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Belgium: 2001 Article IV Consultation—Staff Report and Public Information Notice on the Executive Board Discussion

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 2001 Article IV consultation with Belgium, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **November 26, 2001,** 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 February 6, 2002.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its March 1, 2002 discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Selected Issues—Regional Labor Markets Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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BELGIUM

Staff Report for the 2001 Article IV Consultation

Prepared by the Staff Representatives for the 2001 Consultation with Belgium

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February 6, 2002

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I. Introduction[1]

1. The previous consultation was concluded on February 21, 2001 (SUR/01/15). At that time, Directors noted with satisfaction the solid growth of the Belgian economy in a context of wage and price stability. They commended the authorities for the sustained and successful effort to improve the fiscal position, while emphasizing that tight control of public spending would be the key to achieving the authorities' goals of some further strengthening of the fiscal balance and reductions in the tax burden. Directors agreed that the main economic policy challenge was to improve labor market performance, including by reducing regional disparities, and urged the authorities move forward with product-market reform.

2. The federal government, a six-party coalition, took office in June 1999. In 2001, Belgium held the EU Council presidency for the second half of the year, and the leadership of the euro-12 for the entire year. In these capacities, the authorities oversaw the successful introduction of euro notes and coins on January 1, 2002. Belgium has accepted the obligations of Article VIII, Sections 2, 3, and 4 (Appendix I). The Belgian authorities also expressed interest in participating in an FSAP, suggesting it be held in 2003, to follow the implementation in 2002 of substantial changes in the structure of financial supervision. The legislation on the OECD Convention on Combating Bribery came into force in April 1999. The Belgian authorities have notified the Managing Director that they intend to publish this staff report.

II. Background to the Discussions

3. **After four years of strong growth, the economy slowed sharply and unexpectedly**. Real GDP is likely to have risen only about 1 percent in 2001 (Table 1, Figure 1), and the unemployment rate, which normally lags the output cycle, began to edge up late in the year. The outturn for growth is significantly worse than the 2.6 percent projected in the supplement to last year's staff report, or the 2.5 percent assumed in the 2001 budget. In common with many other industrialized countries, the Belgian economy suffered from the rise in oil prices through 2000, higher food prices, and declines in equity prices. Since Belgium is a very open economy, weakness in export market growth, which dropped from 12.4 percent in 2000 to 2.6 percent in 2001, was also a critical factor, and exports declined in real terms. As a result, firms scaled back investments sharply as business

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[1] A staff team comprising Messrs. Ford (head) and Bell, Ms. Louppe, and Mr. Estevão (all EU1) visited Brussels during November 16-26, 2001 for Article IV discussions. Messrs. Kiekens, Executive Director, and Josz, Assistant to the Executive Director, also attended the meetings. The mission held discussions with the prime minister, the governor of the central bank, the finance minister, the social affairs minister, and the banking and insurance supervisors; as well as with the staffs of the budget ministry, the labor ministry, the economics ministry, the High Finance Council, the Central Economic Council, and the High Employment Council. In addition discussions were held with representatives of the Communities and Regions, labor unions, bank economists, and business organizations.

expectations plunged, and consumption growth fell along with consumer confidence (Figure 2). The terrorist attacks in the United States last September further increased uncertainty, although the recovery of U.S. and European (including Belgian) stock markets to pre-attack levels before the end of the year suggests that investors, at least, expect the effects to be transitory.

4. **Monetary conditions eased in 2001, and the fiscal position strengthened substantially**. The European Central Bank cut policy rates by a total of 150 basis points during the year, although the bulk of this (100 basis points) was in the last four months of the year (Figure 3). The fiscal position has improved steadily for some years (Figure 4). In 1999 and 2000, the authorities exceeded their Stability Program targets (see Table) and achieved a small surplus in 2000, helped by the buoyant economy, even though the cyclically adjusted balance deteriorated somewhat over the two years. Preliminary figures indicate balance was reached in 2001, even excluding UMTS receipts of 0.2 percent of GDP. Given the estimated outturn for growth, the structural balance improved by ½ percentage point of GDP, to a surplus 0.3 percent of GDP (and the primary structural surplus rose by ¼ percentage point). This outcome reflects in part expenditure savings and measures to stem VAT avoidance, implemented in mid-2001. Debt-management strategy remains focused on maintaining a stable duration (of about 4 years), reducing the foreign currency component (now under 3 percent), and internationalizing the investor base (with non-residents now accounting for over half of investors). The long-term interest-rate spread vis-à-vis Germany narrowed at the end of 2001 to about 15 basis points, after widening by about 20 basis points early in 2000.

Belgium: Fiscal Balances and Stability Programs
(In percent of GDP)

Date published	1999	2000	2001	2002	2003	2004	2005
Dec-98	-1.3	-1.0	-0.7	-0.3	---	---	---
Dec-99	**-1.1**	-1.0	-0.5	0.0	0.2	---	---
Dec-00	**-0.7**	**-0.1**	0.2	0.3	0.5	0.6	0.7
Dec-01	**-0.7**	**0.1**	**0.0**	0.0	0.5	0.6	0.7

Source: Belgian authorities. Bolded figures are outturns at the time indicated. The 2001 figures do not include UMTS payments.

5. **Despite the slowdown, there have been signs of price and wage pressures.** After rising through 2000 due to the increases in oil prices, headline inflation broadly stabilized in 2001, and is now dropping rapidly (Figure 5). Underlying inflation, by contrast, continued to rise through the year, reaching 2¾ percent in November before falling somewhat in December, in part because of the delayed effects oil-price increases on non-energy components of the price index, but also rapid increases in service prices. Hourly labor costs in the enterprise sector have also been rising relatively strongly, by an estimated 3.7 percent in 2001. Although this increase is broadly consistent with the Interprofessional Agreement, it exceeded the average in the three neighboring countries (Germany, France, and the

Netherlands) for the third year running.[2] The indexation of Belgian wages accounts for the greater part of this overrun.[3] More fundamentally, however, labor-cost increases in Germany and France proved significantly lower than had been forecast when the Interprofessional Agreement was negotiated. High wage growth has eroded competitiveness (as measured by relative unit labor costs) vis-à-vis the euro area (Figure 6).

6. **Economic performance continues to be uneven across geographical areas.** Since the late 1970s, the economy of Flanders has performed significantly better than that of Wallonia—although it is important to note that, within each region, some subregions do not conform to this pattern. In the past four years, strong economic growth translated into a significant decline in the unemployment rate in Flanders, but until 2000 not in Wallonia (Figure 7). As a result, the economic gap between the regions widened further, a development which the current slowdown may aggravate. One result of this differential has been that the public finances have been more buoyant in Flanders than elsewhere.

III. POLICY DISCUSSIONS

7. **The discussions focused on the near-term outlook, fiscal policy, and the need for further structural reform.** The official growth projections for 2002 were more optimistic than those of the staff and, partly for this reason, the official budget projection of balance was also more optimistic than the staff projection of a small deficit. In view of the much improved fiscal positions, the discussions centered on achieving medium-term objectives of a structural surplus and reductions in the tax burden. The more pressing issue is structural reform, especially of labor markets, where it seemed likely that progress will be uneven.

A. The Outlook

8. **The official projection, prepared for the budget, was for real GDP growth of 1.3 percent in 2002, whereas the staff projects growth of 0.7 percent.**[4] Part of the

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[2] To maintain competitiveness, the Interprofessional Agreement sets a norm for aggregate labor-cost growth for the following two years, based on a forecast of average labor-cost growth in the three neighboring countries. For 2001–02, the social partners agreed a cumulative increase between 6.4 percent and 7 percent.

[3] Wages are indexed to the so-called health index, which among other things excludes most but not all energy items (home heating oil is left in). The health index rose more than headline inflation in 2001, and is also expected to do so in 2002.

[4] The OECD projection, prepared in late October for the Economic Policy Committee, was 1.4 percent and 1.5 percent for this year and next. The National Bank of Belgium projected 1.1 percent for 2001, but had not released a projection for 2002. The January 2002 Consensus Forecast was 1.2 percent for 2001 and 2002.

difference may reflect the earlier vintage of the official projection, which, as the authorities pointed out, had to be locked in prior to the budget exercise. In both cases, activity was projected to recover in 2002, with a more delayed profile in the staff projection compared to the official one. With the interest-rate cuts of 150 basis points by the ECB in 2001 and the continued weakness of the euro, monetary conditions were considered appropriately supportive for Belgium, especially since its cyclical position was not materially different from the European average. Further declines in oil prices and the elimination of the television tax in Flanders were expected to reduce headline inflation sharply to ½ percent (year-on-year) in 2002; the latter effect would also cut underlying inflation, although the staff projects it will remain above headline inflation at 1¾ percent.

9. **There was concern regarding the evolution of wages, both in 2002 and beyond.** Although indexation should be less important in 2002 as increases in the health index moderate, the Central Economic Council (which monitors labor-cost developments vis-à-vis the Interprofessional Agreement) expected labor costs to rise at about the average of Germany, France, and the Netherlands, which they estimated at 3.2 percent. Together with the increase in 2001, this would leave a loss in competitiveness for the two-year period of the Agreement. The authorities were unsure if the 2003–04 Agreement, to be negotiated later this year, would recoup this loss. They noted that the loss of competitiveness that had occurred prior to the negotiation of the current agreement (in 2000) had not been taken into account, but also that next year's negotiations would take place in the context of a much weaker labor market.

10. **The key risk to the projection lies in the performance of the Belgium's trading partners.** In an economy as open as Belgium's, recovery will depend on an acceleration of activity in Europe (especially Germany and France), which would in turn depend significantly on recovery in the United States. Such a pickup would be based on a rebound in confidence, the clearing of investment overhangs, and the substantial amount of monetary easing already provided in 2001. Indeed, this stimulus could spark a relatively sharp rebound in activity, from which the Belgian economy would benefit. By contrast, if Europe's recovery were delayed, business confidence and investment would probably remain weak and consumption might also slow further as the labor market deteriorated.

B. Fiscal Policy

11. **The 2002 budget was discussed against the backdrop of two broadly agreed medium-term fiscal objectives.** First, a modest medium-term structural surplus, which would reduce interest costs over time and thereby help to pay for population aging. (See Appendix II for a fuller discussion.) Second, a meaningful reduction in the tax burden, which is the centerpiece of the government's strategy—supported by the staff—to enhance long-term economic performance. Achieving both objectives will require strict control of expenditure growth. The authorities developed a corresponding medium-term strategy at the time of the 2001 budget (Table 2, first panel), which was broadly confirmed in the 2002–05 Stability Program (second panel). Longstanding staff advice (third panel) is rather similar, if somewhat tighter: real general government primary expenditure growth is to be held to

1½ percent a year on average, creating room for significant tax cuts and yielding a surplus of 1 percent of GDP.

12. **The 2002 budget targets a general government budget balance, an objective considered appropriate by the authorities even with weaker growth, but questioned by staff.** Pointing to the still high level of public debt, the authorities argued that a third consecutive year without a deficit would enhance fiscal credibility and ensure rapid reduction in the debt. They conceded that the target was ambitious, especially if growth proved weaker than assumed, but noted that the regular budget review, normally carried out in February-March, would be used to correct shortfalls by reining in expenditures. The staff noted that balance in 2002 would imply a cyclically adjusted surplus of 1.2 of GDP, thus overshooting the medium-term objective. (On the budget's more optimistic macroeconomic projection, this figure would still be 0.9 percent.[5]) The staff also expressed concern that the expenditure cuts needed in the short run might prove unsustainable, being reversed in the upswing and thus not contributing to medium-term fiscal consolidation. Finally, a balanced budget would involve a substantial fiscal withdrawal, which would be unwelcome in the weak economic situation, even though the fiscal multiplier is probably small in an economy as open as Belgium's.[6] By contrast, the staff projection of a deficit of 0.7 percent of GDP in 2002 (see Box 1 for the differences between the staff and official projections), would still yield meaningful progress toward medium-term objectives—the structural surplus would improve by ¼ percent of GDP, and for 2001–02 taken together by almost ¾ percent of GDP—while allowing the automatic stabilizers considerable room to play, a strategy elaborated in the euro-area staff report (SM/01/289).

13. **There was agreement that expenditure control was the key to achieving the medium-term fiscal objectives**. Real general government primary expenditure (based on the GDP deflator) grew by 2¼ percent in 2001, and the staff projects growth of 2½ percent for 2002.[7] These figures are close to the 1995–2000 average, and well above the rate embodied in the authorities' medium-term plan. Referring to the staff's concern regarding the

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[5] It was noted that such judgments are, as a general matter, based on cyclical-adjustment methods which are open to question, and in this connection the authorities pointed to a methodology recently developed by researchers in the European System of Central Banks. Appendix III, using staff calculations, compares the Fund method with this alternative, finding less, but still substantial structural tightening under the latter method.

[6] According to the Oxford Economic Forecasting model (a standard Keynesian model), a spending cut of 1 percent of GDP would reduce growth by 0.2 percent.

[7] There are significant once-off items in both years. Notably, in 2001 UMTS licenses and real-estate sales (both of which are booked as negative expenditures) together lowered expenditure growth by about two-thirds of a percentage point. In 2002, the end of the UMTS payments should be more than offset by expanded real-estate sales.

sustainability of the expenditure cuts which might be needed to achieve budget balance, the authorities argued that the savings would be lasting, and pointed to the recent successful experience in holding the line on non-priority spending in order to redeploy resources to finance, for example, police and judicial reform and an expansion of health care. In a medium-term context, the mission suggested that spending discipline would usefully be bolstered by the adoption of an explicit medium-term budgeting framework, including binding expenditure ceilings.[8] The authorities noted that expenditure control would depend not only on the central government and the social security system, but also on the regional and community governments.

Box 1. Staff Budget Projections for 2002

The difference between the 2002 budget target of balance and the staff's projection of a deficit of 0.7 percent of GDP can be mainly attributed to two factors. First, the staff projects a weaker macroeconomic situation for 2002 (real GDP growth of 0.7 percent and an employment decline of 1 percent), and second, the staff projects an additional worsening of the primary balance due to regional tax cuts, higher health-care outlays, and an increase in the Belgian contribution to the European Union.

Regarding revenue, the staff projects general government revenue to decline by 0.8 percent of GDP as a result of federal and regional tax cuts and the slowdown in economic growth. The staff has conservatively assumed no revenue offset (due to brisker real estate activity) from the reduction in the housing registration tax in Flanders. The staff has also assumed that the registration tax cut and the elimination of the television tax will not be implemented in other regions, notwithstanding strong popular pressures to that effect.

On the primary expenditure side:[1]

- Staff projections assume the target of 0.5 percent real growth for the federal government is achieved. However, one-time items not included under this target (notably, higher transfers to the EU and public-sector wage indexation) lift this figure to 1.4 percent.
- The staff projects social security expenditures to increase by 4.8 percent in real terms, somewhat higher than budgeted owing to higher projected unemployment and an assumed overrun in health care spending (of 0.2 percent of GDP).
- Real primary expenditure of the Regional and Community governments is assumed to grow in line with real GDP. Even so, proposed tax cuts and lower federal transfers imply a deterioration in their overall balance to zero, by comparison with the budget assumption of a 0.3 percent of GDP surplus.

[1] The staff and the authorities both assume interest payments will fall by 0.5 percent of GDP.

[8] See the first chapter of "Rules-based Fiscal Policy and Job-rich Growth in France, Germany, Italy, and Spain" (SM/01/307) for a discussion.

14. **Social security spending has been an important source of spending growth for some** years. The staff projects real social security expenditures to increase by 4.3 percent in 2002, including an overrun in health-care expenditure relative to the budget, in line with past experience. The health care system has been under severe budgetary pressure for several years, in Belgium as elsewhere. The government recently imposed new control measures, notably a mechanism to claw back overruns from suppliers (such as pharmaceutical companies), but it was widely recognized that these had proven insufficient. The staff argued that justified increases in health spending, which is not excessive by international standards,[9] had to be offset by savings elsewhere if overall expenditure control was to be preserved.

15. **Finally, budgets at both the federal and lower levels contained significant tax measures**. The reform of personal income taxes, to be implemented in 2002, involves lowering the top marginal tax rate, reducing the number of tax brackets, a tax credit for low-income earners, greater neutrality of tax treatment between married and unmarried couples, and streamlining the system of tax deductions. In 2001, the federal government announced reforms complementary to the corporate income tax. Rates are to fall from 39 percent to 33 percent (for small and medium-sized enterprises, the rate would fall from 28 percent to 24¼ percent, and re-invested profit would no longer be taxable).[10] The authorities assured the mission that the corporate tax reform would be revenue neutral, as measures to broaden the tax base would offset the revenue loss from the rate cuts. In addition, firms will be able to get advance rulings on their tax liability before implementing business decisions (investments, for example), in order to reduce uncertainty. The staff welcomed both reforms. The Flemish government plans to eliminate the annual television tax and to reform the property transfer tax, both of which imply a significant revenue loss. The mission supported the latter measure in particular, as this tax is a significant impediment to mobility.

C. Labor, Product, and Financial Markets

16. **There was wide agreement on the need to boost labor-market performance.** While the unemployment rate is not particularly high by European standards, Belgium is near the bottom of the scale in the EU on several criteria (Figure 8). The authorities stressed the problem of low employment rates, especially among older people (those between 50 and 65 years old), and the need to raise them in order to better manage the costs associated with

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[9] According to OECD estimates, in 1999 public sector health care expenditure was 6.3 percent of GDP in Belgium, which is slightly above that in the Netherlands (6.0 percent) but well below those in Germany (7.8 percent in 1998) and France (7.3 percent).

[10] These figures do not include the crisis contribution, which is a surtax of 3 percent levied on the tax liability (a tax on the tax). Thus, the full rate paid by corporations has been 39 percent plus a 1.17 percent crisis contribution, for a total of 40.17 percent; the tax reform will reduce this to 33 percent plus a 0.99 percent crisis contribution. Beginning in 1999, the crisis contribution is being phased out on personal but not corporate taxes.

population aging. In this regard, making substantial progress toward the objectives laid out at the Lisbon summit has become an important point of reference for policymakers.[11]

17. **However, the momentum for reform appears to be flagging.** The authorities noted that the economic downturn had made reform more difficult, but also reiterated their intention to press forward with tax cuts in the years ahead, and pointed to recent structural initiatives (Box 2). Clearly, the measures aimed at older workers were in the right direction (the "activation" of unemployment benefits and elimination of the pension penalty). However, it was agreed that these and the other recent measures would probably not result in sufficient movement toward the Lisbon objectives. The mission also argued that some initiatives had drawbacks. Thus, although high enrolment in the youth employment program is a sign of success, such positions often do not lead to permanent employment, may crowd out private-sector employment, and are costly to the budget. Likewise, measures to reduce working hours risk raising labor costs, although it was agreed that the voluntary nature of these programs—they are subject to negotiations by the social partners, rather than imposed by law—would mitigate such problems.

18. **In particular, there has been little progress on fundamental reform of the benefits system.** The ratio of beneficiaries to workers has risen significantly in the past two decades, and is large by comparison with other countries (see Table).[12] The duration of unemployment benefits remains effectively unlimited for many claimants. Eligibility requirements for unemployment benefits were made more flexible to allow earlier action (for example, early warning for those who where not meeting eligibility requirements, rather than just cutting them off later), although the gains in terms of earlier return to employment are not known. The staff urged that early retirement—including, but not exclusively, through the unemployment insurance system—be curtailed to encourage greater participation among older people. There was agreement that, in the current slowdown, the renewed use of early retirement measures to ease enterprise restructuring should be avoided. More generally, the mission argued that more needed to be done to shift the emphasis from income support to moving people back into the workforce. This could be achieved by de-emphasizing transfer programs to sharpen work incentives, and favoring active labor-market policies to increase employment opportunities.

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[11] For Belgium, achieving these objectives—to raise the employment rate to 70 percent and the female employment rate to 60 percent by 2010—would be very ambitious, requiring an increase in each of 1 percentage point a year.

[12] The figures in the Table include old-age pensioners. The study from which it is drawn also estimated dependency ratios excluding this group, which of course are much lower, but that in Belgium is still the highest of the countries examined. The study also reveals that Belgium has a relatively high dependency rate in programs designed for the unemployed (which include, but are not restricted to, unemployment insurance).

Box 2. Recent Labor Market Initiatives

To address unemployment traps, employers' social contributions were cut in April 2000, with a full-year effect of €0.7 billion (0.3 percent of GDP). The labor income tax reform introduces a credit of €496 for workers at the low end of the wage scale, and is expected to cost €450 million when the program is fully in place. All the measures in place and proposed to reduce the labor tax wedge are estimated to generate 24,000 new jobs by 2006 at a budgetary cost of €3.3 billion. To increase mobility, an unemployed person accepting a job with a long commute is now eligible for a grant.

Regarding active labor market programs, 50,000 employment contracts were signed under the youth employment program (the "Rosetta Plan") within a year of its introduction in April 2000—10 percent more than expected; and a further 25,000 contracts are expected in 2002. It has been recently decided that if the program quota is not filled with young workers, firms may hire people aged 45 or more. The "unemployment reduction program" (which provides training and temporary employment) is to be expanded and streamlined, and the new "Programme Printemps" provides temporary but full-time public service jobs to long-term unemployed. The budget for training is to be raised.

To increase employment among older people, a new program allows unemployment benefits to be used instead as employment subsidies (so-called "activation" of benefits). Also, the practice of computing old-age pension benefits on the last-earned wage has been changed, because this penalized people who retired and then returned to the workforce at a lower wage. Now, benefits will be calculated on the peak wage. Other measures include enhanced lifelong training, flexible work conditions, and a cut in hours worked (all to be negotiated by the social partners). Firms hiring a worker older than 57 will receive relief on social contributions.

Reducing work time is another priority. A law passed in July 2001 extends the 38-hour work week to all sectors by 2003 ("collective reduction"). Firms are to be compensated by a single payment calculated according to the size of the cut in hours worked. A program to encourage a shift to a 4-day workweek (a compressed work schedule, rather than a reduction in total hours) started in October 2001, also with fiscal incentives. Finally, there is a program of "individual reduction" of hours worked, which includes a "time credit" (a fully-paid year off, or a half-year by 3-month installments), a 1/5 career interruption (one day a week for up to five years), and cuts in hours worked for those aged 50 and more.

Evolution of Benefit-Dependency Ratios Across Selected Countries
(Benefit-years of those older than 15, as a percent of work-years of employed individuals older than 15)

	1980	1985	1990	1995	1997
Belgium	**83.4**	**99.1**	**102.5**	**103.5**	**103.0**
France	61.9	75.3	80.8	92.0	94.1
Sweden	67.2	69.7	72.2	94.5	89.1
Germany	71.0	76.8	72.5	80.4	88.3
Austria	77.0	77.0	79.0	83.6	83.3
United Kingdom	61.6	74.5	68.9	83.0	79.4
Denmark	72.1	73.9	76.8	82.0	78.6
Spain	53.7	71.3	70.9	82.3	78.1
Netherlands	67.2	83.8	82.4	83.2	77.5
Japan	-	-	53.3	64.0	69.1
United States	54.2	52.4	50.7	52.6	50.8

Source: *Analyse des Forces/Faiblesses de la Protection Sociale des Travailleurs Salariés en Belgique*, Ministère des Affaires Sociales, November 8, 2001. The Table was drawn from *Benefit Dependency Ratios: An Analysis of Nine European Countries, Japan, and the United States* (1999), prepared by the Netherlands Economics Institute for the Dutch Ministry of Social Affairs.

19. **Reducing geographical labor market divergences is also a key priority**. The nature of the longstanding divergence in economic performance is discussed in the accompanying Selected Issues paper. Focusing on labor market issues, unemployment rates are larger and more resistant to regional shocks in labor demand in Wallonia than in Flanders, but there is significant heterogeneity across Walloon provinces. Although data limitations hinder analysis of this issue, the paper notes that differences in labor market efficiency likely lie behind the gap between regions. For instance, the vacancy-unemployment relationship has become more adverse (that is, for a given unemployment rate, vacancies are higher) in Wallonia since the late 1970s, whereas an initial deterioration in Flanders was partially reversed after the mid-1980s. This suggests job mismatch and the labor-tax wedge have been more damaging in Wallonia. Also, wages there may be above the level consistent with full employment, perhaps reflecting the benefits system, which puts a floor on the wage that a potential worker will accept, as well as the centralized bargaining framework, which tends to limit geographical wage differentiation. In addition, a number of factors (including cultural and linguistic differences) inhibit geographical labor mobility. Turning to the large contingent of long-term unemployed workers in Wallonia, the low exit rate into jobs among individuals in this category reflects mainly a mismatch between personal characteristics and the skill needs of firms.

20. **It was clear that the problem needs to be tackled at a number of levels.** The staff argued that, first, reforming benefit programs as discussed above would help, since it is precisely in high unemployment (and low employment) areas where the excessive costs of hiring and the disincentives to work have been most damaging. In addition, there was

agreement that labor mobility is too low, and that reducing impediments to mobility (the high transfer tax on house purchases, for example) and extending the geographical area for job search would both be helpful. Regarding the latter, the mission welcomed the increasing cooperation among the public employment services (which are administered by the Regional governments), in part through greater use of the internet. Although data are very limited, most observers agreed that geographical wage dispersion had been insufficient to match differences in productivity. There was, however, less agreement on the appropriate policy response. The staff argued in favor of greater wage differentiation, while accepting that this would be difficult in a small country with a strong tradition of social solidarity. It suggested that the centralized bargaining framework, by setting country-wide norms, is a force for wage convergence, although the authorities argued that there was scope for wage differentiation within the framework.

21. **The pace of product market reform remains slow** (Box 3). The liberalization of network industries (electricity, gas, and telecommunications) is driven by European directives. Belgium, while committing to EU timetables, has not had a history of moving ahead of them. The authorities reported that in some cases actual market changes had lagged legal liberalization, often for want of infrastructure investments. For example, the owner of local telephone lines (Belgacom) is now obliged to lease them to competitors, but it has been difficult for entrants to raise capital given current market conditions. Likewise, capacity bottlenecks were reported in the transport of electricity and gas across international borders, in practice limiting the scope for large customers to exercise their legal option to choose a supplier. There appeared to be no immediate plans for further privatization, except for the Brussels airport. The staff supported the government's policy to close down Sabena, rather than the alternative of extending further taxpayer support, although it recognized the social costs involved.

22. **In the authorities' view, the banking sector was sound**. Banks as a whole continue to have strong capital/risk-weighted asset and return-on-equity ratios (Table 3) and, according to the CBF (the banking supervisor), banks' credit quality had not been affected by the downturn, nor was exposure excessive in terms of market or sectoral risk (the rise in the off-balance sheet reflecting mainly normal growth of interest derivatives). In particular, the demise of Sabena was not expected to give rise to problems in the banking system. The events of September 11 had provided a real-world stress test, to which the system had responded well. In a normal response to the cyclical downturn, profitability declined in 2001, as operating income grew little and exceptional income declined sharply. The increased concentration in the Belgian banking system, initiated in the beginning of the 1990s, has slowed. The authorities agreed with the staff that the consolidation of the sector had yet to translate into lower cost-income ratios. In addition, costs had risen in the past few years due to IT investments, the introduction of more sophisticated risk-management techniques, and the development of non-interest income sources.

Box 3. Product Market Reform

Progress in product market reform has been slow in the past year. Competition in services remains hampered by overly restrictive administrative barriers to entry, zoning laws, licensing procedures, opening hours, as well as by monopolistic practices in electricity and gas distribution and rail transport.

In line with EU directives, liberalization in telecommunications advanced in 2000 with the opening of the local network to competition but Belgacom (the former monopoly provider) still enjoys a dominant position in the residential market, due to large entry costs, and rates are thus still high. By contrast, international rates were reduced in the fall of 2000 to better face possible competition, which is expected to save customers €1.5-1.7 billion a year. Three third-generation mobile phone (UMTS) licenses were sold in early 2001.

In 2000, the gas market was liberalized in that it was opened to producers, and in addition large customers (at least 25 million of cubic meters of gas per year), which represent nearly half the gas market, were allowed to choose their supplier. At end-2000, large electricity customers (at least 20GW per year) were also given the option of choosing a supplier. Energy prices, however, remain higher than the EU average, in part due to the large investment needed to access the system. Network operators were chosen only recently, and are to be regulated by a newly created commission which, among other things, is to ensure access of suppliers to the monopolized networks.

Step by step liberalization of the postal market is to be achieved by 2009, in line with the agreed EU timetable. To meet EU requirements, the legal status of the government-owned (and dominant) postal service was changed, but it has not been added to the privatization list.

In the transportation sector, restructuring the railways is proving to be a lengthy and costly process. Sabena, which had a doubtful future even prior to the September 11 events and the difficulties of Swissair (a part owner), has ceased most of its operations.

23. **The government is proceeding with plans to overhaul banking supervision**. At the time of the mission nothing had been finalized, but draft legislation proposes several reforms to the banking supervisor (CFB). These include modernizing its decision-making and management structure, providing for appeals to its decisions, and extending its competence beyond banking and into the field of securities regulation. In addition, the links between the CFB and the central bank are to be strengthened, in order to make better use of the resources of both institutions. In particular, a Financial Stability Board is to be created, chaired by the governor of the central bank and comprising the members of the executive boards of the central bank and the CFB. Separately from this legislative proposal, the central bank intends

to enhance its role in macro-prudential supervision in order to better ensure overall financial stability, although it will continue to play no role in the supervision of financial institutions.

IV. Other Issues

24. **The government plans to extend employment-based, or "second pillar" pension plans to the sectoral level.** Currently, such plans are allowed at the firm level, although they are not as developed as in the United Kingdom and the Netherlands. The extension is to be voluntary, to be negotiated between the social partners, but there will be a fiscal incentive in the form of exoneration from an insurance tax if the scheme meets certain criteria, notably a degree of "solidarity" (implicit transfers across beneficiaries of a scheme). Despite this restriction, the mission welcomed this initiative, although it remains unclear how large the take-up will be. Furthermore, it is not in itself a substitute for pension reform, which may still be needed as the cost of the current system rises with population aging.

25. **The authorities are implementing significant government management reforms.** The Copernicus program aims to reorganize the federal bureaucracy to enhance its effectiveness. The authorities reported that progress had been slowed by legal challenges to change senior personnel practices, but anticipated that progress would soon resume. There is also an ongoing effort to streamline dealings with the private sector, notably via the internet. An important cost-saving measure in this regard will occur next year, when firms will be able to submit information to the social security administration electronically, rather than by paper, and since the beginning of 2002 firms have been able to submit VAT information electronically. However, the target of reducing the administrative burden imposed on the private sector by 25 percent during the current government period is unlikely to be realized.

26. **The authorities expressed confidence in their ability to pursue anti-money laundering efforts.** The law prohibits money laundering, and mandates client identification (including "know-your-customer" policies), staff training, and internal control procedures.[13] The Financial Intelligence Unit (FIU) is the key government agency responsible for monitoring money-laundering activity, although the financial supervisors also play a role. The authorities stressed the importance of international cooperation, which in the Belgian case is principally the responsibility of the FIU, with the CBF also involved as a member of the Financial Action Task Force (FATF) delegation. In the summary of its 1997 mutual evaluation (extracted from the 1996–97 annual report), the FATF characterized the Belgian system as "extremely consistent and very effective," while calling for more resources to extend coverage. In its 2000–01 annual report, the FATF noted that Belgium was one of 10 member countries that had fully implemented the 28 FATF recommendations requiring specific action.

[13] See the law of 17 July 1990 as amended in 1995, and the law of 11 January 1993 as amended in 1994, 1995, 1998, and 1999.

27. **On trade policy**, the authorities strongly supported a WTO round that takes full account of the interest of all participants, notably developing countries. They were very much in favor of including labor and environmental issues in a new round, and noted that these issues have been included in the mandate given to the European Commission. The mission urged the authorities to raise their **development assistance** from the current 0.36 percent of GNP toward the UN target of 0.7 percent of GNP.

28. **The availability and quality of data** have improved substantially in recent years, and the authorities are continuing their efforts in this direction. At the same time, they pointed to the inevitable tradeoff between immediate release of data on the one hand, and minimal revisions and full coherence across various websites on the other. In this regard, they have introduced a new strategy for revising the national accounts, which provides up-to-date revisions of quarterly data while restricting annual level revisions to once a year. They also intend to improve information on the reasons for and implications of all revisions.

V. Staff Appraisal

29. **Economic activity slowed markedly in Belgium in 2001, following several years of robust growth.** As a very open economy, Belgium was strongly affected by the external shocks of the past year, including the rise in oil prices, and the sharp decline in the growth of Belgium's trading partners. These factors cut deeply into business and household confidence, depressing domestic demand growth, and into exports. Although headline inflation stabilized and began to fall last year, reflecting declining world oil prices, underlying inflation continued to rise. Moreover, wage growth was higher than the average of Belgium's three main trading partners (Germany, France, and the Netherlands) for the third year running; consequently, competitiveness against the euro area has gradually but steadily deteriorated.

30. **The staff anticipates a recovery in the second half of 2002**. Cuts in official interest rates in the United States and the euro area have provided considerable macroeconomic stimulus, improving the climate in Belgium and, importantly, the export outlook. Economic activity is expected to pick up as a result in the course of the year. The risks to this projection lie essentially in the performance of its main trading partners: an acceleration or delay in their economic recoveries will be reflected in Belgium's.

31. **Looking through the cycle, the key to fiscal policy is further consolidation to achieve the medium-term objectives of a modest budget surplus and a lower tax burden**. Longstanding policy efforts successfully reduced deficits, resulting in balance in 2000 (two years ahead of schedule) and a decline in the debt-GDP ratio by over 30 percentage points from its peak in 1993. At this point, only a relatively small additional effort would deliver the sustainable surplus position (of about 1 percent of GDP) that would be prudent in light of the expected fiscal burden of population aging. For 2002, fiscal policy can best contribute to this effort by ensuring a further sustainable increase in the structural surplus while allowing a significant degree of automatic stabilization, and avoiding the fiscal withdrawal embodied in the official budget target of balance. The lower levels of government

will also have to contribute, including by honoring the convention on budgetary objectives for 2001–05.

32. **Containing spending growth is the most difficult challenge**. The authorities' commitment, as reiterated in both the 2002–05 Stability Program and the 2002 budget, is commendable. However, at the general government level, real primary expenditure growth has been about 2¼ percent in 1995–2000. Reducing real primary spending growth to about 1.5 percent a year would create room for the government's program of tax cuts, which are a key part of the strategy to enhance medium-term economic performance. Clearly, areas of high spending pressure—notably health care—must either be reined in or offset. But in formulating and implementing expenditure restraint, it is of paramount importance that measures be orderly and sustainable. Finally, a lasting effort at all levels of government is needed, which underscores the desirability of developing a more explicit medium-term fiscal framework that emphasizes commitment to expenditure ceilings.

33. **Recent tax and pension reforms should prove helpful in laying the ground for future economic growth**. The cuts in income tax rates to be implemented this year should enhance work incentives. Likewise, the corporate tax reform should improve the investment climate, both via the lower tax rates and the provision of advance rulings. The extension of "second-pillar" pension schemes to the sectoral level is not a substitute for pension reform, but is welcome to the extent it succeeds in stimulating alternative pension resources.

34. **A reinvigorated program to enhance labor-market performance is crucial to improve medium-term economic prospects**. Severe weaknesses persist in the labor market, and current policies fall short of those needed to move significantly toward the goals laid out in Lisbon. A consensus on the nature of such reforms appears to be elusive, and momentum has weakened as the economy has slowed. The policy of reducing the tax burden, particularly on labor, is welcome, and should be pursued to the extent spending restraint provides room. But it must be complemented by a coherent program of deeper structural reforms.

35. **Benefit programs are in need of comprehensive reform**. The ratio of beneficiaries to workers is higher in Belgium than elsewhere, suggesting a policy of streamlining and rationalization. The ultimate goal should be to sharpen work incentives, while continuing to protect the most vulnerable members of society. The 50–65 year-old group remains an area of concern, especially as its demographic importance will increase in the coming decade. There have been some welcome initiatives, including the "activation" of unemployment benefits and the elimination of the pension penalty for those returning to work. By contrast, the current downturn should not be allowed to trigger a return to widespread recourse to early retirement schemes, since this would only lead to another wave of older workers dependent on benefit programs.

36. **There are significant, longstanding geographical variations in labor market performance**. Unemployment rates in some northern provinces are among the lowest in Europe, whereas those in some other parts of the country are far higher. Increased geographical wage dispersion would help to raise the employment intensity of growth in

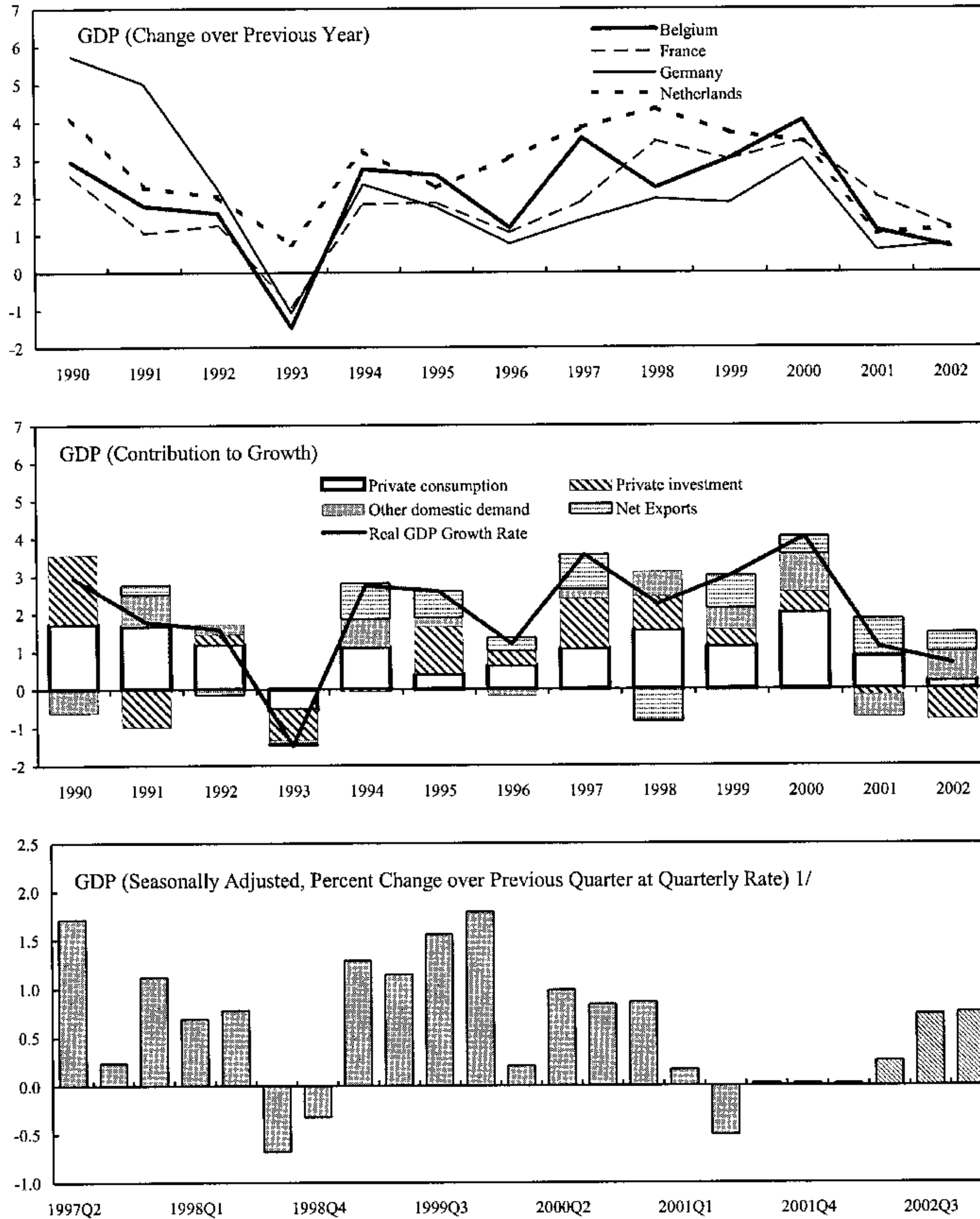
poorly performing areas. There are, however, impediments to this process, such as the small size of the country, a tradition of social solidarity, and the centralized bargaining framework. Reform of the benefit system would also be helpful in a geographical context, as adverse incentive effects are greater where jobs are scarce. Measures to increase geographical labor mobility will also be important, and the recent decision of the Flemish government to reduce the housing registration tax is therefore welcome.

37. **As regards product markets, Belgium has committed to EU timetables, but the economy would benefit from adopting a more rapid pace of liberalization.** In addition, the Belgian electricity, gas, and telecommunications markets are characterized by powerful incumbent firms (the former monopoly providers) and regulators will have to ensure that they do not abuse their positions if the full benefits of liberalization measures are to be realized. While the government's ambitious plan to reduce administrative burden is well behind expectations, internal reforms now underway and efforts to expand e-government are welcome.

38. **The Belgian banking sector has continued to perform favorably, as judged by a range of indicators.** As a natural consequence of the slowdown in economic activity, profitability fell sharply in 2001. However, cost reductions after the wave of mergers have not materialized, as banks have not shed labor very quickly and have incurred substantial IT and other costs. The government should press forward with its plan to reform banking supervision, as this will strengthen the management of the banking supervisor, as well as better exploit complementarities between the supervisor and the central bank at the staff level and also between micro and macro prudential supervision. The increased emphasis by the central bank on macro prudential supervision is commendable, and the proposed Financial Stability Board, by ensuring participation across relevant institutions, would be an appropriate forum for assessing overall financial stability.

39. It is proposed that the next consultation be held on the standard 12-month cycle.

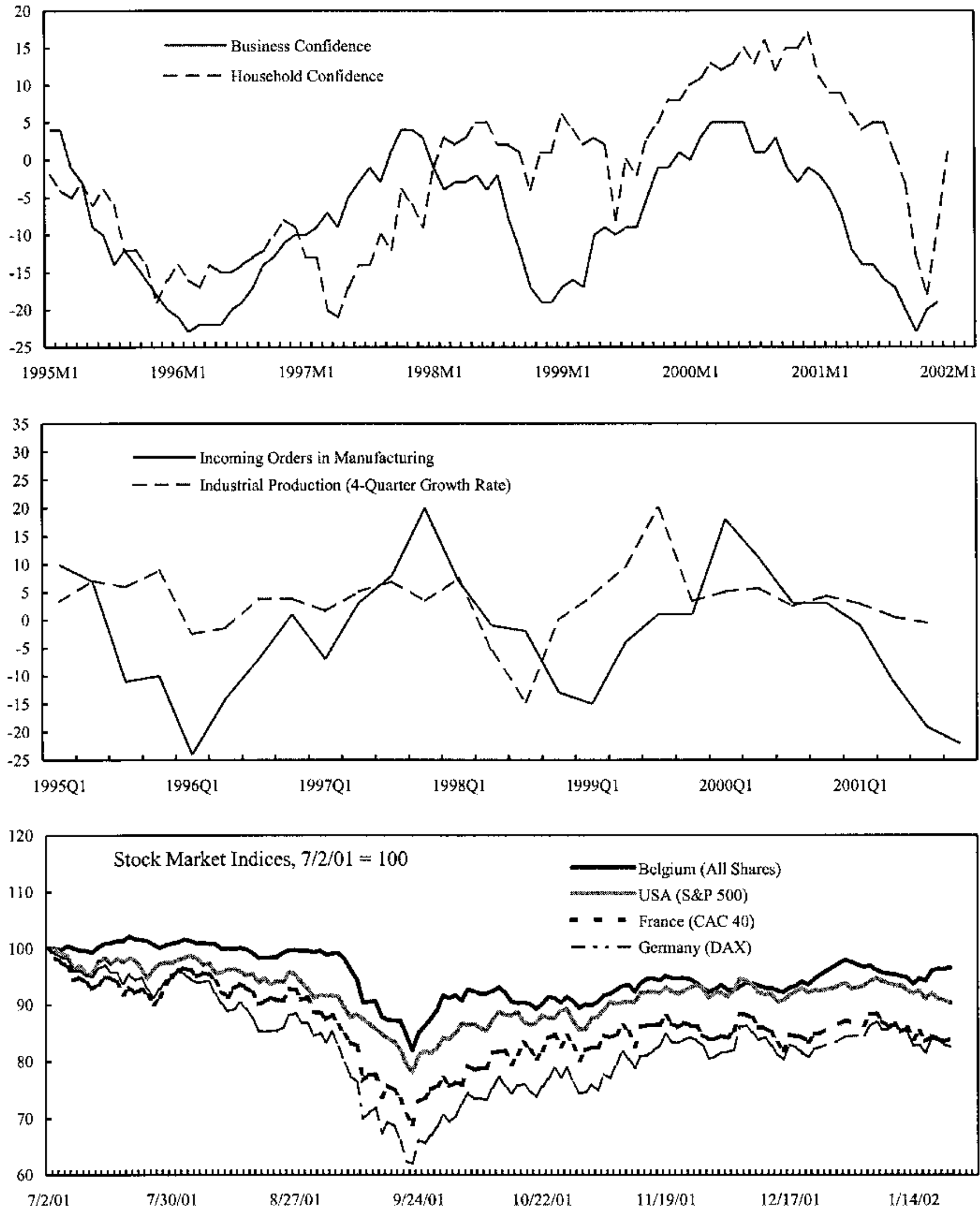
Figure 1. Belgium: Real GDP and Contribution to GDP Growth



Source: IMF, World Economic Outlook; and data provided by the authorities.

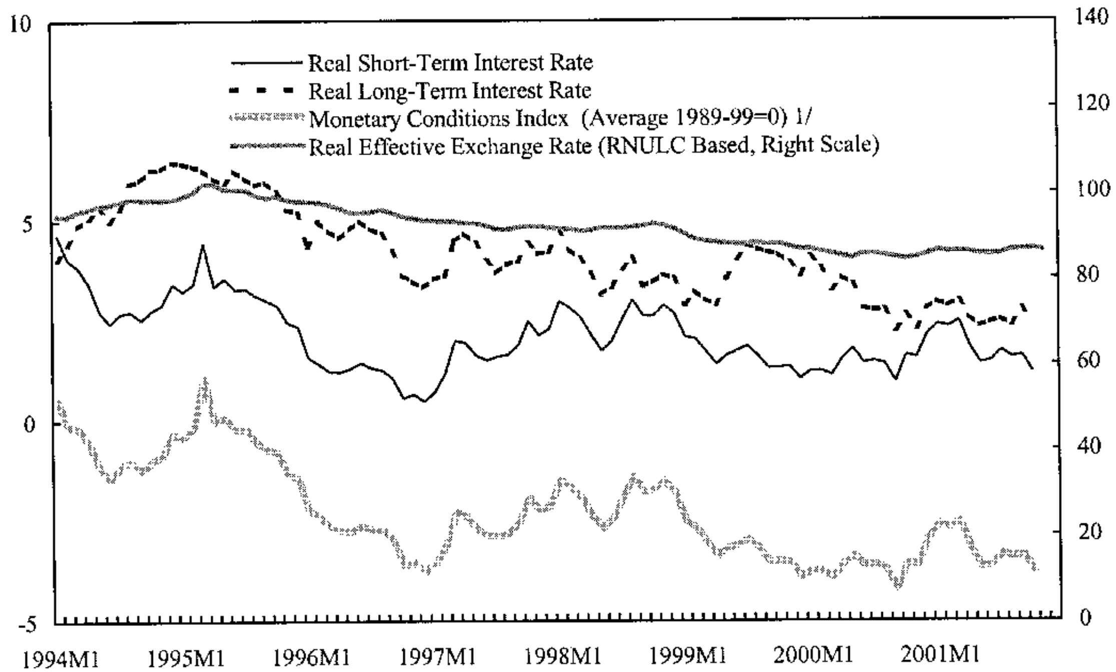
1/ Data for the fourth quarter and beyond are staff projections.

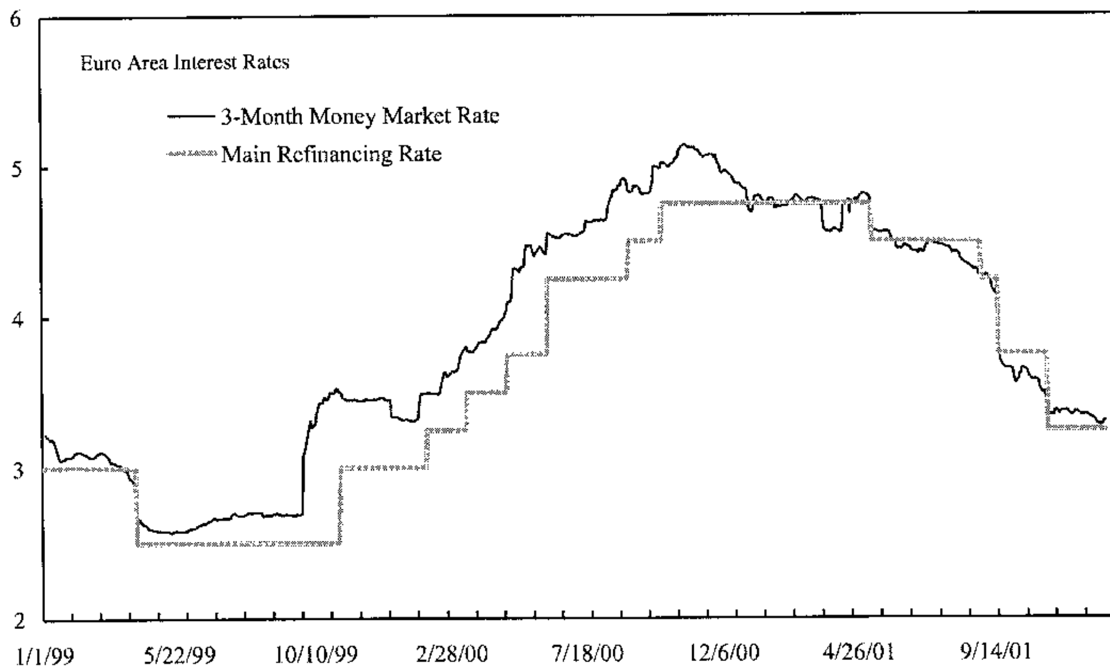
Figure 2. Belgium: Cyclical Indicators



Sources: WEFA Intline Database; and NBB.

Figure 3. Belgium: Monetary Conditions

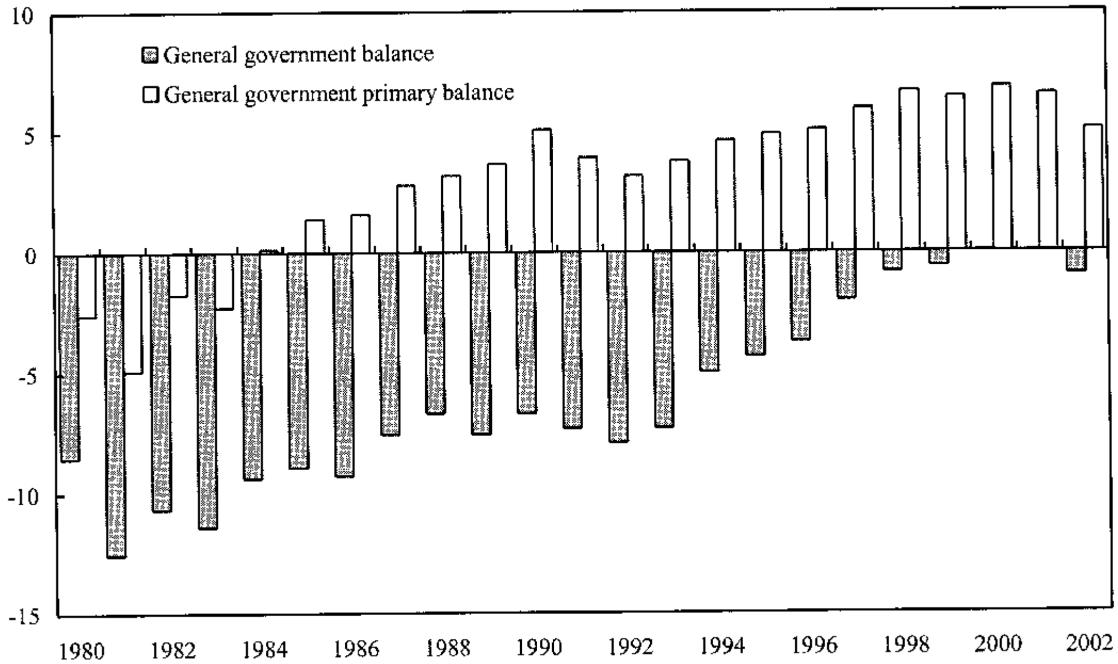


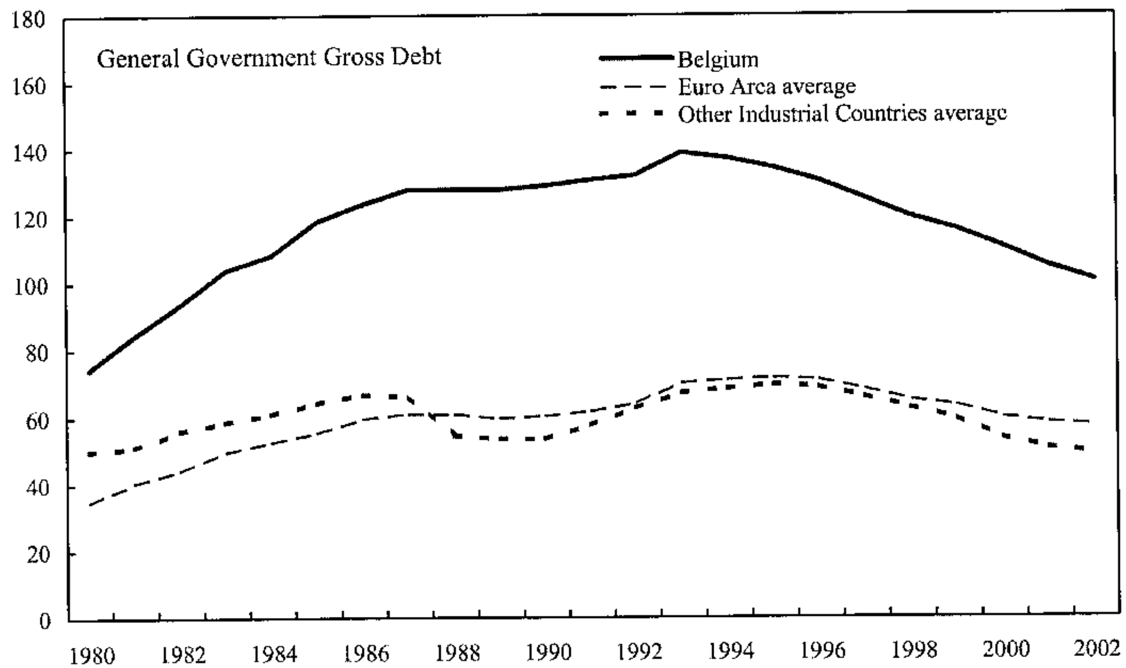


Source: Source: IMF, IFS; and European Central Bank.

1/ The monetary conditions index is a weighted average of the real effective exchange rate and the short-term real interest rate, with weights of 1 and 2.5 respectively.

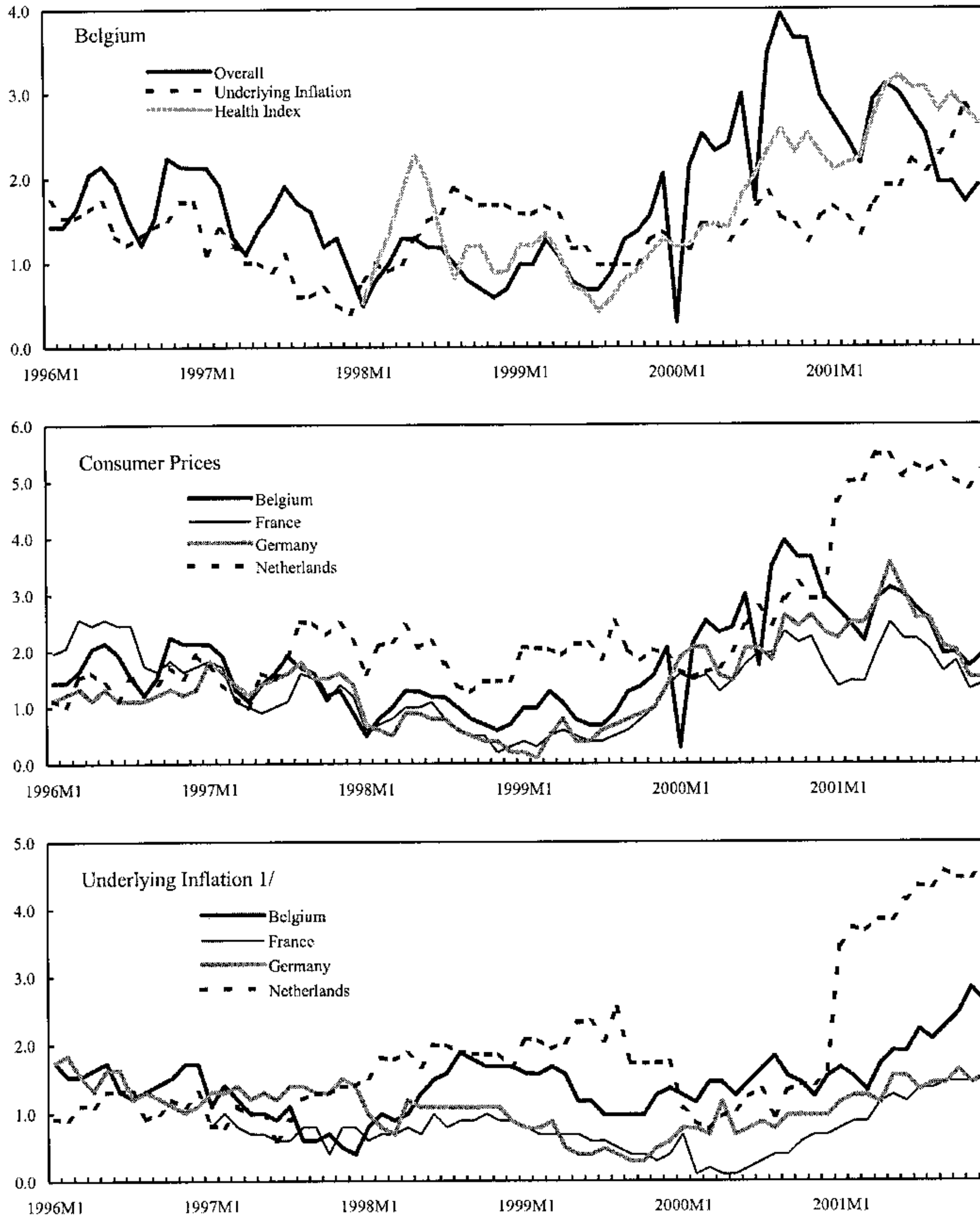
Figure 4. Belgium: Fiscal Developments
(In percent of GDP)





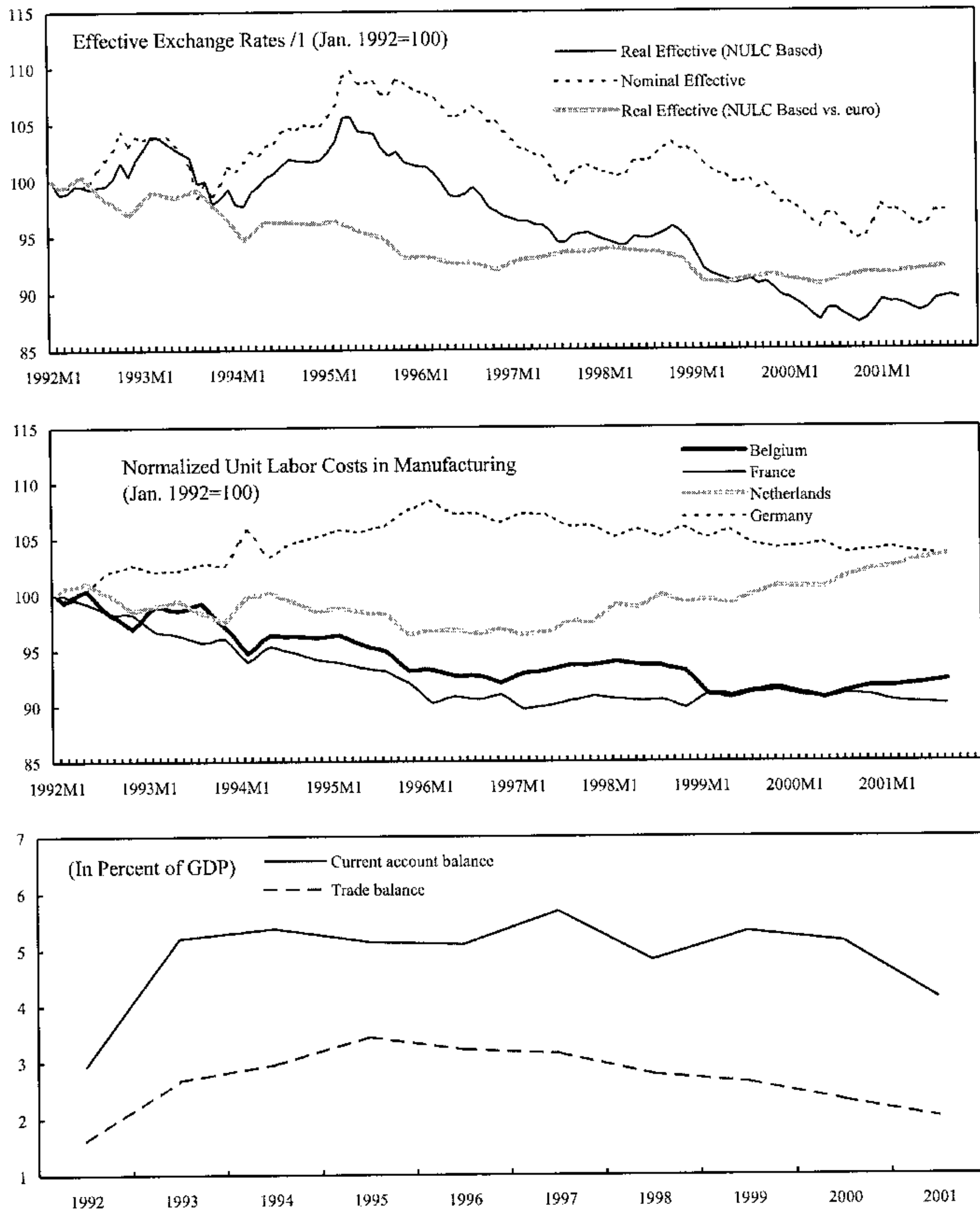
Source: IMF, WEO.

Figure 5. Belgium: Price Developments
(12-Month Growth Rate; Harmonized CPI)



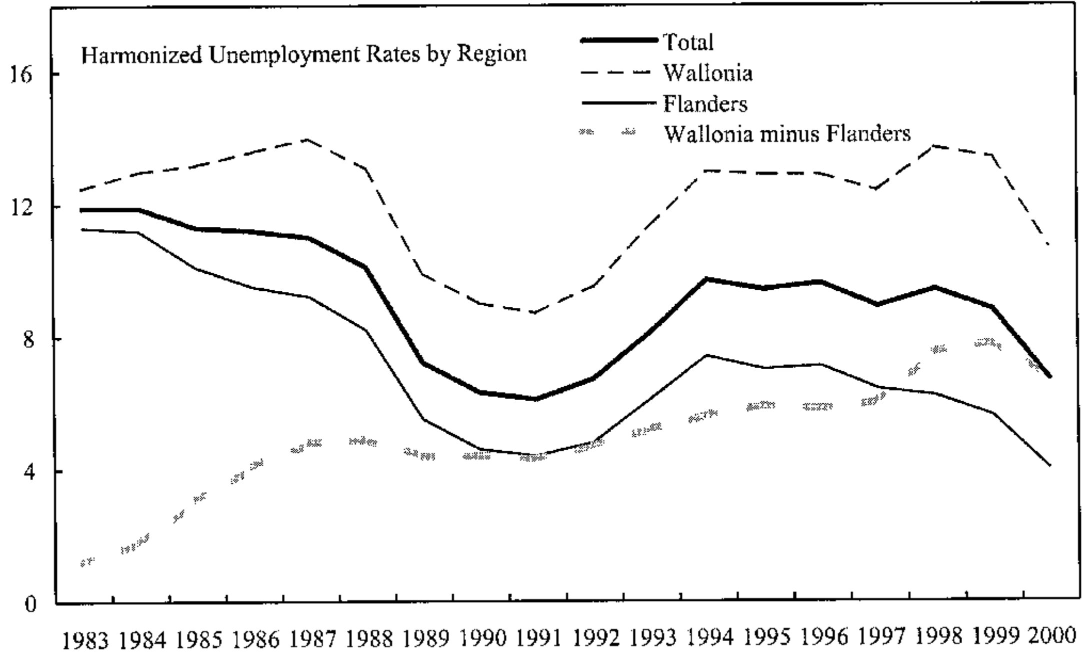
Source: IMF, IFS; and Cronos database.
1/ Overall harmonized index excluding energy, food, alcohol and tobacco.

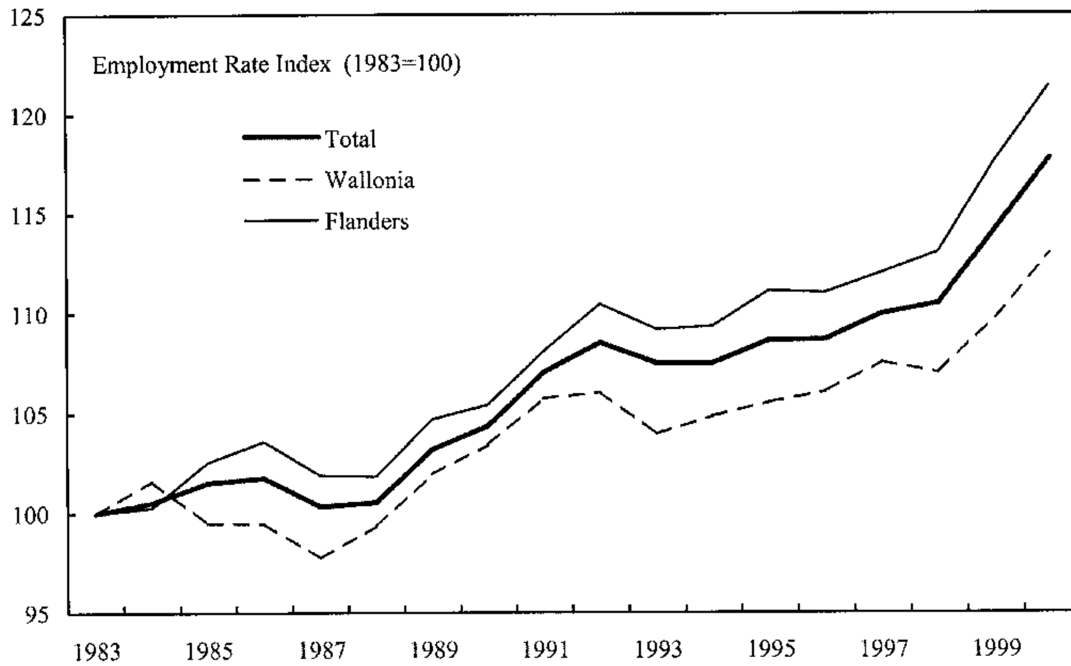
Figure 6. Belgium: External Indicators



Source: IMF, IFS and WEO.
1/ An increase indicates an appreciation.

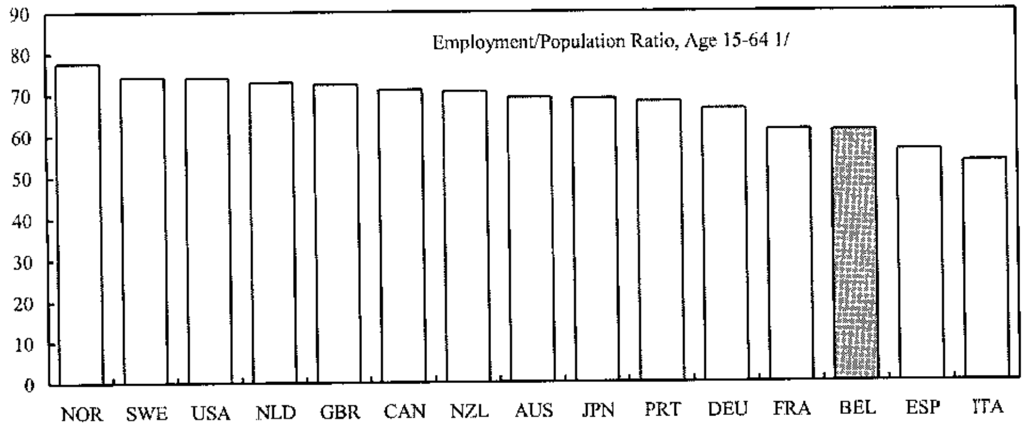
Figure 7. Belgium: Regional Labor Market Developments

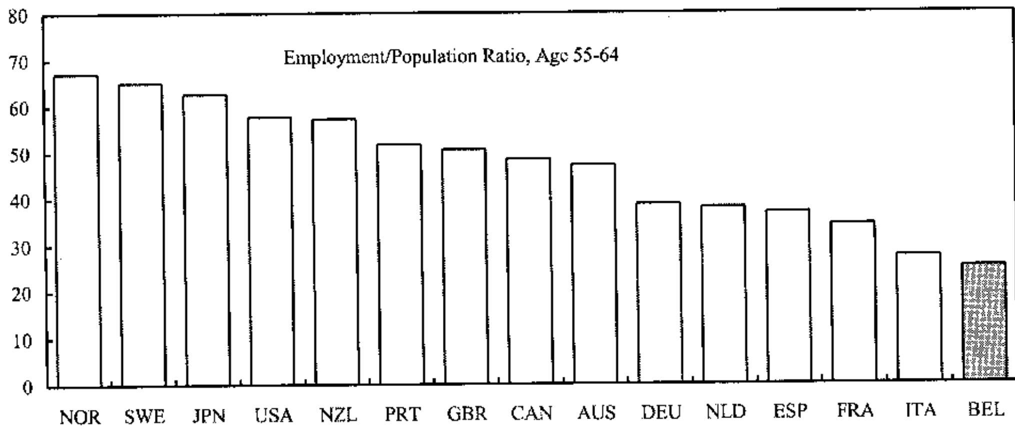


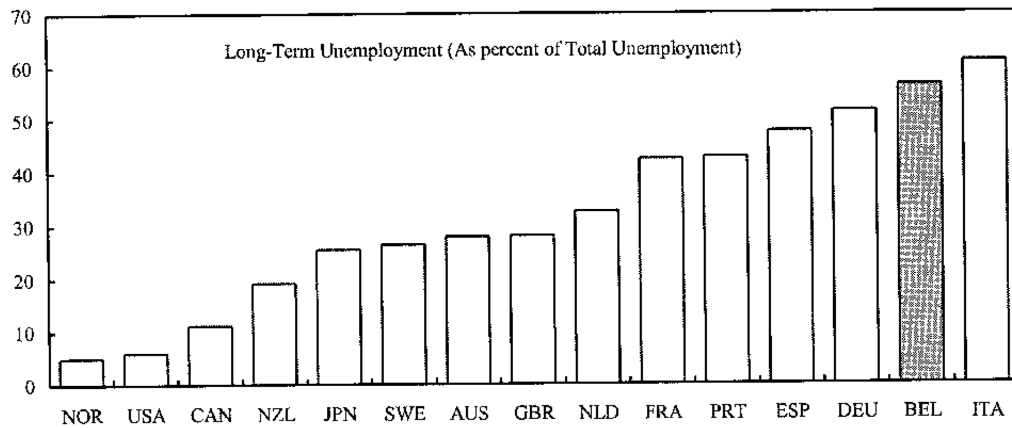


Source: Data provided by the Belgian authorities; Cronos Database; and staff calculations.

Figure 8. Belgium: Labor Market Indicators in Selected Countries







Source: OECD, Employment Outlook, June 2001.
1/ Refers to persons aged 16 to 64. (ESP, GBR, NOR, SWE, USA)

Countries are: AUS=Australia, BEL=Belgium, CAN=Canada, FRA=France, DEU=Germany, ITA=Italy, JPN=Japan, NLD=Netherlands, NZL=New Zealand, NOR=Norway, PRT=Portugal, ESP=Spain, SWE=Sweden, GBR=United Kingdom, USA=United States.

Table 1. Basic Data

Demographic and other data:

Population (mid-1999)	10.2 million
GNI per capita (1999)	US$ 25,112
Social indicators (1993-99)	
Life expectancy at birth	
Male	74
Female	81
Infant mortality rate	5 per 1,000 live births
Population per physician (1995)	437
Population per sq. km. (1995)	335

	1990		2000	
	Billions of BF	Percent of GDP	Billions of BF	Percent of GDP
Private consumption	3642.0	54.9	5419.0	54.1
Public consumption	1338.0	20.2	2119.0	21.2
Gross capital formation	1515.0	22.8	2156.0	21.5
Exports of goods and services	4643.0	69.9	8644.0	86.3
Imports of goods and services	4499.0	67.8	8320.0	83.1
GDP	6639.0	100.0	10018.0	100.0

	1997	1998	1999	2000	2001 Est.	2002 Proj.
			(Changes in percent)			
National Accounts						
Demand and output (volume)						
Private consumption	2.0	2.9	2.1	3.8	1.6	0.4
Public consumption	0.3	1.5	3.2	2.6	2.1	1.0
Gross fixed investment	6.8	4.3	3.3	2.6	-1.6	-4.3
Of which:						
Enterprise investment	7.9	4.7	3.8	3.3	-1.6	-5.2
Stockbuilding 1/	0.1	0.3	-0.4	0.5	-0.8	0.6
Total domestic demand	2.8	3.3	2.2	3.8	0.1	0.2
Exports of goods and nonfactor services	6.1	5.8	5.0	9.7	-0.2	0.0
Imports of goods and nonfactor servises	5.1	7.5	4.1	9.8	-1.6	-0.6
Foreign balance 1/	0.9	-0.8	0.9	0.5	1.0	0.5
GDP	3.6	2.2	3.0	4.0	1.1	0.7
Output gap (in percent of potential GDP)	-1.9	-1.9	-1.2	0.5	-0.7	-2.1
Manufacturing production	4.6	3.3	1.1	4.9	-1.0	0.9

	1997	1998	1999	2000	2001 Est.	2002 Proj.
			(Changes in percent)			
Labor market						
Labor force (national definition)	0.4	0.2	0.4	0.8	0.5	0.4
Employment (national definition)	0.8	1.2	1.4	1.6	0.6	-1.1
Unemployment rate (national definition) 2/	12.4	11.6	10.9	10.0	9.9	11.2
EU harmonized unemployment rate /2	9.4	9.5	8.8	7.0	6.9	7.9
NAIRU	8.2	8.0	7.8	7.1	7.1	7.1
Prices, wages and incomes						
GDP deflator	1.4	1.6	1.2	1.3	1.3	0.7
Terms of trade (goods)	-2.9	1.6	-2.4	-1.8	0.2	-0.1
Consumer price index 3/	1.5	0.9	1.1	2.7	2.4	0.5
Compensation per employee 4/	3.2	2.3	4.1	4.0	3.3	3.1
Labor productivity 4/	3.9	1.7	2.7	3.6	0.0	2.2
Unit labor costs 4/	-0.6	0.6	1.3	0.4	3.4	0.9
Real disposable income	0.1	3.1	2.6	2.4	2.0	-0.2
			(In percent)			
Interest rates						
Money market rate 5/	3.5	3.6	3.0	4.4	4.3	...
Government bond yield	5.7	4.7	4.5	5.6	5.1	...
			(In percent of GDP)			
Saving and investment						
Private saving	24.9	24.0	24.1	23.8	22.3	23.0
Of which:						
Household saving as percent of disposable household income	14.7	14.1	14.6	14.2	14.4	14.0
Private investment	18.8	19.0	19.1	19.3	19.1	18.2
Private saving surplus	6.1	5.0	5.0	4.5	3.2	4.8
Government saving surplus	-1.1	-0.1	0.1	0.8	1.6	0.0
National saving surplus	5.0	4.9	5.2	5.2	4.8	4.8
Public finances, general government						
Revenue	49.4	49.8	49.7	49.5	49.8	49.2
Expenditure	51.4	50.7	50.3	49.4	49.7	49.9
Of which:						
Interest on public debt	8.0	7.5	7.0	6.8	6.6	6.1
Fiscal balance 6/	-2.0	-0.8	-0.6	0.1	0.2	-0.7
Primary balance 6/	6.0	6.7	6.4	6.8	6.8	5.4
Structural balance 7/	-0.7	0.5	0.3	-0.2	0.3	0.6
Structural primary balance 7/	7.1	7.9	7.2	6.6	6.8	6.6
Gross public debt	124.6	119.2	115.3	109.8	107.1	106.4

	1997	1998	1999	2000	2001 Est.	2002 Proj.
	(In billions of Belgian francs)					
Balance of payments 8/						
Current account balance	498.9	439.3	505.6	515.5	564.4	556.0
(In percent of GDP of Belgium)	5.7	4.8	5.3	5.1	5.5	5.3
Trade balance	276.4	253.2	250.7	232.4	313.8	355.3
(In percent of GDP of Belgium)	3.2	2.8	2.6	2.3	3.1	3.4
Official reserves (US$ billion) 9/	16.2	18.3	10.9	10.0	11.3	...
Reserve cover (months of imports of GNFS)	1.5	1.4	0.9	0.7	...	...
Exchange rates						
Euro per U.S. dollar (January 8, 2002) 10/						1.1211
Nominal effective rate (1995=100) 11/	94.0	94.0	92.8	90.1	90.5	...
Real effective rate (1995=100) 11/ 12/	92.4	91.7	88.2	85.3	86.1	...

Sources: data provided by the authorities; and Fund staff estimates and projections.

1/ Contribution to growth.
2/ Percent of the labor force
3/ Harmonized consumer price index.
4/ Private and public enterprises, full-time equivalent.
5/ Since 1999, Euro rate.
6/ Includes UMTS license revenue of 0.2 percent of GDP in 2001.
7/ Excludes UMTS license revenue of 0.2 percent of GDP in 2001.
8/ Belgium-Luxembourg Economic Union (BLEU) on a transactions basis.
9/ Excluding gold. Since January 1999, Eurosystem's definition.
10/ Belgium entered the final stage of EMU on January 1, 1999 at a rate of 40.3399 Belgian francs to the euro.
11/ For 2001, average of through end-November.
12/ Based on relative normalized unit labor costs in manufacturing.

Table 2. Belgium: Medium-Term Fiscal Scenarios, 2000-2005
(In percent of GDP)

	2000	2001	2002	2003	2004	2005
Authorities/staff scenario[1]						
Revenue	49.5	49.8	49.0	48.8	48.7	48.3
Expenditure	49.4	49.7	49.7	49.1	48.3	47.7
Primary expenditure	42.6	43.1	43.7	43.1	42.6	42.4
Interest payments	6.8	6.6	6.1	6.0	5.7	5.4
Balance	0.1	0.2	-0.7	-0.3	0.4	0.6
Structural balance	-0.2	0.3	0.6	0.5	0.7	0.7
Primary balance	6.8	6.8	5.3	5.7	6.1	6.0
Structural primary balance	6.6	6.9	6.7	6.5	6.4	6.1
Debt	109.8	107.1	106.4	102.4	98.0	94.0
Memorandum items (in percent):						
Real primary expenditure growth[2]	2.6	2.2	2.5	1.9	1.8	2.0
GDP growth	4.0	1.1	0.7	3.2	3.0	2.6
2002 - 05 Stability Program (December 2001)[3]						
Revenue	49.5	49.0	48.7	48.4	48.3	48.1
Expenditure	49.4	49.1	48.7	47.9	47.7	47.4
Primary expenditure	42.6	42.5	42.7	42.3	42.4	42.4
Interest payments	6.8	6.5	6.0	5.6	5.3	5.0
Balance	0.1	0.0	0.0	0.5	0.6	0.7
Structural balance	-0.2	-0.4	0.1	0.4	0.5	0.6
Primary balance	6.8	6.5	6.0	6.1	5.9	5.7
Structural primary balance	6.6	6.1	6.1	6.0	5.8	5.6
Debt	109.8	107.0	103.3	97.7	92.9	88.7
Memorandum items (in percent):						
Real primary expenditure growth[2]	2.6	0.9	1.7	2.1	2.7	2.4
GDP growth	4.0	1.1	1.3	3.0	2.5	2.4
Staff normative scenario[4]						
Revenue	49.5	49.8	49.0	48.8	48.8	48.3
Expenditure	49.4	49.7	49.7	49.0	48.1	47.3
Primary expenditure	42.6	43.1	43.7	43.0	42.4	42.0
Interest payments	6.8	6.6	6.1	6.0	5.7	5.4
Balance	0.1	0.2	-0.7	-0.1	0.7	1.0
Structural balance	-0.2	0.3	0.6	0.6	1.0	1.1
Primary balance	6.8	6.8	5.3	5.9	6.4	6.4
Structural primary balance	6.6	6.9	6.7	6.6	6.7	6.5
Debt	109.8	107.1	106.4	102.3	97.6	93.2
Memorandum items (in percent):						
Real primary expenditure growth[2]	2.6	2.2	2.5	1.5	1.5	1.5
GDP growth	4.0	1.1	0.7	3.2	3.0	2.6

Sources: Data provided by the authorities and Fund staff projections.

1/Based on medium-term plan accompanying the 2001 budget, and staff macroeconomic projections.
2/ Deflated by the GDP deflator.
3/ Based on the 2002-05 Stability Program, including the program's macroeconomic scenario, and staff calculations of the implied real primary expenditure growth.
4/ Assumes 1.5 percent general government real primary expenditure growth, and staff macroeconomic projections.

Table 3. Belgium: Summary Statistics for the Financial Sector[1]

	1993	1994	1995	1996	1997	1998	1999	2000	2001 (1st. sem.)
	(In billions of euros)								
Total balance sheet	563.0	579.5	616.1	750.7	817.0	854.4	926.6	971.1	1050.6
Credit extended to non-financial institutions and individuals	193.0	200.5	205.2	242.0	264.8	303.8	342.8	392.8	414.6
Liabilities to non-financial institutions and individuals	283.8	290.8	299.1	379.9	401.1	444.1	477.4	504.4	532.8
Profits	1.3	1.4	1.3	2.0	2.1	2.6	3.7	5.5	2.4
Off balance sheet operations[2]	903	1022	1175	1534	2107	2116	2507	2718	3010
	(In percent)								
Loan/deposit ratio	68.0	68.9	68.6	64.0	66.0	68.0	72.0	78.0	78.0
Capital/risk-weighted asset ratio[3,4]	11.0	12.1	11.9	11.7	11.4	11.3	11.9	11.9	11.9
Return on average assets	0.24	0.26	0.21	0.27	0.27	0.30	0.43	0.57	n.a.
Return on average equity[3]	8.30	9.01	8.50	11.72	12.34	11.25	17.44	20.79	n.a.
Non-performing loans/total loans[5]	3.9	3.3	3.8	3.5	3.0	2.7	2.7	2.7	2.8
Provisions+write-offs/non-performing loans[5]	44	47	48	53	57	61	58	57	56
Cost/income ratio[3]	71	74	70	68	69	65	70	72	72

Source: Commission bancaire.

[1]With the exception of data for the capital/risk-weighted asset ratio, figures for 1993-1995 are on a non-consolidated basis.

[2]Amounts are the notional value of the derivatives.

[3]Excludes foreign subsidiaries in Belgium.

[4]For all years on a consolidated basis and after distribution of profits.

[5]For all years on a non-consolidated basis.

Table 4. Belgium: Indicators of External and Financial Vulnerability[1]
(In percent of GDP, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001 Est.
External Indicators[2]						
Exports (annual percentage change, in U.S. dollars)	-0.7	-2.3	3.5	2.5	4.9	-5.2
Imports (annual percentage change, in U.S. dollars)	-0.4	-2.5	4.3	2.0	6.3	-5.9
Terms of trade (annual percentage change)	1.5	-2.9	1.6	-2.4	-1.8	0.2
Current account balance	5.1	5.7	4.8	5.3	5.1	5.5
Inward portfolio investment (debt securities etc.)	13.5	22.1	23.6	53.9	50.1	...
Inward foreign direct investment	5.2	4.9	9.1	47.7	38.8	...
Official Reserves (in billions of U.S. dollars, end-of-period)[3]	17.0	16.2	18.3	10.9	10.0	...
Official reserves in months of imports	1.6	1.5	1.4	0.9	0.7	...
Exchange rate per U.S. dollar (period average)[4]	31.0	35.8	36.3	0.937	1.083	1.116
Financial Markets Indicators						
Public sector debt (Maastricht definition)	130.1	124.6	119.2	115.3	109.8	107.1
Government 10-year bond rate	6.5	5.8	4.7	4.7	5.6	5.1
Government 10-year bond rate (real)	4.7	4.3	3.8	3.6	2.9	2.7
Stock martket index (period average)	120.6	161.2	223.6	231.1	208.5	195.8
Spread of government 10-year bond rate with Germany	0.29	0.09	0.19	0.23	0.30	0.31
Financial Sector Risk Indicators						
Risk-based capital asset ratio[5, 6]	11.7	11.4	11.3	11.9	11.9	...
Rate of return on average equity[6]	11.7	12.3	11.3	17.4	20.8	...
Foreign assets of the banking sector (in billions of U.S. dollars, end-of-period)[7]	267.8	262.5	...	112.0	108.2	128.5
Foreign liabilities of the banking sector (in billions of U.S. dollars, end-of-period)[7]	293.7	280.0	...	181.8	163.9	175.5

Sources: Data provided by the authorities, IMF, *International Financial Statistics*, and IMF Research Department.

[1]The interpretation of some of the indicators is affected by the launch of the EMU in 1999.

[2]Balance of payments data cover the Belgium-Luxembourg Economic Union (BLEU).

[3]Reserves and foreign liabilities refer to the Belgian central bank, both before and after EMU.

[4]Belgian francs (BEF) per dollar until 1998, euro per dollar, thereafter. The fixed BEF/euro conversion rate is 40.3399.

[5]On a consolidated basis and after distribution of profits.

[6]Excludes foreign subsidiaries in Belgium.

[7]Banking institutions; data for 2001 pertain to November.

Belgium: Fund Relations
(As of December 31, 2001)

I. **Membership Status**: Joined 12/27/45; Article VIII

II. **General Resources Account**:	**SDR Million**	**% Quota**
Quota	4,605.20	100.00
Fund holdings of currency	2,973.48	64.67
Reserve position in Fund	1,631.74	35.43
Operational budget transfers (net)		

III. **SDR Department**:	**SDR Million**	**% Allocation**
Net cumulative allocation	485.25	100.00
Holdings	375.70	77.42
[Designation plan]		

IV. **Outstanding Purchases and Loans**: None

V. **Financial Arrangements**: None

VI. **Projected Obligations to Fund** (SDR Million; based on existing use of resources and present holdings of SDRs): None

VII. **Exchange Rate Arrangement**:

Until December 31, 1998, Belgium formed a monetary union with Luxembourg in which the Belgian and Luxembourg franc were at par, while also participating in the exchange rate mechanism of the European Monetary System. Belgium entered the final stage of European Economic and Monetary Union on January 1, 1999 at a rate of 40.3399 Belgian francs to the euro.

VIII. **Article IV Consultations**:

Belgium is on the 12-month cycle; the last consultation was completed on February 21, 2001 (EBM/01/16).

IX. Belgium retains restrictions vis-à-vis Iraq, the Socialist People's Libyan Arab Jamahiriya, and the Federal Republic of Yugoslavia (Serbia and Montenegro) pursuant to U.N. Security Council resolutions 661, 883, and 757, respectively. These restrictions have been notified to the Fund pursuant to Decision No. 144-(52/51) in EBD/90/251 (8/17/90), EBD/94/187 (11/29/94), and EBD/92/139 (7/7/92). The residual restrictions vis-à-vis the Federal Republic of Yugoslavia (Serbia and Montenegro) relate solely to balances of the former National Bank of Yugoslavia that remain frozen, since they are subject to unresolved legal claims.

Belgium: Fiscal Implications of Population Aging

40. Fiscal imbalances in Belgium have been steadily reduced in the past decade and, as a result, the debt-GDP ratio has fallen steadily and significantly. Looking forward, the 2002-05 Stability Program foresees the budget surplus rising to 0.7 percent of GDP by 2005. The staff has proposed a somewhat more ambitious surplus of 1 percent of GDP. To a large extent, the policy of running a sustained surplus draws justification from expected demographic changes in coming decades which, by altering the size and age profile of the Belgian population, will pose significant budgetary challenges. In particular, an aging population will result in higher pension and health-care outlays, while putting pressure on the tax base as the proportion of workers declines.

41. In assessing long-term fiscal needs in this light, one approach is to consider how the extra fiscal costs of aging might be born without raising the tax burden (revenues as a fraction of GDP). An obvious possibility would be to reduce the public debt, and the associated interest payments, by enough to cover the aging costs. This issue boils down to the surplus needed to bring about this result.

42. It is worth emphasizing that an analysis along these lines does not address the issue of the "optimal" fiscal policy. The proposed policy would not necessarily yield an optimal debt level, nor does it address the possibility that the pension and health-care systems should be reformed, rather than just funded. To put the latter point differently, it might be better to use some of the interest savings from a policy of sustained surpluses for ends other than financing aging (reducing the tax burden, for example).

43. This appendix presents an overview of the characteristics of the Belgian pension system and provides a summary of the macroeconomic and demographic assumptions underlying the projections of the fiscal impact of aging on pensions and related health expenditure. Finally, it assesses whether a sustained surplus of 1 percent of GDP would be sufficient to cover the extra costs of population aging, concluding that it would. This conclusion reinforces the similar analysis presented in Belgium's 2002-05 Stability Program.

44. Belgium has a comprehensive public pension system with labor-market based regimes. First pillar pensions are mandatory for workers in the private and the public sectors, and for the self employed. The schemes are financed by the government budget on a pay-as-you-go basis.[14] Men are eligible for pensions at 65, and for women this age is gradually rising and is to reach 65 by 2009. There are also provisions for early retirement starting at age 60 and requiring 5 years of contributions for public-sector employees and 22 years of contributions (as of 1998, this is rising to 35 years by 2005) for private-sector employees. For

[14] There is a small, voluntary second pillar of enterprise-based pensions, which the governments is extending to entire sectors. This has no direct fiscal implications.

the public sector, pensions are broadly indexed to public-sector wages, and for the private sector to prices.

45. The macroeconomic and demographic assumptions are taken from the "current policy scenario" of "Economic Policy Committee Working Group on Ageing Populations" (Ecofin, 2001). Macroeconomic assumptions include average productivity growth of 1¾ percent and real GDP growth of 1.7 percent on average in 2000-50. Demographic projections were derived from fertility rates (projected to converge to an average of 1.7 by 2050, which implies a slight rise for Belgium), life expectancy increases, and rising immigration. The implications are an essentially stable population in the 2000-50 period, and a sharp rise of 38 percentage points in the ratio of older (65 years and up) to working-age people.

46. Participation rates up to 2010 were based on ILO projections. Thereafter, male participation rates were assumed to remain constant and female rates to rise substantially, converging to male rates. For Belgium, this implies male participation rises by less than 5 percentage points in 2000-50, while female participation rises by some 20 percentage points. The unemployment rate was assumed to fall substantially by 2050, reflecting presumed labor-market reform; for Belgium, this implies a decline to 6.6 percent. These labor-market developments partly offset the demographics, and the dependency ratio (the ratio of the retired to workers) therefore rises by 19 percentage points.

47. Public pension expenditure was projected to rise by 3.3 percentage points of GDP between 2000 and 2050—the average increase in the EU—with a peak in 2040. Projections of public expenditure on healthcare and long term care for the elderly assumed that age-adjusted spending (the health-care costs of the old being much larger than those of the young) rise with per capita GDP.[15] For Belgium, health-care spending was projected to increase by 2.1 percent of GDP between 2000 and 2050, close to the EU average.

48. What budget surplus would be needed to reduce debt and interest payments enough to finance these old-age related expenditures? Holding the surplus equal to 1 percent of GDP would cut the debt-GDP ratio to the Maastricht level of 60 per cent of GDP by 2014, and to zero by 2048. Interest payments on the public debt therefore fall from their current level of about 6 percent of GDP to zero, which exceeds the estimated additional cost of aging due to pensions and health care of 5.4 percent. Note that, given taxes, this policy implies a rise in primary expenditures in somewhat higher than the rise in old-age costs, or a slight increase in non-age related primary expenditures.

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[15] Ecofin also projected costs assuming they rise in line with GDP per worker. As the ratio of workers to population is falling, this yields a lower number than the GDP per capita assumption. Both assumptions may underestimate the increase, since history and cross-country analysis suggest that expenditures rise more rapidly that GDP itself.

49. Regarding alternative possibilities, budget balance would reduce the debt-GDP ratio to 60 percent by 2018, and would leave it at 22 percent in 2050. The implied interest saving depends on the interest rate at that time, but if it were 5 percent (meaning a real interest rate of 3½ percent, above the growth rate) the saving would be about 5 percent, or just short of the estimated aging costs. Finally, if non-aging primary expenditures were allowed to grow more rapidly that GDP, the deficit and debt might begin to rise. For example, if they rose by 1.9 percent a year, which implies a cumulative increase of 5 percent of GDP over the next 50 years (assuming 1.7 percent real GDP growth, as above), and assuming no change in taxes, then debt would rise to about 140 percent of GDP by 2050.

Belgium: Two Alternatives for the Cyclical Adjustment of Fiscal Balances

50. The comprehensive weakening of the economic outlook in the euro area has called into doubt the strategy of adhering to pre-set nominal fiscal targets, and argued for moving instead to a consideration of structural, or cyclically adjusted, balances. This shift has naturally increased the scrutiny of methods for making such an adjustment. Briefly, there are two steps involved. The first is to measure the cycle, which involves all the uncertainties of estimating potential, or trend, output. The second, which is the focus of this appendix, is to assess how the budget balance responds to the cycle.[16]

51. This appendix compares two methods of adjusting the budget balance for the cycle. The first method is that used by Fund staff, and involves an adjustment for deviations of real GDP from potential to capture essentially tax revenue effects, and another adjustment for deviations of unemployment from the NAIRU to capture expenditure effects. Another method, recently proposed by researchers at the European System of Central Banks (ECSB), involves adjusting for various tax bases and expenditure items separately, rather than assuming they can be summarized by GDP and the unemployment rate.[17]

52. The Fund approach is summarized by the following formula (where *B* indicates the overall fiscal balance, *R* general revenue, ε an elasticity, *gap* the deviation from trend output (expressed as percent of trend/potential), *X* expenditures, and u the unemployment rate; the subscripts *t* and *l* indicate the time period and lag length, respectively; and the superscript c indicates cyclical adjustment, y output, U unemployment-related, and NU for non-unemployment-related):

$$(1)\ B_t^c = R_{t-1} * \prod_{l=0}^{L} \varepsilon_{t-l}^{R,gap^y} * gap_{t-l}^y - X_t^{NU} - X_{t-1}^U * \Delta u_t * \varepsilon^{X^U,u}$$

53. The second approach is summarized by (with the following additional notation: i indicates individual revenue components, and T the tax base):

[16] Sometimes a distinction is drawn between cyclical and structural adjustment of the budget balance, the latter comprising an adjustment of the effect of the economic cycle as well as for one-time occurrences in the budget (e.g., UMTS sales). The staff uses these terms interchangeably, but excludes UMTS receipts when computing the cyclical adjustment.

[17] See Bouthevillain, C., Cour-Thiman, P., G. van den Dool, H.P. De Cos, G. Langenus, M. Mohr, S. Momigliano, and M. Tujula (2001) "Cyclically Adjusted Budget Balances: An Alternative Approach" ECB Working Paper No. 77, September. This approach entails a careful selection of budget items to be cyclically adjusted and a lower Hodrick-Prescott smoothing parameter than the one traditionally used by the European Commission in calculating trends.

$$(2)\ B_t^c = \sum_{i=1}^{N} R_{t-1}^i * \prod_{l=0}^{L} \varepsilon_{t-l}^{\ R^i, gap^{T^i}} * gap_{t-l}^{T^i} - X_t^{NU} - X_{t-1}^U * \Delta u_t * \varepsilon^{\ X^U, u}$$

54. Compared to the first approach, the alternative method takes account of the fact that changes in the composition of output and income over the cycle will affect revenues (if, for example, tax rates differed across income categories). However, it also requires more data,[18] requires the elaboration and estimation of trend series for the various tax bases (trend consumption or labor income, for example), and does not ensure that these series and the adjustments based on them are consistent with an overall concept of trend output.

55. The following table summarizes the results of using these two approaches for Belgium in 2002.[19] In both cases, the calculations (including the estimates of trend) are the staff's, the budget target of balance is assumed, and the staff macroeconomic projection (real GDP growth of 0.7 percent) is used. The Fund method yields a larger cyclically adjusted balance, though both methods imply a significant tightening of the structural overall balance.

Comparison of Two Methods of Cyclical Adjustment
(In percent of GDP)

Overall balance in 2002	0.0
Cyclically adjusted balance in 2001	0.3
Change in the cyclically adjusted balance, 2001-2002	
Staff method *	
overall balance	0.9
primary balance	0.4
Alternative method **	
overall balance	0.6
primary balance	0.1

Source: Staff estimates.
* The method assumes a contemporaneous revenue elasticity to the output gap of 1.008, a lagged elasticity of zero, and a unitary elasticity unemployment expenditure to the number of unemployed.
** The method is based on Bouthevillain et al. (op cit.).

[18] Also, the components of income and expenditure may be subject to greater revision than total GDP, which might retroactively undermine the analysis.

[19] The underlying calculations are based on a simplified version of the ECSB approach, taking into account the staff's macroeconomic projections.

Belgium: Core Statistical Indicators

As of December 21, 2001

	Exchange Rates	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP
Date of Latest Observation	31/12/01	31/12/01	10/01	9/01	6/01	2000	Q3/01
Date Received	31/12/01	31/120/01	11/19/01	12/14/01	12/14/01	10/26/01	11/30/01
Frequency of Data	Daily	Daily	Monthly	Monthly	Quarterly	Annually	Quarterly
Frequency of Reporting	Daily	Daily	Monthly	Monthly	Quarterly	Annually	Quarterly
Source of Update	Reuters	Reuters	NBB 1/	NBB 1/	NBB 1/	NAI 2/	NBB 1/
Mode of Reporting	Electronic	Electronic	NBB Website	NBB Website	NBB Website	NBB website	NBB Website
Confidentiality	Public	Public	Public	Public	Public	Public	Public
Frequency of Publication	Daily	Daily	Monthly	Monthly	Monthly	Annually	Quarterly

1/ National Bank of Belgium.
2/ National Accounts Institute.

INTERNATIONAL MONETARY FUND

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700 19th Street, NW
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IMF Concludes 2001 Article IV Consultation with Belgium

On March 1, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belgium.[1]

Background

Following four years of robust expansion, real GDP growth slowed markedly in 2001, as higher oil prices, declining equity values, and the deteriorating external environment adversely affected business investment, household consumption, and exports. The outlook for 2002 depends critically on a recovery in the world economy and, especially, in Belgium's key European trading partners. Growth for the year is projected by staff at 0.7 percent, although activity is expected to pick up significantly in the second half of the year as the effects of earlier monetary easing are anticipated to lead to a generalized global recovery.

Headline inflation stabilized and began to fall in 2001, along with world oil prices. Underlying inflation, however, continued to rise, due in part to food prices and the lagged indirect effects of oil prices on non-energy components of the CPI. Wage growth outpaced that in Belgium's three major trading partners (Germany, France, and the Netherlands) for the third year running, reflecting mainly the effects of wage indexation. Wages may still prove consistent with the 2001-02 Interprofessional Agreement (which is meant to ensure external competitiveness), but in retrospect that Agreement was based on an overestimate of wage growth in Belgium's

[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. 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.

trading partners. As a result, external competitiveness against the euro area has gradually eroded, although the weakness of the euro has sustained global competitiveness.

Despite the slowdown in growth, according to preliminary estimates a fiscal surplus was achieved in 2001. This represented a substantial tightening of the underlying, or cyclically adjusted, position, although since Belgium is a very open economy this fiscal withdrawal is unlikely to have seriously aggravated the downturn. The 2002 budget calls for balance; if achieved, it would result in a further fiscal tightening. Over the medium term, the government in its 2002-05 Stability Program reaffirmed its commitment to a modest fiscal surplus and further reductions in the tax burden.

Some further structural measures have been introduced in the past year, including to tackle the low participation rate of older workers. At the same time, however, the momentum for more fundamental reform, notably in the extensive system of benefits, appears to be weak.

Executive Board Assessment

Executive Directors noted that continued fiscal consolidation, building on the substantial progress to date, will be key to prepare for population aging, to ensure a further sustained reduction of the public debt, and to provide room for sustainable reductions of the tax burden. In the structural area, the authorities face the critical challenge to accelerate and deepen labor market reforms aimed at reducing mismatches of supply and demand and at achieving a steady increase in the participation rate. Directors also encouraged the authorities to keep up the momentum of product market reforms.

Directors noted that, as a highly open economy, Belgium was strongly affected by the external shocks of last year, with exports suffering markedly from the economic slowdown in its trading partners, and business and household confidence weakening. While a recovery is likely in the course of the year, this will largely depend on the speed and strength of a broader recovery in Europe. With the drop in oil prices, Directors anticipated a continued decline in headline inflation, but they also noted that wage growth has remained above that in key trading partners, which is undermining Belgium's competitiveness and must be kept in check.

Directors commended the authorities on their efforts to consolidate the fiscal position, noting that balance has been achieved two years ahead of schedule and that the debt to GDP ratio, though still high, has declined rapidly. They supported the authorities' policy to achieve a sustainable surplus position over the next few years in order to meet the fiscal costs of population aging. Directors recommended that this surplus should be 1 percent of GDP. A few Directors felt that, subject to steady progress toward this objective, the automatic stabilizers should be allowed to operate in the short run. Most Directors, however, supported the authorities' view that the balanced budget objective for 2002 should help support medium-term stabilization goals, without exerting excessive fiscal withdrawal, given the openness of the economy and the low fiscal multiplier. Directors also encouraged the authorities to pursue their policy of reducing the tax burden, to the extent fiscal room becomes available, in order to improve the structural performance of the Belgian economy.

The twin goals of achieving a budget surplus and cutting taxes will require strict expenditure control, and Directors agreed that this will be the key fiscal challenge in the years ahead. They supported the commitment, reiterated in both the 2002–05 Stability Program and the 2002 budget, to reduce real primary spending growth, and urged the authorities to take concrete and sustainable actions in this regard. Directors observed that areas of high spending pressure—notably health care—will have to be either reined in or offset by savings elsewhere. They also noted that achieving sustained expenditure control will require an effort at all levels of government and, in this regard, felt that a more explicit medium-term fiscal framework that emphasizes commitment to expenditure ceilings could be useful.

Directors welcomed recent tax reforms, noting that the cuts in income tax rates to be implemented this year should enhance work incentives, while the planned corporate tax reform should improve the investment climate. They considered the planned extension of "second-pillar" pension schemes to the sectoral level a useful alternative to the state pension, although it is not a substitute for more comprehensive reforms.

Directors underscored that improved labor-market performance will be crucial to medium-term economic prospects. While responsible wage behavior will be essential for job creation and competitiveness, they urged the authorities to be more ambitious in addressing persistent weaknesses in the labor market and moving toward the employment goals laid out at the Lisbon Summit. Directors highlighted, in particular, the need for a more comprehensive reform of benefit programs aimed at sharpening work incentives, while continuing to protect the most vulnerable members of society. Some recent initiatives, including the "activation" of unemployment benefits and the elimination of the pension penalty for those returning to work, were welcomed, but further measures will be needed to curtail early retirement and raise the employment rate substantially. While noting the high enrollment in youth employment programs, Directors cautioned that special employment programs may crowd out private sector employment. They felt, however, that these initiatives provide helpful momentum for more forceful reforms. Directors also cautioned that measures to reduce working hours should not raise labor costs.

Directors noted the significant and longstanding geographical differences in labor market performance. While recognizing the impediments involved, they encouraged the authorities to continue efforts aimed at increasing geographical labor mobility. Directors considered that greater wage differentiation would contribute to the reduction of regional disparities, and also highlighted the need for training and education programs to address regional job mismatches.

While welcoming the recent progress with product market reforms and the authorities' commitment to meeting European Union timetables for liberalizing the network sectors, Directors felt that Belgium's growth potential would benefit from a more rapid pace of reform. They also encouraged the authorities to persevere with the program to reduce administrative burdens and to complete the public sector management reform.

Directors noted that the banking sector has weathered the economic downturn and continues to perform favorably. They encouraged the authorities to press forward with banking supervision reforms, and looked forward to plans for better exploiting complementarities between the supervisor and the central bank at the staff level as well as between micro and macro prudential supervision. Directors welcomed the authorities' interest in participating in the Financial Sector Assessment Program by 2003. They also commended their firm stance on combating money laundering and the financing of terrorism.

Directors encouraged the authorities to make further efforts to increase official development assistance toward the United Nations target of 0.7 percent of GNP.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2001 Article IV Consultation with Belgium is also available.

Belgium: Selected Economic Indicators

	1998	1999	2000	2001	2002[1]
Real economy (change in percent					
Real GDP	2.2	3.0	4.0	1.1	0.7
Domestic demand	3.3	2.2	3.8	0.1	0.2
CPI (year average)	0.9	1.1	2.7	2.4	0.5
Unemployment rate (in percent)	9.5	8.8	7.0	6.9	7.9
Public finance (percent of GDP)					
General government balance	-0.8	-0.6	0.1	0.2	-0.7
Structural balance	0.5	0.3	-0.2	0.3	0.6
Primary balance	6.7	6.4	6.8	6.8	5.4
General government debt	119.2	115.3	109.8	107.1	106.4
Interest rates (percent					
Money market rate[1]	3.6	3.0	4.4	4.3	...
Government bond yield	4.7	4.5	5.6	5.1	...
Balance of payments (percent of GDP)[2]					
Trade balance	2.8	2.6	2.3	3.1	3.4
Current account	4.8	5.3	5.1	5.5	5.3
Official reserves (US$ billion)[3]	18.3	10.9	10.0	11.3	...
Reserve cover (months of imports of GNFS)	1.4	0.9	0.7	...	...
Exchange rate					
Exchange rate regime			Member of euro area		
Euro per U.S. dollar (January 8, 2002)[4]				1.1211	
Nominal effective rate (1995=100)[5]	94.0	92.8	90.1	90.5	...
Real effective rate (1995=100)[5, 6]	91.7	88.2	85.3	86.1	...

Sources: Data provided by the Belgian authorities, and IMF staff projections.

[1]Staff projections.

[2]BLEU on a transaction basis.

[3]Excluding gold; since January 1999, Eurosystem's definition for 2001, November.

[4]Belgium entered the final stage of EMU on January 1, 1999 at a rate of 40.3399 Belgian francs to the euro.

[5]For 2001, average of through end-November.

[6]Based on relative normalized unit labor costs in manufacturing.