



BELGIUM

2025 ARTICLE IV CONSULTATION—PRESS RELEASE AND STAFF REPORT

March 2025

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 2025 Article IV consultation with Belgium, the following documents have been released and are included in this package:

- A **Press Release**.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse-of-time basis, following discussions that ended on February 4, 2025, 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 March 3, 2025.
- An **Informational Annex** prepared by the IMF staff.

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

- **Selected Issues**

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

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International Monetary Fund
Washington, D.C.



IMF Executive Board Concludes 2025 Article IV Consultation with Belgium

FOR IMMEDIATE RELEASE

Washington, DC – March 20, 2025: *On March 18, 2025, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belgium, and considered and endorsed the staff appraisal without a meeting.*¹

The Belgian economy was resilient to a series of shocks, but growth has been slowing, and core inflation remains persistent. Labor productivity growth remained sluggish, and labor-cost competitiveness has declined. Successive shocks have increased structural fiscal deficits and public debt. Risks arising from deepening geoeconomic fragmentation and intensification of regional conflicts affecting energy, trade and financial spillovers could worsen the outlook.

Executive Board Assessment²

In concluding the 2025 Article IV consultation with Belgium, Executive Directors endorsed staff's appraisal, as follows:

Notwithstanding its resilience, the Belgium economy faces significant challenges. In the short term, in an increasingly uncertain environment, policies need to see disinflation through while preserving growth and financial stability. From a longer perspective, policies need to rebuild buffers, reduce vulnerabilities associated with high and rising public debt, address spending pressures from aging and the green transition, foster higher growth, and improve the external position which, in 2024, was weaker than implied by medium-term fundamentals and desirable policies based on preliminary assessment. The policy agenda of the new government, which includes significant structural reforms and fiscal consolidation, is an opportunity to make headway. Steady and timely implementation of intended reforms will be key.

Sustained and significant fiscal consolidation is needed. Considering the magnitude of the needed adjustment to bring the deficit durably below 3 percent of GDP and put debt

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

solidly on a downward path, staff supports the government's intention to pursue a seven-year adjustment under the EGF, which should be accompanied by credible and front-loaded growth-enhancing reforms. An annual reduction in the structural primary balance of about 0.6 ppt of GDP until 2031 will be necessary. The forthcoming MTFSP should be built on sufficiently conservative assumptions to lower the risk of deviating from the intended path of deficit reduction.

The adjustment should rationalize current spending, make room for more public investment, and be supported by increased efficiency of spending. Rationalizing social benefits and the public wage bill is crucial to achieve savings. Public investment should be preserved, or ideally, increased to bolster potential growth and support green transition. Amid competing demands for resources and reduced fiscal space, improving the efficiency of spending, is critical, notably with respect to investment in infrastructure, healthcare, and education.

Fiscal reforms are crucial to support the adjustment. Staff welcomes the government's intention to reduce the tax burden on labor while introducing capital gain taxation and reducing tax expenditure. Considering the needed overall fiscal adjustment, tax reforms should not result in lower revenue. Similarly, staff welcomes the planned reforms aimed at raising the effective retirement age and reviewing eligibility to specific pension regimes. This is necessary to preserve the sustainability of the pension system despite aging. Staff also encourages the authorities to strengthen the overall fiscal framework, through a revitalized fiscal council and greater accountability of the federal and all federated entities in sharing the burden of fiscal adjustment.

Overall systemic risks in the financial sector remain moderate and current capital buffer requirements and prudential limits on mortgage loans should be maintained. Recent progress in strengthening systemic risk assessment, supervision, the macroprudential framework, and crisis management and resolution preparedness is welcome. With a new government in place, pending measures that required legislative action should now proceed.

Labor market and education reforms are essential to foster higher labor participation and better adequation of skills. The government's intended reforms to widen the income gap between work and nonwork, limit the duration of unemployment benefits, and reduce the cost of hiring and dismissal go in the right direction. Fostering a labor market more inclusive of low-skilled workers, older workers, women, and individuals with an immigration background, or disabilities, notably through lifelong learning and reskilling and active labor-market policies, will enhance overall economic performance. Education reforms are also necessary to upskill the labor force. They should focus on aligning curricula with the skills companies need, better leveraging teachers' time, and strengthening support to students in difficulty.

Reforming the wage-setting mechanism will help increase labor-market efficiency and improve competitiveness. Automatic wage and social benefit indexation protected household purchasing power during the inflation shock but increased fiscal deficits and undermined competitiveness. Consideration should be given to abolishing automatic indexation and the 1996 wage law which, together, prevent an optimal allocation of labor and higher employment. At a minimum, the labor market would already benefit from technical reforms to the existing system.

Further product market reforms and efforts with EU partners to deepen the single market and advance the capital market union will support firms' productivity.

Reforms should focus on reducing regulatory and administrative barriers and improving the insolvency regime. Removing remaining barriers to trade within the EU and harmonizing regulations and bankruptcy frameworks would give Belgian firms' access to a larger customer base, improve competition, and provide buffers against risks from geo-fragmentation. Developing venture capital at the EU level would help widen Belgian firms' options to finance their growth.

Despite progress, much effort remains needed to achieve climate objectives. The planned expansion of the EU ETS should be complemented by carbon taxation and the phasing out of fossil fuel subsidies, while ensuring support for vulnerable population. The consolidation of federal and regional climate efforts into a coherent and cohesive national strategy is essential.

Belgium: Selected Economic Indicators, 2022–30

	Projections								
	2022	2023	2024	2025	2026	2027	2028	2029	2030
(Percent change, unless otherwise indicated)									
Real economy									
Real GDP 1/	4.2	1.3	1.0	1.1	1.1	1.3	1.3	1.3	1.3
Domestic demand	4.2	1.8	1.0	1.4	1.5	1.5	1.5	1.4	1.5
Private consumption	3.6	0.6	1.8	1.2	1.2	1.5	1.3	1.2	1.1
Public consumption	3.3	3.2	3.2	1.4	1.9	1.6	1.7	1.7	1.7
Gross fixed investment	1.7	3.5	0.9	0.6	1.7	1.5	1.6	1.7	2.0
Stockbuilding 2/	1.1	-0.1	-1.0	0.3	0.0	0.0	0.0	0.0	0.0
Foreign balance 2/	0.1	-0.5	0.1	-0.3	-0.4	-0.2	-0.2	-0.1	-0.1
Exports, goods and services	5.8	-7.1	-4.0	0.0	2.6	3.2	3.2	3.1	3.1
Imports, goods and services	5.8	-6.8	-4.2	0.4	3.3	3.6	3.5	3.3	3.3
Household saving ratio	12.7	14.1	13.6	13.7	13.7	13.7	13.8	14.0	14.3
Potential output growth	2.0	1.8	1.6	1.4	1.3	1.3	1.3	1.3	1.3
Potential output growth per working age person	1.3	1.2	1.0	1.3	1.3	1.3	1.3	1.4	1.3
Output gap (in percent)	1.6	1.0	0.5	0.2	0.0	0.0	-0.1	0.0	0.0
Employment									
Unemployment rate (in percent)	5.6	5.5	5.8	5.7	5.7	5.5	5.6	5.7	5.8
Employment growth	1.9	0.8	0.3	0.2	0.3	0.6	0.3	0.2	0.4
Prices									
Consumer prices (HICP)	10.3	2.3	4.3	3.5	2.2	2.0	2.0	1.9	1.9
Core CPI (HICP)	4.0	6.0	3.4	3.0	2.6	2.2	2.1	1.9	1.9
GDP deflator	6.8	4.5	2.7	2.5	1.7	1.5	1.7	1.6	1.6
(Percent of GDP; unless otherwise indicated)									
Public finance									
Revenue	48.6	49.1	49.6	49.5	49.5	49.5	49.5	49.6	49.7
Expenditure	52.2	53.3	54.0	54.3	55.0	55.3	55.7	56.3	56.9
General government balance	-3.6	-4.2	-4.4	-4.8	-5.5	-5.8	-6.2	-6.7	-7.2
Structural balance	-4.3	-4.4	-4.5	-4.8	-5.5	-5.8	-6.1	-6.8	-7.2
Structural balance (excl. Covid measures)	-3.7	-4.3	-4.4	-4.8	-5.5	-5.8	-6.1	-6.8	-7.2
Structural primary balance	-2.7	-2.4	-2.2	-2.5	-3.0	-3.0	-3.2	-3.5	-3.7
Primary balance	-2.0	-2.2	-2.2	-2.4	-3.0	-3.0	-3.3	-3.4	-3.7
General government debt	102.6	103.1	104.1	105.4	108.6	111.9	115.2	118.9	123.0
External Sector									
Goods and services balance	-1.5	-0.6	-0.1	0.0	0.0	0.0	0.3	0.5	0.7
Current account	-1.3	-0.7	-0.3	-0.3	-0.3	-0.3	-0.1	0.1	0.2
Exchange rates									
Euro per U.S. dollar, period average	0.9	0.9	0.9	...	...	...	...	...	...

NEER, ULC-styled (2005=100)	96.3	97.6	97.8	...	...	...	...	...	...
REER, ULC-based (2005=100)	99.7	103.8	105.5	...	...	...	...	...	...
Memorandum items									
Gross national savings (in percent of GDP)	25.6	24.6	23.8	23.9	23.9	23.9	24.1	24.3	24.5
Gross national investment (in percent of GDP)	26.9	25.3	24.1	24.2	24.3	24.3	24.2	24.2	24.3
Nominal GDP (in billions of euros)	563.5	596.3	618.6	640.9	658.7	677.3	697.8	718.4	739.8
Population (in millions)	11.6	11.7	11.8	11.8	11.9	11.9	11.9	12.0	12.0
Sources: Haver Analytics, Belgian authorities, and IMF staff projections.									
1/ Based on national accounts data available as of January 29, 2025.									
2/ Contribution to GDP growth.									



BELGIUM

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

March 3, 2025

KEY ISSUES

Context. The economy has been resilient to a series of shocks, but growth is slowing, and disinflation is facing headwinds. The labor market has been strong but shows early signs of cooling. Labor-cost competitiveness has declined with wage growth outpacing sluggish productivity. Successive shocks have increased structural fiscal deficits and public debt. Protracted coalition negotiations after elections in June 2024 stalled policymaking; a new federal government was formed in February 2025.

Outlook and risks. Growth is projected to return to its potential of 1.3 percent by 2027, and inflation to gradually ease to its 2 percent target. Absent policy change, pressures from an aging population will further increase the fiscal deficit and public debt, heightening vulnerability to changes in market sentiment. The outlook is subject to high uncertainty, amid risks that could push growth down and inflation up, including deepening geoeconomic and trade fragmentation, and adverse energy price shocks.

Policy Recommendations.

- Sustained fiscal consolidation is needed to support disinflation despite upside risks, rebuild buffers, lower vulnerabilities to change in market sentiments, and address pressures from aging and the green transition. The federal and all federated entities must contribute to the adjustment. Rationalizing current spending while preserving public investment in infrastructure, healthcare, and education and enhancing its efficiency is a priority.
- To preserve macrofinancial stability, capital buffer requirements and prudential limits on mortgage loans should be maintained. Continued progress on the 2023 FSAP recommendations will strengthen systemic risk assessment, supervision, the macroprudential framework, and crisis management and resolution preparedness.
- Reforms are needed to increase growth potential through higher labor force participation and productivity, and more efficient resource allocation. Priorities include increasing the income gap between work and nonwork through tax and social benefits reforms, reforming the wage-setting mechanism, and upgrading human capital formation. Together with efforts with EU partners to deepen the single market, further product market reforms to reduce barriers to entry and improve the insolvency regime will improve firm dynamics and the diffusion of innovation. Sustaining the green transition requires strong commitment by and enhanced coordination among the federal and federated entities.

Approved by:
Mark Horton (EUR)
and Koshy Mathai (SPR)

Discussions took place in Brussels during January 22–February 4, 2025. The team comprised Jean-François Dauphin (head), Yu Ching Wong, Karen Coulibaly, Jean-Jacques Hallaert (all EUR) and Ed Hearne (FAD, whose discussions took place during December 4–11, 2024). Xun Li and Victoria Timonova (both EUR) assisted from IMF headquarters. Jeroen Clicq (IMF Executive Director) and Stijn Verhelst (Advisor) participated in the mission. The team met with then-Prime Minister De Croo, National Bank of Belgium (NBB) Governor Wunsch, then-Deputy Prime Minister (DPM) Van Peteghem (Finance), and then-State Secretary (Budget) Bertrand. The mission also met with Regional Ministers of Finance and Budget—Sven Gatz (Brussels) and Ben Weyts (Flanders), other senior officials from the federal and regional governments, and representatives of the private sector, academia, and labor unions. A concluding meeting (virtual) was held with new DPM Jan Jambon (Finance and Pensions) on February 21, 2025.

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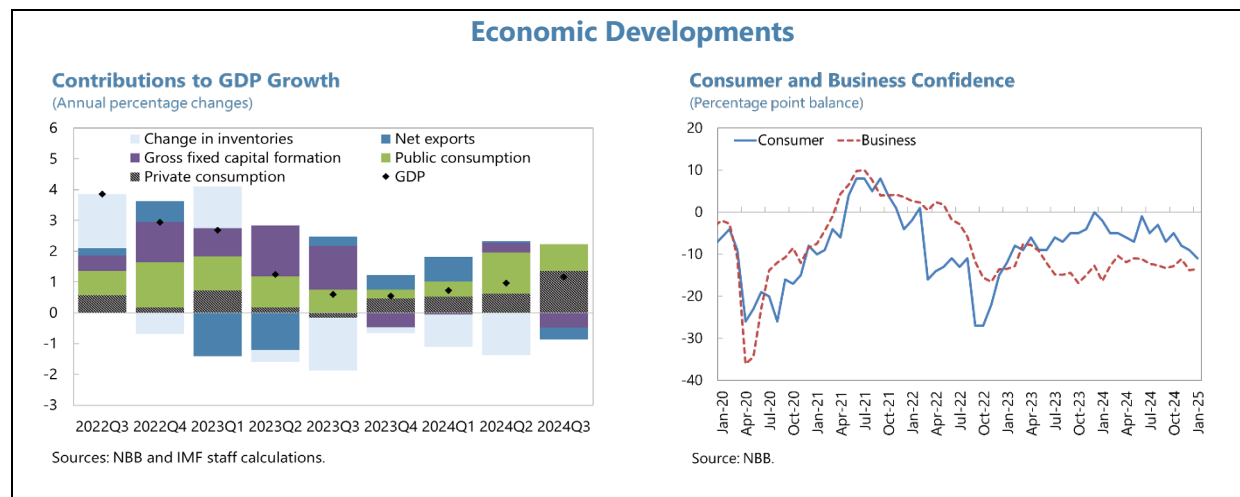
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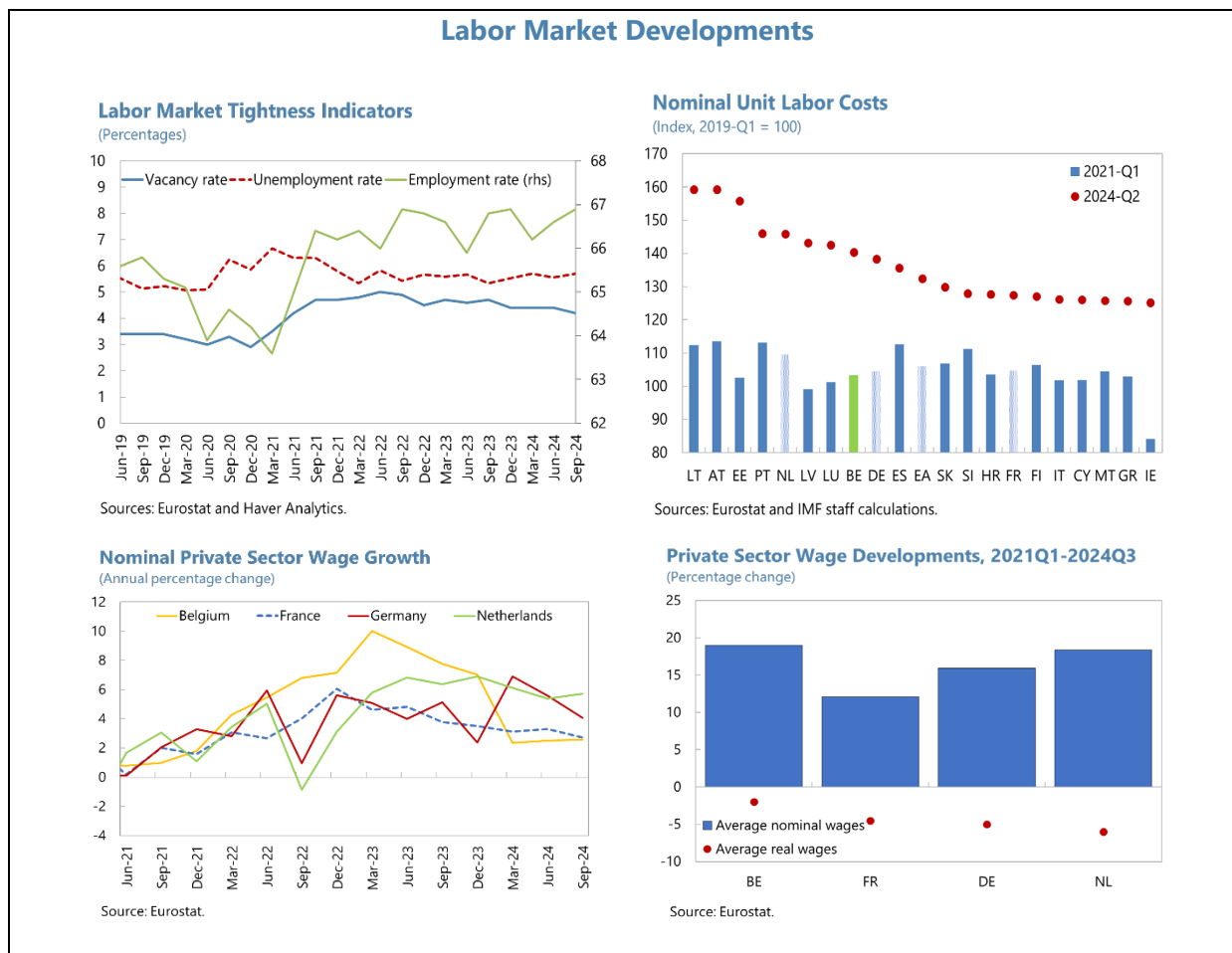
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CONTEXT AND RECENT DEVELOPMENTS

1. The Belgian economy has been resilient to a series of shocks, but growth has been slowing. After two years of strong recovery from the pandemic and the energy crisis, high inflation, rapidly tightening financial conditions and waning business confidence have weighed on activity. Growth decelerated to 1.3 percent in 2023 and 1.2 percent (y/y) in 2024Q3, mostly reflecting declining private investment, a drawdown in inventories and, more recently, a negative contribution of net exports. Overall, growth in 2024 is expected at 1 percent.



2. The labor market remains strong, but shows early signs of cooling, and labor-cost competitiveness declined. The unemployment rate has remained close to historical lows since 2022Q3 and was 5.7 percent in 2024Q3. Vacancy rates are among the highest in the euro area but have declined from 5 percent in June 2022 to 4.2 percent in September 2024. Reflecting the economic slowdown, employment growth has slowed, and the employment rate has stabilized around 67 percent. Nominal private sector wage growth moderated to 2.6 percent in September 2024, down from a high of 10.1 percent in March 2023. Meanwhile, labor productivity growth remained sluggish, and nominal unit labor costs rose more than the euro-area average.

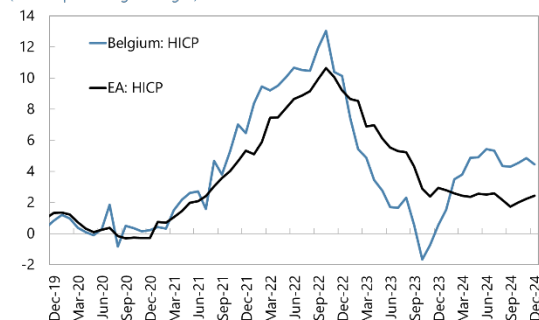


3. Headline inflation has been volatile, and core inflation slow to recede. Headline inflation exhibited significant volatility since it peaked at 13.1 percent y/y in October 2022, reflecting energy prices fluctuations and the fading effects from energy price support measures. It remained at 4.4 percent y/y in January 2025. With slowing demand, core inflation steadily declined from its peak of 8.6 percent y/y in March 2023 but hit headwinds a year later, stabilizing around an elevated 3½ percent in 2024H2. It dropped to 2.5 percent in January 2025 helped by a decline in non-energy industrial goods prices, but services price inflation, which has been sticky in presence of robust (indexed) wage and rent growth, was still 4.1 percent. Expectations of future inflation significantly declined from their peak in 2022 but have been inching up again since 2024Q3 (Figure 1).

Inflation Developments and Price Expectations

HICP Inflation

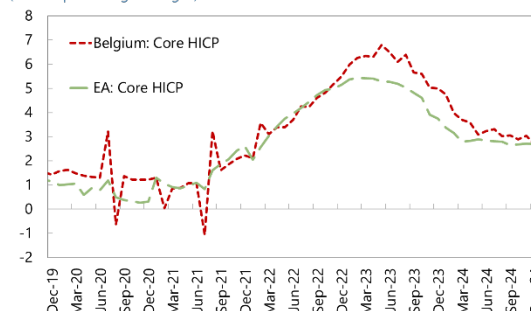
(Annual percentage changes)



Sources: Eurostat and Haver Analytics.

Core HICP Inflation

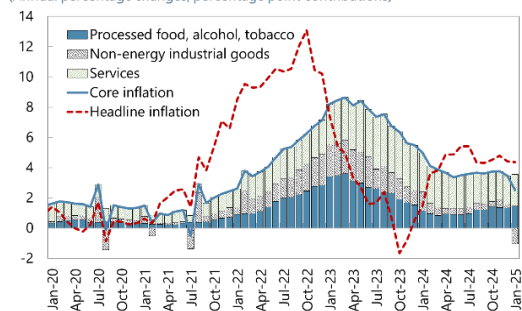
(Annual percentage changes)



Sources: Eurostat and Haver Analytics.
Note: Excluding food, energy, alcohol, and tobacco.

HICP Inflation

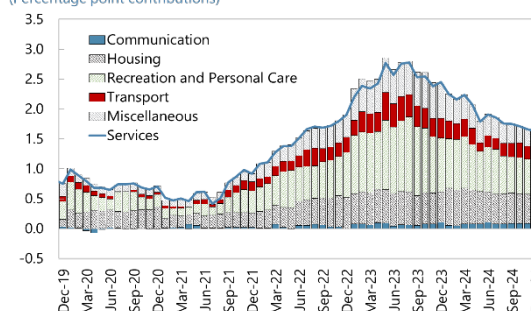
(Annual percentage changes, percentage point contributions)



Sources: StatBel and IMF staff calculations.

Contributions of Services to Headline HCIP

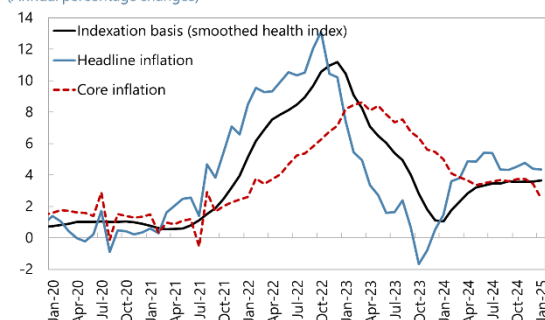
(Percentage point contributions)



Sources: StatBel and IMF staff calculations.

HICP Inflation and Wage Indexation Basis

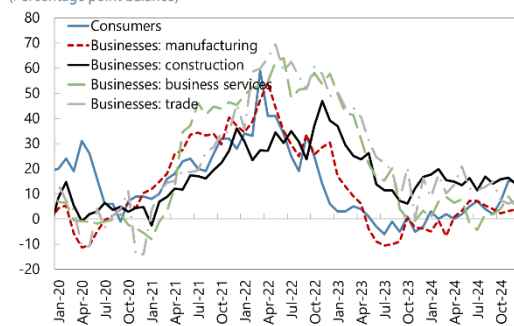
(Annual percentage changes)



Sources: StatBel, Eurostat and IMF staff calculations.

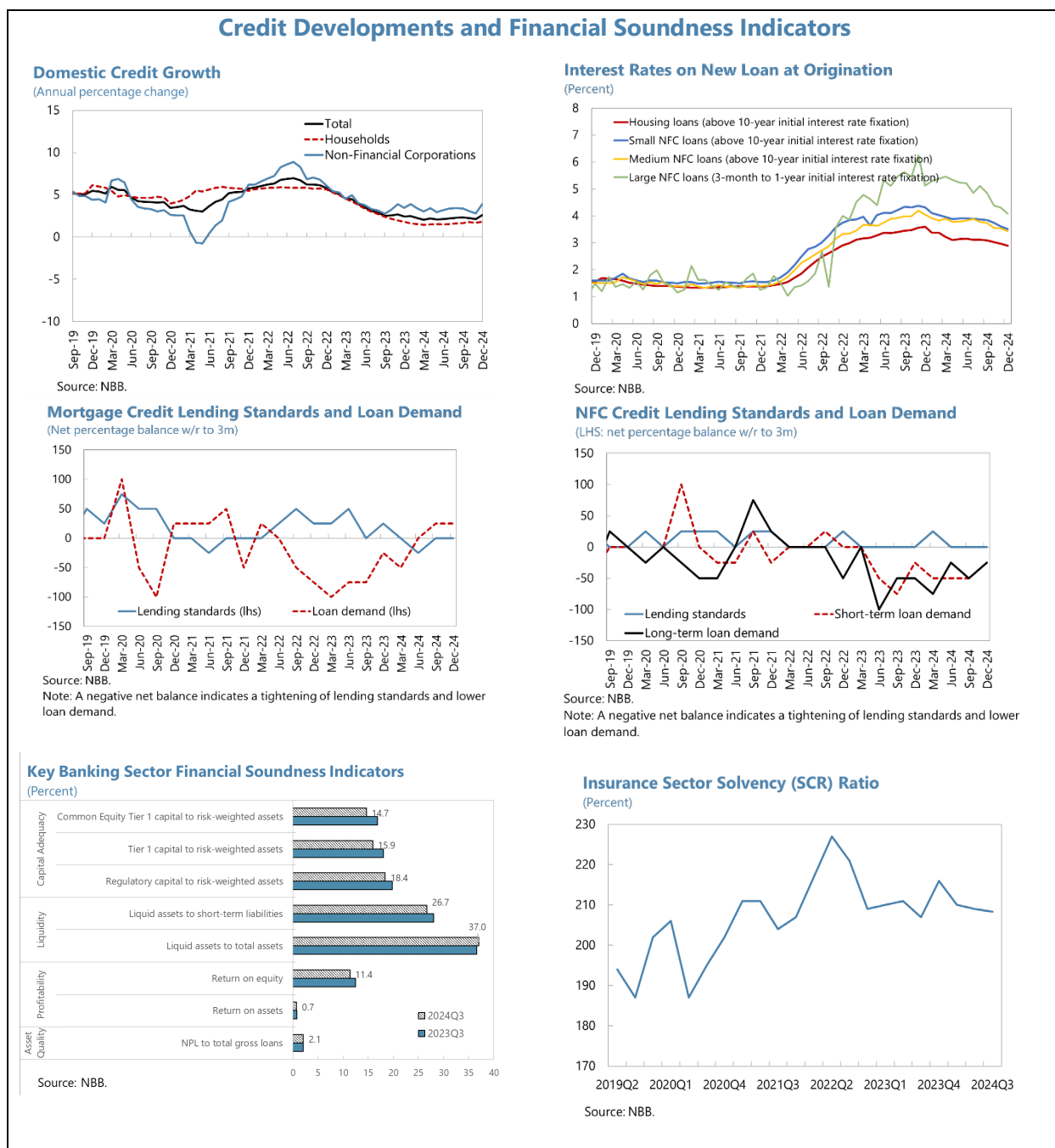
Price Expectations, 3-Months Ahead

(Percentage point balance)

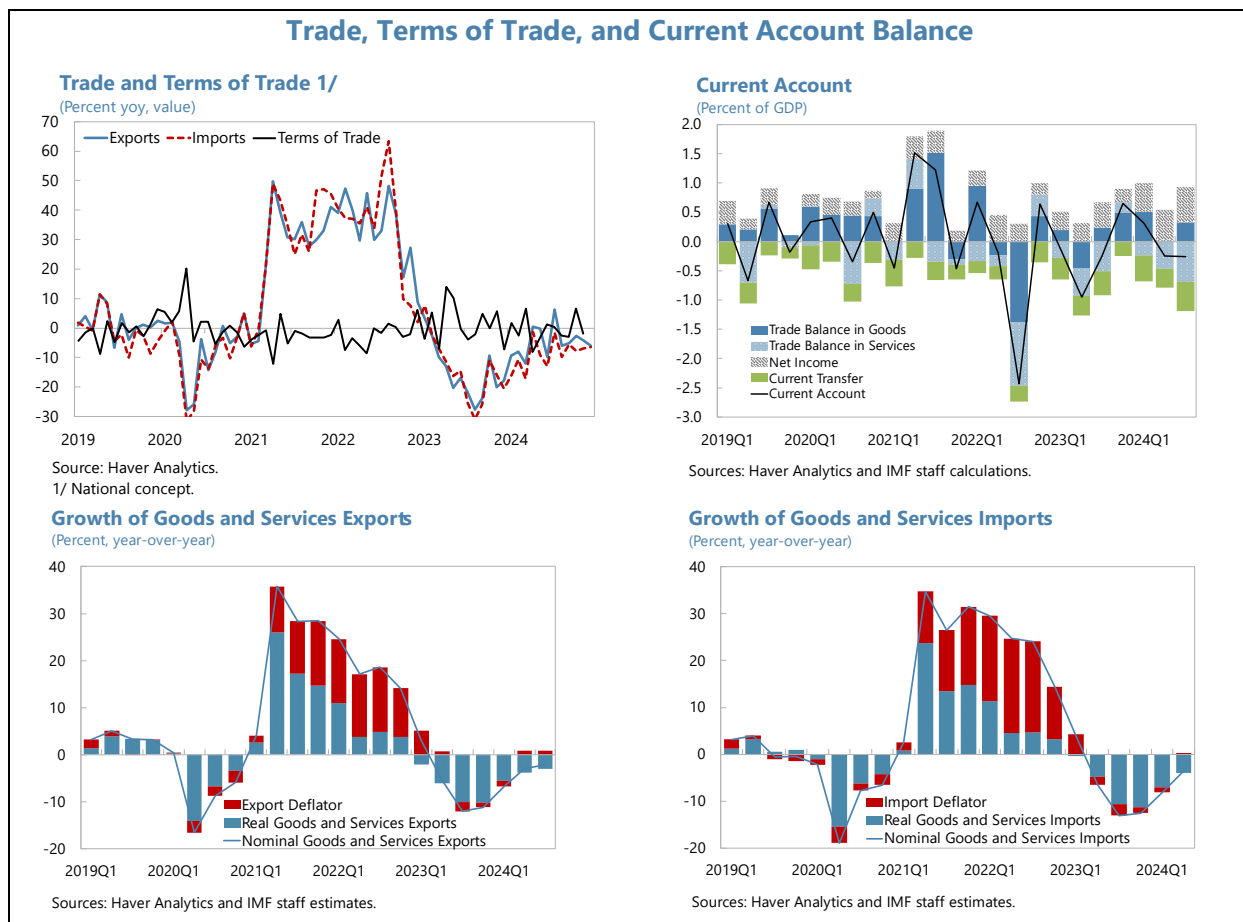


Source: NBB.

4. Financial sector soundness metrics remain comfortable. Despite slowing credit demand until 2024H2, bank profitability and capital adequacy remained robust as net interest margins benefitted from a faster repricing of assets than deposits during the tightening phase of monetary policy. System-wide liquidity buffers have remained well above regulatory thresholds, and increased with deposit inflows after the one-year government bond that collected € 22 billion—largely from household savings accounts—expired in September 2024 and was only marginally rolled over. Non-performing loans remained low, at 2.1 percent of total gross loans at end-2024Q2. The insurance sector remains profitable and solvent (Figure 2).



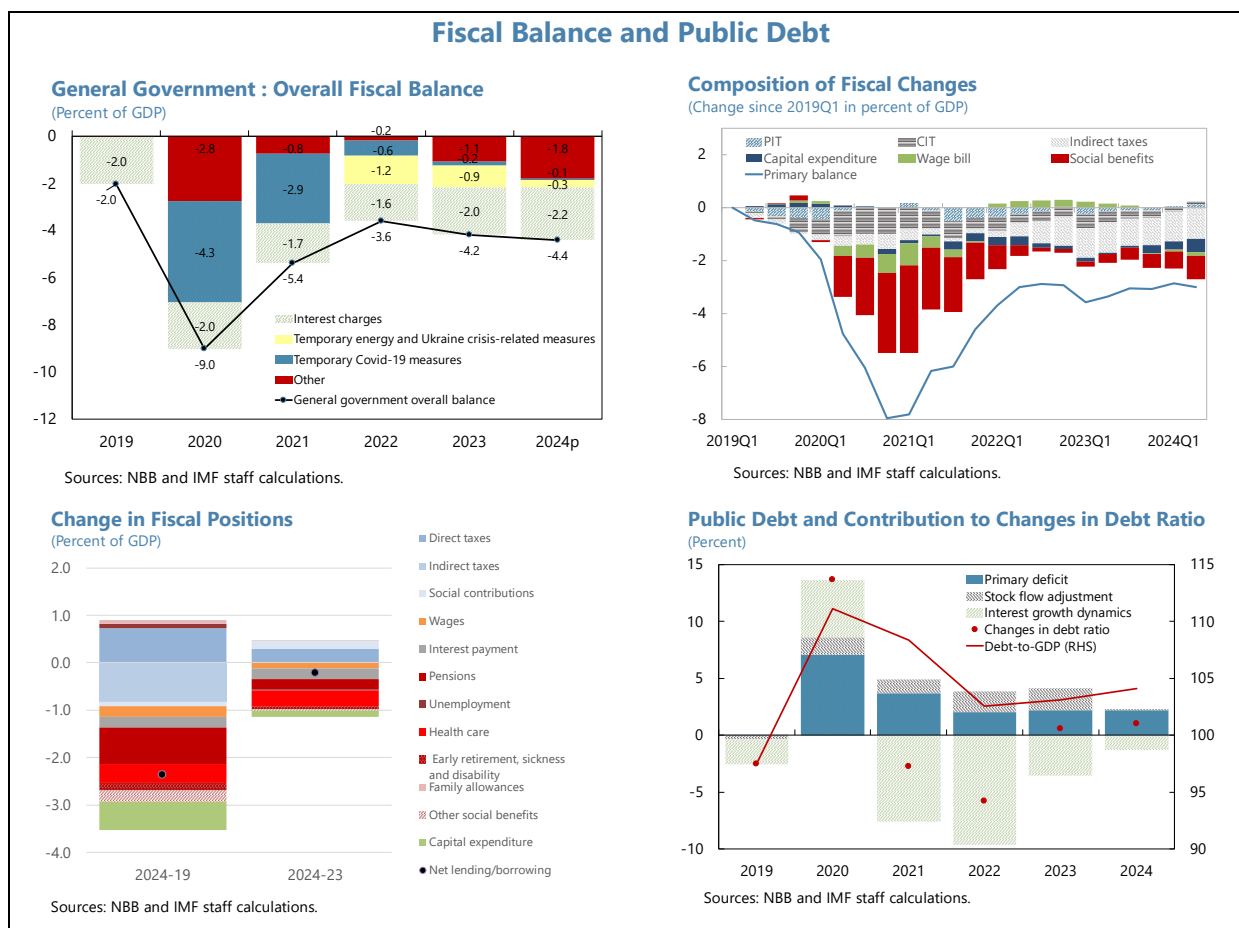
5. Based on preliminary assessment, the external position in 2024 was weaker than implied by medium-term fundamentals and desirable policies (Annex I). The current account (CA) deficit narrowed to 0.2 percent of GDP in 2024Q1-Q3, from 0.7 percent of GDP in 2023, driven largely by a lower trade deficit. Both exports and imports declined in 2024, driven by chemicals, pharmaceuticals, and transport equipment, with a larger decline in imports against stable terms of trade (Figure 3).



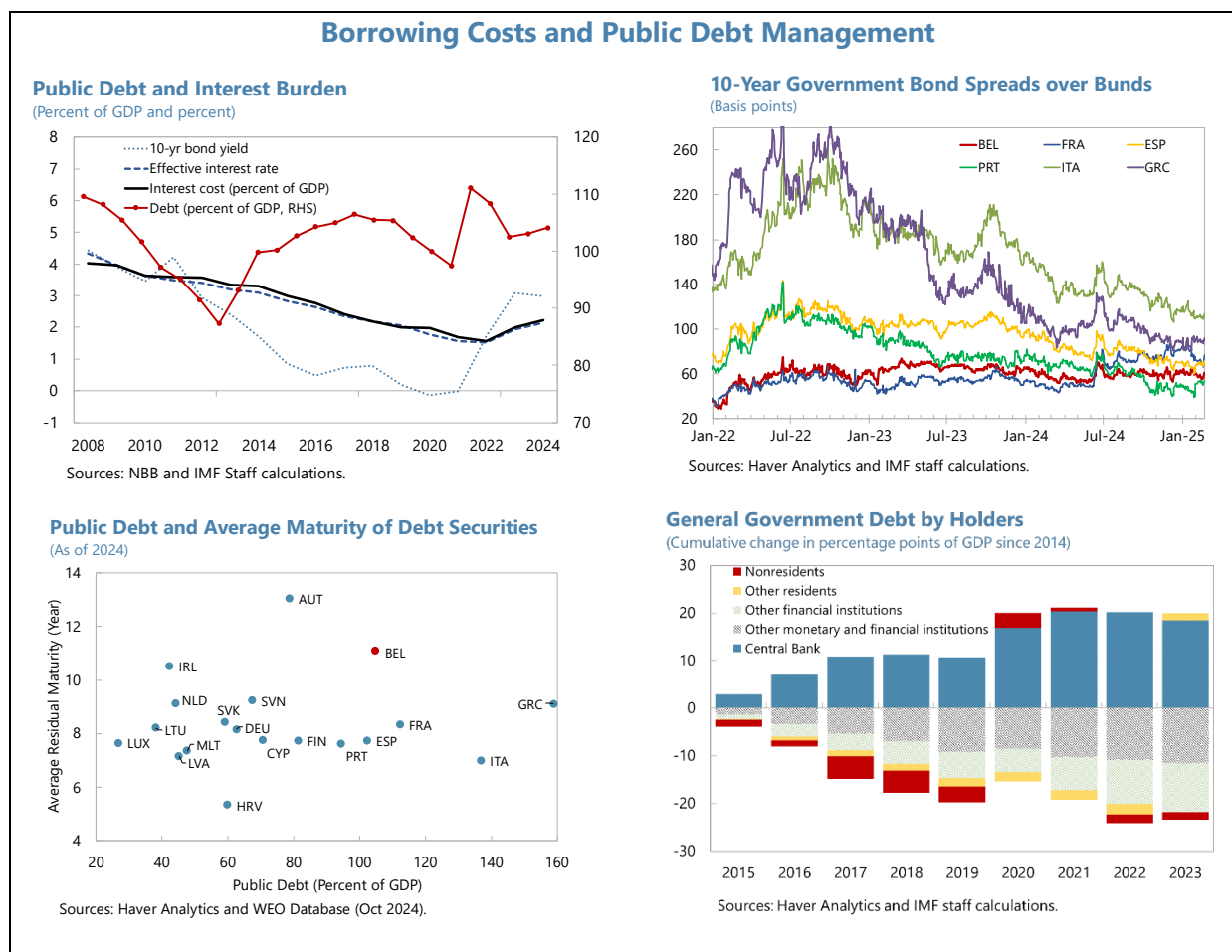
6. The general government deficit widened in 2024. The overall deficit increased to 4.4 percent of GDP in 2024 from 4.2 percent in 2023, despite the unwinding of pandemic and energy-crisis support. Wage, social benefits, and interest expenses remained higher than pre-crisis in percent of GDP, largely driven by indexation, and discretionary increases in pension and healthcare spending. While the overall deficit of the federal government narrowed to 3.0 percent of GDP in 2024 from 3.3 percent in 2023, the widening of the regions and communities' aggregate deficit to 1.6 percent of GDP drove the overall increase (Text Table, Figure 4).

Belgium: Summary of Fiscal and Public Debt Positions						
(Percent of GDP)						
	2019	2020	2021	2022	2023	2024
	Est.1/					
Net Lending(+)/Borrowing (-)						
General government	-2.0	-9.0	-5.4	-3.6	-4.2	-4.4
Entity I	-1.7	-6.9	-3.7	-2.6	-3.0	-2.8
Federal government	-2.0	-7.2	-4.0	-2.4	-3.3	-3.0
Social Security Funds	0.2	0.2	0.3	-0.2	0.3	0.2
Entity II	-0.3	-2.1	-1.7	-1.0	-1.2	-1.6
Regions and Communities	-0.2	-2.2	-1.7	-0.9	-1.2	-1.6
Local government	-0.1	0.1	0.0	-0.1	0.0	0.0
Consolidated Gross Debt						
General government	97.5	111.2	108.4	102.6	103.1	104.1
Entity I	82.9	93.0	90.9	85.1	85.4	85.1
Federal government	82.8	92.8	90.8	85.0	85.3	85.0
Social Security Funds	0.2	0.1	0.1	0.1	0.1	0.1
Entity II	18.0	21.8	21.6	21.4	21.5	22.3
Regions and Communities	13.2	16.8	17.1	17.0	17.4	18.3
Local government	4.9	5.0	4.5	4.4	4.2	4.1
Intersectoral Consolidation	-3.4	-3.7	-4.1	-3.8	-3.8	-3.5

Sources: NBB; FOD BOSA (February 2025); and IMF staff calculations.
1/ Latest data for the breakdown of consolidated gross debt are as of 2024Q3.



7. Notwithstanding its elevated debt level, Belgium's overall risk of sovereign stress is assessed as moderate (Annex IV). At 104 percent of GDP in 2024, public debt is among the highest in the euro area. The aggregate debt of regional and community governments increased to 18 percent in 2024Q3 from 13 percent in 2019 (Figure 5). However, Belgium's public debt benefits from a high quality of debt management: the average residual maturity is among the longest within euro area peers (11.1 years in 2024, with only 14 percent of gross debt at residual maturity of up to one year), and the debt stock benefited from refinancing at low interest rates in 2017–21. Belgium's spreads remain among the lowest in the euro area (61 bps as of 2/21/2025).



8. Protracted federal government formation put policymaking on hold for an extended period. Following federal and regional elections on June 9, 2024, a federal coalition government was formed only on February 3, 2025. During the interim, the former government remained in a caretaker position, with limited policy-decision capacity (Annex II). The new government, led by Prime Minister De Wever, is a coalition of five parties, comprising Mr. De Wever’s New Flemish Alliance (Flemish-nationalist), Mouvement Réformateur (French-speaking liberals), CD&V (Flemish Christian Democrats), Les Engagés (French-speaking centrists), and Vooruit (Flemish socialists).

9. The new coalition agreement includes significant structural reforms and seeks to pursue fiscal consolidation. During the next four years, the government intends to reduce the fiscal deficit and pursue important reforms, including shifting part of the tax burden from labor to capital and reviewing social benefits, introducing capital gains taxation, increasing labor market flexibility, imposing time limits on unemployment benefits, raising the effective retirement age, and reforming the health sector (Table 1).

Table 1. Belgium: Selected Planned Reforms in the 2025–29 Coalition Agreement

Tax and Social Benefits Reforms	
Ensuring that working individuals earn at least net €500/month more than those who do not work.	<ul style="list-style-type: none"> • Increase the size of the zero-rate first bracket of PIT while abolishing tax reductions for unemployment benefits. • Reduce social security contributions on low wages to increase the net income. • Reduce special contributions for social security that was introduced in 1994. • Link social benefits to income and status, limit the total benefits per family in relation to the income level of minimum wage earners. • The marriage quotient, which allows the transfer of a portion of the higher-earning partner's taxable income to the lower-earning partner in joint tax filing for tax savings, will be halved for non-pensioners by 2029. For pensioners, this regime will be phased out. • Living wage and long-term unemployment benefits will not be indexed, except in the case of exceptionally high inflation. • Introduce a central register, in which all social assistance and benefits will be included, to calculate the amount of assistance received by an individual from all the agencies.
Introducing a capital gains tax	<ul style="list-style-type: none"> • 10 percent on the future realized capital gains of financial assets, with an exemption of the first €10,000 of profit (indexed annually).
Streamlining tax expenditures	<ul style="list-style-type: none"> • A number of small deductions, exceptions and exemptions from personal income tax will be abolished, for instance: tax reduction for legal aid, adoption costs, exemptions on donation (reduced from 45 to 30 percent), and interest deduction for non-owner-occupied homes.
Climate	<ul style="list-style-type: none"> • Increase the VAT rate on coal from 12 percent to 21 percent. • Reduce the VAT rate for the supply and installation of heat pump from 21 percent to 6 percent for the next 5 years. • Extend eligibility for the reduced VAT rate from 21 percent to 6 percent for demolition and reconstruction of dwellings. • Increase the VAT rate for the supply and installation of fossil fuel combustion boiler from 6 percent to 21 percent.
Pensions	
Pension bonus and malus	<ul style="list-style-type: none"> • Bonus: pension amount will be increased by 2 percent (until 2030), 4 percent (until 2040), 5 percent (from 2041) per each additional year of work after the statutory retirement age for those who have at least 35 years of career with higher effective work requirement. • Malus: pension amount will be reduced from 2026 by 2 percent (until 2030), 4 percent (until 2040), 5 percent (from 2041) per year of retirement before the statutory age if the pensioner meets the career condition for early retirement but does not have 35 years of career with higher effective work requirement.
Special categories	<ul style="list-style-type: none"> • Gradually raise the retirement age for specific civil servant groups (e.g., some military personnel, currently at 56 years, and some SNCB personnel currently: 55 years) by one year annually from 2027 until they reach the legal retirement age of other employees and civil servants.
Early retirement	<ul style="list-style-type: none"> • Allow employees to retire at 60 with 42 years of work with sufficient actual work performance starting on January 1, 2027 (current requirement is 44 years).
Calculation of civil servant pension	<ul style="list-style-type: none"> • Transitioning from the last ten years salary to a career-wide salary as basis for pension calculation. • Phase out the preferential career calculation for civil servants in active services and teachers for whom each year worked currently counts as 1.05 instead of 1. The coefficient will decrease to 1.025 in 2032. For all other categories the coefficient will be equal to 1 starting in 2027. • Abolition of the indexation of civil servant pensions to wage increases of active civil servants.
Pillar II	<ul style="list-style-type: none"> • By 2035, all sectors must provide a supplementary pension (Pillar II) for which the employer's contribution should be at least 3 percent.

Table 1. Belgium: Selected Planned Reforms in the 2025–29 Coalition Agreement (concluded)	
Labor Market	
Unemployment benefits	<ul style="list-style-type: none"> Limit unemployment benefits to a maximum of two years, except for individuals over 55 years old with at least 30 years of employment of at least 156 days per year.
Reintegration employees on long-term sick leave	<ul style="list-style-type: none"> Companies (except SMEs) will be responsible for a portion of sick pay by contributing 30 percent of the benefit that the NIHDI pays to an employee for the second and third months of the sickness period. Sanction those who do not cooperate sufficiently with a reintegration process (via the employer) or a return-to-work process (via the health insurance fund). Making the financing of the operating costs of health insurance funds more dependent on the extent to which they effectively succeed in reintegrating long-term sick employees into the labor market.
Flexibility	<ul style="list-style-type: none"> Relax regulations around night work (e.g., define “night work” from midnight instead of 8pm), Sunday work, and overtime to reduce costs for companies. Flex-job: increase the maximum annual income for flex-jobs (to €18,000 from €12,000); eligible to all sectors while retaining sectors’ autonomy to exclude or regulate flex-jobs. In consultation with social partners, introduce a new legal framework before June 30, 2025, allowing an annualization of working hours.
Firing costs	<ul style="list-style-type: none"> Limit severance pay to 52 weeks for new hires.
Wage-setting mechanism	<ul style="list-style-type: none"> Maintain the principle of automatic-wage indexation (AWI) but request social partners to provide options to reform of wage law and AWI by end-2026.
Efficiency of Spending and Institutional Arrangement	
Administrative Efficiency	<ul style="list-style-type: none"> To abolish the Senate at the time of the next federal elections, for operational and budgetary efficiency gains.
Cooperation	<ul style="list-style-type: none"> Creation of an inter-federal framework in each of the areas of budget, energy and climate for more efficient cooperation between the federal and federated entities.
Healthcare Reform	<ul style="list-style-type: none"> Implement measures with major impact on the efficiency in healthcare resources: (i) more preventive care, (ii) a reduction in the cost of medicines, and (iii) a healthcare system that is less dependent on traditional hospital admissions (as identified by the IMF).
Source: Based on preliminary version of the Federal Coalition Agreement 2025–29.	

OUTLOOK AND RISKS

10. Growth is expected to be stable in 2025 and inflation to gradually return to target.

Output growth is expected to gradually return to its 1.3 percent potential in 2027 supported by stronger credit growth from monetary policy easing and higher contribution from net exports. Inflation is projected to decline as wage growth moderates and the eventual projected drop in international energy prices passes through to retail prices. In the medium term, the external CA is projected to return to small surpluses supported by improvements in the trade balance as energy prices ease and external demand increases. Under unchanged policies, the fiscal deficit would widen to 7.2 percent and public debt would continue rising to 123 percent of GDP in 2030, heightening vulnerabilities.

11. The baseline outlook is subject to sizeable risks, tilted down for growth and up for inflation (Annex III). Growth could be weaker if the expected recovery in external demand falters,

amid deepening geoeconomic and trade fragmentation, including further increases in tariff barriers. Inflation could be higher than projected due to adverse energy price developments, or if persistently-high core inflation affects expectations. Fiscal sustainability concerns may result in increases in borrowing costs, especially in a scenario in which global risk aversion increases, eventually requiring an abrupt fiscal consolidation, with negative consequences for growth, and potentially, financial stability.

Authorities' Views

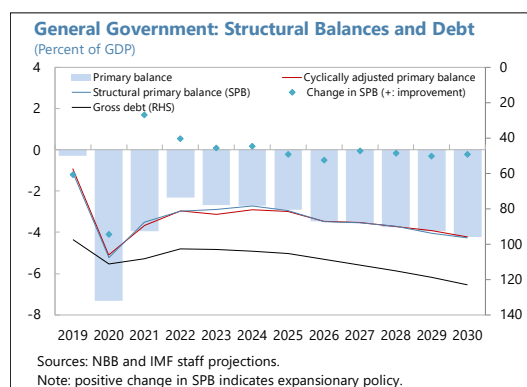
12. The authorities broadly shared staff's views on the baseline outlook and key risks. They considered that growth will gradually increase to its potential and that inflation will return to target as wage growth moderates. They agree that, absent policy change, the fiscal deficit and the public debt would continue drifting up, pushed by aging-related spending and higher interest payments. They saw key risks as external, including the risk of escalating trade wars, which could affect Belgium both directly and indirectly through the impact on its main EU trading partners—notably Germany. Uncertainty on the pace of monetary policy normalization may affect investment and real estate developments. Domestically, inflation could prove stickier due to automatic wage indexation.

POLICY DISCUSSIONS

The consultation focused on the multiple challenges facing the economy. In the short term, a tight fiscal policy is needed to support disinflation given upside risks and monetary policy loosening. From a longer perspective, policies need to rebuild fiscal buffers, reduce vulnerabilities associated with a high and rising public debt, address spending pressures, increase competitiveness to correct external imbalances, and foster higher growth. Addressing these challenges requires sustained fiscal consolidation that shelters public investment, ambitious fiscal and structural reforms to increase labor force participation and productivity, progress in the green transition, and efforts with EU partners to deepen the single market. Meanwhile, continued progress in implementing the 2023 FSAP recommendations will help preserve macrofinancial stability.

A. Rebuilding Fiscal Buffers Despite Pressures

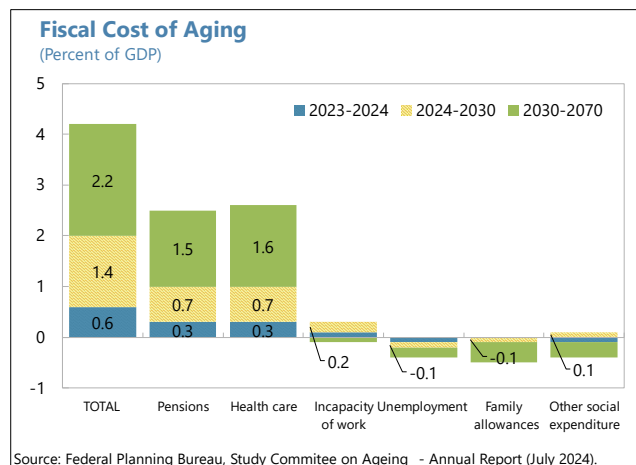
13. Slow disinflation and elevated and rising fiscal deficits and public debt call for sustained consolidation. The pandemic and energy crisis have increased deficits structurally through automatic indexation of wages and social benefits and higher healthcare spending. Fiscal consolidation is needed in the short term to ensure that the monetary-fiscal policy mix is supportive of further reducing inflation, given the still-positive output gap, rising unit-labor costs, loosening of ECB's monetary policy and significant upside risks to inflation. More broadly, significant and sustained adjustment is needed to



rebuild fiscal space to address future shocks, reduce vulnerability to changes in market sentiment, and preserve the core of Belgium's social model, which values solidarity and equity.

14. Concurrently, rising spending pressures from an aging population, defense, and the green transition will continue throughout and beyond the medium term.

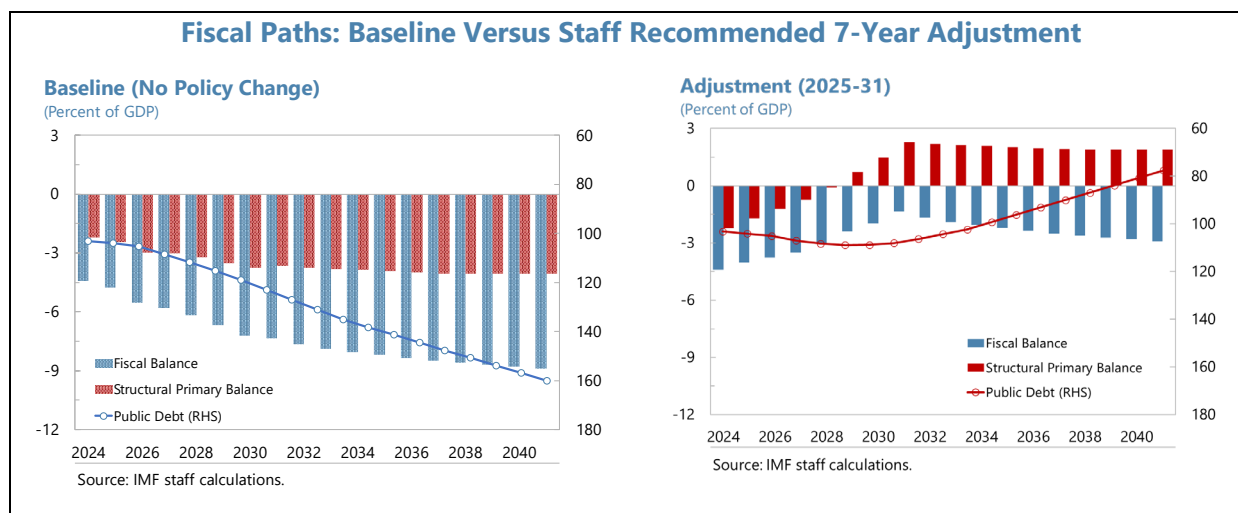
The fiscal cost of aging is projected to increase by 4.2 percentage points (ppt) of GDP during 2023–70 to reach 30 percent of GDP in 2070, with an annual increase above 0.2 ppt GDP in 2025–30. Moreover, Belgium is committed to increasing its defense spending. The implied cost of the green transition on public finances is far more uncertain but likely significant. Absent clarity on medium-term investment plans and other fiscal measures, it is not fully informing baseline projections.



15. Deficit reduction under the new EU economic governance framework (EGF) would improve fiscal sustainability. Since July 2024, Belgium has been subject to an EU excessive deficit procedure, which mandates a minimum reduction of the structural fiscal balance of 0.5 percent of GDP per year until the overall deficit falls below 3 percent of GDP (2029 in staff's projection). Under the EGF, Belgium will need to submit a medium-term fiscal structural plan (MTFSP), together with the 2025 budget.¹ The MTFSP will set out the expenditure path, priority reforms, and investments for the next four or seven years.² Given the magnitude of the needed adjustment, a seven-year adjustment accompanied by significant and credible growth-enhancing reforms and public investments is advisable. Under this timeline, staff estimates that an annual reduction of the structural primary balance of 0.6 ppt of GDP would be required for the overall deficit to reach below 3 percent of GDP by the end of the adjustment period and remain below 3 percent of GDP for ten years thereafter, as required under the EGF. Gross public debt would decline to about 78 percent of GDP, 82 ppts of GDP lower than in the baseline, significantly rebuilding fiscal space. Absent structural reforms to increase productivity, growth would be on average 0.5 ppt lower than in the baseline in 2025–31.

¹ For 2025H1, fiscal policy will rely on a provisional budget prepared by the caretaker government.

² See [2023 Article IV report](#), Annex IV for a description of the EGF.



16. To minimize the risk of slippage, the adjustment path should be based on conservative assumptions. As compliance with the rules under the EGF will be assessed by the EC solely through a (nominal) net primary expenditure path, the underlying assumptions to derive the expenditure path from the required deficit reduction should be sufficiently conservative to lower the risk of deviating from the deficit targets (e.g., if ambitious growth or revenue assumptions do not materialize). Staff estimates that to maintain the deficit below 3 percent of GDP during 2031-41, the average net primary expenditure growth through the adjustment period should not exceed 2 percent. This is lower than the EC's recommended net primary expenditure average growth of 2.5 percent, based largely on higher revenue projection by the EC. Furthermore, it is prudent to assume limited return on growth of reforms in the short term as structural reforms typically take time to bear fruit.

17. The fiscal adjustment should primarily focus on rationalizing current spending, while making room for more public investment. Together with structural reforms, this would help mitigate the effects of substantial, sustained, multi-year consolidation on growth. Comparisons with peers show that rationalizing social benefits and the public wage bill will need to be at the core of consolidation, aided by comprehensive spending and tax expenditure reviews to target budgetary savings.³ In contrast, public investment should be preserved or, better, increased to mitigate the fiscal impact of consolidation, support digitalization and the green transition, and boost medium-term potential growth.⁴ Accelerating the implementation of investment and reform under the NGEU recovery and resilience plan, which has stalled, remains important.

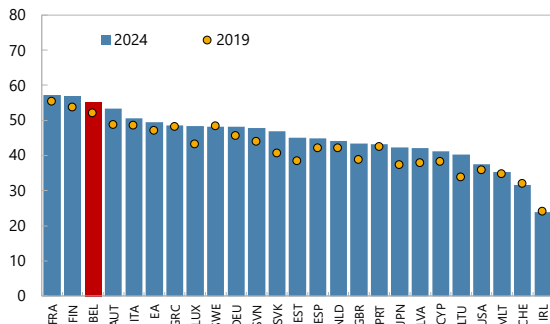
³ 2023 Selected Issues Paper (SIP) ["Fiscal Consolidation in Belgium: How Much and by what Means?"](#)

⁴ Accompanying SIP "Increasing Public Investment, Fostering Digitalization, and Supporting the Green Transition: A Difficult Challenge under Fiscal Consolidation."

Rationalizing Current Spending and Preserving Public Investment

Public Expenditure

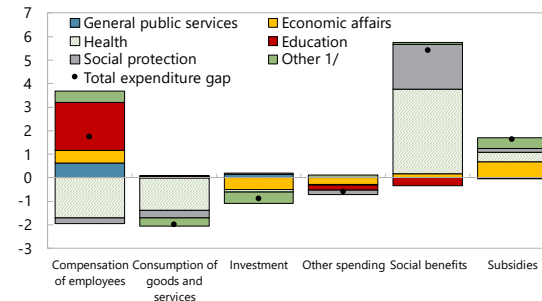
(Percent of GDP)



Sources: IMF World Economic Outlook, Oct 2024.

Contribution to Spending Gap vis-à-vis EU14 in 2022

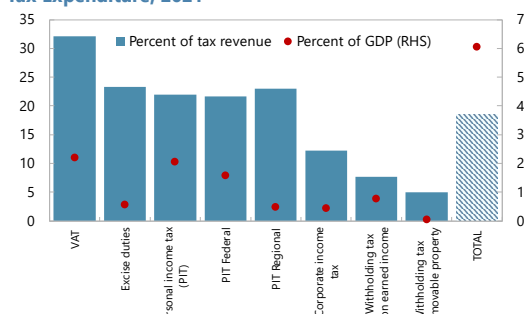
(Percent of GDP)



Sources: Eurostat and IMF staff estimates.

1/ includes defense, public order and safety, environmental protection, housing and community amenities, recreation, culture, and religion spending.

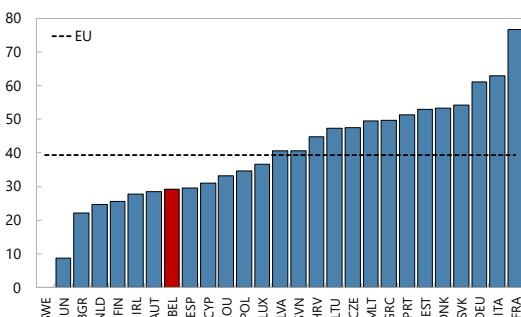
Tax Expenditure, 2021



Source: Federal Public Service Finance (Report on the Inventory of Federal Tax Expenditures (March 2024).

Recovery and Resilience Fund (RRF) Disbursement

(Percent of total RRF allocation)



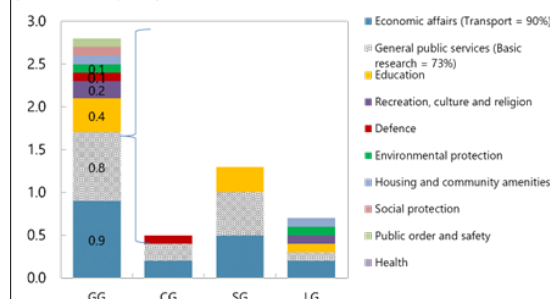
Sources: European Commission and IMF staff calculations.

18. With competing investment and consolidation needs, increasing the efficiency of public investment is crucial.

- **Infrastructure.**⁵ Raising the efficiency of investment in infrastructure will require laying out clear infrastructure investment strategies, strengthening project appraisals, selection and governance, and improving the coordination within and among the federal government and federated entities.
- **Healthcare.**⁶ Access to healthcare and health outcomes are comparatively good but achieved at a high cost. Significant efficiency gains could be realized by placing more emphasis on preventive care, reforming the organization and role of hospitals, and further promoting generic

Public Gross Fixed Capital Formation by Institutional Sector and by Function (COFOG)

(Percent of GDP, 2022)



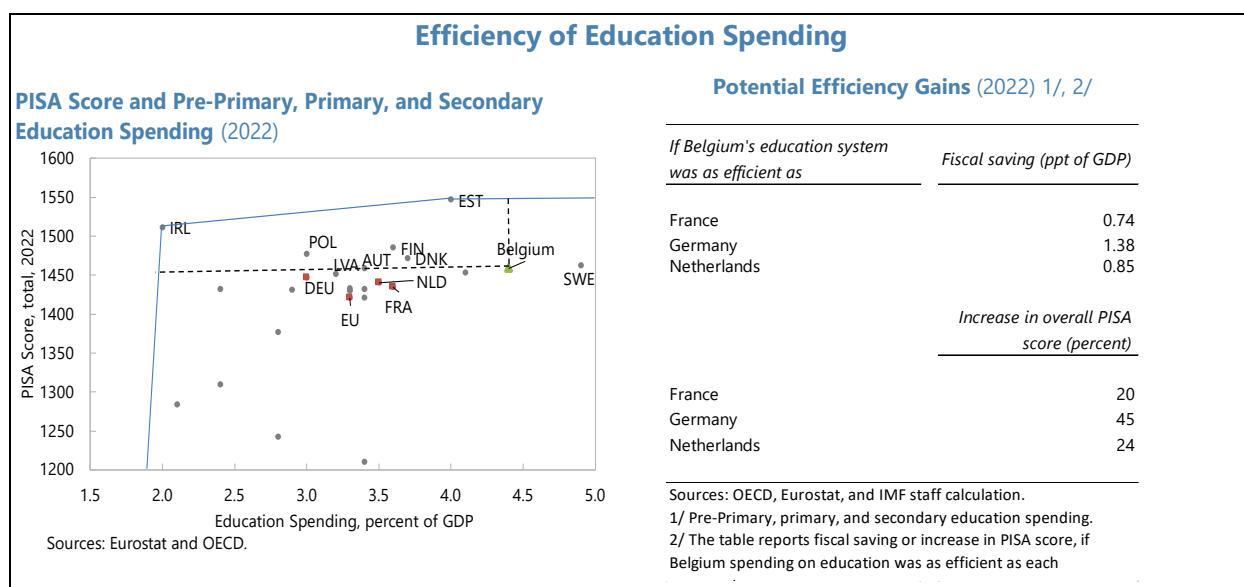
Sources: Eurostat and IMF staff calculations.

⁵ Accompanying SIP "Improving the Efficiency of Public Investment in Infrastructure in Belgium."

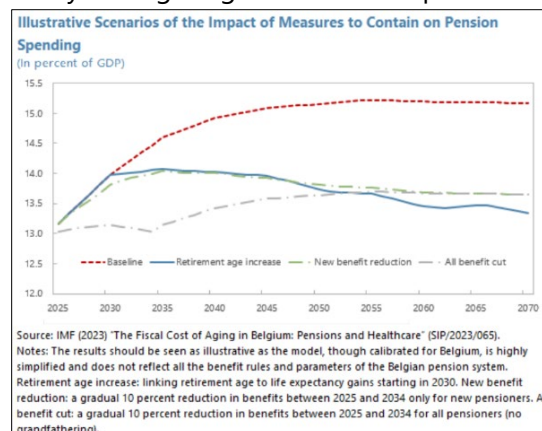
⁶ 2023 SIP: ["The Fiscal Cost of Aging in Belgium: Pensions and Healthcare."](#)

drugs. This would free resources to help absorb part of the projected increase in healthcare spending due to aging.

- **Education.**⁷ Increasing the efficiency of education spending could yield saving, but only in the medium term. At over 6 percent of GDP, spending on education is 1.5 percent of GDP higher than both EU average and the three large neighbors' average. Reforms (132) could help reduce spending by up to 1.4 ppts of GDP while achieving the same outcome, or improve educational outcomes without increasing spending (Text Table).



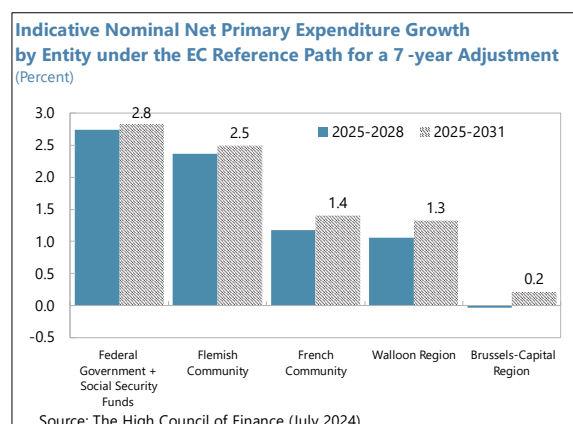
19. Pension reforms remain needed to limit pressures from aging. Reforms in 2020 and 2022 focused on improving pension adequacy (increasing minimum pension and pension bonus) and increased long-term costs. Sustainability reforms—preferably through regular reviews of pension policies—should aim to raise the effective retirement age in line with healthy-life expectancy, including by incentivizing (e.g., through penalties for early retirement) and facilitating (e.g., with life-long learning and upskilling) workers to remain in employment longer. Eligibility criteria and controls for specific pension regimes (e.g., disability pensions) should be reviewed, and the increase in pension benefits limited, notably by reviewing automatic indexation. A review of special provisions (e.g., arduous jobs) could inform reforms to balance fairness and costs.



⁷ See below and accompanying SIP "Public Education in Belgium: Improving Outcome while Reducing Costs."

20. Although tax revenues are high, tax reforms should play a role in supporting fiscal consolidation. Reforms should aim at shifting part of the tax burden from labor to capital, with no revenue loss. Belgium has the highest labor-tax wedge in the OECD, at 52.7 percent in 2023 for a single worker with no children earning the average wage (euro area average: 42 percent). Reducing labor taxation will help increase the employment rate. Also, capital gains of individuals are currently largely tax exempt, while there is room to reduce transaction-based taxes, which are more distortionary. All income from capital (e.g., interests, dividends, and capital gains) should be taxed in the same way to ensure neutrality in investment decisions, ideally by incorporating these revenues into the overall taxable income subject to PIT. Reducing tax expenditure, [estimated at 6 percent of GDP in 2021](#) and concentrated in VAT and PIT, offers significant potential for simplification and efficiency gains. Tax reforms will need to be coordinated between the federal and federated entities for their revenue and distributional impacts.

21. The new EGF provides an opportunity to strengthen Belgium’s fiscal framework with a revitalized fiscal council and greater accountability of all government levels. The public sector borrowing requirements section of the High Council of Finance (HCF) serves as Belgium’s national fiscal council. However, its effectiveness and ability to ensure that each federated entity’s fiscal behavior is consistent with the country’s European commitments have been challenged by the complexities of Belgian fiscal federalism (including the lack of hierarchy among the federal, regional, and community governments). The EGF provides a renewed opportunity to introduce binding rules for burden sharing the fiscal adjustment, within a credible multi-year consolidation plan and with strengthened accountability for all entities. Enhanced staffing, direct reporting to parliaments, and greater outreach would help strengthen the role of the HCF.



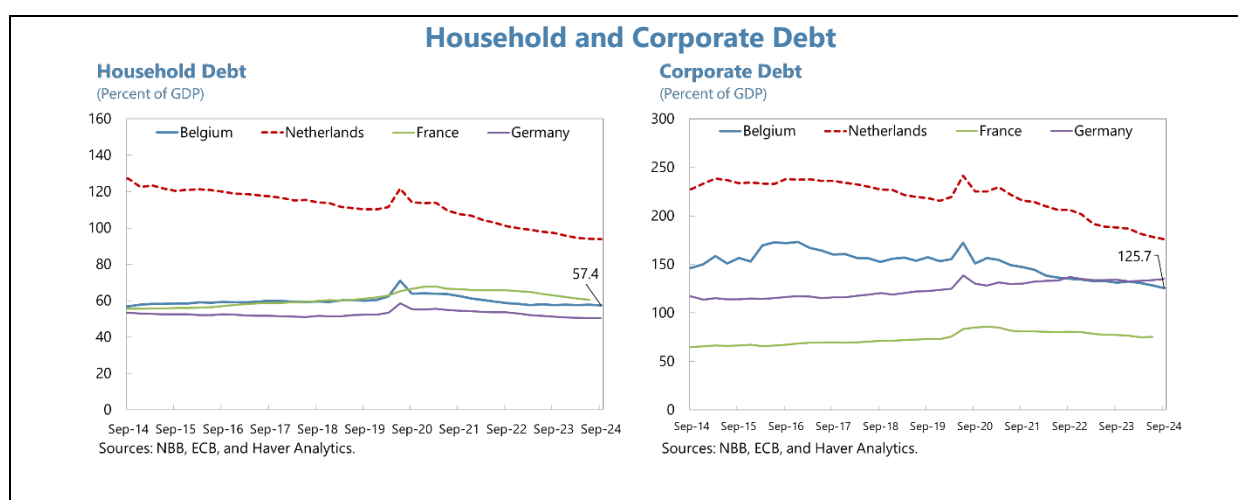
Authorities’ Views

22. The authorities concurred with staff on the budgetary challenges facing Belgium and are committed to improving fiscal sustainability. They intend to pursue a 7-year adjustment under the EGF, backed by fiscal-structural reforms broadly consistent with staff’s recommendations. On taxation, they intend to rebalance taxation from labor to capital but with an overall reduction of the tax burden, focused on lower income to incentivize work. They intend to introduce taxation of capital gains and identified several tax expenditures that can be eliminated. On pensions, planned reforms aim at incentivizing working longer, notably through penalties for early retirement and bonuses for retirement past the statutory age. The authorities agree that improving the efficiency of spending is needed and intend to reform the healthcare system as recommended by staff. They also aim to strengthen collaboration among federal and regional entities through a national cooperation

agreement consistent with their European fiscal commitments and including penalties for those who would deviate from their objectives.

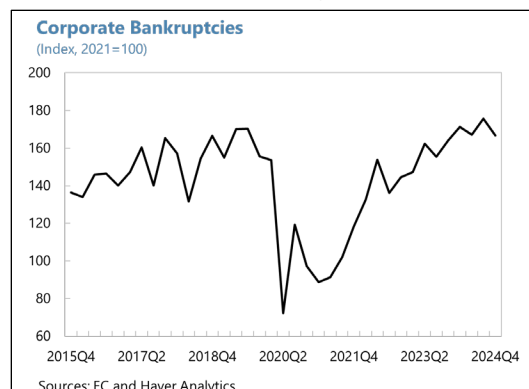
B. Preserving Macrofinancial Stability

23. The 2023 FSAP identified several systemic risks but found the financial sector to be resilient under severe shock scenarios. Against a backdrop of weaker activity, rising interest rates, and cooling real estate markets, the FSAP saw the main financial stability risks as emanating from the large, concentrated, and interconnected banking sector, private sector indebtedness, and exposure to interest rate risk and the residential and commercial real-estate sectors. However, FSAP stress tests showed that banks and nonbank financial institutions were resilient to severe macroeconomic shock scenarios, albeit with some heterogeneity and with some banks requiring liquidity reinforcement.



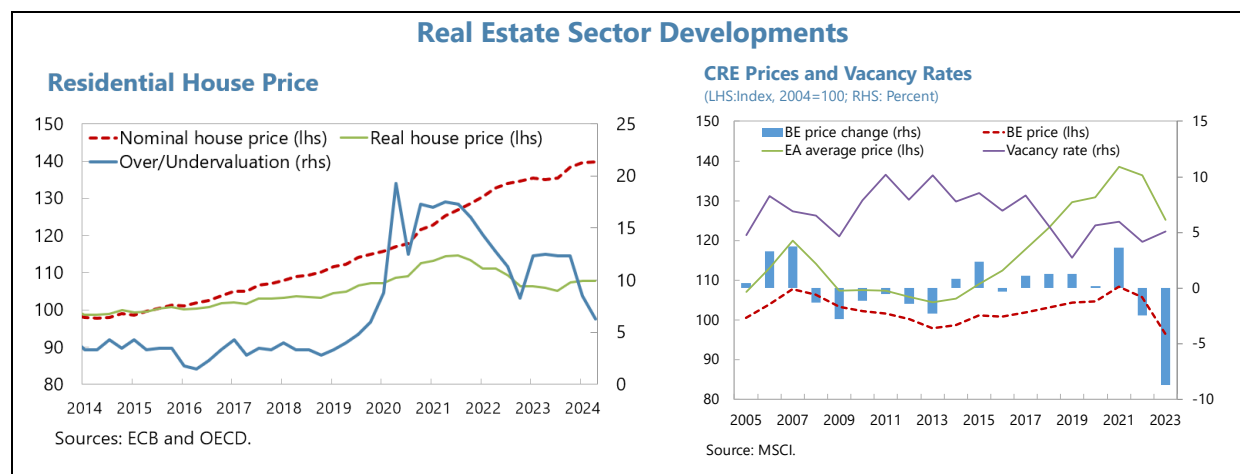
24. Overall systemic risks remain moderate, but their nature is gradually evolving, reflecting changing macroeconomic and market conditions. While the economy is still slowing and real estate markets cooling, interest rates are now decreasing with the turn of the monetary policy cycle. With the structure of banking sector unchanged, systemic risks reflect the shifting backdrop:

- Household and corporate vulnerabilities continue to warrant monitoring.** The prevalence of fixed-rate mortgage loans helped keep household debt service costs broadly stable, while higher savings driven by robust employment and income growth boosted households' net wealth. Household indebtedness stabilized around 58 percent of GDP in 2024Q3 and has started declining in percent of disposable income. Corporate indebtedness has been declining and is moderate, including because the substantial



investments made in 2023 were largely cash financed. Profit margins stabilized in 2024H1 and rose in Q3 as labor cost pressures slowed. Corporate bankruptcies, however, are on the rise, warranting monitoring, although they remain in line with pre-pandemic trends.

- Risks from residential real estate have moderated but risks from the commercial sector (CRE) have increased.** House prices have continued to rise in nominal terms but have remained broadly stable in real terms since December 2023. The ECB estimates that prices of existing dwellings were approximately 6.3 percent over fundamentals in 2024Q2, down from 12.3 percent in December 2023. At the same time, CRE capital values contracted by 9 percent in 2023, less than the 25 percent haircut FSAP assumption. CRE market activity dropped sharply in 2023 and in 2024H1. Vacancies are up, reflecting lower demand for office, industrial, and logistics space. Exposures to real estate are, however, broadly stable (Figure 2).
- Risks from repricing of assets and liabilities have lessened.** Interest rates, which were rapidly increasing when the FSAP was conducted, are now declining. Pressure to raise remuneration of deposits is thus abating, reducing the related risk, but net interest rate margins will also decline as rates fall.



25. With financial stability risk levels expected to remain broadly unchanged, capital buffers and prudential limits on residential mortgages should be maintained. Since October 2023, macroprudential policy was appropriately tightened. Overall buffers rose to €3.6 billion on October 1, 2024, from €2 billion in 2024Q1, with the activation of the countercyclical capital buffer (CCyB) (1 percent effective October 1, 2024), while the sectoral systemic risk buffer (SSyRB) maintained against risks from residential mortgages was lowered from 9 percent to 6 percent. Lowering the SSyRB reflected the marked improvement in mortgage loan quality since the introduction of prudential expectations applying to new mortgages in January 2020 (Text Table). The share of new loans with loan-to-value (LTV) above 90 percent fell from 30 percent in 2019Q4 to 14 percent in 2024Q2.

Macprudential Expectations for New Residential Mortgage Loans	
Loans to owner occupiers	Loans to investors (buy-to-let)
LTV capped at 90 percent	LTV capped at 80 percent
<u>First-time buyers</u> : No more than 35 percent of loans with LTV > 90 percent, of which 5 percent may have LTV > 100 percent	No more than 10 percent of loans with 80 percent < LTV < 90 percent
<u>Other owner occupiers</u> : No more than 20 percent of mortgages with 90 percent < LTV < 100 percent.	
No more than 5 percent of mortgages with LTV > 90 percent, and DSTI > 50 percent or DTI > 9 percent	

26. Progress was made in implementing FSAP recommendations (Annex V). Coordination and cooperation within and among supervisory entities was enhanced. To strengthen systemic risk assessment, the integration of individual models within NBB's stress testing framework is underway. Regarding crisis management and safety nets, operational readiness to meet the seven-working days target for pay-outs by the deposit insurance fund was tested, with institutions covering 99.95 percent of deposits deemed to have provided timely and sufficient information. The deposit insurance fund is now segregated from the national budget, and its target level was increased to 1.8 percent of covered deposits. Resources for anti-money laundering and combating terrorism financing (AML/CFT) were increased.

27. However, key recommended actions remain outstanding, notably those requiring legislative action. Importantly, the institutional framework for macroprudential policy remains unchanged, against staff's recommendation to enhance the NBB's powers to activate or recalibrate capital requirements or set binding borrower-based measures independently of the government. For other measures, relevant legislation has been drafted but could not be submitted to parliament until a new government was formed. Regarding insurance supervision and regulation, these include (i) the adoption of a new legal framework for a natural catastrophe public-private partnership to enhance predictability of natural disaster-related insurance cover; and (ii) the introduction of regular complaints reporting by insurers. On AML/CFT, making the NBB a member of the national committee on terrorism financing is pending. Measures to strengthen banks' corporate governance framework also remain outstanding.

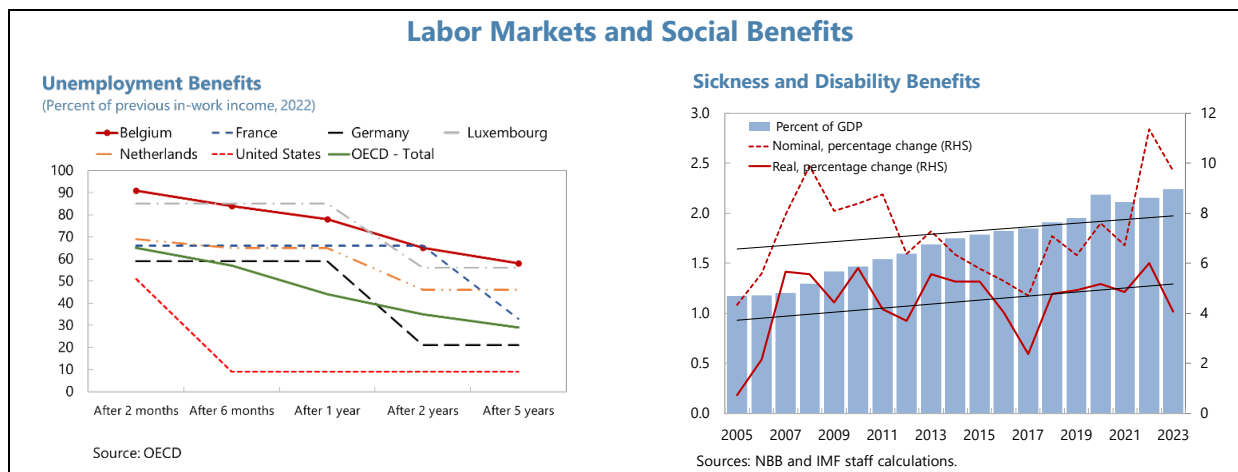
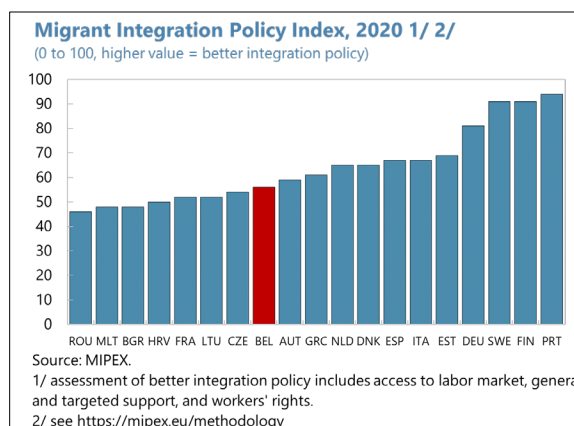
Authorities' Views

28. The authorities share staff's assessment of moderate financial sector risks and are committed to further implementing FSAP recommendations. They have intensified their monitoring of the CRE market. They noted that recent NBB granular analysis of bank and insurance sector CRE exposures and linkages with investment funds and trusts shows that the risks are contained. Nevertheless, they agreed that active monitoring remains needed. Like staff, the authorities consider the current macroprudential policy stance appropriate given the overall level of systemic risks. They reiterated their commitment to implement the recommendations requiring legislative action now that the new government is in place.

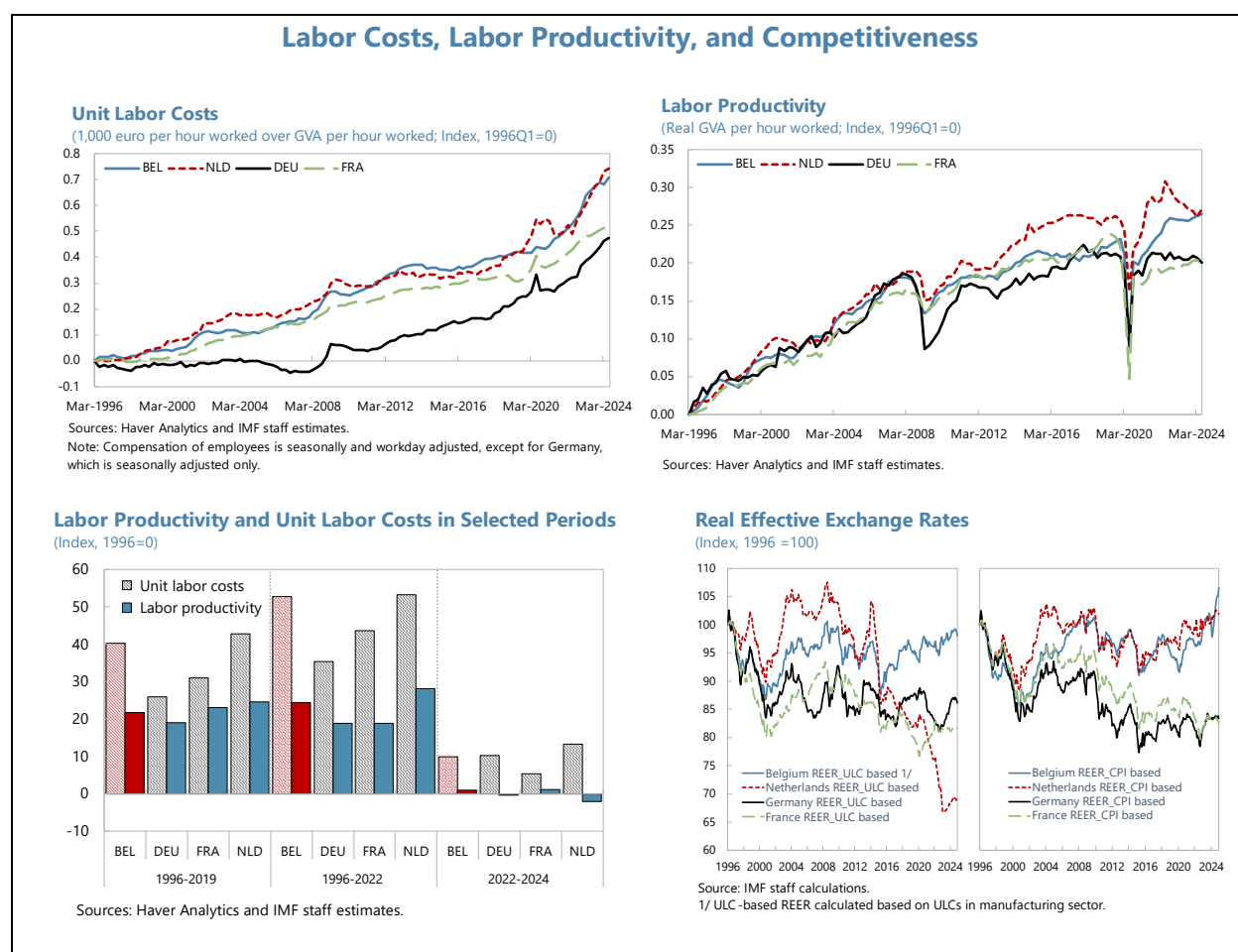
C. Strengthening Labor Markets

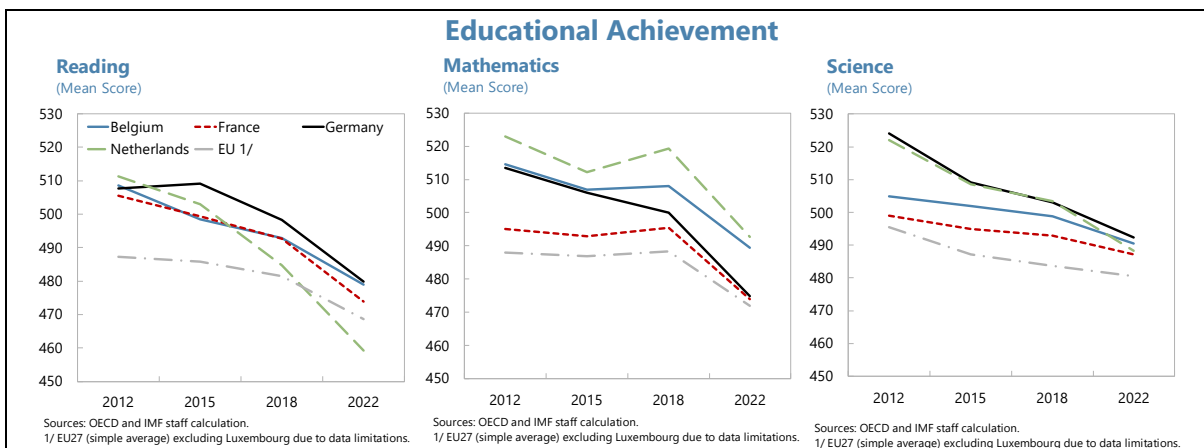
29. Labor market fragmentation and rigidity are impeding growth potential. Increasing labor force participation is critical for adapting to an aging population and addressing fiscal pressures. Labor market fragmentation, as evidenced by the coexistence of sectors and provinces with high vacancy rates and high unemployment rates suggests market inefficiency that likely hinders potential growth. Employment gaps for low-skilled workers, older workers, women, and individuals with an immigration background or disabilities remain large (Figure 6).

30. Increasing labor participation and the efficiency of labor allocation requires a multipronged approach. Reforms implemented in 2022–23 focused on employment-contract flexibility, training, mobility, and reintegration of disability-benefits recipients—all important areas. Yet, more sustained efforts are needed to increase incentives to (re-)enter the labor force and facilitate the reallocation of labor. Key reforms should aim to increase the income gap between work and nonwork, reduce the cost of hiring and dismissal, and upskill the work force. Reducing the duration of unemployment benefits, as intended by the government, will go in the right direction as Belgium is the only EU country with indefinite benefits without means testing. Active labor market policies should continue to focus on greater inclusion of the labor force. Timely policy efforts to enhance the re-integration of employees on long-term sick leave are also necessary to limit the increasing budgetary costs from sickness and disability benefits. As noted, tax reforms can help increase the relative payoff of working, while social benefits should be linked to income levels instead of employment status to better protect low-income workers from unemployment trap.

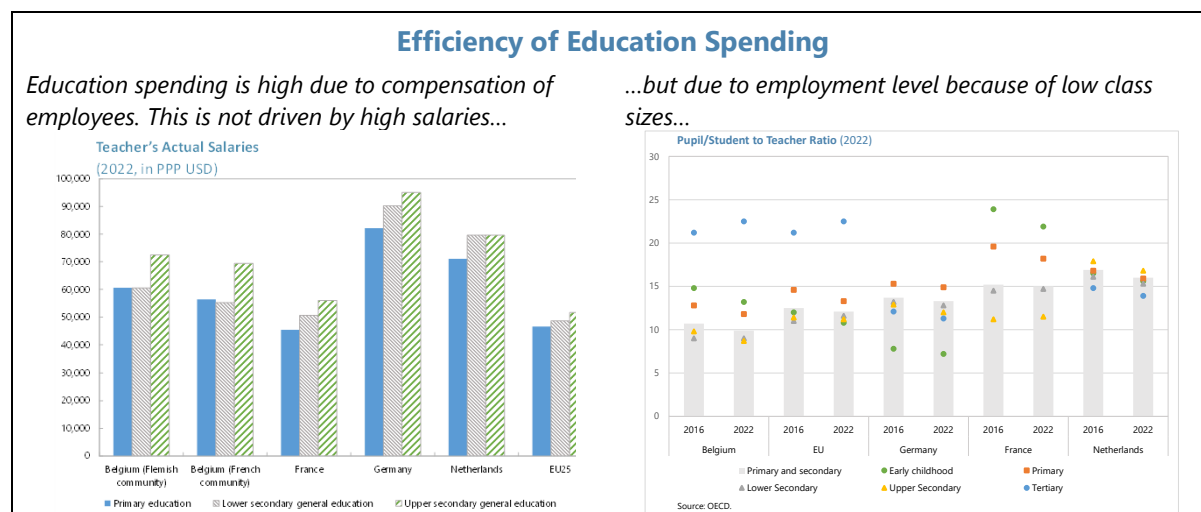


31. Reforming the wage-setting mechanism will help increase labor markets efficiency, improve competitiveness, and reduce fiscal costs. Automatic wage and social-benefits indexation protected household purchasing power during the inflation shock. However, it also increased structural fiscal deficits and led to labor-cost increases above major trading partners, weighing on competitiveness. The [wage-setting process](#) is governed by (i) near-universal automatic indexation to actual inflation excluding alcohol, tobacco, and petrol prices, which establishes the lower limit of wage increases and ensures a quick pass-through of inflation (including its most volatile components), and (ii) a 1996 wage law that caps salary increases based on hourly wage growth in France, Germany, and the Netherlands with no reference to productivity differentials. The resulting “wage corridor” inhibits productivity-based real wage differentiation across industries and firms or adjustment of wages to local labor market conditions, thus likely contributing to labor misallocation. Thus, consideration should be given to abolishing the automatic indexation and the 1996 wage law. At a minimum, the labor market would already benefit from reforms including adjusting the basis for indexation to exclude items with volatile prices from the basis for indexation (in addition to petrol), widening the group of country comparators, using unit-labor costs instead of wages as basis for comparison, and leaving room for firms to index wages only partially.





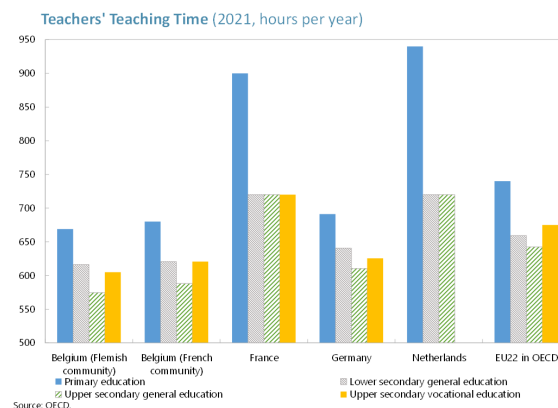
32. Education reforms would help upgrade human capital formation and foster higher employment rates. Educational outcomes are comparable to peers but achieved at a higher cost and have been deteriorating. The public wage bill for education exceeds 5 percent of GDP, 1.5-2 percent of GDP higher than in peers, reflecting comparatively lower student-teacher ratios and lower teaching time. Yet, Belgium experiences the highest share of grade repetition in the EU. Reforms should aim at achieving greater equality of educational outcomes irrespective of students' economic or migrant backgrounds and a lower skills mismatch. This would help increase the employment rate, reduce the need for firms' costs to upgrade inadequate skills, boost productivity, and increase the creation and diffusion of innovation.⁸ The reforms would imply a revision of the curricula to better align education with firms' needs and a reorganization of the educational system to better leverage teachers' time and strengthen support provided to students in difficulty.



⁸ Accompanying SIP "Public Education in Belgium: Improving Outcome while Reducing Costs."

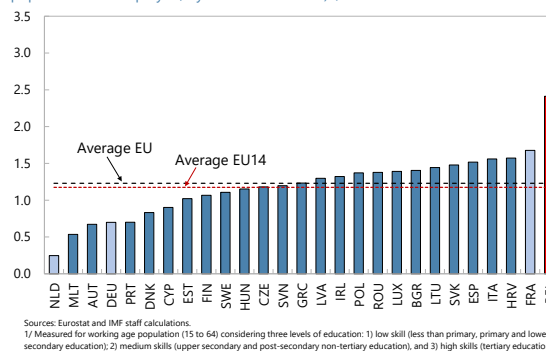
Efficiency of Education Spending (concluded)

...and comparatively low teaching time



The education system does not provide adequate skills...

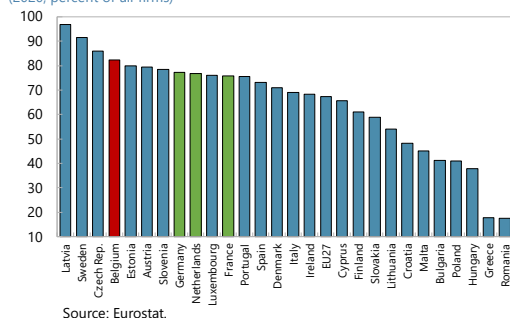
Skill Mismatch, 2023 (Squared difference in proportions between population and employed, by level of education)^{1/}



...creating recruitment difficulties for firms and prompting them to provide training...

Enterprises Providing Continuing Vocational Training Courses

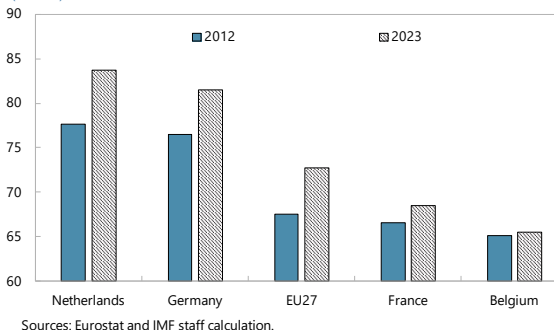
(2020, percent of all firms)



...and low and stagnating employment for the population with secondary education

Employment Rate of People with Secondary Education

(Percent)



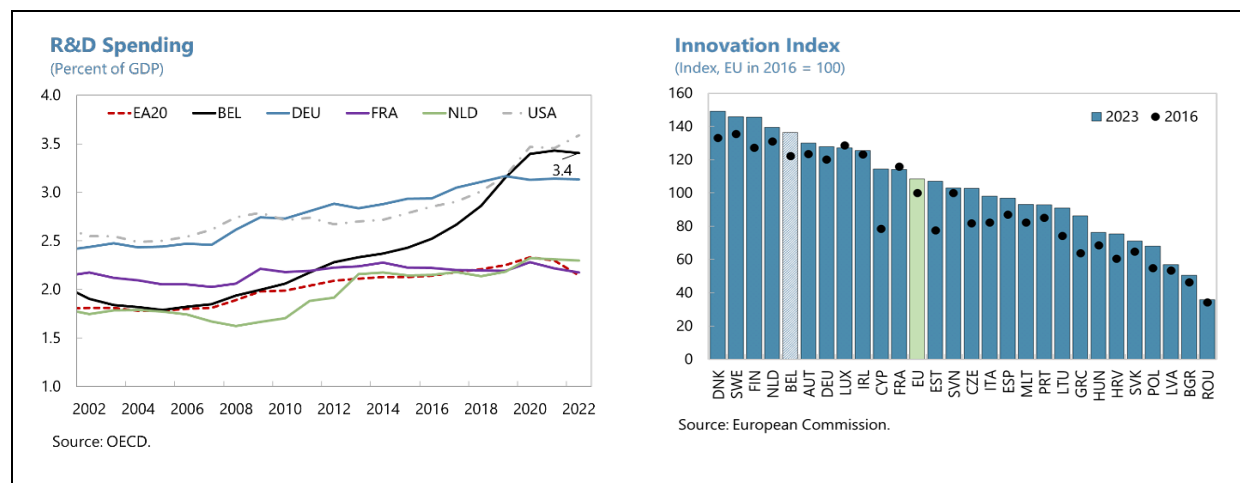
Authorities' Views

33. The new government intends to pursue significant labor market reforms. It aims to achieve an employment rate of 80 percent by 2030, which it sees as a key to reduce fiscal spending pressures and foster stronger growth. To that end, it intends to ensure that working individuals earn at least €500 net per month more than those who are unemployed. The new government is also committed to limiting unemployment benefits to a maximum of two years, reducing the cost of firing, and taking measures to help reintegrate long-term sick employees into the workforce. It will maintain automatic wage indexation, while requesting social partners to propose options for reforming the wage-setting mechanism by the end of 2026.

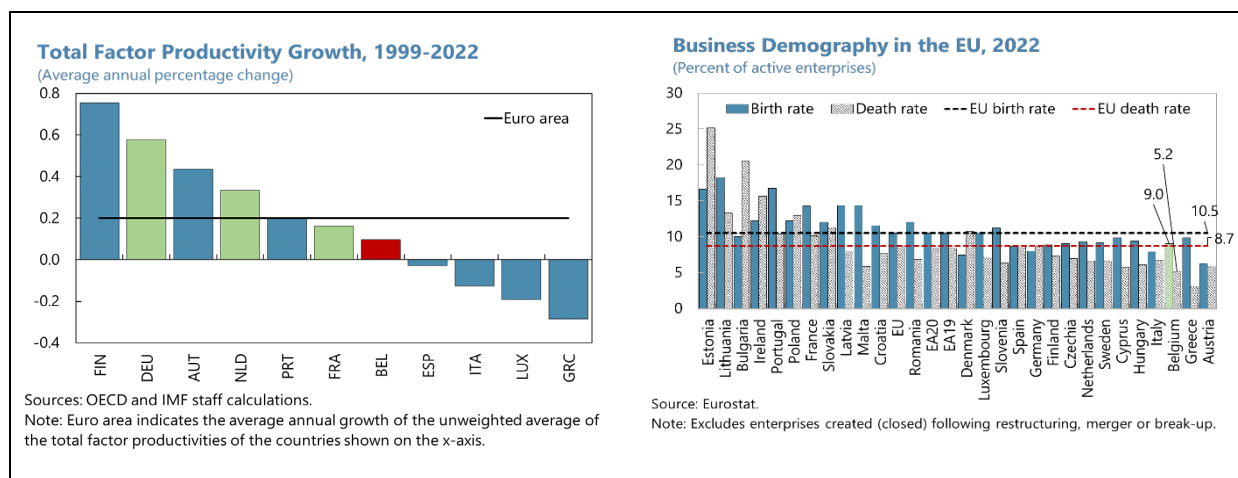
D. Boosting Productivity

34. Despite significant investment in innovation, Belgium’s long-term productivity slowdown is worse than among peers. Belgium ranks among the most innovative countries in Europe. Innovation income deductions introduced in 2017, which allow firms to deduct up to 85 percent of their net income from innovation from the taxable base—reducing effective corporate taxation to as low as 3.75 percent, boosted R&D spending (in percent of GDP) well above neighbors. However, total factor productivity (TFP) growth lags peers, suggesting stalling technical diffusion and room to improve the transmission of innovation to productivity gains.

35. Lagging TFP partly reflects unfavorable firm dynamics. Belgium has some of the EU’s lowest firm entry and exit rates. Startup quality is falling, with the share of one- to four-year-old firms in the highest productivity decile declining; the share of startups in the lowest TFP decile is increasing over time. Furthermore, while the employment growth rate of Belgian startups is on par with the EU average, it is much lower for above-average TFP startups in Belgium. Below-average TFP startups also increased their share in industry output faster than startups with higher productivity, gaining from their relationships with state-owned enterprises, multinationals, and high-growth exporting firms. Labor and capital allocation suffer from a growing share of lower-quality startups with abundant government support, including loan guarantees targeted to higher-risk borrowers that crowd more productive firms out of capital and labor markets.⁹



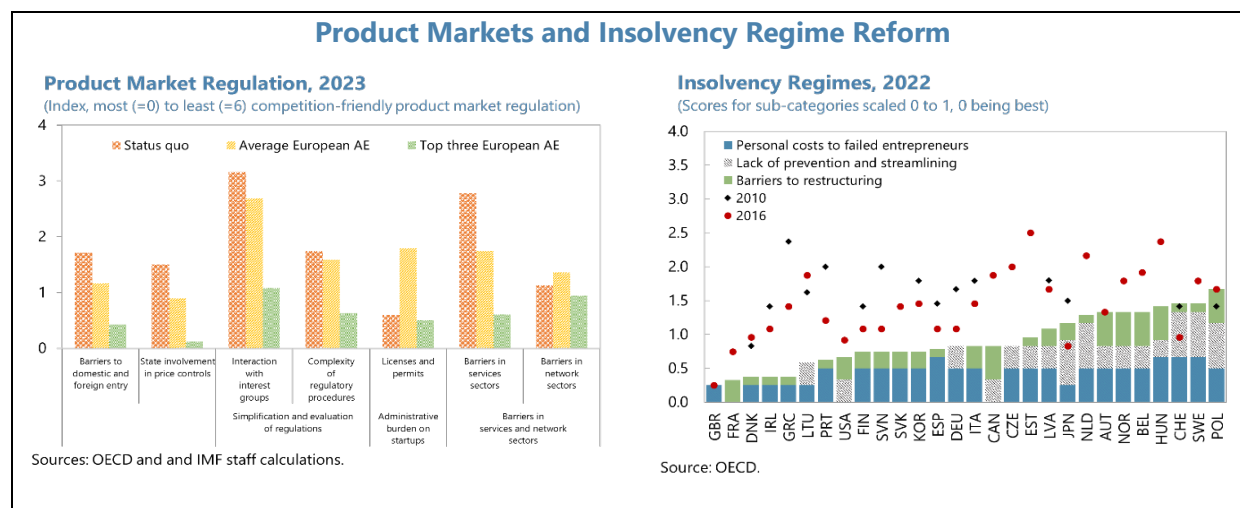
⁹ Accompanying SIP “Firm Dynamics and Firm-level Total Factor Productivity in Belgium”.



36. Further product market reforms to reduce regulatory and administrative barriers to entry and improve the insolvency regime to lower exit costs are needed to raise TFP. State-imposed price controls, the complexity of regulatory procedures and regulatory capture, and strict occupational restrictions offer opportunities for improvement. More competition-friendly product market regulation could spur firm entry, particularly in professional services and retail, in which restrictions are the highest. Closing half the gap with the top three European advanced economies could potentially boost TFP by about 3½ percent in the long run, offsetting losses since the global financial crisis.¹⁰ Belgium’s insolvency regime has improved since 2010, with lower personal costs to owners of failed companies and improved prevention and streamlining of insolvency, but barriers to restructuring remain as strong. Creditors still cannot initiate restructuring (only liquidation), delays remain lengthy, and courts are still too often involved.

37. Deepening the European single market and advancing the capital market union would also contribute to fostering higher productivity of Belgian firms. Removing remaining barriers to trade within the EU and harmonizing regulations and bankruptcy frameworks, would give Belgian firms access to a much larger customer base, improve competition, and vitalize firm dynamics—in addition to providing buffers against risks from geo-fragmentation. Moreover, Belgian firms consistently report in EC surveys financing needs that exceed available funding, particularly from bank loans and credit lines, although early-stage growth firms have access to a more diverse range of funding options than other European firms, including private venture and angel investor capital. Developing venture capital within an EU-wide push toward capital market union could help it play a more prominent role in firm financing, particularly at later stages of firm growth.

¹⁰ 2023 Article IV report, Annex VII.



Authorities' Views

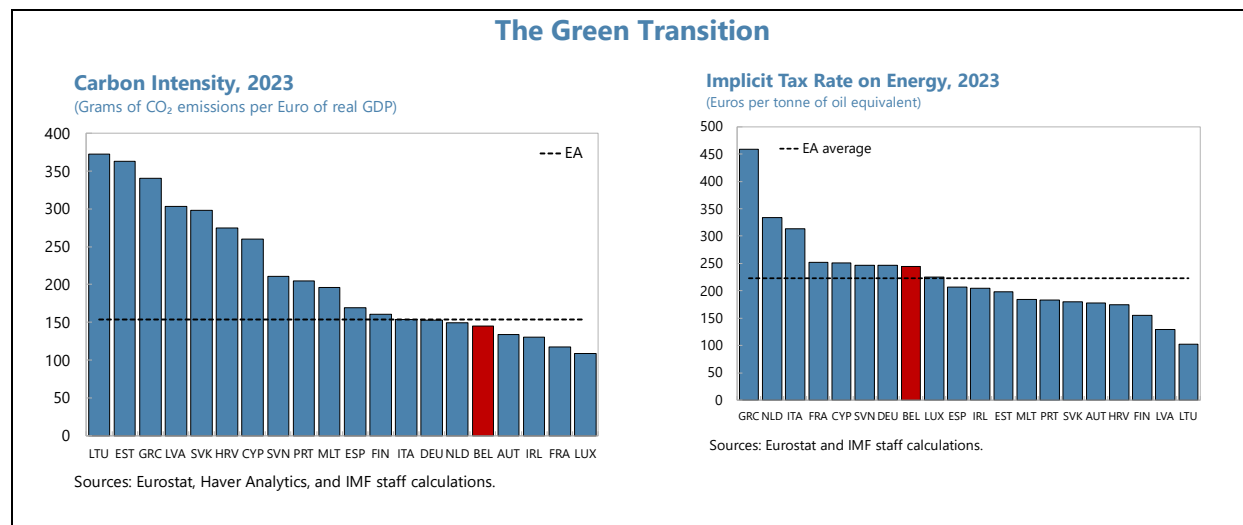
38. The authorities agreed on the need to continue product market reforms, deepen the EU single market, and advance the capital market union. They emphasized the improvements to the insolvency regime and intend to implement reforms to reduce barriers to entry, particularly in professional services where they intend to streamline regulations. While they support capital market union, they are somewhat cautious in their assessment of potential gains. They stressed the need for accompanying harmonization of regulations, bankruptcy frameworks and tax laws across the EU to fully maximize the benefits from capital market union.

E. Sustaining the Green Transition

39. The energy crisis propelled Belgium's green transition, yet significant efforts remain required to achieve climate objectives. The extension of nuclear energy production and investment in additional renewable energy are supporting energy security and lowering the carbon footprint. However, while the residential and services sectors are expected to reduce emissions by 54 percent and 62 percent, respectively, the transport sector will achieve only an 11 percent reduction by 2030 ([FPB May 2024](#)). Even with the implementation of measures outlined in the draft National Energy and Climate Plan (NECP), the FPB projects that emissions will only decrease by 32 percent in 2030 compared to 2005 levels. This falls short of the 43 percent reduction target set in the draft NECP, and the 47 percent under the EU Effort Sharing Regulation. Furthermore, the FPB anticipates that Belgium will derive only 24 percent of its energy from renewable sources by 2030, while the European target is 34 percent.

40. Meeting climate goals requires strong commitment by and enhanced coordination among all levels of government. The expansion of the EU emissions trading system and the planned adjustment of VAT rates to favor green energy should be complemented by the timely implementation of carbon taxation and the phasing out of fossil fuel subsidies, while ensuring support for vulnerable population. Federal and regional climate efforts should be consolidated into a

coherent national strategy, as Belgium has yet to submit the final version of its NECP, expected by the EC by June 2024. Improved coordination and accountability among the federal and regional governments will facilitate climate policy design, execution, and evaluation. Adequate investments for the green transition are necessary to ensure Belgium meets its climate goals and contributes to the European Green Deal.



Authorities' Views

41. The authorities agreed on the need to work towards climate goals by enhancing policy coordination. They noted that Belgium's finalization of its NECP, which typically encompasses the three regional NECPs, is contingent upon the completion of the Flemish contribution. Decisions regarding the distribution of existing ETS1 revenues among federal and regional governments remain pending, and Belgium may also receive financing from ETS2 revenues via the European Social Climate Fund based on its Social Climate Plan due by end-June 2025. Strengthening federal and regional coordination in this front could unlock financing that would accelerate investment in the green transition and provide support for the vulnerable populations adversely impacted by climate change and energy transition.

STAFF APPRAISAL

42. Notwithstanding its resilience, the Belgian economy faces significant challenges. In the short term, in an increasingly uncertain environment, policies need to see disinflation through while preserving growth and financial stability. From a longer perspective, policies need to rebuild buffers, reduce vulnerabilities associated with high and rising public debt, address spending pressures from aging and the green transition, foster higher growth, and improve the external position which, in 2024, was weaker than implied by medium-term fundamentals and desirable policies based on preliminary assessment. The policy agenda of the new government, which includes significant structural reforms and fiscal consolidation, is an opportunity to make headway. Steady and timely implementation of intended reforms will be key.

43. Sustained and significant fiscal consolidation is needed. Considering the magnitude of the needed adjustment to bring the deficit durably below 3 percent of GDP and put debt solidly on a downward path, staff supports the government's intention to pursue a seven-year adjustment under the EGF, which should be accompanied by credible and front-loaded growth-enhancing reforms. An annual reduction in the structural primary balance of about 0.6 ppt of GDP until 2031 will be necessary. The forthcoming MTFSP should be built on sufficiently conservative assumptions to lower the risk of deviating from the intended path of deficit reduction.

44. The adjustment should rationalize current spending, make room for more public investment, and be supported by increased efficiency of spending. Rationalizing social benefits and the public wage bill is crucial to achieve savings. Public investment should be preserved, or ideally, increased to bolster potential growth and support green transition. Amid competing demands for resources and reduced fiscal space, improving the efficiency of spending, is critical, notably with respect to investment in infrastructure, healthcare, and education.

45. Fiscal reforms are crucial to support the adjustment. Staff welcomes the government's intention to reduce the tax burden on labor while introducing capital gain taxation and reducing tax expenditure. Considering the needed overall fiscal adjustment, tax reforms should not result in lower revenue. Similarly, staff welcomes the planned reforms aimed at raising the effective retirement age and reviewing eligibility to specific pension regimes. This is necessary to preserve the sustainability of the pension system despite aging. Staff also encourages the authorities to strengthen the overall fiscal framework, through a revitalized fiscal council and greater accountability of the federal and all federated entities in sharing the burden of fiscal adjustment.

46. Overall systemic risks in the financial sector remain moderate and current capital buffer requirements and prudential limits on mortgage loans should be maintained. Recent progress in strengthening systemic risk assessment, supervision, the macroprudential framework, and crisis management and resolution preparedness is welcome. With a new government in place, pending measures that required legislative action should now proceed.

47. Labor market and education reforms are essential to foster higher labor participation and better adequation of skills. The government's intended reforms to widen the income gap between work and nonwork, limit the duration of unemployment benefits, and reduce the cost of hiring and dismissal go in the right direction. Fostering a labor market more inclusive of low-skilled workers, older workers, women, and individuals with an immigration background, or disabilities, notably through lifelong learning and reskilling and active labor-market policies, will enhance overall economic performance. Education reforms are also necessary to upskill the labor force. They should focus on aligning curricula with the skills companies need, better leveraging teachers' time, and strengthening support to students in difficulty.

48. Reforming the wage-setting mechanism will help increase labor-market efficiency and improve competitiveness. Automatic wage and social benefit indexation protected household purchasing power during the inflation shock but increased fiscal deficits and undermined competitiveness. Consideration should be given to abolishing automatic indexation and the

1996 wage law which, together, prevent an optimal allocation of labor and higher employment. At a minimum, the labor market would already benefit from technical reforms to the existing system.

49. Further product market reforms and efforts with EU partners to deepen the single market and advance the capital market union will support firms' productivity. Reforms should focus on reducing regulatory and administrative barriers and improving the insolvency regime. Removing remaining barriers to trade within the EU and harmonizing regulations and bankruptcy frameworks would give Belgian firms' access to a larger customer base, improve competition, and provide buffers against risks from geo-fragmentation. Developing venture capital at the EU level would help widen Belgian firms' options to finance their growth.

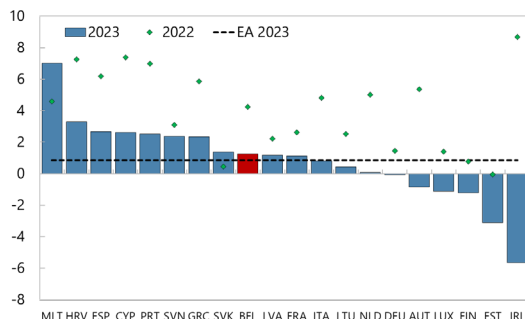
50. Despite progress, much effort remains needed to achieve climate objectives. The planned expansion of the EU ETS should be complemented by carbon taxation and the phasing out of fossil fuel subsidies, while ensuring support for vulnerable population. The consolidation of federal and regional climate efforts into a coherent and cohesive national strategy is essential.

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

Figure 1. Belgium: Macroeconomic Developments

Growth slowed but remained above the EA average...

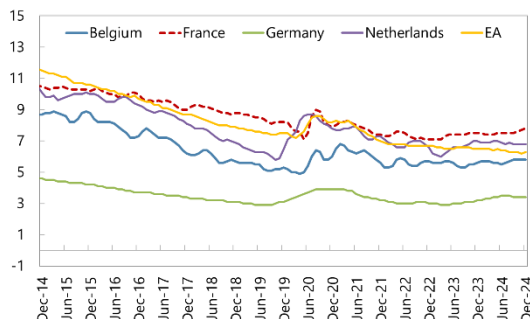
Real GDP Growth
(Percent, year-over-year)



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

...keeping labor markets tight.

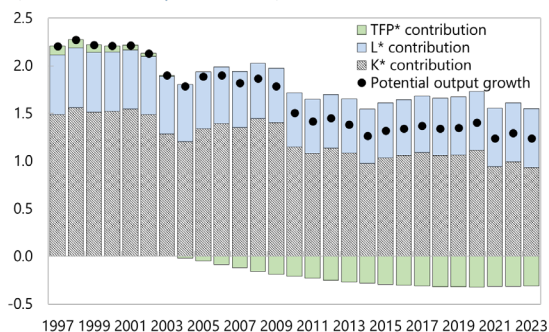
Unemployment Rate
(Percent)



Source: Eurostat.

Potential growth continues to slow.

Potential Output Growth
(Demand-Side Decomposition, Percent)

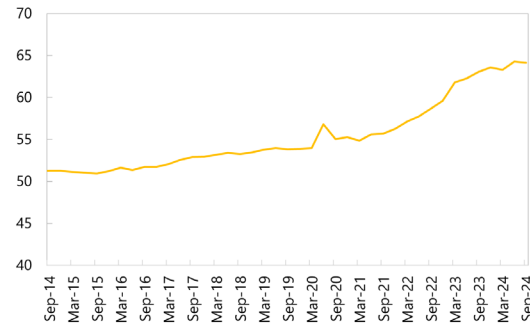


Sources: Penn World Table 10.01 and IMF staff calculations.

The labor share of income stabilized in 2024Q2–Q3.

Labor Income Share

(Compensation of employees as a percentage of gross value added)



Sources: Eurostat and IMF staff calculations.

Corporate profit margins stagnated in 24H1 and rose in Q3 after 2 years of decline...

Corporate Profit Margins

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

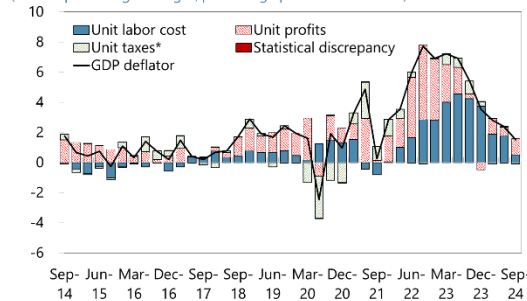


Sources: Eurostat and IMF staff calculations.

...as labor cost increases moderated.

GDP Deflator

(Annual percentage changes, percentage point contributions)



Sources: Eurostat and IMF staff calculations.

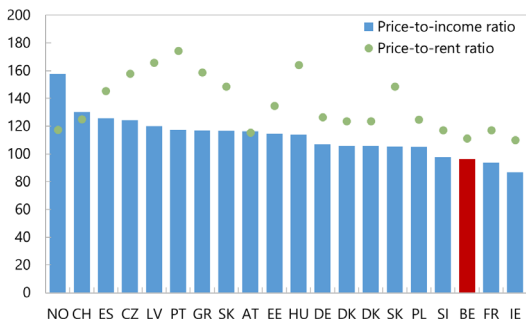
Note: * Taxes on production and imports, net of subsidies.

Figure 2. Belgium: Financial Sector Developments

Housing is more affordable and price-to-rent ratios lower than in other European countries.

Housing Valuations, 2024Q3

(Index, 2015=100)

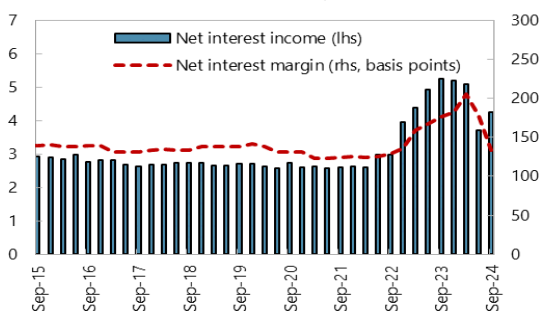


Source: OECD.

Interest margins are declining, following ECB cuts, after 2 years of record income for Belgian banks.

Bank Net Operating and Net Interest Income

(LHS: EUR billion; RHS: Percent; basis points)

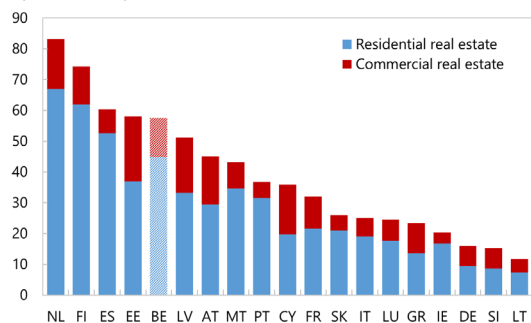


Sources: NBB and EBA.

...increasing banking sector vulnerabilities from commercial real estate exposures...

Euro Area Banks: Real Estate Exposure, 2024Q3

(Percent of GDP)

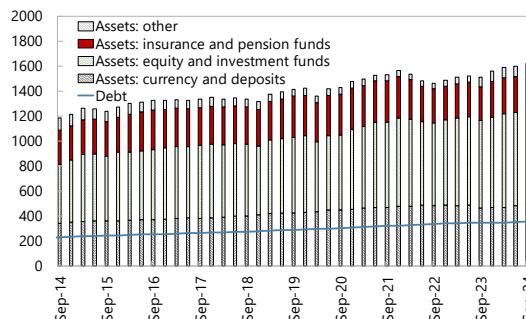


Sources: EBA and IMF staff calculations.

Household debt remains elevated, but a large share of financial assets is relatively liquid.

Household Debt and Financial Assets

(EUR billion)

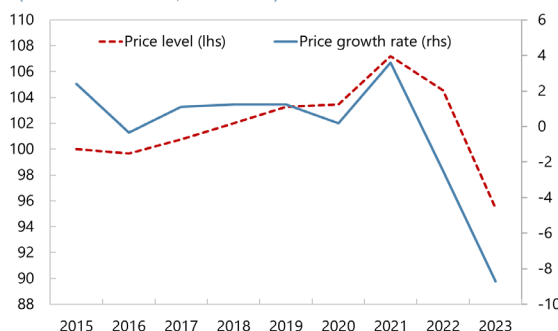


Sources: NBB and ECB.

The slowdown in commercial real estate markets is an additional element of risk...

Commercial Real Estate Prices and Price Growth Rate

(LHS: Index 2015 = 100; RHS: Percent)

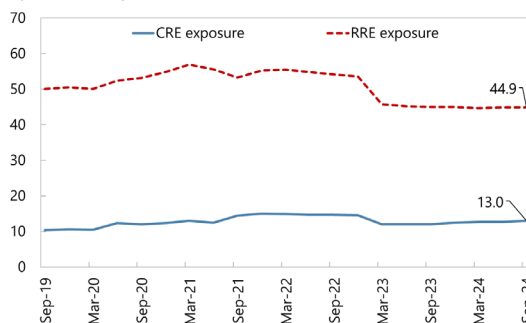


Sources: MSCI and IMF staff calculations.

...but exposures remain broadly stable.

Banks' Real Estate Exposure

(Percent of GDP)

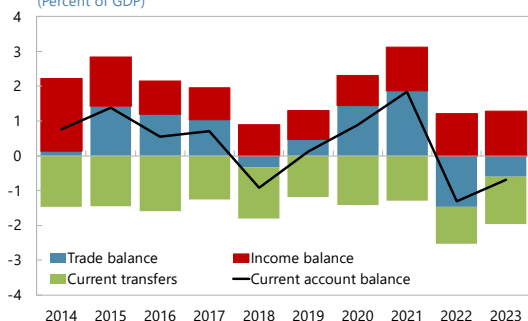


Sources: EBA and IMF staff calculations.

Figure 3. Belgium: External Sector Developments

The current account remained in deficit in 2023...

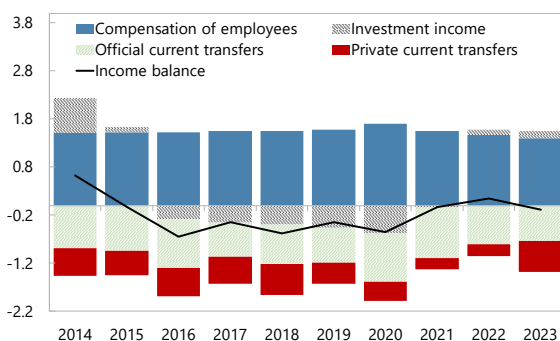
Current Account
(Percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

Investment income inflow doubled, but was largely offset by a larger private current transfer outflow.

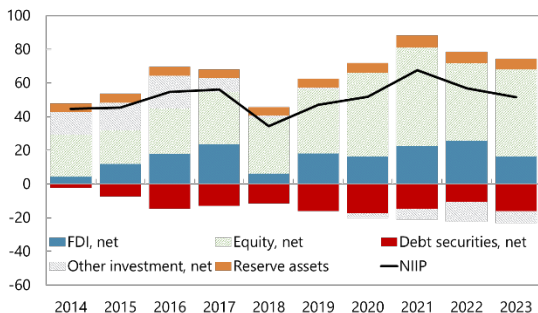
Primary and Secondary Income Balance
(Percent of GDP)



Sources: NBB; and IMF staff calculations.

The net asset position continues to be sizable, largely driven by positive revaluations of net portfolio investment.

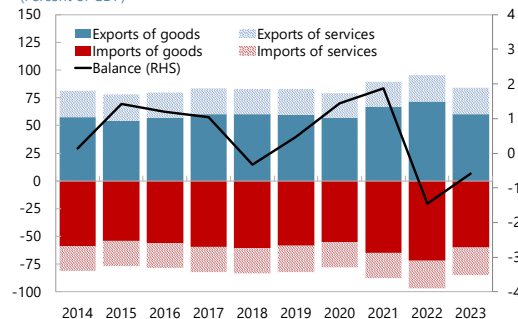
Net International Investment Position
(Percent of GDP)



Sources: NBB and IMF staff calculations.

...with lower exports and imports of goods largely due to the reversal in energy prices.

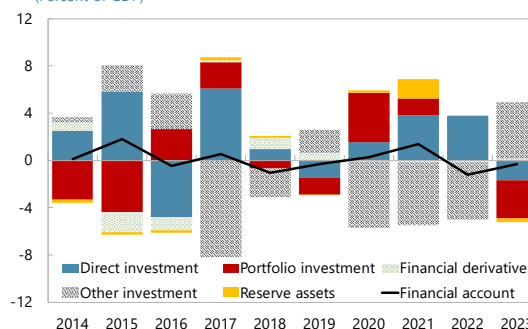
Trade Balance
(Percent of GDP)



Sources: NBB and IMF staff calculations.

The financial account broad stability masks noticeable changes in its composition.

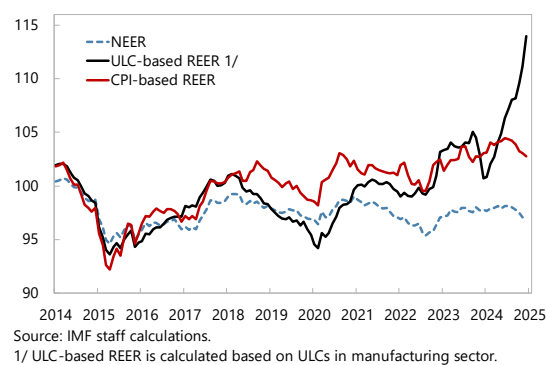
Financial Account
(Percent of GDP)



Sources: NBB and IMF staff calculations.

Real effective rate appreciated strongly, reflecting labor market effects.

Exchange Rates
(Index, 2010=100)



Source: IMF staff calculations.

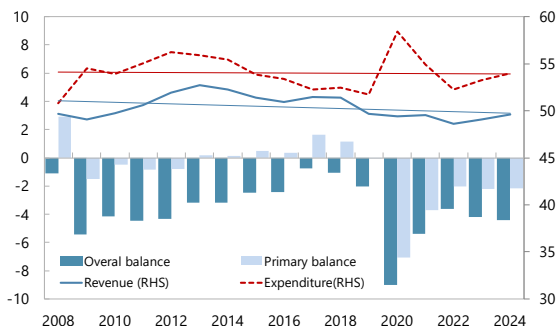
1/ ULC-based REER is calculated based on ULCs in manufacturing sector.

Figure 4. Belgium: Fiscal Developments

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

General Government Fiscal Positions

(Percent of GDP)

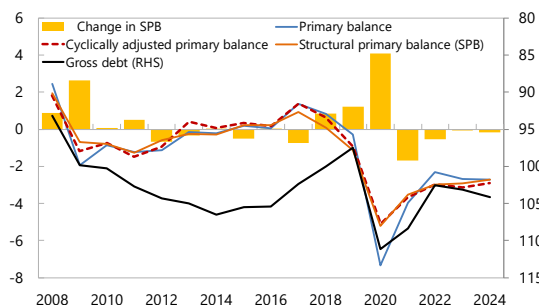


Sources: NBB and IMF staff calculations.

...after some improvement in 2021–22, primary and structural deficits widened again in 2023–24

General Government: Structural Balances and Debt

(Percent of GDP)



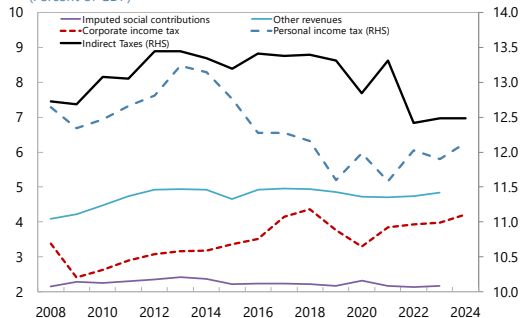
Sources: NBB and IMF staff projections.

Note: positive change in SPB indicates expansionary policy.

Direct tax revenues have recovered from the pandemic, but indirect tax revenues grew slower than GDP...

General Government Revenue

(Percent of GDP)

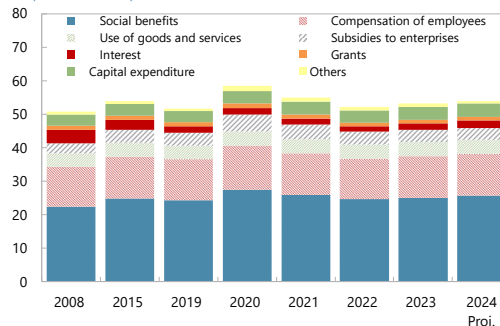


Sources: NBB and IMF staff calculations.

...while high social spending continued to drive deficits

General Government Expenditure

(Percent of GDP)

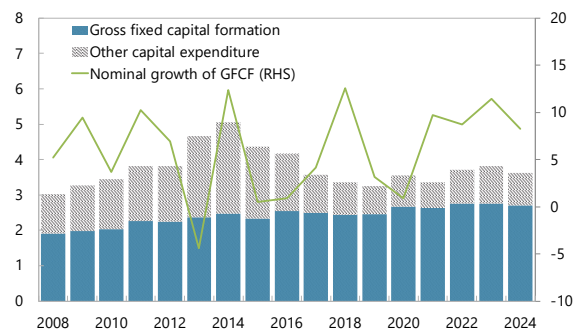


Sources: NBB and IMF staff calculations.

Public investment share of GDP remained broadly stable.

General Government : Capital Expenditure

(Percent of GDP)

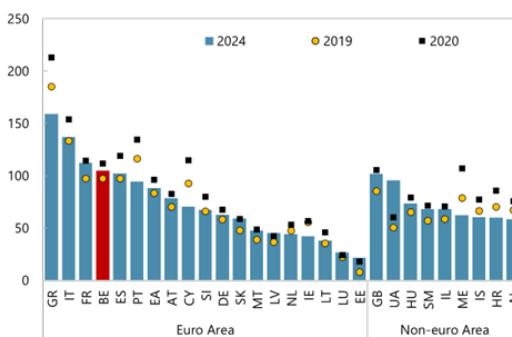


Sources: NBB and IMF staff calculations.

Public debt remained among the highest in euro area.

Public Debt 2024

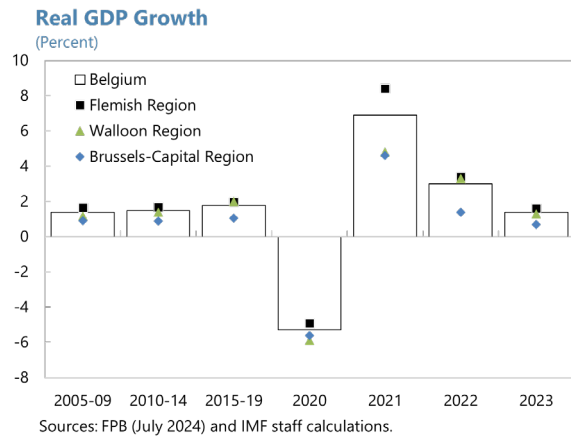
(Percent of GDP)



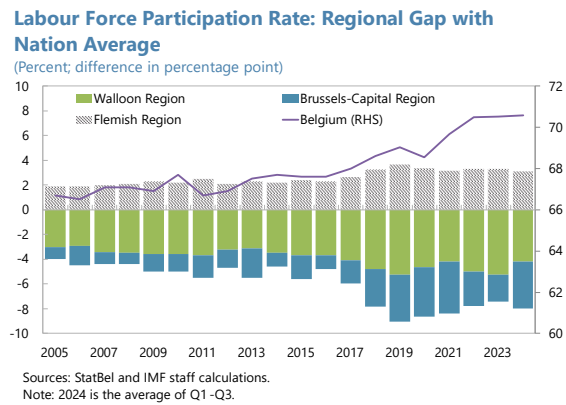
Sources: WEO (Oct 2024) and IMF staff estimates.

Figure 5. Belgium: Regional Economic Performance

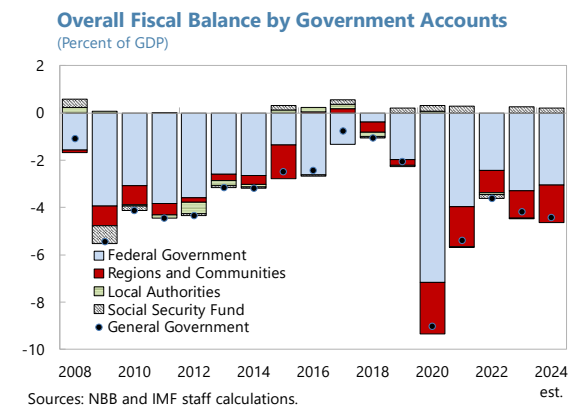
Growth in the Flemish region has rebounded more strongly...



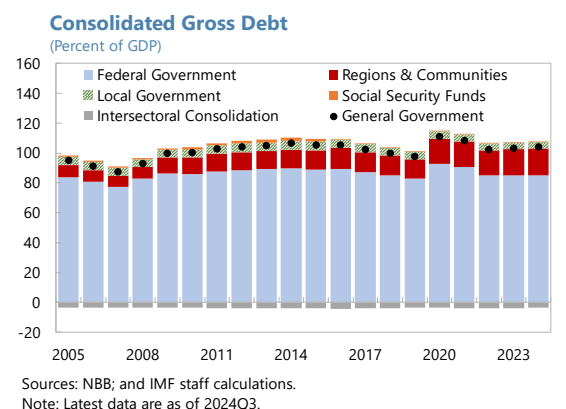
...with lower activity rates in Brussels and Wallonia compared to the national average.



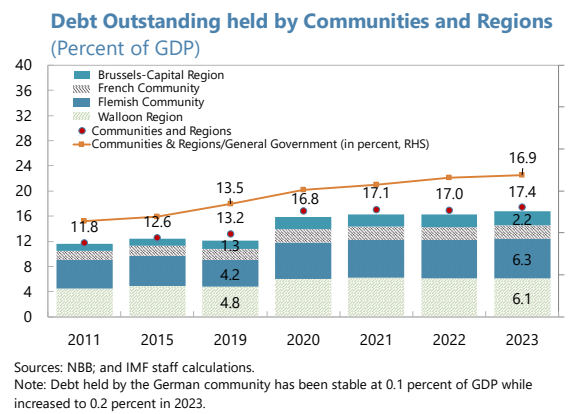
The fiscal deficit of the regions and communities widened again in 2023...



...and the increasing debt burden will impact the sustainability of regional finances.



A high debt burden for the Walloon region and BCR compared to their GDP size and operating revenues.



The Flemish community accounted for a large share of total public investment, financed by the RRF grant.

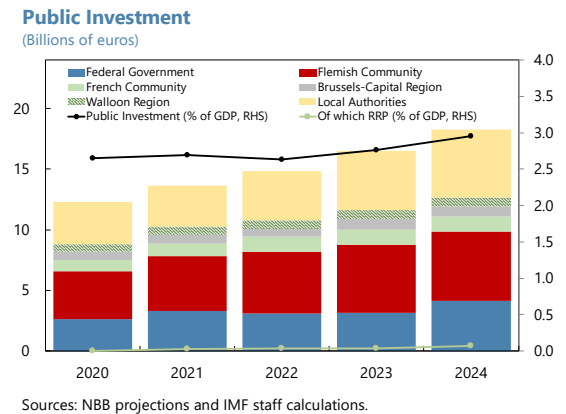
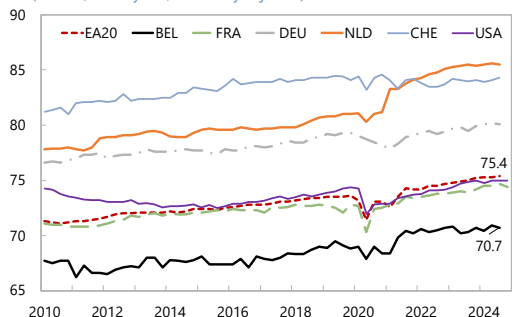


Figure 6. Belgium: Labor Market Fragmentation

Belgium lags peers in activating labor...

Labor Force Participation Rate
(Percent, 15-64 years, seasonally adjusted)

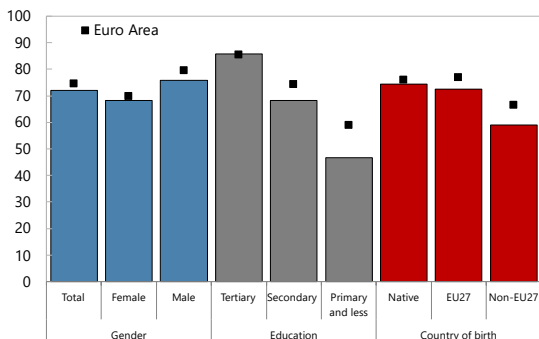


Source: Haver Analytics.

Employment rates for male, lower educated, and the non-EU counties non-native lag the most euro area averages...

Employment Rates

(Percent of population, prime age 20-64, 2023)

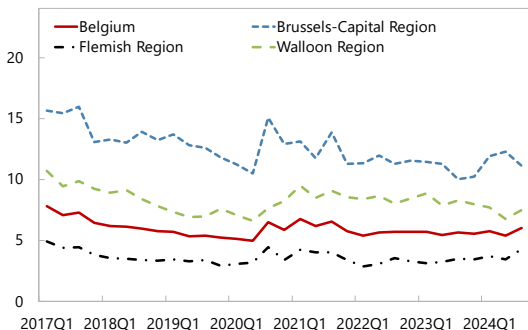


Source: Eurostat.

Unemployment rates are persistently higher in Brussels and Wallonia...

Unemployment Rates

(Percent, 15-64 years)

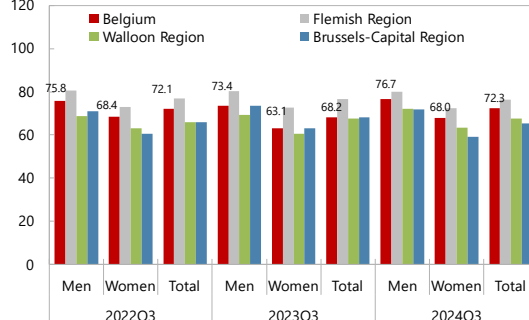


Source: Statbel.

...closing gender and regional gaps are requisite to further increase employment rates.

Employment Rate by Region and by Gender

(Percent, 20-64 years)

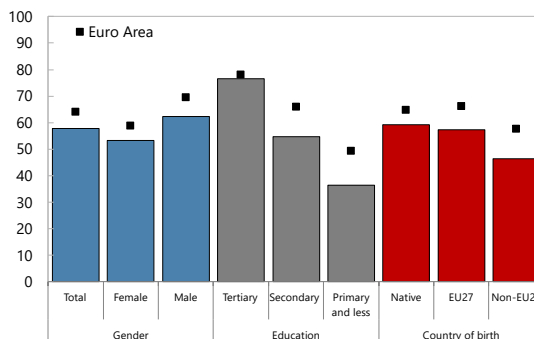


Source: Statbel.

...as do the employment rates of the 55-64 age group across all profiles.

Employment Rates

(Percent of population, prime age 55-64, 2023)

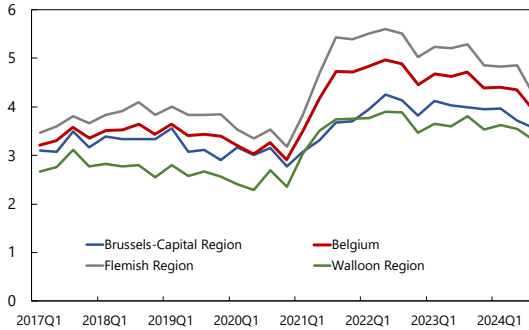


Source: Eurostat.

...while labor shortage remains a challenge, especially in Flanders.

Job Vacancy Rate

(Percent)



Sources: Statbel; and IMF staff calculations.

Table 2. Belgium: Selected Economic Indicators, 2022–30

	2022	2023	Projections						
			2024	2025	2026	2027	2028	2029	2030
(Percent change, unless otherwise indicated)									
Real economy									
Real GDP 1/	4.2	1.3	1.0	1.1	1.1	1.3	1.3	1.3	1.3
Domestic demand	4.2	1.8	1.0	1.4	1.5	1.5	1.5	1.4	1.5
Private consumption	3.6	0.6	1.8	1.2	1.2	1.5	1.3	1.2	1.1
Public consumption	3.3	3.2	3.2	1.4	1.9	1.6	1.7	1.7	1.7
Gross fixed investment	1.7	3.5	0.9	0.6	1.7	1.5	1.6	1.7	2.0
Stockbuilding 2/	1.1	-0.1	-1.0	0.3	0.0	0.0	0.0	0.0	0.0
Foreign balance 2/	0.1	-0.5	0.1	-0.3	-0.4	-0.2	-0.2	-0.1	-0.1
Exports, goods and services	5.8	-7.1	-4.0	0.0	2.6	3.2	3.2	3.1	3.1
Imports, goods and services	5.8	-6.8	-4.2	0.4	3.3	3.6	3.5	3.3	3.3
Household saving ratio	12.7	14.1	13.6	13.7	13.7	13.7	13.8	14.0	14.3
Potential output growth	2.0	1.8	1.6	1.4	1.3	1.3	1.3	1.3	1.3
Potential output growth per working age person	1.3	1.2	1.0	1.3	1.3	1.3	1.3	1.4	1.3
Output gap (in percent)	1.6	1.0	0.5	0.2	0.0	0.0	-0.1	0.0	0.0
Employment									
Unemployment rate (in percent)	5.6	5.5	5.8	5.7	5.7	5.5	5.6	5.7	5.8
Employment growth	1.9	0.8	0.3	0.2	0.3	0.6	0.3	0.2	0.4
Prices									
Consumer prices (HICP)	10.3	2.3	4.3	3.5	2.2	2.0	2.0	1.9	1.9
Core CPI (HICP)	4.0	6.0	3.4	3.0	2.6	2.2	2.1	1.9	1.9
GDP deflator	6.8	4.5	2.7	2.5	1.7	1.5	1.7	1.6	1.6
(Percent of GDP; unless otherwise indicated)									
Public finance									
Revenue	48.6	49.1	49.6	49.5	49.5	49.5	49.5	49.6	49.7
Expenditure	52.2	53.3	54.0	54.3	55.0	55.3	55.7	56.3	56.9
General government balance	-3.6	-4.2	-4.4	-4.8	-5.5	-5.8	-6.2	-6.7	-7.2
Structural balance	-4.3	-4.4	-4.5	-4.8	-5.5	-5.8	-6.1	-6.8	-7.2
Structural balance (excl. Covid measures)	-3.7	-4.3	-4.4	-4.8	-5.5	-5.8	-6.1	-6.8	-7.2
Structural primary balance	-2.7	-2.4	-2.2	-2.5	-3.0	-3.0	-3.2	-3.5	-3.7
Primary balance	-2.0	-2.2	-2.2	-2.4	-3.0	-3.0	-3.3	-3.4	-3.7
General government debt	102.6	103.1	104.1	105.4	108.6	111.9	115.2	118.9	123.0
External Sector									
Goods and services balance	-1.5	-0.6	-0.1	0.0	0.0	0.0	0.3	0.5	0.7
Current account	-1.3	-0.7	-0.3	-0.3	-0.3	-0.3	-0.1	0.1	0.2
Exchange rates									
Euro per U.S. dollar, period average	0.9	0.9	0.9	...	...	...	...	...	...
NEER, ULC-styled (2005=100)	96.3	97.6	97.8	...	...	...	...	...	...
REER, ULC-based (2005=100)	99.7	103.8	105.5	...	...	...	...	...	...
Memorandum items									
Gross national savings (in percent of GDP)	25.6	24.6	23.8	23.9	23.9	23.9	24.1	24.3	24.5
Gross national investment (in percent of GDP)	26.9	25.3	24.1	24.2	24.3	24.3	24.2	24.2	24.3
Nominal GDP (in billions of euros)	563.5	596.3	618.6	640.9	658.7	677.3	697.8	718.4	739.8
Population (in millions)	11.6	11.7	11.8	11.8	11.9	11.9	11.9	12.0	12.0

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

1/ Based on national accounts data available as of January 29, 2025.

2/ Contribution to GDP growth.

Table 3. Belgium: Balance of Payments, 2022–30

	2022	2023	Projections						
			2024	2025	2026	2027	2028	2029	2030
	(In percent of GDP)								
Balance on current account	-1.3	-0.7	-0.3	-0.3	-0.3	-0.3	-0.1	0.1	0.2
Trade balance on goods and services	-1.5	-0.6	-0.1	0.0	0.0	0.0	0.3	0.5	0.7
Trade balance on goods (f.o.b.)	-0.2	0.5	0.8	0.9	0.9	0.9	1.1	1.3	1.4
Exports of goods and services	95.3	84.2	79.6	81.2	80.9	81.7	82.5	83.4	84.2
Exports of goods	71.8	60.5	57.2	58.3	58.2	58.7	59.3	59.9	60.5
Exports of services	23.5	23.7	22.4	22.8	22.8	23.0	23.2	23.5	23.7
Imports of goods and services	-96.7	-84.8	-79.7	-81.2	-80.9	-81.6	-82.2	-82.9	-83.5
Imports of goods (f.o.b.)	-72.0	-60.0	-56.4	-57.5	-57.3	-57.8	-58.2	-58.7	-59.1
Imports of services	-24.7	-24.7	-23.3	-23.7	-23.6	-23.8	-24.0	-24.2	-24.4
Income, net	1.2	1.3	1.6	1.5	1.4	1.4	1.4	1.3	1.3
Current transfers, net	-1.1	-1.4	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8	-1.8
Balance on capital account	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Balance on financial account	-1.2	-0.3	-0.1	-0.1	-0.1	-0.1	0.1	0.3	0.4
Direct investment, net	3.8	-1.7	4.8	1.7	1.7	1.8	1.8	1.9	1.9
Portfolio investment, net	0.0	-3.2	-8.7	-5.6	-5.6	-5.7	-5.7	-5.6	-5.6
Financial derivatives, net	-0.1	0.2	0.2	0.1	0.0	0.0	0.0	0.1	0.1
Other investment, net	-4.9	4.8	3.8	3.9	3.9	4.0	4.0	4.1	4.1
Reserve assets	0.0	-0.3	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1
Errors and omissions, net	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items									
Net International Investment Position	57.0	51.5							
Direct investment	25.9	16.4							
Portfolio investment	35.4	35.7							
Financial derivatives	0.4	0.4							
Other investment	-11.7	-7.1							
Reserve assets	6.9	6.2							

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

Table 4. Belgium: General Government Statement of Operations, 2022–30

	2022	2023	Projections							
			2024	2025	2026	2027	2028	2029	2030	
	(In percent of GDP)									
Revenue	48.6	49.1	49.6	49.5	49.5	49.5	49.5	49.5	49.6	49.7
Taxes	29.1	29.0	29.2	29.2	29.1	29.0	28.9	28.9	28.9	28.9
Personal income tax	12.0	11.9	12.1	12.4	12.4	12.4	12.4	12.4	12.4	12.4
Corporate income tax	3.9	4.0	4.2	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Taxes on property	1.8	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9
VAT	6.5	6.3	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Excise	2.0	2.1	2.1	2.1	2.1	2.0	2.0	2.0	2.0	2.0
Other taxes	2.8	2.9	2.8	2.7	2.6	2.5	2.5	2.5	2.5	2.5
Social contributions	14.8	15.1	15.3	15.3	15.4	15.5	15.6	15.7	15.7	15.7
Actual social contributions	12.7	12.9	13.1	13.1	13.2	13.3	13.4	13.5	13.5	13.5
Imputed social contributions	2.1	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Other revenue (incl. grants)	4.8	5.0	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.1
Expenditure	52.2	53.3	54.0	54.3	55.0	55.3	55.7	56.3	56.9	
Expense	48.6	49.4	50.1	50.6	51.3	51.7	52.1	52.8	53.3	
Compensation of employees	12.1	12.4	12.5	12.5	12.5	12.5	12.5	12.5	12.5	
Use of goods and services	4.2	4.2	4.2	4.2	4.1	4.1	4.1	4.1	4.1	
Interest	1.6	2.0	2.2	2.4	2.6	2.8	2.9	3.2	3.5	
Subsidies	3.8	3.7	3.6	3.5	3.5	3.5	3.5	3.5	3.5	
Grants	1.1	1.0	1.1	1.0	1.1	1.2	1.2	1.2	1.2	
Social benefits	24.7	25.1	25.7	25.9	26.4	26.6	26.9	27.3	27.6	
Pensions	10.6	11.0	11.2	11.2	11.3	11.5	11.7	11.9	11.9	
Unemployment	1.0	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	
Health care	6.4	6.7	7.0	7.1	7.1	7.2	7.3	7.4	7.5	
Early retirement, sickness and disability	2.3	2.4	2.5	2.6	2.6	2.6	2.6	2.7	2.8	
Family allowances	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	
Other social benefits	3.0	2.8	2.8	2.9	2.9	3.0	3.0	3.0	3.1	
Other current transfers	1.1	1.1	0.8	1.1	1.1	1.0	1.0	1.0	1.0	
Capital expenditure	3.6	3.8	4.0	3.7	3.7	3.6	3.6	3.5	3.6	
Gross operating balance	0.0	-0.4	-0.5	-1.0	-1.8	-2.2	-2.6	-3.2	-3.6	
Net lending/borrowing	-3.6	-4.2	-4.4	-4.8	-5.5	-5.8	-6.2	-6.7	-7.2	
Memorandum items										
Primary expenditure	50.7	51.3	51.8	51.9	52.5	52.5	52.8	53.1	53.4	
Primary balance	-2.0	-2.2	-2.2	-2.4	-3.0	-3.0	-3.3	-3.4	-3.7	
Structural balance	-4.3	-4.4	-4.4	-4.8	-5.5	-5.8	-6.1	-6.8	-7.2	
Structural balance (excl. Covid-19 measures)	-3.6	-4.2	-4.4	-4.8	-5.5	-5.8	-6.1	-6.8	-7.2	
Structural primary balance	-2.7	-2.4	-2.2	-2.5	-3.0	-3.0	-3.2	-3.5	-3.7	
Structural fiscal adjustment	0.7	-0.1	0.0	-0.4	-0.7	-0.3	-0.3	-0.6	-0.4	
Structural fiscal primary adjustment	0.6	0.3	0.2	-0.2	-0.5	-0.1	-0.2	-0.3	-0.2	
Gross government debt	102.6	103.1	104.1	105.4	108.6	111.9	115.2	118.9	123.0	
Real growth of primary expenditure	-0.8	2.4	2.1	1.4	2.2	1.4	1.7	1.9	2.0	

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

Table 5. Belgium: General Government Consolidated Balance Sheet, 2014–23

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
	(In percent of GDP)									
Net financial worth	-96.0	-93.6	-92.2	-87.3	-86.0	-86.2	-99.5	-90.7	-70.9	-74.7
Financial assets	35.0	34.1	36.9	35.7	34.5	36.0	39.8	38.3	30.8	30.0
Currency and deposits	4.3	4.2	4.6	4.6	4.2	3.5	4.4	5.0	4.2	4.5
Securities other than shares	0.3	0.3	0.4	0.4	0.5	0.5	0.5	0.5	0.5	0.6
Loans	9.0	8.8	8.9	8.9	8.9	9.0	9.6	9.2	8.7	8.8
Shares and other equity	16.0	15.5	17.3	16.6	15.4	17.7	19.1	17.5	10.9	10.1
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.3	0.4	0.4	0.4	0.3	0.2
Other accounts receivable	5.3	5.3	5.7	5.2	5.1	4.8	5.8	5.7	6.2	5.8
Liabilities	131.0	127.7	129.1	123.0	120.5	122.1	139.3	129.0	101.7	104.7
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Securities other than shares	104.6	102.2	103.9	98.7	96.4	99.2	115.0	105.3	79.7	84.1
Loans	20.8	20.0	19.4	18.0	17.3	16.1	16.7	16.6	15.4	14.6
Shares and other equity	0.2	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.7	0.9	1.1	0.8	0.2	0.3
Other accounts payable	4.9	4.9	5.3	5.9	5.8	5.6	6.1	6.0	6.1	5.5

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

Table 6. Belgium: Financial Soundness Indicators for the Banking Sector, 2014–24Q3 1/

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024Q1	2024Q2	2024Q3
Earnings and profitability:													
Return on assets	0.5	0.6	0.6	0.6	0.5	0.6	0.4	0.7	0.6	0.8	0.4	0.7	0.7
Return on equity	7.7	10.1	9.1	8.7	8.0	8.7	5.9	10.2	9.9	12.1	5.6	10.0	11.4
Net interest income to total income	70.2	67.7	66.0	61.2	63.5	63.3	63.4	65.3	65.8	69.1	72.3	71.5	59.8
Interest margin	1.6	1.8	1.8	1.6	1.6	1.6	1.5	1.4	1.5	1.5	1.4	1.3	1.2
Average yield on assets	2.7	2.6	2.4	2.1	2.1	2.1	1.8	1.5	2.0	3.5	3.7	3.7	3.7
Average cost of funding	1.1	0.8	0.6	0.5	0.5	0.5	0.3	0.1	0.5	1.9	2.4	2.4	2.5
Noninterest income to gross income	29.8	32.3	34.0	38.8	36.5	36.7	36.6	34.7	34.2	30.9	27.7	28.5	40.2
Of which: Net fee and commission income	25.8	26.7	25.1	24.3	24.6	24.1	25.0	29.3	28.2	25.5	26.2	26.2	23.6
(Un)realized capital gains booked in P&L	-0.3	5.3	6.7	3.7	5.4	2.3	0.0	2.5	3.5	0.8	5.8	3.5	2.4
Cost/income ratio	61.2	58.6	58.4	58.2	61.3	59.5	61.7	60.4	61	58.4	77.7	64.0	58.0
Structure assets													
Total assets (in percent of GDP)	249.0	236.5	266.1	227.3	215.7	220.0	250.9	227.4	210.0	197.8	195.6	192.6	194.0
Of which (in percent of total assets):													
Loans to credit institutions	9.1	8.5	7.5	6.8	6.7	7.9	4.3	3.3	2.5	3.2	3.5	3.2	3.5
Debt securities	19.6	18.0	16.4	14.4	13.3	12.3	12.1	10.9	10.8	11.9	11.3	11.3	11.3
Equity instruments	0.6	0.7	0.4	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.3	0.3
Derivatives	8.4	6.4	5.8	4.4	3.5	3.8	3.8	2.8	4.4	3.3	3.2	3.2	2.7
Loans to customers	54.1	56.4	55.4	59.4	62.3	61.9	57.2	59.0	62.9	64.0	64.4	65.9	63.1
Of which: Belgian residents (in percent of loans)	69.2	69.2	71.0	70.7	71.6	71.2	72.5	72.4	70.6	71.0	71.1	70.9	71.7
Other EMU residents (in percent of loans)	16.2	16.1	15.1	15.0	15.1	14.9	15.4	15.6	16.4	15.9	15.7	15.5	14.6
Rest of the world (in percent of loans)	14.5	14.7	13.9	14.2	13.3	13.9	11.9	12.0	13.0	13.1	13.2	13.5	13.7
Mortgage loans (in billions euros) 2/	202.4	216.1	229.7	227.4	243.3	261.4	274.1	289.0	309.5	317.3	319.4	322.8	324.3
Consumer loans (in billions euros) 2/	17.2	19.7	24.8	26.2	25.3	28.0	27.8	26.7	25.7	28.9	29.1	29.9	29.4
Reverse repo operations (in percent of loans)	1.7	1.5	1.0	1.1	0.5	0.5	0.3	0.3	0.3	0.2	0.1	0.1	0.1
Funding and liquidity (in percent of total assets)													
Debts to credit institutions	9.1	8.5	10.3	9.0	8.6	9.0	6.2	6.0	5.9	8.9	10.8	9.4	10.3
Bank bonds and other debt securities 3/	9.3	9.1	9.3	9.6	8.9	7.7	6.5	5.9	6.2	8.0	8.8	9.0	9.2
Customer deposits	58.5	61.0	58.4	62.2	63.9	64.6	64.3	65.9	68.4	68.2	66.2	68.0	66.9
Of which: Sight deposits 4/	24.2	28.4	26.4	30.3	31.1	31.7	33.6	36.3	35.3	30.2	26.4	28.5	27.0
Saving deposits 5/	19.9	23.0	22.8	23.5	24.7	25.1	24.7	24.9	25.2	22.5	22.5	23.1	22.2
Term deposits 4/	8.9	8.1	6.2	5.7	5.7	5.1	3.6	3.1	6.0	13.6	15.2	14.3	15.6
Retail deposits 5/	33.5	35.1	35.6	37.7	39.2	39.6	39.1	40.0	41.3	39.5	39.6	40.8	40.7
Repo's	2.3	1.7	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.5	0.4	0.6
Liquid assets 6/	32.8	32.2	32.5	31.7	29.2	26.8	35.0	35.4	36.4	34.8	37.5	37.3	37.0
Liquid assets to short-term liabilities					25.0	23.4	32.3	25.2	22.9	27.9	26.8	26.0	26.7
Liquidity coverage ratio					144.5	140.5	181.6	184.5	157.7	153.3	142.6	149.3	149.1
Net stable funding ratio								141.7	133.0	127.1	127.1	127.5	129.0
Asset quality													
Sectoral distribution of loans (in percent of total assets)													
Credit institutions	9.1	8.5	6.1	6.8	6.5	7.7	4.2	3.2	2.4	3.2	3.4	3.0	3.4
Non financial corporations	20.6	22.0	21.4	22.7	24.8	24.2	21.5	23.6	25.6	25.9	26.2	26.8	25.2
Households	25.5	27.4	27.5	29.6	29.9	30.4	29.1	29.3	30.8	31.8	32.0	32.5	31.8
General government	4.4	4.3	4.1	4.3	4.4	4.0	3.6	3.5	3.7	3.7	3.6	3.8	3.7
Other financial corporations	3.5	2.7	2.4	2.9	2.9	3.1	2.9	2.4	2.6	2.5	2.5	2.7	2.4
Non-performing loans (NPL) as percent of gross loans 6/	2.7	2.6	2.4	2.1	1.9	1.9	2.1	1.9	1.8	2.0	2.1	2.1	2.1
Provisions and write-offs as percent of NPL 6/	57.1	54.3	55.7	57.2	61.6	60.4	60.6	62.0	59.6	50.7	49.0	49.2	48.1
Capital adequacy													
Regulatory capital to risk-weighted assets	17.3	18.7	18.8	19.0	18.8	18.8	20.3	20.5	20.1	19.6	19.2	19.7	18.4
Regulatory Tier 1 capital to risk-weighted assets	15.1	16.0	16.2	17.0	16.5	16.7	18.2	18.9	18.5	17.9	17.1	17.1	15.9
Capital to assets	6.6	6.5	7.1	7.1	7.2	7.0	7.0	6.7	6.5	6.6	6.5	6.8	6.7
NPL net of provisions as percent of Tier 1 capital 6/	12.0	12.9	10.7	7.9	6.5	6.3	6.3	5.7	6.3	8.9	9.3	9.4	9.5
Net open position in foreign exchange to capital	3.4	2.6	2.1	1.6	1.9	2.1	2.0	1.7	2.4	2.0	2.0	1.9	2.5

Source: NBB.

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

2/ Only loans to households.

3/ Excluding saving certificates.

4/ Deposits booked at amortized cost only.

5/ Only household deposits.

6/ Unconsolidated data.

Annex I. External Sector Assessment

<p>Overall Assessment: <i>On a preliminary basis, the external position in 2024 was weaker than the level implied by medium-term fundamentals and desirable policies.</i> In 2024, the current account (CA) is expected to have improved, with the deficit narrowing to -0.3 percent of GDP from -0.7 percent in 2023, mainly due to a decline in trade deficits. In the medium term, the CA is expected to return to a small surplus, driven by the reversal of the negative terms-of-trade shock.</p> <p>Potential Policy Responses: Bringing the external position closer in line with medium-term fundamentals and desirable policy settings will require sustained fiscal adjustment through a credible, expenditure-led consolidation that also creates space to support green and digital transformation. Public investment should be preserved or increased to mitigate growth impacts of fiscal adjustments. Significant structural reforms, including of the wage-setting mechanism, pensions and social benefits, taxation, and labor and product markets, are necessary to enhance productivity and strengthen competitiveness.</p>						
<p>Foreign Asset and Liability Position and Trajectory</p>	<p>Background. Belgium's NIIP increased to 57.3 percent of GDP in 2024Q3 from 51.5 percent of GDP at end of 2023. The improvement was driven by an increase in gross foreign assets of 16.8 ppts of GDP from end-2023, surpassing an increase in gross foreign liabilities of 11.0 ppts of GDP. Net portfolio investment remained the main component of the positive NIIP, albeit decreased by 2.9 ppts of GDP from end-2023, at 32.8 percent of GDP in 2024Q3. Net foreign direct investment increased by a robust 3.5 ppts of GDP to 19.9 percent of GDP. Net other investment liabilities dropped further to 1.9 percent of GDP at 2024Q3 from a high of 11.7 percent of GDP at end of 2022. The high level of interbank debt on the liabilities side is due to economic sanctions on Russia.</p> <p>Assessment. The NIIP-to-GDP ratio is expected to decline slightly due to projected CA deficit for 2024 and growth trajectories. However, this trend does not raise concerns, as the NIIP remains significantly large and positive. Belgium's substantial gross international asset and liability positions are largely influenced by the presence of corporate treasury units, which do not appear to generate macro-relevant mismatches.</p>					
2024Q3(% GDP)	NIIP: 57.3	Gross Assets: 423.9	Debt Assets: 128.9	Gross Liab.: 366.6	Debt Liab.: 150.3	
<p>Current Account</p>	<p>Background. The CA balance averaged 0.3 percent of GDP, with both surpluses and deficits, from 2014 to 2023. It recorded a deficit of 1.3 percent of GDP in 2022 due to the surge in energy prices. The CA deficit narrowed to 0.2 percent of GDP in 2024Q1–Q3, compared to 1.3 percent of GDP in 2023Q1–Q3 and 0.7 percent of GDP the entire year in 2023. This improvement was primarily driven by a recovery in the goods and services balance, to -0.6 percent of GDP in 2024Q1–Q3, up from -1.3 percent of GDP in 2023Q1–Q3. The CA deficit is expected to narrow further to 0.3 percent of GDP in 2024. The trade balance is projected to improve, resulting in a small deficit of 0.1 percent of GDP, attributing to a larger decline in imports compared to exports. While the primary income balance is expected to increase by 0.3 ppt of GDP to 1.6 percent of GDP in 2024, this gain is more than offset by a larger outflow of current transfers, which decreased by 0.4 ppt of GDP to -1.8 percent of GDP. Overall, volatility in the trade and primary income balances is influenced by the substantial activities of multinationals and significant data revisions.</p> <p>Assessment. The EBA model estimates a CA norm of 3.3 percent of GDP, against a cyclically adjusted CA balance of 0 percent of GDP, implying a gap of -3.3 percent of GDP. This is within a range estimated by IMF staff for the CA gap of between -3.7 and -2.9 percent of GDP, applying the standard error of the CA norm estimated at ± 0.4 percent of GDP.</p>					
2024(% GDP)	CA: -0.3	Cycl. Adj. CA: 0.0	EBA Norm: 3.3	EBA Gap: -3.3	Staff Adj.: 0	Staff Gap: -3.3
<p>Real Exchange Rate</p>	<p>Background. Both the REER based on ULC and on CPI continued to appreciate strongly, by 1.6 percent and 1.2 percent respectively, in 2024. This resulted in a cumulative appreciation of 18.0 percent and 4.6 percent, respectively, since February 2022, the beginning of the upward trends. The stronger appreciation of the ULC-based REER was driven by more rapid and higher wage increases due to automatic wage indexation in Belgium.</p> <p>Assessment. The IMF staff-assessed CA gap implies a REER overvaluation in the range of 4.3 to 5.4 percent, with a midpoint of 4.9 percent (applying an estimated elasticity of the CA balance to the REER of 0.68). The</p>					

	EBA REER index model points to an overvaluation of 8.9 percent while the REER level model points to an overvaluation of 17.4 percent.
Capital and Financial Accounts: Flows and Policy Measures	<p>Background. The financial account balance was positive at 1.7 percent of GDP in 2024Q1–Q3. The direct investment balance was strongly positive at 4.3 percent of GDP (after turning negative at end-2023 for the first time since 2019), as larger negative transactions on the liabilities side surpassed the negative transactions on the assets side, largely due to the repayment of outstanding loans. The portfolio investment balance was negative at -6.3 percent of GDP, primarily due to purchases of Belgian government bonds by non-residents. The balance of other investment (including financial derivatives) was positive at 3.7 percent of GDP.</p> <p>Assessment. Belgium remains exposed to financial market risks and vulnerabilities associated with high external public debt. However, these vulnerabilities are limited by the large, positive NIIP.</p>
FX Intervention and Reserves Level	<p>Background. The euro has the status of a global reserve currency.</p> <p>Assessment. Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.</p>

Annex II. 2023 Article IV Recommendations

2023 Article IV Recommendations	Policy Actions
Fiscal Policy	
<p>Fiscal adjustment is needed to preserve Belgium’s social model, lower inflation, reduce debt, and rebuild buffers.</p> <p>Fiscal reforms, notably in tax policy, pensions, and healthcare, are key to sustaining the consolidation efforts and addressing medium-term challenges.</p> <p>Fiscal management would benefit from enhanced coordination among federal entities, with responsibilities for fiscal adjustment at the regions and communities accounted for in a broader consolidation plan, with strict spending limits applied at all levels of government.</p>	<p>Fiscal policy is projected to be slightly expansionary in 2024.</p> <p>The 2024 elections and the protracted negotiation for a federal government coalition delayed fiscal reforms.</p> <p>No progress amid a widening of the regions and communities’ aggregate deficit and debt level.</p>
Financial Sector Policy	
<p>Rising systemic risks calls for continued focus on preserving resilience and building up buffers to absorb losses when needed.</p> <p>The planned tightening of macroprudential policy will help preserve resilience against a rapid shift in financial conditions.</p> <p>The well-developed financial policy framework could be further buttressed: the 2023 FSAP emphasized that strengthening supervision, crisis management and resolution preparedness, the macroprudential framework, and systemic risk assessment will further insulate the economy from macro-financial shocks.</p>	<p>The prudential limits on residential mortgage loans have been effective in limiting the rise of loan-to-value (LTV), debt-service-to-income (DSTI) and debt-to-income (DTI) ratios.</p> <p>The NBB activated the CCyB in April and October 2024, as planned, to increase buffers against cyclical and structural systemic risks.</p> <p>The authorities have made useful progress in implementing the 2023 FSAP recommendations that did not require legislative action (see details in Annex IV).</p>
Structural Reforms	
<p>Continue reforms in labor market, tax, and social benefit to reduce skills mismatches, increase flexibility in the job market, and promote greater inclusion in employment, to help improve productivity, labor participation, and interregional mobility.</p> <p>Deepen product-market reforms to raise productivity and help mitigate the impact of fiscal consolidation and the cost of aging.</p> <p>Accelerate the climate transition in a coordinated manner among federal entities. The planned EU ETS expansion by 2027 should be complemented by measures at the national level to ensure the desired emissions reductions.</p>	<p>Labor market reforms implemented in 2024 include measures to increase flexibility and increased training obligations (five days of training up from four in 2023). The number of registered job seekers increased sharply despite stable unemployment rates with new rules and clearer obligations for non-working beneficiaries that aim to better guide job seekers to job vacancies.</p> <p>Product markets have not been a key focus of reforms in recent years.</p> <p>Coordinating climate action plans among federal entities remained challenging, and the updated NECP is overdue. The 2024 elections and the protracted government formation also delayed green transition policies.</p>
<p>Source: IMF staff; see IMF Country Report 23/386.</p>	

Annex III. Risk Assessment Matrix¹

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
External Risks				
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	ST	High Direct energy, trade and financial links with Russia, Ukraine, and Israel are limited. Intensification of the war in Ukraine and spread of the conflict in Gaza and Israel would affect the economy mainly via indirect growth spillovers and heightened inflation from higher commodity prices. Frozen assets of Russian entities held by Euroclear Bank raise litigation and reputational risks with potentially adverse consequences for financial stability.	Provide well-targeted, temporary support to groups most vulnerable to lower growth and higher inflation, as fiscal space allows, pause automatic wage indexation to prevent the emergence of a wage-price spiral, and accelerate EU-funded high-quality investment projects to support growth.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High	ST, MT	Medium High volatility of energy prices could affect domestic inflation expectations, and increase uncertainty which would dampen household consumption and business investment.	Provide well-targeted temporary support to the most vulnerable, tighten fiscal policy to counteract upward inflationary pressures, pause automatic wage indexation to prevent the emergence of a wage-price spiral and de-anchoring of inflation expectations, and accelerate the green transition. Monitor impact on financial markets and carefully calibrate measures to preserve financial stability.
Global growth surprises: Slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and financial channels, triggering sudden stops in some EMDEs.	Medium	ST, MT	High Lower key trading partners (France, Germany, The Netherlands) growth would dampen economic growth. Financial sector exposures to real estate markets are elevated, and steep price corrections would weaken macro-financial stability.	Allow automatic stabilizers to work fully and limit any fiscal stimulus to well-targeted, temporary support for groups most vulnerable to an economic downturn, in case of slowdown, and deploy available capital buffers to absorb credit losses from real estate contraction.

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

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Acceleration. Positive supply-side surprises, monetary easing, productivity gains from AI, and/or stronger EMDE performance raise global demand and trade, and ease global financing conditions.	Low			Tighten fiscal policy faster to reduce aggregate demand and counteract overheating pressures in case of positive growth surprise.
Monetary policy calibration. Amid high uncertainty and data surprises, major central banks' stances turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.	Medium	ST, MT	Medium Near-universal automatic wage and benefit indexation would raise wages and may lead to de-anchored inflation expectations, while increased labor costs would lower international labor-cost competitiveness.	With monetary policy being set by the ECB, tighten fiscal policy. Pause or modify the indexation mechanism and 1996 wage law.
Sovereign debt distress. Domino effects from high global interest rates, deteriorating debt sustainability in some AEs, unfunded fiscal spending, and/or disorderly debt events in some EMDEs spillover to other highly indebted countries, amplified by sovereign-bank feedback, resulting in capital outflows, rising risk premia, loss of market access, and contraction of growth and social spending.	Medium	ST, MT	High Debt and deficit remain elevated. A long period of higher financing costs would undermine fiscal sustainability. A favorable sovereign debt maturity profile provides support.	Substantial, discretionary fiscal tightening is needed to maintain credibility, reduce government bond yields, and stabilize public debt.
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	MT	Medium Belgium's economy is highly integrated into the global value chains and global financial system (it serves as base for multinational corporations and large financial/payment services providers). It is particularly vulnerable to deepened geoeconomic fragmentation, although financial sector resilience and EU/euro area membership provide support.	Strengthen supply chains resilience. Accelerate structural reforms to strengthen competitiveness and build resilience. Work with EU partners to deepen the single market. Recalibrate and develop macroprudential measures and contingency plans as needed.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical failures, or misuse of AI technologies trigger financial and economic instability.	High	ST, MT	Medium Cyberattacks, if successful, could inflict significant damage to the financial sector and other critical infrastructure. Impact on financial sector would be mitigated by strong existing cyber security framework, resilience testing and business continuity plans.	Intensify further the monitoring of cyber risks and exchange of information with partners. Strengthen further the cyber security framework, including resilience testing and business continuity plans.

Source of Risks	Relative Likelihood	Time Horizon	Expected Impact	Policy Response
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium	MT	Medium Slow progress with reaching ambitious climate targets may require accelerated efforts in later years, triggering an abrupt transition with negative consequences for Belgium's energy-intensive, highly industrialized economy.	Strengthen climate adaptation policies and infrastructure to increase resilience. Provide limited, well-targeted fiscal support to affected individuals and firms if risks materialize. Develop a long-term energy supply strategy, well coordinated across federal and regional entities.
Belgium-Specific Risks				
Political fragmentation. Fragmented political landscape may create difficulties for the coalition government to steadfastly implement the intended fiscal consolidation and structural reforms.	Medium	NT, MT	High In a scenario where the adjustment and reforms to support it would not be timely implemented and other risks materialize that would increase global risk aversion, fiscal sustainability concerns may result in a substantial increase in risk premia and worsen debt dynamics, requiring a sharper fiscal adjustment, with negative consequences for growth and financial stability.	Start implementing the coalition agreement agenda immediately, front loading reforms and adjustment to increase the credibility of the government's program.

Annex IV. Sovereign Risk and Debt Sustainability Analysis

Belgium's risk of sovereign stress is assessed as moderate. Successive shocks have led to increased structural deficits and rising debt levels. The public debt level is expected to rise from 104 percent of GDP in 2024 under unchanged policies, driven by rising aging costs that widen primary deficits and by increasing interest payments. High borrowing costs will strain public finances at a time when fiscal resources are already stretched, and high financing needs heighten vulnerability to changes in market sentiment. Risk-mitigating factors include an extended debt maturity profile and a large, stable domestic (and euro-resident) investor base.

1. Background. Belgium ranks among the high-debt countries in the euro area with general government debt at 104.1 percent of GDP in 2024. Sustained fiscal adjustment reduced debt to 100 percent of GDP and below by 2018-19, for the first time since the GFC. However, the large fiscal response during the pandemic and energy crisis structurally increased deficits and resulted in debt rising sharply to 111.1 percent of GDP in 2020. Aided by favorable denominator effects from strong growth and high inflation, the debt ratio cumulatively declined in 2021–22 to 102.6 percent of GDP in 2022, before rising again to 103.1 percent of GDP in 2023.¹ In the absence of fiscal adjustment under the EGRs (current policies baseline scenario), the combination of continued elevated primary deficits, high interest rates, and moderate growth is projected to push the debt ratio to about 123 percent of GDP by 2030.

2. Macroeconomic assumptions. Growth is projected stable at 1.1 percent in 2025 and returning to its potential of 1.3 percent in 2027. Headline inflation is projected to decline to 3.5 percent in 2025 from 4.3 percent in 2024, stabilizing just below 2 percent from 2027 and beyond in the medium term.

3. Fiscal assumptions. The baseline assumes unchanged policies. The overall fiscal deficit is expected to remain elevated at 4.4 percent of GDP in 2024 and widens further to 7.2 percent of GDP in 2030. Increases in aging-related outlays of 0.3 ppt of GDP per year, along with wages and social-benefits indexation, rising defense spending and increasing interest costs, will keep the deficit elevated in the medium term. The public debt-to-GDP ratio will continue to rise over the forecast horizon, reflecting a projected primary balance that remains negative, and is about 4.6 ppts of GDP below its debt-stabilizing primary balance of 0.4 percent of GDP.

4. Interest rates and gross financing needs (GFN). Long-term interest rates (benchmark 10-year bond yield) are projected to increase to 3.6 percent (average) by 2030, a rise of 190 bps from 2022 (average). The refinancing of the debt stock to lengthen maturity at lower borrowing costs during the low-interest rates years from 2017 through early 2022 provided a buffer against rising interest rates in the near-term, but less so for medium-term. The effective rate is expected to gradually rise to 3.2 percent in 2030, compared to the historical low of 1.5 percent in 2022. This will result in interest

¹ The debt-to-GDP ratio for 2023 was lowered by about 2 percentage points due to changes in the denominator resulting from data revision as part of the five-year benchmark revision of the national accounts for the period 2009 to 2022.

cost rising to 3.5 percent of GDP in 2030, up from 1.6 percent of GDP in 2022. Gross financing needs are expected to increase to an average 19.8 percent of GDP from 2025 to 2030.

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

6. Risk assessment and mitigating factors. Belgium's overall risk of sovereign stress is assessed as moderate. A favorable debt profile and strong institutional capacity continue to mitigate sustainability concerns. Belgium also has an impressive record of reducing debt by 52 ppts of GDP, from 140 percent to 87 percent of GDP, in the period 1993–2007, with an average primary surplus of 4.5 percent of GDP. Public debt is predominantly long-term, with an average residual maturity of 11 years in 2024, which is among the highest in euro area economies, helping to limit refinancing risks. Close to 45 percent of public debt is held by residents. The share held by the central bank has increased steadily since 2015, due largely to purchases under quantitative easing (QE) measures, peaking at 21.4 percent of outstanding debt in 2022, before decreasing to 19.5 percent of GDP in 2023 as central banks have started unwinding QE. There is potential for the declining share of public debt held by central banks and financing needs in time of stress to be absorbed by domestic and wider euro-area financial institutions. The unprecedented demand in the sale of a one-time one-year state bond (gross 3.3 percent and net interest rate of 2.8 percent after deduction of a reduced withholding tax at 15 percent) in the amount of €21.9 billion (3.7 percent of GDP) in September 2023 underscores potential to tap private savers to finance public debt.

Figure IV.1. Belgium: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	The overall risk of sovereign stress is assessed as moderate. The public debt-to-GDP ratio is rising under the unchanged policies. It is driven by elevated primary deficits due to higher spending related to population aging in pensions and healthcare, which is projected to increase by 0.3 ppt GDP annually from 2025 to 2030, and increasing interest costs. Sovereign rollover risk is mitigated by factors including a large institutional investor base, home bias, and an average residual maturity for debt securities of 11 years (compared to 8.2 years for EA20) in 2024.
Near term 1/			
Medium term	Moderate	Moderate	Staff's assessment of the medium-term risk of sovereign stress is moderate, consistent with the mechanical signal. Risks arising from a high probability of debt non-stabilization and sizable financing needs are mitigated by the quality of Belgium's debt management capacity and market absorption capacity, even under stress.
Fan chart	Moderate	...	
GFN	Moderate	...	
Stress test	...	...
Long term	...	Moderate	Long-term risk is assessed moderate. The fiscal cost of aging is projected to increase by 4.2 ppts of GDP during 2023-70, reaching 30 percent of GDP in 2070 (2024 Annual Report by the Aging Committee). Mitigating factors include fiscal adjustments over the medium term under the EU economic governance framework and the high quality of debt management. However, there are risks that additional long-term spending pressures, currently not included in the baseline projection, may arise due to demographic changes and green transitions.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Belgium is at a moderate risk of sovereign stress. The high and rising level of public debt, under the current unchanged policies setting, is driven by aging-related spending pressures and increasing interest costs. As higher financing costs increasingly weigh on debt service burden with the maturation of lower-cost debt, the tailwinds from favorable debt dynamics will dissipate. This will require an increasingly larger effort to stabilize debt at a time when investment needs for green transformation are rising. These factors contribute to the moderate medium-term risk score. Over the long term, risk is assessed as moderate due to rising aging related budgetary costs and new additional spending pressures.

Source: Fund staff.

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

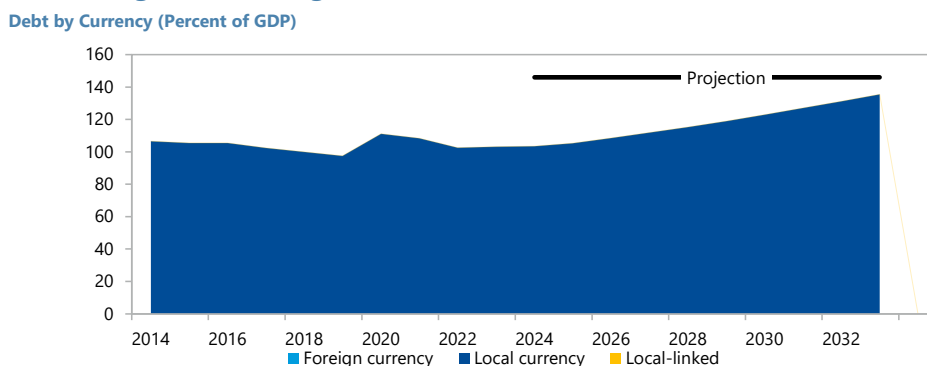
1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

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

Figure IV.2. Belgium: Debt Coverage and Disclosures

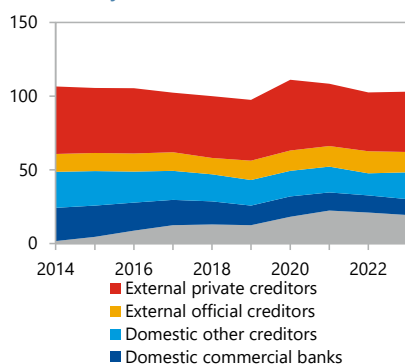
										Comments		
1. Debt coverage in the DSA: 1/		CG	GG	NFPS	CPS	Other						
1a. If central government, are non-central government entities insignificant?							n.a.					
2. Subsectors included in the chosen coverage in (1) above:												
Subsectors captured in the baseline										Inclusion		
CPS	NFPS	GG: expected	CG	1	Budgetary central government						Yes	Not applicable
				2	Extra budgetary funds (EBFs)						No	
				3	Social security funds (SSFs)						Yes	
				4	State governments						Yes	
				5	Local governments						Yes	
				6	Public nonfinancial corporations						No	
				7	Central bank						No	
				8	Other public financial corporations						No	
3. Instrument coverage:		Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/						
4. Accounting principles:		Basis of recording		Valuation of debt stock								
		Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/						
5. Debt consolidation across sectors:		Consolidated			Non-consolidated							
Color code: ■ chosen coverage ■ Missing from recommended coverage ■ Not applicable												
Reporting on Intra-government Debt Holdings												
		Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total	
CPS	NFPS	GG: expected	CG	1	Budget. central govt						0	
				2	Extra-budget. funds						0	
				3	Social security funds						0	
				4	State govt.						0	
				5	Local govt.						0	
				6	Nonfin pub. corp.						0	
				7	Central bank						0	
				8	Oth. pub. fin. corp						0	
Total			0	0	0	0	0	0	0	0	0	
1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector. 2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable. 3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities. 4/ Includes accrual recording, commitment basis, due for payment, etc. 5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes). 6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity. 7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.												
Commentary: The debt coverage is unchanged from recent Article IVs. It covers general government debt, with most debt issued by the federal government. The consolidated gross debt of the federal government was 83 percent of total public debt or 85 percent of GDP as of end-2023.												

Figure IV.3. Belgium: Public Debt Structure Indicators



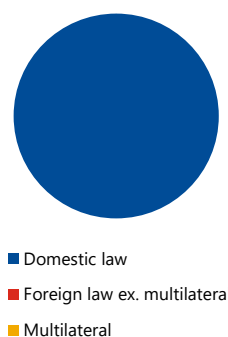
Note: The perimeter shown is consolidated public sector.

Public Debt by Holder (Percent of GDP)



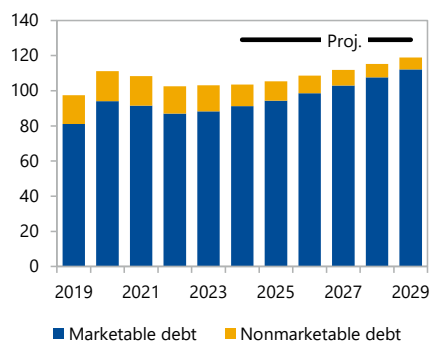
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (percent)



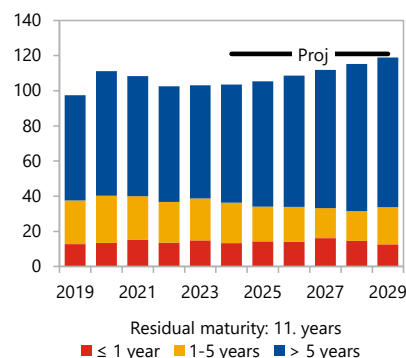
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

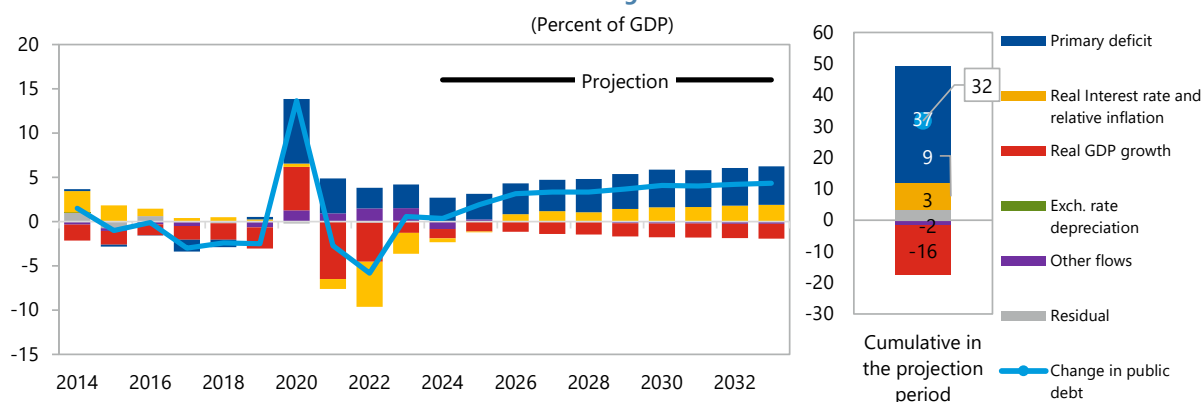
Commentary: Public debt is predominantly denominated in domestic currency, marketable, and governed by domestic law. The share held by the central bank has increased steadily since 2015, peaking at 20.9 percent of outstanding debt in 2022, before decreasing to 18.9 percent of GDP in 2023. This trend is mirrored by declining share held by domestic commercial banks and other financial institutions. Public debt is predominantly long-term, with an average residual maturity of 11.1 years in 2024.

Figure IV.4. Belgium: Baseline Scenario

(Percent of GDP unless indicated otherwise)

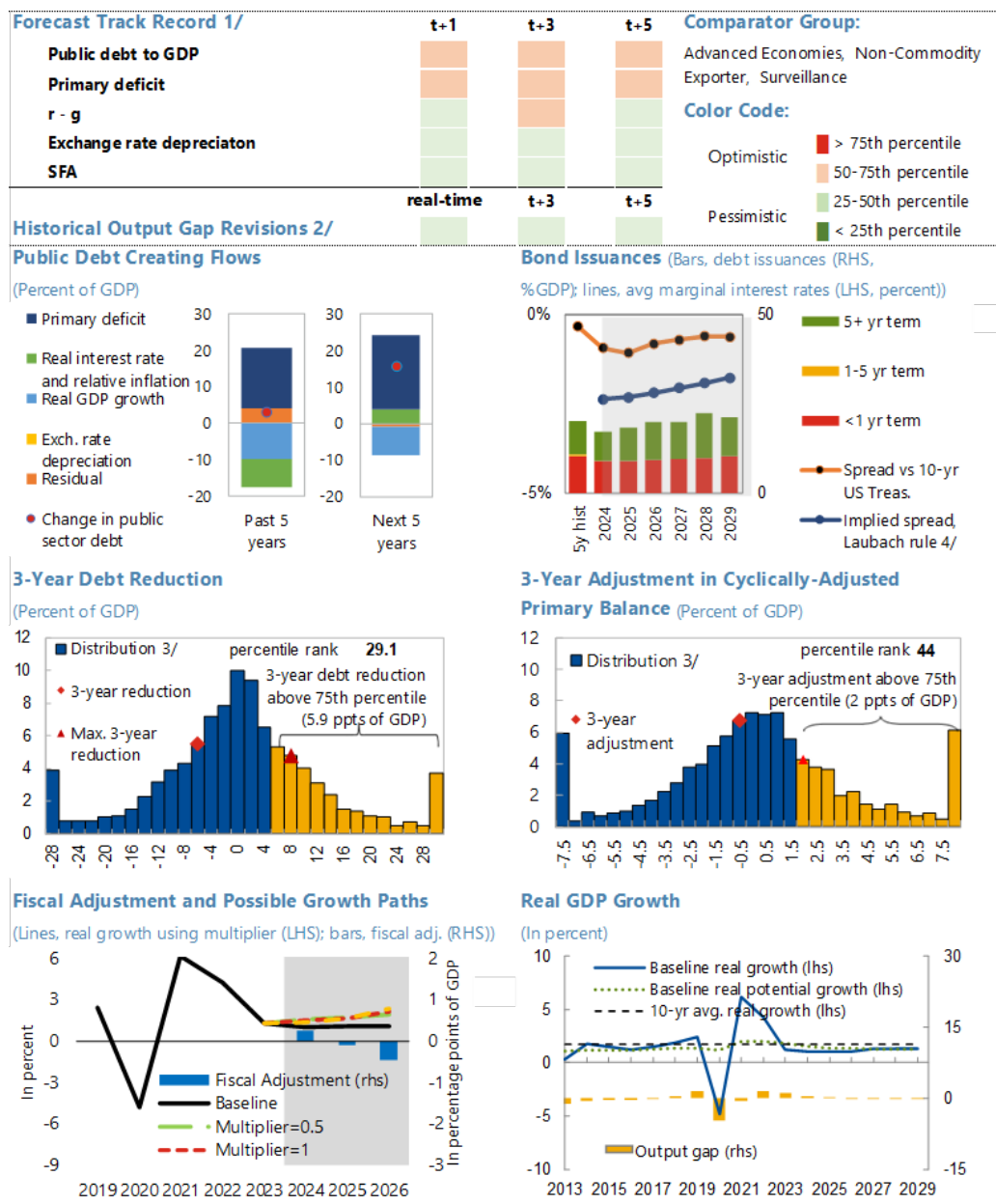
	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	103.1	103.5	105.4	108.6	111.9	115.2	118.9	123.0	127.0	131.2	135.5
Change in public debt	0.6	0.4	1.9	3.2	3.3	3.3	3.7	4.1	4.0	4.2	4.3
Contribution of identified flows	0.5	0.4	1.9	3.2	3.3	3.3	3.7	4.1	4.0	4.2	4.3
Primary deficit	2.7	2.7	2.9	3.5	3.5	3.8	4.0	4.2	4.2	4.3	4.3
Noninterest revenues	48.6	49.1	49.0	49.0	49.0	49.0	49.1	49.2	49.3	49.4	49.4
Noninterest expenditures	51.3	51.8	51.9	52.5	52.5	52.8	53.1	53.4	53.5	53.6	53.7
Automatic debt dynamics	-3.6	-1.5	-1.2	-0.3	-0.2	-0.4	-0.1	0.0	0.1	0.2	0.2
Real interest rate and relative inflation	-2.4	-0.4	-0.1	0.9	1.2	1.0	1.4	1.6	1.6	1.8	1.9
Real interest rate	-2.4	-0.4	-0.1	0.9	1.2	1.0	1.4	1.6	1.6	1.8	1.9
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	-1.3	-1.1	-1.1	-1.1	-1.4	-1.4	-1.5	-1.6	-1.6	-1.6	-1.7
Real exchange rate	0.0	...	...	...	...	...	...	...	...	...	...
Other identified flows	1.5	-0.9	0.2	0.0	0.0	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5	-0.5
Other transactions	2.0	-0.3	0.7	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.3
Contribution of residual	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross financing needs	15.2	17.4	17.6	19.5	19.5	21.8	20.9	19.5	22.3	22.0	23.2
of which: debt service	13.0	15.3	15.2	16.5	16.5	18.6	17.4	15.8	18.7	18.2	19.4
Local currency	13.0	15.2	15.2	16.5	16.4	18.5	17.4	15.8	18.6	18.2	19.4
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	1.3	1.0	1.1	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Inflation (GDP deflator; percent)	4.5	2.7	2.5	1.7	1.5	1.7	1.6	1.6	1.7	1.7	1.7
Nominal GDP growth (percent)	5.8	3.7	3.6	2.8	2.8	3.0	3.0	3.0	3.0	3.0	3.0
Effective interest rate (percent)	2.1	2.2	2.3	2.5	2.6	2.7	2.9	3.0	3.1	3.2	3.2

Contribution to Change in Public Debt



Commentary: The public debt to GDP ratio will continue to rise over the forecast horizon, reflecting a projected primary balance that remains negative, and at 4.6 pts of GDP below its debt-stabilizing primary balance of 0.4 percent of GDP, based on an unchanged policy baseline scenario.

Figure IV.5. Belgium: Realism of Baseline Assumption



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

Source : IMF Staff.

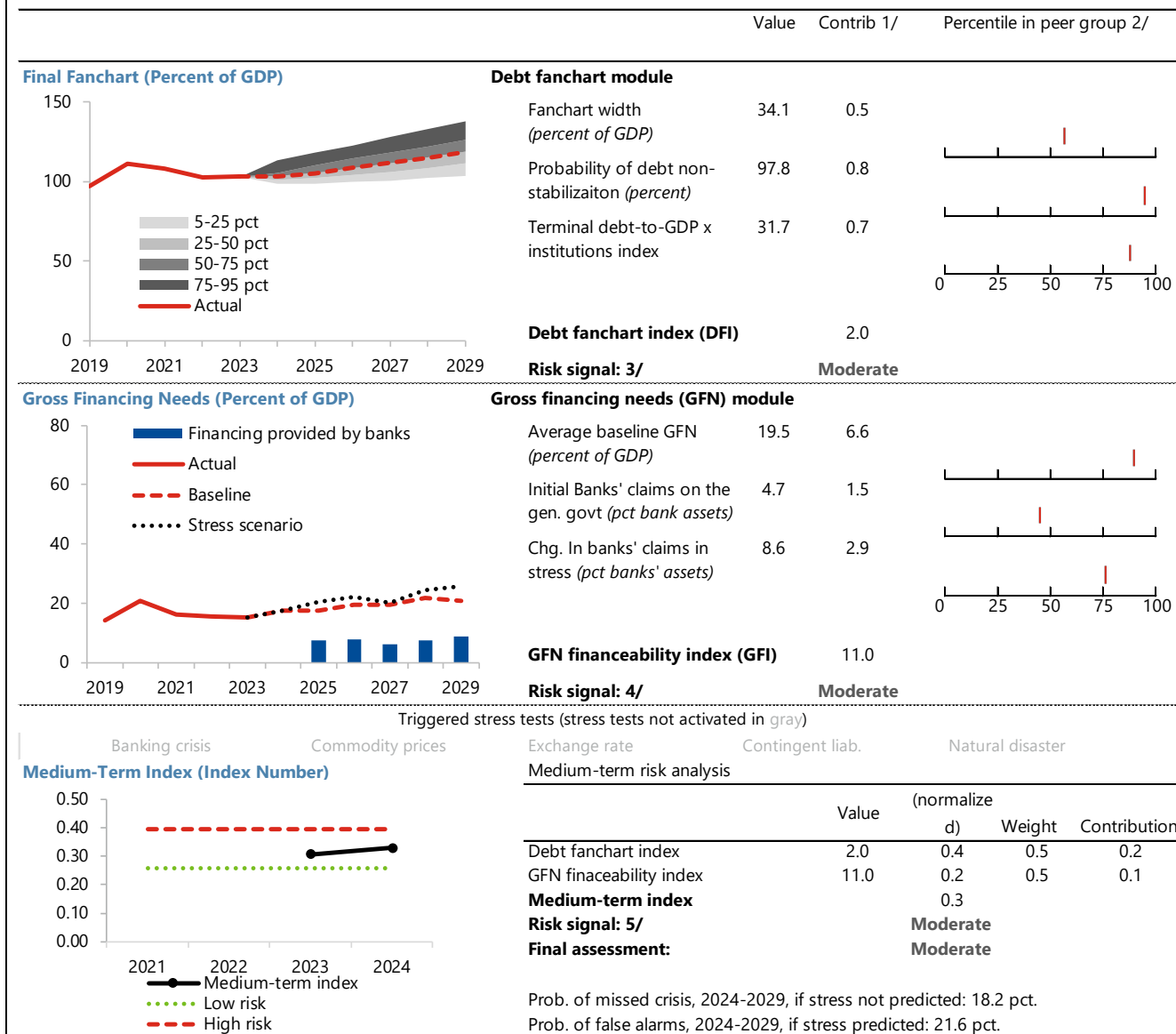
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates

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

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

Figure IV.6. Belgium: Medium-Term Risk Assessment



Commentary: The mechanical signals point to moderate medium-term risk. The probabilistic fan chart constructed from past shocks points to moderate risks of debt non-stabilization under the baseline scenario, albeit relatively close to the high-risk threshold (2.08). Moderate financing risk reflects high average GFNs.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure IV.7. Belgium: Long-Term Risk Analysis

Triggered Modules

Large amortizations

Pensions
Health

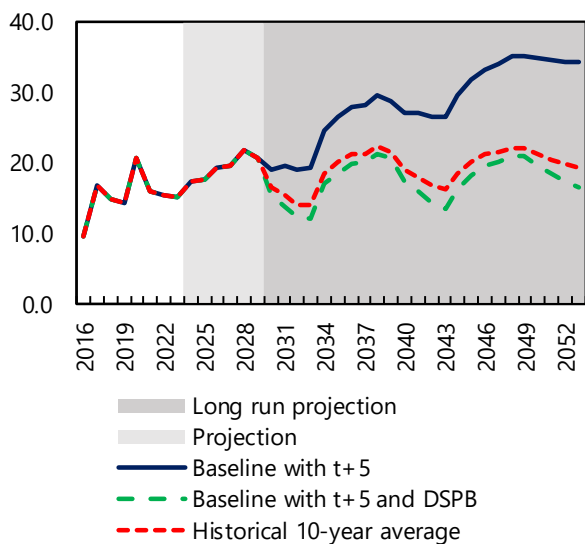
Climate change: Adaptation
Climate change: Mitigation

Natural Resources

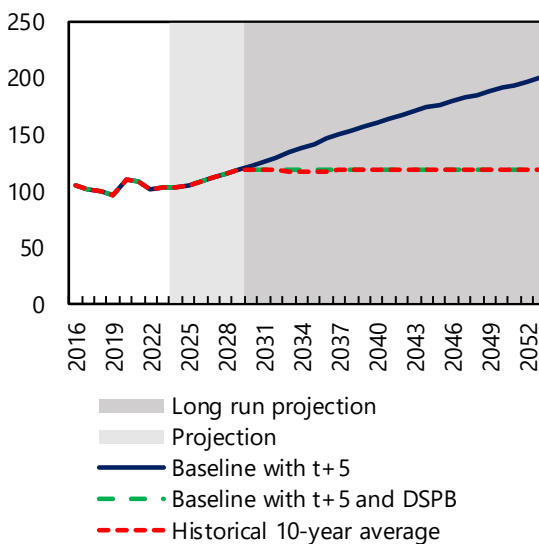
Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Historical average assumptions	GFN-to-GDP ratio	■
	Amortization-to-GDP ratio	■
	Amortization	■
Overall Risk Indication		■

GFN-to-GDP Ratio



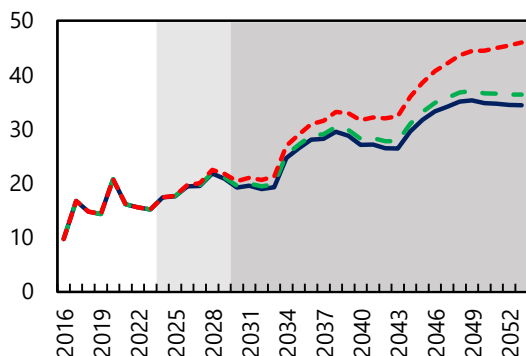
Total Public Debt-to-GDP Ratio



Commentary: The mechanical signals of the three standard scenarios breach the GFN thresholds, pointing to the long-term risks in the absence of fiscal consolidation.

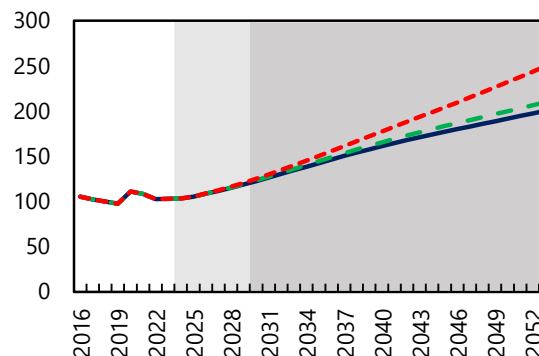
Figure IV.8. Belgium: Demographics Health

GFN-to-GDP Ratio



— Baseline: Extension of fifth projection year
 - - - Health (Demographics)
 - - - Health (Demographics + ECG)

Total Public Debt-to-GDP Ratio



— Baseline: Extension of fifth projection year
 - - - Health (Demographics)
 - - - Health (Demographics + ECG)

Commentary: The long-run demographic trends project the GFN-to-GDP ratio and debt-to-GDP ratio at elevated levels. The baseline scenario reflecting current unchanged policy setting, incorporated the cost of aging projected by the authorities, which includes an increase in health care cost of 0.7 percent of GDP in 2024-30, and 1.6 percent of GDP in 2030-70. Should excess cost growth (ECG) materialized at the standard 0.8 percent, the GFN and Debt-to-GDP ratio would be 9.6 ppts and 49.5 ppts higher, respectively, in the long term.

Annex V. Follow-up on Implementation of Key 2023 FSAP Recommendations

Table V.1. Belgium: Implementation of Key 2023 FSAP Key Recommendations 1/				
	Recommendation	Addressee	Timing 2/	Status
Systemic Risk Assessment				
1.	Further strengthen the NBB's Stress Testing Framework by i) integrating individual models within the stress testing framework to offer a comprehensive impact analysis on banks' profitability and capital adequacy, ii) incorporating the IFRS 9 Approach into Credit Risk Modeling and, iii) continuing to adopt advanced analytical methods to better monitor ALM risks.	NBB	MT	i) Integration of credit risk and net interest rate income (NII) models into the NBB's semiannual risk review is underway. ii) Incorporation of IFRS 9 into credit risk modeling is postponed until the methodology for calculation of transition rates is finalized, there are more data points, and major banks can accurately report IFRS9 data on loan staging to the banking supervision department. iii) The NII model was recently revised based on banks' assumptions for repricing of assets and liabilities (introduction of "catch-up" effect/return of interest rates to their long-term average, and "migration effect", assuming 10 percent sight deposit migrate to term deposits).
2.	The NBB and the FSMA to establish a formal agreement for sharing data on investment funds' portfolio holdings and supervisory data. The FSMA to develop and adapt a stress test framework to assess structural vulnerabilities and risks in the investment funds sector, and to be integrated into the NBB's systemic risk assessment.	FSMA NBB	C, MT	A formal agreement between the NBB and the FSMA to share data on investment funds' portfolio holdings and supervisory data was signed in 2023 and FSMA stress tests are now planned. The first tests were conducted in 2023. FSMA technical staff are working closely with NBB staff and coordinating inputs for the NBF report, the latest edition of which was published in January 2025.
3.	Increase insurers' resilience against macro-financial shocks, by i) engaging with industry to reduce dependence of insurers on lower tier capital and ii) implementing liquidity stress tests and scenario analysis to identify potential sources of stress.	NBB	MT, NT	i) Measures to reduce the dependence of insurers on lower tier capital have been informed by the NBB/EIOPA stress test for the top 5 insurers ranked by total assets with the lowest proportion of Tier 1 capital in function of the total Eligible Own Funds (smallest EoF1/Total EoF) completed in November 2024. ii) The NBB/EIOPA stress test includes a liquidity component and an NBB circular requires insurers to implement liquidity stress tests and scenario analysis to identify potential sources of stress.
Macroprudential Policy 3/				
4.	In the medium-term, align the powers of the NBB to set macroprudential policy at the national level with its financial stability mandate by giving it full discretion over the activation and calibration of all capital- and borrower-based instruments, without the need for government approval. In the near-term, the activation and calibration of capital-based measures under CRD/CRR should be at the sole discretion of the NBB at the national level, without the need for government approval.	Government	MT, NT	Action would require that a new government is in place. While the NBB Board supports adapting the institutional framework to make the NBB's autonomy as macroprudential authority more effective as regards capital-based measures, it opposes extending the NBB's powers regarding legally-binding borrower-based measures.
5.	For the activation, recalibration and extension of macroprudential policy instruments requiring government intervention, strengthen accountability by publishing the factors weighing on policy considerations and decisions.	NBB, Government	NT	Article 36/40 of NBB's Organic Law requires federal agencies that deviate from NBB recommendations to explain why. Macroprudential policy decisions requiring government intervention could be made public on that basis.

Table V.1. Belgium: Implementation of Key 2023 FSAP Key Recommendations (continued)

	Recommendation	Addressee	Timing 2/	Status
6.	Strengthen the NBB's systemic risk assessment framework for setting macroprudential policy by closing data gaps and ensuring stronger integration of data and quantitative tools with instrument design and selection.	NBB	MT	The NBB carried out a review of the framework for its semi-annual risk assessment during 2024H1 and adopted a new framework that covers all identified systemic risks, and better links (tail-) risk quantification and macroprudential policy decisions. The new framework also includes a risk assessment for NBFIs.
Banking Regulation and Supervision				
7.	Strengthen banks' corporate governance framework and expectations, in particular the supervisory function of the board.	NBB	NT	The NBB has identified the measures to be taken and is working to ensure consistency of needed measures with the insurance sector's governance framework. Some measures require a modification of the banking and insurance law to be made along with the transposition of CRD6 and Solvency II. Subsequent modification of the NBB's governance and "fit-and-proper" manuals and the relevant Insurance Circular is planned.
8.	Harmonize, taking into account best practices, and ensure risk sensitivity of internal supervisory decision-making processes across departments.	NBB	NT	Follow-up on on-site inspection findings (including timing of banks' remedial actions) is being aligned across supervisory departments. Relevant information regarding changes to Pillar 2 requirements and its implications are now reflected in the documentation of the internal decision-making process.
9.	Maintain adequate prudential supervisory staffing for LSI supervision, structurally collect consumer protection and conduct information to feed into the SREP and monitor banks' own capital targets systematically.	NBB	NT	The NBB has committed to maintaining adequate staffing in the LSI teams. The NBB and the FSMA have made an inventory of the relevant consumer protection and conduct information to be shared by the FSMA at various time frequencies with NBB to allow the NBB to incorporate it into the SREP. The inventory covers all banks, stockbroking firms and insurance undertakings under the NBB's supervision.
Insurance Regulation and Supervision				
10.	Finalize the legal framework of the natural catastrophe public-private partnership to enhance predictability of the natural disaster related insurance cover.	MoF	NT	The NBB provided technical advice to the federal government on how to reinforce the legal framework. The proposal is expected to be finalized and submitted to Parliament after the new government is sworn in.
11.	Provide guidance for the consistent valuation of mortgage loans.	NBB	MT	General and specific residential real estate data collection guidelines including valuation guidance were updated in February 2024.
12.	Contact third country supervisors to assess the basis for sharing and collecting information.	NBB	NT	No contact initiated yet. The legal basis for information sharing with third country supervisors is currently insufficient (third countries do not always have sufficiently robust confidentiality frameworks).
13.	Engage the government to obtain legal powers to introduce regular complaints reporting by insurers.	Government /FSMA	I	The introduction of regular complaints reporting by insurers requires a change in the legal framework by Royal Decree. The FSMA has prepared the draft decree, which it will discuss with the new Minister of Economy. The FSMA is also preparing accompanying regulation to further detail the content and the process for insurers to submit their report.
Euroclear Bank Assessment				
14.	EB should undertake substantial efforts to continue to improve the comprehensiveness and sufficiency of its IT and information security risk management, including cyber security risk, and more clearly and thoroughly defining and steering the management of these risks at the level of the Board as a top priority.	EB	NT	Substantive improvements to EB's IT and information security risk management framework were made. Security controls implementation and asset management were notably improved.

Table V.1. Belgium: Implementation of Key 2023 FSAP Key Recommendations (continued)

	Recommendation	Addressee	Timing 2/	Status
15.	Beyond relying on direct participant disclosure, EB should develop capacity for increasing the transparency with respect to the business of its direct participants' clients.	EB	NT	Increasing transparency with respect to the business of EB's direct participants' clients requires altering EB's contractual relationship with its direct participants while accommodating for restrictions resulting from competition law, which limits underlying clients' information that can be collected. EB has made some enhancements to its information gathering processes, within the current legal data collection framework. It will consider further enhancements of its due diligence and monitoring and explore ways to complement the information it gets from participants with alternative sources.
16.	EB should put in place more robust testing of procedures related to business continuity and participant default procedures, including through simulation exercises.	EB	NT	An October 2024 exercise incorporated more robust simulation techniques.
Crisis Management and Financial Safety net				
17.	Finalize the Rules of Procedure of the NBB Resolution Board, giving also attention to its capacity as a crisis management committee. Finalize the national resolution handbook, with attention also to the resolution tools that are not part of the preferred resolution strategies, as well as the resolution powers.	NBB	I	The NBB expects the national handbook to be a living document. It initially prioritized drafting sections on tools for resolution and operational steps for bail-in and sale-of-business. Work on sections on additional powers and tools has begun.
18.	Strengthen NBB's internal coordination and cooperation for crisis management by establishing an interdepartmental cooperation mechanism with representatives from relevant departments at technical level for the NBB and prepare two bilateral cooperation agreements between the Resolution Unit and the Financial Stability and Supervisory Departments respectively.	NBB	I	The internal coordination and cooperation substructure has been established (risk team on recovery and crisis management). Cooperation agreements between the Resolution Unit and the Financial Stability and Supervisory Departments will be prepared after the expected interactions between the different units have been clearly identified.
19.	Enhance the ELA framework by: i) seeking cooperation arrangements with other relevant National Central Banks for ELA involving a cross-border banking group; ii) developing policies to assess the prospective solvency and document the lines of action and responsibility of each actor in the event of ELA in resolution, subject to a credible resolution strategy; and iii) preparing internal planning and documenting how the NBB would consider ELA to NBFIs.	NBB	NT, I, NT	i) The NBB started technical discussions and adverse financial market event simulation exercises. The experience will serve as blueprint for discussions with other relevant national central banks and help design future cooperation arrangements for ELA involving a cross-border banking group. ii) Policies to assess the prospective solvency and document the lines of action and responsibility of each actor for ELA in resolution, subject to a credible resolution strategy are being developed and will follow Euro system procedures. iii) Regarding the recommendation on ELA to NBFIs, the results of broader reflection of the matter are awaited.

Table V.1. Belgium: Implementation of Key 2023 FSAP Key Recommendations (concluded)

	Recommendation	Addressee	Timing 2/	Status
20.	Enhance the Deposit Insurance System by: i) ensuring operational readiness to meet the target of 7 working days for pay-outs; ii) segregating the DIS fund from the national budget, increasing its target level and operationalizing the public backstop. Once segregated, develop an investment policy for the DIS Fund aligned with best international practices; and iii) start working on the operationalization of the paybox plus mandate.	Guarantee Fund	I, I, NT	i) The operational readiness to meet the target of 7 working days for pay-outs was tested in 2024. Institutions covering 99.95 percent of deposits were deemed to have provided timely and sufficient information. ii) The DIS fund is now segregated from the national budget, and its target level was increased to 1.8 percent of covered deposits with adoption of new law in November 2023, but operationalization of the public backstop and development of an investment policy for the DIS fund are still pending. iii) Work on the operationalization of the paybox plus mandate will continue throughout 2025.
Financial Integrity				
21.	Amend regulatory framework to make the NBB a member of the national committee on terrorist financing.	Relevant ministers	I	A legislative proposal for a new broader national committee on money laundering, terrorism financing and proliferation financing, with all relevant stakeholders including the NBB, was prepared by Treasury with support from the NBB and the national committee on terrorism financing. Submission of the proposal to the Council of Ministers is pending a new government.
22.	NBB to increase resources for AML/CFT supervision, enhance the sanctions framework and its implementation, and continue to exercise enhanced supervision over the payment institutions sector.	NBB	I	AML off-site team resources were increased by 2 FTEs in 2024 and one additional off-site FTE has been approved for 2025. On-site AML team resources were also increased by 1 FTE in 2024. Several administrative sanctioning proceedings in the pipeline within existing sanctions framework.
<p>1/ Prepared by IMF staff based on inputs from the authorities.</p> <p>2/ Timing: C = Continuous; I = Immediate (within one year); NT = Near Term (within 1-3 years); MT = Medium Term (within 3–5 years).</p> <p>3/ For purposes of macroprudential policy, government should be understood to imply the Ministry of Finance, Ministry of the Economy, or the Council of Ministers with the authority over the relevant policies.</p>				

Annex VI. Data Issues

Table VI.1. Belgium: Data Adequacy Assessment for Surveillance
Data Adequacy Assessment Rating 1/

A							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	B	A	B	A
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	A	A	A	A	A		
Granularity 3/	A		A	A	A		
Consistency			A	B		B	
Frequency and Timeliness	A	A	A	B	A		
<p>Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.</p> <p>1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.</p> <p>2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see <i>IMF Review of the Framework for Data Adequacy Assessment for Surveillance</i>, January 2024, Appendix I).</p> <p>3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.</p>							
A	The data provided to the Fund are adequate for surveillance.						
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.						
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.						
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.						
<p>Rationale for staff assessment. Staff assess the overall data quality as 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. Current account data are subject to significant data revisions primarily due to volatility in the trade and primary income balances influenced by the substantial activities of multinationals. While the quarterly balance of payment (BOP) data is released with a 3-month lag, the revision of the annual data has a 9-month lag. The consistency between net exports in national accounts and the BOP statistics should be improved. Efforts to incorporate new data sources and methodological improvements should continue.</p>							
<p>Changes since the last Article IV consultation. The five-yearly benchmark and data revisions to improve the accuracy of the national accounts data, in line with Eurostat's recommendation, covering 2009-23 were released in October 2024. General and specific residential real estate data collection guidelines including valuation guidance were updated in February 2024.</p>							
<p>Corrective actions and capacity development priorities. N.A.</p>							
<p>Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff does not use any data and/or estimates in the staff report in lieu of official statistics.</p>							
<p>Other data gaps. Publishing insurance sector market conduct data, including measures of insurance underwriting risks, and further expanding statistics and data sources for surveillance of risks to the financial sector from commercial real estate would be useful.</p>							

Table VI.2. Belgium: Data Standards Initiatives

Belgium adheres to the Special Data Dissemination Standard (SDDS) Plus since January 2023 and publishes the data on its [National Summary Data Page](#). The latest SDDS Plus Annual Observance Report is available on the [Dissemination Standards Bulletin Board](#).

Table VI. 3. Belgium: Table of Common Indicators Required for Surveillance

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation ⁶	Date Received	Frequency of Data ⁶	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Belgium ⁸	Expected Timeliness ^{6,7}	Belgium ⁸
Exchange Rates	14-Feb-25	14-Feb-25	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Dec-24	Jan-25	M	M	M	M	1W	24D
Reserve/Base Money	Dec-24	Jan-25	M	M	M	M	2W	2W
Broad Money	Dec-24	Jan-25	M	M	M	M	1M	1M
Central Bank Balance Sheet	Dec-24	Jan-25	M	M	M	M	2W	2W
Consolidated Balance Sheet of the Banking System	Oct-24	Jan-25	M	M	M	M	1M	1M
Interest Rates ²	14-Feb-25	14-Feb-25	D	D	D	...	...	...
Consumer Price Index	Jan-25	Feb-25	M	M	M	M	1M	0D
Revenue, Expenditure, Balance and Composition of Financing ³ –General Government ⁴	Q3:2024	Dec-24	Q	Q	A/Q	A	2Q/12M	2Q
Revenue, Expenditure, Balance and Composition of Financing ³ –Central Government	Q3:2024	Dec-24	Q	Q	M	Q	1M	2Q
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Q3:2024	Dec-24	Q	Q	Q	Q	1Q	2Q
External Current Account Balance	Q3:2024	Jan-25	Q	Q	Q	Q	1Q	1Q
Exports and Imports of Goods and Services	Q3:2024	Jan-25	Q	Q	M	Q	8W	1Q
GDP/GNP	Q3:2024	Nov-24	Q	Q	Q	Q	1Q	60D
Gross External Debt	Q3:2024	Jan-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	Q3:2024	Jan-25	Q	Q	Q	Q	1Q	1Q

¹Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



BELGIUM

March 3, 2025

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared by:

IMF European Department

CONTENTS

FUND RELATIONS	2
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FUND RELATIONS

(As of January 31, 2025)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	6,410.70	100.00
IMF's Holdings of Currency (Holdings Rate)	4,792.48	74.76
Reserve Tranche Position	1,618.24	25.24
Lending to the Fund		

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	10,467.71	100.00
Holdings	11,189.95	106.90

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Overdue Obligations and Projected Payments to Fund ^{1/}

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

	Forthcoming				
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>
Principal					
Charges/Interest	0.08	0.08	0.08	0.08	0.08
Total	0.08	0.08	0.08	0.08	0.08

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

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments: Not applicable

Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Exchange Rate Arrangements:

The exchange rate arrangement of the euro area is free floating. Belgium participates in a currency union (EMU) with 19 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies. Belgium has accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains an exchange system free of multiple currency practices and restrictions on the making of payment and transfers for current international transactions, except for restrictions maintained solely for security reasons, which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Last Article IV Consultation:

The last Article IV consultation was concluded on December 6, 2023. The Executive Board assessment and the staff report (IMF Country Report No. 23/386) are available at [link](#). Belgium is on the standard 12-month consultation cycle.

Capacity Development (CD)

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

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

Financial Sector Assessment Program (FSAP) Participation:

The 2023 FSAP was discussed by the Executive Board on December 6, 2023. The Financial System Stability Assessment report has been published (IMF Country Report No. [23/388](#)).