework for setting macroprudential policy by closing data gaps and ensuring stronger integration of data and quantitative tools with instrument design and selection.	NBB	MT
Banking Regulation and Supervision			
7.	Strengthen banks' corporate governance framework and expectations, in particular the supervisory function of the board.	NBB	NT
8.	Harmonize, taking into account best practices, and ensure risk sensitivity of internal supervisory decision-making processes across departments.	NBB	NT
9.	Maintain adequate prudential supervisory staffing for LSI supervision, structurally collect consumer protection and conduct information to feed into the SREP and monitor banks' own capital targets systematically.	NBB	NT
Insurance Regulation and Supervision			
10.	Finalise the legal framework of the natural catastrophe public-private partnership to enhance predictability of the natural disaster related insurance cover.	MoF	NT
11.	Provide guidance for the consistent valuation of mortgage loans.	NBB	MT
12.	Contact third country supervisors to assess the basis for sharing and collecting information.	NBB	NT
13.	Engage Government to obtain legal powers to introduce regular complaints reporting by insurers.	Government/FSMA	I

Table 1. Belgium: FSAP Key Recommendations (concluded)			
	Recommendation	**Addressee**	**Timing**
Euroclear Bank Assessment			
14.	EB should undertake substantial efforts to continue to improve the comprehensiveness and sufficiency of its IT and information security risk management, including cyber security risk, and more clearly and thoroughly defining and steering the management of these risks at the level of the Board as a top priority.	EB	NT
15.	Beyond relying on direct participant disclosure, EB should develop capacity for increasing the transparency with respect to the business of its direct participants' clients.	EB	NT
16.	EB should put in place more robust testing of procedures related to business continuity and participant default procedures, including through simulation exercises.	EB	NT
Crisis Management and Financial Safety net			
17.	Finalize the Rules of Procedure of the NBB Resolution Board, giving also attention to its capacity as a crisis management committee. Finalize the national resolution handbook, with attention also to the resolution tools that are not part of the preferred resolution strategies, as well as the resolution powers.	NBB	I
18.	Strengthen NBB's internal coordination and cooperation for crisis management by establishing an interdepartmental cooperation mechanism with representatives from relevant departments at technical level for the NBB and prepare two bilateral cooperation agreements between the Resolution Unit and the Financial Stability and Supervisory Departments respectively.	NBB	I
19.	Enhance the ELA framework by: i) seeking cooperation arrangements with other relevant National Central Banks for ELA involving a cross-border banking group; ii) developing policies to assess the prospective solvency and document the lines of action and responsibility of each actor in the event of ELA in resolution, subject to a credible resolution strategy; and iii) preparing internal planning and documenting how the NBB would consider ELA to NBFIs.	NBB	NT, I, NT
20.	Enhance the Deposit Insurance System by: i) ensuring operational readiness to meet the target of 7 working days for pay-outs; ii) segregating the DIS fund from the national budget, increasing its target level and operationalizing the public backstop. Once segregated, develop an investment policy for the DIS Fund aligned with best international practices; and iii) start working on the operationalization of the paybox plus mandate.	Guarantee Fund	I, I, NT
Financial Integrity			
21.	Amend regulatory framework to make the NBB a member of the national committee on TF.	Relevant ministers	I
22.	NBB to increase resources for AML/CFT supervision, enhance the sanctions framework and its implementation, and continue to exercise enhanced supervision over the payment institutions sector.	NBB	I
[1/] Timing: C = Continuous; I = Immediate (within one year); NT = Near Term (within 1-3 years); MT = Medium Term (within 3–5 years). [2/] For purposes of macroprudential policy, government should be understood to imply the Ministry of Finance, Ministry of the Economy, or the Council of Ministers with the authority over the relevant policies.			

Annex VII. Avenues for Product Market Reform and Implications for Productivity[1]

Belgium's productivity growth has lagged the euro area average, leaving productivity levels below neighboring countries. Product market reforms could be an avenue to lift total factor productivity. Regulations of the retail sector and professional occupations stand out as particularly restrictive compared to European advanced economies. Although the liberalization of network industries is generally at par with peers, further reduction of market barriers would be beneficial, including in the transport and telecommunication sectors. Relaxing price controls, evaluating and simplifying regulations, and reducing the administrative burden on startups also hold promise.

A. Introduction

1. **Although Belgium ranks among the most innovative countries in Europe, its productivity has lagged peer economies.** Belgium improved its position relative to most EU competitors in the European Innovation Scoreboard during 2016-23 and is now among the best performers (Figure 1).[2] Its strengths stem from close linkages between innovative SMEs, research collaboration between private and public sector entities, including from abroad, and government support for businesses' research and development.[3] Yet, productivity growth has remained below the euro area average over the past two decades. While Belgium maintains a higher level of productivity than most other EU Member States, it has fallen behind neighboring countries and main export markets (France, Germany, the Netherlands). This suggests room to improve the transmission of innovation to productivity gains.

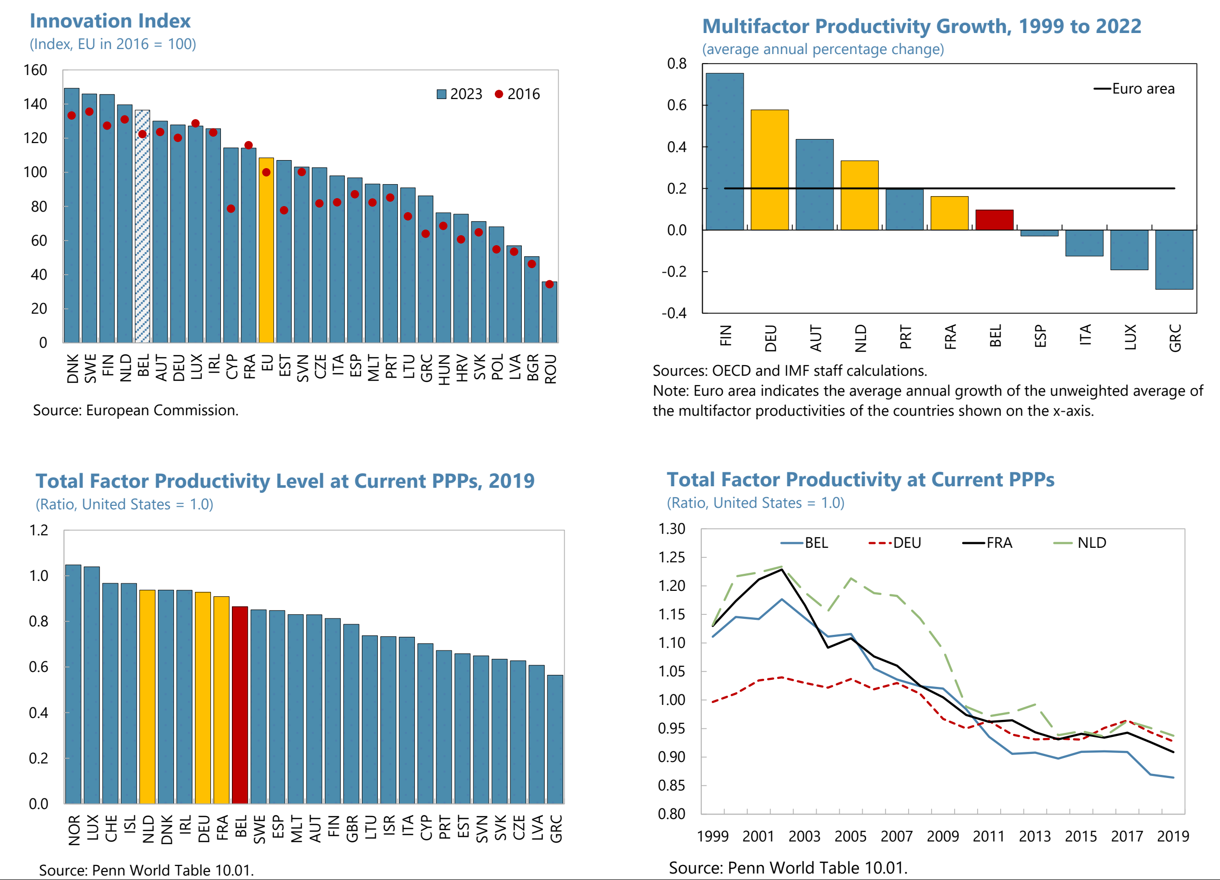
2. **Considering labor supply constraints and rising capital costs, productivity gains have a prominent role to play to lift potential output.** With population aging, labor supply's contribution to potential output growth faces limits going forward, apart from increasing labor-force participation, a key government objective. Wide-ranging labor market and pension reforms could provide support, but progress has been slow, reflecting a complex political environment and an administrative capacity recently burdened by repeated shocks. Likewise, investment in climate change mitigation and adaptation and the digitalization of the economy may add to the stock of capital. However, their impact on existing capacity is uncertain, also because of the risk of obsolescence in the event of a disorderly transition, while the costs of financing and executing investment projects have risen. As a result, productivity will need to contribute the most to raising potential growth in the coming years. Against this background, this annex focuses on product market reform as one avenue to increase productivity. It highlights existing rigidities and provides a first assessment of possible benefits from their mitigation.

[1] Prepared by André Geis and Xun Li (both EUR).

[2] For the methodology underpinning the European Innovation Scoreboard, see Hollanders (2023).

[3] See Hollanders et al. (2023).

Figure VII.1. Innovation and Productivity

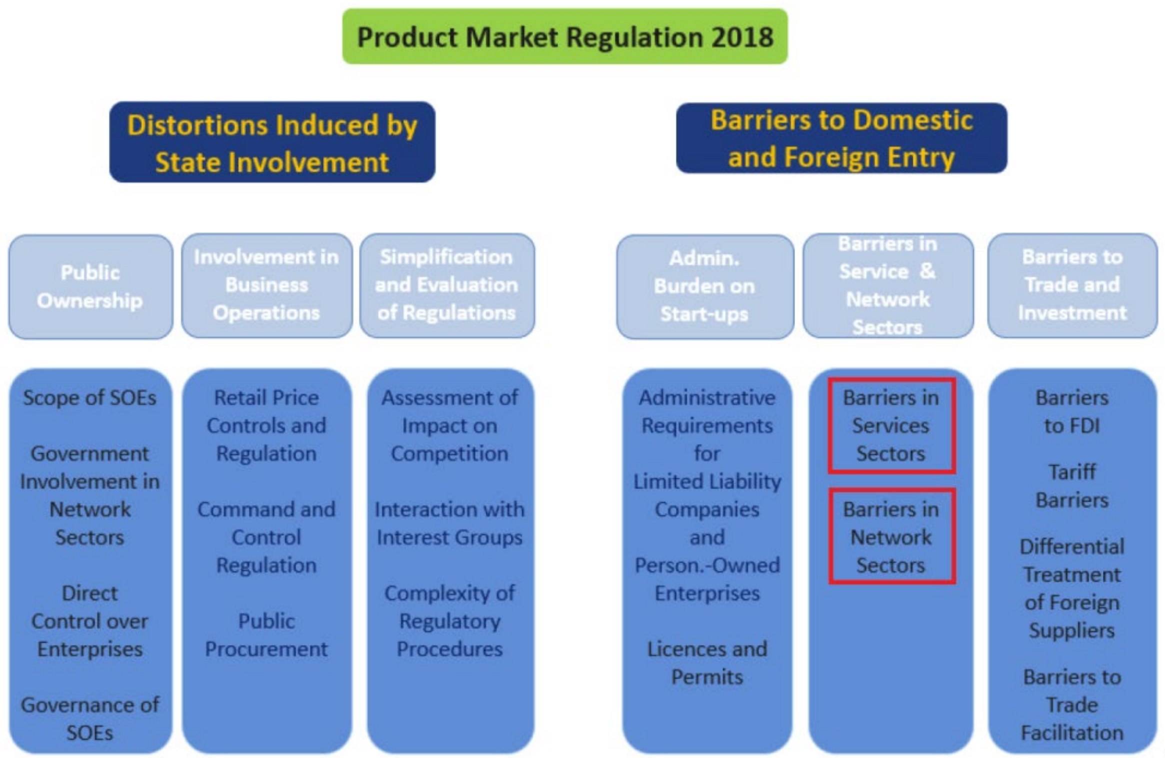


B. Product Markets: Opportunities for Reform and Recent Efforts

3. The efficiency of product markets can be hampered by a wide range of rigidities. Weaknesses in Belgian product markets can be assessed through the lens of a framework developed by the OECD, which quantifies the extent of product market regulation in an economy based on OECD members' answers to an extensive questionnaire. Scores are derived for various types of product market distortions (Figure 2), ranging from 0 (best) to 6 (worst). The different subcategories are then aggregated into higher-level groups, up to an economy-wide product market regulation indicator. Separately, the OECD also provides information about barriers in specific sectors, including network industries (energy, transport, and communication), professional services (accountants, architects, civil engineers, estate agents, lawyers, and notaries) and retail. While "Barriers to Services Sectors" and "Barriers to Network Sectors" are featuring as subcomponents of the OECD framework (Figure 2, red boxes), the sector-specific data stand apart and cannot be directly mapped into it.[4]

[4] For further details about the OECD methodology, see Vitale et al. (2020).

Figure VII.2. Structure of OECD Economy-Wide Product Market Regulation Indicator

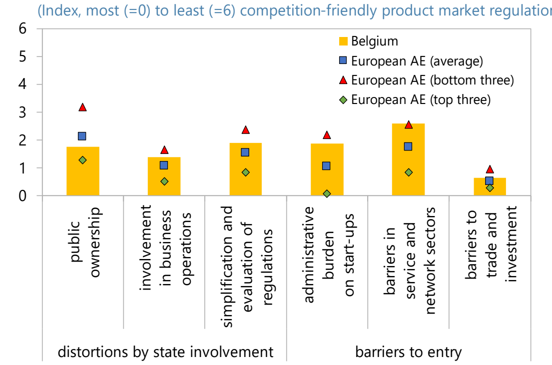


Source: OECD.

4. Belgium tends to score behind advanced European economies in product market regulation indicators, with certain areas offering particular scope for improvement.[5] Based on the OECD framework, Belgium's economy-wide product market regulation indicator scored only slightly better than the three worst-performing advanced European economies in the latest available vintage (2018) of the survey (Figure 3). Positively, distortive public ownership of firms is less widespread than in peers, and barriers to trade and investment are low, reflecting integration into the EU single market. By contrast, the administrative burden on startups and barriers in service and network sectors are relatively high, especially in comparison to the best performing European advanced economies. In addition, state involvement in business operations and the simplification and evaluation of regulations appear to offer some room for progress.

Figure VII.3. Product Market Regulation, 2018

(Index, most (=0) to least (=6) competition-friendly product market regulation)

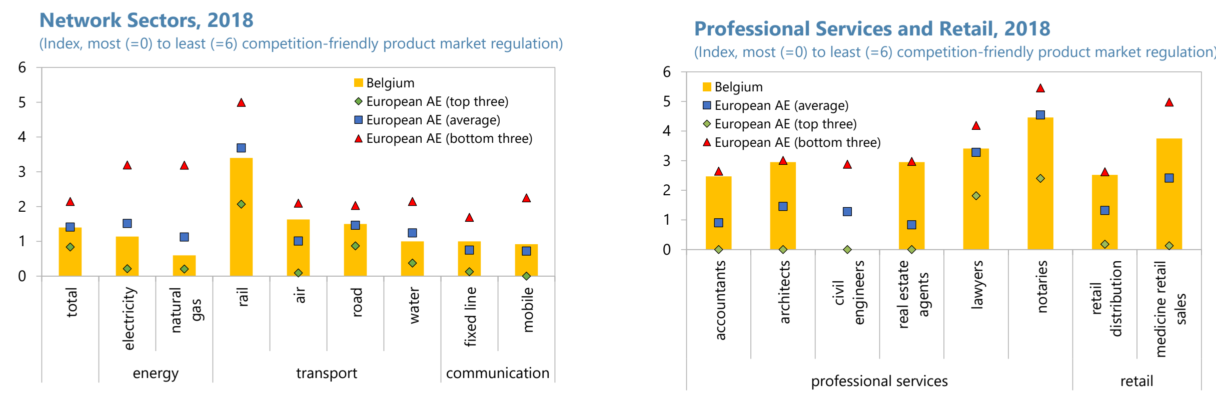


Sources: OECD and IMF staff calculations.

[5] For the purpose of the following analysis, advanced European economies include Austria, Belgium, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Israel, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom.

5. For sectors considered separately from the framework, some network industries, most professional services, and retail stand to gain from further product market liberalization. Overall, network sector regulation is largely in line with the average in European advanced economies (Figure 4). However, parts of the network sector are conspicuous for being strictly regulated and far from the best performing countries. Likewise, while professional services are generally subject to more stringent rules than other areas of activity, they appear to be even more so in Belgium, with the notable exception of civil engineers who face little occupational restrictions. Finally, product market constraints in the retail sector are among the tightest in the group of European advanced economies, including for the retail sale of medicines.

Figure VII.4. Product Market Regulation in Network Sectors, Professional Services and Retail



Sources: OECD and and IMF staff calculations.

Sources: OECD and IMF staff calculations.

6. Factors preventing more efficient product market functioning are many-fold, requiring a holistic approach by policymakers and self-regulating bodies.

- Distortions by state involvement are partly the result of more widespread price controls than in the average European advanced economy. Based on HICP weights, about 12 percent of prices in Belgium were at least partially administered by the government in 2023. Likewise, analysis by the National Bank of Belgium indicates that nearly half of services prices were either regulated by the government or indexed to inflation in 2016, with both shares unlikely to have moved much since then.[6] Furthermore, the average European advanced economy communicates clearer and timelier about regulatory procedures than Belgium and is more transparent about interactions between policymakers and interest groups.

- Barriers to entry are posed by the sizeable number of permits and licenses required to open a business, introducing – potentially redundant – layers of complexity. The professional services sector is characterized by limited competition, facilitated by rigid entry requirements, and strict conduct rules, affecting business operations and ownership as well as the pricing and advertising of the services provided. Retail is burdened by onerous regulations, affecting, e.g., opening

[6] See Jonckheere and Zimmer (2017).

hours, the establishment of new outlets, or the staffing of existing stores. Parts of the network sector, such as air, rail, or telecommunication, are characterized by oligopolistic or monopolistic market structures and could benefit from the creation and enforcement of a more competitive environment by regulators of the industry.

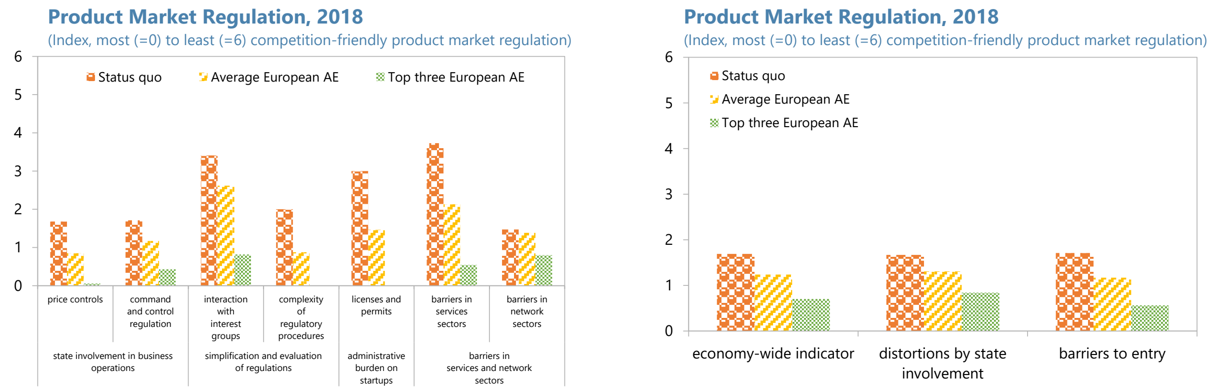
7. **Notwithstanding multiple angles for improvement, product markets have not been a focus of reforms in recent years.** Since the publication of the 2018 OECD product market regulation indicators, the recalibration of policies affecting the operating environment of Belgian firms has been limited, changing conditions for doing business only at the margin. Recently, some welcome steps were adopted or have been put in train to lessen requirements to enter and practice some professional services, to soften ownership rules, and to reform the pricing for some services. For instance, the law regulating accounting services was modified in 2019 so the profession can be joined after obtaining several years of relevant work experience, rather than by passing an examination only, and the percentage of accountants required as directors or shareholders of an accounting firm has been reduced, with similar changes envisaged for other professional services (e.g., architects, real estate agents) in the near term. Still, retail sector reforms pursued in the 1990s to increase competition from new entrants have not been followed by further efforts at liberalization. Equally, measures foreseen as part of the government's Recovery and Resilience Plan (RRP) submitted to the EU in April 2021, such as digitalizing and simplifying administrative procedures by establishing a single digital gateway and adapting regulations supporting the expansion of public e-procurement, are estimated to have an only limited positive impact on product market efficiency.[7]

C. Policies to Promote Product Market Efficiency and Productivity

8. **Aligning selected product market regulations more closely with conditions in European advanced economies would notably improve firms' operating conditions.** In light of the many areas of economic activity touched upon by product market regulation, concentrating on some of the most conspicuous weaknesses of product markets could help maintain political focus, limit resistance by vested interests, and sustain reform momentum while maximizing potential gains. In addition, striving to bring product market regulation in line with average or best performing peers offers a useful benchmark and provides a guidepost for existing—and therefore possibly achievable—best practices. Policy recalibrations that hold particular promise in the case of Belgium include a review of state involvement in business operations, the simplification and evaluation of regulations, a reduction in the administrative burden on startups, and trimming barriers in network and services sectors (Figure 5, left panel). Taken together, such measures could improve the OECD economy-wide indicator of product market regulation by about a quarter if benchmarked against the average European advanced economy, or by more than half if brought in line with the top three performers (Figure 5, right panel).

[7] See OECD (2022).

Figure VII.5. Effects of Product Market Reform



Sources: OECD and and IMF staff calculations.

Sources: OECD and and IMF staff calculations.

9. Selective efforts at product market reform could make a notable contribution to lifting productivity and potential output. Empirical analysis by Bourlès et al. (2010) and Bouis and Duval (2013) allow for a mapping of improvements in the OECD economy-wide indicator of product market regulation into gains in total factor productivity in the steady state. Based on these estimation results, liberalizing Belgian product markets in line with the average European advanced economy could improve the level of total factor productivity by about 3½ percent, and by around 7½ percent in steady state if operating conditions for firms would meet the standards prevailing in the best three countries.

10. The aspects of product market regulation where Belgium compares least favorably with European advanced economies should consider multiple angles of reform. For example:

- Communication about regulatory procedures could benefit from establishing a repository of laws and regulations that are subject to near-term enactment, modification, reform or repeal, and a stronger reliance on plain language for greater clarity on the regulatory agenda and compliance. The transparency of interactions between public officials and lobby groups could be strengthened by legislation specifying possible modes of engagements as well as by instituting a publicly accessible registry of contacts, including information about events and attendance.

- A clearer understanding by various regulatory bodies of the licensing procedures required for startups could help reduce the time needed for setting up a business as well as the complexity involved. Keeping a regular count of the number of permits needed to set up or run a company in different sectors of the economy would help identify redundant or unnecessary procedures that can be eliminated. A one-stop shop for entrepreneurs to receive all necessary guidance and documents to establish a firm would provide additional relief for founders.

- In professional services, legislative efforts intended to broaden pathways to obtain employment in certain parts of the industry, for example by demonstrating the necessary work experience instead of exclusively relying on passing an entry examination, should continue and be applied more widely. Similarly, rules preventing firm ownership by outsiders, such as requiring voting rights and ownership in a law firm being held by lawyers, should be weakened further or abolished to encourage business innovation and management efficiency. Moreover, legally binding membership in a professional organization could be softened. Finally, regulations granting exclusivity rights or placing limitations on advertising, pricing or inter-professional co-operation should be reviewed.

- Competition in network sectors could be promoted by ensuring greater independence of regulators from the industry and guaranteeing the administrative and analytical capacity to address market distortions. Retail could profit from a liberalization of operating constraints concerning, e.g., licensing, staffing or opening hours, thereby fostering competition, innovation, and efficiency. Pharmacies, in particular, are facing geographical restrictions on outlets and the limited ability of alternative providers to sell non-prescription medicines is hampering wider access to medicines and price competition.

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INTERNATIONAL MONETARY FUND

BELGIUM

November 17, 2023

STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by: IMF European Department

CONTENTS

FUND RELATIONS

(As of September, 2023)

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)	4,636.66	72.33
Reserve Tranche Position	1,774.06	27.67
Lending to the Fund		
New Arrangements to Borrow	23.11	

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	10,467.71	100.00
Holdings	10,855.65	103.71

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				
	2023	2024	2025	2026	2027
Principal					
Charges/Interest	-4.00	-15.89	-15.87	-15.88	-15.88
Total	-4.00	-15.89	-15.87	-15.88	-15.88

[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 19 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 February 27, 2023. The Executive Board assessment and the staff report (IMF Country Report No. 2023/098) are available at link. Belgium is on the standard 12-month consultation cycle.

Capacity Development (CD)

Belgium continued to receive direct IMF technical assistance. Since the 2022 Article IV consultation, the authorities undertook the IMF's tax administration diagnostic assessment tool (TADAT) to have a baseline of revenue administration and government arrangements, and to inform further reforms.

Belgium is an important financial supporter of IMF externally-financed capacity development (technical assistance and training), including country-specific and regional projects as well as IMF multi-partner CD vehicles (regional and thematic trust funds and CD 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: 2023 Financial System Stability Assessment**

The FSAP missions were held during March and June 2023. The findings were discussed with the authorities during the FSAP concluding meeting in June and the Article IV consultation in October 2023. They are being presented to the Executive Board for discussion alongside the Article IV staff report on December 6, 2023.

The previous 2018 FSAP was discussed by the Executive Board on March 7, 2018 (IMF Country Report No. 18/67).

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 in September 2018 (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

As of November 3, 2023

I. Assessment of Data Adequacy for Surveillance
General. 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.
National Accounts. 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. The NBB is responsible for compiling the 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.
Price Statistics. A consumer price index and industrial producer price index are compiled according to best practices and published monthly. Producer price indexes for services activities are disseminated quarterly.
Government Finance Statistics. 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.
Monetary and Financial Statistics. Monetary and financial statistics data are available in standardized report forms - SRF 1SR for central bank, SRF 2SR for other depository corporations. The data are disseminated on a monthly basis through the *International Financial Statistics.* The NBB also reports data on some key series of the Financial Access Survey (FAS), including mobile and internet banking information.
Financial Sector Surveillance. Belgium reports financial soundness indicators (FSIs) to STA on a quarterly frequency, including 16 core FSIs and eight encouraged FSIs for deposit takers, and nine encouraged FSIs for other sectors.
II. Data Standards and Quality
Belgium adheres to the IMF's Special Data Dissemination Standard (SDDS) Plus since January 26, 2023, and publishes the data on its National Summary Data Page. The latest Annual Observance Report is available on the Dissemination Standards Bulletin Board.

Key Publicly Accessible Websites for Macroeconomic Data and Analysis:

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: Table of Common Indicators Required for Surveillance

(As of November 3, 2023)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	Nov. 2023	Nov. 2023	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Sep. 2023	Oct. 2023	M	M	M
International Investment Position	Q2:2023	Sep. 2023	Q	Q	Q
Reserve/Base Money	Sep. 2023	Oct. 2023	M	M	M
Broad Money	Sep. 2023	Oct. 2023	M	M	M
Central Bank Balance Sheet	Sep. 2023	Oct. 2023	M	M	M
Consolidated Balance Sheet of the Banking System	Sep. 2023	Oct. 2023	M	M	M
Interest Rates[2]	Nov. 2023	Nov. 2023	D	D	D
Consumer Price Index	Oct. 2023	Nov. 2023	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	Q2:2023	Sep. 2023	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[5]	Sep. 2023	Oct. 2023	M	M	M
Stock of Central Government Debt	Sep. 2023	Oct. 2023	M	M	M
External Current Account Balance	Jun. 2023	Sep. 2023	M	M	M
Exports and Imports of Goods and Services	Jun. 2023	Sep .2023	M	M	M
GDP/GNP	Q3:2023	Oct. 2023	Q	Q	Q
Gross External Debt	Q2:2023	Sep. 2023	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 and Mr. Stijn Verhelst on Belgium
December 6, 2023

The authorities would like to thank the teams led by Mr. Dauphin and Ms. Khandelwal for their candid exchanges of views during the Article IV consultation and the FSAP missions. The IMF's surveillance and policy advice has offered an excellent opportunity to reflect on policies in Belgium, and to consider changes where relevant. The authorities broadly concur with the thrust of staff's analyses and are committed to further strengthening the Belgian economy and the resilience of its financial sector in the period ahead.

Growth and inflation performance in Belgium are expected to be better in 2023 than the euro area average, with output close to the pre-pandemic trend. The Autumn 2023 forecast by the European Commission projects growth in Belgium to be 1.4% of GDP, compared to 1.2% of GDP for the euro area as a whole. The European Commission expects inflation in Belgium to be 2.4% in 2023, which is among the lowest in the euro area. This comparatively good performance is in line with the resilience shown by the Belgian economy during the COVID-19 and energy crises. The Belgian authorities are aware that this resilience came at a fiscal cost. They are committed to addressing the long-term challenges that Belgium faces. This includes the need for sustained efforts to reduce the budget deficit, as well as increasing potential growth.

FSAP and Financial Sector Issues

The Belgian authorities attach great value to FSAPs. Financial sectors around the world have recently been affected by the sharp rise in interest rates, and by events in US regional banks and at Credit Suisse. These developments are a stark reminder of the need to review and improve the resilience of the financial sector, the quality of regulation and supervision, and the ability to manage and resolve financial crises.

The authorities will take the FSAP recommendations to heart. The track record in implementing the 2018 FSAP recommendations is strong; in the same spirit, the authorities will carefully consider and act upon the new set of recommendations. Belgium has a well-developed financial sector, with a banking system that includes both systemically important domestically owned banks, as well as subsidiaries of foreign banks. Financial institutions often operate under an integrated model, offering banking, insurance, and other services to their customers. In addition, Belgium hosts important financial market infrastructures, including Euroclear and Swift. Given this diverse financial landscape, the FSAP's holistic review is highly relevant.

Operating within a pan-European supervisory and regulatory framework, the Belgian authorities are concerned about the potential dilution of the Basel III framework and the incompleteness of the banking union. While fully supporting the single market, Belgium considers it important to maintain sufficient capital and liquidity in systemically important subsidiaries, until a common deposit insurance scheme, a fiscal backstop, and a burden-sharing mechanism in case of systemic events are in place. In this regard, the Belgian authorities welcome the forthcoming euro area FSAP, which should take due account of the relevant findings of national FSAPs.

Overall, the Belgian financial sector is in a sound position, as is also evidenced by staff's analysis. The FSAP stress tests broadly confirm findings of other stress tests and point to the robustness of Belgian banks, insurers, and investment funds to withstand major shocks. Interconnectedness analysis by the Fund signals comparatively low domestic contagion risks in Belgium, with the main contagion risks stemming from abroad. Banks have a solid solvency position, with CET1 levels on average above European peers. The insurance sector's solvency coverage ratio more than twice exceeds the regulatory requirements. The Belgian investment funds sector, where liquidity management tools are widely used, overall disposes of enough highly liquid assets to meet investors' redemption requests in a stress situation. Notwithstanding the above, the authorities underscore that vigilance remains necessary, in view of the uncertain economic and financial outlook. In addition, structural developments related to digitalization and the transition to a low-carbon economy represent major challenges for the financial sector, with potential implications for financial stability.

Within the Belgian twin-peaks supervisory model, the National Bank of Belgium (NBB) and the Financial Services and Markets Authority (FSMA) work closely together. The authorities welcome the concrete recommendations to further strengthen cooperation. In this regard, the NBB and the FSMA have already acted upon the Fund's recommendation to expand data sharing arrangements.

The FSMA will implement staff's recommendation to conduct its own liquidity stress tests for investment funds. As staff notes, the FSMA has a well-developed framework for product and conduct supervision of banks and the Belgian regulatory framework for the insurance conduct of business supervision is comprehensive. Increased data sharing with the NBB and cooperation with the IMF during the FSAP have enabled the FSMA to conduct liquidity stress tests. This helps the FSMA respond to the recommendation to further develop and adapt a stress testing framework to assess structural vulnerabilities stemming from the investment fund sector.

The NBB is closely monitoring macroprudential risks, including those that may arise from real estate. In July 2023, the NBB decided to tighten its overall macroprudential stance in order to bolster the banking sector's resilience to unexpected losses. It keeps a close eye on both commercial and residential real estate risks. Residential real estate prices continue to increase in nominal terms, but at a slower pace than in preceding years. In addition to other factors, prudent lending practices (fostered by the NBB prudential expectations) act also as a risk mitigant and most mortgages in Belgium are at fixed rates, insulating the debt service costs of these loans from the evolution in market interest rates.

The current macroprudential setup has allowed for effective decision-making in Belgium, but the authorities are open to considering staff's recommendations to better align this process with the macroprudential mandate given to the NBB. The NBB and the federal government have worked together closely over recent years when deciding on macroprudential measures. This led to the smooth introduction, extension or amendment of various macroprudential measures in the recent period. Nevertheless, the authorities will carefully consider the FSAP recommendations as regards the institutional framework for macroprudential policy in Belgium.

Belgium has strengthened its recovery and resolution framework for the financial sector, as is acknowledged by staff. This is evidenced by progress in resolution plans and crisis management preparations. Belgium is also strengthening its deposit insurance system. The Federal Parliament approved a law in mid-November 2023 that improves various aspects of Belgium's deposit insurance, including faster payouts by the insurance system.

The fight against money laundering and the financing of terrorism is a priority for Belgium. The NBB demonstrated its strong commitment to the cause by expanding its AML/CFT supervision. Preparations are underway for the NBB to join the national committee on combating terrorist financing, in line with the Fund's recommendation.

The authorities welcome the finding that Euroclear Bank is subject to effective regulation, supervision and oversight, when assessed against the CPSS-IOSCO Principles for Financial Market Infrastructures. The Belgian authorities attach great importance to the soundness of Euroclear Bank, given its role as a globally systemic financial market infrastructure. Action plans will be followed-up closely, together with Euroclear Bank. Cyber risk as well as the impact of international sanctions and countermeasures imposed by Russia will be vigilantly monitored. The authorities agree with the Fund on the need for careful consideration of policies regarding frozen and immobilized Russian assets and interrelated windfall profits. They are committed to working together with European and international partners on the matter.

Fiscal Policy

The authorities fully share staff's views that further sustained fiscal consolidation efforts are needed in the coming years. The pandemic and energy-related support measures will be fully unwound by end-2023. The federal government has implemented consolidation measures amounting to €1.2 billion to reduce the deficit in 2024, in line with the 2023-2026 stability program, although the budgetary deficit for the regional and community levels is above the target.

The authorities remain committed to achieving a nominal budget deficit below 3% of GDP by the end of 2026, as set out in the stability program. To this end, continued step-by-step consolidation efforts over 2025-2026, together with fiscal adjustments in the federated entities will be required. It will be up to the administrations that will take office after the June 2024 elections to specify and implement the measures to be taken. The selected issues paper on fiscal consolidation provides valuable input for the design of this future path of public finances. Complementary, both fiscal and supply-side structural reforms will be needed to support the consolidation path in a sustainable manner.

Staff's recommendation for a balanced budget in the medium term is likely to be stricter than what would be required under the new EU economic governance framework. The authorities will engage closely with the European partners and the Fund in setting medium-term fiscal objectives. The authorities fully agree with staff that high-return public investment should be preserved. This need to sustain public investment will be taken into account when defining the future fiscal stance, as will the already rising costs of aging.

Improving revenue mobilization and spending efficiency is a priority. Belgium has recently benefited from an assessment under the IMF's Tax Administration Diagnostic Assessment Tool (TADAT). The assessment provided insights into Belgium's tax administration, as well as opportunities for further improvements. The authorities thank staff for their input on the tax reform blueprint that was prepared by the Minister of Finance. The work by staff will be highly relevant during the next federal government's consideration of reforms to the tax system. On the expenditure side, staff's work on the efficiency of healthcare-related spending is most helpful. In line with IMF advice, the Belgian authorities have conducted spending reviews in recent years. At the federal level, spending reviews in 2023 include reviews on asylum and migration, cybersecurity, and justice. Similar exercises are developed by the regions and communities. Belgian authorities will continue reviewing spending in the future.

The consistently prudent debt management strategy mitigates the financing risk in the context of rising interest rates. The average maturity of federal government debt remains above ten years, with weighted average yield of around 1.8%. In September 2023, Belgian retail investors subscribed for €22 billion to a one-year state bond. In a context of slow transmission of increases in monetary policy rate, this specific operation contributed to stimulating higher returns on bank savings account and term deposits, without disrupting the overall strategy of the Belgian Debt Agency.

Structural Policies

The authorities agree with staff's analysis that further reforms to product and labor markets will be helpful to address the challenges that Belgium faces. In this respect, the authorities have taken efforts to increase the flexibility in the labor market, by making it more attractive for employees and retirees to supplement their income with additional salaried work. Back-to work programs have also been enhanced to support those who re-enter the labor market after a sustained period of absence.

The federal government has taken measures to limit the cost of aging in a structural manner. In July 2023, the federal government took measures to reduce pension-related expenses. The measures include capping the increase in pensions for public sector employees. With an aging population, the affordability of pensions will remain a priority in the time to come. The authorities therefore continue to monitor the costs of aging and will take additional reforms where needed.

Belgium is committed to achieving climate neutrality by 2050. Since the conclusion of the Article IV mission, the federal government has taken additional steps to stimulate green investments by companies. Belgian governments are also pressing on with their efforts in reducing carbon emissions, including through investments in offshore wind energy. The different government levels continue to coordinate to achieve ambitious climate goals that are needed to succeed in the green transition. Energy security has been substantially strengthened by the agreed 10-year extension of operations of a portion of Belgium's nuclear reactors.

The European Recovery and Resilience Facility (RRF) is helpful in stimulating productive investments in Belgium. The European Commission has endorsed a modified recovery and resilience plan by Belgium, worth €5.3 billion in grants and loans. The modified plan has a strong focus on the green transition, allocating 51% of the available funds to measures that support climate objectives. The plan also puts significant emphasis on reinforcing Belgium's digital preparedness and social investments.

Next Steps

The first half of 2024 will be marked by important events for Belgium, including elections and the Presidency of the Council of the EU.

The government formations that will follow the June 2024 elections will allow the different levels of government to define their priorities in the years to come. Elections will be held both at federal and subnational level. The Article IV and FSAP reports provide excellent analyses of the state of the Belgian economy and the challenges it faces.

As President of the Council of the EU in the first half of 2024, Belgium aims to make progress in moving towards a stronger and more sustainable economy. Fostering the green and digital transition, as well as promoting the EU's open strategic autonomy and global competitiveness will be at the core of economic priorities during the Belgian EU presidency. In addition, the Belgian EU Presidency aims to conclude key policy processes before the European Parliament elections of June 2024, including the Union's economic governance review.

The Belgian authorities look forward to continuing the helpful interaction with Fund staff.