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BELGIUM

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March 2014

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 2014 Article IV consultation with Belgium, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 5, 2014, following discussions that ended on December 16, 2013, 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 19, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its March 5, 2014 consideration of the staff report that concluded the Article IV consultation with Belgium.

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STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

February 19, 2014

KEY ISSUES:

With growth projected at just over 1 percent in 2014, recovery from the stagnation of 2012–13 is proving slow, as in much of Europe. Healthy private balance sheets and integration with Germany dampened the impact of the crisis. However, despite its resilience the economy has been losing competitiveness due to higher labor cost and lower productivity growths than peer countries. The government has taken measures to close the wage gap, but the economy also needs to become more productive and adaptable through deeper product and labor market reforms. Low rates of employment further penalize growth. The government has reformed social benefits to increase activation, but there is scope to further reduce inactivity traps and to shift resources from passive to active labor market policies.

Short-term risks come mostly from the external environment, but failure of structural reforms to keep up with competitive pressures is a more significant medium-term risk. Deleveraging has significantly reduced financial sector risks, and, while the sovereign-bank nexus remains important, cross exposures are being unwound. Ability of banks to maintain adequate capital buffers in the face of low profitability remains a risk.

Public finances are under repair. Structural adjustment of 1.1 percent of GDP was achieved in 2012–13, but another 3.3 percent is still needed to meet the authorities' medium-term target. Gradual but steady structural adjustment of 0.75 percent a year toward that objective appears appropriate in view of current cyclical conditions. At the same time, the effort should be redirected from revenue to spending measures. Fiscal consolidation remains challenging because of the complex fiscal structure of Belgium, but the task has been helped by a new burden sharing agreement which clarifies the consolidation responsibilities of the regional and federal governments.

The main challenge for banks is to move from balance sheet repair to adjustment of business models in the face of low profitability and regulatory changes. The balance sheet of banks has come down from 410 percent of GDP in 2008 to 268 percent in mid–2013. Solvency and liquidity ratios are improving, but profitability has been weak owing to low interest margins and high operating costs. The supervisory and regulatory frameworks are being strengthened, notably with a new draft banking law which restrains trading activities and improves the recovery and resolution framework, including by increasing buffers for depositor protection.

Approved By
Mahmood Pradhan and Bob Traa

Discussions took place in Brussels December 4–16, 2013. The staff team comprised E. Gardner (head), J.J. Hallaert, S. Nowak, and E. Perez Ruiz, and was assisted at HQ by K. MacKinnon and D. Mason. W. Kiekens and A. de Lannoy (OED) participated in the discussions. Staff met with central bank Governor L. Coene, Ministers K. Geens (Finance), J. Vande Lanotte (Economy), and M. De Coninck (Labor), other senior government officials, and representatives from the financial sector, academia, employers' federations, and the trade unions.

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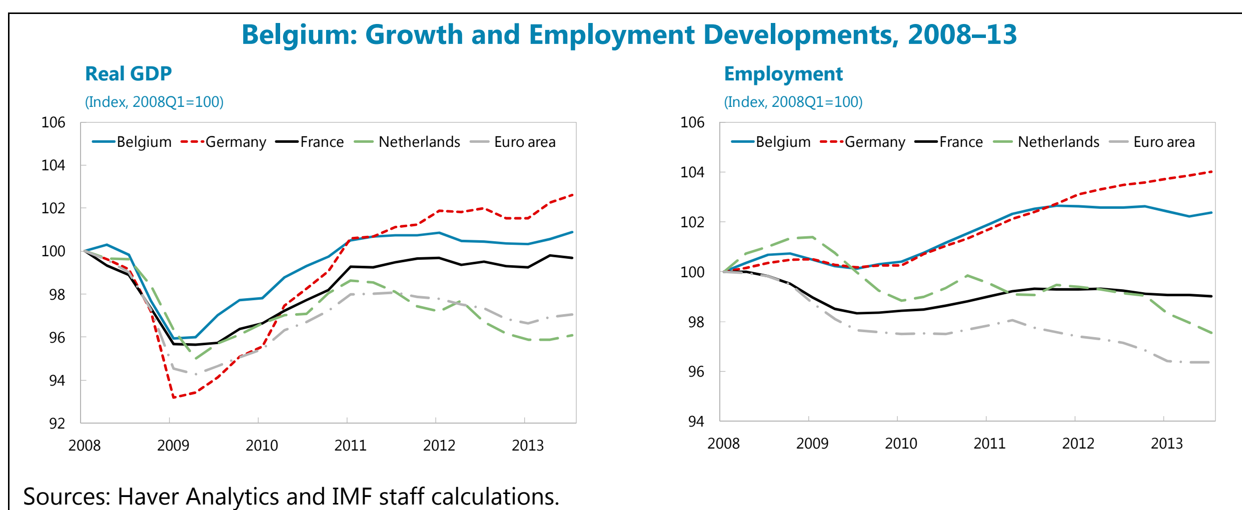
ECONOMIC AND FINANCIAL CONTEXT

1. **The government's term comes to an end with elections in May 2014.** Under the latest state reform, federal elections will henceforth coincide with regional and European elections on a five year cycle. During its 2½ year mandate, the government took actions to stabilize and reform the economy and has put forth a major banking reform, which is now before parliament.

2. **Economic integration with Germany and healthy private balance sheets dampened the impact of the crisis.** Real GDP is now 1.3 percent above the pre-crisis peak (Figure 1). Germany remains Belgium's main trading partner absorbing 17.4 percent of Belgium's exports, with many companies firmly anchored in the supply chains of German chemical, pharmaceutical, and automobile industries (Box 1). Supported by subsidized job schemes, employment has also fared better than in much of Europe. Household debt, essentially mortgages, has increased in line with real estate prices, but remains below the euro area average. Relatively low debt has also shielded the non-financial corporate sector (NFC) from financial stress (Figure 2).

3. **However, as elsewhere in Europe, the recovery from the 2012 slowdown is proceeding slowly and inflation has declined to around 1.2 percent.** The economy bottomed out in 2013Q1, and since then growth has averaged 1.1 percent in annualized terms. The recovery has been driven by modest growth in private and public consumption and a significant contribution from net trade, with investment remaining weak. Overall, the contribution of final domestic demand (excluding inventory changes) is estimated to be flat in 2013. For the first time since 2009, CPI inflation has declined faster than in neighboring countries, on the back of developments and reforms of the energy market.



Belgium: Growth and Employment Developments, 2008–13

Sources: Haver Analytics and IMF staff calculations.

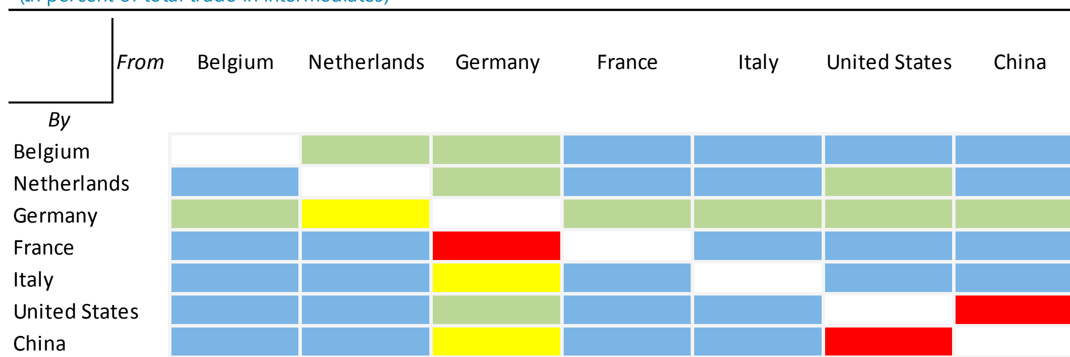
Box 1. Belgium in the Global Value Chains

The increasing fragmentation of production across borders–the "Global Value Chains" (GVCs)–is transforming the trade landscape. Countries that integrate more effectively in the GVCs appear to achieve better export performance and higher growth.[1] But export performance also depends on the cost and quality of non-tradable inputs, and in this regard Belgium's export performance is likely to be penalized by low productivity in the services sector.

Belgium appears to be well integrated in the GVC centered around Germany (figure). In 2011, exports of intermediate goods and services to Germany amounted to 8 percent of GDP, compared to 2 percent for France and 9 percent for the Netherlands. On the import side, about 40 percent of Belgium's consumption of intermediate goods and services was imported, compared with 27 percent on average for its three neighboring countries (France, Germany, and the Netherlands). Half of these imported inputs came from its four largest European partners.

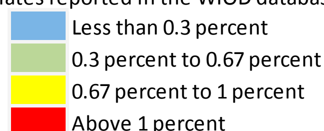
Imports of Goods and Services as Intermediates, 2011

(In percent of total trade in intermediates)



Source: World Input-Output database (WIOD) and IMF staff calculations.

Note: Import of intermediates by the row country from the column country as a share of total trade in intermediates reported in the WIOD database.



But integration in the GVCs does not necessarily increase the value added content of exports. Information on the value added content of exports is very limited, however. Data compiled by the OECD and the World Trade Organization suggests that the value added content of Belgium's exports of goods and services accounted for 34.5 percent of GDP, whereas total exports of goods and services amounted to 71.7 percent of GDP. By the metric of value added content of exports, Belgium moves from the 8th largest exporter (out of 58 countries for which data are available) to the 18th.[1]

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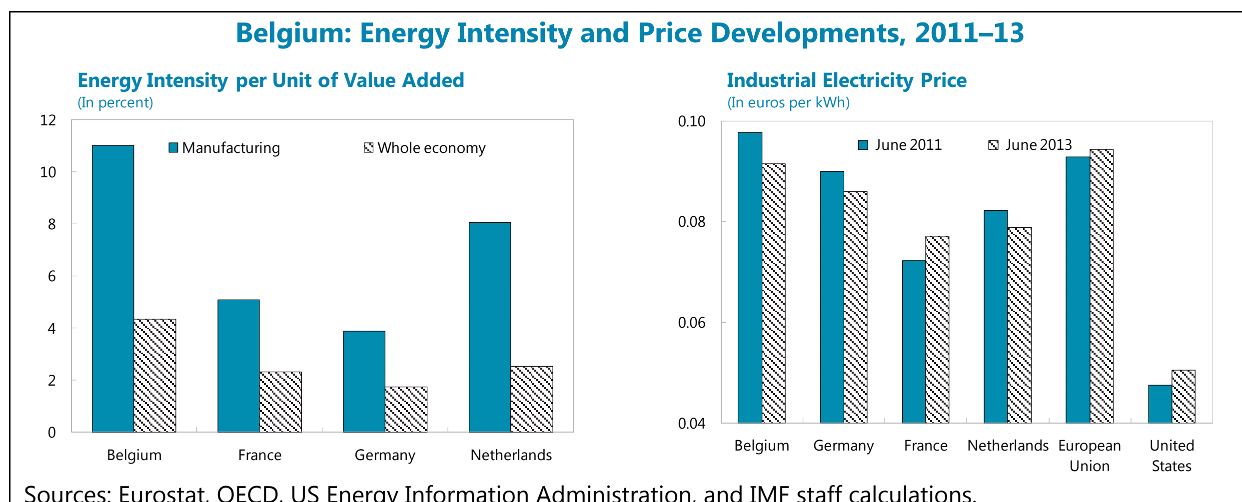
[1] Duprez, C. and L. Dresse, 2013, ""The Belgian Economy in Global Value Chains: An Exploratory Analysis," NBB Economic Review, September, 7-21.



Sources: Eurostat, OECD, US Energy Information Administration, and IMF staff calculations.

4. **Despite its resilience, the economy has been losing competitiveness** (Figure 3). Unit labor costs point to a gradual loss of competitiveness since 2005. Most of this comes from lower productivity growth, rather than excessive wage growth. Although the overall level of labor productivity in Belgium is higher than in its three main partner countries (France, Germany, and Netherlands), the gap has been narrowing. This reflects, in part, measures to increase low-skilled employment, but productivity growth has been low even in knowledge-intensive sector, which points to gaps in innovation capacity and education, as well as limited exposure to competition (Box 2). While structural reforms in the energy market since 2012 have contributed to lower energy prices, the large energy cost differential relative to the United States creates significant competitive pressures for the energy-intensive Belgian economy. Using the IMF's External Balance Assessment (EBA) techniques based on information available as of end–2013, staff assesses that Belgium's real exchange rate is overvalued relative to the level consistent with medium-term fundamentals and desirable policy setting by about 3-8 percent. The cyclically-adjusted current account is weaker than the level consistent with medium-term economic fundamentals and appropriate domestic and foreign policies, which EBA regression-based estimates put at a surplus of 1.8 percent of GDP. The net international investment position remains strong (Figure 2). Gross asset and liability positions, which grew in the pre-crisis period in connection with the expansion of banks' balance sheets, have been shrinking along with bank deleveraging.

Box 2. Non-Cost Competitiveness

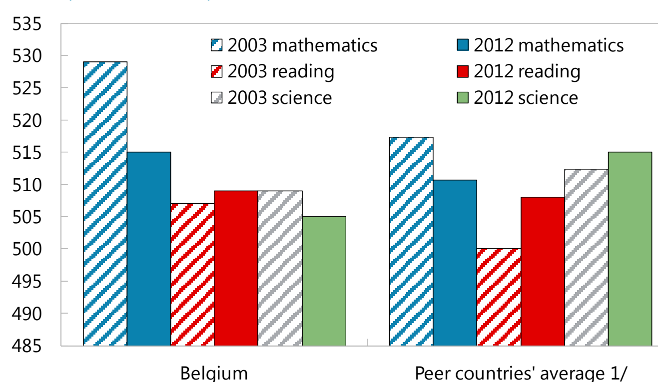
Developments in a number of non-cost competitiveness indicators suggest that Belgium could improve its standing relative to partner countries.

- *Innovation.* While Belgian firms appear to perform well in terms of process innovation, they score more poorly in terms of product innovation. As such, Belgium's exports face difficulties in moving up the value-added chain and, as a result, face increasing competition from emerging markets and new EU members. R&D spending has been stable in the past decade but is increasingly concentrated in the pharmaceutical sector, which accounts for a fourth of total R&D spending. Moreover, Belgium is one of the few advanced countries that had less triadic patents in 2011 than in 1997. Recognizing the importance of innovation, the government encourages R&D by subsidizing R&D jobs (9 percent of total labor subsidies), but the effectiveness of this support is unclear. By contrast the research resources of public universities do not appear to be leveraged as well as they could in support of private sector innovation.

- *Education.* Building human capital, notably in science, should be an essential part of a strategy to foster innovation. Compared to its European peers, Belgium suffers from fewer students in science and, in contrast with the experience of peer countries, student performance in science has declined in the last decade. Regional disparities within Belgium are also very strong. Similarly, training of the working age population is less developed than in other EU countries.

Student Performance

(PISA mean score)



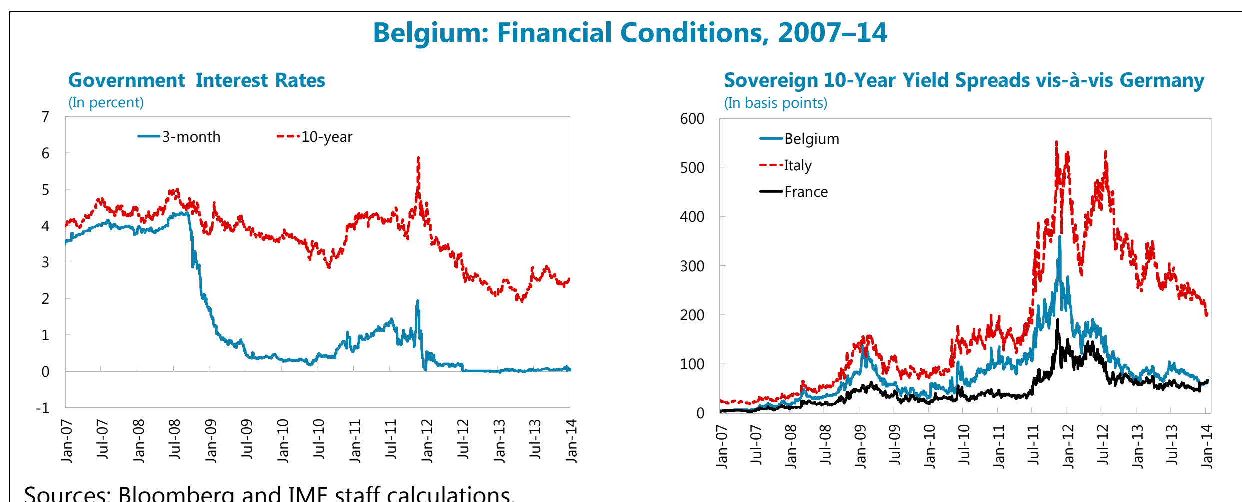
Sources: OECD and IMF staff calculations.

1/ Peer countries are France, Germany, and the Netherlands.

- *Regulatory environment.* Competition appears less intense in Belgium than in other European countries notably because of regulation and administrative burden.[1] Belgium ranks 133 out of 144 countries on "burden of government regulation" according to the World Economic Forum; and, according to the OECD, regulations are significantly more widespread than in other countries. Building on the success of the recent reforms of the telecommunication and energy sectors, further liberalization of the services sectors would yield significant gains in terms of productivity and competitiveness. Regulation in many services sectors undermines total factor productivity growth. Bourlès *et al.* (2010) show that Belgium is the European country that would benefit the most from services sector liberalization (after Poland). They estimate that total factor productivity of the economy would grow by 1.25 percent more per year over five years if the regulatory burden was reduced to the best practice in the OECD.[2]

[1] Kegels, C. and J. van der Linden, 2011, "Competitiveness, Productivity, Competition, and Structural Reforms: The Belgium Case". *Reflets et Perspectives de la Vie Economique*, vol. 0(3), pages 27-51.

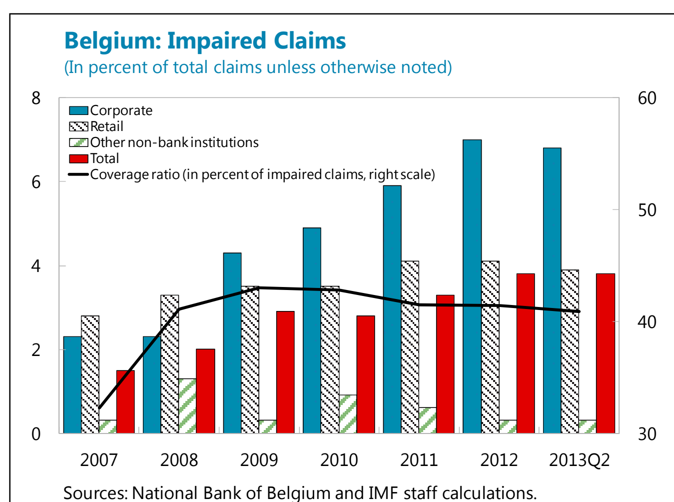
[2] Bourlès, R., G. Cette, J. Lopez, J. Mairesse, and G. Nicoletti, 2010, "The Impact on Growth of Easing Regulation in Upstream Sectors," *CESifo DICE Report*, vol. 97(2), pages 8–12.



Sources: Bloomberg and IMF staff calculations.

5. Public finances are under repair. With structural adjustment of 1.1 percent of GDP in 2012–13, the deficit is expected to come down to 2.7 percent of GDP in 2013, enabling Belgium to exit the EU's Excessive Deficit Procedure. The government's sale of its 25 percent share in BNPP Fortis (0.9 percent of GDP) kept the debt ratio just below the 100 percent mark in 2013. Financing conditions remain favorable, and Belgium has seen its AA/Aa3 ratings confirmed.

6. Restructuring has reduced the balance sheet of banks, from 410 percent of GDP in 2008 to 268 percent in 2013Q2 (Figures 4 and 5). Deleveraging has been led by cut backs in cross-border exposures and sales of foreign subsidiaries. The remaining portfolio of legacy assets will be unwound gradually. Since mid–2012, improvements in liquidity and solvency have strengthened banks' capacity to absorb shocks, while impaired claims have stabilized at 3.8 percent of total claims. Most banks already comply with the Basel III Liquidity Cover Ratio (LCR), which, on aggregate, stood at 116 percent as of end-June 2013[1] (Figure 6). A return to the repo market in 2013 and access to a large and stable deposit base enabled banks to reduce reliance on central bank financing. Solvency positions have also improved, with the Basel 2.5 Common Equity Tier 1 ratio rising by 1.5 percentage points over 12 months, to 15.1 percent in June 2013. The improvement in solvency since 2008 (core Tier 1 capital ratio increased by 6.1 percentage points) originates from



Sources: National Bank of Belgium and IMF staff calculations.

[1] The aggregate comprises 13 Belgian banks, including subsidiaries of foreign banks.

asset reduction (83 percent of the improvement) and capital increases (20 percent), mostly from retained earnings, offset in small part (-3 percent) by an increase in the share of risky assets in total assets. However, profitability from domestic operations has been weak owing to the combination of low interest margins and high operating costs.

7. Ample liquidity from domestic deposits and shedding of foreign assets has enabled banks to sustain positive credit growth throughout the crisis (Figure 7). Monetary easing by the European Central Bank (ECB) has been effectively transmitted into lending rates. While overall credit conditions tightened in 2012 owing to heightened perceptions of credit risk and balance sheet constraints, they improved slightly in 2013. Banks have continued to channel excess liquidity generated in Belgium to foreign markets, either by upstreaming liquidity to foreign parent banks or by funding new foreign lending operations out of Belgium.

OUTLOOK AND RISKS

8. Real GDP is projected to grow by 1.1 percent in 2014, on the back of gradual improvements in both domestic and external demand. In the absence of deleveraging pressures, private consumption and investment should be able to respond positively to improved external conditions, while the negative impulse from fiscal consolidation (0.5 percent of GDP) is expected to be limited in 2014. But projected growth would still be insufficient to stabilize the unemployment rate. The reduction of value-added tax (VAT) on energy should keep headline inflation at 1.1 percent, below core inflation.

9. In the short term, risks to macroeconomic stability are mostly external (Appendix III):

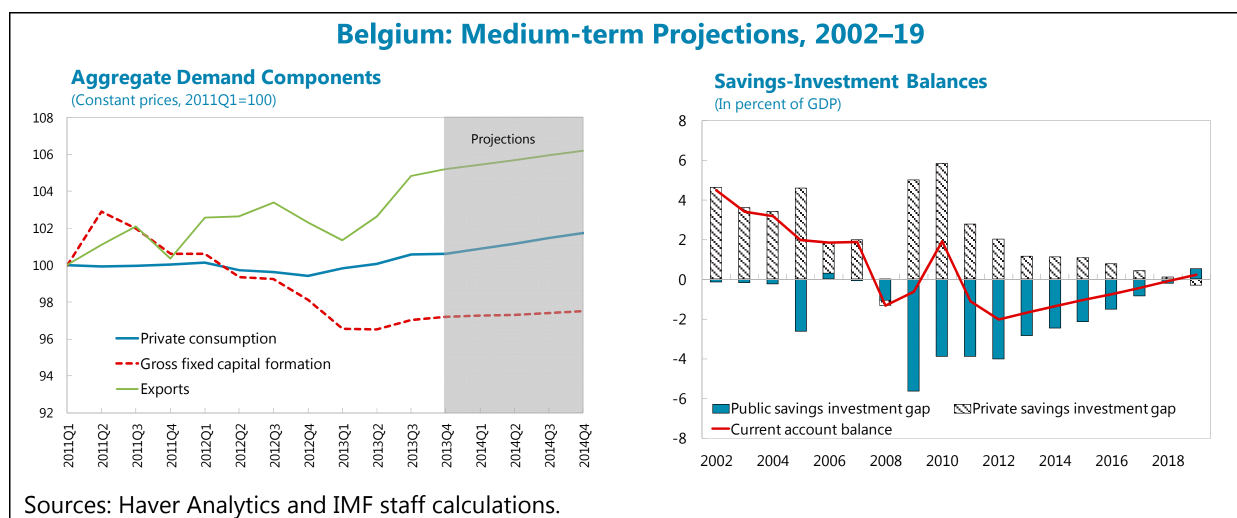
- The spillover from protracted low growth in Europe would have durable adverse effects by raising structural unemployment and making the remaining fiscal adjustment more arduous.

- The sovereign-bank nexus could again become a source of vulnerability in the event of renewed financial stress in Europe, although this risk has diminished as state aid is being repaid, state guarantees are lapsing, and legacy portfolios are being derisked. Financial stability also continues to incur risks from incomplete regulatory reform and fragmentation.

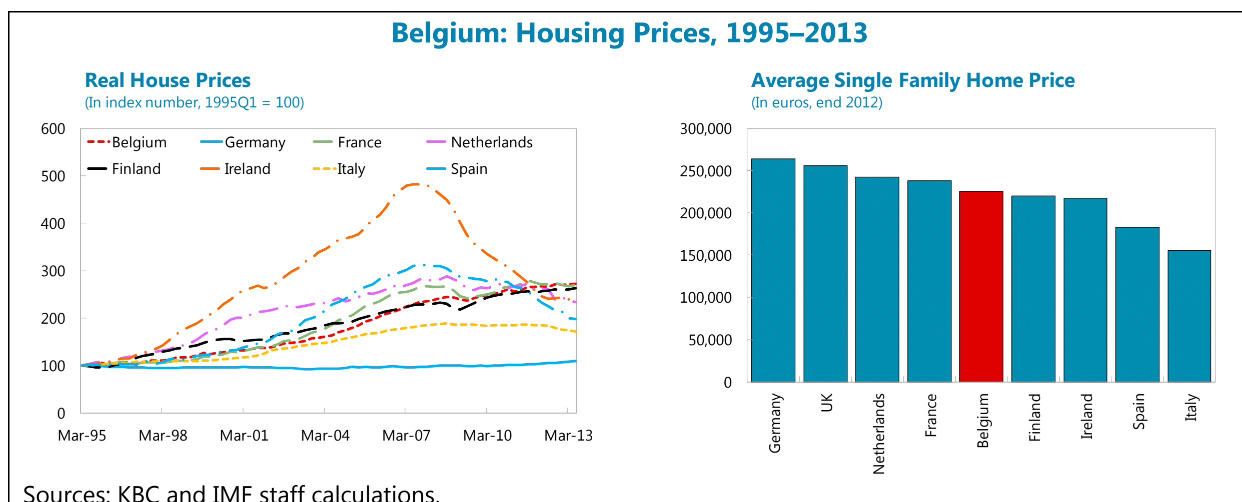
10. Domestic risks are more significant for the medium term outlook:

- Failure of structural reforms to keep up with international competitiveness pressures would undermine growth prospects beyond the recovery and make it much harder to meet fiscal objectives and create buffers against the looming cost of ageing.

- The main financial risk is the ability of banks to maintain adequate capital buffers in the face of low profitability and possible deterioration in asset quality in a low growth environment.



Sources: Haver Analytics and IMF staff calculations.



Sources: KBC and IMF staff calculations.

Exposures to mortgages in Ireland and Hungary, and overall exposures Spain and Italy remain a risk factor.[2] State guarantees to the banking sector remain sizable (12 percent of GDP), but most of them are related to Dexia, which is in a run-off mode. The realization of financial risks could also adversely impact the government balance sheet through state owned banks. The Debt Sustainability Analysis (DSA, Appendix V) illustrates the adverse impact on public finances, should a part of these guarantees be exercised.

- Risks of a sharp correction of real estate prices appear contained. Property prices have risen by 110 percent in real terms since 2000, and, unlike in other EU countries, continued to increase through the financial crisis. Overvaluation estimates range from 10–60 percent, but valuation estimates based on price-to-income and price-to-rent ratios often miss catch-up effects. A finer assessment (interest-adjusted affordability regression analysis) suggests overvaluation of 5–15 percent. In fact, absolute prices remain moderate by European comparison. High ownership rates (around 70 percent), coupled with persistent housing shortages, are likely to prevent a rapid price decline. Robust household balance sheets, the prevalence of fixed interest rate mortgages, and the recent tightening of capital requirements on mortgage lending should limit the impact of an interest rate and/or unemployment shocks on the quality of the mortgage portfolio. However, the prevalence of fixed-rate mortgages shifts the interest rate risk to banks.[3]

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[2] Claims on foreign counterparties, such as mortgages in Ireland and Hungary, represent the majority of current defaults. Exposure of domestically owned banks to Italy and Spain was reduced from EUR 105 billion in 2008 to EUR 21 billion in June 2013.

[3] See also the analysis in IMF Country Report Number 13/124.

POLICY DISCUSSIONS

Discussions focused on the need to activate unused labor resources and reinforce competitiveness, while anchoring fiscal policy more firmly to medium-term structural targets. Measures have been taken to correct past slippages in wage costs relative to partners, but closing the competitiveness gap requires a broader set of structural reforms to increase productivity and innovation and improve resource allocation. Discussions on the financial sector centered on the challenges of adjusting the business model of banks to low structural profitability and changes in the regulatory environment.

A. Raising Productivity, Adaptability, and Activation

11. The authorities' structural policies have been guided by two main objectives:

- **Increasing labor activation to meet the 73.2 percent employment rate target by 2020.** The authorities noted that the target may be overly ambitious in the wake of the crisis. Nonetheless, they expected that the tightening of unemployment, pension, and pre-pension benefits in the last two years would raise work incentives and lengthen working life (Appendix IV). Results of these reforms are expected to build up over time, but already employment rates for senior workers have been increasing. A commission has been charged with preparing pension reform proposals for the next government. The authorities also underscored the success of job subsidy schemes (amounting to nearly 3.2 percent of total labor costs) in activating low-skilled workers, for whom the minimum wage (roughly EUR 1,500 a month) constitutes a barrier to employment. The most developed scheme is the service voucher system which covers some 109,000 workers, at a budgetary cost of 0.4 percent of GDP in 2011.[4] Despite its high cost, the authorities see it as an effective way of promoting durable attachment to the labor force, all the while preserving the social contract implicit in the minimum wage. The authorities also pointed to other successful examples of active labor market policies, such as subsidized apprenticeships. They stressed the desirability of transitioning more generally from passive support to in-work benefit schemes.

Belgium: Employment Rate
(In percent)

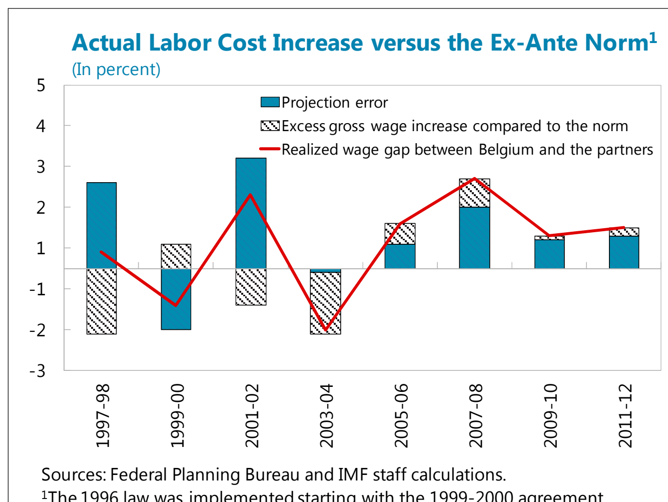
	2000	2013H1
Total	65.8	67.1
20-29 years	66.0	58.3
55-64 years	26.3	41.1
Low-skilled	50.5	46.9

Source: Belgian authorities.

[4] Under the service voucher system, households can purchase vouchers for domestic work from contractual workers at 60 percent of the minimum wage, with the state (and from 2015 the regions) filling the gap and other costs.

- **Restoring cost competitiveness**. By establishing a "wage norm," the 1996 law on competitiveness has played an effective role in keeping wage developments aligned to those of partner countries despite indexation.[5] However, in 2007–08, wages in Belgium rose 2.2 percent above those of partners, mostly because of forecast errors. This handicap has proven hard to correct in the face of domestic indexation and very low real wage growth in partner countries. In response, the government took action by: (i) imposing a real wage freeze in 2013–14; (ii) adjusting the price index, which lowered wage growth by 0.2 percent; and (iii) reducing energy prices through structural reforms, with a resulting impact, through indexation, of wage growth. As a result of these measures, the wage handicap relative to partners was stabilized at 4.8 percent in 2013, and should decline by 1 percentage point in 2014.[6] In November 2013, the authorities announced two additional measures: (i) a commitment to reduce labor taxes by the equivalent of 0.4 percent of GDP over the next five years; and (ii) a lowering of the VAT rate on electricity from 21 to 6 percent, effective April 2014, with an estimated impact of 0.4 percent on prices and, through indexation, on wages. Staff recommended securing the agreement of social partners that labor tax reductions would go to reducing labor costs rather than increasing wages. Staff also questioned the merits of lowering the VAT on energy, suggesting that cutting labor taxes would have been a more efficient way of reducing labor costs.

Actual Labor Cost Increase versus the Ex-Ante Norm[1]
(In percent)



Sources: Federal Planning Bureau and IMF staff calculations.
[1]The 1996 law was implemented starting with the 1999-2000 agreement.

[5] Wages are indexed to inflation, but the wage norm sets a ceiling on real wage negotiations based on expected wage developments in Germany, France, and the Netherlands. The national wage norm then guides sectoral wage negotiations which cover 90 percent of employees.

[6] Estimates of the Central Council for the Economy based on OECD wage projections for France, Germany, and the Netherlands. The wage handicap is cumulated since 1996.

12. Notwithstanding these reforms, substantial challenges remain.

- **Inefficient redistribution mechanisms still create large inactivity traps and disincentives to work.** Belgium's social model produces the largest degree of redistribution in the OECD.[7] However, in the process it also creates widespread inactivity traps. Beyond the pension reform, staff stressed the scope for increasing further work incentives by reducing interruption of career schemes and exemptions from job search requirements.

- **Wage formation could be improved**. While the 1996 law on competitiveness has worked reasonably well in generating consensus around competitive wage setting, the authorities agreed that automatic corrections for past deviations from the norm should be made more explicit. Staff also recommended introducing corrections for observed deviations in labor productivity growth (not only wages), and removing terms-of trade effects from the indexation mechanisms.

- **The labor market should be made more adaptable**. Labor market arrangements have been designed to protect existing jobs through lengthy and costly dismissal procedures. The system was reformed in 2013 to eliminate differences in treatment between blue collar and white collar workers, but it remains costly and staff underscored the adverse effect on hiring, labor mobility, and the ability of enterprises to adjust. It suggested that these resources would be better used by developing new labor market skills through in-work training, where Belgium lags behind other countries. Labor mobility would also be enhanced by strengthening job search requirements and reducing tax impediments to relocation.

- **More efficient product markets are needed as a complement to a more adaptable labor market**. Regulation and administrative burdens appear more cumbersome in Belgium than in other European countries. As a result, competition, notably in the non-tradable sector, is less intense and productivity gains are lower (and even negative for some services). A liberalization of product markets, combined with measures to foster innovation and improve education, would raise Belgium's potential growth. Liberalization could be most effective in services sectors such as transport industries, retail distribution, and professional services, which are heavily regulated by OECD standards. Greater competition in product markets would create new job opportunities and thereby reinforce activation policies. Such liberalization would also complement the 2013 reform of the competition authority that increases its capacity to sanction anti-competitive practices.

[7] Taxes and cash transfers reduce inequality by about 15 percentage points, as measured by the GINI coefficient.

Belgium and Other EU Countries: Competition Indicators

	All branches	Manufacturing	Market Services
Average price-cost margin, 1996–2005			
Belgium	1.14	1.15	1.14
Other EU countries[1]	1.08	1.06	1.09
Average of entry and exit rates, 2006 (in percent)			
Belgium	6.0	4.1	6.3
The main partner countries[2]	9.1	6.1	9.4
Hirschman-Herfindahl index, 1997–2006[3]			
Belgium	26.7	30.2	20.6
The main partner countries[2]	20.4	21.5	18.2
Average absolute change of market shares (in percentage points)[4]			
Belgium	1.3	1.2	1.4
The main partner countries[2]	1.5	1.2	1.6

Source: Kegels, C. and J. van der Linden, 2011, "Competitiveness, Productivity, Competition, and Structural Reforms: The Belgium Case". Reflets et Perspectives de la Vie Economique, vol. 0(3), pages 27-51.

[1] Other EU countries are 9 EU-15 countries.

[2] The main partner countries are France, Germany, and the Netherlands.

[3] The index measures the concentration of market share during 1997–2006. It ranges from 0 to 100. The higher the index the more concentrated is the sector.

[4] Average for 1998–2001 and 2003–05.

B. A More Strategic Approach to Fiscal Adjustment

13. Structural fiscal adjustment of 3.3 percent of GDP is still required to meet the authorities' medium-term structural surplus objective of 0.75 percent of GDP.[8] The targeted surplus would place the debt ratio on a path consistent with EU commitments and create fiscal space for the looming cost of ageing. The April 2013 Stability Program envisioned reaching this objective in 2016. Meeting this target date would require an acceleration of adjustment by the federal and regional governments relative to the structural adjustment projected in 2014 under current policies (0.5 percent of GDP).

14. Staff took the view that average structural adjustment of 0.75 percent a year would be appropriate going forward given the risks highlighted by the DSA. Staff emphasized the

[8] Based on the authorities' estimate of potential GDP, the needed effort is 2½ percent.

importance of steady quality adjustment over a specific target date for reaching the surplus objective. Average adjustment of 0.75 percent would be consistent with the gradual and limited increase in revenues over the next five years (1 percent of GDP, similar to the 2013 Stability Program) and real expenditure growth of 0.5 percent a year, which could be achieved through structural spending reforms. Since consolidation measures beyond 2014 are yet to be identified, and given the uncertainty over the regional governments pace of adjustment (see below), the staff's baseline scenario presented in the tables assumes a more modest pace of structural adjustment of about 0.5 percent per year, which would see Belgium achieving its medium-term fiscal objective only in 2019. The DSA illustrates that public finances, under this baseline scenario, remain fragile, and even modest changes in the economic environment would push the public debt ratio above 100 percent. A negative growth shock and realization of contingent fiscal liabilities coming from bank support represent major risks to the debt outlook.

15. Staff stressed the importance for the post-election government to identify upfront the sources of medium-term adjustment. Given that most of the structural adjustment to date has come from revenue measures, staff underscored the need to rebalance consolidation toward expenditure measures (Figure 8). For the federal government, this implies reducing current spending and rationalizing subsidies and social transfers, consistent with activation objectives (Figure 9). On the tax side, there was broad agreement that planned reductions in labor taxes should be integrated in a comprehensive tax shift toward indirect, environmental, and capital income taxation—income from capital is subject to different and favorable tax regimes relative to labor income.

16. With responsibility for roughly ⅓ of the remaining adjustment need, regional and community governments will have to take decisive actions (Box 3). The pace at which regional governments will adjust has yet to be agreed, but the enhanced competencies of regional governments under the sixth reform of the state provide scope for both revenue and expenditure measures. For regional governments, staff noted that adjustment should focus on current spending and tax expenditures so as to preserve fiscal space for productivity-enhancing spending in education and transport infrastructure, where growing bottlenecks are undermining productivity (Figure 10).

17. Adapting to the requirements of the EU Fiscal Compact creates opportunities for more efficient policies but also challenges in Belgium's complex fiscal structure. Given the considerable degree of decentralization and the fact that the federal, regional, and community governments have equal standing before the law, the requirements of the Fiscal Compact have taken the form of a cooperation agreement between the various governments, backed by a stronger assessment and monitoring role for the High Council of Finance. Moving to structural targets should reduce reliance on pro-cyclical stop gap measures in pursuit of annual nominal deficit targets, which have characterized recent budget executions. However, defining and monitoring structural targets for regional governments will be challenging. Staff proposed setting nominal deficit targets with cyclical adjustors for revenues to correct for cyclical effects.

Box 3. Sixth Reform of the State and Burden Sharing of Fiscal Adjustment

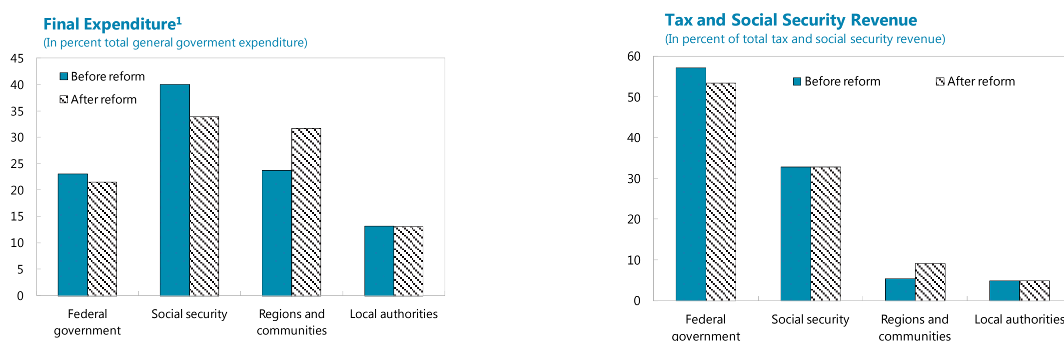
The Sixth Reform of the State, negotiated in October 2011, substantially increased the degree of fiscal federalism by devolving additional spending responsibilities to subnational governments and reforming their funding. The state reform was finalized in December 2013, when the parliament passed the revised Special Finance Act governing the financing of the federated entities. The reform will enter into force in July 2014, and the new financing rules will begin to be applied in 2015. The decentralized responsibilities, which should amount to nearly 5 percent of GDP in 2015, are discussed in Box 2 of Belgium's 2011 Article IV Staff Report.[1] The adjustment burden is redistributed towards Regions and Communities in the following way:

- *New spending responsibilities are not fully covered by increased tax autonomy and new transfers.* Tax autonomy of Regions[2] will increase as they acquire responsibility for around 25 percent of the personal income tax (2.9 percent of GDP), which means that the share of own taxes in the regions' total revenue will increase from 43.9 percent to 73.3 percent. Regions will be able to set their own income tax rates, brackets, and tax exemptions. Additional funding will be provided by new federal grants (1.3 percent of GDP) and new traffic related revenue (0.2 percent of GDP). Overall, total new resources of Regions and Communities will increase by 4.4 percent of GDP in 2015. The residual gap of about 0.6 percent of GDP as of 2016, relative to new spending commitments, will be the Regions and Communities' contribution to fiscal consolidation.

- *Additional adjustment of 0.4 percent of GDP over the medium term.* Firstly, Regions and Communities will contribute to the budgetary cost of aging, in the form of decreased indexation of some grants to economic growth from 2017 onwards (for example, transfers related to labor market policies will grow by only 55 percent of economic growth rather than the current 75 percent). This measure should reduce federal transfers to Regions and Communities by 0.2 percent of GDP by 2030. Secondly, the Regions and Communities will gradually increase their contribution to their civil servants' pension plans, which are currently fully paid by the federal government. This contribution will increase steadily to 8.86 percent of wages in 2030 (0.2 percent of GDP).

- *Redistribution between the regions will also be scaled back.* The national solidarity allowance, which redistributes proceeds from the federal income tax based on regional per capita income, will be scaled, back providing savings of 0.1 percent of GDP for the federal government. The redistribution grant will compensate for 80 percent of the difference in per capita income relative to the national average, down from the current 100 percent.

Impact of the Sixth Reform of the State by the Level of Government



Sources: Belgian authorities; Decoster, A. and W. Sas (2013), "De Nieuwe Bijzondere Financieringswet Van De 6 Staatshervorming: Werden De Beloften Ingelost?", Flemosi Discussion paper 28; and IMF staff calculations. Calculations based on end-2012 data.

[1]Expenditure net of transfers to other levels of the government.

[1]IMF Country Report Number 12/55.

[2]Language communities do not have their own tax base and only rely on transfers.

C. Financial Sector: from Deleveraging to Reforming Business Models

18. The main challenge for banks is to move from balance sheet repair to adjustment of their business models in the face of low profitability and regulatory changes. The authorities considered that the risks from legacy assets were manageable, while recognizing that their very long shelf life called for prolonged monitoring. A revival of economic growth should help bank profitability, but the authorities noted that the primary instrument of adjustment should be more aggressive cuts in operating expenses. Stronger profitability would, in turn, facilitate compliance with more stringent solvency rules under Basel III. To monitor these challenges, and in line with FSAP recommendations, the supervisor has stepped up its monitoring of banks' business models and the profitability of specific business lines. The authorities indicated that consolidation within the overbanked system might also be needed at some stage. A fundamental regulatory challenge will come from the changes in the financial architecture embedded in the new banking law which the government expects Parliament to approve before the May elections.

19. The forthcoming banking law is the cornerstone of the government's strategy to safeguard financial stability (Box 4). The reform of the banking law in Belgium—agreed by the government in December 2013 and expected to be passed by parliament by spring this year—has been motivated by the need to equip Belgium with a reinforced framework to deal with bank failures that limit the likelihood and size of taxpayer-funded bailouts. To this end, the law would restrain trading activities and improve the recovery and resolution framework within the perimeter allowed by the EU Bank Resolution and Recovery Directive, including by reinforcing depositor protection. In drafting the law, the authorities carefully balanced possible competitive distortions that may arise from front running EU legislation against the need to take swift action to protect financial stability and public finances. Key elements affecting the recovery and resolution framework, particularly the bail in provisions, will therefore remain contingent on forthcoming EU agreements in this area. While acknowledging that banks could circumvent limits on risky trading by migrating such activities to less-regulated jurisdictions, the authorities noted that the law should permit banks to continue operating as universal banks: trading activities beneficial to the real economy would still be permitted, and thresholds triggering additional capital requirements were prudent but not overly constraining.

20. At the shorter horizon, banks seem overall well positioned for the ECB comprehensive assessment which may nevertheless cast doubts on the viability of specific business lines. Because risk profiles differ across banks in terms of exposure to legacy assets, problematic foreign mortgage markets, and public sector lending, asset quality problems in a specific loan class could have uneven repercussions within the banking system. Loss absorption capacity also differs across banks, and some have increased provisions ahead of the ECB's asset quality review.

21. Recent measures by the National Bank of Belgium (NBB) to reduce risk from mortgage portfolios are timely and appropriate. The NBB has enhanced its supervisory scrutiny of mortgage risks and has raised the risk weights for domestic mortgages by 5 percentage points above the banks' own internal risk weighting models. The authorities presented this measure as mostly

preemptive and motivated by the risks of continued upward pressures on housing prices. Loan impairment of domestic mortgages (around 15 percent of the consolidated balance sheet) remains low and the latest vintages of mortgage loans do not show any increase in default rates. Still, there are pockets of vulnerability, with 10 percent of mortgages combining loan-to-value ratios of over 90 percent with debt service ratios of over 50 percent.

22. Reform of taxation of savings to remove current distortions has proven controversial. The tax advantage granted to bank savings accounts has contributed to the strong liquidity position of banks.[9] However, it also distorts financial intermediation. In order to create a level-playing field and encourage the reallocation of short-term saving toward longer-term instruments, the authorities proposed extending the tax benefit to all financial instruments. By capping it at the current level, the measure would be revenue neutral; and by phasing it gradually, it would not disrupt banks' operations. Such a proposal is consistent with past staff advice, but it has encountered public and political opposition, in part because it would increase the reporting requirements of financial institutions to the tax authority.

[9] The combination of declining interest rates and a high cap on the amount of interest income (EUR 1,880 in 2013) that is exempt from taxes has resulted in a massive shift of saving toward savings accounts.

Box 4. The Draft Banking Law

Consistent with FSAP advice and the EU Bank Recovery and Resolution Directive, the new draft banking law seeks to improve the recovery and resolution frameworks, reduce contagion from risky trading activities to retail banking, and reinforce depositor protection. The draft law described below could still undergo changes as it goes through parliamentary approval.

- *Trading activities*. The draft law bans banks from proprietary trading while allowing trading operations deemed beneficial for the real economy.[1] Trading activities will be limited to 15 percent of the balance sheet or 10 percent of the regulatory capital; and subject to capital surcharges beyond those thresholds. Forbidden trading activities have to be transferred to a separate entity. The approach toward trading appears to be closer to the Volcker rule (United States), as it defines the perimeter for permissible trading activities that can be preserved by deposit-taking entities, as opposed to the Vickers reforms (United Kingdom) and the EU Barnier's proposal, which opt for separating all trading activities except those strictly necessary for the banks' treasury functions.

- *Recovery and resolution framework*. The law would require all domestic financial institutions to have recovery and resolution plans. The resolution framework would be enhanced by: (i) recognizing the National Bank as the resolution authority and, in compliance with the EU Banking Recovery and Resolution Directive, empowering it with more flexible instruments to resolve ailing banks (selling part or all of a failing bank to another bank, using bridge institutions to manage good assets, and separating assets via asset management vehicles to clean banks' balance sheets); (ii) speeding up judiciary decisions to resolve banks; and (iii) extending to all banks the requirement to submit strategic decisions for regulatory approval.

- *Depositor protection*. The banking law would establish depositor preference over unsecured creditors for all deposits eligible for coverage by the deposit guarantee scheme. To ensure deposit preference in case of bank failure, banks are required to provide information on asset encumbrance in their recovery plans. The level of asset encumbrance will be monitored regularly and assessed against bank-specific thresholds set by the regulator to reflect their risk profile. Failure to comply with pre-established thresholds will trigger corrective action.

- *Macro-prudential policies*. The draft law designates the National Bank of Belgium (NBB) as the macro-prudential authority, with responsibility for detection and monitoring of systemic risks, and powers to make recommendations to the relevant authorities if systemic risks emerge ("act or explain"). The NBB would have an array of macro-prudential instruments at its disposal (e.g. additional capital and liquidity requirements, new disclosures, limits on concentration risks, leverage ratio, limitation on dividends, different valuation of collateral). The federal government would retain responsibility for setting limits on loan-to-value and debt-to-income ratios, but the NBB would have the power to make recommendations to the government on the use of these instruments.

[1] Permissible trading activities include financial services provided to clients and the hedging of these transactions, market making activities, hedging and liquidity risk management operations, and long-term investment transactions.

STAFF APPRAISAL

23. With financial stability risks receding, strengthening growth performance emerges as the critical challenge for Belgium. Since taking office, the government has taken decisive measures to restore financial stability and improve economic performance, but substantial challenges remain in terms of activating underused labor resources and improving competitiveness. Growth impediments reflect the interaction of labor and product market rigidities as well as distortions from inefficient social policies. A comprehensive policy approach of mutually reinforcing measures is needed to address these impediments, and enable the economy to better adapt and compete in existing and new high productivity sectors. Failing that, Belgium faces the prospect of having to adjust wages even more aggressively to compete on prices in traditional sectors.

24. Continued wage moderation and, even more importantly, structural reforms to improve resource allocation and productivity are needed to restore competitiveness. Labor market institutions should be focused on promoting labor mobility and adaptability, including through life-time training, rather than protecting existing jobs through costly layoff procedures. In product markets, eliminating barriers to competition would promote innovation and productivity, and lightening the heavy burden of regulation would free resources for more productive uses. In this regard, a new cooperation framework would help improve coordination among the various levels of government that have complementary responsibilities for economic and social policies. Public resources could be leveraged more effectively in support of private R&D, notably through public universities, and educational reform appears urgent in view of poor educational outcomes. Wage setting institutions have proven to be adaptable to external challenges over time, but they should be strengthened by ensuring more timely correction for deviations in wage and productivity trends relative to partners.

25. In combination with greater product and labor market flexibility, a shift of public resources from passive to active labor market policies would help raise employment rates. Considerable growth is foregone because of Belgium's structurally low employment rate, which in turn puts additional stress on the social security system. Pension reform should focus on lengthening working life. But a broader reform of social policies is needed to eliminate inactivity traps and incentives to withdraw from the labor force. Such reforms should be phased in as demand recovers and also accompanied by an expansion of active labor market policies. In-work benefits, such as the service voucher system, can be an effective instrument of activation within the constraint of the minimum wage. However, significant savings have to be generated from reforming passive support measures to cover the cost of such policies.

26. High debt calls for continued steady fiscal adjustment which should be rebalanced from tax measures to structural spending reforms. Annual structural adjustment of 0.75 percentage points would balance the need to rebuild fiscal space, not least because of the looming costs of ageing, against the risks from the hesitant recovery. This pace of adjustment

should be achieved by containing expenditure growth, so as to limit the need for new revenue measures. Fiscal effort should focus on reducing current spending, subsidies, and transfers, thus preserving space for growth enhancing spending on labor activation and public infrastructure. On the tax side, planned reductions in labor taxes should be integrated into a comprehensive tax shift, away from labor income toward indirect taxes (e.g., VAT), environmental taxes, and taxes on income from capital. The announced reduction of VAT on electricity goes in the opposite direction, and should at some point be replaced by lower labor taxes.

27. Adapting to the requirements of the EU fiscal compact creates an opportunity to improve the efficiency of fiscal policy. In particular, the move to structural deficit targets should reduce the need for repeated stop gap measures which have characterized the budgetary process. However, this reform is made more challenging by the fact that it coincides with further fiscal decentralization and a reallocation of the adjustment toward regional governments. Extending the fiscal governance framework to all levels of government will therefore require defining individual fiscal objectives that adequately capture structural effort.

28. Bank restructuring has reduced financial vulnerabilities, but banks still need to adapt to an evolving operating and regulatory environment. Risks associated with legacy assets have declined markedly, but the fact that the remaining portfolio will be unwound very gradually calls for continued close oversight. Risks going forward are mostly related to low profit margins and thus the ability to meet more stringent capital requirements under Basel III. This calls for further cost cutting measures on part of the banks and continued regular monitoring of banks' business models, as they adapt to the evolving regulatory environment and the opportunities created by the lapsing of state aid conditionality. The draft banking law now in parliament should help safeguard financial stability by strengthening the resolution framework and limiting trading activities, while preserving the universal banking model of Belgian banks. Supervision has been strengthened in line with FSAP recommendations, and the tightening of capital requirements on mortgage lending is a welcome preventive measure against the risks of a further outrunning of real estate prices relative to incomes.

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

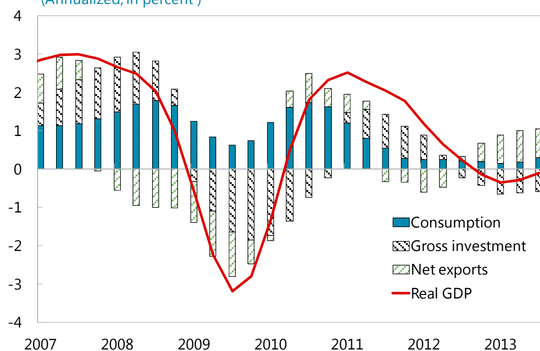
Figure 1. Real Sector Developments, 2007–13

Belgium's economy has been virtually stagnant for two years…

…but leading high-frequency indicators have rebounded recently. Confidence is at two-year high (albeit still negative)…

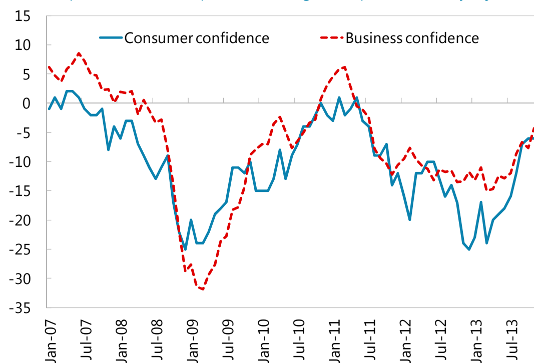
Contributions to Real GDP Growth

(Annualized, in percent)



Confidence Indicators

(In percent, balance of positive and negative replies; seasonally adjusted)

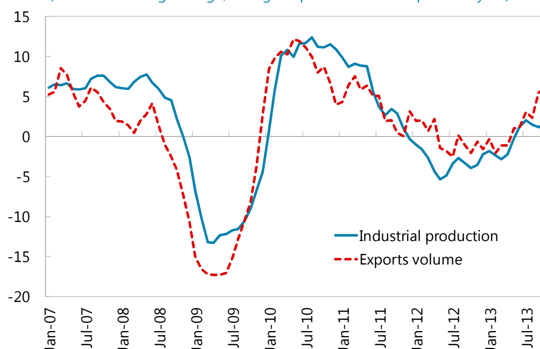


…consistent with rising industrial production and exports volumes…

…and a steady rise in households' real disposable income.

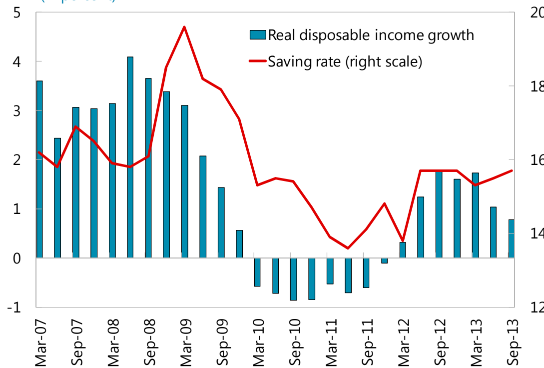
Exports and Industrial Production

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



Households Disposable Income and Savings

(In percent)

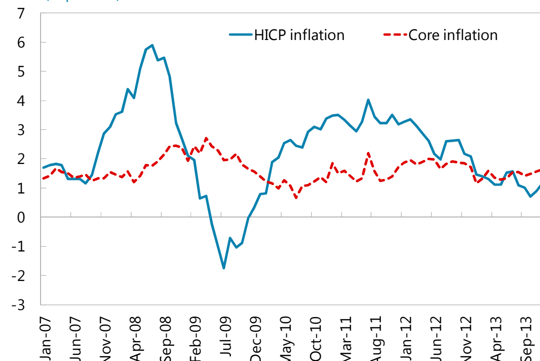


Inflation pressures have eased considerably, reflecting the drop in energy prices…

…but labor market conditions have deteriorated due to insufficient employment growth.

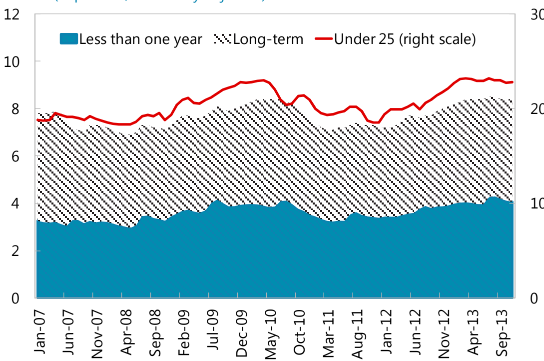
Annual Inflation

(In percent)



Unemployment Rates

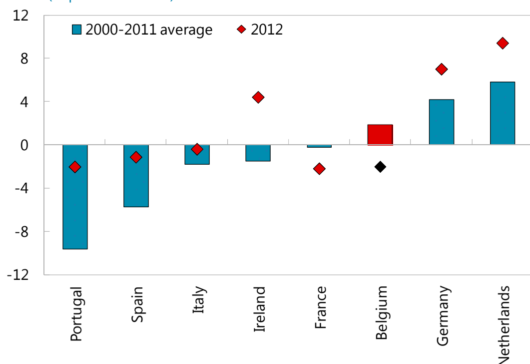
(In percent, seasonally adjusted)



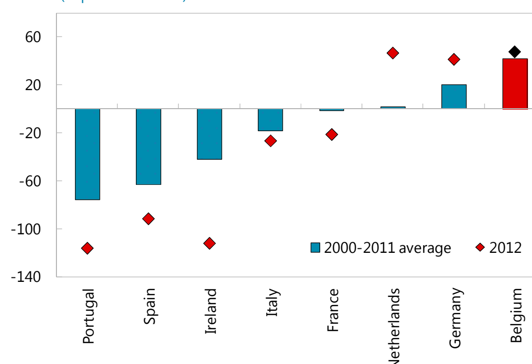
Sources: National Bank of Belgium, Haver Analytics, and IMF staff calculations.

Figure 2. External Position and Private Sector Balance Sheets, 2000–12

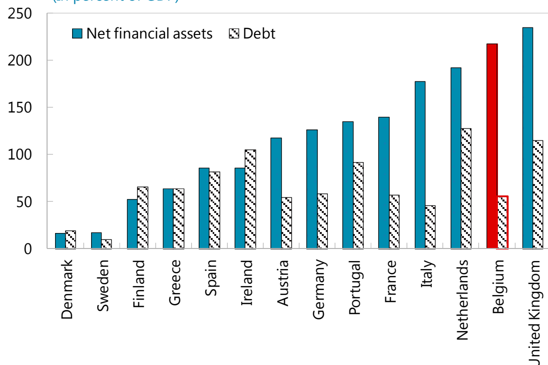
Even though Belgium's current account has deteriorated in the recent years…



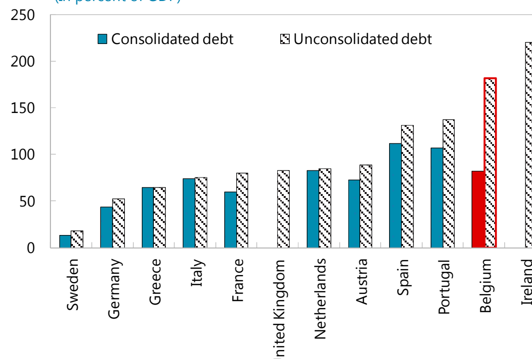
…the net international investment position remains very strong…



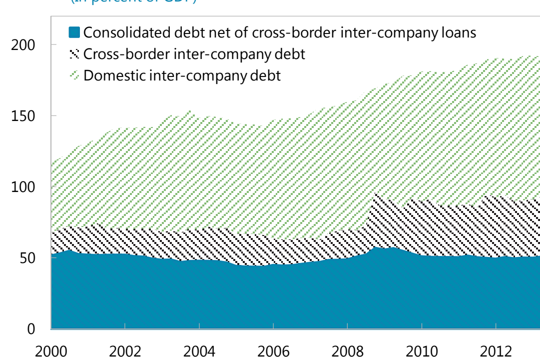
…reflecting very healthy households' balance sheets.



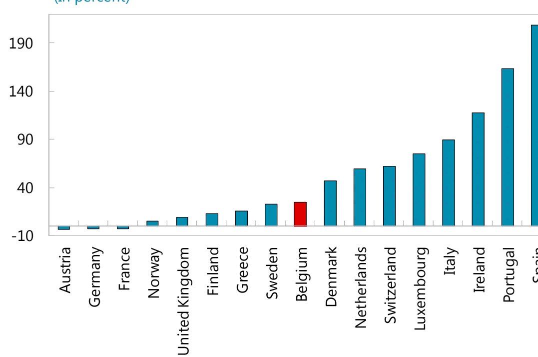
Consolidated corporate debt is low…



…especially once cross-border inter-company lending is netted out.



However, corporate insolvencies have picked up since the onset of the crisis.

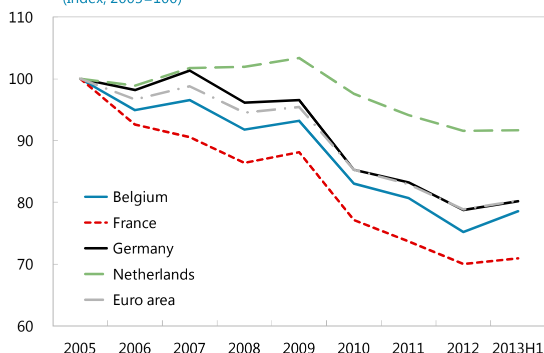


Sources: Haver Analytics, Creditreform, Belgian authorities, and IMF's Balance of Payments Statistics and staff calculations.

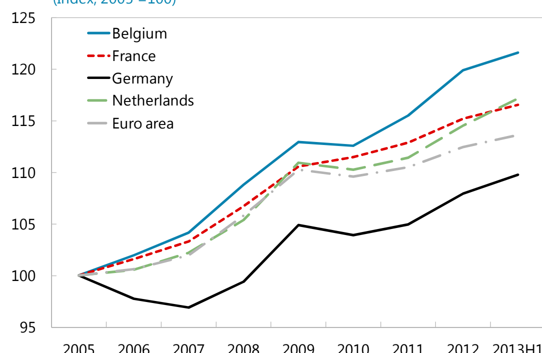
[1]Ireland and the United Kingdom do not report consolidated debt data. Consolidated debt is net of domestic inter-company lending.

Figure 3. External Sector and Competitiveness Developments, 1995—2013

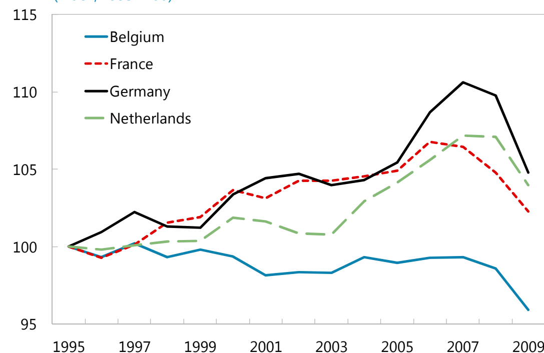
Recently, Belgium's share in world exports has been declining faster than that of other European countries.



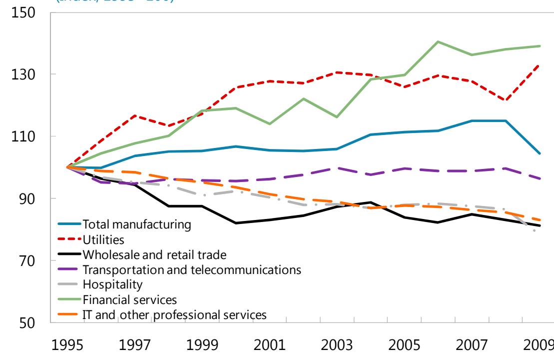
In part, this reflects the relatively rapid growth in unit labor costs…



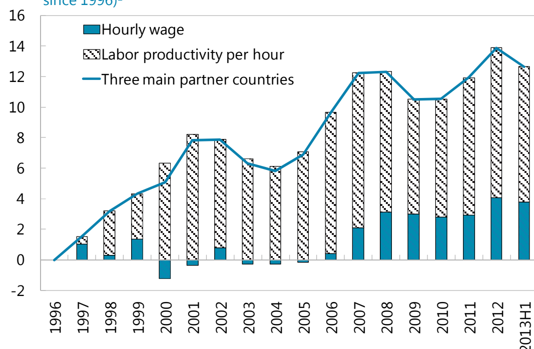
…due to weak productivity growth which fell behind that of other European countries…



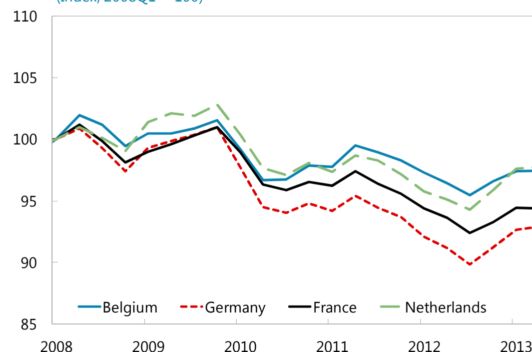
…especially in the regulated services sector.



Wage developments have contributed little to the loss in cost competitiveness relative to the main trading partners.



The real effective exchange rate has been on an appreciating trend since late 2012.

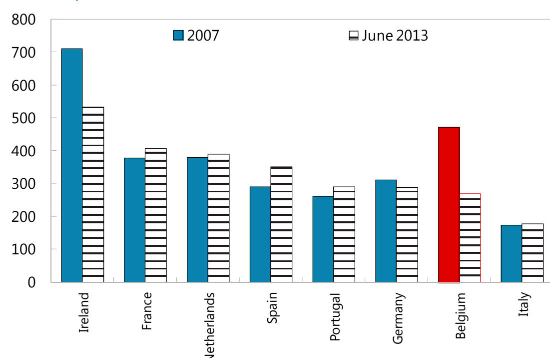


Sources: DOT, KLEMS, OECD, European Commission, Belgian authorities, and IMF's *International Financial Statistics* and staff calculations.

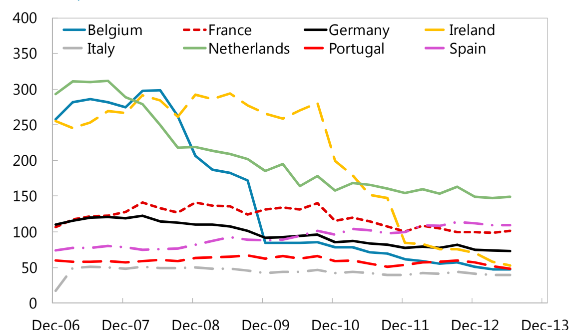
[1] The three main neighboring countries are France, Germany, and the Netherlands.

Figure 4. Financial Sector Deleveraging, 2006–13

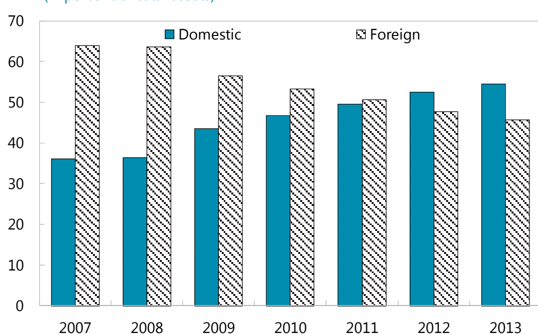
The Belgium banking sector has undertaken substantial deleveraging since the onset of the crisis…



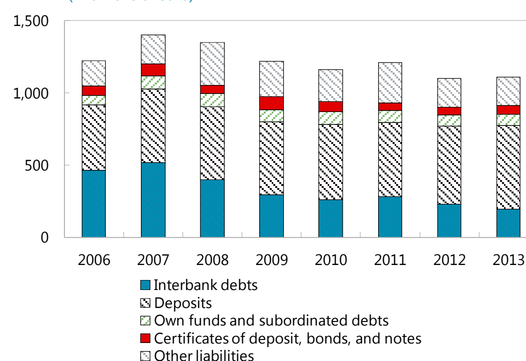
…as banks moved away from cross-border operations or were sold to foreign competitors



The assets of resident banks were reoriented toward the domestic market…



…in parallel with an expansion of their domestic deposits



Sources: National Bank of Belgium, Bank for International Settlements, Haver Analytics, and IMF *Financial Soundness Indicators* and staff calculations.

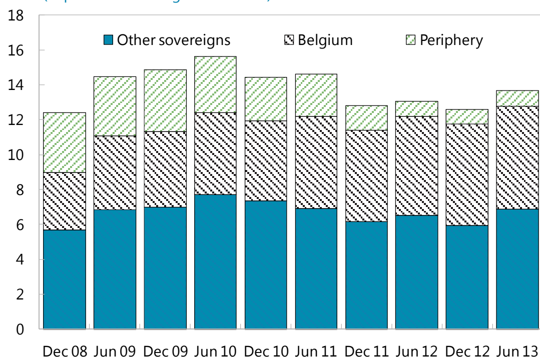
[1] Data include all assets of domestically owned banks and of subsidiaries of foreign banks.

[2] Foreign and domestic totals include loans and securities other than shares.

Figure 5. Banking Sector Exposures, 2008–13

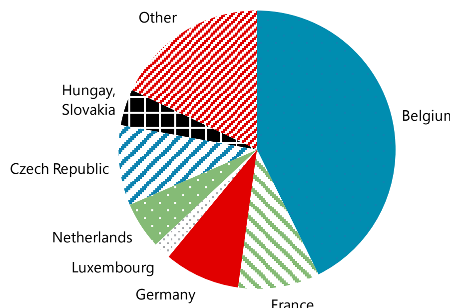
Banks have reduced their exposure very significantly to Greek, Portuguese, Italian, and Spanish public debt…

Exposures to Public Sectors[1]
(In percent of average total assets)



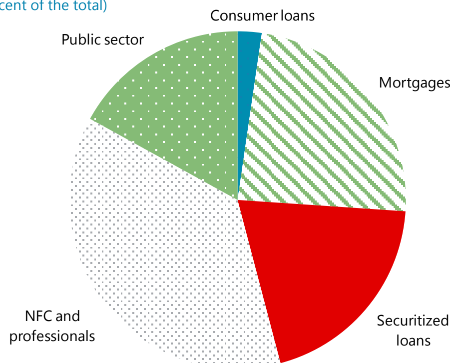
…but exposures to Central and Eastern Europe and neighboring sovereigns remain elevated.

Exposures to Public Sectors, 2013[1]
(In percent of the total)



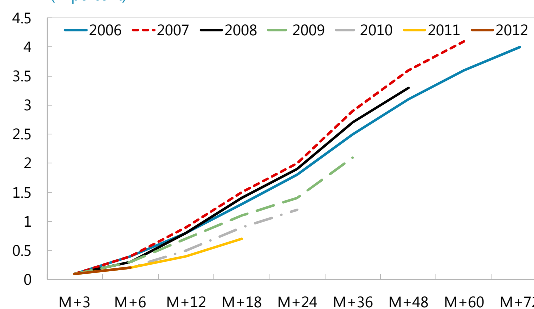
Links with the domestic economy have intensified during the crisis.

Belgium: Banks' Domestic Loans by Type, 2013
(In percent of the total)



Mortgage default rates are declining relative to past vintages.

Proportion of loans to Belgian households with payment defaults, by vintage[2,3]
(In percent)



Sources: National Bank of Belgium, Bank for International Settlements, and IMF staff calculations.

[1] Exposures in the form of loans and debt instruments, except for Belgium, for which only central government bonds are included.

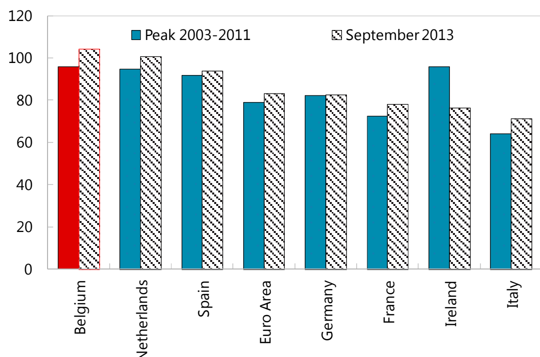
[2] A default is recorded when three installments are not (fully) paid or when an installment has not been (fully) paid after a period of three months.

[3] Vintages group together loans granted during the same year. The curves show, for each vintage, the number of defaulted loans as a percentage of total original loans after a certain number of months since the loans were granted. Loan regularizations are not taken into account.

Figure 6. Liquidity, Solvency, and Profitability of the Banking Sector, 2003–13

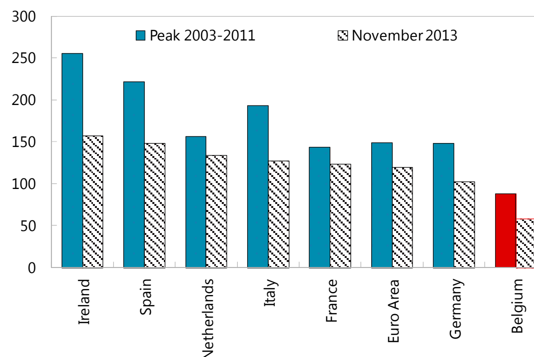
Thanks to a large and increasing deposit base…

Deposits-to-GDP Ratio
(In percent)



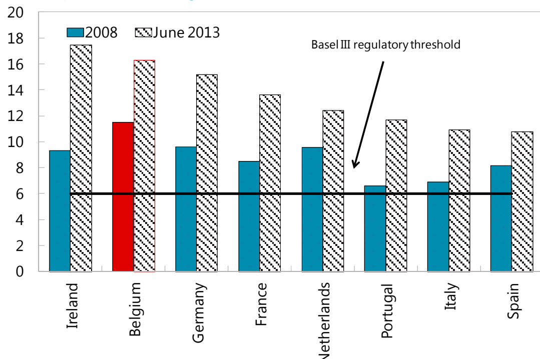
Belgian banks have comfortable liquidity margins.

Loan-to-Deposit Ratio
(In percent)



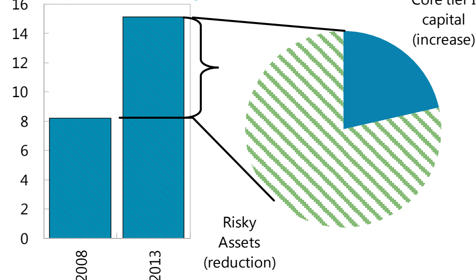
Tier I capital ratios compare favorably with those in other EMU countries. They remain above regulatory levels,

Tier 1 Capital Ratio
(In percent of risk-weighted assets)[1]



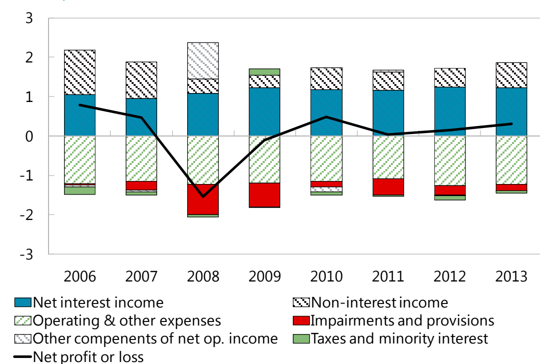
…and have increased since 2008 due to balance sheet restructuring

Evolution of Core Tier 1 Capital Ratio
(In percent of risk-weighted assets)



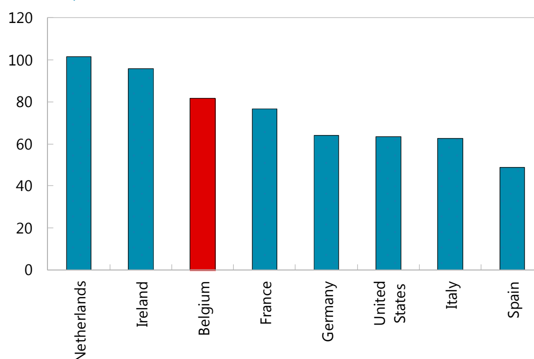
Structurally low profitability in the banking sector…

Income and Expenses
(In percent of total assets)



…reflects comparatively high cost-to-income ratios.

Cost-to-Income Ratio for Selected Countries, 2012
(In percent)

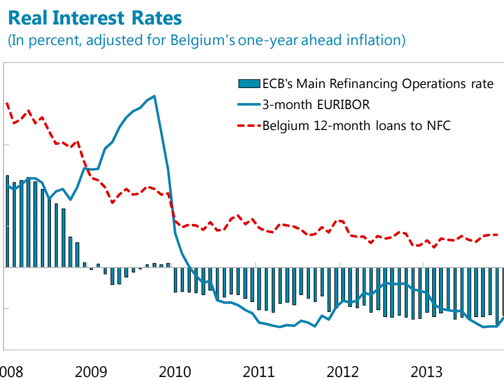


Sources: Haver Analytics, National Bank of Belgium, and IMF *Financial Soundness Indicators* and staff calculations.

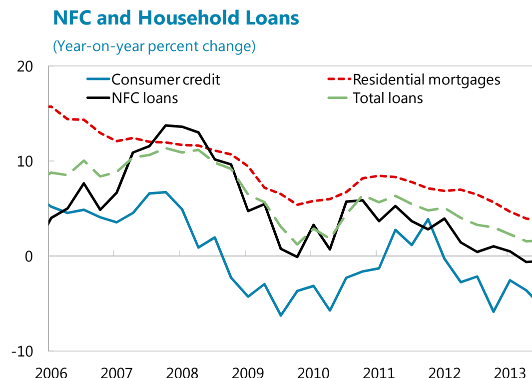
[1] Data for France is end of 2012.

Figure 7. Credit Developments, 2008–13

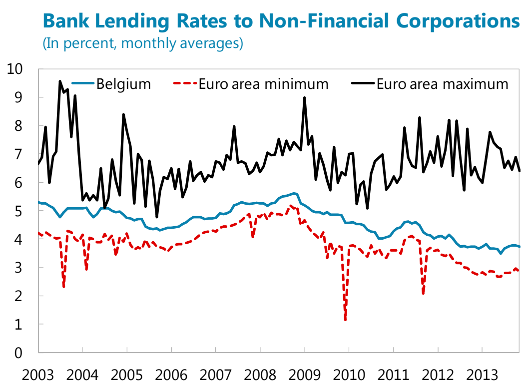
Monetary easing by the ECB has been effectively transmitted into domestic lending conditions…



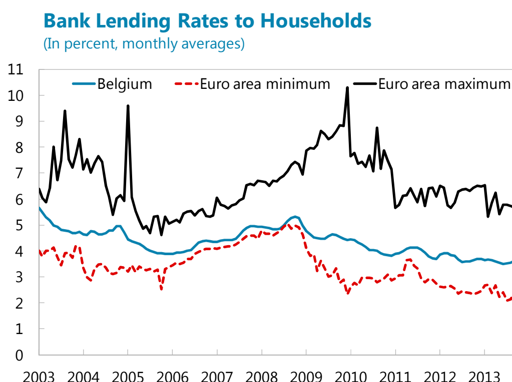
…and lending to the private sector has continued to grow overall.



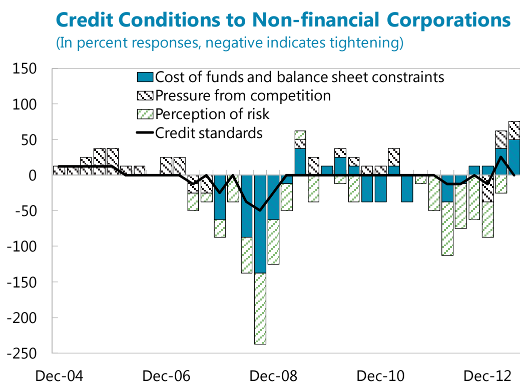
Lending rates for NFCs have trended down over the past two years…



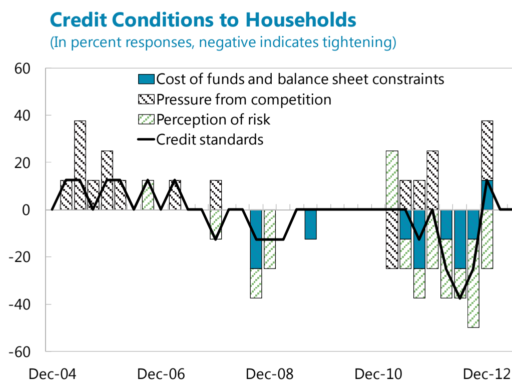
…as they have for households…



….and overall credit conditions are improving relative to 2012 both for NFCs…



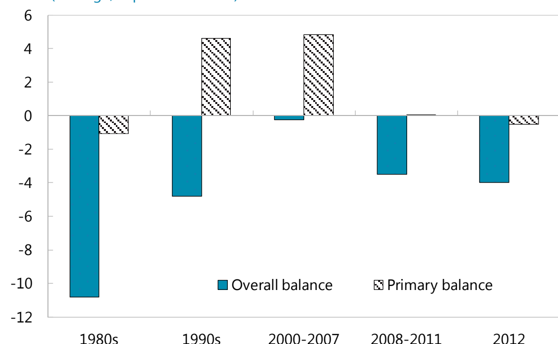
….and households.



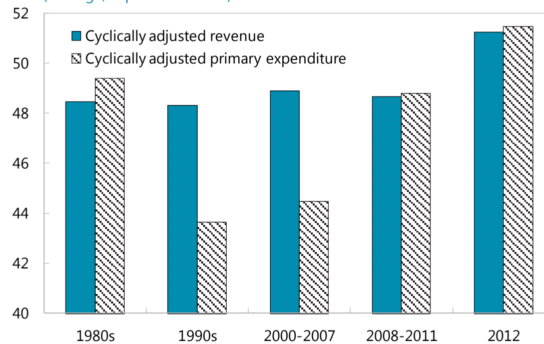
Sources: Haver Analytics, Consensus Economics, National Bank of Belgium, KBC, and IMF staff calculations.

Figure 8. Fiscal Consolidation Efforts, 1980–2013

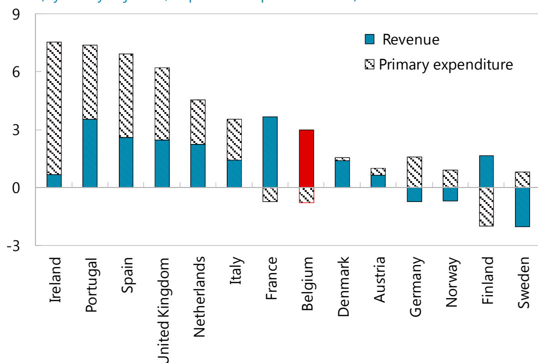
Belgium was able to deliver impressive fiscal consolidation from the 1980s until the crisis.



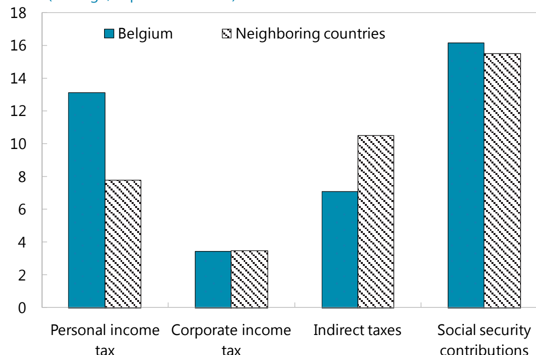
Consolidation since 2011 has been based on raising taxes, while expenditure has continued to trend up…



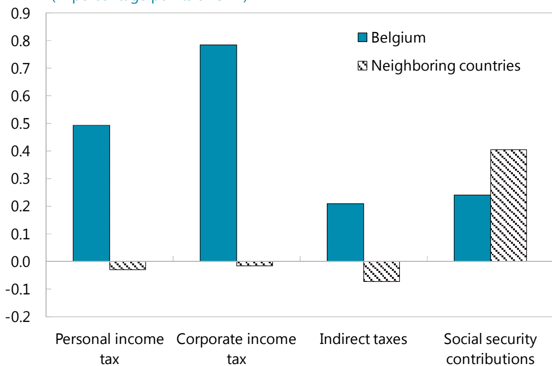
…unlike the more balanced mix of consolidation in other European countries.



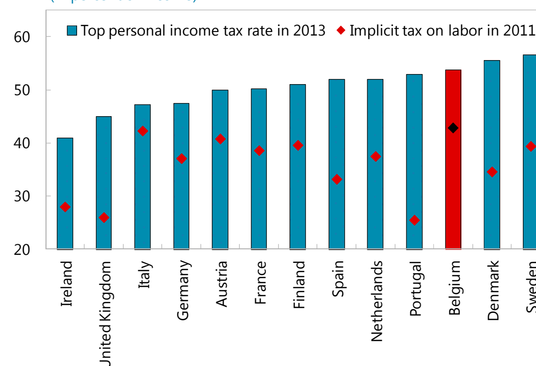
Even though taxes on work were already heavier than in the neighboring countries…



… personal income tax and social security contributions increased further.



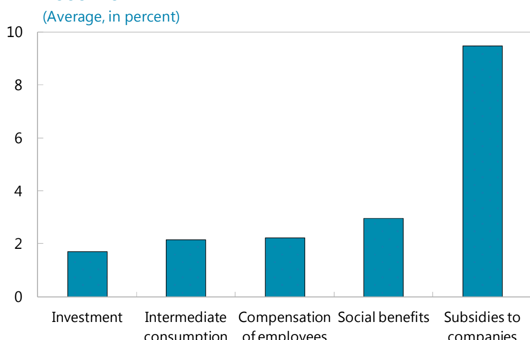
As a result, Belgium's labor taxation is the highest in Europe.



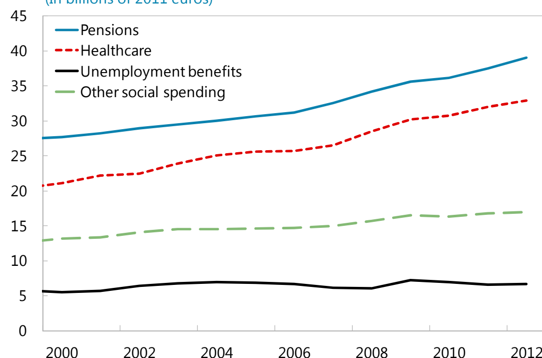
Sources: Haver Analytics, Eurostat, and IMF's *Fiscal Monitor* database and staff calculations.
[1]Cyclical adjustments to revenue and expenditure assume elasticities of 1 and 0, respectively.
[2]Neighboring countries are Germany, France, Luxemburg, and the Netherlands.
[3]The implicit tax on labor includes employees' and employers' social contributions.

Figure 9. Government Spending and Labor Market Outcomes, 1995–2012

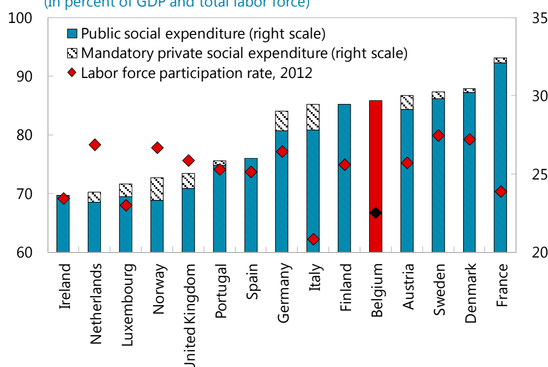
Social spending has grown on average by 2.9 percent per year since 2000…



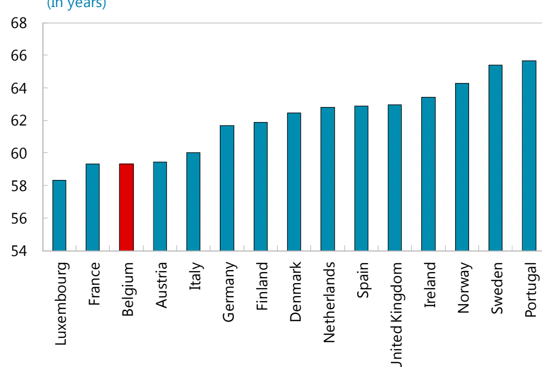
…with pensions and healthcare accounting for most of social spending and its growth.



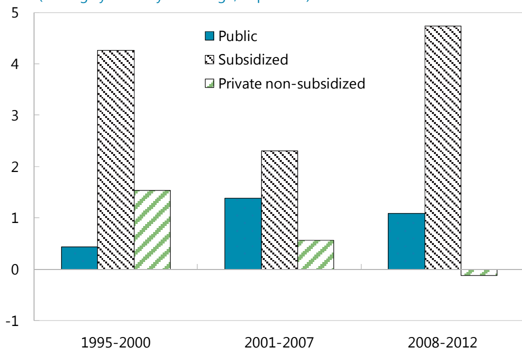
Generous redistributive programs in the absence of active labor market policies have contributed to low labor force participation rates…



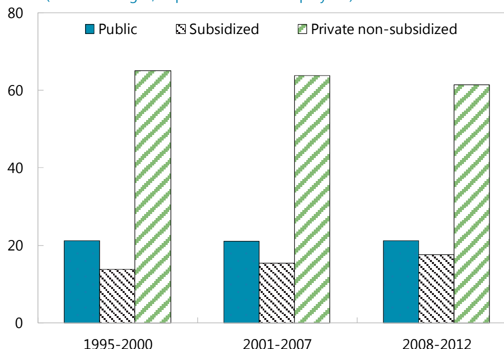
…and have encouraged workers to retire early.



Since 2008, employment growth has been positive only in the public and subsidized sectors…



…with the share of private non-subsidized employment declining steadily.

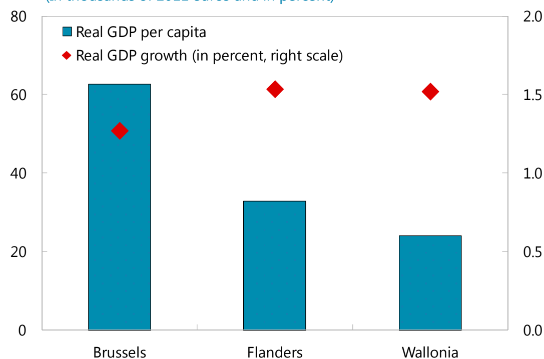


Sources: Eurostat, Haver Analytics, Belgian authorities, OECD, and IMF staff calculations.

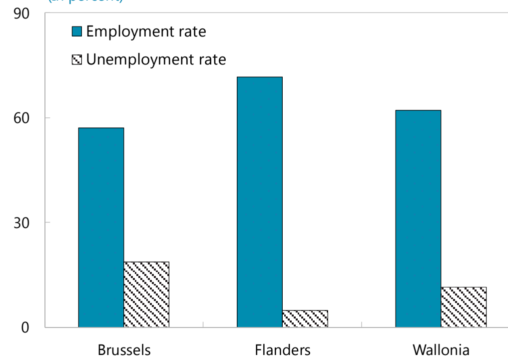
[1] Public employment includes public administration, defense, and education; subsidized employment includes healthcare, social work, and service vouchers. Estimates assume that 67 percent of service voucher jobs are registered under private sector non-subsidized market and correct accordingly.

Figure 10. Economic and Social Differences between Regions, 2003–13

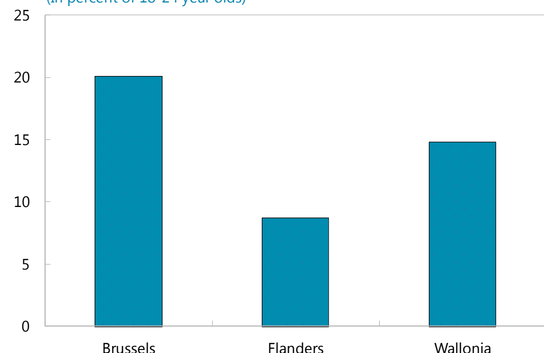
Wide differences in income persist...



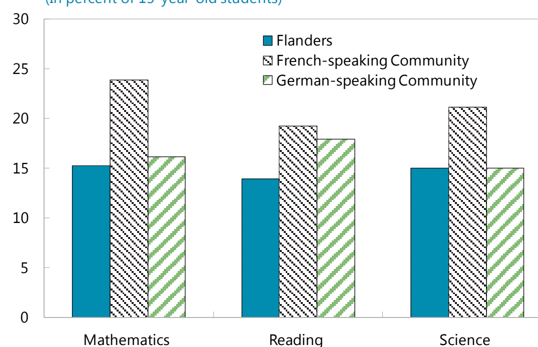
...and employment ratios remain depressed in Wallonia and Brussels.



Differences in education outcomes stand in the way of stronger convergence, based on school completion ...



...and science and mathematics proficiency.



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

[1] Percentage of 18-24 year olds who did not reach at least upper secondary education.

[2] Percentage of 15 year-olds who did not reach the baseline proficiency levels of mathematical, reading, or scientific proficiency that is required to participate fully in modern society.

Table 1. Selected Economic Indicators, 2009–19

	2009	2010	2011	2012	Projections 2013	2014	2015	2016	2017	2018	2019
	(Percentage change from the previous period; unless otherwise indicated)										
Real economy											
Real GDP	-2.8	2.3	1.8	-0.1	0.2	1.1	1.2	1.3	1.4	1.4	1.5
Domestic demand	-2.2	1.9	2.0	-0.6	-0.3	0.9	1.2	1.3	1.5	1.4	1.5
Private consumption	0.6	2.8	0.2	-0.3	0.5	1.0	1.1	1.4	1.5	1.5	1.7
Public consumption	1.9	0.6	0.7	1.4	1.0	0.6	0.5	0.6	0.6	0.4	0.4
Gross fixed investment	-8.4	-1.1	4.1	-2.0	-2.5	0.6	2.0	2.2	2.4	2.3	2.4
Business investment	-10.2	-3.1	7.2	-2.1	-0.6	1.6	2.2	2.4	2.5	2.7	2.8
Public investment	9.8	-2.1	7.1	2.5	-10.3	-3.6	3.9	4.3	4.6	1.6	1.7
Dwellings	-8.6	3.6	-3.2	-3.2	-4.5	-0.7	1.0	1.1	1.2	1.4	1.6
Stockbuilding[1]	-1.1	0.5	0.9	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance[1]	-0.6	0.5	-0.2	0.4	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Exports, goods and services	-9.4	8.1	6.4	1.8	0.7	2.2	2.5	3.1	3.4	3.5	3.5
Imports, goods and services	-8.8	7.5	6.8	1.3	0.2	2.0	2.5	3.2	3.4	3.5	3.6
Household saving ratio (in percent)	18.0	15.1	14.0	15.1	15.2	15.6	15.7	15.9	15.9	16.0	16.2
Potential output growth	1.2	1.1	1.0	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.3
Output gap (in percent)	-1.5	-0.3	0.5	-0.6	-1.4	-1.3	-1.2	-1.0	-0.7	-0.5	-0.3
Employment											
Unemployment rate	7.8	8.2	7.3	7.6	8.6	9.1	9.0	8.8	8.6	8.3	8.1
Employment	-0.2	0.7	1.4	0.2	-0.3	0.1	0.4	0.5	0.6	0.6	0.6
Prices											
Consumer prices	0.0	2.3	3.4	2.6	1.2	1.1	1.2	1.3	1.4	1.4	1.4
GDP deflator	1.2	2.1	2.0	1.9	1.4	1.3	1.3	1.3	1.4	1.4	1.4
	(Percent of GDP; unless otherwise indicated)										
Public finance											
Revenue	48.1	48.7	49.6	51.0	51.5	51.5	51.7	52.1	52.3	52.5	52.7
Expenditure	53.7	52.6	53.5	55.0	54.4	53.9	53.8	53.6	53.2	52.7	52.2
General government balance[2]	-5.6	-3.7	-3.7	-4.0	-2.7	-2.4	-2.1	-1.4	-0.8	-0.1	0.6
Structural balance	-4.3	-3.7	-3.7	-3.4	-2.6	-2.0	-1.5	-1.0	-0.4	0.1	0.7
Structural primary balance	-0.7	-0.3	-0.4	0.1	0.7	1.1	1.6	2.1	2.6	3.1	3.7
Primary balance	-1.9	-0.4	-0.4	-0.5	0.6	0.8	1.0	1.6	2.2	2.9	3.6
General government debt	95.7	95.7	98.0	99.8	99.7	99.9	99.5	98.4	96.3	93.8	90.4
Balance of payments											
Trade balance	1.3	1.2	-1.0	-0.8	-0.3	0.1	0.2	0.3	0.4	0.5	0.5
Current account	-0.6	1.9	-1.1	-2.0	-1.7	-1.3	-1.0	-0.7	-0.4	-0.1	0.2
Terms of trade (percent change)	3.5	-2.1	-1.5	-1.8	0.4	0.0	0.2	0.2	0.2	0.2	0.1
Exports, goods and services (volume, percent change)	-10.9	8.5	4.4	-0.9	2.3	2.2	2.5	3.1	3.4	3.5	3.5
Imports, goods and services (volume, percent change)	-12.1	6.8	5.1	-1.3	0.6	2.0	2.5	3.2	3.4	3.5	3.6
Memorandum items											
Nominal GDP (in billions of euros)	341	356	369	376	382	391	401	411	423	435	447
Population (in millions)	10.8	10.8	11.0	11.1	11.2	11.2	11.2	11.3	11.4	11.5	11.5

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

[1] Contribution to GDP growth.

[2] Defined as in the Excessive Deficit Procedure.

Table 2. Balance of Payments, 2009–19
(In percent of GDP)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Projections						
Balance on current account	-0.6	1.9	-1.1	-2.0	-1.7	-1.3	-1.0	-0.7	-0.4	-0.1	0.2
Balance on goods and services	1.3	1.2	-1.0	-0.8	-0.3	0.1	0.2	0.3	0.4	0.5	0.5
Balance of trade (f.o.b., c.i.f.)	-1.3	-1.1	-2.8	-2.8	-2.3	-2.0	-1.8	-1.7	-1.6	-1.6	-1.5
Exports of goods and services	72.1	78.9	84.0	85.6	81.6	77.5	75.5	74.2	73.4	73.1	73.1
Exports of goods	53.5	59.2	64.9	64.6	61.5	58.5	57.0	56.0	55.4	55.2	55.1
Exports of services	18.6	19.7	19.1	21.0	20.0	19.0	18.5	18.2	18.0	18.0	18.0
Imports of goods and services	70.8	77.7	85.0	86.4	81.8	77.4	75.3	73.9	73.0	72.7	72.6
Imports of goods (f.o.b.)	54.8	60.3	67.7	67.4	63.9	60.4	58.8	57.7	57.0	56.7	56.7
Imports of services	16.0	17.4	17.3	19.0	18.0	17.0	16.5	16.2	16.0	16.0	15.9
Income, net	-0.1	2.4	1.7	0.8	0.5	0.4	0.6	0.8	1.1	1.3	1.6
Current transfers, net	-1.8	-1.7	-1.8	-2.1	-1.9	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Balance on capital account	-0.4	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Balance on financial account	1.8	-1.9	1.5	2.6	1.8	1.5	1.2	0.9	0.5	0.2	-0.1
Direct investment, net	11.3	11.1	4.3	-0.6	-0.4	-0.2	0.0	0.2	0.4	0.6	0.8
Portfolio investment, net	9.1	-7.3	-4.3	12.6	7.1	3.7	2.1	1.6	1.1	0.5	0.0
Other investment, net	-18.4	-5.5	1.8	-9.2	-4.8	-1.9	-0.8	-0.8	-0.8	-0.8	-0.8
Reserve assets	-0.2	-0.2	-0.3	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Errors and omissions, net	-0.7	0.2	-0.2	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 3a. General Government Statement of Operations 2009–19
(In percent of GDP)

					Projections						
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Revenue	48.1	48.7	49.6	51.0	51.5	51.5	51.7	52.1	52.3	52.5	52.7
Taxes	28.3	29.1	29.3	30.2	30.5	30.5	30.6	30.8	31.0	31.1	31.3
Personal income tax	12.6	12.7	12.9	13.1	13.2	13.2	13.2	13.3	13.4	13.5	13.5
Corporate income tax	2.6	2.8	3.1	3.4	3.4	3.4	3.5	3.5	3.5	3.5	3.5
Taxes on property	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
VAT	6.8	7.0	6.9	7.0	7.1	7.1	7.1	7.2	7.2	7.2	7.3
Excise	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
Other taxes	2.4	2.4	2.3	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.7
Social contributions	16.8	16.5	16.7	17.0	17.2	17.2	17.3	17.4	17.5	17.6	17.6
Actual social contributions	14.4	14.1	14.2	14.5	14.7	14.7	14.7	14.9	14.9	15.0	15.0
Imputed social contributions	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.6
Other revenue (incl. grants)	3.0	3.2	3.6	3.7	3.8	3.8	3.8	3.8	3.8	3.8	3.9
Expenditure	53.7	52.5	53.4	54.8	54.4	53.9	53.8	53.6	53.2	52.7	52.2
Expense	52.0	50.9	51.6	53.1	52.7	52.3	52.1	51.9	51.4	51.0	50.5
Compensation of employees	12.8	12.6	12.6	12.8	13.0	12.9	12.9	12.9	12.7	12.7	12.7
Use of goods and services	3.9	3.7	3.7	3.7	3.7	3.6	3.5	3.5	3.4	3.3	3.2
Interest	3.7	3.5	3.5	3.5	3.4	3.2	3.2	3.1	3.1	3.1	3.1
Subsidies	2.2	2.6	2.7	2.7	2.6	2.6	2.6	2.5	2.5	2.4	2.3
Grants	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.0	1.0
Social benefits	25.2	24.9	25.1	25.9	26.3	26.2	26.3	26.3	26.1	25.9	25.7
Other expense	3.0	2.5	2.9	3.3	2.7	2.6	2.6	2.6	2.6	2.5	2.5
Net acquisition of nonfinancial assets	1.7	1.7	1.8	1.7	1.7	1.6	1.7	1.7	1.8	1.8	1.8
Gross Operating Balance	-3.9	-2.2	-2.0	-2.1	-1.2	-0.9	-0.5	0.2	0.9	1.6	2.3
Net lending/borrowing	-5.6	-3.8	-3.8	-3.9	-2.8	-2.5	-2.1	-1.5	-0.8	-0.2	0.5
Net financial transactions	-5.6	-3.8	-3.8	-3.9	...	...	...	...	...	...	...
Net acquisition of financial assets	0.2	-0.1	2.0	0.3	...	...	...	...	...	...	...
Currency and deposits	-1.1	0.3	0.3	-0.2	...	...	...	...	...	...	...
Securities other than shares	-0.1	-0.7	-0.1	0.0	...	...	...	...	...	...	...
Loans	0.1	0.2	0.5	1.3	...	...	...	...	...	...	...
Shares and other equity	1.2	0.0	1.1	-0.8	...	...	...	...	...	...	...
Other financial assets	0.0	0.1	0.3	0.0	...	...	...	...	...	...	...
Net incurrence of liabilities	5.7	4.1	5.9	4.5	...	...	...	...	...	...	...
Currency and deposits	0.0	0.0	0.0	0.0	...	...	...	...	...	...	...
Securities other than shares	4.8	3.4	4.5	3.4	...	...	...	...	...	...	...
Loans	0.3	0.6	1.1	1.0	...	...	...	...	...	...	...
Other liabilities	0.6	0.0	0.3	0.2	...	...	...	...	...	...	...
Statistical discrepancy	-0.1	0.3	0.1	0.3	...	...	...	...	...	...	...
Memorandum items											
Primary balance	-1.9	-0.3	-0.3	-0.3	0.6	0.8	1.0	1.6	2.2	2.9	3.6
Net lending/borrowing per EDP procedure	-5.6	-3.7	-3.7	-4.0	-2.7	-2.4	-2.1	-1.4	-0.8	-0.1	0.6
Gross government debt	95.7	95.7	98.0	99.8	99.7	99.9	99.5	98.4	96.3	93.8	90.4

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

Table 3b. General Government Financial Balance Sheet, 2006–12
(In percent of GDP)

	2006	2007	2008	2009	2010	2011	2012
Net worth and its changes	...	...	...	...	...	...	...
Nonfinancial assets	...	...	...	...	...	...	...
Net financial worth	-77.0	-73.1	-73.3	-79.5	-79.8	-81.3	-82.1
Financial assets	14.6	14.8	19.4	20.4	19.9	20.8	22.1
Currency and deposits	1.7	2.0	3.7	2.8	3.0	3.1	2.9
Securities other than shares	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Loans	0.5	0.5	0.4	0.5	0.7	1.1	2.3
Shares and other equity	7.2	7.5	10.5	12.2	11.5	11.7	12.1
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	5.1	4.7	4.6	4.7	4.5	4.7	4.6
Liabilities	91.6	87.9	92.7	99.8	99.6	102.1	104.2
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Securities other than shares	77.6	74.3	79.4	85.4	85.2	86.7	87.8
Loans	10.1	9.3	9.5	9.9	10.1	10.8	11.7
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	3.5	3.7	3.4	4.0	3.8	4.0	4.2

Sources: Belgian authorities and IMF staff projections.

Table 4. Structure of the Financial System 2008–13
(In percent of GDP)

	2008	2009	2010	2011	2012	2013H1
Banking sector						
Number of credit institutions	107	104	107	108	104	103
Domestic	51	48	48	47	42	40
Branches of foreign banks	56	56	59	61	62	63
Total assets (in billions of euros)[1]	1,422	1,191	1,151	1,147	1,049	1,025
of which Four largest banks	1,324	1,092	1,003	968	857	829
of which claims on Belgian residents	503	483	478	500	527	520
Insurance sector[2]						
Number of insurance companies	151	147	145	142	134	130
Life	30	29	28	26	24	23
Mixed	22	23	24	25	25	25
Non-life	99	94	91	89	83	80
Reinsurance		1	2	2	2	2
Total assets (in billions of euros)[3]	224	234	249	257	265	270
Net premiums written (in billions of euros)[3]						
Life	21	19	19	18	21	11
Non-life	10	9	10	10	11	9
Other financial intermediaries						
Stockbroking firms						
Number	23	23	23	22	20	19
Income (in billions of euros)[4]	0.3	0.3	0.3	0.3	0.2	0.1
Total assets (in billions of euros)	2.7	2.3	2.4	2.0	2.2	2.9
Portfolio management companies						
Number	26	24	24	20	21	20
Income (in billions of euros)[4]	0.1	0.0	0.0	0.0	0.1	0.0
Assets under management (in billions of euros)	25	49	62	3	4	4
Management companies of undertakings for collective investment						
Number	7	7	7	7	7	7
Income (in billions of euros)[4]	1.2	0.5	0.9	0.8	0.8	0.5
Assets under management (in billions of euros)	193	189	194	178	178	160
Undertakings for collective investment distributed in Belgium						
Number of investment companies	432	443	478	507	532	537
Belgian law	171	167	166	165	167	155
Foreign law	261	276	312	342	365	382
Assets under management[3]	128	135	139	115	118	122
Pension funds						
Number	270	263	251	245	237	226
Total assets (in billions of euros)[3]	13	14	16	16	19	n.a.

Sources: National Bank of Belgium, Belgian Asset Managers Association, and Financial Services and Markets Authority.

[1] On consolidated basis.

[2] Data at the end of September 2013.

[3] On company basis.

[4] Non-annualised.

Table 5. Financial Soundness Indicators of the Banking Sector, 2008–13[1]
(In percent unless otherwise indicated)

	2008	2009	2010	2011	2012	Latest
Earnings and profitability						
Return on assets	-1.3	-0.1	0.5	0.0	0.1	0.5
Return on equity	-36.5	-2.7	10.7	0.7	3.0	9.7
Net interest income to total income	75.0	79.1	68.3	71.2	71.6	57.7
Interest margin	1.0	0.8	1.2	1.2	1.3	1.3
Average yield on assets	5.0	2.8	2.8	2.9	2.9	2.7
Average cost of funding	4.0	2.0	1.6	1.7	1.7	1.4
Noninterest income to gross income	24.9	20.9	31.7	28.8	28.4	42.3
Of which: Net fee and commission income	35.1	30.1	25.6	26.8	28.3	27.6
(Un)realized capital gains booked in P&L	-19.9	-14.5	-0.2	-3.9	0.2	8.6
Cost/income ratio	86.1	77.7	66.0	67.3	73.4	58.9
Structure assets						
Total assets (in percent of GDP)	410.5	349.2	323.2	310.2	278.7	268.1
Of which (in percent of total assets):						
Loans to credit institutions	15.0	13.1	17.0	15.2	12.4	12.1
Debt securities	21.0	22.3	20.1	18.5	18.4	18.3
Equity instruments	1.1	0.8	0.5	0.4		
Derivatives	15.7	11.3	11.6	14.6	11.5	8.9
Loans to customers	39.1	45.0	44.0	44.4	48.1	51.8
Of which: Belgian residents (in percent of loans)	53	59	64	70	72	71
Other EMU residents (in percent of loans)	20	19	19	17	15	16
Rest of the world (in percent of loans)	28	22	17	13	13	13
Mortgage loans (in billions euros)	132	158	179	184	188	192
Consumer loans (in billions euros)	17	17	24	23	24	25
Term loans (in percent of loans)	47.8	44.0	42.3	40.0	39.3	39.8
Reverse repo operations (in percent of loans)	10.1	7.3	7.3	4.2	3.3	6.2
Funding and liquidity (in percent of total assets)						
Debts to credit institutions	19.4	14.1	15.4	11.2	11.0	10.6
Bank bonds and other debt securities	8.7	12.6	10.9	8.8	10.6	10.2
Customer deposits	40.2	46.8	46.0	46.5	49.3	53.5
Of which: Sight deposits[2]	10.9	13.2	13.7	12.6	15.1	17.3
Saving deposits[2]	9.2	14.1	16.6	16.8	19.8	21.1
Term deposits[2]	11.7	8.9	8.5	9.6	9.2	9.0
Retail deposits	18.2	23.8	26.1	26.5	30.6	33.0
Repo's	6.4	7.1	5.0	5.2	2.3	4.0
Liquid assets[3]	28.6	31.5	32.5	34.3	36.4	35.5
Asset quality						
Sectoral distribution of loans (in percent of total assets)						
Credit institutions	15.0	13.1	17.0	15.2	12.4	12.1
Corporate	20.5	20.5	17.2	16.4	16.3	18.9
Retail	14.6	19.9	22.1	22.9	26.3	26.9
Central governments	0.9	1.2	1.0	0.8	0.8	1.0
Non-credit institutions	3.1	3.4	3.8	4.3	4.7	5.1
Non-performing loans (NPL) as percent of gross loans[3]	1.7	2.7	2.8	3.2	3.2	3.2
Provisions and write-offs as percent of NPL[3]	67	51	53	49	53	51
Capital adequacy						
Regulatory capital to risk-weighted assets	16.2	17.3	19.3	18.5	18.1	18.7
Regulatory Tier 1 capital to risk-weighted assets	11.3	13.2	15.5	15.1	15.8	16.1
Capital to assets	3.3	4.5	5.0	4.6	5.8	6.0
NPL net of provisions as percent of Tier 1 capital[3]	6.5	13.8	12.2	14.2	13.4	14.5
Net open position in foreign exchange to capital	6.6	6.6	6.6	6.6	6.6	6.6

Sources: National Bank of Belgium.

[1] Consolidated data. Data are based on the IAS/IFRS reporting scheme.

[2] Deposits booked at amortized cost only.

[3] Unconsolidated data.

Appendix I. Main Recommendations of the 2013 Article IV Consultation and Authorities' Response

Fund Recommendations	Policy Actions Taken
Fiscal Policy	
Maintain a steady pace of fiscal adjustment based on structural targets to reduce vulnerabilities.	Structural adjustment of 0.8 percent of GDP achieved in 2013.
Adopt a clear rule-based multi-year fiscal policy framework, which would ensure adequate burden-sharing across all levels of government and consistency with overall fiscal targets.	Requirements of EU Fiscal Compact adopted into law, with emphasis on medium-term structural targets. Agreement on burden sharing with regional governments reached in mid–2013
Financial Sector Policy	
Strengthen banks' capital buffers in line with Basel III requirements and review regularly the viability of banks' business models.	The 2013 and 2014 Annual Risk Reviews focus on the evaluation of banks' business models. Recent measures taken by the NBB to strengthen capital buffers include limits on dividends and the reduction of specific activities.
Strengthen the national resolution and deposit insurance frameworks.	New draft banking law before parliament (Box 4).
Reform taxation of financial income to reduce bias in favor of short-term deposits and to promote long-term saving regardless of the underlying financial instruments.	Discussions are ongoing to extend the tax exemption on income from savings deposits' income to other financial instruments, but no agreement has yet been reached.
Structural Reforms	
Phase out wage indexation and strengthen the link between domestic wage developments and those in partner countries, while providing flexibility to correct for past deviations.	Consensus reached with social partners on need for continued wage moderation in order to close the wage gap relative to partners, estimated at 4.8 percent in 2013.
Enact additional pension and social policy reforms, consistent with fiscal consolidation objectives, in order to raise the effective age of retirement and employment rates.	High level commission established to prepare pension reform recommendations for the next government.

Appendix II. FSAP Recommendations

Policy Action	Timing	Status
Overall Financial Stability Oversight		
Formalize procedures and improve information exchange between the NBB and the Financial Services and Markets Authority (FSMA).	Immediate	**Done**. A Memorandum of Understanding was signed in 2013, which provides for information sharing procedures as well as enhanced dialogue through regular meetings at the technical, senior, and board levels.
Make stress testing a routine tool within the macro-financial policy and surveillance framework.	Short term	**Ongoing**. Stress tests will be conducted in collaboration with the ECB/EBA as part of the forthcoming asset quality review. The NBB has started collecting granular data needed for credit risk assessment (loss given default and probability of default).
Enhance further stress testing of insurers using a market consistent valuation framework.	Short term	**Partly done**. Establishment of interim measures for Solvency II including Own Risk and Solvency Assessment, reporting requirements, governance, and pre-application of internal models.
Complete the ongoing business model reviews for both banks and insurance companies and develop a strategy for both sectors over the medium term.	Short term	**Partly done**. The 2013 and 2014 Annual Risk Reviews (ARR) examine the viability of banks' business models. The 2013 ARR focuses on interest margins, profitability drivers, and credit risks by activity lines. The 2014 ARR will broaden the scope of the analysis to market activities, asset liability management, etc. and perform a full vulnerability analysis for insurance companies.
Develop an explicit conglomerates supervision framework and ensure consistent application of governance requirements across financial conglomerates.	Medium term	**Partly done**. The banking law will integrate conglomerate supervision into banking supervision (for banking-led conglomerates) This will allow the NBB to give full pillar 2 treatment (including all governance rules) to conglomerates. Ongoing work to tailor the supervisory framework to conglomerate-specific risks will be adjusted next year to comply with EU guidelines on risk-concentration in financial conglomerates and intragroup transactions in financial conglomerates. To provide effective supervision, the NBB will closely monitor multiple leveraging, ensure the systematic reporting of intra-group transactions and risk concentrations (as mandated by the Financial Conglomerates Directive), and finalize and apply consistently insurance and securities scorecarding systems (2014 ARR).
Designate the NBB as the macroprudential authority, ensuring a regular dialogue with FSMA and Ministry of Finance (MoF) on	Medium term	**Done**. The banking law designates the NBB as the macro-prudential authority. As such, the NBB will be responsible for the detection and monitoring of systemic risks and for following up on any related recommendations from international organizations (IIOO); and vested with powers to

macroprudential and financial stability matters.		ask for corrective measures to the relevant authorities ("act or explain"). The NBB is currently revamping the framework for the detection of systemic risks and will count on a wide range of instruments to encourage effective action (e.g. additional capital and liquidity requirements, new disclosures, limits on concentration risks, leverage ratio, limitation on dividends, different valuation of collateral). Specific limits related to loan-to-value and debt-to-income ratios will be the responsibility of the federal government, but the NBB will make recommendations on the use of these instruments whenever risks appear in the real estate sector.
Banking Regulation and Supervision		
Review supervisory processes and calibrate intensity and resource allocation based on institutions' risk profiles, particularly for smaller institutions.	Short term	**Done.** Supervisory processes have been strengthened along a number of dimensions (clustering exercises, resource allocation based on risks' profiles also for smaller institutions, etc.) The NBB's supervisory framework is adjusting to SSM requirements, particularly the adoption of a uniform supervision scorecard. Up to 20 additional positions will be created within the NBB to support supervisory tasks.
Embed engagement with bank and insurance boards in the supervisory process in a systematic way.	Short term	**Partly done.** The NBB Board holds regular meetings with bank and insurance boards.
Empower the NBB to pre-approve a major acquisition by a credit institution.	Medium term	**Done.** The banking law (2014Q1) includes a provision for this purpose and the notion of strategic decisions for Belgian D-SIBs will be broadened to include any changes in banks' operations that could potentially impact on resolvability.
Maintain current liquidity regulatory regime until Basel III Liquidity Coverage Ratio (LCR) is fully adopted and phased in at the European level.	Ongoing	**Done.** To avoid liquidity cliff effects due to the implementation of the EU capital requirements regulation, the NBB will require all Belgian credit institutions and financial holding companies to stick to the 100 percent LCR during 2015–18 (phase in period for the adoption of a full LCR under the CRR).
Insurance Regulation and Supervision		
Formulate a baseline prudential supervisory program for insurers and risk-based conduct-of-business supervision of insurers and intermediaries.	Short term	**Partly done**. The 2014 ARR will refine the existing scorecarding approach towards supervision. Technical provisions will be monitored on a regular basis and methods used by insurance companies to compute technical provisions will be challenged (through dedicated on-site inspections). Supervisory staff for insurance companies will be increased by 6 additional positions and the effectiveness of external auditors and actuaries will be improved (licenses will be granted upon successful performance in specialized exams). A law was passed on July 30, 2013 to extend the Markets in Financial Instruments Directive risk-based

		conduct-of-business rules to insurance companies (entry into force as of January 1, 2014).
Align findings of insurance stress testing with contingency planning in the context of the recovery and resolution framework.	Short term	**Partly done**. European Insurance and Occupational Pensions Authority-led stress tests will be conducted this year (in continuation of the long-term guarantee impact assessment conducted in 2013). The Own Risk and Solvency Assessment regime will also be used to assess the solvency needs of insurance companies in view of their risk profiles.
Implement elements of Solvency II, including an Own Risk and Solvency Assessment regime.	Medium term	**Partly done**. Measures were adopted to improve the quality of the calculation of the Solvency II balance sheet and capital requirements (Own Risk and Solvency Assessment Regime, reporting requirements, governance, and pre-applications of internal models). The NBB will require insurance companies to provide additional information in 2014H1 for the computation of the solvency capital requirement.
Empower the NBB to take immediate recovery measures notwithstanding an appeal by the insurer.	Medium term	**Unaddressed**. This recommendation will be addressed in the context of the transposition of the Solvency II regime.
Securities Markets Supervision		
Establish an Emerging Risk Committee at the FSMA and formalize framework for detecting and monitoring emerging risks.	Medium term	**Partly done**. The IOSCO Thematic Review on the Implementation of Principles 6 and 7 of the International Organization of Securities Commissions Objectives and Principles of Securities Regulation (March 2013) found that the FSMA had made significant efforts to implement these principles. The FSMA is now consulting with other European securities regulators to exchange views on the framework for detecting and monitoring risks.
Crisis Management and Resolution Framework		
Formalize domestic coordination arrangements for the financial safety net participants via a crisis management memorandum of understanding and the establishment of a cross-institutional coordination group.	Short term	**Unaddressed**. In the context of the banking union, coordination arrangements for safety nets will integrate resolution authorities at the both national (NBB) and EU levels (Single Resolution Mechanism and Single Supervisory Mechanism).
Request recovery and resolution plans (RRPs) for all domestic systemically important firms.	Short term	**Done**. The forthcoming banking law will request RRPs for all domestic financial institutions.
Grant NBB an explicit mandate as the resolution authority.	Medium term	**Done**. NBB's mandate as a resolution authority will be embedded in the forthcoming banking law.
Improve the bank resolution	Medium	**Partly done**. The forthcoming banking law will reinforce the

toolkit by reducing ex ante procedural requirements, extending the framework to all banks, and enhancing powers for special inspectors	term	crisis management toolkit by speeding up of judiciary decisions to resolve failing banks, requiring NBB's opinion on the designation of the administrator and ex ante approval in the event of bank liquidation. EU agreements on bail in rules will be transposed to national legislation by royal decree at a later stage.
Revamp the deposit guarantee scheme, establish ex ante fund and depositor preference.	Medium term	**Partly done**. The banking law would establish depositor preference over unsecured creditors. To this end, the regulator would be tasked with setting, for each bank, a floor on unencumbered assets which would be available to cover uninsured depositors in the event of a bank failure. Deposit guarantee schemes have not been reformed.

Appendix III. Risk Assessment Matrix

Source of Risk	Relative Likelihood and channel of transmission	Impact if Realized
Protracted period of slower European growth (larger than expected deleveraging, or negative surprise on potential growth)	**High** Strong impact through trade channel	**High** The growth impact of lower external demand would, over time, translate into higher structural unemployment and thus complicate further fiscal adjustment. *Policy response: coordinated fiscal policy response at European level to support demand where fiscal space is available.*
Financial stress in the euro area re-emerges (triggered by stalled or incomplete delivery of national and euro area policy commitments)	**Medium** The extent to which financial stress in the euro area would spread to Belgium (and cause it to delink from the euro area core) depends on the nature of the shock. On the positive side, Belgium has limited direct exposures to Greece, and Portugal, its domestic banks are in a stronger position than in 2011, and despite high debt Belgium has market credibility owing to proven ability to consolidate. On the negative side, sovereign banking interdependence remains high.	**Medium** Impact would be greatest if source of stress came from bank asset quality concerns, as it could reactivate the sovereign-banking nexus. *Policy response: euro area monetary policy is first line of defense against liquidity stress, backed by adequate backstop and resolution institutions.*
Risks to financial stability from incomplete regulatory reforms (delays, dilution of reform, or inconsistent approaches)	**Medium** Belgium has been proactive in implementing reforms but it remains vulnerable to the lack of sufficient coordination within the EU and euro area.	**Medium** Banks could be adversely affected by regulatory fragmentation. *Policy response: accelerated conversion of regulatory approaches within the EU, towards banking union.*
Housing price correction	**Medium** Housing overvaluation estimates are in the 10–60 percent range based on price-to-income and price-to-rent ratios, but finer regression analysis points to overvaluation of 5-15 percent.	**Low** Price adjustment expected to be gradual, with limited impact on banks owing to sound lending standards. *Policy response: capital requirements on mortgages recently increased; additional macro-prudential measures could be introduced if necessary.*
Political risk or lack of consensus on structural reforms	**Medium** Difficulty in implementing structural reforms and correcting cost and non-cost handicap. Fiscal adjustment lags or is driven by opportunistic (and inefficient) tax and expenditure measures.	**High** Failure to close competitiveness gap, improve the efficiency of public spending, and continue structural reforms would dampen growth and make fiscal adjustment more arduous.

Appendix IV. Labor Market and Pension Reform Measures

2011	2012/2014	Status
Unemployment Benefits		
Search Requirements		
Suitable job is 25 km away or less	Suitable job is 60 km away or less	Implemented
Restrict rights to search for the same kind of job to six months	Restrict right to search for the same kind of job to three months (young unemployed) and five months (other unemployed)	Implemented
Monitor search efforts for 18-21 months after unemployment, with an annual follow-up	Monitor search efforts nine months (26 years old or younger) or 12 months (26 or older) after start of unemployment, follow-ups every nine months	Implemented
Unemployment Benefit Levels		
Initial unemployment benefits are 60 percent of last wage, falling after one year to 55 percent for people living alone and 40 percent for people living in a family with another income	Initial unemployment benefits are 65 percent of last wage for three months, then 60 percent for the following nine months. After 13 months there is a reduction to 55 percent for people living alone and 40 percent for people living in a family with another income. Between 15 and 24 months of unemployment, depending on career length before unemployment, a stepwise reduction to arrive after maximum 48 months at a level just above social assistance	Implemented
Higher unemployment benefits for those above 50	Higher unemployment benefits for those above 55	Implemented
Unemployment Benefits for the Young Entering the Labor Force		
Available after nine months of unemployment	Available after 12 months of unemployment	Implemented
Evaluation of search efforts before opening the right on unemployment benefits for young people leaving school	Two evaluations of search efforts 7 and 11 months after registering as jobseeker. Opening of right on unemployment benefits only after two positive evaluations	Implemented for all youngsters that have left school after June 1, 2013

Search effort requirement every 12 or 16 months when on unemployment benefits	Evaluation of search requirements every six months. In case of negative evaluation: no unemployment benefits until the next evaluation, and no earlier than after six months	Implemented
Unlimited	Limited to three years (five years for worker on the margin of the labor market) for unemployed living with family with other income, or until the age of 33 in other family situations The period of three years could be extended by six months if at least worked six months in the last 24 months. Period of three years could be extended by six months if worked at least six months in the last 24 months	Implemented
Easing the Transition to the Labor Market for Low-skilled Youth		
	Yearly creation of 10,000 internships for low-skilled school leavers. Reduced employer contribution in case of hiring after internship. Additionally, employers are asked to create one percent internship position under the form of, for example, apprenticeships.	In progress
Government Subsidy for Temporary Unemployment		
Without employer penalty	Employers will pay a penalty if there is an excess use of the system	Implemented
Government Subsidy for Time-credit and Career Break System		
Five year duration before the age of 50	One year duration (two to five years if part-time) before the age of 55, with supplementary credit of maximum 48 months for specific motivated breaks, such as childcare or studies	Implemented
Unlimited duration above the age of 50	Unlimited duration above the age of 55	Implemented
72 month duration in public sector	60 month duration in public sector	Implemented
Pension benefits		
Pre-pension Benefits (Renamed to "Unemployment Benefits with Employer Top-up")		
No job search requirement	Job search requirement until the age of 55 (in 2013) and 58 (in 2016)	Implemented
Minimum age 58	Minimum age 60 for new collective agreements (2015 for existing agreements	Implemented

	and 2024 for women)	
Minimum career length 38 years for men, 25 years for women	Minimum career length 35 years (women)/40 years (men) for new collective agreements (2015 for existing agreements)	Implemented
Pre-pension years count fully towards pension rights at the last wage level	Pre-pension years below the age of 60 do not count towards pension rights at last wage level but on a lower fictive level	Implemented
Reduced social security contributions on employer's top-up payment	Employer social security contributions will be higher and linked to age of worker entering pre-pension	Implemented
Part-time Pre-pension System		
Part-time pre-pension system	No new entries from 2012	Implemented
Government Subsidy for Working Time Reduction to Half Time (Time-credit with Unlimited Duration)		
Minimum age 50	Minimum age 55 (with exceptions for physically demanding jobs)	Implemented
Pre-pension for Collective Dismissal		
Minimum age 50	Minimum age 52 for loss-making companies (from 2012), raised by six months every year to 55 in 2018, 55 for restructuring companies (from 2013)	Implemented
No restrictions on dismissed workers' age structure in collective dismissals	Collective dismissals must reflect the age structure of the firm	Still under discussion
Standard social security contributions	Employer social security contributions will be higher and linked to age of worker entering pre-pension	Implemented
Unemployment Benefits in the Pre-pension System		
No job search requirement for those above the age of 50	Job search requirement until the age of 55 (in 2013) and 58 from 2016 on	Implemented
Early Retirement Benefit		
Minimum age 60, full career length 35 years	Minimum age increased by six months every year to 62 by 2016, full career length increased by one year every year to 40 years by 2016	Implemented

Pension bonus	Access to bonus stricter: bonus starts not earlier than 12 months after earliest possible date for early retirement. Bonus continues after 65 years. Only real working days creates bonus-rights	New system starts January 1, 2014
Employer Obligations Towards Older Workers		
None	Draw up a plan to retain older workers	Implemented
Social Security Contributions		
Reduced for hiring of older long-term unemployed	Reduced for hiring of older long term unemployed and pre-pensioners	Implemented
Reduced for older workers from 50 years on	Adapted in 2013: stronger reduction, but starting at 54 years instead of 50 years and only for those with gross wage under EUR 4,453 per month	Implemented
	Additional social security contribution reductions for mentors; first five hires in small and medium enterprises; (very) low-skilled (unemployed) youth; medium-skilled youth; and handicapped persons	Implemented
	Strengthening of the structural social security contribution reductions	In progress
Encourage Longer Employment via Pension System Reforms		
Encourage longer employment	For pensioners aged 65 or more, abolish ceiling on permitted earned incomes for those with careers spanning more than 42 years	Implemented
Full valorization of assimilated periods in pension calculation at last wage earned: unemployment, unemployment with company top-up and time credit	Limited valorization of assimilated periods in pension calculation: • 3rd period unemployment, unemployment with company top-up before 60 and end of career time credit before 60 at pension minimum wage • unmotivated time credit limited to 1 year assimilation	Implemented

Pension bonus for workers and self-employed persons: EUR 2.3 for every day worked extra, if 62 or a career of 44 years; pension complement for statutory government employees: percentage increase for every month worked after 60	Unified pension bonus for workers, self-employed persons, and statutory government employees: progressively increasing lump sum amount (from EUR 1.5 to EUR 2.0) for every day worked extra, if person continues working for longer than one year after fulfillment of early retirement conditions	Implemented
Survivors' pension for widow(er)s: always for survivors of 45 years and older, under certain conditions in case of survivors younger than 45	For widow(er)s younger than 45: survivors' pension replaced by transition allowance (12 months if no children, 24 months if children) that can be combined without limitation with work income, followed by automatic access to unemployment benefit if no gainful occupation and entitled to appropriate and early guidance Eligibility age of 45 increased gradually to 50 by 2025	Social partners have given a positive. Law project was sent to the parliament
In workers' and self-employed persons' pension schemes the months of professional activity in the year of retirement are not taken into account for pension calculation.	In workers' and self-employed persons' pension schemes the months of professional activity in the year of retirement are taken into calculation	Social partners have given a positive advice. Law project was sent to the parliament.
Principle of career unity in pension calculation in pension schemes of workers, self-employed persons and statutory government employees: career fraction or sum of career fractions cannot exceed 1 (45/45)	Notion career no longer expressed in years (45), but in full time equivalent days (14,040)	Social partners have given positive advice. Law project was sent to the parliament.
Increased taxation of the second pillar system in case of early retirement	From July 1, 2013, 20 percent instead of 16.5 percent if leaving at 60, and if leaving at 61 without legal pension 18 percent instead of 16.5 percent.	Implemented
Decrease Pension Expenditure		
Pension complement for frontier or seasonal workers in workers' pension scheme: frontier or seasonal workers residing in Belgium granted pension complement to increase foreign pension to level of pension they would have received if they had worked in Belgium	From July 1, 2014 no new rights to pension complements for frontier or seasonal workers will be constituted Pension complements granted paid out from July 1, 2014 modified on two points: • only awarded from moment person concerned fulfills receipt conditions of foreign pension	Social partners have given positive advice. Law project was sent to the parliament.

- amount of pension complement will be based on all foreign pension benefits

Sources: Belgian Federal Public Service Employment, Labor and Social Dialogue, National Bank of Belgium, National Employment Office, Federal Planning Bureau, Minister of Pensions, and Belgian Stability Program 2012–15.

Appendix V. Debt Sustainability Analysis

Public debt sustainability risks remain high. Under the baseline scenario, the public debt-to-GDP ratio is projected to peak at 99.9 percent in 2014 and to decline to 90.4 percent by 2019 as the fiscal deficit narrows and economic recovery gains traction. Gross financing needs are estimated at 18 percent of GDP in 2014 and are expected to remain around 14–18 percent in the medium term. The projected decline in public debt remains fragile, and even modest changes in the economic environment would rapidly push the public debt ratio above 100 percent. In particular, a negative growth shock and realization of contingent fiscal liabilities coming from bank support represent major risks to the debt outlook.

Baseline and Realism of Projections

Slow but steady fiscal consolidation under the baseline scenario and economic recovery result in a gradual decline in the public debt ratio over the medium term, while the gross financing need remains broadly unchanged.

- **Macroeconomic assumptions.** Growth is estimated at 0.2 percent in 2013, rising to 1.1 percent in 2014 on the back of a rebound in foreign and domestic demand. The output gap narrows over the medium term, but is still projected to be slightly negative in 2019, owing to the slow recovery of demand. Inflation is projected to stay well below 2 percent throughout the period, reflecting the negative output gap and the ongoing real wage freeze in the private sector.

- **Fiscal outlook.** In staff's baseline projections, the general government deficit comes down from 4.0 percent of GDP in 2012 to 0.1 percent in 2018. A modest surplus is expected from 2019 onwards. The primary surplus is projected to strengthen over the medium term, from 0.4 percent of GDP in 2013 to 3.9 percent of GDP in 2018. The projected pace of fiscal consolidation achieves the authorities' structural surplus of 0.75 percent only in 2019. However, consolidation measures past 2014 are yet to be identified.

- **Debt levels and gross financing needs.** Belgium's high level of government debt and gross financing requirement calls for using the higher scrutiny framework.[1] Government gross debt has increased significantly since 2007, reflecting sizable fiscal stimulus, declining real and nominal growth, and a large recapitalization of (and financial support to) the banking sector. Public debt reached 99.8 percent of GDP in 2012 and is projected to stay just below the 100 percent mark in 2014. Gross financing needs are estimated at 18 percent of GDP in 2014 and are expected to remain around 14–18 percent in the medium term.

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

- **Realism of baseline assumptions.** The median forecast error for real GDP growth during 2004−12 is 0.2 percent, suggesting that there is a slight downward bias in the staff projections. Similarly, the median forecast error for inflation (GDP deflator) is 0.2 percent, suggesting that the staff forecasts have under-estimated inflation. The median forecast error for primary balance suggests that staff projections have been slightly optimistic (a forecast bias of -0.1 percent of GDP), but the forecast bias is in line with other surveillance countries and have improved during the later years. Given the openness of Belgium's economy, fiscal multipliers in Belgium are relatively low, with estimates ranging between 0.1−0.5. This conforms to rule-of-thumb methods for assessing fiscal multipliers.[2] Thus fiscal consolidation in the staff's baseline scenario is not expected to have a large impact on growth.

- **Cross-country experience suggests the projected fiscal adjustment is feasible.** The maximum 3-year adjustment in the cyclically-adjusted primary balance (CAPB) over the projection period (2 percent of GDP) is ambitious but Belgium was able to deliver impressive fiscal consolidation in the past. However, staff does not rule out the existence of implementation risks and therefore a constant primary balance scenario is presented to illustrate this risk.

- **Heat map.** Risks from the debt level are deemed high given that the relevant threshold to which Belgium's values are compared is 85 percent and this threshold is breached under baseline and all stress test scenarios. Similarly, Belgium's gross financing needs under most stress test scenarios exceed the benchmark of 20 percent of GDP. Belgium also faces risks relating to its external financing requirement and a large share of public debt held by foreigners. At 127 percent, the external financing requirement is significantly above the upper threshold of early warning benchmarks and the share of debt held by foreigners is relatively high at about 47 percent of total.

Shocks and Stress Tests

The DSA framework suggests Belgium's government debt-to-GDP ratio remains below 110 percent and its gross financing needs remain below 30 percent of GDP under different macroeconomic and fiscal shocks.

- **Growth shock.** Under this scenario, real output growth rates are lower by one standard deviation starting in 2014–15, i.e. 1.8 percentage points relative to the baseline scenario. The assumed decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth) while interest rates are assumed to increase 25 basis points for every 1 percent of GDP worsening in the primary balance. Under this scenario, the debt-to-GDP ratio increases to 106.6 percent of GDP in 2016 and declines thereafter.

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[2] The rule-of-thumb estimate is based on recent work by FAD and EUR, "Guidance Note for Desks on Fiscal Multipliers," which suggests that Belgium's fiscal multiplier is in the low range (0.1-0.3) given its openness and high public debt.

- **High interest rate scenario.** This scenario examines the implications for debt sustainability of an increase in spreads by 200 basis points throughout the projection period. The deterioration of public debt and gross financing needs are back-loaded as old debt gradually matures and new higher interest rate debt is contracted. In 2019, the impact on financing needs is 1.3 percent of GDP. Debt dynamics remain favorable, but the debt ratio would be 2.0 percentage points higher than in the baseline by 2019.

- **Real exchange rate shock.** This scenario assumes 15 percent devaluation in the real exchange rate in 2014. This shock results in a slight decrease in debt and gross financing needs ratios through the inflation channel.

- **Primary balance shock.** This scenario examines the implications of a revenue shock and a rise in interest rates leading to a cumulative 2.3 percentage points of GDP deterioration in the primary balance (one standard deviation shock). The combined shocks leads to a deterioration in the debt ratio of 2.5 percentage points relative to the baseline in 2019 and slightly higher gross financing needs.

- **Combined macro-fiscal scenario.** This scenario aggregates shocks to real growth, the interest rate, the exchange rate, and the primary balance while taking care not to double-count the effects of individual shocks. Under this scenario, debt would reach 108 percent of GDP in 2016 and remaining above 100 percent of GDP until 2019. The impact on financing needs would be significant, raising them to an average of 20 percent of GDP in 2015–19.

- **Recommended fiscal scenario.** This scenario illustrates the debt and gross financing need paths consistent with the staff's recommended average structural effort of 0.75 percent of GDP a year until the medium-term surplus objective is reached in 2019. This scenario is consistent with the gradual and limited increase in revenues over the next five years underlying the 2013 Stability Program (1 percent of GDP in all), and real expenditure growth of 0.5 percent a year, which could be achieved through structural spending reforms. Under this scenario, the debt ratio falls to 88 percent of GDP in 2019, with lower financing needs throughout the forecast period.

- **Backtracking on fiscal consolidation.** This scenario captures political and fiscal consolidation risks associated with the post–2014 election period. It assumes some fiscal slippage in 2014 (0.3 percent of GDP), and no new consolidation measures for three post-election years (2015–17), with the tax-to-GDP ratio constant at the 2014 level and real primary expenditure growing at 1.5 percent per year, consistently with the experience of 2011, when Belgium was under a caretaker government. The scenario illustrates that backtracking on fiscal consolidation would result in public debt remaining elevated at about 100 percent of GDP until 2018, with financing needs peaking at 19 percent of GDP in 2017.

- **Contingent fiscal shock.** This scenario assumes that 50 percent of state guarantees to the financial sector are called upon in 2015. While the debt and financing needs impact is large, the nature of state guarantees is such that they are unlikely to be exercised to such a degree within

the same year. Moreover, the Belgian state could cover some of these costs by selling assets (public enterprises and shares in BNP) which have an estimated worth of 10 percent of GDP.

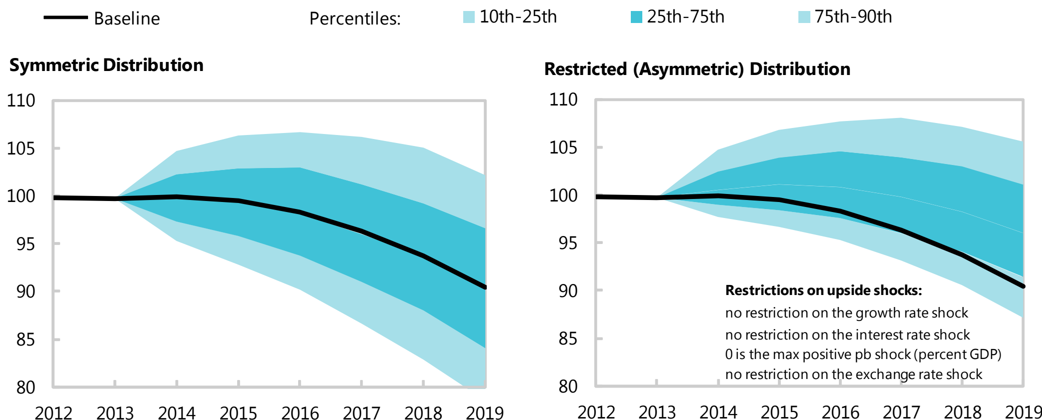
Belgium Public DSA Risk Assessment

Heat Map

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

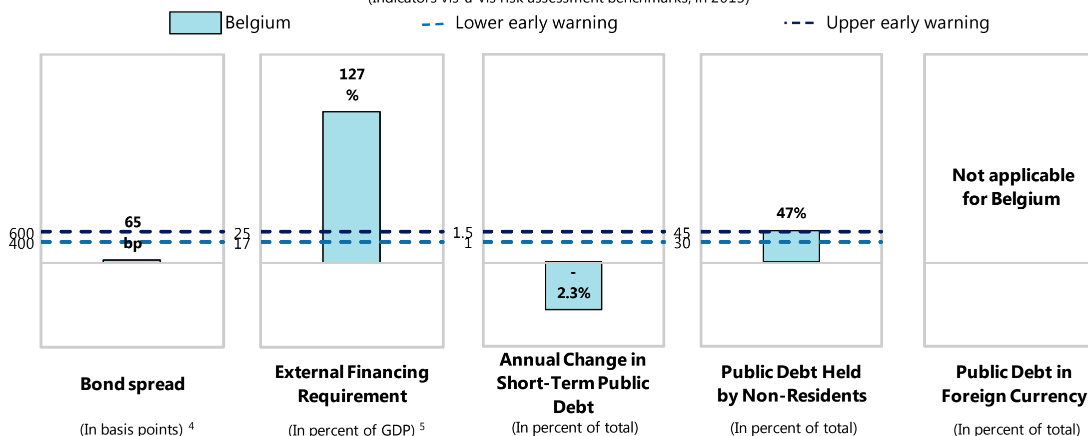
Evolution of Predictive Densities of Gross Nominal Public Debt

(In percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2013)



Source: IMF staff.

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

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

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

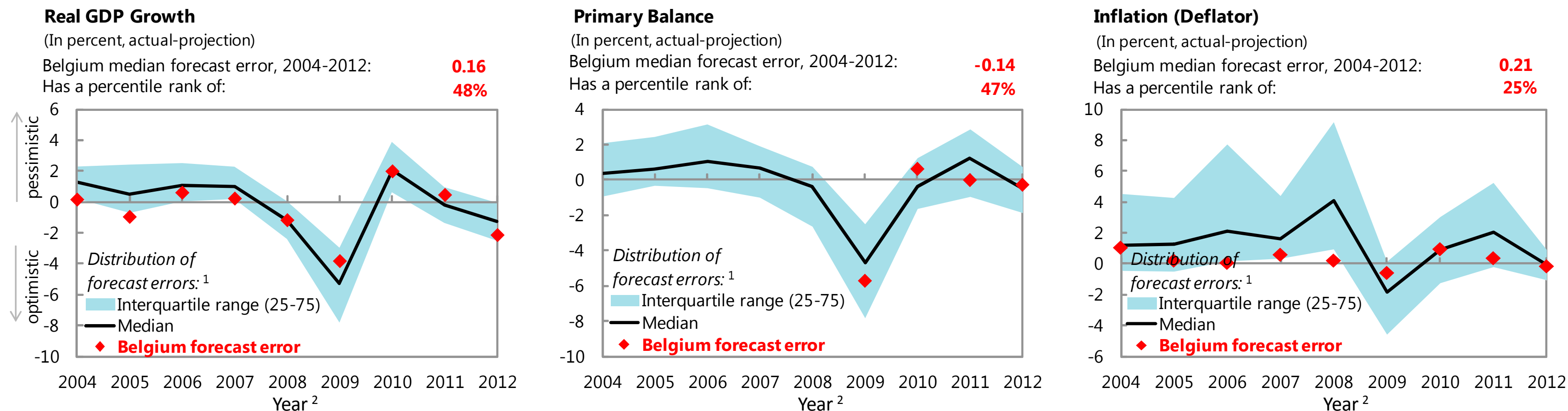
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

[4] Long-term bond spread over German bonds, an average over the last 3 months, 25-Oct-13 through 23-Jan-14.

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

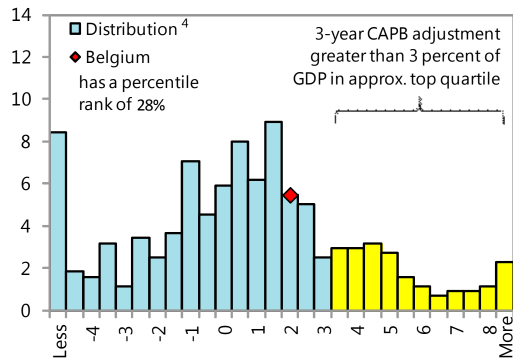
Belgium Public DSA - Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries

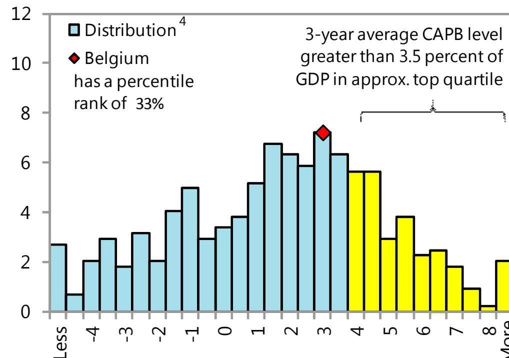


Assessing the Realism of Projected Fiscal Adjustment

3-Year Adjustment in Cyclically-Adjusted Primary Balance (CAPB)
(In percent of GDP)

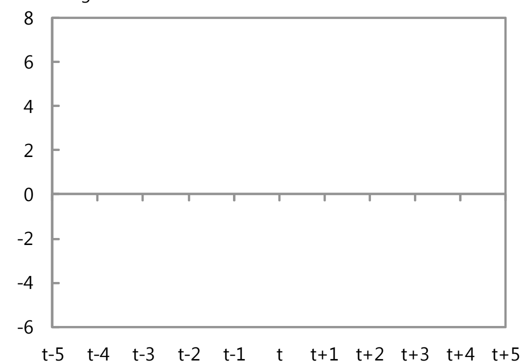


3-Year Average Level of Cyclically-Adjusted Primary Balance (CAPB)
(In percent of GDP)



Boom-Bust Analysis [3]

Real GDP growth
(In percent)



Source: IMF staff.

[1] Plotted distribution includes surveillance countries, percentile rank refers to all countries.

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

[3] Not applicable for Belgium.

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

Belgium Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(In percent of GDP unless otherwise indicated)

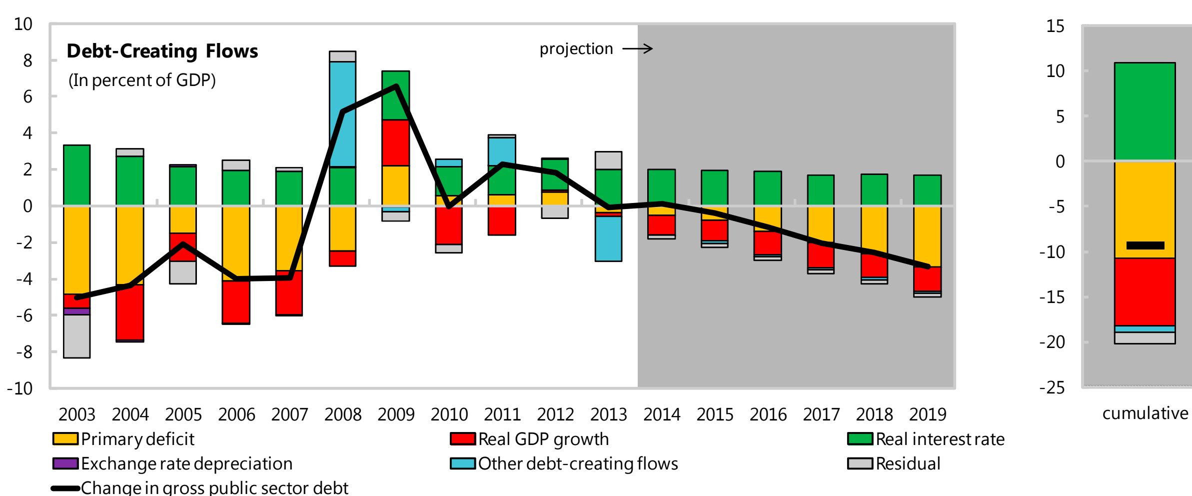
Debt, Economic and Market Indicators [1]

	Actual			Projections					
	2003-2011 [2]	2012	2013	2014	2015	2016	2017	2018	2019
Nominal gross public debt	92.8	99.8	99.7	99.9	99.5	98.4	96.3	93.8	90.4
Public gross financing needs	19.3	23.9	20.4	17.7	17.9	17.2	17.1	14.8	14.1
Real GDP growth (in percent)	1.5	-0.1	0.2	1.1	1.2	1.3	1.4	1.4	1.5
Inflation (GDP deflator, in percent)	2.1	1.9	1.4	1.3	1.3	1.3	1.4	1.4	1.4
Nominal GDP growth (in percent)	3.6	1.8	1.6	2.4	2.4	2.6	2.9	2.8	2.9
Effective interest rate (in percent) [4]	4.5	3.7	3.5	3.3	3.2	3.2	3.2	3.3	3.3

As of January 23, 2014		
Sovereign Spreads		
EMBIG (bp) [3]		63
5Y CDS (bp)		44
Ratings	Foreign	Local
Moody's	Aa3	Aa3
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2003-2011	2012	2013	2014	2015	2016	2017	2018	2019	cumulative	debt-stabilizing primary balance [9]
Change in gross public sector debt	-0.6	1.8	-0.1	0.1	-0.4	-1.2	-2.0	-2.6	-3.3	-9.3	
Identified debt-creating flows	-0.3	2.5	-1.0	0.4	-0.2	-0.9	-1.8	-2.3	-3.1	-8.0	
Primary deficit	-1.9	0.7	-0.4	-0.6	-0.8	-1.4	-2.0	-2.7	-3.4	-10.8	0.2
Primary (noninterest) revenue and grants	48.8	50.8	51.3	51.2	51.4	51.8	52.1	52.3	52.5	311.5	
Primary (noninterest) expenditure	46.8	51.5	50.9	50.7	50.6	50.4	50.1	49.7	49.2	300.7	
Automatic debt dynamics [5]	0.8	1.8	1.8	0.9	0.8	0.6	0.3	0.4	0.4	3.4	
Interest rate/growth differential [6]	0.9	1.8	1.8	0.9	0.8	0.6	0.3	0.4	0.4	3.4	
Of which: real interest rate	2.2	1.7	2.0	2.0	1.9	1.9	1.7	1.7	1.7	10.9	
Of which: real GDP growth	-1.4	0.1	-0.2	-1.1	-1.1	-1.3	-1.4	-1.3	-1.3	-7.5	
Exchange rate depreciation [7]	-0.1	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.8	0.0	-2.5	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	
Net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. ESM and euro area loans)	0.8	0.0	-2.5	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.6	
Residual, including asset changes [8]	-0.3	-0.7	1.0	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-1.3	



Source: IMF staff.

[1] Public sector is defined as General government.

[2] Based on available data.

[3] Long-term bond spread over German bonds.

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

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

[6] The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

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

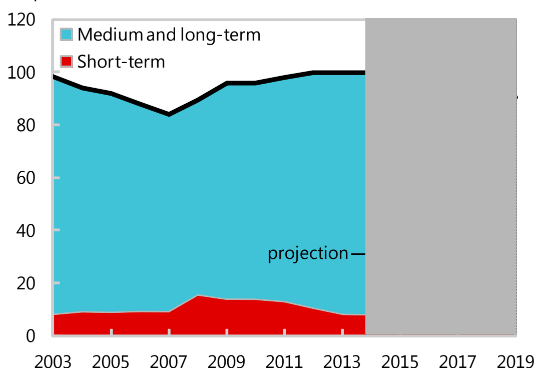
[8] Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

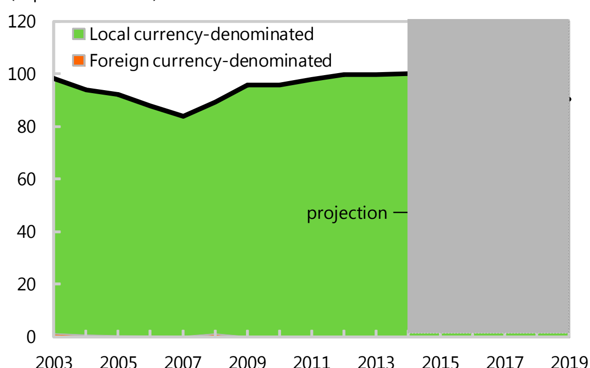
Belgium Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(In percent of GDP)



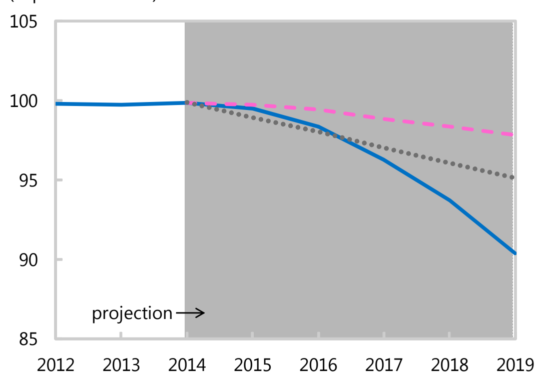
By Currency
(In percent of GDP)



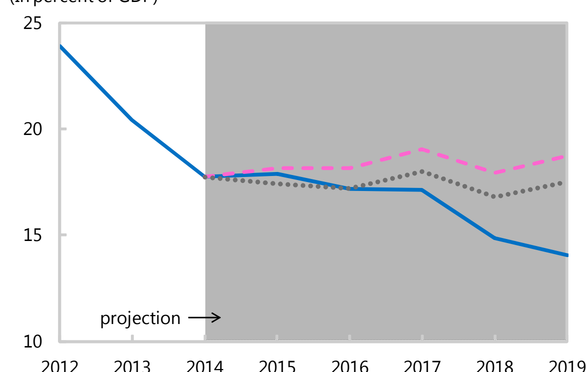
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(In percent of GDP)



Public Gross Financing Needs
(In percent of GDP)



Underlying Assumptions
(In percent)

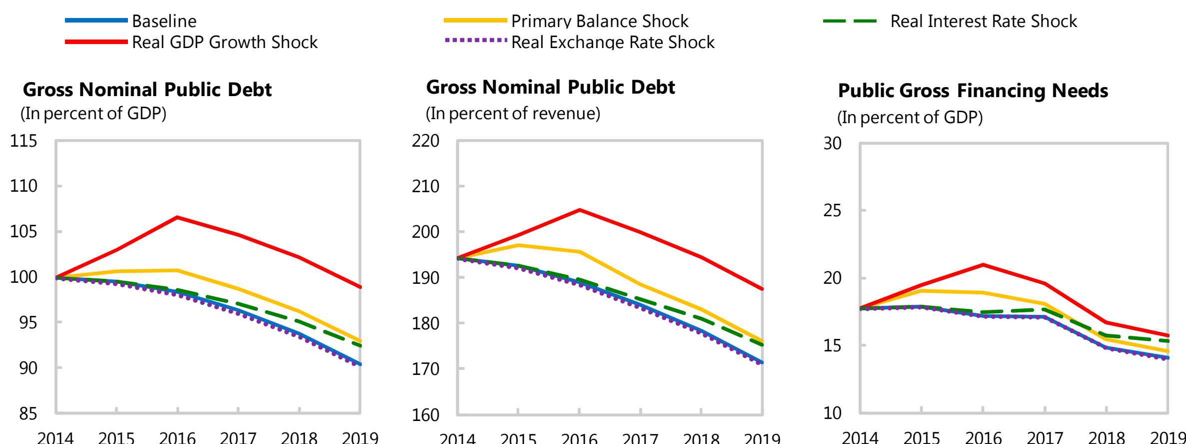
Baseline Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.1	1.2	1.3	1.4	1.4	1.5
Inflation	1.3	1.3	1.3	1.4	1.4	1.4
Primary Balance	0.6	0.8	1.4	2.0	2.7	3.4
Effective interest rate	3.3	3.2	3.2	3.2	3.3	3.3
Constant Primary Balance Scenario						
Real GDP growth	1.1	1.2	1.3	1.4	1.4	1.5
Inflation	1.3	1.3	1.3	1.4	1.4	1.4
Primary Balance	0.6	0.6	0.6	0.6	0.6	0.6
Effective interest rate	3.3	3.2	3.2	3.2	3.2	3.3

Historical Scenario	2014	2015	2016	2017	2018	2019
Real GDP growth	1.1	1.3	1.3	1.3	1.3	1.3
Inflation	1.3	1.3	1.3	1.4	1.4	1.4
Primary Balance	0.6	1.2	1.2	1.2	1.2	1.2
Effective interest rate	3.3	3.2	3.3	3.3	3.4	3.4

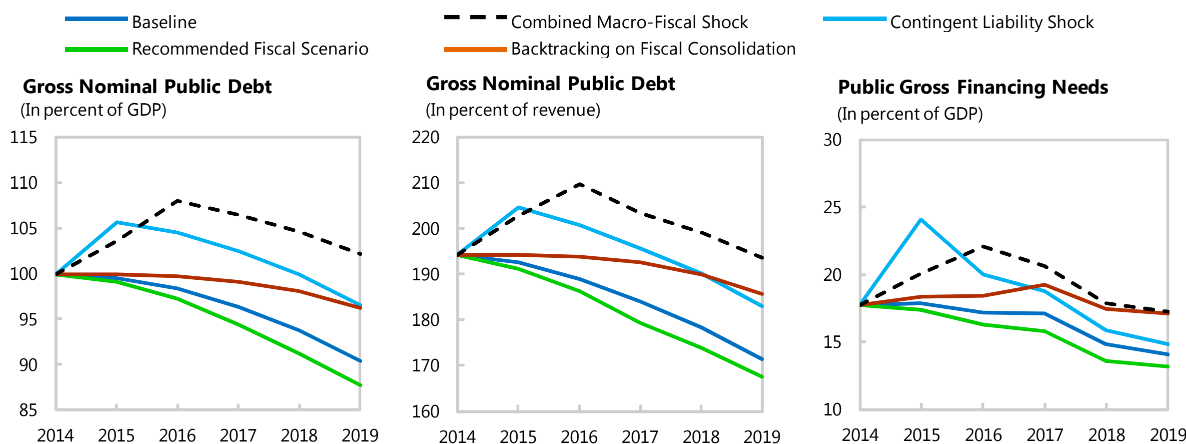
Source: IMF staff.

Belgium Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(In percent)

Primary Balance Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	1.1	1.2	1.3	1.4	1.4	1.5
Inflation	1.3	1.3	1.3	1.4	1.4	1.4
Primary balance	0.6	-0.4	0.2	2.0	2.7	3.4
Effective interest rate	3.3	3.2	3.2	3.3	3.3	3.3
Real Interest Rate Shock						
Real GDP growth	1.1	1.2	1.3	1.4	1.4	1.5
Inflation	1.3	1.3	1.3	1.4	1.4	1.4
Primary balance	0.6	0.8	1.4	2.0	2.7	3.4
Effective interest rate	3.3	3.2	3.5	3.7	3.9	4.1
Combined Shock						
Real GDP growth	1.1	-0.7	-0.5	1.4	1.4	1.5
Inflation	1.3	0.8	0.8	1.4	1.4	1.4
Primary balance	0.6	-0.9	-1.5	2.0	2.7	3.4
Effective interest rate	3.3	3.2	3.5	3.7	3.9	4.1

Real GDP Growth Shock	2014	2015	2016	2017	2018	2019
Real GDP growth	1.1	-0.7	-0.5	1.4	1.4	1.5
Inflation	1.3	0.8	0.8	1.4	1.4	1.4
Primary balance	0.6	-0.4	-0.9	2.0	2.7	3.4
Effective interest rate	3.3	3.2	3.2	3.3	3.3	3.4
Real Exchange Rate Shock						
Real GDP growth	1.1	1.2	1.3	1.4	1.4	1.5
Inflation	1.3	1.6	1.3	1.4	1.4	1.4
Primary balance	0.6	0.8	1.4	2.0	2.7	3.4
Effective interest rate	3.3	3.2	3.2	3.2	3.3	3.3
Contingent Liability Shock						
Real GDP growth	1.1	1.2	1.3	1.4	1.4	1.5
Inflation	1.3	1.3	1.3	1.4	1.4	1.4
Primary balance	0.6	-5.2	1.4	2.0	2.7	3.4
Effective interest rate	3.3	3.4	3.1	3.2	3.3	3.3

Source: IMF staff.

INTERNATIONAL MONETARY FUND

BELGIUM

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 19, 2014

Prepared By | European Department

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FUND RELATIONS

(As of December 31, 2013)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	4,605.20	100.00
Fund Holding of Currency (Exchange Rate)	3,381.79	73.43
Reserve Tranche Position	1,223.45	26.57
Lending to the Fund		
New Arrangements to Borrow	1,002.71	

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	4,323.34	100.00
Holdings	4,137.13	95.69

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

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

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.26	0.27	0.27	0.27	0.27
Total	0.26	0.27	0.27	0.27	0.27

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments: Not applicable

Exchange Rate Assessments:

- Belgium's currency is the euro, which floats freely and independently against other currencies.

- Belgium has accepted the obligations under Article VIII, Section 2(a) and 3, and maintains an exchange system free of restrictions on payment and transfers for current international

transactions except for restrictions maintained solely for security reasons. These measures are established by the European Union regulation, and have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Last Article IV Consultation:

The last Article IV consultation was concluded on May 10, 2013. The associated Executive Board assessment is available at http://www.imf.org/external/np/sec/pn/2013/pn1355.htm and the staff report (IMF Country Report No. 13/123) at http://www.imf.org/external/pubs/ft/scr/2013/cr13123.pdf. Belgium is on the standard 12-month consultation cycle.

FSAP Participation and ROSC:

- **Belgium: Financial System Stability Assessment, including Reports on the Observance of Standards and Codes on the following topics: Banking Supervision and Regulation, and Insurance Supervision and Regulation** — IMF Country Report No. 13/124

Summary: During the 2013 FSAP Update, staff assessed progress with the implementation of the 2006 FSAP recommendations. The report outlines that the authorities have made progress in addressing the recommendations of the 2006 FSAP but many recommendations in the area of conglomerate supervision and governance remain relevant. The new institutional model is a work in progress and better communication and coordination between supervisory institutions is needed. Improvements are evident in the intensity of banking supervision and the adoption of analytical tools to support system-wide monitoring, including the introduction of an intensive process for determining Pillar II capital requirements, liquidity stress testing for the banking sector, and introduction of macrofinancial risk dashboard to monitor systemic and emerging risk. Funding and risk management standards are being improved. Supervisory tools for monitoring group-wide risks need to be upgraded. The crisis management framework, while updated for handling systemic firms, is in need of a further upgrade owing in part to EU-wide developments.

Insurance supervision has been significantly strengthened although further work is needed, particularly, in strengthening the solvency framework. Both bank and insurance supervisory frameworks integrate vertical analyses of individual insurers with horizontal review of the sector. The adoption of the new institutional architecture has allowed the FSMA to focus solely on market and business conduct and the adoption of EU directives in the interim has addressed many of the recommendations for the securities sector. The FSMA's plan to adopt a risk-based approach to conduct supervision must be adequately resourced. Pension regulation and supervision has been

strengthened. While pension funds remain the remit of the FSMA, there is currently a debate as to whether this should be the responsibility of the NBB.

Belgium: Report on Observance of Standards and Codes—Fiscal Transparency Module	IMF Country Report No. 08/116

Summary: The report found that in many areas Belgium meets, and in some cases exceeds, the requirements of the fiscal transparency code. The basic government finance processes are supported by a sound institutional and legal framework. Roles and responsibilities in the budget process are clear, with a well-defined separation of powers between the executive and legislature. Fiscal information is provided through regular publications and extensive use of the internet. Budget formulation is appropriately supported by medium-term macroeconomic forecasts and clearly formulated medium-term fiscal policy goals, and fiscal policy is presented clearly, and in a medium-term context. Finally, audit processes are extensive and help improve budget management decisions, practices and standards, with government financial decisions evaluated ex ante and ex post by various institutions.

There is room to improve the quality and openness of budget processes: (i) there is limited insight about the objectives and targets of government expenditure; (ii) the medium-term budget estimates need to make budgetary decision-making more oriented to the medium-term; (iii) the presentation of new policy measures and their medium-term costs could be clarified; (iv) and budget implementation by departments and agencies could be streamlined. Information available to the public on the following topics could be increased: (i) fiscal risk and tax expenditures in budget documents; (ii) in-year budgetary data on local government and agencies; (iii) the content of the final government accounts; and (iv) the governance of state-owned equity holdings.

Institutional arrangements for fiscal policy coordination could be strengthened by (i) reinforcing and expanding the role of the High Council of Finance, including by providing additional institutional safeguards as to its continuity and independence, and having the Council cover all important issues bearing on fiscal policy; and (ii) converting the budget agreements between the federal government, regions, and communities into published agreements which specify the targeted balance for each partner and identify the measures needed to achieve this target.

Finally, internal audit processes could be better coordinated and simplified by reducing the number of internal control and audit layers—which makes the Court of Audit's recent Single Audit initiative to minimize overlap, coordinate work programs, and to share common data and analysis, particularly timely.

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

In line with the relevant IMF Board decisions, a full reassessment of Belgium's AML/CFT framework is required. Belgium was last assessed in 2005 by the Financial Action Task Force (FATF), a new assessment by the FATF is tentatively scheduled for June 2014. The 2005 assessment found that, overall, Belgium's AML/CFT framework largely complied with the standard. This was, in particular, the case with respect to the criminalization of money-laundering and terrorist financing. Shortcomings were nevertheless identified, notably with respect to the supervision of nonbank financial institutions, transparency of beneficial ownership and control of legal entities, regulation of designated nonfinancial businesses and professions, and to the freezing of terrorist assets. Since 2005, it appears that the authorities have taken steps to address these shortcomings. As reported by the Belgian authorities to the FATF, these steps include measures to reinforce the framework for the freezing of terrorist assets (2006), and the adoption of a new AML/CFT law (2010).

STATISTICAL ISSUES

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

Belgium adopted the European System of Integrated Economic Accounts 1995 (ESA95) in 1999. Revisions of national accounts started in November 2005 to comply with EUROSTAT requirements and prepare for the adoption of chain-linked national accounts statistics. Unlike in other countries, the NBB is responsible for compiling national accounts statistics. Quarterly accounts are published within a lag of three months. Both annual and quarterly accounts data are of good quality, with shortcomings mainly related to export and import deflators, which are based on unit values, rather than prices collected directly from exporters and importers.

Belgium compiles and publishes a complete set of general government accounts on an accrual basis (ESA95). The NBB publishes annual and quarterly data on general government revenue, expenditure, and net lending/ borrowing; transactions in financial assets and liabilities and a financial balance sheet data; and details on the consolidated gross debt.

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

Key publicly accessible websites for macroeconomic data and analysis are:

National Statistical Portal
  www.belgostat.be
National Statistics Institute
  www.statbel.fgov.be
National Bank of Belgium
  www.nbb.be
Federal Planning Bureau
  www.plan.be
High Council of Finance
  www.docufin.be
Central Economic Council
  www.ccecrb.fgov.be

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

(As of 1/23/2014)	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	1/22/14	1/23/14	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/13	1/14	M	M	M
International Investment Position	2012	6/13	A	A	A
Reserve/Base Money	12/13	1/14	M	M	M
Broad Money	12/13	1/14	M	M	M
Central Bank Balance Sheet	12/13	1/14	M	M	M
Consolidated Balance Sheet of the Banking System	12/13	1/14	M	M	M
Interest Rates[2]	1/22/14	1/23/14	D	D	D
Consumer Price Index	12/13	1/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2013:Q3	1/14	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[5]	2013:Q3	1/14	Q	A	A
Stock of Central Government Debt	12/13	1/14	M	M	M
External Current Account Balance	2013:Q3	1/14	Q	Q	Q
Exports and Imports of Goods and Services	2013:Q3	1/14	Q	Q	Q
GDP/GNP	2013:Q3	1/14	Q	Q	Q
Gross External Debt	2013:Q3	1/14	Q	Q	Q

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

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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Belgium

On March 5, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belgium.

The strong financial position of the non-financial private sector and economic integration with Germany dampened the impact of the crisis, but recovery from the stagnation of 2012–13 has been slow, as in much of Europe. As private consumption and investment should respond positively to improved external conditions, real GDP is expected to grow by just over 1 percent and the negative impulse from fiscal consolidation is expected to be limited in 2014. However, projected economic growth would still be insufficient to reduce the unemployment rate. The reduction of value-added tax on energy should keep headline inflation at around 1 percent, below core inflation.

Notwithstanding its resilience, the economy has lost competitiveness since 2005, due to lower productivity and higher wage growth than in peer countries. In response, the government has taken measures to close the wage gap relative to the three main trade partners (Germany, France, and the Netherlands). In order to make the economy more productive and adaptable, the government has also taken steps to reform unemployment, pension, and pre-pensions benefits. But there is scope for further and deeper reforms of labor and product markets.

Fiscal consolidation continues at a steady pace. In 2012–13, the structural fiscal deficit was reduced by 1.1 percent of GDP and the headline deficit is expected to come down to 2.7 percent of GDP in 2013. The government's sale of its 25 percent share in BNPP Fortis helped keep the debt ratio just below the 100 percent in 2013. Additional structural adjustment of 3.3 percent of GDP is needed to meet the government's medium-term fiscal objective. A burden sharing

[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.

agreement clarifies the fiscal adjustment responsibilities of the federal and regional governments toward that objective.

Banks have largely completed the process of balance sheet repair but face the challenge of low profitability and adaptation to regulatory changes. Reductions in cross-border exposures and sales of foreign subsidiaries have reduced the balance sheet of banks from 410 percent of GDP in 2008 to 268 percent in mid–2013. Improved liquidity and solvency positions have strengthened banks' capacity to absorb shocks, but profitability has been weak due to low interest margins and high operating costs. The supervisory and regulatory frameworks are being strengthened, notably with a new draft banking law which restrains trading activities and improves the recovery and resolution framework, including by increasing buffers for depositor protection.

Executive Board Assessment[2]

Executive Directors commended the efforts undertaken by the authorities to restore financial stability, consolidate public finances, increase labor market participation, and strengthen cost competitiveness. Notwithstanding these efforts, Directors noted that significant challenges remain, and called for a comprehensive strategy to overcome remaining impediments to sustainable growth, risks to debt sustainability, persistently high unemployment rates, and the deterioration in external competitiveness. They recommended measures to put the public finances on a sustainable footing, including by making social spending more efficient, inclusive of pensions; reducing labor and product market rigidities; and safeguarding financial stability.

Directors suggested that a steady pace of structural fiscal adjustment would help to create fiscal space to address the cost of an ageing population and undertake productivity enhancing investment, while placing the debt ratio on a sustainable path. They recommended rebalancing consolidation toward expenditure measures, with emphasis on reducing current spending and safeguarding critical investment spending, and away from taxation of labor income toward indirect and environmental taxes. Directors welcomed the adoption of new fiscal rules, consistent with the European Union fiscal compact, which entail appropriate burden sharing between national and sub-national governments.

Directors commended the recent improvement in financial sector stability and resilience through the strengthening in the supervisory and regulatory framework of the banking system, in line with Financial Sector Assessment Program (FSAP) recommendations. They welcomed the tightening of capital requirements on mortgage lending, which will help dampen upward

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

pressure on real estate prices, and the considerable efforts undertaken to repair and strengthen bank balance sheets. In light of the current low-profit environment, Directors called for regular monitoring of banks' business models and asset portfolios, with a view to ensuring that capital positions are strengthened in line with Basel III requirements. They looked forward to prompt parliamentary approval of the draft banking law, designed to curtail risky trading activity and improve the recovery and resolution framework.

Directors underscored the critical role of structural reforms for restoring external competitiveness and increasing potential growth. They advised that wage setting should better reflect productivity developments and domestic and regional labor market conditions.

Directors encouraged continued reforms to promote labor mobility and adaptability, raise employment rates, eliminate barriers to competition, further reduce utility costs, and lighten the heavy burden of regulation.

Belgium: Selected Economic Indicators, 2009–19

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
					Projections						
	(Percentage change from the previous period; unless otherwise indicated)										
Real economy											
Real GDP	-2.8	2.3	1.8	-0.1	0.2	1.1	1.2	1.3	1.4	1.4	1.5
Domestic demand	-2.2	1.9	2.0	-0.6	-0.3	0.9	1.2	1.3	1.5	1.4	1.5
Private consumption	0.6	2.8	0.2	-0.3	0.5	1.0	1.1	1.4	1.5	1.5	1.7
Public consumption	1.9	0.6	0.7	1.4	1.0	0.6	0.5	0.6	0.6	0.4	0.4
Gross fixed investment	-8.4	-1.1	4.1	-2.0	-2.5	0.6	2.0	2.2	2.4	2.3	2.4
Business investment	-10.2	-3.1	7.2	-2.1	-0.6	1.6	2.2	2.4	2.5	2.7	2.8
Public investment	9.8	-2.1	7.1	2.5	-10.3	-3.6	3.9	4.3	4.6	1.6	1.7
Dwellings	-8.6	3.6	-3.2	-3.2	-4.5	-0.7	1.0	1.1	1.2	1.4	1.6
Stockbuilding[1]	-1.1	0.5	0.9	-0.4	-0.3	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance[1]	-0.6	0.5	-0.2	0.4	0.5	0.2	0.0	0.0	0.0	0.0	0.0
Exports, goods and services	-9.4	8.1	6.4	1.8	0.7	2.2	2.5	3.1	3.4	3.5	3.5
Imports, goods and services	-8.8	7.5	6.8	1.3	0.2	2.0	2.5	3.2	3.4	3.5	3.6
Household saving ratio (in percent)	18.0	15.1	14.0	15.1	15.2	15.6	15.7	15.9	15.9	16.0	16.2
Potential output growth	1.2	1.1	1.0	0.9	1.0	1.0	1.1	1.1	1.2	1.2	1.3
Output gap (in percent)	-1.5	-0.3	0.5	-0.6	-1.4	-1.3	-1.2	-1.0	-0.7	-0.5	-0.3
Employment											
Unemployment rate	7.8	8.2	7.3	7.6	8.6	9.1	9.0	8.8	8.6	8.3	8.1
Employment	-0.2	0.7	1.4	0.2	-0.3	0.1	0.4	0.5	0.6	0.6	0.6
Prices											
Consumer prices	0.0	2.3	3.4	2.6	1.2	1.1	1.2	1.3	1.4	1.4	1.4
GDP deflator	1.2	2.1	2.0	1.9	1.4	1.3	1.3	1.3	1.4	1.4	1.4
	(Percent of GDP; unless otherwise indicated)										
Public finance											
Revenue	48.1	48.7	49.6	51.0	51.5	51.5	51.7	52.1	52.3	52.5	52.7
Expenditure	53.7	52.6	53.5	55.0	54.4	53.9	53.8	53.6	53.2	52.7	52.2
General government balance[2]	-5.6	-3.7	-3.7	-4.0	-2.7	-2.4	-2.1	-1.4	-0.8	-0.1	0.6
Structural balance	-4.3	-3.7	-3.7	-3.4	-2.6	-2.0	-1.5	-1.0	-0.4	0.1	0.7
Structural primary balance	-0.7	-0.3	-0.4	0.1	0.7	1.1	1.6	2.1	2.6	3.1	3.7
Primary balance	-1.9	-0.4	-0.4	-0.5	0.6	0.8	1.0	1.6	2.2	2.9	3.6
General government debt	95.7	95.7	98.0	99.8	99.7	99.9	99.5	98.4	96.3	93.8	90.4
Balance of payments											
Trade balance	1.3	1.2	-1.0	-0.8	-0.3	0.1	0.2	0.3	0.4	0.5	0.5
Current account	-0.6	1.9	-1.1	-2.0	-1.7	-1.3	-1.0	-0.7	-0.4	-0.1	0.2
Terms of trade (percent change)	3.5	-2.1	-1.5	-1.8	0.4	0.0	0.2	0.2	0.2	0.2	0.1
Exports, goods and services (volume, percent change)	-10.9	8.5	4.4	-0.9	2.3	2.2	2.5	3.1	3.4	3.5	3.5
Imports, goods and services (volume, percent change)	-12.1	6.8	5.1	-1.3	0.6	2.0	2.5	3.2	3.4	3.5	3.6
Memorandum items											
Nominal GDP (in billions of euros)	341	356	369	376	382	391	401	411	423	435	447
Population (in millions)	10.8	10.8	11.0	11.1	11.2	11.2	11.2	11.3	11.4	11.5	11.5

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

[1] Contribution to GDP growth.

[2] Defined as in the Excessive Deficit Procedure.