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Belgium: 2002 Article IV Consultation—Staff Report; Staff Supplement; and Public Information Notice on the Executive Board Discussion

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

- the staff report for the Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **December 2, 2002,** 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 January 28, 2003.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff supplement of **February 19, 2003** updating information on recent developments.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its February 21, 2003 discussion** of the staff report that concluded the Article IV consultation.

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

Selected Issues Paper

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

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BELGIUM

Staff Report for the 2002 Article IV Consultation

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January 28, 2003

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I. INTRODUCTION

1. At the conclusion of the previous consultation on March 1, 2002 .Directors commended the authorities on their steadfast efforts to consolidate the fiscal position. They emphasized, however, that tight spending control would be needed to ensure a surplus position and make room for sustainable reductions in the tax burden. Directors underscored that a more vigorous program of labor and product market reform would be crucial to enhancing medium-term growth prospects. They encouraged the authorities to press forward with reform of financial-sector supervision, and welcomed their readiness to undertake an FSAP.

2. The six-party federal coalition took office in 1999, and elections are scheduled for May 18. Belgium has accepted the obligations of Article VIII (Appendix I), and passed legislation to comply with the OECD Convention on Combating Bribery in April 1999. An FSAP has been tentatively scheduled for 2004. The authorities have notified the Managing Director that they intend to publish this staff report.

II. BACKGROUND TO THE DISCUSSIONS[1]

3. **Economic activity troughed in the fourth quarter of 2001 and recovered gradually in 2002** (Table 1, Figure 1). Reflecting worldwide weakness, especially in Belgium's major trading partners (Germany, the Netherlands, and France), export-market growth fell from 12.1 percent in 2000 to only 0.6 percent in 2001. Export markets shrank by 1 percent in 2002. This external shock rippled through the economy (Figure 2): the Belgian stock market fell in tandem with those elsewhere; household consumption, especially of durables, was weak; business fixed investment fell in both 2001 and 2002 and there was considerable destocking, as business confidence, a leading indicator, fell sharply. In 2002, employment began to decline and unemployment to rise (Figure 3).

4. **Consumer price inflation eased (to 1½ percent) in 2002, especially relative to the euro area, largely reflecting special factors** (Figure 4). The elimination of the television-radio tax in Flanders and Brussels cut the price level by ¼ percent, and falls in electricity prices reduced the price index by 0.1 percent. The introduction of the euro appears to have had a smaller one-time effect on prices than reported in some other countries, perhaps due to

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[1] A staff team comprising Messrs. Ford (head) and Bell, and Ms. Zhou (all EU1) visited Brussels during November 22 to December 2, 2002 for discussions. Mr. Kiekens, Executive Director, and Mr. Josz, Assistant to the Executive Director, also attended the meetings. The mission met with the Prime Minister; the central bank governor; the head of the Financial Intelligence Unit; staffs of the ministries of Budget, Finance, Labor, Economics, Social Affairs, and Foreign Affairs; the High Finance Council; the Central Economic Council; representatives of the regions and communities; labor unions, business organizations, and private-sector economists.

the competitive structure of the Belgian retail sector.[2] Recently revised data imply that labor costs have grown broadly in line with those of Belgium's three main trading partners, thus preserving a strong international competitive position (Figure 5).

5. **The policy mix has been characterized by supportive monetary conditions and a tight fiscal stance**. The monetary conditions index remains well below its historical average, despite the appreciation of the euro in 2002, and the European Central Bank lowered its policy rate a further 50 basis points last December (Figure 6). This stance appears appropriate for Belgium, which like the euro area as a whole has an output gap that is projected to rise somewhat further in 2003 (Figure 1).[3] On the fiscal side, the government's policy has been to avoid a budget deficit, even in the face of the economic slowdown, in order to protect fiscal credibility in the light of the still-large public debt (over 105 percent of GDP in 2002) and a poor historical fiscal record. As a result, cyclically adjusted balances improved by some ¾ percent of GDP in both 2001 and 2002, although the effect on domestic demand was mitigated by a small multiplier.[4]

III. Policy Discussions

6. The discussions took place against the uncertain prospects of a cyclical recovery and agreement that policies needed to achieve the fundamental medium-term goals of further fiscal consolidation and higher participation and employment rates.

- **On fiscal policy**, in the past five years, the Fund has advised strengthening the public finances by reaching budget balance and aiming for a sustainable surplus position. To this end, it has recommended reducing real primary expenditure growth to 1½ percent a year, in the context of a medium-term fiscal framework. Remarkable progress was made during the past two decades in mastering budget deficits, reflecting, until recently, rising primary surpluses and lower debt-service costs (Figure 7). In 2000, the budget reached a small surplus. However, real primary spending has grown some 2¼ percent a year, due principally to social security and non-federal (Entity 2) spending.

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[2] For example, Belgium has 122 supermarkets per million people, compared to 53 in western Europe.

[3] Also, monetary transmission mechanisms seem similar in Belgium and the euro area. See Benedict Clements, Zenon Kontolemis, and Joaquim Levy, "Monetary policy under EMU: Differences in the transmission mechanisms?", IMF WP/011/02, and the ECB *Monthly Bulletin*, October 2002.

[4] According to the Oxford Economic Forecasting model, reducing the deficit by 1 percent of GDP would lower GDP by only ¼ percent.

- **Regarding structural reform**, the Belgian labor market has in many respects performed comparatively poorly (Figure 8). The Fund has advised reform of the tax system and the social safety net to sharpen work incentives, elimination of incentives for early retirement, and more rapid product market liberalization. Tax cuts (including social security contributions) have been a centerpiece of the authorities' structural policy, reforms have resulted in falling replacement rates for social benefits over time, and early retirement programs have been curtailed. But the social safety net remains perhaps the broadest in Europe, as measured by number of beneficiaries, and many in the 50 to 60 year-old group still face substantial incentives to leave the workforce. The key network industries are being liberalized, though at a slower pace than recommended by the Fund.

A. The Short-Term Outlook

7. **Both the authorities and staff projected a gradual pickup in activity through 2003**. At the time of the mission, staff projected real GDP growth of 2 percent, similar to the 2.1 percent assumed in the 2003 budget. Since then prospects in Germany have deteriorated significantly, leading staff to revise its forecast down to 1.5 percent.[5] This projection is based crucially on an improvement in export-market growth, now projected at 3¼ percent. Domestically, the authorities felt there would be no further destocking and that confidence had been bolstered by their success in avoiding deficits and, indeed, achieving budget surpluses.

8. **There are, however, substantial downside risks**. There are few concrete indicators of stronger growth. The central bank's business confidence measure, widely viewed as a leading indicator for both Belgium and the euro area, showed no upward trend over the past year, and all categories of domestic demand remained weak going into 2003. Ultimately, recovery in Belgium will depend on developments in the other advanced economies, with the key risks being the uncertain international environment and continuing sluggish growth in Germany.

9. **Inflation pressures are set to remain subdued**. Staff estimates the output gap will widen somewhat further in 2003, and the softer labor market should moderate wage demands. The Interprofessional Agreement (IPA), concluded in January, specifies a norm for cumulative wage growth of 5.4 percent in 2003-04, at the middle of the range suggested by the Central Economic Council (CEC).[6] The main risk to the staff inflation projection of 1¼ percent in 2003 is potential developments in world oil prices.

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[5] The January Consensus Forecast is 1.6 percent.

[6] The CEC, a government body, is charged with analyzing past and projected labor-cost growth in Germany, the Netherlands, and France, and recommending a wage norm consistent with preserving international competitiveness. This norm guides subsequent sectoral negotiations.

B. Fiscal Policy

10. **For 2003, the authorities emphasized the importance of achieving budget balance or better, while accepting that subject to this constraint the automatic stabilizers should be allowed to play**. The authorities argued strongly that the re-emergence of a budget deficit would undermine the public perception of the commitment to fiscal prudence, including in capital markets. This conservative approach had, they felt, served them well in past efforts to consolidate the public finances, and would be needed in the future given the still-high public debt, pressures on spending, and the need to achieve a medium-term surplus. Accordingly, the 2003 budget targets balance, while providing further tax cuts (amounting to 0.5 percent of GDP) and introducing reductions in corporate tax rates (Box 1). The latter are combined with other measures in order to be revenue neutral. However, nearly half the offset consists of a delay in the deductibility of investment, which may generate less revenue than expected if firms choose to book investment earlier in the year.[7] Regarding the stabilizers, the authorities noted they had been used to some extent: the surplus in 2001 was eliminated in 2002, and the initial surplus target for 2003 was revised to balance (see Table).

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

Date published	1999	2000	2001	2002	2003	2004	2005
Dec-00	**-0.7**	**-0.1**	0.2	0.3	0.5	0.6	0.7
Dec-01	**-0.7**	**0.1**	**0.0**	0.0	0.5	0.6	0.7
Dec-02	**-0.5**	**0.1**	**0.4**	**0.0**	0.0	0.3	0.5

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

11. **The mission argued that a small cyclical deficit should be allowed to emerge if growth were significantly lower than anticipated**. The mission agreed that budget balance would be consistent with adequate automatic stabilization if projections in the 1½ to 2 percent range were realized. By contrast, in the event 2003 proves to be the third consecutive year of very poor growth, the greater degree of stimulus provided by a deficit would help cushion the economy, even though the multiplier is relatively small. Moreover, the attempt to reach balance under such conditions could require spending cuts, perhaps involving hastily designed and unsustainable measures in the course of the year. The mission conceded that even a small cyclical deficit might raise concerns of credibility, but felt that the past decade of fiscal consolidation had established substantial confidence, and that further assurance in this area would be provided by adopting a medium-term fiscal framework centered on spending ceilings. In addition, past consolidation efforts have bolstered medium-term fiscal

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[7] The long-run effect on revenue is nil, as there is no change in allowed deductions over the life of the asset.

Box 1. 2003–04 Fiscal Measures

The 2003 budget targets budget balance, assuming real GDP growth of 2.1 percent. Tax cuts are projected to reduce revenue by ½ a percent of GDP, to be offset by an equal decline in interest costs on the public debt:

- Personal income taxes are cut by 0.4 percent of GDP, reflecting a lowering of the top rate from 52.5 to 50 percent; the compensation for bracket creep; higher tax deductions for professional expenditures; the final stage of the phase out of the "crisis contribution;" reduction of the "marriage penalty;" and the introduction of an income tax credit for low-wage earners.

- A further cut in social security contributions, costing 0.2 percent of GDP.

- Reduction in statutory rates for corporate income taxes from a range of 39 to 28 percent, depending on the company's turnover, to 33 to 24⅓ percent. The cost (0.4 percent of GDP) is to be fully offset by a number of measures: the deductibility of investment expenditure will now coincide with the actual booking of the investment (previously investment booked at the end of the year was eligible for full 12-month deduction); existing tax facilities for multinational companies (the so called coordination centers) will be more strictly enforced; higher taxes will be levied on profits from company liquidations; the federal tax deductibility of regional taxes will be eliminated; and tax evasion in general will be attacked.

- Excise taxes on cigarettes are raised by 0.1 percent of GDP (including the cascading effect on the VAT). Local government real-estate taxes are also increased.

The main primary spending increases are: the Belgian contribution to the EU (0.1 percent of GDP); health expenditure (by 0.2 percent of GDP, equivalent to a real increase of 5 percent); and partial compensation for the decline in pensions relative to wages due to the indexation of pensions to prices. These increases are to be offset by control in other budgetary sectors.

In 2004, the next phase of the multiyear tax reform is scheduled. Additional corrections for bracket creep and the elimination of the marriage penalty will reduce income taxes by 0.2 percent of GDP (further cuts of 0.3 percent of GDP and 0.4 percent of GDP are scheduled for 2005 and 2006, respectively).

sustainability, and staff simulations suggest that the debt-GDP ratio would continue to decline even with large adverse shocks (Appendix III).

12. **Beyond 2003, the mission emphasized expenditure control as the prerequisite for achieving the authorities' objectives of further tax cuts and a budget surplus**. The authorities' policy, most recently articulated in the 2003-05 Stability Program, is to increase the surplus to ½ a percent of GDP by 2005, thereby moving back toward earlier targets after having been thrown off course by the economic slowdown. The staff baseline scenario—which does not include fiscal measures not specifically announced—suggests there may be little progress on increasing the budget surplus through 2007 (Table 2, top panel).[8] The mission thus recommended that real primary spending growth be held to 1½ percent a year. Under this scenario, there is room for the scheduled tax cuts and the emergence of a substantial surplus by 2007 (Table 2, lower panel). As discussed below, building up such a surplus position will be important for dealing with the fiscal costs of population aging.

13. **The authorities agreed on the importance of reining in spending**. A key problem is health-care costs, which had increased in real terms by 4 percent a year in the past five years, and was set to rise by 5 percent in the 2003 budget (reflecting partly a broadening of coverage). New control mechanisms had recently been introduced, but even so the authorities felt that pressures from technological advances and, in time, population aging would only increase. The mission responded that, if so, other areas of spending should be compressed to compensate, and viewed the extensive social welfare system—which accounts for about half of all primary spending—as a prime candidate. The authorities argued that it would be difficult to make large program cuts for fear of increasing poverty and in the absence of social consensus for doing so. They felt that the intensification of other policies to stimulate employment (see below) would cut welfare rolls. However, they did see an important cost-cutting opportunity in the wave of civil-service retirements anticipated in the coming decade, assuming efficiency gains could be made. Indeed, the Finance Ministry has already developed the so-called Coperfin plan to this effect.

14. **The medium-term fiscal challenges will have to be met in the context of fiscal devolution**. The decentralization of fiscal authority has occurred over a number of years, the most recent step being the 2001 Lambermont agreement.[9] As the lower levels of government (Entity 2: the Regions, Communities, and municipalities) now account for 40 percent of

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[8] The scenario assumes a cyclical recovery in output, potential output growth at 2.2 percent a year, achievement of the 2003 budget balance target, real primary spending growth at its recent historical average of 2¼ percent a year, and a constant revenue-GDP ratio except for the tax cuts already announced, notably in 2004. The Federal Planning Bureau reached the broadly similar conclusion that already announced tax cuts would leave no budgetary margin for a surplus.

[9] See the selected issues chapter "Fiscal Devolution in Belgium."

government primary spending, they will clearly need to play a key role in efforts to contain spending growth. Indeed, there is scope for further devolution, as the lower levels of government still face constraints on the revenue side, with most taxes collected by the Federal government and transferred according to agreed formulas. Recognizing that considerable fiscal retrenchment had occurred at the same time as devolution, the mission emphasized the importance of retaining such coordinating institutions as the High Finance Council (a government body which, among other things, coordinates and monitors the federal fiscal system) and the internal stability pact (which commits each level of government to deficits consistent with the national Stability Program).

15. **The mission strongly endorsed a policy to prepare for the fiscal costs of population aging by rapidly reducing the public debt.**[10] Population aging is expected to raise Belgian government spending by some 6¼ percentage points of GDP by 2050, although there would be some offsets. The High Finance Council (which also advises the government on medium-term fiscal issues) developed a scenario of sustained budget surpluses, rising to 1½ percent of GDP by 2010, which reduce the public debt to 23 percent of GDP by 2030. Staff simulations verify that the resulting lower interest payments could cover the costs of population aging, thereby substantially reducing the possibility that taxes would have to be raised. For this policy to be credible, however, staff argued that action to raise the surplus would be required soon, underscoring the need for tight spending control. The mission suggested that pension reform should also be on the table, since it might prove desirable to use some of the resources from debt reduction for other purposes, such as further tax cuts. The authorities were, however, skeptical about the need for further pension reform. They noted that past measures (notably indexation of pensions to prices rather than wages) had already reduced the generosity of old-age pensions (pension spending is currently about 9 percent of GDP).[11] They also pointed to recent measures to promote second-pillar (sectoral) pensions, which the mission welcomed.

C. Labor and Product Markets

16. **The key remaining medium-term structural issue is to raise participation and employment rates, especially among those 50-65 years old.** The authorities explained that a number of reforms had been put in place in the past year. Social security contributions were cut further for firms that hire older workers, and the age threshold for unemployment beneficiaries being exempt from actively seeking a job is being progressively raised to 58 years

[10] This discussion draws on the selected issues chapter "Fiscal strategies for population aging," which describes the cost estimates, presents a range of illustrative long-run scenarios, and provides references to other studies. The Dutch National Institute for Economic Research has elaborated a similar policy for the Netherlands.

[11] Also, estimates of implicit pension liabilities are low by international standards. See Robert Holtzmann, Robert Palacios, and Asta Zviniene (2001) "On the economics and scope of implicit pension debt: an international perspective," *Empirica*, Vol. 28.

old.[12] Beyond this age group, social security taxes for low-paid workers were again reduced, and an earned-income tax credit was introduced. The mission welcomed the tax cuts, but stressed that they would be constrained by the fiscal considerations discussed above. Also, the effectiveness of registration could be limited (and not just for older workers) because employment agencies lack adequate means to verify claimants' search efforts. Staff also raised the possibility that job-subsidy programs might be ineffective, while absorbing budgetary resources that could be better used elsewhere. The authorities agreed that this was possible, and were therefore conducting an evaluation of these programs. There are also important geographical disparities in labor and product-market performance.[13] Indeed, some areas are among the best performers in the EU. Staff noted that improving the prospects of the underperforming areas would be crucial for meeting national objectives for employment and growth.

17. **There was agreement that more needed to be done, especially if substantial progress is to be made toward the Lisbon objectives**. Even though replacement rates are not particularly high by European standards (due in part to their indexation to prices rather than wages), it is widely accepted that the breadth of Belgium's social protection system is wide, covering a very large number of beneficiaries.[14] Staff argued that the benefit system imposed important work disincentives, and its scope should therefore be narrowed. For example, the duration of unemployment insurance benefits is unlimited for many beneficiaries, which might help to explain the high incidence of long-term unemployment. For those over 50, early pension possibilities (including the special unemployment insurance regime) still provided strong incentives for early retirement. As discussed above, the authorities did not see scope for broad cuts to benefit programs, but they were actively seeking further ways to reduce incentives for early retirement.

18. **The mission raised the issue of reforming the centralized bargaining process, with a view to increasing wage flexibility**. This process has three key components: the Interprofessional Agreement (IPA) followed by sectoral negotiations; administrative extension of labor contracts, and indexation of wages to prices during the contract. The mission expressed concern that this structure unduly limited wage differentiation, and resulted in insufficient centralization to fully account for macroeconomic spillovers of wage settlements,

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[12] Other measures include, depending on age, outplacement services when fired, eligibility for the Rosetta plan (normally used to encourage employment of the young), subsidized loans for starting a business, and the possibility of a shorter workweek.

[13] The selected issues chapter "Regional Economic Development in Belgium" documents these disparities and analyzes the historical record of economic development policies. See also "Regional Labor Market Disparities in Belgium," IMF, Working Paper No. 02/134.

[14] See *Analyse des forces/faiblesses de la protection sociale des travailleurs salariés en Belgique*, Ministère des Affaires Sociales, November 8, 2001.

but enough to generate market power.[15] The authorities argued that the IPA sets only a wage norm, and there is therefore room for wage differentiation in sectoral agreements. Labor representatives viewed indexation as nonnegotiable, and business representatives felt a centralized process helped sectors with numerous employers resist wage demands. Both were nevertheless dissatisfied with the process, including the estimate of the norm by the CEC. In part, this reflected concern by employers surrounding data revisions published last November, which reduced estimated wage growth in the past and implied, in contrast to earlier estimates, that labor-cost developments in Belgium had been broadly in line with external ones. Trade unions expressed doubts about the CEC's calculation of 2002 wage drift.

19. **Comprehensive reform will be needed to resolve the longstanding geographical disparities**. Staff noted that the substantial past adjustment to the decline of heavy industry, had been an adverse factor in many areas. Regional representatives agreed, and argued that policies were turning increasingly to promotion of new, knowledge-based enterprises. The authorities also pointed to differences in educational achievement that depress worker productivity in the poorer areas of the country, and to instances of very low labor mobility.[16] The mission welcomed the shift in development policy, but cautioned that incentives should be broad-based, rather than narrowly targeted on presumed "winners." It also pointed to evidence that the relatively large public sector in Wallonia may also have hindered growth. Finally, the mission emphasized the role of employment disincentives. High labor costs and work disincentives are essentially uniform across the country, but they especially affect areas with low productivity, because firms' profitability is likely to be lower and alternatives to welfare benefits less attractive. The latter factor may also explain instances of low labor mobility.

20. **Product-market reforms were continuing, although it was agreed they remain incomplete**. Liberalization of network industries (electricity, telecommunications, and gas) had proceeded at the federal level, largely at the pace set out by the European Commission. And there have been positive results, as prices have been falling rapidly, although they remain above the lowest in the EU. Flanders decided to significantly accelerate the pace by allowing small consumers to choose their supplier of gas and electricity by mid-2003 (large consumers—factories, for instance—can already choose their supplier).

21. **Competitive markets in the network sectors have been slow to develop**. The authorities reported that supply bottlenecks, due to limited transport capacity across national borders, still hinder gas and electricity markets. Electricity liberalization had been complicated by municipalities' reluctance to surrender ownership of the distribution network, from which

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[15] On the drawbacks of such an intermediate position, see the OECD *Employment Outlook*, July 1997, and Alun Thomas "The Costs and Benefits of Various Wage Bargaining Structures: An Empirical Explanation," IMF, Working Paper No. 02/71.

[16] The example often cited is Kortrijk, a prosperous area which attracts workers from France, but not Wallonia.

they derive significant revenue. In telecoms, Belgacom, the former monopoly and 51 percent government-owned, is still by far the dominant supplier of land-line telephony, despite regulations requiring it to lease its lines to new entrants. In part, the lack of entry appears to reflect the difficulty in raising capital in this sector.

22. **Progress has also been made on business environment issues**. The competition authority is now in place, although not yet fully staffed. The authorities recognized the importance of moving rapidly on this front, especially in light of the recent European Commission initiative to devolve considerable authority in competition enforcement to the national level. They noted that Belgian legislation already conforms to EU legislation in this area. Substantial strides have been made in using e-government to reduce firms' administrative burden and increase public-sector efficiency (the latter being important in connection with reducing the size of the civil service in the medium term). Firms now file social security documents electronically, and multiple collection of similar data by different public-sector agencies is to be eliminated by creating a single databank for each firm.

D. Financial Markets

23. **The authorities reported that the banking system has remained sound through the slowdown**. Weak economic activity depressed profits, in part by raising provisioning for nonperforming loans (Table 3), and two bank-insurance firms wrote off large equity losses associated with their insurance businesses. However, capital ratios were strong and there were no sectoral or geographic exposures that had raised concerns. Apart from cyclical issues, banks appeared to have begun more vigorous restructuring to capture the benefits of past mergers.

24. **Reform of financial supervision is now largely in place**. The management structure of the banking supervisor has been overhauled, and the links between it and the central bank strengthened, in part by cross-appointment of directors. Coordination between the banking supervisor, the insurance supervisor, and the central bank is to be enhanced through their membership in two new umbrella bodies, the Supervisory Board of the Financial Services Authority (which is mainly advisory) and the Financial Stability Committee (which discusses issues of common concern to the three agencies). There is agreement to merge the banking and insurance supervisors at the beginning of 2004. Finally, the central bank received a mandate to conduct macroprudential analysis, examining developments affecting the stability performance of the financial system as a whole (as distinct from the situation of specific financial institutions). In this connection, it had published its first financial stability report.

25. **Belgium has a system of modern legislation in place to prevent money laundering and the financing of terrorism**. This legislation conforms to EU directives and the Financial Action Task Force recommendations for anti-money laundering. The authorities intend to proclaim in the first half of 2003 a law making terrorism financing a crime in itself. The authorities reported that they have an extensive system to identify suspicious transactions, of which some 1,100 were reported a month. They claimed ample legal powers to pursue investigations, including access to financial information and police databases. Belgium also has

extensive contacts with other national authorities. The authorities were prepared to undertake a ROSC in this area.

E. Trade Policy and Development Assistance

26. **On trade policy, the authorities support the multilateral trade round**. They viewed the Doha working program favorably, but would have preferred more attention to labor, environmental, and competition policy issues. On agricultural trade issues, responsibility for which has been devolved from the national to the regional level, the authorities noted there had been substantial cuts in EU export subsidies, except in sugar and dairy, for which a timetable was under discussion. The authorities emphasized the need to ensure that subsidy cuts benefited the poorest countries, rather than middle and high-income ones with more efficient production sectors. In the same vein, they argued for preserving preferential access for the poorest countries to EU markets. The authorities generally favored greater access to EU markets, subject to satisfactory guarantees regarding food safety (the EU was prepared to help poorer countries meet safety standards in this area) and animal welfare. They argued that the Belgian economy was well positioned for the liberalization of textile trade scheduled for 2004, but also that tariff peaks elsewhere on high-quality textiles should be cut as well.

27. **The government has committed to raising official development assistance to the UN target of 0.7 percent of GNP**. The move from the current 0.36 percent is to be completed by 2010.

IV. Staff Appraisal

28. **The Belgian economy remained sluggish in 2002, though a gradual recovery is expected in 2003**. Weakness persists in both export markets and domestic demand, and labor markets have softened. Inflation has declined, reflecting slow growth and some special factors. Staff projects real GDP to rise 1½ percent in 2003, as monetary conditions are appropriately supportive and the satisfactory level of external competitiveness should allow Belgium to benefit from a recovery in the world economy. There are significant downside risks, however, associated with the uncertain international environment. Recovery in Belgium depends on an expansion in the rest of the world—particularly Germany—and moderate world oil prices.

29. **In these uncertain conditions, the authorities' objective of budget balance in 2003 might result in another structural tightening**. If downside risks to growth materialize, budget balance would imply the third consecutive year of structural tightening and a significant offset to the automatic stabilizers. In this event, it would be preferable to allow a modest cyclical budget deficit to emerge, to cushion economic activity. The risks to the credibility of fiscal policy would be minimized if such a deficit were clearly seen as an automatic response to persistent economic weakness and if it were accompanied by a convincing plan for medium-term expenditure control—a crucial missing factor to date.

30. **The key fiscal challenge is to contain expenditure**. Holding general government real primary spending growth to an average of 1½ percent a year, although difficult, should allow both further tax cuts to encourage economic incentives and a significant structural surplus to prepare for population aging. Conversely, tax cuts should be implemented only to the extent spending control has created sufficient budgetary room.

31. **Efforts to contain spending will have to be made on a wide front**. All programs should be scrutinized, especially social programs which, as a whole, now absorb about half of overall primary spending. Clear pressure points should be carefully monitored, with greater allocation of resources in one area compensated by cuts elsewhere. Health-care costs have been particularly vulnerable to sustained pressures. Narrowing the scope of the extensive benefit system also holds promise. The inflow into pre-retirement schemes (including the special unemployment insurance regime) should be reduced, especially as the eligible population will expand rapidly in the next few years. The duration of unemployment insurance benefits should be limited, and job-search requirements more vigorously enforced. Finally, the large number of civil-service retirements anticipated in the next decade, together with efficiency increases from computerization, presents an opportunity for spending compression.

32. **Efforts will also have to be made at all levels of government**. Respecting the internal stability pact has become increasingly important as fiscal devolution has placed greater spending authority in the hands of regions and communities.

33. **In the long run, the fiscal situation is dominated by population aging**, which is expected to raise pension and health-care costs significantly. Adopting a policy of rapid debt reduction would be prudent, greatly reducing the possibility of the need for substantial tax hikes in the years ahead. Implementing this policy will require sustained surpluses on the order of 1½ percent of GDP. To be credible, substantial progress toward this figure will be needed in the next few years, underscoring the importance of spending control. At the same time, further pension reform should be actively considered and, in this connection, initiatives to stimulate second-pillar pensions are welcome.

34. **Improving labor-market performance will require a reinvigorated program of structural reform**. Planned further cuts in taxes and social security contributions will reduce labor costs for firms and increase take-home pay for workers. Reducing the scope of government transfers, however, is likely to be the most effective way to sharpen work incentives. For older people, whose labor market participation is particularly low, further progress must be made on reducing incentives to retire early. Ideally, the pension and prepension systems, both public and embodied in labor contracts, should be made as neutral as possible with respect to retirement age. And the various active labor market programs, which have the potential to raise employment, should be carefully evaluated and, if necessary, reformed to ensure their effectiveness.

35. **The pace of product market reform could also be usefully stepped up**. In this regard, other jurisdictions would benefit from adopting Flanders' policy of accelerating the liberalization of gas and electricity markets. The adverse implications for municipalities of competition in electricity distribution should be addressed as soon as possible, so full

liberalization can proceed. The lack of competitive entry into telephone (land lines), gas, and electricity markets is worrisome, since the benefits of the liberalization already in place may not be fully realized. Competition policy and enforcement is also important for a dynamic economy, and fully staffing the competition authority is therefore a priority.

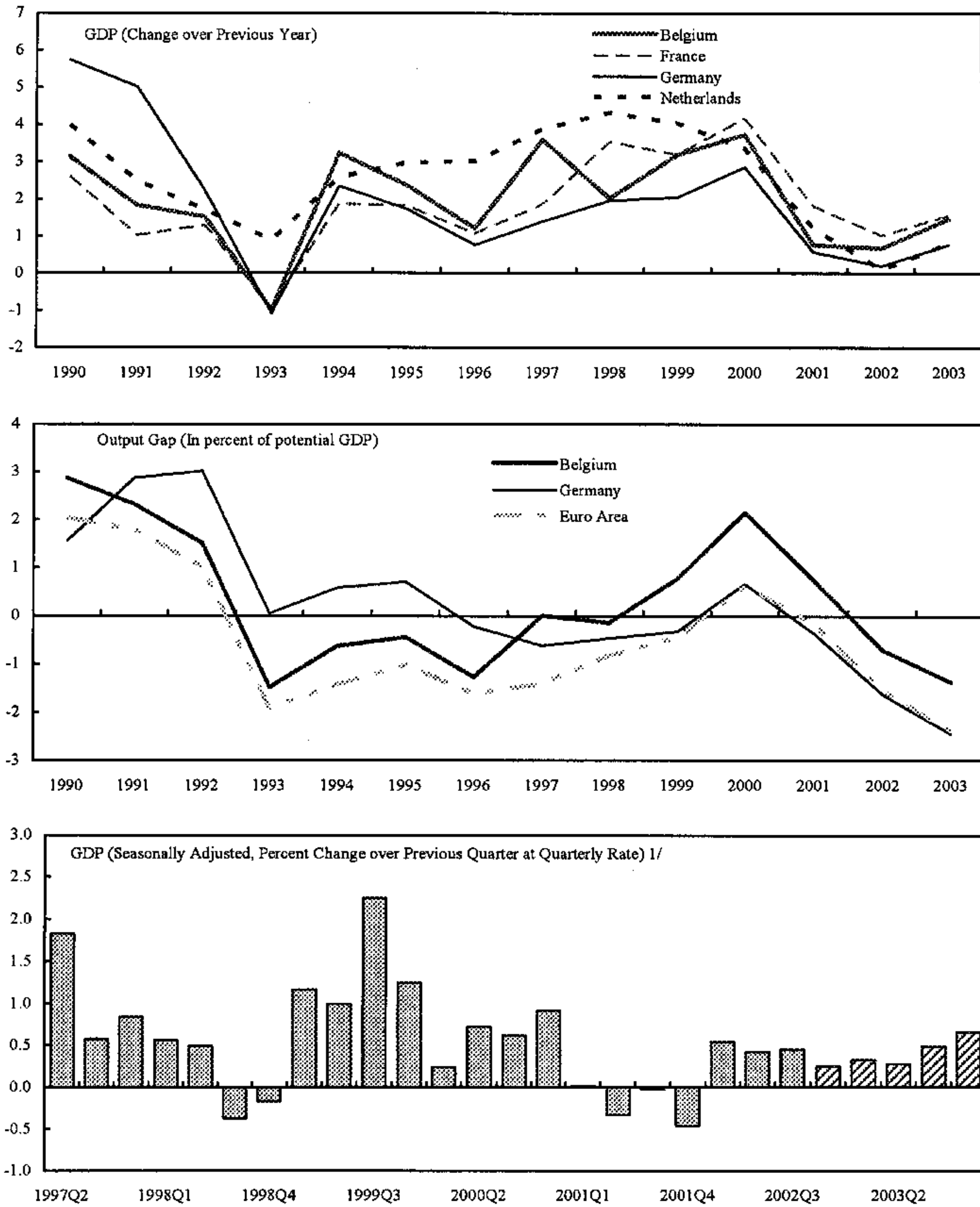
36. **Longstanding geographical disparities also need to be addressed if the full potential of the Belgian economy is to be realized**. Many of the reforms discussed above, by removing impediments to the efficiency of labor and product markets, should help stimulate activity in the weaker areas of the country. Increased emphasis on regional development policies favoring growth, innovation, and business formation should also prove beneficial. Finally, improving educational attainment in disadvantaged areas will be crucial to raising employment and living standards.

37. **The recent reforms to banking supervision are welcome**. The new management structure of the banking supervisor should improve operations and confidence. The closer links among the supervisors, and between them and the central bank, should enhance supervision, in part by increasing the ability to take advantage of the central bank's expertise in macroprudential analysis. Fully exploiting these advantages will require careful implementation of the new structures, and sufficient resources to carry out the new mandates. The agreement to merge banking and insurance supervision should be implemented as planned, especially in view of the important role played by the large bank-insurance firms in the Belgian financial sector.

38. Belgian support for multilateral trade negotiations is welcome, as is the authorities' commitment to raise development assistance to the UN target of 0.7 percent of GNP.

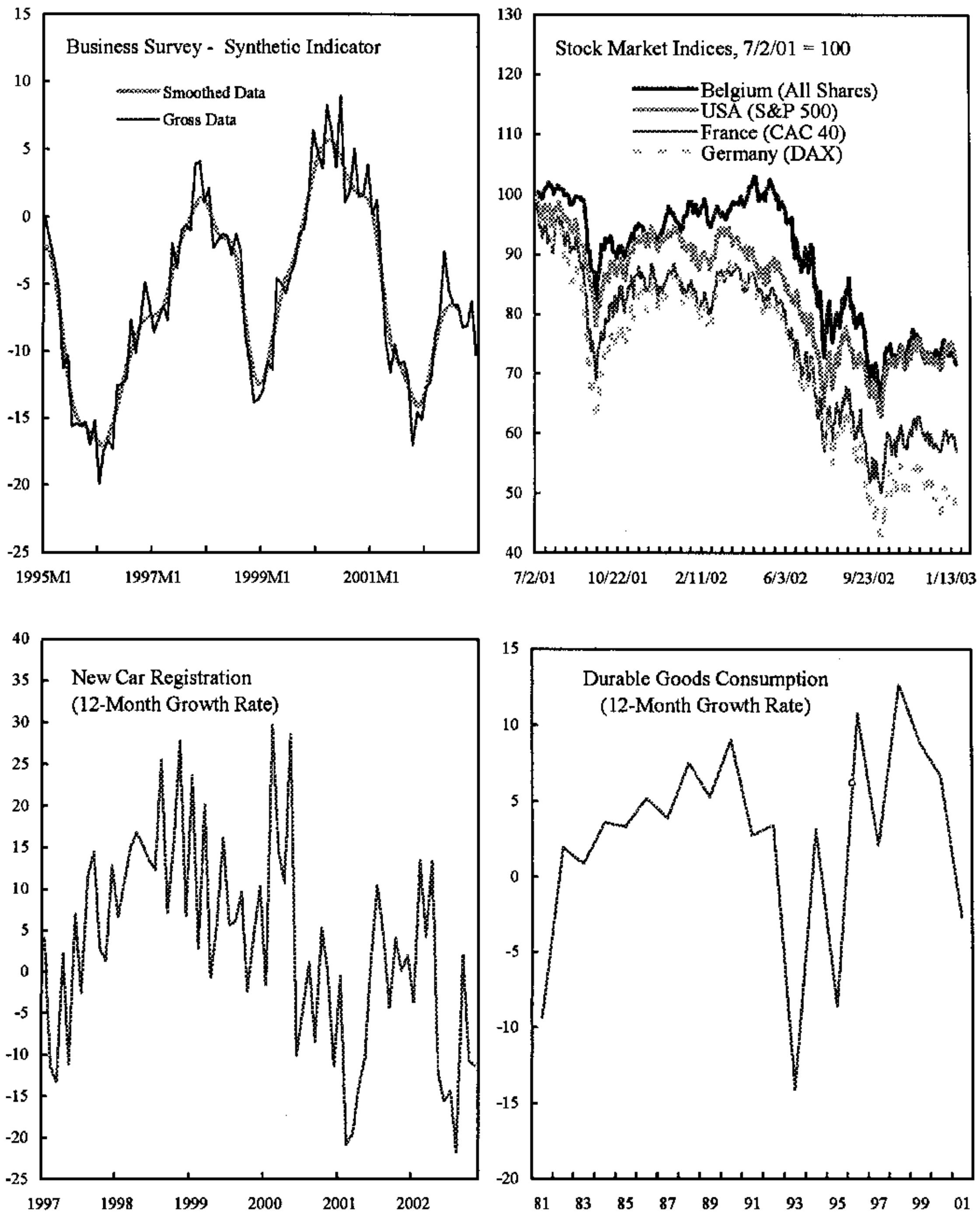
39. It is proposed that the **next Article IV consultation** take place on the standard 12-month cycle.

Figure 1. Belgium: Real GDP



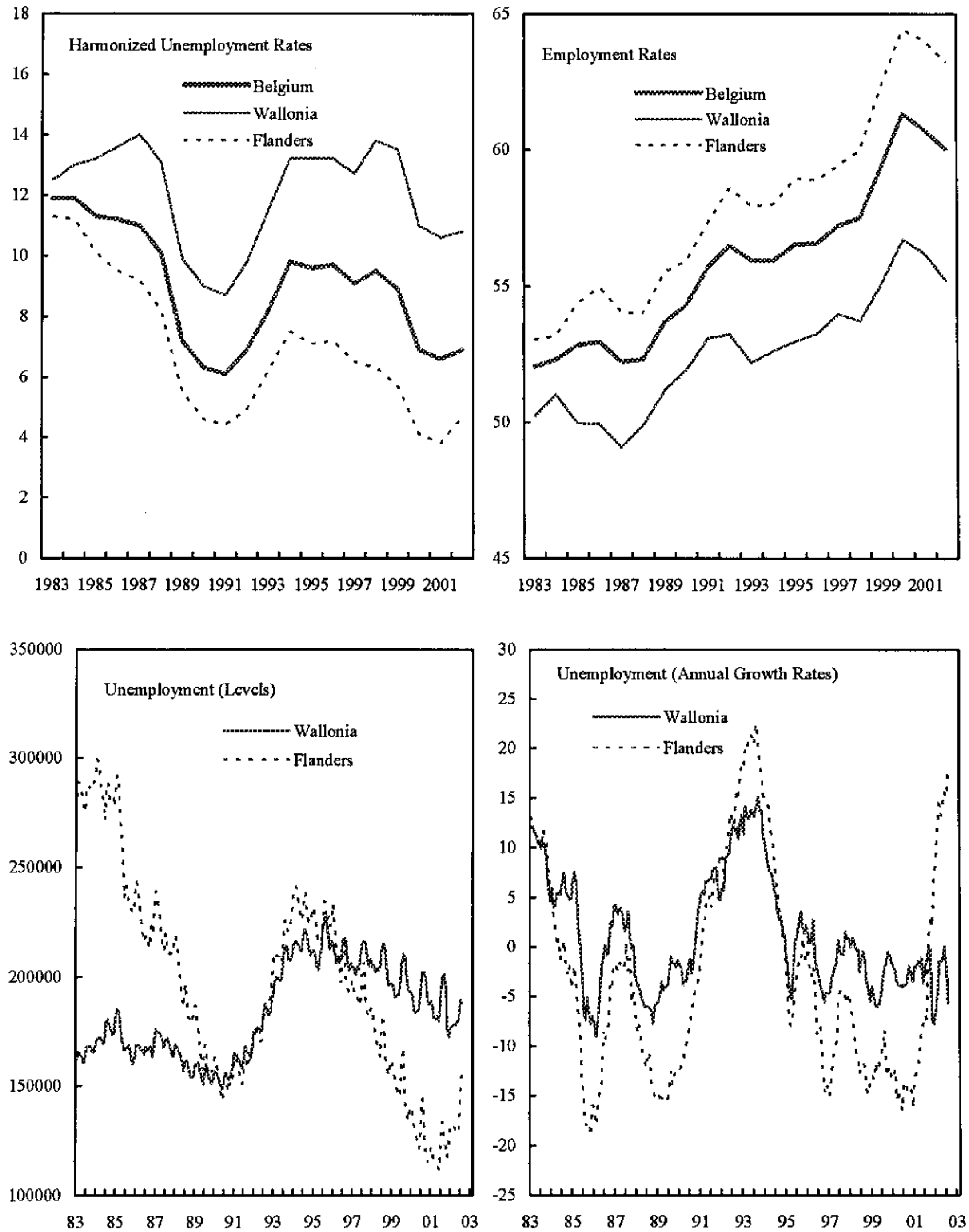
Source: IMF, World Economic Outlook; and data provided by the authorities.
1/ Data for the fourth quarter of 2002 onwards are staff projections.

Figure 2. Belgium: Cyclical Indicators



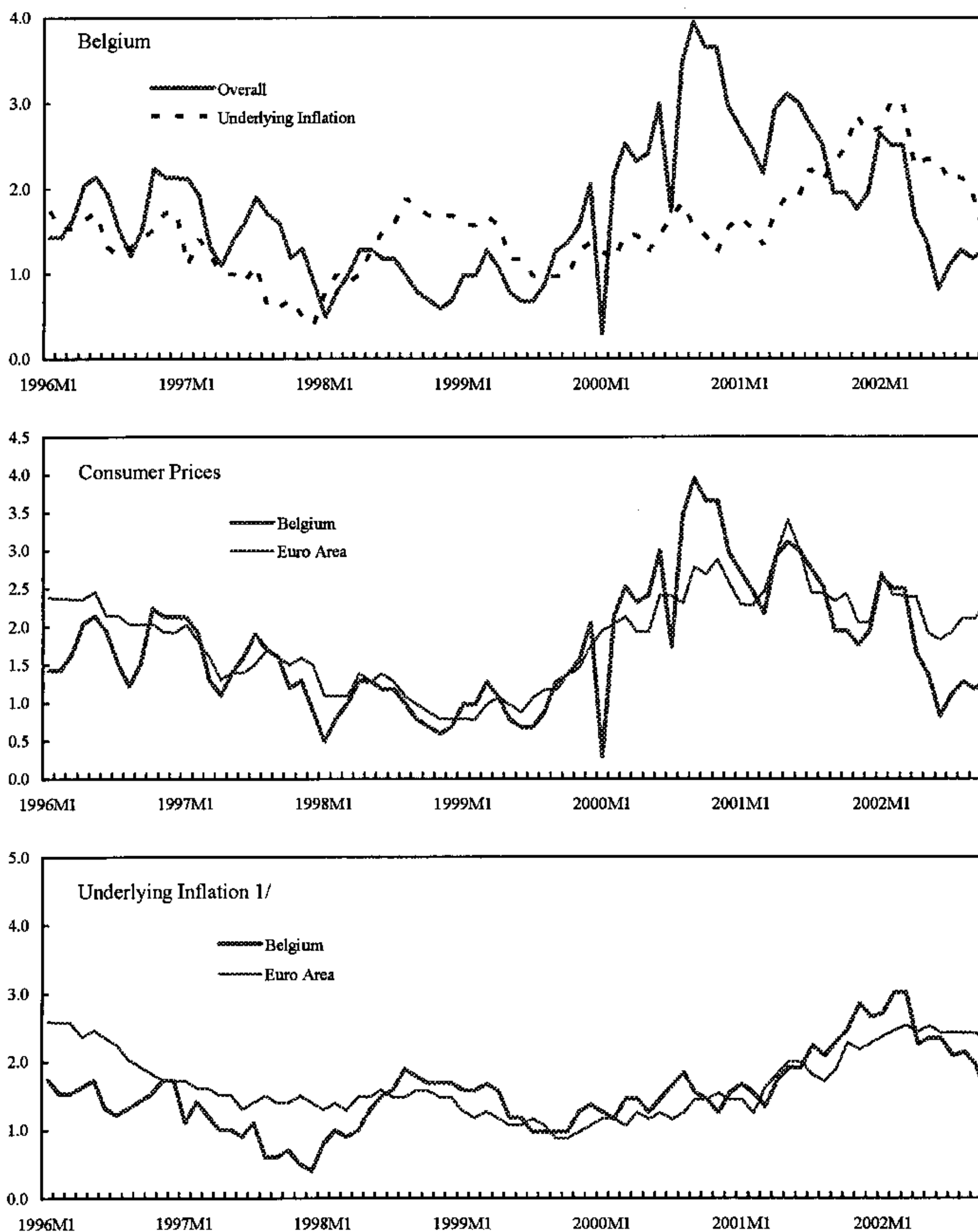
Sources: WEFA Intline Database; and NBB.

Figure 3. Belgium: Labor Market Developments



Source: Data provided by the Belgian authorities; Cronos Database; and staff calculations; staff estimates for employment and unempolyment rates in 2002.

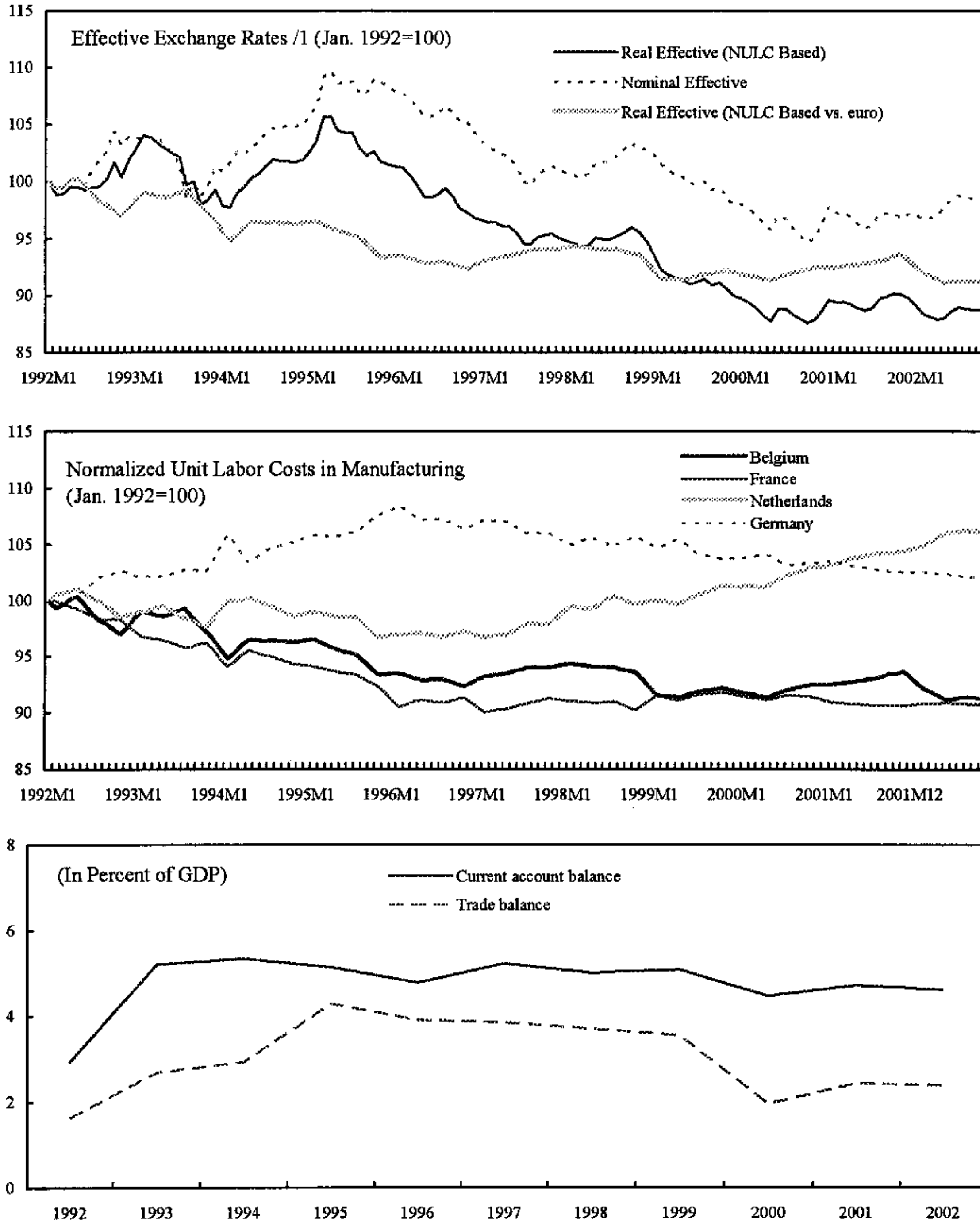
Figure 4. Belgium: Price Developments
(12-Month Growth Rate; Harmonized CPI)



Source: IMF, IFS; and Cronos database.

1/ Overall harmonized index excluding energy, food, alcohol and tobacco.

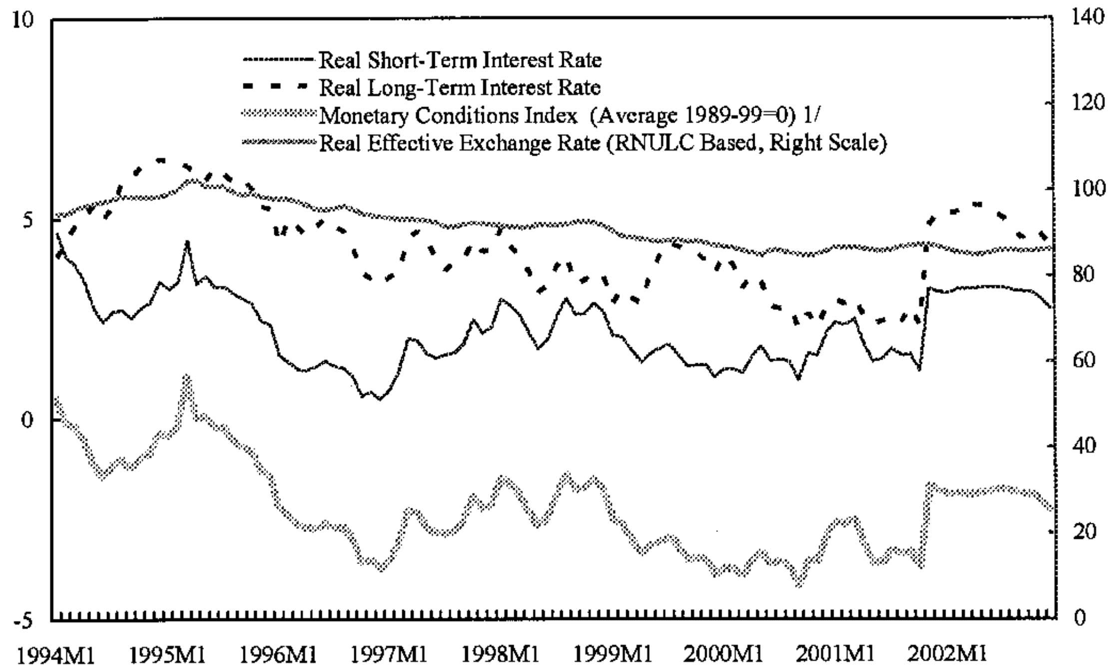
Figure 5. Belgium: External Indicators

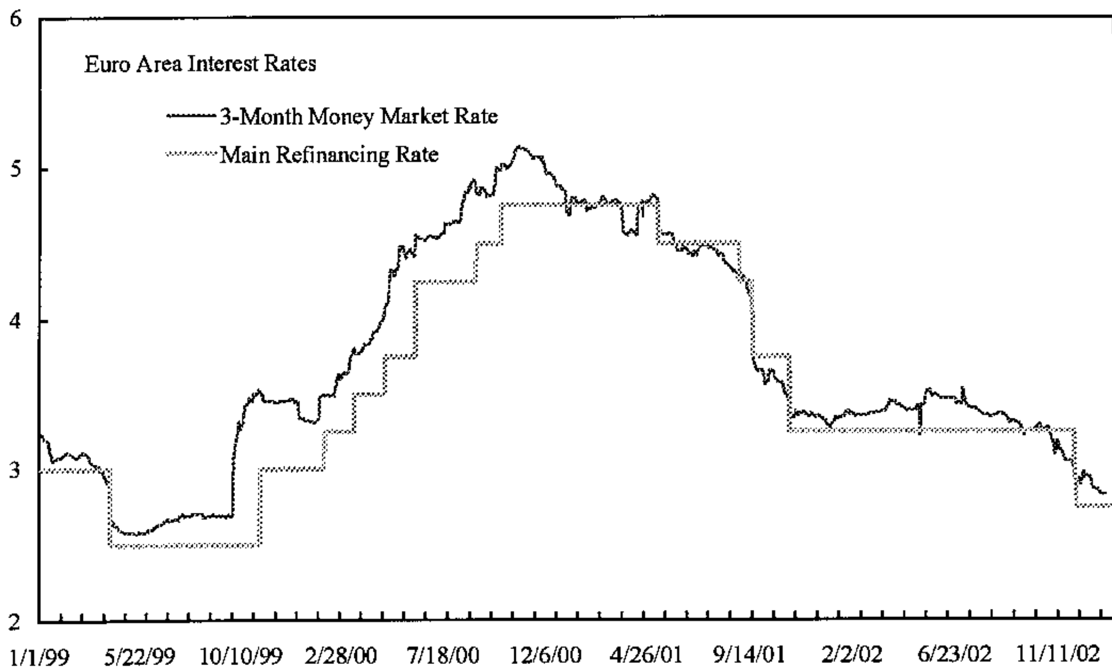


Source: IMF, IFS and WEO.

1/ An increase indicates an appreciation.

Figure 6. Belgium: Monetary Conditions

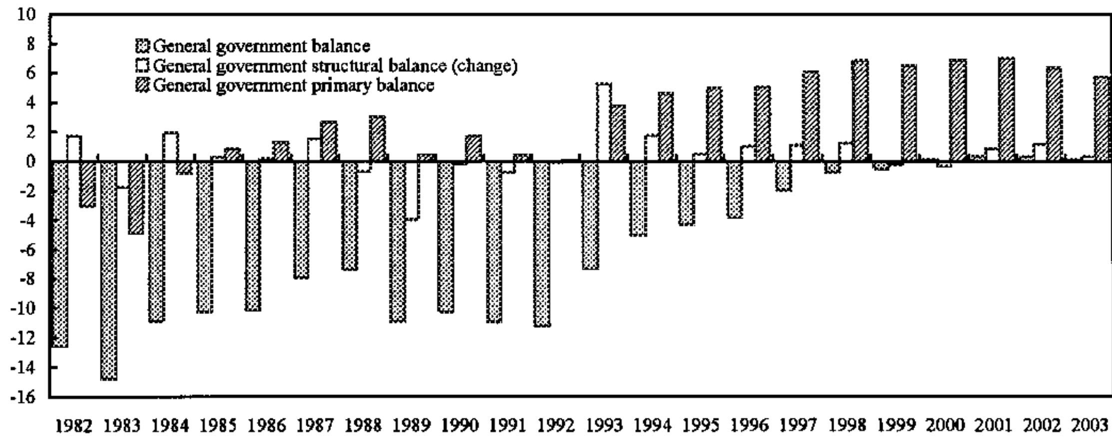


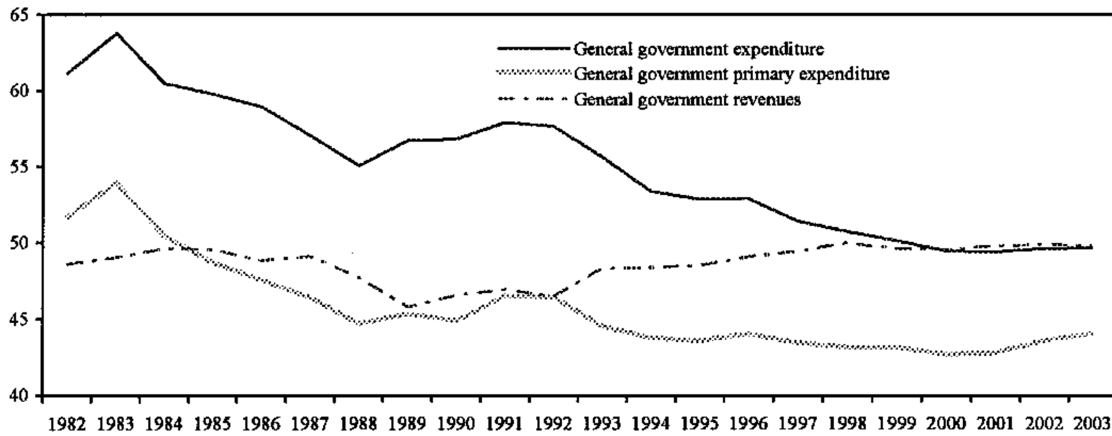


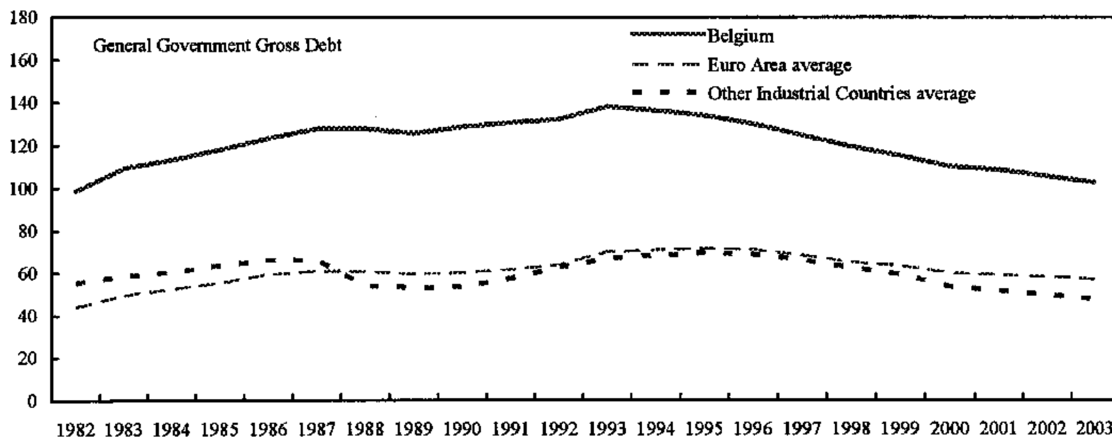
Source: Source: IMF, IFS; and European Central Bank.

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

Figure 7. Belgium: Fiscal Developments
(In Percent of GDP)

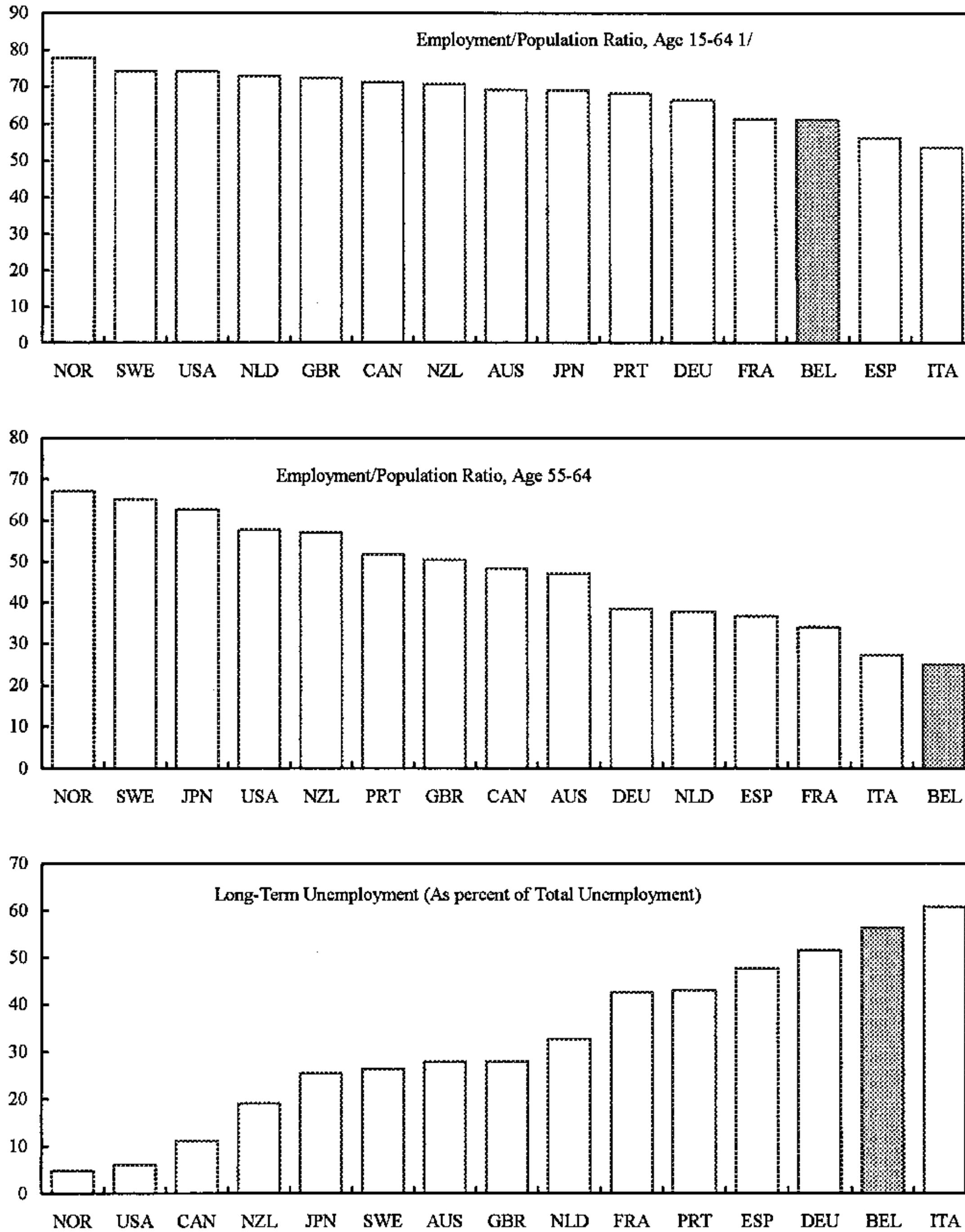






Source: IMF, WEO.

Figure 8. Belgium: Labor Market Indicators in Selected Countries



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

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

Table 1. Belgium: Basic Data

Demographic and other data:

Population (mid-2002)	10.3 million
GNI per capita (1999)	US$ 22,499
Social indicators (1993-2000)	
Life expectancy at birth	
Male	75
Female	81
Infant mortality rate	5 per 1,000 live births
Population per physician (1995)	437
Population per sq. km. (1995)	335

	1990		2001	
	Billions of euro	Percent of GDP	Billions of euro	Percent of GDP
Private consumption	90.4	55.4	138.5	54.5
Public consumption	33.2	20.3	55.1	21.7
Gross capital formation	36.7	22.4	51.8	20.4
Exports of goods and services	115.6	70.8	217.1	85.4
Imports of goods and services	112.6	68.9	208.1	81.8
GDP	163.3	100.0	254.3	100.0

	1998	1999	2000	2001	2002 Est.	2003 Proj.	2004 Proj.
			(Changes in percent)				
National Accounts							
Demand and output (volume)							
Private consumption	3.0	2.2	3.4	0.9	1.0	1.7	1.6
Public consumption	1.0	3.6	2.3	2.2	1.8	2.0	1.8
Gross fixed investment	3.0	4.3	4.1	0.5	-2.3	0.1	2.9
Of which:							
Enterprise investment	4.5	2.2	5.5	2.9	-4.0	0.2	3.7
Stockbuilding 1/	0.3	-0.5	0.3	-0.6	0.1	0.7	-0.1
Total domestic demand	2.9	2.4	3.6	0.5	0.6	2.2	1.9
Exports of goods and nonfactor services	5.9	5.0	8.2	1.1	-0.8	2.3	4.7
Imports of goods and nonfactor servises	7.5	4.1	8.4	0.8	-1.0	3.3	3.9
Foreign balance 1/	-0.7	0.9	0.3	0.3	0.1	-0.6	0.8
GDP	2.0	3.2	3.7	0.8	0.7	1.5	2.6
Output gap (in percent of potential GDP)	-0.1	0.8	2.2	0.7	-0.7	-1.4	-0.9
Manufacturing production	3.3	1.1	4.9	-0.4	0.9	3.5	3.0

Table 1. Belgium: Basic Data (continued)

	1998	1999	2000	2001	2002 Est.	2003 Proj.	2004 Proj.
			(Changes in percent)				
Labor market							
Labor force (national definition)	0.4	0.5	0.7	0.9	0.4	0.4	0.4
Employment (national definition)	1.2	1.4	1.6	1.2	-0.1	0.0	0.6
Unemployment rate (national definition) 2/	11.6	10.9	10.7	10.5	10.9	11.2	11.0
EU harmonized unemployment rate /2	9.3	8.6	6.9	6.7	7.3	7.5	7.4
NAIRU	9.3	8.6	7.4	7.3	7.3	7.2	7.2
Prices, wages and incomes							
GDP deflator	1.7	1.4	1.3	2.0	2.3	1.2	1.2
Terms of trade (goods)	2.1	-1.9	-3.9	0.2	-0.2	-0.1	-0.1
Consumer price index 3/	0.9	1.1	2.7	2.4	1.6	1.2	1.2
Compensation per employee 4/	2.3	4.1	4.0	3.3	4.1	2.7	3.1
Labor productivity 4/	1.7	2.7	3.6	0.0	0.6	1.3	1.8
Unit labor costs 4/	0.6	1.3	0.4	3.4	3.5	1.4	1.3
Real disposable income	2.6	2.5	1.5	1.7	0.2	1.1	2.0
			(In percent)				
Interest rates							
Money market rate 5/	3.6	3.0	4.4	4.3	3.4	...	...
Government bond yield	4.7	4.7	5.6	5.1	5.0	...	...
			(In percent of GDP)				
Saving and investment							
Private saving	23.9	24.1	23.6	22.5	23.0	22.7	23.3
Of which:							
Household saving as percent of disposable household income	14.1	14.5	12.9	12.9	12.9	12.3	12.6
Private investment	19.1	19.1	19.4	19.3	19.0	19.1	19.2
Private saving surplus	4.8	5.0	4.2	3.3	4.0	3.6	4.1
Government saving surplus	0.0	0.1	0.8	1.3	0.7	0.2	0.0
National saving surplus	4.9	5.1	5.1	4.6	4.7	3.8	4.1
Public finances, general government							
Revenue	50.0	49.6	49.5	49.8	49.7	49.1	49.0
Expenditure	50.7	50.1	49.5	49.4	49.7	49.1	48.8
Of which:							
Interest on public debt	7.6	7.0	6.8	6.6	6.0	5.6	5.7
Fiscal balance 6/	-0.7	-0.5	0.1	0.4	0.0	0.0	0.2
Primary balance 6/	6.8	6.5	6.9	7.0	6.0	5.5	5.9
Structural balance 7/	-0.7	-0.9	-1.2	-0.4	0.4	0.8	0.7
Structural primary balance 7/	6.9	6.1	5.7	6.3	6.4	6.3	6.4
Gross public debt	119.5	115.3	110.2	108.7	105.5	102.7	98.7

Table 1. Belgium: Basic Data (concluded)

	1998	1999	2000	2001	2002 Est.	2003 Proj.	2004 Proj.
				(In billions of euros)			
Balance of payments							
Current account balance	11.9	12.0	10.2	10.2	10.3	8.3	10.4
(In percent of GDP)	5.3	5.1	4.1	4.0	3.9	3.1	3.7
Trade balance	8.8	8.9	5.3	6.2	6.3	4.7	6.4
(In percent of GDP)	3.9	3.8	2.1	2.5	2.4	1.7	2.3
Official reserves (US$ billion) 8/	18.3	10.9	10.0	11.3	...	...	...
Reserve cover (months of imports of GNFS)	1.2	0.7	0.6	0.7	...	...	...
Exchange rates							
Euro per U.S. dollar (January 14, 2003) 9/						0.9461	
Nominal effective rate (1995=100) 10/	94.0	92.8	90.1	90.5	91.1	...	...
Real effective rate (1995=100) 10/ 11/	91.9	88.4	85.6	86.5	85.7	...	...

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

1/ Contribution to growth.
2/ Percent of the labor force
3/ Harmonized consumer price index.
4/ Private and public enterprises, full-time equivalent.
5/ Since 1999, Euro rate.
6/ Includes UMTS license revenue of 0.2 percent of GDP in 2001.
7/ Excludes UMTS license revenue of 0.2 percent of GDP in 2001.
8/ Excluding gold. Since January 1999, Eurosystem's definition.
9/ Belgium entered the final stage of EMU on January 1, 1999 at a rate of 40.3399 Belgian francs to the euro.
10/ For 2002, average of through end-November.
11/ Based on relative normalized unit labor costs in manufacturing.

Table 2. Belgium: Medium-Term Fiscal Scenarios, 2000-2007 1/
(In percent of GDP)

	2000	2001	2002	2003	2004	2005	2006	2007
Historical expenditure growth scenario 2/								
Revenue	49.5	49.8	49.7	49.1	49.0	48.8	48.3	48.3
Expenditure	49.5	49.4	49.7	49.1	49.1	48.6	48.3	48.1
Primary expenditure	42.7	42.8	43.7	43.6	43.4	43.2	43.2	43.1
of which: Social security	17.8	18.4	18.7	18.7	18.6	18.6	18.6	18.7
Interest payments	6.8	6.6	6.0	5.6	5.7	5.4	5.1	5.0
Balance	0.1	0.4	0.0	0.0	-0.1	0.1	0.0	0.2
Structural balance	-1.2	-0.4	0.4	0.8	0.4	0.4	0.1	0.3
Primary balance	6.9	7.0	6.0	5.5	5.6	5.5	5.1	5.2
Debt	110.2	108.7	105.5	102.7	99.0	95.3	92.1	88.8
Memorandum items (in percent):								
Real primary expenditure growth	2.6	1.1	2.8	1.1	2.2	2.2	2.2	2.2
GDP growth	3.7	0.8	0.7	1.5	2.6	2.6	2.4	2.4
Tight Expenditure control 3/								
Revenue	49.5	49.8	49.7	49.1	49.0	48.8	48.3	48.3
Expenditure	49.5	49.4	49.7	49.1	48.8	48.0	47.3	46.7
Primary expenditure	42.7	42.8	43.7	43.6	43.1	42.6	42.3	41.9
of which: Social security	17.8	18.4	18.7	18.7	18.5	18.3	18.1	17.9
Interest payments	6.8	6.6	6.0	5.6	5.7	5.4	5.1	4.9
Balance	0.1	0.4	0.0	0.0	0.2	0.8	1.0	1.6
Structural balance	-1.2	-0.4	0.4	0.8	0.7	1.0	1.1	1.6
Primary balance	6.9	7.0	6.0	5.5	5.9	6.2	6.0	6.4
Debt	110.2	108.7	105.5	102.7	98.7	94.3	90.2	85.6
Memorandum items (in percent):								
Real primary expenditure growth	2.6	1.1	2.8	1.1	1.5	1.5	1.5	1.5
GDP growth	3.7	0.8	0.7	1.5	2.6	2.6	2.4	2.4

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

1/ Revenue projections in both scenarios assume unchanged baseline revenue-to-GDP ratios, from which announced tax cuts are subtracted.

2/ Assumes long-term average general government real primary expenditure growth.

3/ Assumes 1.5 percent general government real primary expenditure growth.

3/ Assumes 2 percent general government real primary expenditure growth, and staff macroeconomic projections.

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

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 (1st. sem.)
	(In billions of euros)									
Total balance sheet	563.0	579.5	616.1	750.7	817.0	854.4	926.6	971.1	1,063.1	1,058.4
Credit extended to non-financial institutions and individuals	193.0	200.5	205.2	242.0	264.8	303.8	342.8	392.8	416.1	409.1
Liabilities to non-financial institutions and individuals	283.8	290.8	299.1	379.9	401.1	444.1	477.4	504.4	544.6	539.8
Profits	1.3	1.4	1.3	2.0	2.1	2.6	3.7	5.5	3.8	2.0
Off balance sheet operations[2]	902.7	1,021.9	1,175.0	1,534.0	2,107.0	2,116.0	2,507.0	2,718.0	3,237.3	3,737.0
	(In percent)									
Loan/deposit ratio	68.0	68.9	68.6	64.0	66.0	68.0	72.0	78.0	76.0	75.8
Capital/risk-weighted asset ratio[3,4]	11.0	12.1	11.9	11.7	11.4	11.3	11.9	11.9	12.9	12.5
Return on average assets	0.2	0.3	0.2	0.3	0.3	0.3	0.4	0.6	0.4	n.a.
Return on average equity[3]	8.3	9.0	8.5	11.7	12.3	11.3	17.4	20.8	14.0	n.a.
Non-performing loans/total loans[5]	3.9	3.3	3.8	3.5	3.0	2.7	2.7	2.7	2.9	2.9
Provisions+write-offs/non-performing loans[5]	44.0	47.0	48.0	53.0	57.0	61.0	58.0	57.0	57.0	58.0
Cost/income ratio[3]	71.0	74.0	70.0	68.0	69.0	65.0	70.0	72.0	74.0	71.0

Source: Commission bancaire.

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

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

[3]Excludes foreign subsidiaries in Belgium.

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

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

Table 4. Belgium: Indicators of External and Financial Vulnerability 1/

(In percent of GDP, unless otherwise indicated)

	1996	1997	1998	1999	2000	2001	2002 Est.
External Indicators							
Exports (annual percentage change, in U.S. dollars)	1.7	-0.8	3.4	-0.1	2.7	-2.0	5.7
Imports (annual percentage change, in U.S. dollars)	2.2	-0.9	3.8	-0.2	5.0	-2.2	5.6
Terms of trade (annual percentage change)	1.2	-3.1	2.1	-1.9	-3.7	0.1	-0.2
Current account balance	4.8	5.2	5.0	5.1	4.5	4.7	4.6
Inward portfolio investment (debt securities etc.) 2/	13.5	22.2	23.7	53.9	57.4	64.6	...
Inward foreign direct investment	5.9	7.8	12.9	54.1	107.7	22.4	22.4
Official Reserves (in billions of U.S. dollars, end-of-period) 3/	17.0	16.2	18.3	10.9	10.0	11.3	...
Official reserves in months of imports	1.2	1.1	1.2	0.7	0.6	0.7	...
Exchange rate per U.S. dollar (period average) 4/	31.0	35.8	36.3	0.937	1.083	1.116	...
Financial Markets Indicators							
Public sector debt (Maastricht definition)	130.2	124.8	119.5	115.3	110.2	108.7	105.4
10-year Government bond rate	6.5	5.8	4.7	4.7	5.6	5.1	...
Government bond yield (real)	4.7	4.3	3.8	3.6	2.9	2.7	...
Stock market index (period average)	120.6	161.2	223.6	231.1	208.5	195.8	...
Spread of 10-year government bond rate with Germany	0.29	0.09	0.19	0.23	0.30	0.31	...
Financial Sector Risk Indicators							
Risk-based capital asset ratio 5/ 6/	11.7	11.4	11.3	11.9	11.9	12.9	...
Rate of return on average equity 6/	11.7	12.3	11.3	17.4	20.8	14.0	...
Foreign assets of the banking sector (in billions of U.S. dollars, end-of-period) 7/	267.8	262.5	...	112.0	108.2	127.0	153.0
Foreign liabilities of the banking sector (in billions of U.S. dollars, end-of-period) 7/	293.7	280.0	...	181.8	163.9	175.7	192.3

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

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

2/ Capital account data cover the definition of the Belgium-Luxembourg Economic Union (BLEU).

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

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

5/ On a consolidated basis and after distribution of profits.

6/ Excludes foreign subsidiaries in Belgium.

7/ Banking institutions; data for 2002 pertain to September.

Belgium: Fund Relations
(As of December 31, 2002)

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

II. **General Resources Account**:	**SDR Million**	**% Quota**
Quota	4,605.20	100.00
Fund holdings of currency	2,845.80	61.80
Reserve position in Fund	1,759.41	38.20
Operational budget transfers (net)	100.0	

III. **SDR Department**:	**SDR Million**	**% Allocation**
Net cumulative allocation	485.25	100.00
Holdings	407.85	84.05
[Designation plan]		

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

V. **Financial Arrangements**: None

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

VII. **Exchange Rate Arrangement**:

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

VIII. **Article IV Consultations**:

Belgium is on the 12-month cycle; the last consultation was completed on March 1, 2002.

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

Belgium: Core Statistical Indicators

As of January 6, 2003[1]

	Exchange Rates	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP
Date of Latest Observation	1/6/03	1/6/03	11/02	9/02	9/02	2001	Q3/02
Date Received	1/6/03	1/6/03	1/2/03	1/2/03	1/2/03	5/30/02	12/10/02
Frequency of Data	Daily	Daily	Monthly	Monthly	Quarterly	Annually	Quarterly
Frequency of Reporting	Daily	Daily	Monthly	Monthly	Quarterly	Annually	Quarterly
Source of Update	Reuters	Reuters	Eurostat	NBB 2/	NBB 2/	NBB 2/	NBB 2/
Mode of Reporting	Electronic	Electronic	Electronic	NBB Website	NBB Website	NBB website	NBB Website
Confidentiality	Public	Public	Public	Public	Public	Public	Public
Frequency of Publication	Daily	Daily	Monthly	Monthly	Monthly	Annually	Quarterly

1/ Important data may be found on the internet site http://www.nbb.be/belgostat/ and www.statbel.fgov.be. Flemish data may be found at http.//aps.vlanderen.be/statistiek/cijfers/stat_cijfer_economic.htm#conjunctuur

2/ National Bank of Belgium.

Belgium: Public Debt Sustainability

To help to evaluate the sustainability of Belgium's public finances, a number of standardized shocks is imposed on the medium-term fiscal projection implied by the authorities' Stability Program of December 2002 (SP). In the baseline SP scenario, the debt-GDP ratio falls by 16 percentage points, from 105.3 percent in 2002 to 89.7 percent in 2007. The stress tests are: long-term averages, or temporary deviations from the baseline, for a multitude of variables (real interest rate, real growth, primary balance, and revenue); an increase in the debt ratio of 10 percent of GDP; and a 30 percent real depreciation.[17] The results are described in the accompanying table.

The results, summarized below, suggest the fiscal position is robust. The debt ratio falls under all adverse shocks, although of course by less than in the baseline. By far the worst case is the 10 percent rise in the public debt, but apart from this case the difference relative to the baseline no more than 6 percentage points. By comparison, if the budget were balanced (as it now is), nominal income growth alone would reduce the debt ratio by four or five percent a year, so these shocks might delay the path debt decline by about a year.

Change in the debt-GDP ratio 2003–07 (Percentage points)	
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003–07	-13.1
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004	-12.1
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004	-10.0
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004	-11.0
5. Combination of 2-4 using one standard deviation shocks	-12.4
6. One time 30 percent real depreciation in 2003	-14.2
7. 10 percent of GDP increase in other debt-creating flows in 2003	-4.8
8. Revenue-GDP ratio, in 2003-04, two standard deviations below historical average	-11.8

[17] Given that Belgium is in the euro area, which limits the economic significance of the distinction between domestic and external debt, no assessment of external sustainability was attempted.

Belgium: Public Sector Debt Sustainability Framework
(In percent of GDP, unless otherwise indicated)

		Actual										Projections					
		1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
I. Baseline Medium-Term Projections																	
1 Public sector debt 1/	130.7	132.3	138.1	136.3	134.0	130.2	124.8	119.5	115.3	110.2	108.7	**105.3**	**102.5**	**100.0**	**96.7**	**93.4**	**89.7**
o/w foreign-currency denominated		14.0	20.3	17.2	13.3	8.8	8.8	7.5	4.1	3.3	2.7	2.6	2.5	2.5	2.4	2.3	2.2
2 Change in public sector debt		1.7	5.8	-1.8	-2.3	-3.9	-5.4	-5.2	-4.2	-5.1	-1.5	-3.4	-2.8	-2.5	-3.3	-3.3	-3.7
3 Identified debt-creating flows (4+7+12)		0.9	5.0	-2.6	-2.2	1.1	-2.7	-3.6	-4.6	-5.1	-3.5	-3.6	-2.9	-2.6	-3.3	-3.3	-3.7
4 Primary deficit		-3.2	-3.8	-4.6	-5.0	-5.1	-6.0	-6.8	-6.5	-6.9	-7.0	-6.0	-5.3	-4.6	-5.1	-5.4	-5.7
5 Revenue and grants	47.0	46.5	48.3	48.3	48.6	49.1	49.5	50.0	49.6	49.5	49.8	49.7	49.2	48.1	48.0	48.0	48.0
6 Primary (noninterest) expenditure	43.0	43.3	44.5	43.8	43.6	44.0	43.4	43.2	43.1	42.7	42.8	43.7	43.9	43.5	43.0	42.6	42.3
7 Automatic debt dynamics 2/		4.1	8.8	1.9	2.8	6.2	3.3	3.2	1.9	1.8	3.7	2.5	2.4	2.0	1.7	2.1	2.0
8 Contribution from interest rate/growth differential 3/		5.0	7.3	2.5	4.4	5.7	1.9	3.1	1.7	1.3	3.6	2.6	2.5	2.0	1.8	2.1	2.0
9 Of which contribution from real interest rate		6.9	6.0	6.8	7.6	7.3	6.3	5.5	5.4	5.4	4.5	3.4	4.4	4.5	4.3	4.2	4.0
10 Of which contribution from real GDP growth		-1.9	1.3	-4.2	-3.1	-1.6	-4.4	-2.4	-3.6	-4.1	-0.8	-0.7	-1.8	-2.5	-2.6	-2.1	-2.0
11 Contribution from exchange rate depreciation 4/		-0.8	1.6	-0.6	-1.6	0.5	1.4	0.1	0.2	0.5	0.1	-0.1	-0.1	0.0	0.0	0.0	0.0
12 Other identified debt-creating flows		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0
13 Privatization receipts (negative)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0
14 Recognition of implicit or contingent liabilities		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15 Other (specify, e.g. bank recapitalization)		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Residual, including asset changes (2-3)		0.7	0.7	0.8	-0.1	-5.0	-2.7	-1.6	0.3	0.0	2.0	0.2	0.1	0.0	0.0	0.0	0.0
Public sector debt in percent of revenues 1/	278.1	284.4	285.8	282.0	275.8	265.0	252.3	239.2	232.3	222.4	218.3	211.8	208.4	208.0	201.3	194.5	186.8
Gross financing 5/		46.5	48.8	53.3	41.9	32.1	27.6	25.2	22.7	19.4	17.6	17.5	17.4	17.7	16.5	15.5	14.4
in billions of U.S. dollars		105.1	105.4	125.6	115.9	86.5	67.6	63.2	57.0	44.4	40.0	43.1	46.0	48.8	47.5	46.2	44.5
Key Macroeconomic and Fiscal Assumptions																	
Real GDP growth (in percent)		1.5	-1.0	3.2	2.4	1.2	3.6	2.0	3.2	3.7	0.8	0.7	1.8	2.5	2.7	2.3	2.2
Average nominal interest rate on public debt (in percent) 6/		9.0	8.6	7.3	7.0	6.8	6.4	6.3	6.1	6.2	6.2	5.6	5.5	5.8	5.7	5.6	5.5
Average real interest rate (nominal rate minus change in GDP deflator, in percent)		5.6	4.6	5.2	5.8	5.6	5.1	4.6	4.7	4.9	4.2	3.2	4.3	4.6	4.5	4.5	4.5
Nominal appreciation (increase in US dollar value of local currency, in percent)		6.1	-7.2	3.5	13.3	-4.8	-13.4	-1.4	-4.1	-13.4	-3.0	4.9	4.2	0.5	0.6	0.3	0.3
Inflation rate (GDP deflator, in percent)		3.4	4.0	2.1	1.3	1.2	1.3	1.7	1.4	1.3	2.0	2.3	1.2	1.2	1.1	1.1	1.1
Growth of real primary spending (deflated by GDP deflator, in percent)		2.2	1.8	1.4	2.0	2.2	2.2	1.4	3.1	2.6	1.1	2.8	2.3	1.5	1.5	1.5	1.5

II. Stress Tests

	2002	2003	2004	2005	2006	2007
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003-2007	**105.3**	**102.8**	**100.3**	**97.7**	**95.0**	**92.2**
2. Real interest rate is at historical average plus two standard deviations in 2003 and 2004	**105.3**	**104.3**	**103.3**	**100.1**	**96.8**	**93.2**
3. Real GDP growth is at historical average minus two standard deviations in 2003 and 2004	**105.3**	**105.3**	**106.2**	**102.7**	**99.2**	**95.3**
4. Primary balance is at historical average minus two standard deviations in 2003 and 2004	**105.3**	**105.1**	**104.4**	**101.2**	**97.9**	**94.4**
5. Combination of 2-4 using one standard deviation shocks	**105.3**	**106.3**	**107.4**	**102.7**	**98.0**	**92.9**
6. One time 30 percent real depreciation in 2003 7/	**105.3**	**103.8**	**101.3**	**98.0**	**94.8**	**91.1**
7. 10 percent of GDP increase in other debt-creating flows in 2003	**105.3**	**112.5**	**110.2**	**107.1**	**104.0**	**100.5**
8. Impact on **debt-to-GDP ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04	**105.3**	**104.9**	**103.6**	**100.3**	**97.1**	**93.5**
8a. Impact on **debt-to-revenue ratio** if revenue-to-GDP ratio is at historical average minus two standard deviations in 2003-04	**211.8**	**223.8**	**221.0**	**208.9**	**202.2**	**194.7**

Historical Statistics for Key Variables (past 10 years)	Historical Average	Standard Deviation
Primary deficit	-5.5	1.4
Real GDP growth (in percent)	2.1	1.5
Nominal interest rate (in percent) 6/	7.0	1.0
Real interest rate (in percent)	5.0	0.5
Inflation rate (GDP deflator, in percent)	2.0	1.0
Revenue to GDP ratio	48.9	1.0

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2/ Derived as $[(r - \pi(1+g) - g + \alpha\varepsilon(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ε = nominal exchange rate depreci
3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.
4/ The exchange rate contribution is derived from the denominator in footnote 2/ as $\alpha\varepsilon(1+r)$.
5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
6/ Derived as nominal interest expenditure divided by previous period debt stock.
7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

INTERNATIONAL MONETARY FUND

BELGIUM

Staff Report for the 2002 Article IV Consultation
Supplementary Information

Prepared by the European I Department

(In consultation with the Policy Development and Review Department)

Approved by Alessandro Leipold

February 19, 2003

1. This supplement provides revised staff macroeconomic projections for 2003 and 2004. These downward revisions do not change the thrust of the staff appraisal. However, the case for allowing a greater degree of automatic stabilization is strengthened and, as noted in paragraph 29 of the staff report, it would be preferable in these circumstances to allow a modest cyclical deficit to emerge, versus the authorities' policy of avoiding a deficit.

2. The significant downside risks to the staff projection, described in the staff report, have to some extent materialized. In particular, staff projections for growth in other European countries—especially Germany, but also the Netherlands and France—have been revised down following further weakness in recent indicators. In addition, world oil prices have continued to edge upwards and uncertainty regarding the international situation persists. These developments have been reflected in the Belgian central bank's leading indicator series, which after rising in November declined sharply in December and January.

3. As a result, the staff has revised its projection of real GDP growth for 2003 down from 1.5 percent to 1.2 percent, and for 2004 from 2.6 percent to 2.3 percent (Table 1). These changes essentially reflect lower export growth due to weaker prospects in Belgium's key trading partners. Considerable short-term risks persists: falling confidence could further undermine domestic demand, while the economic effects of current international tensions remain difficult to predict.

4. Regarding fiscal policy, the revised projections assume that, in line with stated policy intentions, the authorities will aim to avoid the emergence of a deficit in 2003. To this end, with real GDP growth now projected to be 0.9 percentage points below the 2.1 percent assumed in the budget, adjustments will be required in the course of the year to achieve balance. The authorities, recognizing this, have already announced measures amounting to about 0.2 percent of GDP, although more may be required. Budget balance would imply an increase in the structural surplus, a measure of the thrust of the underlying fiscal position, on the order of ½ percentage point of GDP.

Table 1. Belgium: Revised Projections

	Staff Report			Revised	
	2002 Est.	2003 Proj.	2004 Proj.	2003	2004
	(Changes in percent)				
National Accounts					
Demand and output (volume)					
Private consumption	1.0	1.7	1.6	1.7	1.7
Public consumption	1.8	2.0	1.8	2.0	1.8
Gross fixed investment	-2.3	0.1	2.9	0.0	2.7
Of which:					
Enterprise investment	-4.0	0.2	3.7	0.0	3.4
Stockbuilding[1]	0.1	0.7	-0.1	0.6	0.0
Total domestic demand	0.6	2.2	1.9	2.0	2.0
Exports of goods and nonfactor services	-0.8	2.3	4.7	1.3	4.1
Imports of goods and nonfactor servises	-1.0	3.3	3.9	2.3	3.8
Foreign balance[1]	0.1	-0.6	0.8	-0.7	0.5
GDP	0.7	1.5	2.6	1.2	2.3
Output gap (in percent of potential GDP)	-0.7	-1.4	-0.9	-1.6	-1.4
Public finances, general government					
Revenue	49.7	49.1	49.0	49.2	49.1
Expenditure	49.7	49.1	48.8	49.2	49.0
Of which:					
Interest on public debt	6.0	5.6	5.7	5.6	5.7
Fiscal balance	0.0	0.0	0.2	0.0	0.0
Primary balance	6.0	5.5	5.9	5.5	5.8
Structural balance	0.4	0.7	0.7	0.9	0.9
Structural primary balance	6.4	6.3	6.4	6.5	6.5
Gross public debt	105.5	102.7	98.7	102.9	99.4

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

[1]Contribution to growth.

INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/24
FOR IMMEDIATE RELEASE
March 4, 2003

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

IMF Concludes 2002 Article IV Consultation with Belgium

On February 21, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belgium.[1]

Background

Real GDP growth fell sharply in 2001 to 0.8 percent and remained weak in 2002 at an estimated 0.7 percent. The fundamental factor behind these developments was the slowdown in the economies of Belgium's trading partners, especially Germany. Thus, Belgium's export market growth fell from a robust 12.1 percent in 2000 to only 0.6 percent in 2001; in 2002 export markets shrank an estimated 1 percent. This substantial external shock rippled through the domestic economy as the Belgian stock market fell in tandem with those elsewhere, household consumption was very sluggish, and business investment fell steeply. In 2002, employment began to decline and unemployment to rise, although the response of the labor market to the economic slowdown has been muted, reflecting substantial labor hoarding.

Inflation has eased, in part due to slow growth. Headline inflation fell more in Belgium than in the euro area in 2002, reflecting temporary factors: Flanders and Brussels eliminated the radio-television tax, electricity prices fell as part of market liberalization, and the introduction of the physical euro appeared to have a smaller one-time price effect in Belgium than elsewhere. Wage growth appears now to have been broadly in line with that in Belgium's three main trading partners (Germany, the Netherlands, and France), according to revised data released late last

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

year. A two-year indicative wage-growth norm of 5.4 percent for 2003-04 was agreed early this year. This figure is at the mid-point of the range viewed by the Central Economic Council as consistent with preserving international cost competitiveness.

The staff projects real GDP growth of 1.2 percent in 2003, with a gradual pickup in activity through the year. However, at this point there are no concrete indicators of recovery and some downside risks, notably the uncertain economic environment and the persistent weakness of the German economy.

In the face of the slowdown, the authorities have limited the deterioration in the fiscal balance to ensure there is no deficit, which might undermine confidence. Budget balance appears likely for 2002. One consequence of this policy has been a rise in the cyclically adjusted balance by about 0.8 percent of GDP in both 2001 and 2002. That is, the automatic stabilizers have to a large extent been offset, although the aggregate demand effect has been mitigated by the small Belgian fiscal multiplier. For 2003, the budget targets balance again. This may prove difficult to achieve in the absence of further measures, in part because the budget assumed real GDP growth of 2.1 percent, which was then consensus but now looks optimistic. If the staff projection is realized, balance would imply a significant structural tightening.

Further labor-market reform was implemented in 2002. To reduce labor costs and raise take-home pay, social security taxes were cut again and an earned income tax credit was introduced. Various measures were put in place to draw older people into the workforce, including cuts in social security taxes for firms hiring older workers, and a requirement that those between 50 and 58 who become unemployed register and seek work in return for unemployment benefits. Still, the Belgian labor market remains far from the objectives set out in Lisbon.

Executive Board Assessment

Directors commended the authorities on the considerable fiscal consolidation of the past decade. They also welcomed the decline in the debt-to-GDP ratio during this period, especially given that this was achieved within the context of a major effort towards fiscal devolution. In this connection, Directors considered that Belgium's experience is a good example of how fiscal decentralization can go hand in hand with fiscal consolidation, and could offer lessons for other countries. However, notwithstanding these achievements, Directors underscored that further progress in fiscal consolidation and in reducing Belgium's still-high debt burden would be needed, especially to contain spending, in order to create budgetary room for tax cuts, and to meet the costs of population aging. They also emphasized the importance of pressing forward with structural measures to reform the social security system and to improve labor market performance and, thus, to strengthen underlying medium-term growth prospects.

Directors observed that the Belgian economy had been sluggish through 2002 and into 2003, with persistent weakness in both export markets and domestic demand. They anticipated a gradual recovery in the course of the year, as supportive monetary conditions and a satisfactory level of external competitiveness should allow Belgium to benefit from the expected recovery in

worldwide activity. At the same time, Directors also noted that there were significant downside risks to the short-term outlook, associated notably with current international tensions.

Most Directors stressed that, in spite of these uncertain conditions, fiscal policy should continue to adhere to the budget balance target, and referred in this regard to the still high public debt, the challenges presented by the aging population, and the continuing need to ensure fiscal credibility. They considered that past consolidation efforts had helped to establish confidence, as evidenced by the virtuous circle of lower debt, lower interest rates, and lower spending. Some other Directors, however, felt that the fiscal stabilizers should be allowed to operate around the authorities' target of budget balance for 2003. They argued that, given persistent economic weakness, the emergence of a small cyclical deficit would be acceptable in the present circumstances.

Looking forward, Directors noted that fiscal adjustment would be well served, and credibility bolstered, by a firm commitment by the authorities to a medium-term fiscal framework, including spending ceilings, consistent with fiscal consolidation and tax reduction objectives. Directors welcomed the authorities' intention to gradually build up a significant surplus position and to implement further tax cuts. They emphasized that these objectives would be attainable only if government spending were strictly controlled, and therefore urged the authorities to reduce primary spending growth to rates well below those seen in recent years. Such control would require close scrutiny of all spending programs, at all levels of government. Directors viewed narrowing the scope of the very large social benefit system as a promising avenue in this regard. They also welcomed plans to reduce the civil service during the anticipated wave of retirements in the coming decade.

For the long term, Directors agreed that population aging posed a serious risk to fiscal sustainability, unless appropriate policy measures were taken. They considered a substantial long-term fiscal surplus position to be a prudent response, as this would rapidly cut the national debt and thereby free resources to pay for aging-related rises in pension and health-care spending. Such a policy would reduce the risk that tax increases would be required to cover these costs. At the same time, several Directors felt that further reforms of the pension system should also receive consideration, while acknowledging that past measures had already substantially reduced the generosity of the system, and welcoming the introduction of a "second pillar" scheme.

Directors called for intensified efforts to raise employment rates, especially among older people. They viewed this as key to increasing medium-term growth prospects and reducing social spending. Directors welcomed measures already taken to strengthen incentives to work, notably tax cuts for low-income earners and measures to reduce access to early retirement programs. They recommended that the best course would be to sharpen work incentives by narrowing the extensive social safety net and, in the case of older workers, by ensuring that the various public and privately-negotiated pre-retirement schemes be as neutral as possible with respect to the choice of retirement age. Directors also noted the sharp geographical disparities in labor-market performance. In this regard, they felt that generalized labor-market reforms would help disadvantaged areas, but also welcomed the increased emphasis on regional development

policies that favored growth and innovation. Directors also attached importance to reforming the centralized wage bargaining process, with a view to increasing wage flexibility, which, in turn, would help promote a better allocation of resources and narrow regional disparities. More attention could also be paid to training in order to reduce unemployment resulting from poor job matching.

Directors urged the authorities to increase the pace of product market reform. They argued that more rapid liberalization of network industries would benefit the Belgian economy. Directors welcomed the decision by Flanders to advance the schedule for the liberalization of gas and electricity markets, and encouraged other jurisdictions to do likewise. Directors also stressed the importance of competitive entry into the newly liberalized markets, and the corresponding need to ensure that appropriate regulation is in place. They welcomed initiatives to computerize the links between firms and government, which should reduce costs for both.

Directors welcomed the implementation of reforms in the area of financial market supervision. They considered that the new management structure of the banking supervisor, closer links between the financial supervisors and the central bank, and the central bank's role in macro prudential supervision would all strengthen Belgian markets. They encouraged the authorities to complete the planned merger of the banking and insurance supervisors and to ensure that sufficient resources are made available to take full advantage of the new structure.

Directors praised the authorities for putting in place modern legislation to prevent money laundering and the financing of terrorism, which conforms to EU directives and the Financial Action Task Force recommendations.

Directors commended the authorities' support for further multilateral trade liberalization. While welcoming their emphasis on improving market access to the poorest countries, Directors encouraged Belgium to extend such access to all developing countries. Directors praised the authorities' commitment to raise Belgium's official development assistance to the UN target of 0.7 percent of GNP by 2010.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2002 Article IV Consultation with Belgium is also available.

Belgium: Selected Economic Indicators

	1999	2000	2001	2002	2003
Real economy (change in percent)					
Real GDP	3.2	3.7	0.8	0.7	1.2
Domestic demand	2.4	3.6	0.5	0.6	2.0
CPI (year average)	1.1	2.7	2.4	1.6	1.2
Unemployment rate (in percent)	8.6	6.9	6.7	7.3	7.7
Public finance (percent of GDP)					
General government balance	-0.5	0.1	0.4	0.0	0.0
Structural balance	-0.9	-1.2	-0.4	0.4	0.9
Primary balance	6.5	6.9	7.0	6.0	5.5
General government debt	115.3	110.2	108.7	105.5	102.9
Interest rates (percent)					
Money market rate	3.0	4.4	4.3	3.4	
Government bond yield	4.7	5.6	5.1	5.0	
Balance of payments (percent of GDP)					
Trade balance	3.8	2.1	2.5	2.4	1.7
Current account	5.1	4.1	4.0	3.9	3.0
Official reserves (US$ billion)[1]	10.9	10.0	11.3		
Reserve cover (months of imports of GNFS)	0.7	0.6	0.7		
Exchange rate					
Exchange rate regime					
Euro per U.S. dollar (January 14, 2003)					0.9461
Nominal effective rate (1995=100)[2]	92.8	90.1	90.5	91.1	
Real effective rate (1995=100)[2, 3]	88.4	85.6	86.5	85.7	

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

[1]Excluding gold; Eurosystem's definition, for 2002, November.

[2]For 2002, average through end-November.

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