INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/70

BELGIUM

March 2015

2015 ARTICLE IV CONSULTATION—STAFF REPORT; AND PRESS RELEASE

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 2015 Article IV consultation with Belgium, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 2, 2015, following discussions that ended on December 15, 2014, with the officials of Belgium on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 11, 2015.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its March 2, 2015 consideration of the staff report that concluded the Article IV consultation with Belgium.

The document listed below has been or will be separately released.

Selected Issues Paper

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

© 2015 International Monetary Fund

INTERNATIONAL MONETARY FUND

BELGIUM

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

February 11, 2015

KEY ISSUES

The economy has shown considerable resilience but the outlook is weighed down by weak demand in Europe. Healthy private balance sheets, integration with Germany, and employment support schemes have helped sustain employment and economic activity. However, output is still well below potential and private sector job creation insufficient. With exports accounting for about one third of domestic value added, the growth outlook (1 percent in 2015) is heavily influenced by conditions in Europe.

The critical challenges are preserving competitiveness and addressing the looming fiscal cost of ageing. The wage policies of the previous government reversed in part a loss in cost competitiveness relative to the three main trading partners, but the economy has also been losing ground in terms of innovation and productivity growth. Age-related government spending is projected to increase sizably by 2040 (an added annual cost of 6 percent of GDP). This reflects the combination of demographics and early withdrawals from the labor force owing to generous access to social benefits and inadequate active labor market policies.

The new federal government has announced ambitious reforms to address these challenges. Its focus is on improving competitiveness through temporary de-indexation of wages and a modest fiscal devaluation, and activating underused labor resources by tightening eligibility to pension, pre-pension and unemployment benefits. The program should be complemented by reforms to increase productivity growth and employment creation, by opening sheltered sectors to competition, lowering the cost of regulation, increasing labor market flexibility and improving education and professional training.

Fiscal adjustment is expected to resume after a pause in 2014. The pace of structural adjustment targeted for 2015–16 (0.7 percent of GDP a year) is appropriate given debt sustainability risks, and is underpinned by pro-growth expenditure measures. Coordination between the levels of government still needs strengthening across a range of issues.

Banks are adapting to a challenging operational environment and a more demanding regulatory framework. The banking sector fared relatively well by the ECB's comprehensive assessment, but additional efforts will be needed toward Basel III capital standards. To maintain adequate profitability, business models need to adapt further to the low growth and low interest rate environment.

Approved By
Jörg Decressin (EUR) and Sanjaya Panth (SPR)

Discussions took place in Brussels December 2–15, 2014. The staff team comprised E. Gardner (head), J. Eugster, J.J. Hallaert, and S. Nowak (all EUR), and was assisted at HQ by D. Mason and A. Valladares. W. Kiekens and J. Clicq (OED) participated in the discussions. Staff met with central bank governor L. Coene, Ministers J. Van Overtveldt (Finance), K. Peeters (Economy and Labor), H. Jamar (Budget), and D. Bacquelaine (Pension), C. Lacroix (Minister of Budget, Public Service, and Administrative Simplification of Wallonia), A. Turtelboom (Viceminister-president and Minister of Finance, Budget, and Energy of Flanders), other senior government officials, and representatives from the financial sector, employers' federation, and the trade unions.

CONTENTS

CONTEXT 4

OUTLOOK AND RISKS 6

POLICY DISCUSSIONS 8
A. Strengthening Potential Growth and Competitiveness 8
B. Raising Employment Rates 9
C. Placing Fiscal Policy on a Path of Steady Adjustment 11
D. Seeking a More Efficient Tax System 13
E. Continuous Adjustment in the Financial Sector 13

STAFF APPRAISAL 14

BOX
1. Main Reforms of Unemployment Benefits and Pension Announced by the New Government 10

FIGURES
1. Real Sector 17
2. Private Sector Balance Sheet 18
3. External Sector 19
4. Social Expenditure and Labor Market Outcomes 20
5. Fiscal Developments and Medium-Term Projections 21
6. Financial Sector 22
7. Banking Sector Balance Sheet 23

TABLES

1. Selected Economic Indicators, 2010–20 ____ 24
2. Balance of Payments, 2010–20 ____ 25
3. General Government Statement of Operations, 2010–20 ____ 26
4. General Government Consolidated Balance Sheet, 2006–13 ____ 27
5. Structure of the Financial System, 2009–14 ____ 28
6. Financial Soundness Indicators of the Banking Sector, 2009–14 ____ 29

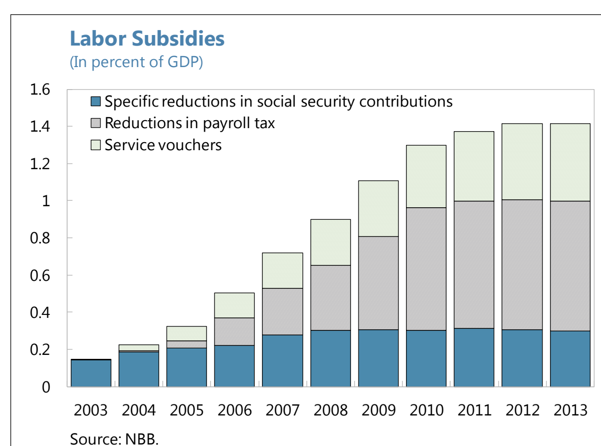
APPENDICES

I. External Sector Assessment ____ 30
II. Risk Assessment Matrix ____ 31
III. Main Recommendations of the 2014 Article IV ____ 32
IV. Labor Market and Pension Reform Measures ____ 33
V. Debt Sustainability Analysis ____ 40

CONTEXT

1. **Following the May 2014 election, a center-right coalition government came into power in October 2014.** The move to the opposition by the socialist party—present in every coalition government since 1988—and the entry into government of the conservative New Flemish Alliance (NVA) marks a significant political shift. The government's economic priorities are competitiveness (fiscal devaluation and a one-time skip of wage indexation), deficit reduction (cuts in social transfers and current spending), and activation (higher retirement age, further limits to subsidized early retirement, and rebalancing of fiscal incentives in favor of work). The announced measures triggered protests and strikes, but negotiations with the unions resumed in early 2015.

2. **Belgium's economic performance is lackluster but compares favorably with the euro area average, reflecting underlying financial strengths and employment support schemes.** Real GDP stands at 2 percent above its pre-crisis peak (Figure 1), although the negative output gap remains sizable (1.3 percent). Through the crisis, domestic demand was sustained by healthy private balance sheets (Figure 2). The impact of the crisis on unemployment was muted by partial unemployment schemes, which enabled firms to maintain employment levels, and by an increase in labor subsidies (wage subsidies for household services and payroll tax reductions). These subsidies compensated in part for the deterioration in relative unit labor costs (ULCs), accumulated since 2009 (Figure 3).



Source: NBB.

3. **However, a demand shortfall in Europe weighs down on the recovery, and structural weaknesses undermine potential growth.** Belgium has largely kept pace with its three main trading partners in terms of export growth, but if unaddressed the deterioration in cost competitiveness could undermine such performance. With exports contributing for roughly 35 percent of domestic value added, preserving external competitiveness has always been a key policy priority, and the previous government froze real wages and adjusted indexation to close the competitiveness gap. However, Belgium has also been losing ground in terms of fundamental determinants of potential growth and competitiveness such as productivity growth and innovation. Evidence of this is seen in the falling number of exporting firms and the increased concentration of exports to a few capital intensive sectors.

4. **Staff assesses the external position to be moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings**. A substantial revision of the net income balance resulted in an upward revision of the 2013 current account by 2 percent of GDP. As a result, the cyclically adjusted current account is now close to the estimated norm based on the

Fund's EBA methodology. However, the volatility of external income flows raises uncertainty about the EBA current account gap estimate. Based on the EBA exchange rate assessment of January 2015 and productivity trends in the tradable sector, staff considers the real exchange overvaluation to be in the 0–5 percent range (see Appendix I for more details).

5. **The level of economic activity is also depressed by low employment rates related to distortions from tax and benefit policies.** The combination of generous access to pension and unemployment benefits, high labor taxes, early retirement schemes, and high minimum wages contribute to one of the lowest employment rates (67 percent) in Northern Europe (Figure 4). The employment rate for the 55–64 age cohort has been rising rapidly in the wake of past reforms, but it remains particularly low at 42 percent. It is equally low for non-EU immigrants (40 percent), and low skilled workers (47 percent). The low, and shrinking, level of non-subsidized private sector employment has, in turn, narrowed the tax base to pay for social transfers and government services, making the task of fiscal adjustment more arduous.

6. **Diverging patterns of public expenditure and GDP growth since 2008 have complicated fiscal consolidation efforts.** Cumulatively over 2010–14, primary structural adjustment of 1.8 percent of GDP has been achieved entirely on the revenue front (Figure 5). Containment of public consumption and investment has been offset by large increases in subsidies and social transfers. Belgium exited the EU's Excessive Deficit Procedure (EDP) in 2014 upon confirmation that the 2013 deficit had fallen below 3 percent of GDP. However, structural fiscal adjustment stalled in 2014, pushing the estimated deficit back above 3 percent of GDP. Belgium has also found itself in violation of the debt rule under the preventive arm of Stability and Growth Pact, and in February 2015 the European Commission will issue a new recommendation on minimum required fiscal adjustment. Notwithstanding these challenges, market confidence remains strong, with 10–year spreads vis-à-vis German rates at around 30 basis points at end-2014, and 15 basis points as of early February 2015.

7. **Primary structural adjustment of 2.9 percent of GDP in 2015 and beyond is still needed to meet the 2014 Stability Program medium-term surplus objective of 0.75 percent of GDP.**[1] Belgium's fiscal medium-term objective (MTO) is among the most ambitious in the euro area reflecting the sustainability gap created by the projected increase in the cost of ageing—i.e., an added annual fiscal cost of nearly 6 percent of GDP by 2040. This fiscal impact reflects demographics (the ratio of working age population to person 65 and older will decline from 3.2 today to 2.2 by 2060) but also generous access to social benefits and low activity rates.

8. **Monetary easing by the European Central Bank (ECB) has been fully passed on to lending rates.** Lending standards have eased for non-financial corporations (NFCs) and SMEs, but have been tightened for households in response to prudential measures taken by the National Bank. Non-financial corporate (NFC) recourse to market financing has not visibly crowded out bank credit. A drop in inflation expectations resulted in a slight increase in real lending rates in 2014 (Figure 6).

[1] Based on the authorities' estimate of potential GDP, the needed adjustment is only 1.5 percent of GDP.

9. **The ECB's comprehensive assessment found capital gaps in two banks, which however did not require further action.** The two Belgian banks that failed the ECB's stress test were AXA Bank Europe (the Belgian banking arm of the French insurance group) and Dexia.[2] Since December 31, 2013—the cut-off date for the assessment—AXA Bank Europe has taken action to meet minimum capital requirements. In the case of Dexia, which is in runoff mode, the potential capital shortfall that was revealed by the stress tests did not require further action given the orderly resolution plan supported by state guarantees. Belgian banks as a whole fared relatively well in terms of liquidity and capitalization, with a CET1 ratio of 12.1 percent in the baseline and 7.4 percent in the adverse scenario comfortably above the thresholds of 8 and 5.5. They were close to the euro area average in terms of non-performing exposure, but came last in terms of leverage (3.6 percent in the ECB's baseline scenario). When taking into account the subsidiaries of foreign banks, the picture confirms that the system as a whole is well capitalized and liquid, and that the non-performing loans ratio is relatively low, stable and well-provisioned (Table 6 and Figure 7).

OUTLOOK AND RISKS

10. **Growth is projected to remain stable at 1.0 percent in 2015 owing to lackluster demand conditions in Europe, wage moderation and fiscal consolidation.** The strong rebound in all components of private demand seen in early 2014 (business and housing investment, exports, and private consumption) is projected to moderate in 2015. The boost from the recent drop in oil prices—equivalent to about 0.2 percent of GDP according to staff estimates—and depreciation of the real effective exchange rate largely offset a downward revision in the underlying demand outlook in Europe. CPI Inflation is expected to slow to near zero in 2015 under the influence of lower oil prices and wage moderation.

11. **The risks to the outlook are mainly external in the short run and domestic over the medium term** (see Risk Assessment Matrix in Appendix II). The risks are interconnected and, if realized, are likely to interact and occur jointly. The authorities broadly shared the staff's assessment of risks.

- **High exposure to euro area weakness and geopolitical tensions.** With 56 percent of its exports directed to the euro area (EA), Belgium is heavily exposed to the risk of stalling growth in the euro area and, through its integration in the German supply chain, to weakness in emerging market economies. Even if direct trade and financial linkages with Russia and Ukraine are small, an escalation of the crisis would have substantial adverse effects through other European countries. Combined with the planned temporary de-indexation of salaries, weaker growth could also push inflation lower, possibly further into deflation territory. While labor cost containment measures should improve growth prospects

[2] In the comprehensive assessment's consolidated approach, the subsidiaries of foreign banks are not part of the Belgian aggregate. Thus, the results reported for Belgium exclude BNP Paribas Fortis and ING Belgium SA, which accounted for 42 percent of total banking sectors assets (as of end 2013).

over the medium term, they may not have a positive impact on investment or job creation in the short run if expectations about future growth remain depressed.

- **Limited exposure to global financial instability but risks from lower profitability and high leverage in the banking sector.** The Belgian banking system has retrenched more than most in the wake of the financial crisis: balance sheets have been derisked and remaining non-sovereign foreign exposures are concentrated in mortgages of foreign subsidiaries in Ireland and Hungary. Low profitability from domestic operations could hamper the banks' ability to maintain adequate capital buffers and improve the leverage ratio.

- **Substantial cross exposures between the public sector and banks being unwound.** As banks shed stressed sovereign paper in the wake of the crisis, exposure to the Belgian sovereign increased and then eased down to below 6 percent of total assets (end-2014). Public sector claims on banks are declining. KBC has repaid €5 billion of the €7 billion in public support it received in 2009, and plans to repay the rest on an accelerated schedule. State guarantees to Dexia (10.8 percent of GDP) support the long-term dismantling of the bank by covering market financing of the legacy assets in run-off.[3] The guarantees could cover any hole resulting from a rise in the cost of rolling over Dexia's liabilities or valuation losses on the asset side (notably from the structured product portfolio). In staff's view, realization of such a contingency could be covered in part by disposal of government assets available for sale, which are valued at 9.4 percent of GDP.

- **Limited housing sector vulnerabilities.** Following a steady and prolonged appreciation, house prices peaked in 2013:Q3 (Figure 4). Given that average house prices are still lower than in neighboring countries and that fundamental shifts in demand (due to population growth, declining household size, and easier financial conditions) explain much of the price evolution, estimates based on historical price-to-income and price-to-rent ratios appear to overstate the degree of overvaluation[4]. Based on these considerations, and taking into account the impact of less generous mortgage tax deductibility in Flanders and Wallonia starting in 2015, staff and the authorities agree that overvaluation is small to moderate (in the 0–25 percent range). Thus, real house prices are expected to decline gradually over the medium term. Given strong household balance sheets, the high owner occupancy rate, and generally healthy lending standards, the risks of a disorderly correction are limited. Still, unexpected changes in housing-related policies and a large drop in expected future income could destabilize the housing market. On the upside, supply constraints create a potential for further price hikes; but, risks of a credit-driven increase in demand are small given the tightening of macro-prudential policies and the close attention of the supervisor.

[3] See 2013 Financial System Stability Assessment for Belgium (IMF Country Report No. 13/124).

[4] See accompanying Selected Issues Paper "Belgian House Prices: Evolution and Risks."

- **Long-term risks from insufficient structural reforms.** Failure of structural reforms to raise employment and keep up with competitiveness improvements in the rest of the euro area would undermine potential growth, increase fiscal risks, and reduce preparedness for the looming cost of ageing.

POLICY DISCUSSIONS

The new federal government's economic program is closely aligned to past Fund recommendation (Appendix III). Article IV discussions took place during general strikes called by the unions against the government program. However, disagreements between the unions and the federal government were fundamentally about how to distribute the burden of adjustment across generations and taxpayers, rather than about the need for reform. All stakeholders recognized the importance of increasing the duration of working life, strengthening competitiveness, and repairing public finances. The previous government had already implemented a program of wage moderation and reform of social transfers to address these challenges. The new government's stance is that a more ambitious approach is necessary to improve growth and employment prospects and secure fiscal sustainability.

A. Strengthening Potential Growth and Competitiveness

12. **A wage freeze to correct the labor cost gap relative to partners.** To counterbalance the impact of wage indexation, bargaining over the "real" component of wages has been guided by a wage norm. The wage norm tracks labor costs relative to Belgium's three main partner countries since 1996. The norm has worked relatively well at preserving labor cost parity with neighboring countries over time, but a sizeable gap began to develop in 2006. The gap narrowed to 2.9 percent in 2014 following a government-imposed real wage freeze in 2013–14. The requirement that the wage gap should be closed over time leaves little room for significant wage increases in the next two-year round (2015–16). In addition, the government has announced an "index jump", i.e., a suspension of indexation equivalent to 2 percentage points of inflation. Given the projected increases in wages in the three peer countries (1.35 percent a year in 2015–16 according to the OECD), the expectation is that the wage gap will continue to close over the next two years.

13. **But also the need for more flexible wage setting.** The mission supported the actions taken to regain cost competitiveness, but noted that, even if parity with the norm were to be restored, the labor market is unlikely to clear at a sufficiently high level of employment. Apart from external competitiveness considerations, labor costs remain too high to create new employment opportunities, particularly for the less skilled. The mission suggested that wage setting should allow for greater differentiation at the enterprise level. This could involve a review of sector minimum wages, and introduction of opting-out options for firms seeking to adjust or to create new jobs.

14. **A reduction of the labor tax wedge to accompany wage moderation.** The federal government also committed to lower taxes on labor income, including through a phased reduction of employers' social security contributions (from 33 to 25 percent) in a revenue neutral way—largely by consolidating job-specific cuts in social security contributions into a generalized cut. Representatives of the major unions considered that the government should have

gone further in the direction of a "tax shift," notably by raising the taxation of capital income to reduce labor taxes further and faster, thus obviating the need for the "index jump." Staff agreed that fiscal devaluation could be pushed further, but also warned that government action to reduce labor costs (by reducing the tax wedge or through specific subsidies as in the past) should not become a way of validating excessive wage increases.

15. **Scope for productivity gains through product market reform.** Staff noted that a large share of the service economy (network industries, regulated professions, and to some extent distribution) remains sheltered from competition. The resulting inefficiencies and rents weigh not only on the cost of living but also on the competitiveness of export industries who consume these services as inputs. In the end, foregone productivity gains have to be paid for by lower wages in order to protect competitiveness. Staff thus encouraged the new government to give greater impetus to competition to promote productivity growth and, in coordination with regional governments, to reduce the high cost of regulation which weighs heavily on SMEs. The federal authorities said they would reduce red tape by reforming legal codes and implementing an "only once" policy, whereby documents provided by companies to one government agency would become accessible to all other agencies.

B. Raising Employment Rates

16. **An increase in the retirement age and tighter access to early retirement.** The measures announced by the government (see Box 1 and Appendix IV) should make a significant contribution to raising employment rates and reducing the fiscal costs of ageing. The government still has to negotiate with social partners a number of issues, such as exceptions for hardship jobs and part time pension conditions. Thus, the fiscal impact from these reforms cannot yet be assessed, but the government stressed it was a major step forward in shifting the burden of adjustment away from the young and future generations.

17. **Tightening eligibility to unemployment benefits.** The announced reforms address the two weakest aspects of Belgium's unemployment insurance system: (i) its use as a bridge toward retirement which encourages early withdrawal from the labor force; (ii) generous eligibility rules for young workers first entering the labor force, which undermines work incentives and contributes to inactivity traps. The authorities recognized that these measures would likely not translate into significant employment gains in the short term, but emphasized the importance of these measures to change behaviors over time.

18. **Need to accompany these reforms with better active labor market policies and education.** As recognized by the authorities, the benefits from increasing work incentives will be realized if workers are also given opportunities to improve skills and align them to the needs of the market. In these areas, Belgium scores very poorly: life-long professional training is well behind peers; and the education system suffers from some glaring, if localized, failures as well as generalized inadequacies in vocational training and school-to-work transition.

Box 1. Main Reforms of Unemployment Benefits and Pension Announced by the New Government

Unemployment Benefits

1. Search requirements
    - Increase age floor exemption on search requirement from 60 to 65
    - Eliminate exemption from search requirement for "social and family reasons"
2. Unemployment benefits
    - Eliminate seniority supplement granted above 50 years of age
    - Rebase unemployment benefit on longer income history
    - Introduce degressivity of unemployment benefits for part-time workers
3. Unemployment benefits for first-time job seekers
    - For school leavers, reduce the age limit to request unemployment benefits from 30 to 25
    - Eligibility of young school leavers to unemployment benefits conditional on completion of secondary education
4. Government subsidy for temporary unemployment
    - Reduce the temporary unemployment benefit from 70 percent to 65 percent of salary
    - Cap the number of days enterprises can avail themselves of temporary unemployment
5. Access to benefits for voluntary career breaks
    - Eliminate the right to benefits for "non-motivated" career breaks.
    - Increase age eligibility for "motivated" unlimited career break benefits from 55 to 60
    - Alignment of career break rights of public-sector workers to those of private sector by 2020

Pension Benefits

1. Retirement age
    - Increased the legal retirement age from 65 to 66 in 2025 and 67 in 2030
    - To encourage longer employment, eliminate pension reductions for working pensioners 65 years old and above, and increase the minimum age of eligibility of a survivor's pension
2. Pre-pension benefits (subject to job search requirements)
    - Increase the job search requirement until the age of 65 instead of 60
    - Increase the minimum age of eligibility from 60 to 62, with exceptions for hardship jobs and for collective dismissals in the event of firm restructuring
3. Early retirement benefit
    - Speed up planned increase of age eligibility from 60 to 63 (by 2018) subject to higher career lengths
    - Phase out bonuses granted to civil servants (including credit for post-secondary degrees)
4. Other
    - Eliminate the pension complement for frontier or seasonal workers
    - Phase out pension bonus (for people who have worked longer than needed to receive a full pension)
5. Prepare a unified pension based on a point system to be implemented by 2030

The government invited social partners to negotiate and develop better instruments of continuous professional training. Education and active labor market policies are the responsibility of the regional and community governments and the challenge is to coordinate effective and complementary strategies across governments.

Belgium: Planned Fiscal Adjustment Measures in 2015–2018
(In percent of GDP)

	Description	2015-18
Entity I (federal government and social security)		
Spending		
Federal government primary spending cuts	Across the board cuts of operating expenses, including reduction of civil servants through attrition, cuts of public investment, and reduced business subsidies	0.7
Social security spending cuts		
Health care	Continued cap on annual real growth of health care expenditure of about 1.5 percent	0.7
Other social security spending	Tightened eligibility to pensions, unemployment benefits, and sickness and disability benefits	0.5
Revenue		
Revenue increases	VAT, excise, and various income tax increases; new tax on financial sector and financial transactions	0.7
Revenue cuts	Cuts in social security contributions and personal income tax	-0.7
Entity II (regions and communities)		
	Reduction of civil servants through attrition, delays of investment, tax expenditure cuts (e.g. mortgage deductibility), and cuts to business subsidies	0.9

Source: Belgian authorities and IMF staff calculations.

C. Placing Fiscal Policy on a Path of Steady Adjustment

19. **A resumption of fiscal adjustment following a pause in 2014.** Although the financing outlook remains very favorable, all stakeholders acknowledged that continued adjustment is needed to reduce debt and regain fiscal space. The federal government set a structural adjustment target of 0.7 percent a year in 2015–16, with a view to reaching structural balance by 2018 (authorities' estimates). The delay in reaching the structural balance objective (relative to the 2014 Stability Program) reflects the adjustment shortfall of 2014. The authorities stressed that the revenue effort under their plan (0.7 percent of GDP cumulatively over three years) would be put to better use by reducing labor taxes rather than achieving a faster adjustment (see table above). Beyond 2016, the pace of adjustment will be guided by the new MTO to be set in the April 2015 Stability Program. The authorities hope that their structural reforms would reduce the MTO, but the margin to adjust the MTO is limited since it was already set below the level consistent with the rising cost of ageing.

20. **Adjustment underpinned by pro-growth expenditure measures and shared across governments.** Under a burden sharing agreement, regional and community governments committed to maintain balanced budgets and absorb the unfunded cost of the responsibilities transferred to them as of 2015—in all an adjustment of over 1 percent of GDP.

The phasing of that adjustment is to be negotiated in consultation with the federal government. The federal government program targets a shift from revenue to expenditure-based adjustment (see table) consistent with past Fund advice. Regional and community government plans also target cuts to current spending and tax expenditures as the primary instruments of consolidation. This rebalancing of policies should produce more durable and efficient outcomes.[5]

Belgium: Overall and Structural Balances in 2013–2018
(In percent of GDP)

	2013	2014	2015	2016	2017	2018
Structural adjustment						
2014 Stability Program		0.5	0.7	0.7	0.7	
Authorities' program	0.5	0.3	0.7	0.7	0.5	0.1
Staff projection	0.6	0.0	0.6	0.6	0.6	0.3
Staff projections						
Primary structural adjustment	0.3	0.0	0.4	0.4	0.4	0.2
Overall balance	-2.9	-3.2	-2.9	-2.2	-1.5	-1.1
Structural balance	-2.9	-2.9	-2.3	-1.7	-1.1	-0.8

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

21. **Staff supportive of government plans.** Given the high debt and the risks to public debt sustainability (Appendix V), staff agreed that the projected gradual recovery justified the planned pace of adjustment. Debt dynamics are particularly vulnerable to negative shocks to growth. The debt sustainability analysis illustrates that, whereas debt would revert to a sustainable path after the initial impact of standard shocks, it would remain on an unsustainable path under a stagnation or deflation scenario. By contrast, exposure to interest rate shocks has been reduced by the lengthening of the average maturity of debt (7.8 years in 2014). Staff assessed that policies were well aligned to fiscal targets. Reflecting uncertainties about the timing of adjustment by regional governments and the effectiveness of the measures announced so far, staff projects structural adjustment of 0.6 percent of GDP a year in 2015–16 (see table above), which is only marginally lower than the authorities' projections. Because of a declining interest bill, the underlying primary structural adjustment comes to 0.4 percent of GDP a year. In this baseline scenario, the debt ratio would return to a downward path in 2016.

22. **Need to preserve room for investment.** Staff was concerned that adjustment would rely excessively on postponing public investment that is needed to upgrade infrastructure in transportation, energy, education, and social housing. The constraint is tight at all levels of government, reflecting in part the changed (and less favorable) fiscal treatment of public-private partnership projects under the new ESA 2010 rules. This reinforces the need to curb and reverse the

[5] See accompanying Selected Issues Paper "Towards a Growth-Friendly Fiscal Consolidation in Belgium."

rapid increase in the wage bill (one of the highest and fastest growing in Europe) and to rationalize and cut back widespread subsidies.

23. **Strengthening coordination mechanisms between the levels of government.** Fiscal coordination across governments has been based so far on nominal deficit targets, which have led to recurrent mid-course corrections through inefficient measures. The fiscal governance framework adopted in 2013 reinforces the role of the High Council of Finance (HCF) to assess and monitor the performance of the various governments relative to nominal and, for the first time, structural targets. The shift to structural targets should improve the efficiency of policies. The HCF underscored the difficulty of measuring structural adjustment at the subnational level, and said they were consulting with other federal states in the euro area on this issue.

D. Seeking a More Efficient Tax System

24. **High taxation, heavily tilted toward labor income taxes.** The federal government program envisages a net reduction in labor taxes and a simplification of various social security abatement schemes which should reduce distortions. Staff saw scope for going further in shifting the burden of taxation away from labor through tax reform. It noted that income from capital is not taxed uniformly, and that a more harmonized treatment would put taxation of such income on a more equal footing with labor income. It also suggested that the use of reduced VAT rates could be narrowed and that environmental taxes could be increased in line with the need to reduce Belgium's high energy consumption. Revenue gains from such reforms could be applied to reducing labor taxes further. Staff also suggested rebalancing taxes on immovable property from transaction taxes to recurrent taxes, which would stabilize tax collection and enhance labor mobility. The authorities said they would explore options to redistribute further the tax burden away from labor, but underscored the need to assess carefully the impact of other tax increase on economic behavior, notably when it came to taxation of capital.

E. Continuous Adjustment in the Financial Sector

25. **The challenge of operating in a low growth and low interest rate environment.** The post-crisis retrenchment of banks into the domestic market has exposed the challenges of maintaining adequate profitability while operating in a saturated market with low interest margins. Banks are adapting, e.g., taking on new business lines from their foreign parents or developing bank-insurance. The authorities pointed out that there is scope to reduce costs further and to maintain adequate interest margins on new loans. A number of observers considered that consolidation might also become necessary.

26. **High exposure to domestic mortgages but limited risks.** Mortgages accounted for 37 percent of bank domestic assets at the end of 2013, up 10 percentage points since the beginning of 2008. Even though house prices still appear somewhat overvalued, the authorities and banks did not see a house price correction as creating risks for banks. Mortgage lending standards have been prudent, non-performance remains low, and recourse loans insulate banks from the value of

collateral. Staff nonetheless urged caution against banks taking higher risks in vulnerable mortgage markets. The authorities noted that parliament had conferred the mandate on macro-prudential policies to the National Bank in April 2014, and that the Bank had set up a new organizational framework to deliver on its new responsibilities in terms of (i) detection of risks and (ii) assessment and calibration of policy response. The authorities were not contemplating new measures to curb mortgage lending at this stage. Staff also inquired about risks related to major securities settlement activity in Belgium, which National Bank representatives considered well monitored and contained.

27. **Intermediating the liquidity surplus of Belgian banks.** Belgian banks' ample liquidity position reflects their strong deposit mobilizing capacity. In the post crisis period, national regulatory ring fencing and bank restructuring requirements constrained the redeployment of this liquidity surplus through cross-border operations. In a context of weak credit demand, the result has been relatively high holdings of sovereign paper. With the coming into force of Single Supervisory Mechanism (SSM) and the creation a more integrated euro area banking market, pressures to redeploy the liquidity surplus of Belgian banks through cross border flows could increase. The authorities noted that indeed foreign banks had increased their presence in Belgium through branches to tap into the liquidity generated in Belgium. However, they also expected that barriers to cross-border flows would continue to exist in the absence of common deposit insurance and resolution systems. In as much as the Belgian banks strong liquidity position is related to the favorable tax treatment of bank deposits, the mission questioned the rationale for maintaining such tax breaks in a progressively unified banking system, where the fiscal benefits will leak beyond national borders.

28. **Regulatory changes**. The banking law adopted in April 2014 set limits on proprietary trading and new requirements on corporate governance and depositor protection. Banks noted that the new limits on trading were not constraining their ability to service clients in the current low volatility environment, but that they could in the future. This pointed to the need for a more coordinated approach across jurisdictions. The authorities and the banks underscored the added administrative burden associated with the transition to the Single Supervisory Mechanism (SSM), but otherwise welcome the benefits that would accrue from SSM in terms of leveling the playing field and increasing transparency within the euro area.

STAFF APPRAISAL

29. **Healthy private balance sheets have contributed to the resilience of the economy, but fiscal fragilities create risks over the medium term.** In the absence of strong corrective measures, the high and rising debt ratio and the projected increase in the cost of ageing will threaten macroeconomic stability. Generous access to social benefits has helped absorb the impact of the crisis, but it contributes to structurally low employment and to spending rigidities which have undermined fiscal consolidation. The key to preserving stability lies in continued steady fiscal consolidation combined with reforms that increase incentives and opportunities to work and lengthen working lives.

30. **The federal government's comprehensive economic program addresses these challenges by providing a clear forward impulse to needed reforms.** The government's policies to strengthen cost competitiveness, activate underused labor resources, and accelerate fiscal adjustment all reinforce each other and should create the conditions for higher growth. When sustained over time, they will also help preserve the financial integrity of the Belgian social security system so that it can continue to cover social and economic risks for future generations. To improve the chances of success, the strategy should be reinforced by broader labor and product market reforms to enhance productivity and incentives to invest and create jobs. With responsibility for economic policies now shared across governments, it is critical to develop effective instruments of inter-government cooperation.

31. **Measures to increase competitiveness and employment by reducing labor costs are welcome and should be accompanied by structural reforms to improve fundamental determinants of competitiveness.** The government has taken the right actions to correct past deviations from the wage norm. The decision to reduce the labor tax wedge—the highest in Europe—is equally welcome. We see room to go further in this direction in the context of broader tax reform. However, acting on costs alone will not be enough if the economy does not keep up in term of productivity growth. To stimulate innovation and productivity, a more aggressive approach is needed to open sheltered sectors to competition and to reduce the burden of regulation. The labor market also needs to become more adaptable, not least in terms of expanding room for enterprise-level negotiations over wage and work arrangements.

32. **Reform of social benefits is rightly at the center of the government strategy, but deficiencies in training and education should be addressed in parallel.** In the absence of effective active labor market policies, the extensive use of social benefits to mitigate the impact of inadequate or eroded skills has contributed to their entrenchment and to the distortion of incentives. The government's planned reform of unemployment and pension benefits is critical to correcting these distortions. However, in parallel to raising work incentives, it is necessary to enhance job opportunities by addressing the underlying failings in education, vocational training, and continuous skill development. Policy coordination across governments is essential since responsibility for such policies lies mostly with regional and community governments.

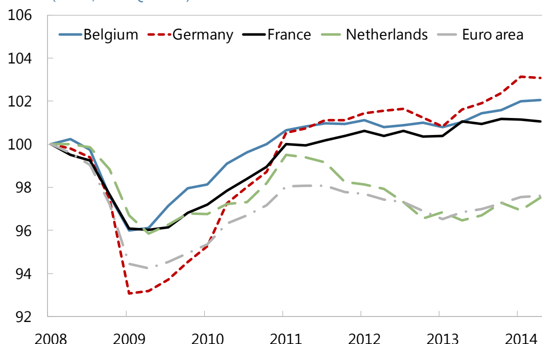
33. **Fiscal objectives are sensible in terms of both the pace and the instruments of adjustment.** In the current gradual recovery scenario, structural fiscal adjustment targeted for 2015–16 is appropriate given debt sustainability risks. The shift to expenditure-based adjustment bodes well for the sustainability of the adjustment and for growth over the medium term. Currently envisaged measures may prove insufficient to fully meet annual deficit targets in a context of persistent low inflation. In response, policies should remain focused on medium-term objectives and refrain from resorting to short-term revenue fixes or cuts to the investment budgets. More generally, if growth and inflation threaten to disappoint projections by an appreciable margin, fiscal adjustment could be eased by increasing growth-enhancing investment spending.

34. **With balance sheet repair nearly completed, the main difficulty for banks is to adjust to a challenging operating environment and a more demanding regulatory framework.** Balance sheets have been largely derisked from legacy assets, although the long shelf-life of the legacy assets in public banks will require protracted close oversight. As a whole, however, the strength of liquidity and capital positions place banks in a strong position to expand credit in response to an eventual recovery of investment. Pressures to maintain adequate profitability levels are likely to persist, and supervisors will need to continue to pay close attention to how bank business models adapt to this challenge.

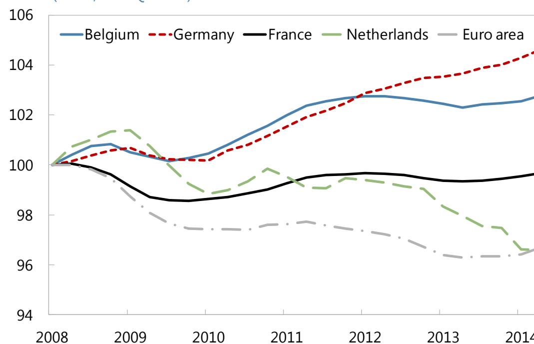
35. **It is proposed that the next Article IV consultation take place on the standard 12-month cycle.**

Figure 1. Belgium: Real Sector

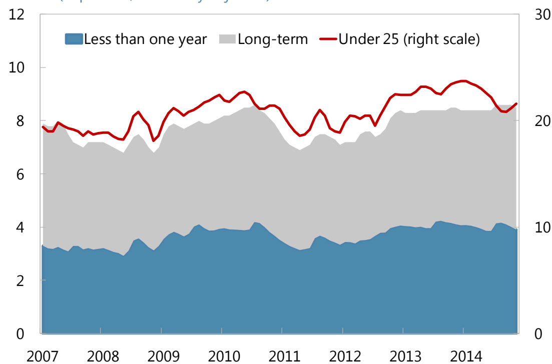
The recovery has been slow, but still compares favorably with the euro area average.



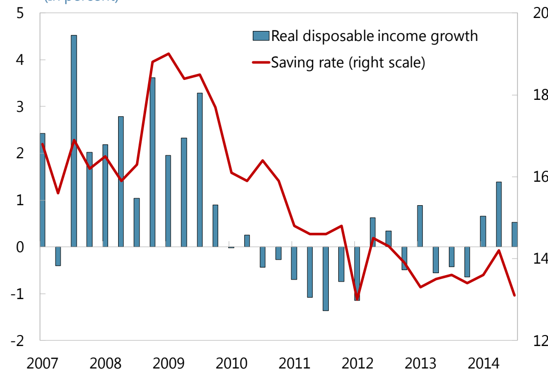
Employment performance has been considerably better than the euro area average.



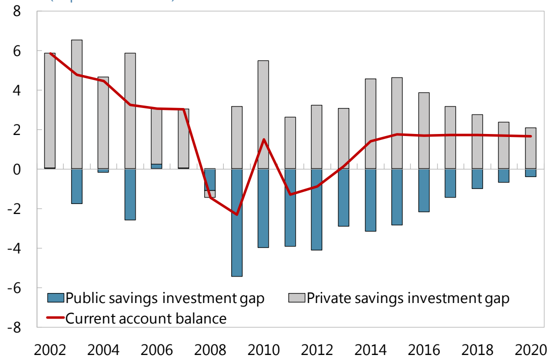
The unemployment rates have been quite stable.



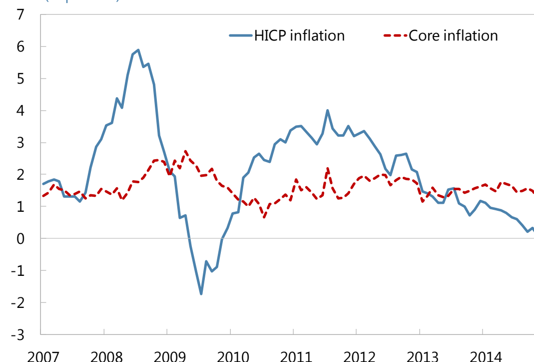
As disposable income growth fell, consumption was supported by a declining household saving rate



Lower government deficits and a widening private saving-investment surplus since 2011 underlie the improvement of the current account.



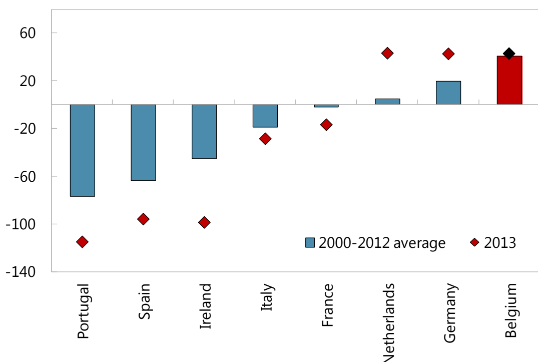
Core inflation has been very stable, only recently beginning to decline.



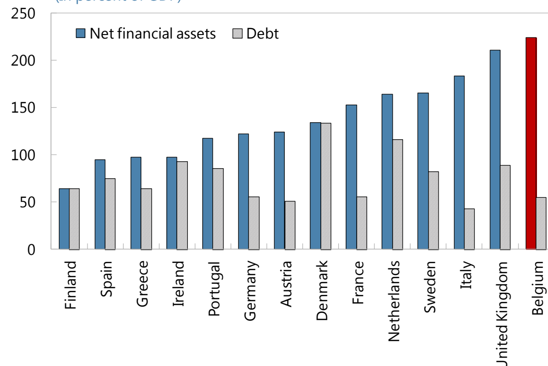
Sources: National Bank of Belgium, Haver Analytics, and IMF Staff calculations.

Figure 2. Belgium: Private Sector Balance Sheets

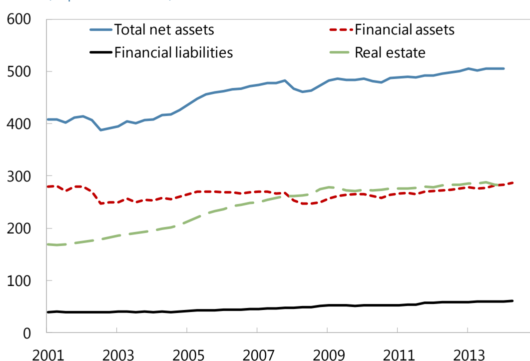
Belgium remains an important creditor country. The strong net investment position…



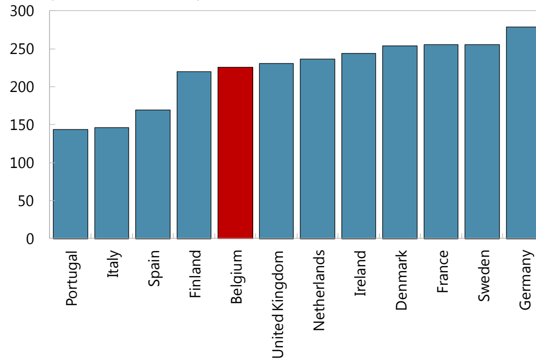
…reflects very healthy household balance sheets.



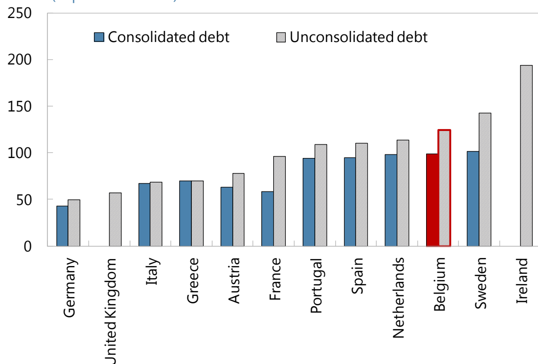
Household wealth has been supported by a steady increase in real estate prices…



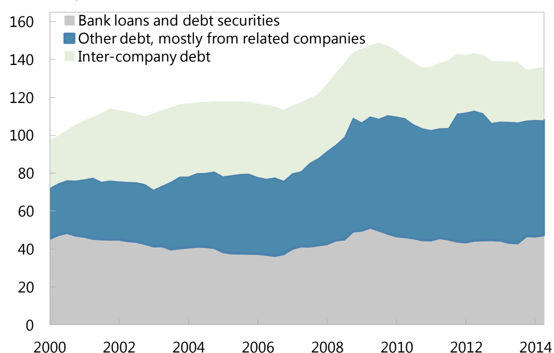
…which are, however, still rather low compared to similar countries.



Debt of the nonfinancial corporate sector appears high by international standards, …



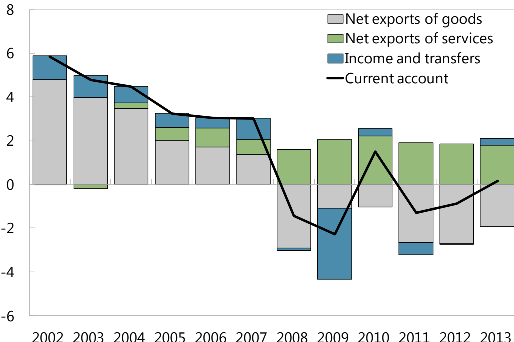
…but is in fact quite moderate and stable when excluding inter-company loans and debt from related companies.



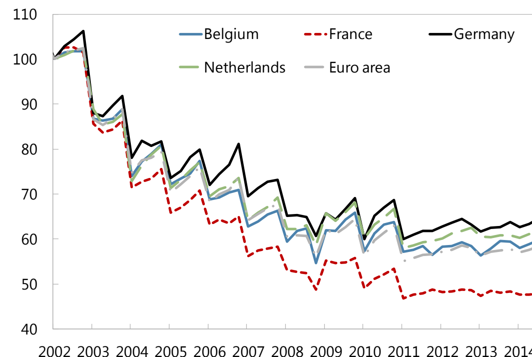
Sources: National Bank of Belgium, Haver Analytics, KBC Research, and IMF Staff calculations.
[1]Ireland and the United Kingdom do not report consolidated debt data. Consolidated debt is the net of domestic inter-company lending

Figure 3. Belgium: External Sector

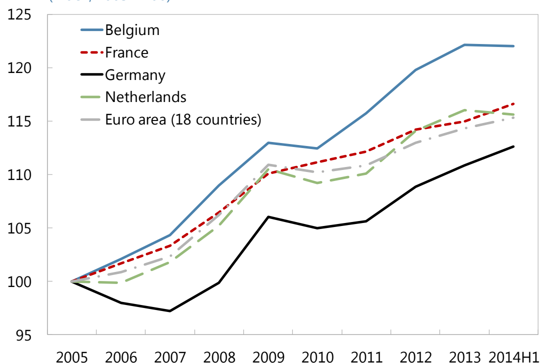
Over the last decade, a sharp deterioration in net exports of goods was partially offset by an increase in net exports of services.



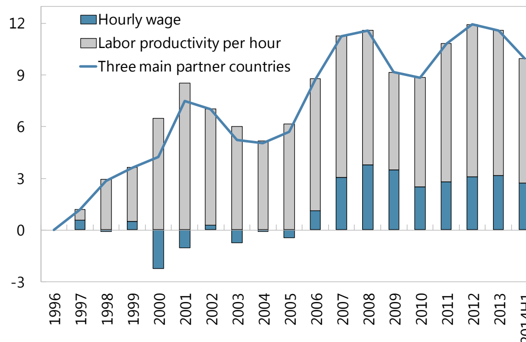
In recent years, Belgium's exports performance has evolved in line with that of peers.



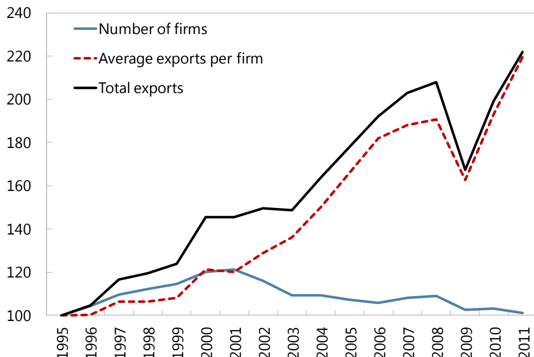
But a loss in cost competitiveness constitutes a handicap …



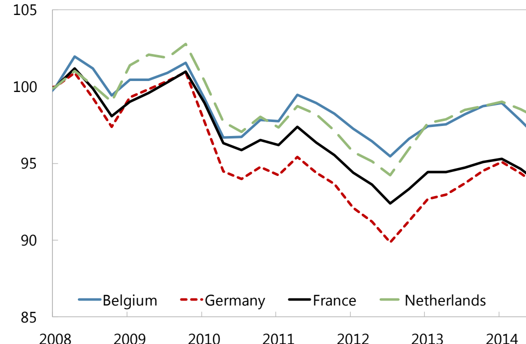
…which reflects higher wage growth and more importantly lower productivity growth than in neighboring countries.



Lack of innovation is reflected in an increasingly concentrated export sector.



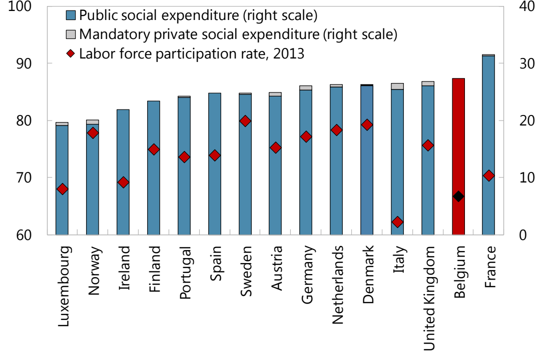
The appreciation of the real effective exchange rate since 2012 has been partially reversed in 2014.



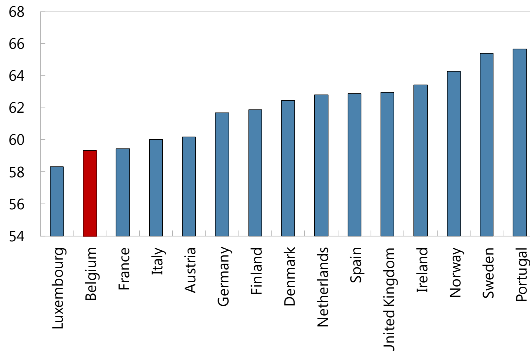
Sources: National Bank of Belgium, Haver Analytics, OECD, and IMF Staff calculations.
[1] The three main neighboring countries are France, Germany, and the Netherlands.

Figure 4. Belgium: Social Expenditure and Labor Market Outcomes

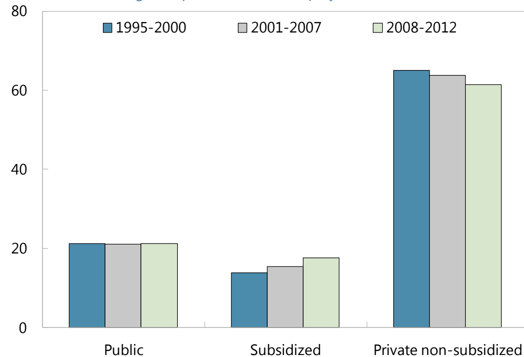
Generous access to social benefits has a large fiscal cost and contributes to low labor force participation.



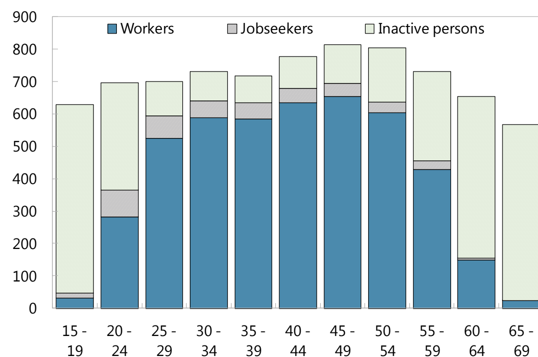
The pension system allows early retirement and, ...



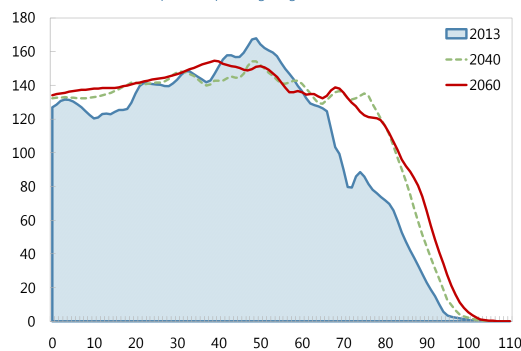
...despite an increase in subsidized employment, ...



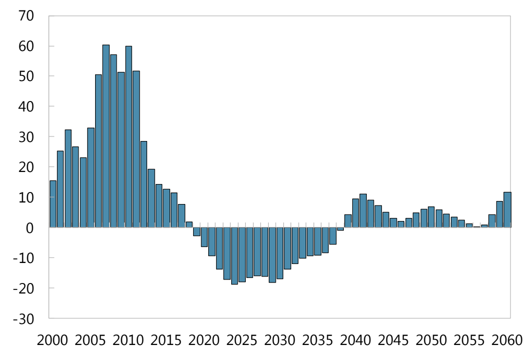
...the employment rate of the youth and senior workers is low.



Social spending will be under pressure due to the rapid aging of the population...



....which will result in a decrease in working age population until 2040.



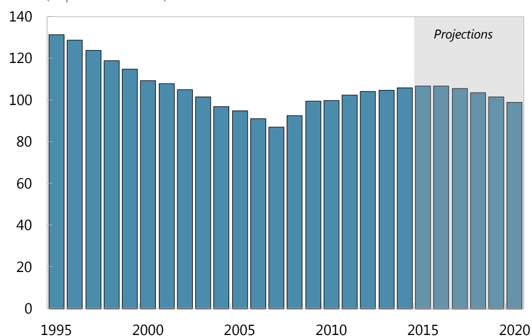
Sources: National Bank of Belgium, OECD, and IMF Staff calculations.

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

Figure 5. Belgium: Fiscal Developments and Medium-Term Projections

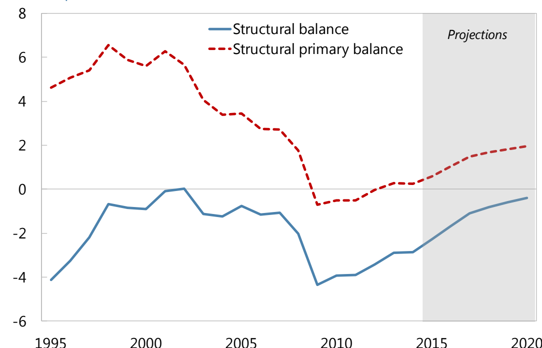
Historically, Belgium has an impressive track record of debt consolidation…

General Government Debt
(In percent of GDP)



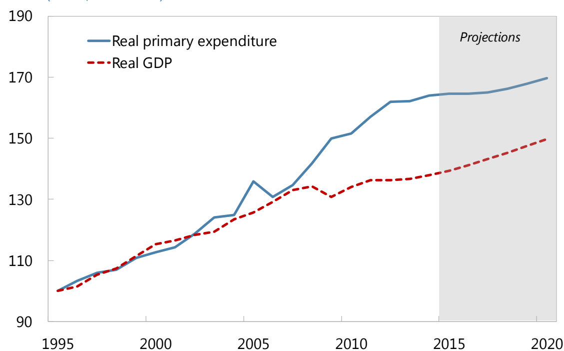
…and running considerable structural primary surpluses…

General Government Structural Balances
(In percent of GDP)



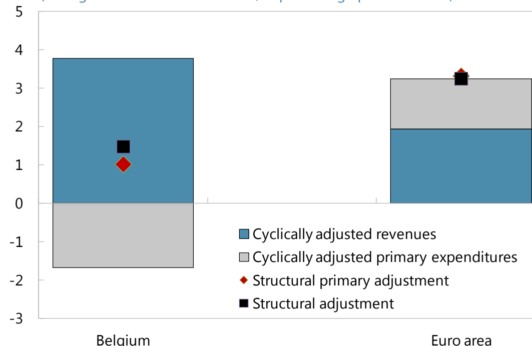
…but primary spending growth has outpaced GDP growth by large margins since 2008.

Real Primary Expenditure and Real GDP
(Index, 1995=100)



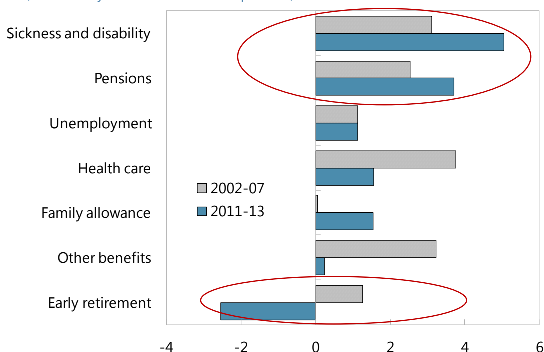
The recent consolidation—modest compared with the overall euro area adjustment—was due to revenue increases only, unlike in the peer countries.

Structural Fiscal Adjustment
(Change between 2009 and 2013, in percentage points of GDP)



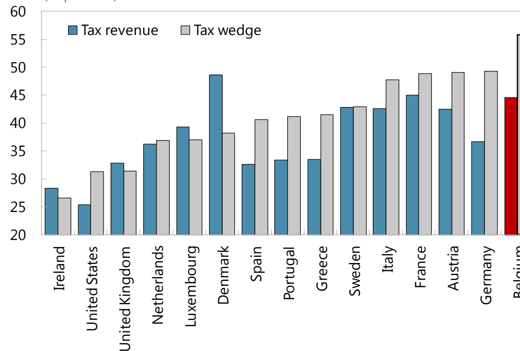
Higher social spending contributed to about ⅔ of additional spending since 2007, especially spending on sickness and disability benefits, pensions, and healthcare.

Real Annual Growth in Social Spending[1]
(Deflated by the GDP deflator, in percent)



High level of taxation reflects the highest labor tax wedge among advanced countries.

Total Tax Revenue and Tax Wedge[2]
(In percent)



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

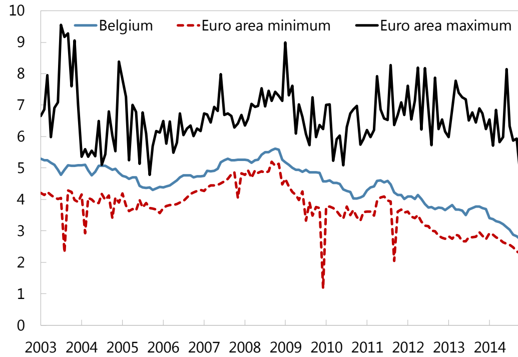
[1] Unemployment benefits adjusted for cyclical developments.

[2] The total tax revenue is in percent of GDP and the tax wedge is in percent of average annual gross wage earnings of adult, full-time manual and non-manual workers in the industry.

Figure 6. Belgium: Financial Sector

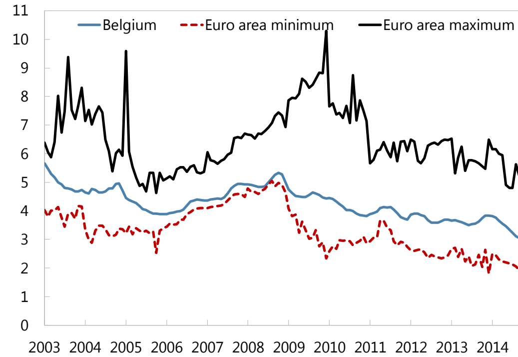
Nominal lending rates to NFCs have continued to fall and are at the lower end of the euro area distribution …

Bank Lending Rates to Non-Financial Corporations
(In percent, monthly averages)



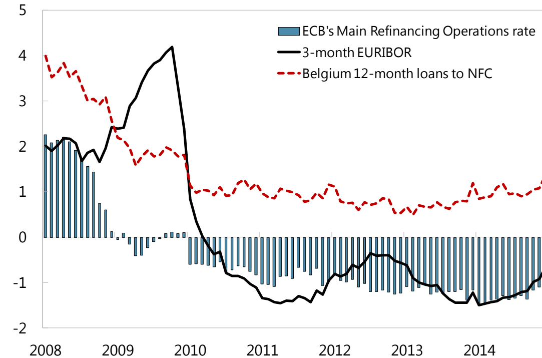
…as is the case for loans to households.

Bank Lending Rates to Households
(In percent, monthly averages)



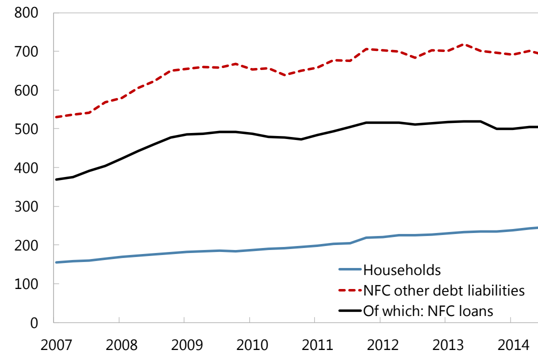
However, with falling inflation expectations real lending rates rose in 2014.

Real Interest Rates
(In percent, adjusted for Belgium's one-year ahead inflation)



While household debt has continued to increase, NFC debt has stabilized, as has the share of market financing.

Debt Liabilities of Households and Non-Financial Corps.
(In billions of euros)

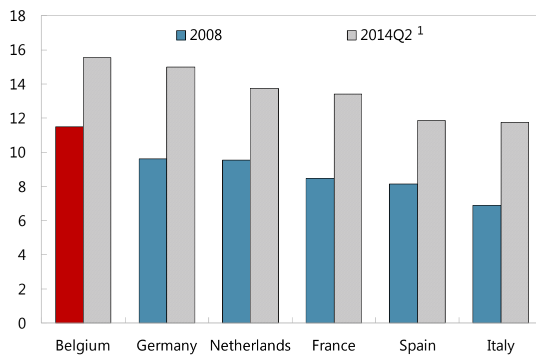


Sources: National Bank of Belgium, Haver Analytics, and IMF Staff calculations.

Figure 7. Belgium: Banking Sector Balance Sheet

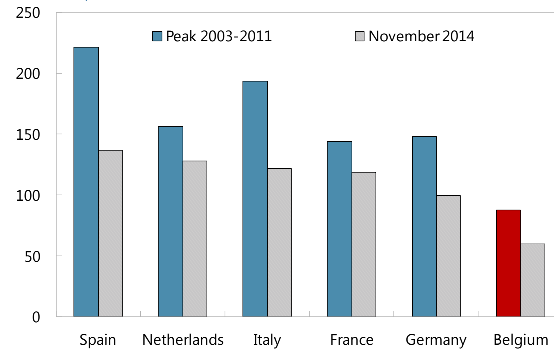
The Tier 1 capital ratios of Belgian banks compare favorably with those in other euro area countries.

Tier 1 Capital Ratios
(In percent of risk-weighted assets)



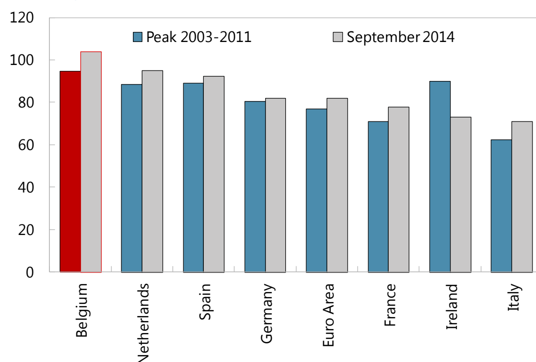
The banks' liquidity margins are comfortable, ...

Loan-to-Deposit Ratio
(In percent)



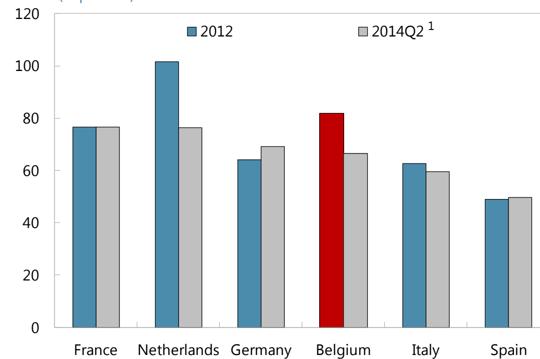
...supported by a strong and growing deposit base.

Deposits-to-GDP Ratio
(In percent)



The average cost-to-income ratio has fallen, but pressures on profits may require further cuts.

Cost-to-Income Ratios
(In percent)



Sources: Haver Analytics, IMF Financial Soundness Indicators database, and IMF Staff calculations.
[1] Data for Spain and France are for end of 2013.

Table 1. Belgium: Selected Economic Indicators, 2010–20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Projections						
	(Percentage change from the previous period; unless otherwise indicated)										
Real economy											
Real GDP	2.5	1.6	0.1	0.3	0.9	1.0	1.3	1.4	1.5	1.5	1.5
Domestic demand	2.0	1.9	0.3	-0.6	0.4	0.9	1.2	1.3	1.5	1.6	1.6
Private consumption	2.8	0.6	0.8	0.3	0.9	1.0	1.1	1.2	1.3	1.4	1.4
Public consumption	1.2	0.8	1.4	1.1	0.1	-0.5	0.3	0.4	0.8	0.8	1.0
Gross fixed investment	-0.1	4.0	0.0	-2.2	4.0	1.9	2.1	2.5	2.6	2.6	2.6
Business investment	-1.9	5.2	-0.3	-1.2	5.2	2.4	2.5	2.9	3.0	3.1	3.2
Public investment	3.6	2.5	3.4	-5.4	0.5	1.0	1.3	2.5	2.6	2.6	1.5
Dwellings	3.3	1.4	-0.5	-3.5	1.9	0.7	1.1	1.1	1.2	1.2	1.2
Stockbuilding[1]	0.3	0.5	-0.4	-0.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance[1]	0.3	-0.4	0.0	0.8	0.5	0.2	0.2	0.0	0.0	0.0	0.0
Exports, goods and services	10.0	6.6	1.9	2.9	3.3	3.2	3.8	4.1	4.3	4.5	4.5
Imports, goods and services	9.6	7.2	1.9	1.8	2.7	3.0	3.7	4.1	4.4	4.6	4.7
Potential output growth	1.2	1.0	1.1	1.1	1.0	1.0	1.1	1.1	1.2	1.2	1.4
Potential output growth per working age person	0.4	0.4	0.7	0.9	0.8	0.8	0.9	1.0	1.1	1.2	1.5
Output gap (in percent)	-0.2	0.4	-0.5	-1.3	-1.3	-1.3	-1.0	-0.8	-0.4	-0.1	0.0
Employment											
Unemployment rate	8.3	7.2	7.6	8.4	8.5	8.4	8.3	8.2	8.2	8.1	8.1
Employment	0.7	1.4	0.3	-0.3	0.4	0.4	0.5	0.7	0.8	0.9	0.9
Prices											
Consumer prices	2.3	3.4	2.6	1.2	0.5	0.1	0.9	1.2	1.3	1.4	1.5
GDP deflator	2.0	2.2	2.1	1.5	1.1	0.8	0.9	1.1	1.2	1.3	1.4
	(Percent of GDP; unless otherwise indicated)										
Public finance											
Revenue	48.4	49.3	50.7	51.5	51.3	51.0	50.9	50.9	50.9	50.9	50.9
Expenditure	52.3	53.2	54.8	54.4	54.5	53.9	53.1	52.4	52.0	51.6	51.4
General government balance	-4.0	-3.9	-4.1	-2.9	-3.2	-2.9	-2.2	-1.5	-1.0	-0.7	-0.4
Structural balance	-3.9	-3.9	-3.4	-2.9	-2.9	-2.3	-1.7	-1.1	-0.8	-0.6	-0.4
Structural primary balance	-0.5	-0.5	0.0	0.3	0.2	0.6	1.0	1.5	1.7	1.8	2.0
Primary balance	-0.6	-0.5	-0.7	0.3	-0.1	0.0	0.5	1.1	1.5	1.7	1.9
General government debt	99.6	102.1	104.0	104.5	105.6	106.4	105.9	104.5	102.7	100.6	98.0
Balance of payments											
Trade balance	1.2	-0.8	-0.9	-0.2	0.8	1.2	1.1	1.1	1.1	1.0	1.0
Current account	1.5	-1.3	-0.9	0.1	1.4	1.7	1.7	1.7	1.7	1.7	1.7
Terms of trade (percent change)	-2.1	-1.4	-1.7	0.2	0.0	0.2	1.8	-0.6	-0.2	-0.1	0.0
Exports, goods and services (volume, percent change)	...	4.4	-0.9	2.1	3.3	3.2	3.8	4.1	4.3	4.5	4.5
Imports, goods and services (volume, percent change)	...	5.3	-1.4	0.3	2.7	3.0	3.7	4.1	4.4	4.6	4.7
Memorandum items											
Structural fiscal adjustment	0.4	0.0	0.5	0.6	0.0	0.6	0.6	0.6	0.3	0.2	0.2
Structural fiscal primary adjustment	0.2	0.0	0.5	0.3	0.0	0.4	0.4	0.4	0.2	0.1	0.1
Nominal GDP (in billions of euros)	366	380	388	395	403	410	420	430	442	455	468
Population (in millions)	10.8	11.0	11.1	11.2	11.2	11.2	11.3	11.4	11.5	11.5	11.6

Sources: Haver Analytics, Belgian authorities, and IMF staff projections.
[1] Contribution to GDP growth.

Table 2. Belgium: Balance of Payments, 2010–20
(In percent of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Projections						
Balance on current account	1.5	-1.3	-0.9	0.1	1.4	1.7	1.7	1.7	1.7	1.7	1.7
Balance on goods and services	1.2	-0.8	-0.9	-0.2	0.8	1.2	1.1	1.1	1.1	1.0	1.0
Balance of trade (f.o.b., c.i.f.)	112.7	124.8	124.0	124.3	122.9	123.6	126.6	129.7	132.8	136.1	139.2
Exports of goods and services	76.1	81.0	82.1	82.9	82.5	83.1	85.1	87.1	89.2	91.4	93.5
Exports of goods	55.8	61.1	60.6	61.2	60.9	61.4	62.8	64.3	65.8	67.4	69.0
Exports of services	20.3	19.9	21.4	21.7	21.6	21.8	22.3	22.8	23.4	24.0	24.5
Imports of goods and services	-75.0	-81.7	-82.9	-83.0	-81.7	-82.0	-84.0	-86.0	-88.1	-90.4	-92.4
Imports of goods (f.o.b.)	-56.9	-63.7	-63.4	-63.1	-62.1	-62.3	-63.8	-65.4	-67.0	-68.7	-70.2
Imports of services	-18.1	-18.0	-19.6	-19.9	-19.6	-19.7	-20.2	-20.6	-21.1	-21.7	-22.2
Income, net	1.8	1.0	1.7	2.3	2.3	2.3	2.3	2.4	2.4	2.4	2.4
Current transfers, net	-1.5	-1.6	-1.7	-2.0	-1.7	-1.7	-1.8	-1.8	-1.8	-1.8	-1.8
Balance on capital account	-0.2	-0.1	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance on financial account	1.5	-1.3	-0.5	0.1	1.4	1.7	1.7	1.7	1.7	1.6	1.6
Direct investment, net	-10.6	-6.0	-1.9	-1.0	-0.8	-0.6	-0.4	-0.2	0.1	0.3	0.5
Portfolio investment, net	5.5	4.4	-12.3	-5.6	-4.8	-5.0	-5.5	-5.9	-6.3	-6.7	-7.2
Financial derivatives, net	-0.4	0.5	-0.5	-0.5	-0.3	-0.2	-0.2	-0.2	-0.3	-0.3	-0.2
Other investment, net	6.8	-0.4	14.0	7.2	7.4	7.6	7.8	8.1	8.3	8.5	8.7
Reserve assets	0.2	0.3	0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Errors and omissions, net	0.2	0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 3. Belgium: General Government Statement of Operations, 2010–20

(In percent of GDP)

					Projections						
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	48.4	49.3	50.7	51.5	51.3	51.0	50.9	50.9	50.9	50.9	50.9
Taxes	28.6	29.2	30.0	30.6	30.5	30.4	30.4	30.5	30.8	31.0	31.2
Personal income tax	12.5	12.8	12.9	13.5	13.4	13.3	13.0	12.8	12.6	12.4	12.2
Corporate income tax	2.6	2.9	3.1	3.2	3.2	3.2	3.3	3.3	3.4	3.4	3.5
Taxes on property	1.9	1.9	2.1	2.3	2.2	2.3	2.4	2.6	2.7	2.9	3.1
VAT	6.9	6.8	6.9	6.9	6.9	6.8	6.9	6.9	7.0	7.0	7.0
Excise	2.1	2.1	2.1	2.0	2.0	2.0	2.1	2.2	2.4	2.5	2.7
Other taxes	2.6	2.6	2.9	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Social contributions	15.9	16.1	16.4	16.6	16.6	16.3	16.0	15.6	15.1	14.6	14.1
Actual social contributions	13.7	13.8	14.1	14.2	14.1	13.9	13.6	13.2	12.7	12.1	11.6
Imputed social contributions	2.2	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Other revenue (incl. grants)	3.8	4.0	4.2	4.3	4.3	4.4	4.6	4.8	5.1	5.4	5.6
Expenditure	52.3	53.2	54.8	54.4	54.5	53.9	53.1	52.4	52.0	51.6	51.4
Expense	50.1	51.0	52.5	52.2	52.3	51.7	50.9	50.2	49.7	49.4	49.1
Compensation of employees	12.1	12.1	12.3	12.5	12.3	12.2	12.1	12.0	11.9	11.8	11.8
Use of goods and services	3.9	3.9	4.0	4.0	3.9	3.8	3.8	3.7	3.7	3.7	3.6
Interest	3.4	3.4	3.4	3.2	3.1	2.9	2.7	2.6	2.5	2.4	2.4
Subsidies	2.9	3.0	3.0	2.9	3.0	2.9	2.8	2.8	2.7	2.6	2.6
Grants	1.2	1.2	1.2	1.3	1.3	1.4	1.4	1.5	1.5	1.6	1.6
Social benefits	23.9	24.1	24.7	25.2	25.3	25.1	24.6	24.2	23.8	23.7	23.4
Other expense	2.8	3.3	3.8	3.2	3.3	3.4	3.5	3.5	3.6	3.6	3.7
Net acquisition of nonfinancial assets	2.2	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Gross operating balance	-1.8	-1.7	-1.8	-0.7	-1.0	-0.7	0.0	0.7	1.2	1.6	1.8
Net lending/borrowing	-4.0	-3.9	-4.1	-2.9	-3.2	-2.9	-2.2	-1.5	-1.0	-0.7	-0.4
Net financial transactions	-4.0	-3.9	-4.1	-2.9	-3.2	...	...	...	...	...	...
Net acquisition of financial assets	3.0	3.3	-0.8	-0.4	-0.4	...	...	...	...	...	...
Currency and deposits	0.5	0.3	0.0	-0.2	-0.2	...	...	...	...	...	...
Securities other than shares	1.3	0.6	-1.6	-0.3	-0.3	...	...	...	...	...	...
Loans	0.9	1.1	1.6	1.2	1.2	...	...	...	...	...	...
Shares and other equity	0.1	1.1	-0.7	-1.1	-1.1	...	...	...	...	...	...
Other financial assets	0.1	0.3	0.0	0.1	0.1	...	...	...	...	...	...
Net incurrence of liabilities	7.2	7.5	3.3	2.6	2.8	...	...	...	...	...	...
Currency and deposits	0.0	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Securities other than shares	5.7	5.1	1.9	1.2	1.3	...	...	...	...	...	...
Loans	1.7	2.1	1.5	1.5	1.6	...	...	...	...	...	...
Other liabilities	-0.1	0.3	0.0	-0.2	-0.2	...	...	...	...	...	...
Statistical discrepancy	0.3	0.2	0.0	0.0	0.0	...	...	...	...	...	...
Memorandum items											
Primary balance	-0.6	-0.5	-0.7	0.3	-0.1	0.0	0.5	1.1	1.5	1.7	1.9
Gross government debt	99.6	102.1	104.0	104.5	105.6	106.4	105.9	104.5	102.7	100.6	98.0
Real growth of primary expenditure[1]	1.1	3.6	1.7	1.5	1.2	0.3	0.0	0.2	0.8	0.9	1.1

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

[1] Excludes the 2012 Dexia recapitalization.

Table 4. Belgium: General Government Consolidated Balance Sheet, 2006–13
(In percent of GDP)

	2006	2007	2008	2009	2010	2011	2012	2013
Net worth and its changes	...	...	...	...	...	...	...	...
Nonfinancial assets	...	...	...	...	...	...	...	...
Net financial worth	-80.0	-73.8	-77.4	-82.5	-81.2	-83.1	-91.5	-90.0
Financial assets	19.6	19.8	23.3	26.6	26.3	27.4	28.8	27.6
Currency and deposits	2.5	2.8	3.3	4.4	4.7	4.7	4.6	4.4
Securities other than shares	0.6	0.6	0.8	0.8	0.6	0.5	0.5	0.4
Loans	5.4	5.3	5.5	6.2	6.3	6.7	7.9	8.3
Shares and other equity	6.1	6.4	9.0	10.5	10.0	10.3	10.7	9.4
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	5.1	4.8	4.7	4.9	4.8	5.1	5.0	5.1
Liabilities	99.7	93.6	100.7	109.2	107.6	110.4	120.3	117.6
Special Drawing Rights	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	0.4	0.4	0.4	0.4	0.4
Securities other than shares	81.8	76.3	83.7	90.4	88.4	89.6	98.4	95.3
Loans	13.9	13.2	13.3	14.5	15.2	16.3	17.2	18.0
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	3.5	3.6	3.2	3.7	3.5	4.0	4.1	3.8

Sources: Haver Analytics and IMF's staff calculations.

Table 5. Belgium: Structure of the Financial System, 2009–14

	2009	2010	2011	2012	2013	2014:H1
Banking sector						
Number of credit institutions	104	107	108	104	104	103
Domestic	48	48	47	42	39	39
Branches of foreign banks	56	59	61	62	65	64
Total assets (in billions of euros)[1]	1,191	1,151	1,147	1,049	961	1,018
of which Four largest banks	1,092	1,003	968	857	775	820
of which claims on Belgian residents	483	478	500	527	488	491
Insurance sector						
Number of insurance companies	147	145	142	134	130	128
Life	29	28	26	24	23	23
Mixed	23	24	25	25	25	25
Non-life	94	91	89	83	80	78
Reinsurance	1	2	2	2	2	2
Total assets (in billions of euros)[2]	234	249	257	265	271	275
Net premiums written (in billions of euros)[2,3]						
Life	19	19	18	21	16	8
Non-life	9	10	10	11	11	7
Other financial intermediaries						
Stockbroking firms						
Number	23	23	22	20	20	20
Income (in billions of euros) [3]	0.3	0.3	0.3	0.3	0.3	0.1
Total assets (in billions of euros)	2.3	2.4	2.0	2.2	2.3	3.3
Portfolio management companies						
Number	24	24	20	21	19	19
Income (in billions of euros) [3]	0.0	0.0	0.0	0.1	0.1	0.0
Assets under management (in billions of euros)	49	62	3	4	3	4
Management companies of undertakings for collective investment						
Number	7	7	7	7	7	7
Income (in billions of euros) [3]	0.5	0.9	0.8	0.8	1.0	0.5
Assets under management (in billions of euros)	189	194	178	178	175	192
Undertakings for collective investment distributed in Belgium						
Number of investment companies	443	478	507	532	547	580
Belgian law	167	166	165	167	156	152
Foreign law	276	312	342	365	391	428
Assets under management	135	139	115	118	132	149
Pension funds						
Number	263	251	245	237	201	199
Total assets (in billions of euros)	14	16	16	19	20	n.a.

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

[1] On consolidated basis.
[2] On company basis.
[3] Non-annualised.

Table 6. Belgium: Financial Soundness Indicators of the Banking Sector, 2009–14[1]

(In percent unless otherwise indicated)

	2009	2010	2011	2012	2013	2014:H1
Earnings and profitability						
Return on assets	-0.1	0.5	0.0	0.1	0.3	0.5
Return on equity	-2.7	10.7	0.7	3.0	5.9	7.9
Net interest income to total income	79.1	68.3	71.2	71.6	62.6	64.7
Interest margin	0.8	1.2	1.2	1.3	1.2	1.5
Average yield on assets	2.8	2.8	2.9	2.9	2.6	2.7
Average cost of funding	2.0	1.6	1.7	1.7	1.4	1.2
Noninterest income to gross income	20.9	31.7	28.8	28.4	37.4	35.3
Of which: Net fee and commission income	30.1	25.6	26.8	28.3	27.7	29.3
(Un)realized capital gains booked in P&L	-14.5	-0.2	-3.9	0.2	6.0	1.5
Cost/income ratio	77.7	66.0	67.3	73.4	62.4	63.1
Structure of assets						
Total assets (in percent of GDP)	349.2	323.2	310.2	278.7	251.0	263.3
Of which (in percent of total assets):						
Loans to credit institutions	13.1	17.0	15.2	12.4	12.3	13.1
Debt securities	22.3	20.1	18.5	18.4	18.9	19.0
Equity instruments	0.8	0.5	0.4	0.6	0.4	0.6
Derivatives	11.3	11.6	14.6	11.5	6.8	6.8
Loans to customers	45.0	44.0	44.4	48.1	53.9	53.3
Of which Belgian residents (in percent of loans)	59.0	64.0	69.7	72.0	69.4	68.0
Other EMU residents (in percent of loans)	19.0	19.0	16.9	15.0	15.7	16.6
Rest of the world (in percent of loans)	22.0	17.0	13.4	13.0	14.9	15.4
Momorandum items:						
Mortgage loans (in billions euros)	158	179	184	188	191	193
Consumer loans (in billions euros)	17	24	23	24	27	28
Other assets	7.5	6.8	7.0	8.9	7.7	7.2
Funding and liquidity (in percent of total assets)						
Debts to credit institutions	14.1	15.4	11.2	11.0	10.7	10.7
Bank bonds and other debt securities	12.6	10.9	8.8	10.6	10.1	9.4
Customer deposits	46.8	46.0	46.5	49.3	54.7	55.1
Of which: Sight deposits[2]	13.2	13.7	12.6	15.1	18.1	19.6
Saving deposits[2]	14.1	16.6	16.8	19.8	22.7	21.8
Term deposits[2]	8.9	8.5	9.6	9.2	9.6	9.7
Retail deposits	23.8	26.1	26.5	30.6	34.8	33.5
Repo's	7.1	5.0	5.2	2.3	2.7	3.6
Liquid assets[3]	31.5	32.5	34.3	36.4	36.8	35.4
Asset quality						
Sectoral distribution of loans (in percent of total assets)						
Credit institutions	13.1	17.0	15.2	12.4	12.3	13.1
Corporate	20.5	17.2	16.4	16.3	18.5	19.4
Retail	19.9	22.1	22.9	26.3	29.4	28.0
Central governments	1.2	1.0	0.8	0.8	1.0	0.9
Non-credit institutions	3.4	3.8	4.3	4.7	5.0	4.9
Non-performing loans (NPL) as percent of gross loans[3]	2.7	2.8	3.2	3.2	3.1	2.9
Provisions and write-offs as percent of NPL[3]	51	53	49	53	54	54
Capital adequacy						
Regulatory capital to risk-weighted assets	17.3	19.3	18.5	18.1	18.7	17.7
Regulatory Tier 1 capital to risk-weighted assets	13.2	15.5	15.1	15.8	16.4	15.5
Capital to assets	4.5	5.0	4.6	5.8	6.4	6.3
NPL net of provisions as percent of Tier 1 capital[3]	13.8	12.2	14.2	13.4	12.3	12.6
Net open position in foreign exchange to capital	4.7	3.3	1.4	2.1	2.1	2.7

Sources: National Bank of Belgium.

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

[2] Deposits booked at amortized cost only.

[3] Unconsolidated data.

Appendix I. External Sector Assessment

		Overall Assessment
Foreign asset and liability position and trajectory	**Background**. The net international investment position (NIIP) remains strong at 53 percent of GDP at mid–2014, reflecting very healthy private balance sheets. Despite Belgium's decline as a financial center, gross foreign assets are large (469 percent of GDP). Gross foreign assets of the financial sector stand at around 130 percent of GDP, down considerably from the pre-crisis peak. But the gross foreign assets of the private non-financial sector have continued to grow to over 300 percent of GDP, reflecting in large part the growth of cross-border intra-group corporate financing transactions. External public debt was 65 percent of GDP in mid-2014. **Assessment**. Belgium's large gross external positions reflect its position as a center for treasury units for non-financial corporates. These treasury operations create large mutually offsetting positions which should not be an important source of risk for Belgium. Risk exposures on the asset side are mostly related to financial sector foreign claims; and risk exposures on the liability side to external public debt. Based on the projected current account and growth paths, the NIIP to GDP ratio is expected to remain roughly stable. No sustainability concerns arise.	**Overall Assessment**: *The external position is moderately weaker than the level consistent with medium-term fundamentals and desirable policy settings.* This reflects fiscal deficits and recent losses in cost competitiveness. Measures taken to contain wage growth will help reverse the competitiveness loss. The strong net international investment position counters the vulnerabilities associated with the high external public debt. **Potential policy responses**: Planned steady fiscal consolidation, reductions in labor taxes, and wage moderation will help improve competitiveness and ensure that the current account gap remains closed over the medium term. The impact of these policies would be enhanced by productivity enhancing structural reforms in the labor and product markets.
Current account	**Background**. The current account (CA) had been in moderate surplus for two decades before the crisis, although on a secular decline and turning into a modest deficit in the crisis years as exports dropped. Due to a significant recent revision to the income balance, the current account in 2014 is now expected to register a surplus of 0.3 percent of GDP rather than a deficit of 1.3 percent (September WEO). By this revision, the cyclically-adjusted CA balance would be +0.7 percent of GDP, compared to a norm of 1 percent (January 2015 EBA estimates). The implied Real Effective Exchange Rate (REER) gap is zero. **Assessment**. Belgium's status as a center of corporate activity raises uncertainty about EBA CA gap estimates. Thus, even though the cyclically-adjusted current account is close to the level consistent with medium-term fundamentals and desirable policy settings, staff considers that greater weight should be given to other indicators in assessing external stability.	
Real exchange rate	**Background**. Whereas relative ULC developments point to a gradual loss of competitiveness since 2004 (by about 9 percent relative to the euro area average), the impact has been muted by increases in labor subsidies. EBA model estimates of January 2015 point to an overvaluation of the REER of 5 percent. The depreciation of the euro and fall in oil prices since then would likely reduce the estimated overvaluation. **Assessment**. Real exchange rate overvaluation is assessed to be in the 0–5 percent range.	
Capital and financial accounts: flows and policy measures	**Background**. Gross financial outflows and inflows grew steadily during the pre-crisis period along the expansion of banks' cross-border operations. Similarly, they have shrunk since 2007 along the bank deleveraging. Short-term debt accounts for about 40 percent of the external liabilities and financing need. The capital account is open. **Assessment**. Belgium remains exposed to financial market risks but the structure of financial flows does not point to specific vulnerabilities. The strong net international investment position reduces the vulnerabilities associated with the high public debt.	
FX intervention and reserves level	**Background**. The euro has the status of a global reserve currency. **Assessment**. Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.	

Appendix II. Risk Assessment Matrix

Source of Risk and likelihood	Impact if realized and transmission channel	Policy response
High **Protracted period of slower growth and persistently low inflation in Europe** from failure to fully address legacies of financial crisis, leading to secular stagnation and lower commodity prices. These risks are compounded by the risk of escalation of Russia-Ukraine crisis.	**High** **Strong impact through trade channel and by implication investment**. Protracted growth shortfall could in turn lower potential growth, raise structural unemployment and complicate further fiscal adjustment.	*Coordinated policy response at European level to which Belgium could contribute by slowing the pace of consolidation.*
High **Abrupt surge in global financial instability** in response to investors' reassessment of risks	**Low** **Limited exposure of domestic banks to global risks.** While the sovereign-banking nexus remains important, it is being unwound.	*Euro area monetary policy is first line of defense against liquidity stress, supported by activation of backstops and resolution mechanism.*
Low **Stress in domestic banks** from delayed actions to resolve legacy issues in public banks' balance sheets.	**Medium** **Exposure to legacy risks has been reduced markedly.** However, low profitability in public banks with legacy assets may carry a fiscal cost if and when assets are disposed of through privatization.	*Continue restructuring of public banks, resolve their contingent risks.*
Low **Rapid and disruptive housing price correction.**	**Medium** **Overvaluation is expected to be resolved gradually, but in a context of economic stagnation private adjustment could accelerate.** In such an event, the wealth shock to households could lead to adverse increase in the savings rate. Banks are however relatively well protected given prudent lending standards and full recourse loans.	*Following the increase in capital requirements on mortgage lending in 2014, additional macro-prudential measures could be introduced while also working on the supply side of the housing market to alleviate price pressures*
Low **Failure to deliver on structural reforms.**	**Medium** Failure to keep up with competitiveness gains in the rest of the euro area would trigger adverse growth-fiscal dynamics	*Pursue reform program announced by the government (mostly labor market, taxation and social transfers), and complement it with product market and regulatory reforms.*

Appendix III. Main Recommendations of the 2014 Article IV Consultation and Authorities' Response

Fund Recommendations	Policy Actions
Fiscal Policy	
Maintain a steady pace of structural fiscal adjustment of 0.75 percentage points per year.	Adjustment in 2014 fell short of the objective, but the new governments (federal and regional) target annual adjustment of 0.7 percent of GDP a year.
Rebalance consolidation toward expenditure measures and away from tax increases, with emphasis on reducing current spending, subsidies, and transfers.	As of 2015, consolidation is fully rebalanced toward expenditure measures (transfers, current spending, and tax expenditures)..
Rebalance the tax burden toward indirect and environmental taxes, and taxes on income from capital	Federal government commitment not to increase the tax burden, but to shift it away from labor taxation toward higher taxes on tobacco, energy and alcohol, the financial sector, and local public service companies that were erstwhile exempted.
Financial Sector Policy	
Continue regular monitoring of banks' evolving business models and of legacy assets.	National Bank continued active monitoring, with responsibility for most banks now with the ECB.
Prompt passage of the banking law designed to curtail risks and improve recovery and resolution frameworks	Law adopted in April 2014.
Structural Reforms	
Address distortions from inefficient social policies	Announced tightening of eligibility to unemployment, pension and pre-pension benefits aimed at closing inactivity traps and reactivating as soon as possible unemployed persons.
Continue labor and product market reforms in order to • Promote labor mobility and adaptability, • Raise employment rates, • Eliminate barriers to competition, and lighten the heavy burden of regulation.	• Access to early retirement and other schemes to exit the labor force to be tightened. • Index jump to reduce labor costs growth • Administrative simplification with the application of the "only once" principle

Source: IMF Staff

Appendix IV. Labor Market and Pension Reform Measures

2011	2012/2015	Status
UNEMPLOYMENT BENEFITS		
Search requirements		
Suitable job is 25 km away or less	Suitable job is 60 km away or less	Implemented
Restrict rights to search for the same kind of job to six months	Restrict right to search for the same kind of job to three months (young unemployed) and five months (other unemployed)	Implemented
Monitor search efforts for 18–21 months after unemployment, with an annual follow-up	Monitor search efforts nine months (<26 years old) or 12 months (26 or older) after start of unemployment, with follow-ups every nine months	Implemented
Search requirement until 60	Search requirements applicable until 65.	Planned by the new government
Exemption of search requirements for familial and social reasons	Elimination of the exemption	Planned by the new government
To obtain unemployment benefits, unemployed have to be registered as job seekers within 2 weeks from the day they are laid off	Registration as job seeker has to be done within 4 weeks following the notice of lay-off	Planned by the new government
Unemployment benefit levels		
Initial unemployment benefits are 60 percent of last wage, falling after one year to 55 percent for people living alone and 40 percent for people living in a family with another income	Initial unemployment benefits are 65 percent of last wage for three months, then 60 percent for the following nine months. After 13 months there is a reduction to 55 percent for people living alone and 40 percent for people living in a family with another income. Between 15 and 24 months of unemployment, depending on career length before unemployment, a stepwise reduction to arrive after maximum 48 months at a level just above social assistance	Implemented
Higher unemployment benefits for unemployed above 50	Higher unemployment benefits for those above 55	Implemented
Seniority complement is granted above 50	Eliminated for new entrants	Planned by the new government
Unemployment benefit based on the wage of the last work period of at least 4 weeks	Unemployment benefit based on the average wage of the last 12 months	Planned by the new government

Involuntary part time workers can obtain an allowance for income support so that their net income is higher than the unemployment benefit in case of full unemployment	Allowance for income support in case of part time job (AGR) is divided by 2 after one year Calculation of the allowance for income support (AGR) will be reviewed based on the calculation that was made before 2008	Planned by the new government
Unemployment benefits for the young entering the labor force		
Available after nine months of unemployment	Available after 12 months of unemployment	Implemented
Evaluation of search efforts before opening the right on unemployment benefits for young people leaving school	Two evaluations of search efforts 7 and 11 months after registering as jobseeker. Opening of right on unemployment benefits only after two positive evaluations	Implemented for all youngsters that have left school after June 1, 2013
Search effort requirement every 12 or 16 months when on unemployment benefits	Evaluation of search requirements every six months. In case of negative evaluation: no UB until the next evaluation, and no earlier than after 6 months	Implemented
Unlimited	Limited to three years (five years for worker on the margin of the labor market) for unemployed living with family with other income, or until the age of 33 in other family situations. Period of three years could be extended by six months if at least worked six months in the last 24 months.	Implemented
Young school leavers can apply for unemployment benefit if they have participated in the secondary education final exam	Until 21, young school leavers can apply for unemployment benefit if they have obtained a secondary education degree	Planned by the new government
For school leavers, the maximum age to introduce a demand for unemployment benefits is 30	Maximum age reduced to 25	Planned by the new government
Easing the transition to the labor market for low-skilled youth		
	Yearly creation of 10,000 internships for low-skilled school leavers. Reduced employer contribution in case of hiring after internship. Additionally, employers are asked to create 1 percent internship positions under the form of, for example, apprenticeships	in progress
Government subsidy for temporary unemployment		
Without employer penalty	Employers will pay a penalty if there is excess use of the system	Implemented
Allowance for temporary unemployment is 70 percent of last salary	Reduced to 65 percent of salary	Planned by the new government

No limits on the use by employers of temporary unemployment	The number of days of economic unemployment will be limited for employers	Planned by the new government
Government subsidy for time-credit and career break system		
Five year duration before the age of 50	One year duration (two to five years if part-time) before the age of 55, with supplementary credit of maximum 36 months for specific motivated breaks, such as childcare or studies (maximum 48 months for specific cases such as taking care of a handicapped child less than 21 year old)	Implemented
	Elimination of the rights to benefits for one year non-motivated break. For childcare, one supplementary year of break with benefits	Planned by the new government
Unlimited duration above the age of 50	Unlimited duration above the age of 55	Implemented
	Unlimited duration above the age of 60	Planned by the new government
72 month duration in public sector	60 month duration in public sector	Implemented
More favorable rights on career breaks in the public sector	Progressive harmonization of career break in the public sector with time credit in the private sector (full harmonization by 2020)	Planned by the new government
PENSION BENEFITS		
Pre-pension benefits (renamed to "Unemployment benefits with employer top-up")		
No job search requirement	Job search requirement until the age of 60	Implemented
	Job search requirement until the age of 65	Planned by the new government
Minimum age 58	Minimum age 60 for new collective agreements (2015 for existing agreements and 2024 for women)	Implemented
	Minimum age 62 for new entrants Minimum age 58 for new entrants in case of hardship jobs or long career (60 by 2017)	Planned by the new government
Minimum career length 38 years for men, 25 years for women	Minimum career length 35 years (women) / 40 years (men) for new collective agreements (2015 for existing agreements)	Implemented
Pre-pension years count fully towards pension rights at the last wage level	Pre-pension years below the age of 60 do not count towards pension rights at last wage level but on a lower fictive level	Implemented
Reduced social security contributions on employer's top-up payment	Employer social security contributions will be higher and linked to age of worker entering pre-pension	Implemented

The age limit in restructuring companies and loss-making companies is 53 and raising to 58 in 2018	The age limit will be 60 starting in 2017 for new entrants	Planned by the new government
Part-time pre-pension system		
Part-time pre-pension system	No new entries from 2012	Implemented
Government subsidy for working time reduction to part time (time-credit with unlimited duration)		
Minimum age 50	Minimum age 55 (with exceptions for physically demanding jobs)	Implemented
	Minimum age 60 (no exceptions)	Planned by the new government
Pre-pension for collective dismissal		
Minimum age 50	Minimum age 52 for loss-making companies (from 2012), raised by six months every year to 55 in 2018, 55 for restructuring companies (from 2013)	Implemented
	Minimum age 60 for new entrants for loss-making companies or restructuring companies as from 2017	Planned by the new government
Standard social security contributions	Employer social security contributions will be higher and linked to age of worker entering pre-pension	Implemented
Unemployment benefits in the pre-pension system		
No job search requirement for those above the age of 50	Job search requirement until the age of 60	Implemented
	Job search requirement until the age of 65 from 2015	Planned by the new government
Early retirement benefit		
Minimum age 60, full career length 35 years	Minimum age increased by six months every year to 62 by 2016, full career length increased by one year every year to 40 years by 2016	Implemented
	Minimum age will increase by six months in 2017 and 2018 to 63 on condition of a full career length that will increase by one year to 41 in 2017 and to 42 in 2019	Planned by the new government
	Exceptions for long career will be stricter: required career length to retire at 60 will increase from 42 years to 43 years in 2017 and 44 in 2019 (from 41 to 42 in 2017 and 43 in 2019 for a early retirement at 61)	

Pension bonus	Access to bonus stricter: bonus starts not earlier than 12 months after earliest possible date for early retirement. Bonus continues after 65 years. Only real working days create bonus-rights	Implemented
	Pension bonus will be phased out. Only people who meet conditions for early retirement by December 31, 2014 or are 65 years old and have a career of 40 before December 31, 2014 are eligible to a pension bonus.	Implemented
Diploma bonus: Years spent to get a bachelor or a master degree required to become civil servants are accounted for in the calculation of the career condition for early retirement	Diploma bonus will be phased out (6 months each year)starting 2016	Law in preparation
Employer obligations towards older workers		
None	Draw up a plan to retain older workers	Implemented
Social security contributions		
Reduced for hiring of older long-term unemployed	Reduced for hiring of older long term unemployed and pre-pensioners	Implemented
Reduced for older workers from 50 years on	Adapted in 2013: stronger reduction, but starting at 54 years instead of 50 years and only for those with gross wage under 4.453/month	Implemented
	Additional social security contribution reductions for mentors; first 5 hirings in SME; (very) low-skilled (unemployed) youth; medium-skilled youth ; handicapped persons	Implemented
	Strengthening of the structural social security contribution reductions	In progress
Encourage longer employment via pension system reforms		
Encourage longer employment	For pensioners aged 65 or more, abolish ceiling on permitted earned incomes for those with careers spanning more than 42 years	Implemented
	No limits to income for pensioners who are 65 year old or have a career of 45 years	Law in preparation

Full valorization of assimilated periods in pension calculation at last wage earned: unemployment, unemployment with company top-up and time credit	Limited valorization of assimilated periods in pension calculation: • 3rd period unemployment, unemployment with company top-up before 60 and end of career time credit before 60 at pension minimum wage • unmotivated time credit limited to 1 year assimilation	Implemented
	Unmotivated time credit will be abolished	Planned by the new government
Pension bonus for workers and self-employed persons: € 2,2974 for every day worked extra, if 62 or a career of 44 years Pension complement for statutory government employees: percentage increase for every month worked after 60	Unified pension bonus for workers, self-employed persons and statutory government employees: progressively increasing lump sum amount (from € 1.5 to € 2.0) for every day worked extra , if person continues working for longer than 1 year after fulfillment of early retirement conditions	Implemented
Survivors' pension for widow(er)s: always for survivors of 45 years and older, under certain conditions in case of survivors younger than 45	For widow(er)s younger than 45 survivors' pension replaced by transition allowance (12 months if no children, 24 months if children) that can be combined without limitation with work income, followed by automatic access to unemployment benefit if no gainful occupation and entitled to appropriate and early guidance. Eligibility age of 45 increased gradually to 50 by 2025	Implemented
	As for 2025, the eligibility age of 50 will increase gradually by one year each year to reach 55	Planned by the new government
In workers' and self-employed persons' pension schemes the months of professional activity in the year of retirement are not taken into account for pension calculation.	In workers' and self-employed persons' pension schemes the months of professional activity in the year of retirement are taken into calculation.	Implemented
Principle of career unity in pension calculation in pension schemes of workers, self-employed persons and statutory government employees: career fraction or sum of career fractions cannot exceed 1 (45/45)	Notion career no longer expressed in years (45), but in full time equivalent days (14,040)	Social partners have given positive advice – Law project is sent to the Parliament

Increased taxation of the second pillar system in case of early retirement	From July 1, 2013, 20 percent instead of 16.5 percent if leaving at 60 and if leaving at 61 without legal pension 18 percent instead of 16.5 percent	Implemented
Legal age for fill pension is 65	Increased to 66 in 2025 and 67 in 2030	Planned by the new government
Decrease pension expenditure		
Pension complement for frontier or seasonal workers in workers' pension scheme: frontier or seasonal workers residing in Belgium granted pension complement to increase foreign pension to level of pension they would have received if they had worked in Belgium	From July 1, 2014 no new rights to pension complements for frontier or seasonal workers will be constituted Pension complements granted paid out from July 1, 2014 modified on two points: • only awarded from moment person concerned fulfills receipt conditions of foreign pension • amount of pension complement will be based on all foreign pension benefits	Social partners have given positive advice – Law project is sent to the Parliament
	• Pension complement for frontier or seasonal workers removed as from 2015	Law in preparation
	Pension complements granted from January 1, 2015 will be modified (not applicable to those who could have taken up their pension before that date) will be based on all foreign pension benefits	Law in preparation
Minimum pension: Career condition to benefit from 1/45th of the minimum pension is 30 years of 208 days	From 2015, at least 52 days in a year are required to obtain 1/45th of the minimum pension.	Royal Decree in preparation
Structural reform of the pension scheme		Planned by the new government

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

Appendix V. Debt Sustainability Analysis

Public debt sustainability risks remain high. Under the baseline scenario, the public debt-to-GDP ratio is projected to peak at 106.4 percent in 2015 and to decline to 98.2 percent by 2020 as the fiscal deficit narrows and economic recovery gains traction. Gross financing needs are estimated at 20.2 percent of GDP in 2015 and are expected to remain around 13–20 percent in the medium term. The projected decline in public debt remains fragile, and even modest changes in the economic environment would rapidly push the public debt ratio above 110 percent. A negative growth shock, a prolonged period of economic stagnation, and realization of contingent fiscal liabilities coming from existing bank guarantees represent the major risks to the debt outlook.

Baseline and Realism of Projections

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

- **Macroeconomic assumptions.** Growth is estimated at 1.0 percent in 2015, rising to 1.3 percent in 2016 on the back of stronger demand. The output gap narrows over the medium term and is projected to close in 2020. Inflation is projected to stay well below 2 percent throughout the period, reflecting the negative output gap, lower oil prices, and the ongoing wage moderation.

- **Fiscal outlook.** In staff's baseline projections, the general government deficit comes down from 2.9 percent of GDP in 2013 to 0.4 percent in 2020. The primary surplus is projected to strengthen over the medium term, from 0.3 percent of GDP in 2013 to 2.0 percent of GDP in 2020. The projected pace of fiscal consolidation results in a structural deficit of 0.4 percent in 2020. However, consolidation measures past 2016 are yet to be elaborated upon.

- **Debt levels and gross financing needs.** Belgium's high level of government debt and gross financing requirement calls for using the higher scrutiny framework.[6] Government gross debt has increased significantly since 2007, reflecting sizable fiscal stimulus, declining real and nominal growth, and a large recapitalization of (and financial support to) the banking sector. Public debt is estimated to have reached 105.6 percent of GDP in 2014 and is projected to stay above the 100 percent mark in 2015–19. Gross financing needs are estimated at 20.2 percent of GDP in 2015 and are expected to remain around 13–20 percent in the medium term.

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

- **Realism of baseline assumptions.** The median forecast error for real GDP growth during 2005–13 is -0.6 percent, suggesting that there is a modest upward bias in the staff projections. The median forecast error for inflation (GDP deflator) is 0.2 percent, suggesting that the staff forecasts have under-estimated inflation. The median forecast error for primary balance suggests that staff projections have been slightly optimistic (a forecast bias of -0.3 percent of GDP), but the forecast biases are in line with other surveillance countries and have improved during the later years.

- **Cross-country experience suggests the projected fiscal adjustment is feasible.** The maximum 3-year adjustment in the cyclically-adjusted primary balance (CAPB) over the projection period (1.1 percent of GDP) is moderately ambitious but Belgium was able to deliver impressive fiscal consolidation in the past. However, staff does not rule out the existence of implementation risks and therefore a constant primary balance scenario is presented to illustrate this risk.

- **Heat map.** Risks from the debt level are deemed high given that the relevant threshold to which Belgium's values are compared is 85 percent and this threshold is breached under baseline and all stress test scenarios. Similarly, Belgium's gross financing needs exceed the benchmark of 20 percent of GDP. Belgium also faces risks relating to its external financing requirement and a large share of public debt held by foreigners. At 80 percent of GDP, the external financing requirement is significantly above the upper threshold of early warning benchmarks and the share of debt held by foreigners is relatively high at about 50 percent of total.

Shocks and Stress Tests

The DSA framework suggests Belgium's government debt-to-GDP ratio remains below 115 percent and its gross financing needs remain below 25 percent of GDP under all standard macroeconomic and fiscal shocks. In all but the most extreme stagnation scenario, the debt ratio returns to a downward path by the end of the projection period.

- **Growth shock.** Under this scenario, real output growth rates are lower by one standard deviation starting in 2015–16, i.e. 1.6 percentage points relative to the baseline scenario. The assumed decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth) while interest rates are assumed to increase 25 basis points for every 1 percent of GDP worsening in the primary balance. Under this scenario, the debt-to-GDP ratio increases to 112.2 percent of GDP in 2017 and declines thereafter.

- **High interest rate scenario.** This scenario examines the implications for debt sustainability of an increase in spreads by 200 basis points throughout the projection period. The deterioration of public debt and gross financing needs are back-loaded as old debt gradually matures and new higher interest rate debt is contracted. In 2020, the impact on financing needs is 1.3 percent of GDP. Debt dynamics remain favorable, but the debt ratio would be 2.0 percentage points higher than in the baseline by 2020.

- **Real exchange rate shock.** This scenario assumes 15 percent devaluation in the real exchange rate in 2015. This shock results in a slight decrease in debt and gross financing needs ratios through the inflation channel.

- **Primary balance shock.** This scenario examines the implications of a revenue shock and a rise in interest rates leading to a cumulative 2.1 percentage points of GDP deterioration in the primary balance (one standard deviation shock) in 2015–16. This scenario illustrates risks of delayed fiscal adjustment, due to insufficient adjustment measures. This shock leads to a deterioration in the debt ratio of 2.2 percentage points relative to the baseline in 2019 and slightly higher gross financing needs.

- **Combined macro-fiscal scenario.** This scenario aggregates shocks to real growth, the interest rate, the exchange rate, and the primary balance while taking care not to double-count the effects of individual shocks. Under this scenario, debt would reach 113.5 percent of GDP in 2017 and remaining close to 110 percent of GDP until 2020. The impact on financing needs would be significant, raising them to an average of 19.3 percent of GDP in 2016–20.

- **Contingent fiscal shock.** This scenario assumes that 50 percent of state guarantees to the financial sector are called upon in 2016. While the debt and financing needs impact is large, the nature of state guarantees is such that they are unlikely to be exercised to such a degree within the same year. Moreover, the Belgian state could cover some of these costs by disposing of assets available for sale, which are valued at 9.4 percent of GDP.

- **Economic stagnation scenario.** This scenario assumes nominal GDP growth will stagnate throughout the projection period at 1.5 percent, i.e., annual real growth of 1 percent and inflation of 0.5 percent throughout the 2016–20 period. Under this scenario, debt would inch up every year by an average of 0.7 percent of GDP to reach 110.0 percent of GDP in 2020. Similarly, gross financing needs would remain on average above 20 percent of GDP, rising to 20.0 percent of GDP in 2017.

- **Deflation scenario.** This scenario assumes real GDP growth will stagnate throughout the projection period with annual growth of 0.5 percent and inflation at zero percent. Under this scenario, debt would increase by an average of 2.9 percent of GDP each year to reach 121.0 percent of GDP in 2020. Gross financing needs would remain on average above 20 percent of GDP, peaking at 21.5 percent of GDP in 2017.

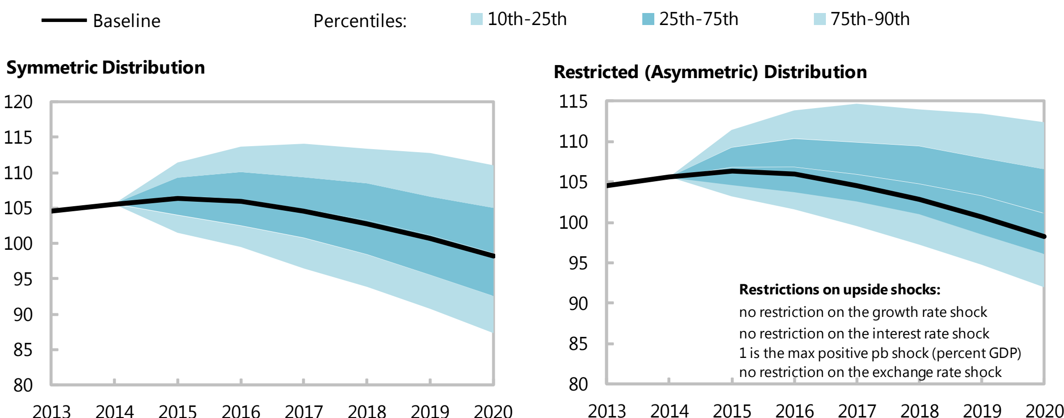
Belgium: Public DSA Risk Assessment

Heat Map

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

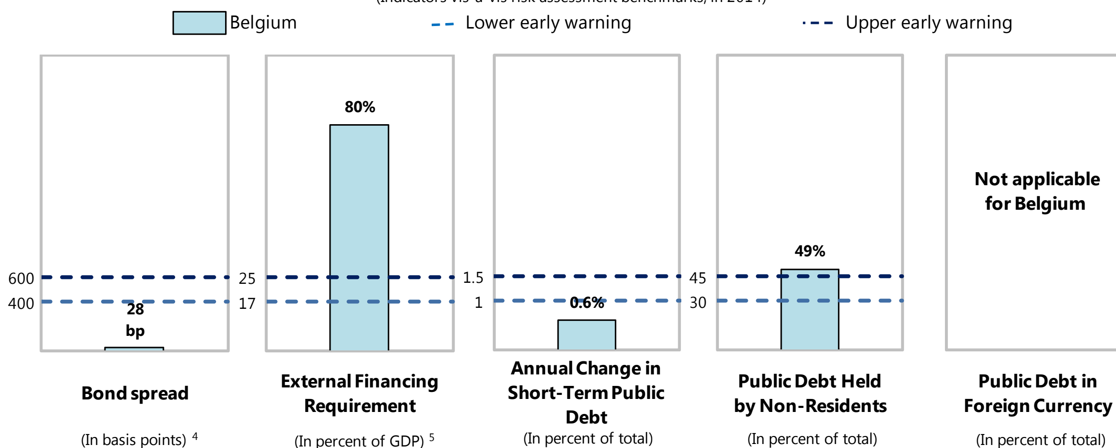
Evolution of Predictive Densities of Gross Nominal Public Debt

(In percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Source: IMF staff.

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

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

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

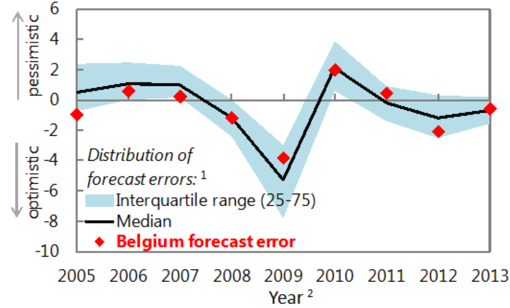
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

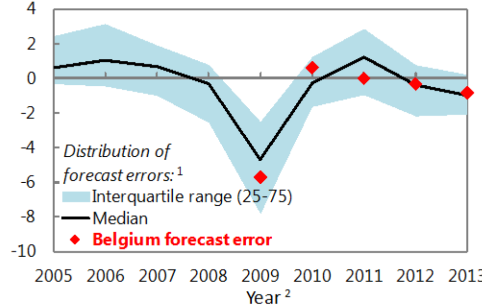
[4] Long-term bond spread over German bonds, an average over the last 3 months, 13-Aug-14 through 11-Nov-14.

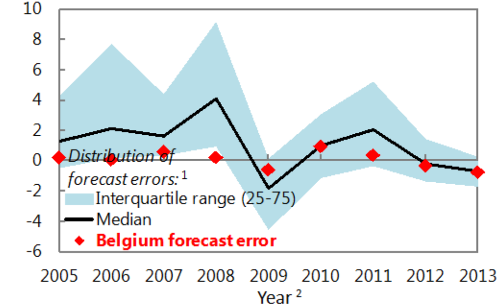
[5] External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Belgium: Public DSA – Realism of Baseline Assumptions

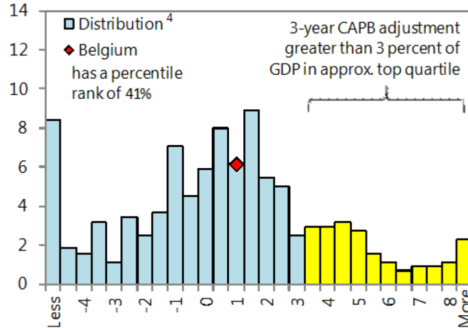
Forecast Track Record, versus surveillance countries

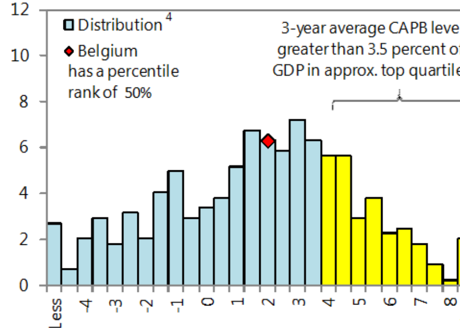




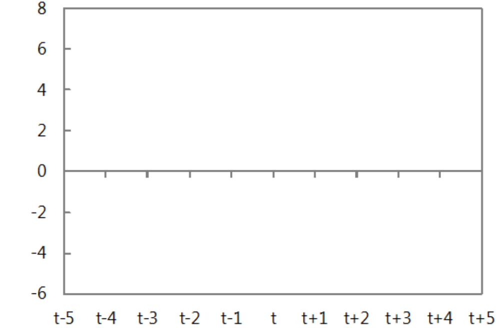


Assessing the Realism of Projected Fiscal Adjustment





Boom-Bust Analysis[3]



Source: IMF staff.

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

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

[3] Not applicable for Belgium.

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

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

(In percentage of GDP unless otherwise indicated)

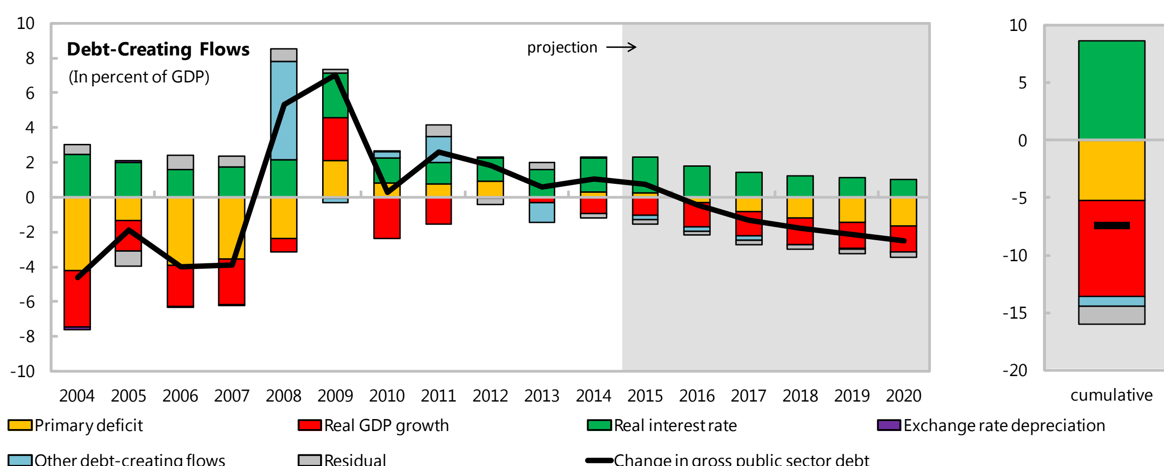
Debt, Economic and Market Indicators[1]

	Actual			Projections					
	2004-2012 [2]	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	96.3	104.5	105.6	106.4	105.9	104.6	102.8	100.7	98.2
Public gross financing needs	21.1	22.4	19.2	20.2	19.1	18.7	16.5	14.6	12.9
Real GDP growth (in percent)	1.5	0.3	0.9	1.0	1.3	1.4	1.5	1.5	1.5
Inflation (GDP deflator, in percent)	2.1	1.5	1.1	0.8	0.9	1.1	1.2	1.3	1.4
Nominal GDP growth (in percent)	3.6	1.8	2.0	1.8	2.3	2.5	2.8	2.8	3.0
Effective interest rate (in percent) [4]	4.1	3.1	3.0	2.8	2.6	2.5	2.5	2.5	2.5

As of January 21, 2015		
Sovereign Spreads		
Over German bonds[3]	21	
5Y CDS (bp)	50	
Ratings	Foreign	Local
Moody's	Aa3	Aa3
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance[9]
Change in gross public sector debt	0.3	0.6	1.1	0.8	-0.4	-1.3	-1.8	-2.1	-2.5	-7.4	
Identified debt-creating flows	0.0	0.2	1.3	1.0	-0.2	-1.1	-1.5	-1.8	-2.2	-5.8	
Primary deficit	-1.2	0.0	0.3	0.2	-0.3	-0.9	-1.2	-1.5	-1.7	-5.2	-0.5
Primary (noninterest) revenue and grants	48.3	51.3	51.1	50.8	50.7	50.7	50.7	50.7	50.6	304.2	
Primary (noninterest) expenditure	47.0	51.2	51.4	51.1	50.4	49.8	49.5	49.2	49.0	298.9	
Automatic debt dynamics [5]	0.4	1.3	1.0	1.0	0.4	0.0	-0.3	-0.4	-0.5	0.2	
Interest rate/growth differential [6]	0.5	1.3	1.0	1.0	0.4	0.0	-0.3	-0.4	-0.5	0.2	
Of which: real interest rate	1.8	1.6	2.0	2.1	1.8	1.4	1.2	1.1	1.0	8.6	
Of which: real GDP growth	-1.4	-0.3	-0.9	-1.1	-1.4	-1.4	-1.5	-1.5	-1.5	-8.4	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.8	-1.1	0.0	-0.3	-0.3	-0.2	0.0	0.0	0.0	-0.8	
Net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. ESM and euro area loans)	0.8	-1.1	0.0	-0.3	-0.3	-0.2	0.0	0.0	0.0	-0.8	
Residual, including asset changes [8]	0.3	0.4	-0.3	-0.2	-0.2	-0.3	-0.3	-0.3	-0.3	-1.6	



Source: IMF staff.

[1] Public sector is defined as General government.

[2] Based on available data.

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

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

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

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

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

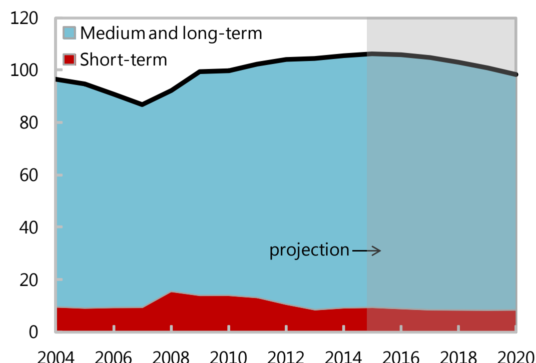
[8] Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

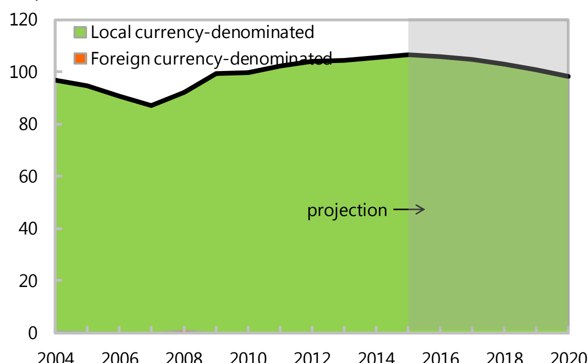
Belgium: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(In percent of GDP)



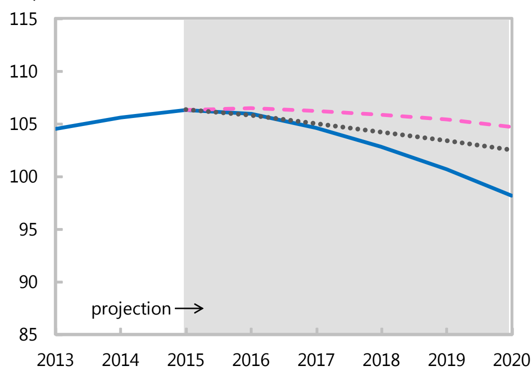
By Currency
(In percent of GDP)



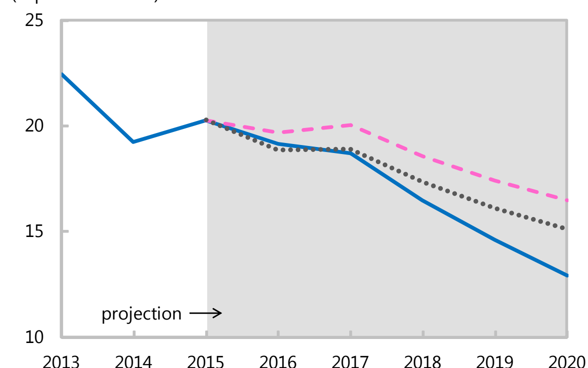
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(In percent of GDP)



Public Gross Financing Needs
(In percent of GDP)



Underlying Assumptions
(In percent)

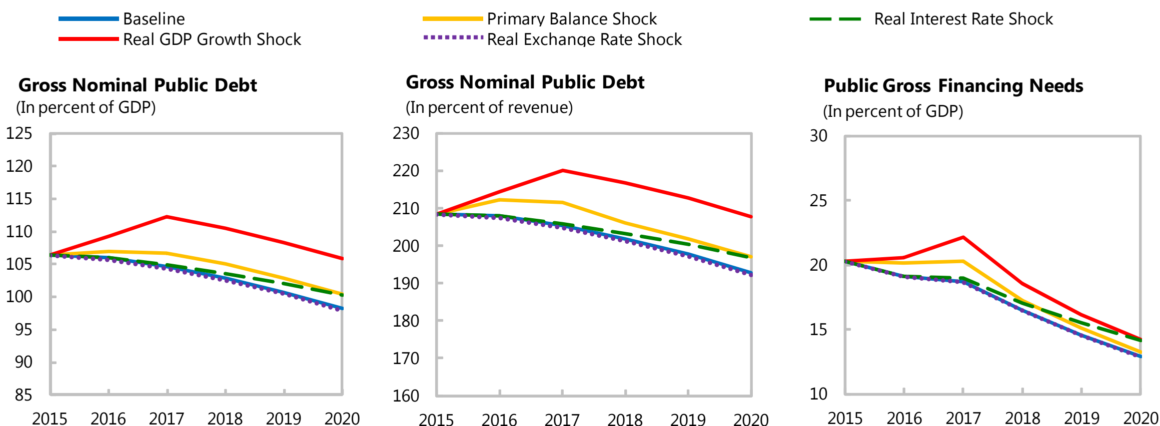
Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.0	1.3	1.4	1.5	1.5	1.5
Inflation	0.8	0.9	1.1	1.2	1.3	1.4
Primary Balance	-0.2	0.3	0.9	1.2	1.5	1.7
Effective interest rate	2.8	2.6	2.5	2.5	2.5	2.5
Constant Primary Balance Scenario						
Real GDP growth	1.0	1.3	1.4	1.5	1.5	1.5
Inflation	0.8	0.9	1.1	1.2	1.3	1.4
Primary Balance	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Effective interest rate	2.8	2.6	2.5	2.5	2.4	2.4

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	1.0	1.1	1.1	1.1	1.1	1.1
Inflation	0.8	0.9	1.1	1.2	1.3	1.4
Primary Balance	-0.2	0.6	0.6	0.6	0.6	0.6
Effective interest rate	2.8	2.6	2.6	2.6	2.6	2.6

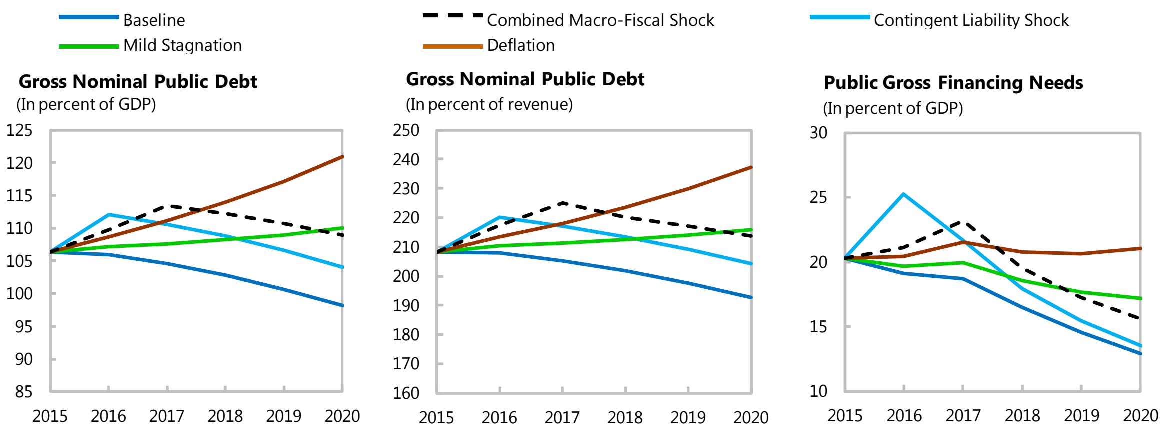
Source: IMF staff.

Belgium: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(In percent)

Primary Balance Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	1.0	1.3	1.4	1.5	1.5	1.5
Inflation	0.8	0.9	1.1	1.2	1.3	1.4
Primary balance	-0.2	-0.7	-0.2	1.2	1.5	1.7
Effective interest rate	2.8	2.6	2.5	2.5	2.5	2.5
Real Interest Rate Shock						
Real GDP growth	1.0	1.3	1.4	1.5	1.5	1.5
Inflation	0.8	0.9	1.1	1.2	1.3	1.4
Primary balance	-0.2	0.3	0.9	1.2	1.5	1.7
Effective interest rate	2.8	2.6	2.8	2.9	3.1	3.2
Combined Shock						
Real GDP growth	1.0	-0.3	-0.3	1.5	1.5	1.5
Inflation	0.8	0.5	0.7	1.2	1.3	1.4
Primary balance	-0.2	-1.3	-1.7	1.2	1.5	1.7
Effective interest rate	2.8	2.6	2.8	2.9	3.1	3.2

Real GDP Growth Shock	2015	2016	2017	2018	2019	2020
Real GDP growth	1.0	-0.3	-0.3	1.5	1.5	1.5
Inflation	0.8	0.5	0.7	1.2	1.3	1.4
Primary balance	-0.2	-0.7	-1.2	1.2	1.5	1.7
Effective interest rate	2.8	2.6	2.5	2.5	2.5	2.5
Real Exchange Rate Shock						
Real GDP growth	1.0	1.3	1.4	1.5	1.5	1.5
Inflation	0.8	1.2	1.1	1.2	1.3	1.4
Primary balance	-0.2	0.3	0.9	1.2	1.5	1.7
Effective interest rate	2.8	2.6	2.5	2.5	2.5	2.5
Contingent Liability Shock						
Real GDP growth	1.0	1.3	1.4	1.5	1.5	1.5
Inflation	0.8	0.9	1.1	1.2	1.3	1.4
Primary balance	-0.2	-5.7	0.9	1.2	1.5	1.7
Effective interest rate	2.8	2.8	2.4	2.4	2.4	2.4

Source: IMF staff.

INTERNATIONAL MONETARY FUND

BELGIUM

February 11, 2015

STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | European Department

CONTENTS

FUND RELATIONS 2

STATISTICAL ISSUES 6

FUND RELATIONS

(As of December 31, 2014)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	4,605.20	100.00
Fund Holding of Currency (Exchange Rate)	3,744.50	81.31
Reserve Tranche Position	1,002.37	21.77
Lending to the Fund		
New Arrangements to Borrow	936.51	

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	4,323.34	100.00
Holdings	4,038.75	93.42

Outstanding Purchases and Loans: None

Latest Financial Arrangements: None

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.17	0.17	0.17	0.17	0.17
Total	0.17	0.17	0.17	0.17	0.17

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments: Not applicable

Exchange Rate Assessments:

- Belgium's currency is the euro, which floats freely and independently against other currencies.
- Belgium has accepted the obligations under Article VIII, Section 2(a) and 3, and maintains an exchange system free of restrictions on payment and transfers for current international

transactions except for restrictions maintained solely for security reasons, 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 March 5, 2014. The associated Executive Board assessment is available at http://www.imf.org/external/np/sec/pr/2014/pr1490.htm and the staff report (IMF Country Report No. 14/76) at http://www.imf.org/external/pubs/ft/scr/2014/cr1476.pdf. Belgium is on the standard 12-month consultation cycle.

FSAP Participation and ROSC:

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

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

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

Belgium: Report on Observance of Standards and Codes—Fiscal Transparency Module

IMF Country Report No. 08/116

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

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

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

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

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

Belgium's AML/CFT framework was last assessed in July 2014. The assessment was conducted by the Financial Action Task Force (FATF) against the 2012 FATF standard using the 2013 assessment methodology, both of which place greater emphasis on the effectiveness of AML/CFT measures in mitigating the money laundering and terrorist financing risks. The evaluation report is scheduled to be discussed during the FATF February 2015 plenary meeting. A previous assessment conducted in 2005 found Belgium's AML/CFT framework to be largely compliant with the former standard, although shortcomings were identified. The authorities appear to have addressed some of these deficiencies, including by reinforcing the framework for the freezing of terrorist assets (in 2006) and adopting a new AML/CFT law (in 2010). The latest assessment report, once adopted, will provide an up-to-date picture of Belgium's AML/CFT regime and identify measures for further improvement.

STATISTICAL ISSUES

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

Belgium adopted the European System of Integrated Economic Accounts 2010 (ESA 2010) in 2014. Revisions of national accounts were released in September, 2014, to comply with EUROSTAT requirements to provide national accounts statistics in ESA 2010. Unlike in other countries, the central bank is responsible for compiling national accounts statistics. Quarterly accounts are published within a lag of three months. Both annual and quarterly accounts data are of good quality, with shortcomings mainly related to export and import deflators, which are based on unit values, rather than prices collected directly from exporters and importers.

Belgium compiles and publishes a complete set of general government accounts on an accrual basis (ESA 2010). The NBB publishes annual and quarterly data on general government revenue, expenditure, and net lending/ borrowing; transactions in financial assets and liabilities and a financial balance sheet data; and details on the consolidated gross debt.

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

Key publicly accessible websites for macroeconomic data and analysis are:

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

Belgium: Common Indicators Required for Surveillance

(As of December 2015)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	1/14/15	1/15/15	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	11/14	1/15	M	M	M
International Investment Position	2013	6/14	A	A	A
Reserve/Base Money	11/14	1/15	M	M	M
Broad Money	11/14	1/15	M	M	M
Central Bank Balance Sheet	12/14	1/15	M	M	M
Consolidated Balance Sheet of the Banking System	11/14	1/15	M	M	M
Interest Rates[2]	1/14/15	1/15/15	D	D	D
Consumer Price Index	12/14	1/15	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2013:Q3	9/14	A	A	A
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[5]	11/14	1/15	M	M	M
Stock of Central Government Debt	11/14	1/15	M	M	M
External Current Account Balance	9/14	1/15	M	M	M
Exports and Imports of Goods and Services	9/14	1/15	M	M	M
GDP/GNP	2014:Q3	1/15	Q	Q	Q
Gross External Debt	2014:Q3	1/15	Q	Q	Q

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

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

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] This information is provided on a budget-accounting basis (not on a national accounts basis).

[6] Daily (D), weekly (W), monthly (M), quarterly (Q), annually (A), irregular (I), and not available (NA)

Press Release No. 15/111
FOR IMMEDIATE RELEASE
March 12, 2015

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

IMF Executive Board Concludes 2015 Article IV Consultation with Belgium

On March, 2, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belgium.

The economy has shown considerable resilience but the outlook is weighed down by weak demand in Europe. Healthy private balance sheets, integration with Germany, and employment support schemes have helped sustain employment and economic activity. However, output is still well below potential and with, subdued growth prospects, job creation remains insufficient.

The critical domestic policy challenges are preserving competitiveness and addressing the looming fiscal cost of ageing. The wage policies of the previous government reversed in part a loss in cost competitiveness relative to main trading partners, but the economy has also been losing ground in terms of innovation and productivity growth. Age-related government spending is projected to increase sizably by 2040 (an added annual cost of 6 percent of GDP). This reflects the combination of demographics and a low effective age of retirement.

The new federal government has announced ambitious reforms to address these challenges. Its focus is on improving competitiveness through temporary de-indexation of wages and a modest shift of taxation away from labor, and activating working age population by tightening eligibility to pension, pre-pension and unemployment benefits. The program should be complemented by reforms to increase productivity growth and employment creation, by opening sheltered sectors to competition, lowering the cost of regulation, increasing labor market flexibility and improving education and professional training.

Fiscal adjustment is expected to resume after a pause in 2014. The pace of adjustment targeted by the authorities for 2015–16 is appropriate given the level of debt and related risks. It is underpinned by pro-growth expenditure measures, which should enhance its sustainability. Coordination between the levels of government still needs strengthening across a range of issues.

[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.

Banks need to adapt further to a challenging operational environment of low growth and low interest rates, and a more demanding regulatory framework. The banking sector fared relatively well by the ECB's comprehensive assessment, but additional efforts will be needed toward Basel III capital standards.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the authorities' economic program and its emphasis on fiscal adjustment, competitiveness, and labor market activation. Directors agreed that achievement of the program's objectives would also require sustaining the momentum of labor and product market reforms to foster productivity growth and the economy's long-term prospects.

Directors supported the government's plans to speed up fiscal consolidation to safeguard debt sustainability. They welcomed the shift to an expenditure-based adjustment strategy, given Belgium's already high level of public spending and taxation. In this regard, Directors were encouraged by the planned reduction in labor taxes, and saw scope for further rebalancing the tax burden away from taxes on labor income toward indirect and environmental taxes, and taxes on capital income. More broadly, they advised enhanced coordination among federal, regional and community governments on fiscal and other shared economic policies.

Directors welcomed the authorities' actions to raise employment rates by reforming pension, pre-retirement, and unemployment benefits. Such actions build on past success in raising the employment of older workers, and are critically important given Belgium's structurally low employment and population aging.

Directors welcomed the authorities' measures to promote external competitiveness and job growth by better aligning wage and productivity developments. In addition to wage moderation, they recommended further boosting productivity by opening sheltered sectors to competition and reducing the regulatory burden, including in the services economy; facilitating job creation through more flexible contract arrangements; and strengthening the quality of education, training and apprenticeship schemes.

Directors acknowledged the considerable efforts undertaken to repair bank balance sheets. They welcomed the passage of the new banking law and other regulatory reforms put in place to reduce risks associated with universal banking and to strengthen the resolution framework. They nonetheless stressed the need for continued adjustment of banks' business models, and called for

---

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

heightened vigilance in the supervision of the financial sector, given the challenging operating environment and a more demanding regulatory framework.

Belgium: Selected Economic Indicators, 2010–20

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Projections						
	(Percentage change from the previous period; unless otherwise indicated)										
Real economy											
Real GDP	2.5	1.6	0.1	0.3	0.9	1.0	1.3	1.4	1.5	1.5	1.5
Domestic demand	2.0	1.9	0.3	-0.6	0.4	0.9	1.2	1.3	1.5	1.6	1.6
Private consumption	2.8	0.6	0.8	0.3	0.9	1.0	1.1	1.2	1.3	1.4	1.4
Public consumption	1.2	0.8	1.4	1.1	0.1	-0.5	0.3	0.4	0.8	0.8	1.0
Gross fixed investment	-0.1	4.0	0.0	-2.2	4.0	1.9	2.1	2.5	2.6	2.6	2.6
Business investment	-1.9	5.2	-0.3	-1.2	5.2	2.4	2.5	2.9	3.0	3.1	3.2
Public investment	3.6	2.5	3.4	-5.4	0.5	1.0	1.3	2.5	2.6	2.6	1.5
Dwellings	3.3	1.4	-0.5	-3.5	1.9	0.7	1.1	1.1	1.2	1.2	1.2
Stockbuilding[1]	0.3	0.5	-0.4	-0.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance[1]	0.3	-0.4	0.0	0.8	0.5	0.2	0.2	0.0	0.0	0.0	0.0
Exports, goods and services	10.0	6.6	1.9	2.9	3.3	3.2	3.8	4.1	4.3	4.5	4.5
Imports, goods and services	9.6	7.2	1.9	1.8	2.7	3.0	3.7	4.1	4.4	4.6	4.7
Potential output growth	1.2	1.0	1.1	1.1	1.0	1.0	1.1	1.1	1.2	1.2	1.4
Potential output growth per working age person	0.4	0.4	0.7	0.9	0.8	0.8	0.9	1.0	1.1	1.2	1.5
Output gap (in percent)	-0.2	0.4	-0.5	-1.3	-1.3	-1.3	-1.0	-0.8	-0.4	-0.1	0.0
Employment											
Unemployment rate	8.3	7.2	7.6	8.4	8.5	8.4	8.3	8.2	8.2	8.1	8.1
Employment	0.7	1.4	0.3	-0.3	0.4	0.4	0.5	0.7	0.8	0.9	0.9
Prices											
Consumer prices	2.3	3.4	2.6	1.2	0.5	0.1	0.9	1.2	1.3	1.4	1.5
GDP deflator	2.0	2.2	2.1	1.5	1.1	0.8	0.9	1.1	1.2	1.3	1.4
	(Percent of GDP; unless otherwise indicated)										
Public finance											
Revenue	48.4	49.3	50.7	51.5	51.3	51.0	50.9	50.9	50.9	50.9	50.9
Expenditure	52.3	53.2	54.8	54.4	54.5	53.9	53.1	52.4	52.0	51.6	51.4
General government balance	-4.0	-3.9	-4.1	-2.9	-3.2	-2.9	-2.2	-1.5	-1.1	-0.7	-0.4
Structural balance	-3.9	-3.9	-3.4	-2.9	-2.9	-2.3	-1.7	-1.1	-0.8	-0.7	-0.4
Structural primary balance	-0.5	-0.5	0.0	0.3	0.2	0.6	1.0	1.5	1.7	1.8	2.0
Primary balance	-0.6	-0.5	-0.7	0.3	-0.1	0.0	0.5	1.1	1.5	1.7	1.9
General government debt	99.6	102.1	104.0	104.5	105.6	106.4	105.9	104.5	102.7	100.6	98.0
Balance of payments											
Trade balance	1.2	-0.8	-0.9	-0.2	0.8	1.2	1.1	1.1	1.1	1.0	1.0
Current account	1.5	-1.3	-0.9	0.1	1.4	1.7	1.7	1.7	1.7	1.7	1.7
Terms of trade (percent change)	-2.1	-1.4	-1.7	0.2	0.0	0.2	1.8	-0.6	-0.2	-0.1	0.0
Exports, goods and services (volume, percent change)	...	4.4	-0.9	2.1	3.3	3.2	3.8	4.1	4.3	4.5	4.5
Imports, goods and services (volume, percent change)	...	5.3	-1.4	0.3	2.7	3.0	3.7	4.1	4.4	4.6	4.7

Memorandum items											
Structural fiscal adjustment	0.4	0.0	0.5	0.6	0.0	0.6	0.6	0.6	0.3	0.2	0.2
Structural fiscal primary adjustment	0.2	0.0	0.5	0.3	0.0	0.4	0.4	0.4	0.2	0.1	0.1
Nominal GDP (in billions of euros)	366	380	388	395	403	410	420	430	442	455	468
Population (in millions)	10.8	11.0	11.1	11.2	11.2	11.2	11.3	11.4	11.5	11.5	11.6

Sources: Haver Analytics, Belgian authorities, and IMF staff projections.
[1] Contribution to GDP growth.