INTERNATIONAL MONETARY FUND

IMF Country Report No. 13/123

BELGIUM

2013 ARTICLE IV CONSULTATION

May 2013

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 2013 Article IV consultation with Belgium, the following documents have been released and are included in this package:

- **Staff Report** for the 2013 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 27, 2013 with the officials of Belgium on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 25, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its May 10, 2013 discussion of the staff report that concluded the Article IV consultation.

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

Financial Sector Stability Assessment

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

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BELGIUM

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION

April 25, 2013

KEY ISSUES

The economy is projected to enter a second year of near zero growth. The outlook reflects weak external conditions and a loss of cost competitiveness relative to European partners. The growth potential is also constrained by adverse demographic and productivity trends, which call for continued structural reforms. Priorities should go to improving wage setting (to better align wage growth with productivity trends), reforming social benefits (to increase labor participation), and reducing labor and product market rigidities (to increase productivity).

Risks to macroeconomic stability stem from fiscal and financial vulnerabilities. Decisive fiscal action delivered structural adjustment of 0.6 percent of GDP in 2012, but debt and contingent liabilities remain high, and cross-exposures between the sovereign and the banks are a risk factor. Balance sheet repair has resulted in a smaller and less leveraged banking sector, refocused on the domestic market. However, low profitability could constrain the capacity of banks to reinforce capital in the medium term.

Continued fiscal adjustment (based on structural targets) is needed to reduce vulnerabilities. A deferral of the medium-term balanced budget objective is warranted by the weaker growth environment, but steady adjustment is nonetheless required to place the high debt ratio (just under 100 percent) on a downward path. Priority should go to reducing the growth in social spending, consistent with structural reform objectives. The authorities' revised 2013 budget aims at reducing the deficit to 2.5 percent of GDP, based on primary structural adjustment of 0.8 percent of GDP. Future consolidation should be rebalanced toward expenditure measures. A clearer and rule-based multi-year fiscal policy framework would increase policy efficiency.

Policy actions have strengthened financial stability but continued vigilance is required. The legacy of the crisis, euro area vulnerabilities, and the sovereign-banking nexus call for a further strengthening of capital buffers, maintaining the positive momentum of supervisory reform, and reinforcing the resolution framework. Completing the banking union in Europe will help remove the obstacles to the efficient intermediation of the liquidity surplus of Belgian banks.

Approved By
Mahmood Pradhan and Martin Mühleisen

Discussions took place in Brussels from March 15–27, 2013. The staff team comprised Mr. Gardner (head), Ms. Kongsamut, Ms. Nowak (all EUR), and Ms. Nedelescu (MCM). Ms. Erbenová (MCM and FSAP Update mission chief) joined for part of mission. Messrs. Kiekens and de Lannoy (OED) participated in the discussions. Staff met with central bank Governor Coene, Ministers Geens (Finance), Vande Lanotte (Economy), and De Coninck (Labor), other senior officials from the central and regional governments, and financial sector, academic, employers, and trade union representatives.

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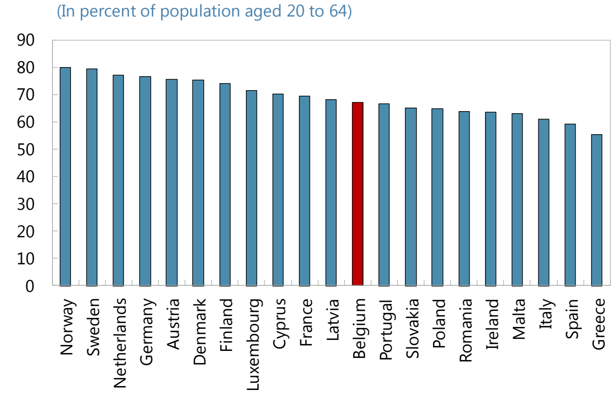
ECONOMIC AND FINANCIAL CONTEXT

1. **After a prolonged political stalemate, the broad coalition government that came into office in December 2011 was able to take decisive fiscal and structural measures to stabilize the economy; its term will end with the May 2014 elections.** In the face of rising financial instability, the six-party coalition government undertook significant fiscal consolidation, introduced ambitious reforms to pensions and unemployment insurance, and decided on a further devolution of powers to the regions and communities. The popularity of the Flemish nationalist party is a source of uncertainty in the upcoming elections.

2. **Weak external conditions, but also a loss of competitiveness, have weighed adversely on economic activity**. The economy showed considerable resilience through 2011, reflecting the effects of large automatic stabilizers and job subsidies, as well as the strong financial position of the non-financial private sector which prevented a severe retrenchment of private investment and consumption (Figure 1). However, the rebound stalled in 2012 as rising unemployment and the weak outlook in Europe took a toll on consumption and investment: domestic demand contracted by 0.6 percent, and real GDP by 0.2 percent. Since 2011, Belgium's export performance has also fallen behind that of its main economic partners (Germany, France, and the Netherlands), as unit labor costs (ULCs) have grown faster, pushed by sticky inflation and wage indexation (Figure 2). The loss of competitiveness prompted the government to decree a real wage freeze in the private sector for 2013 and 2014.[1] The government has also revised the composition of the price index, which should dampen the inflation pass through by an estimated 0.4 percentage points in 2013-14.[2]

3. **Demographic and productivity trends pose a significant challenge to Belgium's potential growth prospects.** The interactions of the pension and unemployment benefit systems, as well as various schemes to promote partial employment have created unemployment traps and encouraged early departure from the labor force. As a result, the employment rate has been structurally low (67 percent of working age population in 2011).

Employment Rates, 2012
(In percent of population aged 20 to 64)

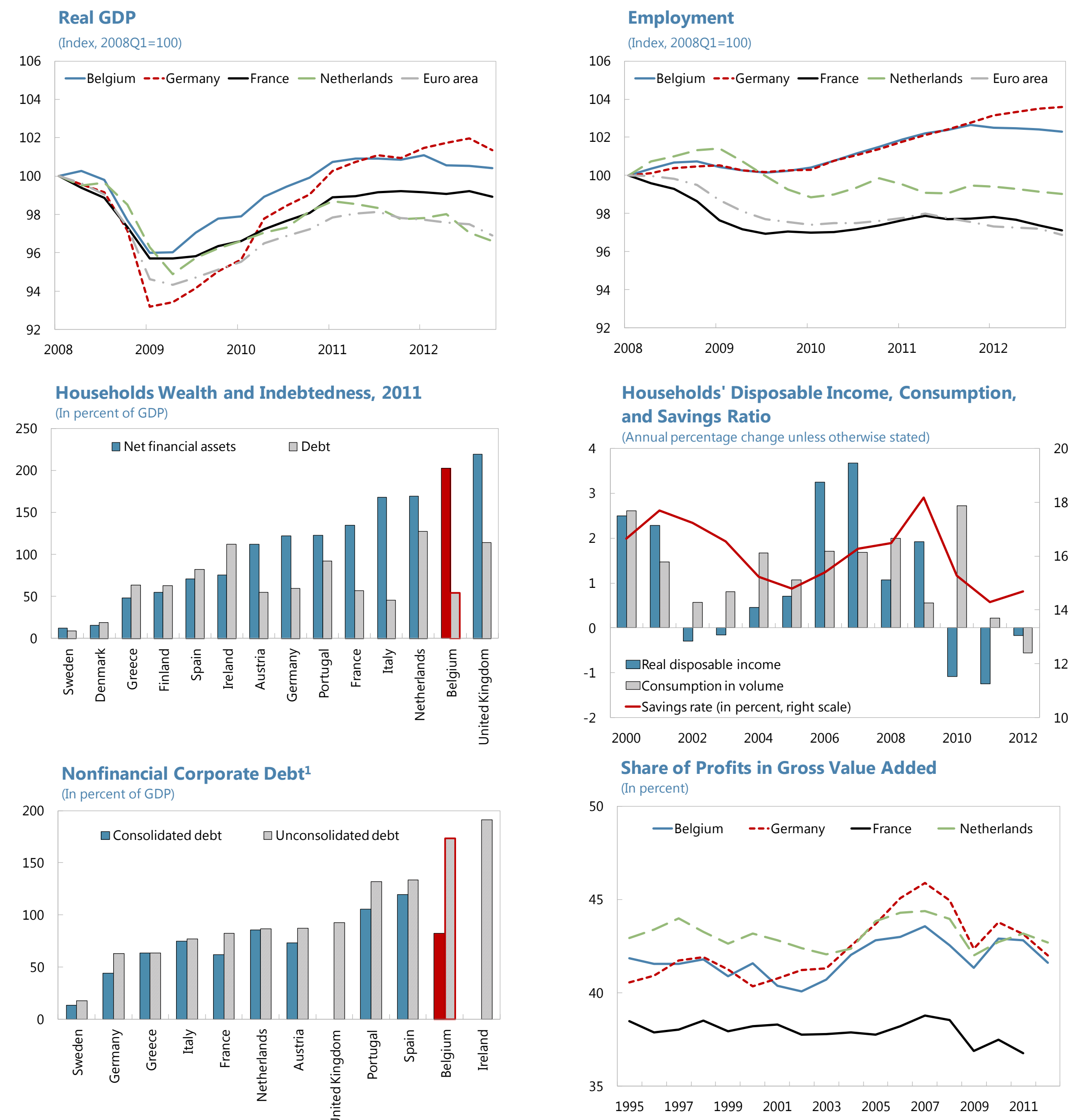


Sources: Eurostat.

[1]The 1996 Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness allows the government to intervene, under exceptional circumstances, in the sector wage negotiations, which cover 90 percent of employees.

[2] Estimate provided by the authorities.

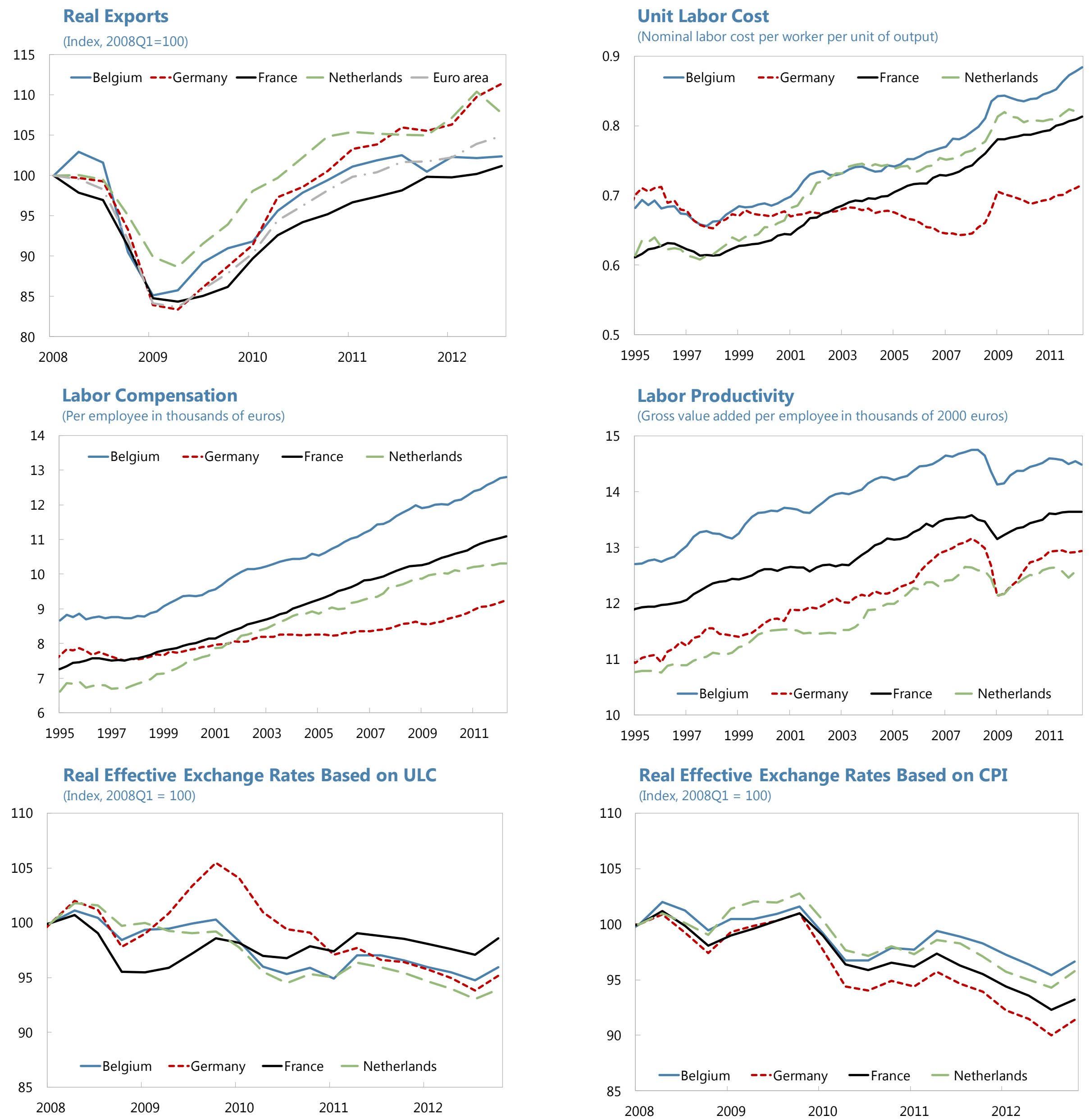
Figure 1. Belgium: Resilience, Supported by Healthy Households and Corporates, Giving Way to Stagnation



Sources: Haver and IMF staff calculations.

[1] Consolidated data not available for Ireland or the United Kingdom.

Figure 2. Belgium: External Sector and Competitiveness Developments

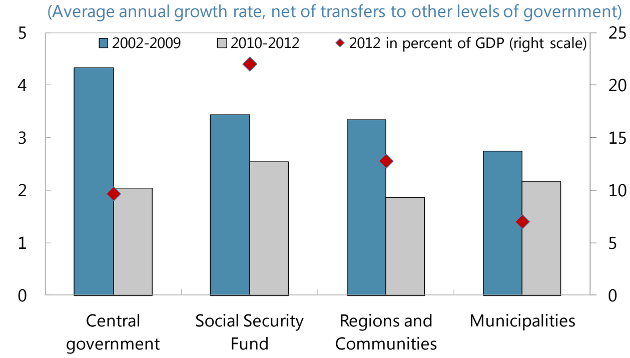


Sources: Eurostat, Haver; and IMF, *International Financial Statistics* and staff calculations.

The government undertook important reforms in 2012 to increase incentives to work, with the objective of raising the employment rate to 73 percent by 2020 (Appendix I). At the same time, total factor productivity (TFP) growth has also slowed significantly over the past decade, undermining real wage growth prospects with a risk of further increasing the gap between market and reservation wages.

4. Fiscal consolidation reduced the structural fiscal deficit by 0.6 percent of GDP in 2012, but continued efforts are hampered by spending rigidities. Despite this fiscal effort, the headline deficit rose from 3.7 percent of GDP in 2011 to 3.9 percent in 2012, reflecting not only cyclical factors but also a further recapitalization of the Dexia Group in late 2012 amounting to 0.8 percent of GDP.[3] The improvement in the structural deficit was achieved through revenue measures of 1.3 percent of GDP and by containing the growth in primary spending to 0.9 percent in real terms. Expenditure containment was achieved by a marked reduction in public service employment at the federal level (about 3 percent), lower subsidies to companies, and cuts in purchase of goods and services. However, without deeper structural measure, expenditure containment will be difficult to sustain. Real primary spending has grown at an average annual rate of 2.8 percent over the last 10 years, driven by social spending by the federal government and operational spending (wage bill) by subnational governments. Social spending expanded with the decline in growth but is also driven by indexation and the granting of regular real increases to social benefits on top of that.

Real Primary Expenditure Growth[1]
(Average annual growth rate, net of transfers to other levels of government)



Sources: National Bank of Belgium and IMF staff estimates.
[1]The diamonds indicate the 2012 primary expenditure net of transfers in percent of GDP.

5. The 2013 budget (adopted in November 2012) targeted a deficit of 2.2 percent of GDP, consistent with the medium objective of reaching a balanced fiscal position by 2015, but was based on optimistic growth projections. Based on the outcome of the 2012 budget, updated macroeconomic assumptions, and a revised fiscal assessment of subnational governments, the November budget would have resulted in a structural primary adjustment of only 0.1 percent of GDP relative to 2012, and a headline deficit of 3.3 percent of GDP in 2013.

[3] Eurostat determined that the recapitalization should be treated as a capital transfer (with an impact on the deficit) rather than as a financial transaction. The decision reflected Eurostat's determination that the recapitalization was aimed at covering Dexia's losses and that the injected funds are unlikely to generate a positive return.

Belgium: Overall and Structural Fiscal Balances in 2011-2013
(In percent of GDP)

	2011	2012	2013 November 2012 Budget	2013 March 2013 Supplementary Budget
Overall balance[1]	-3.7	-3.9	-3.3	-2.5
Cyclical balance[2]	0.3	-0.1	-0.4	-0.4
Cyclically adjusted balance	-4.1	-3.8	-2.9	-2.1
One-offs	-0.1	-0.4	0.4	0.4
Structural balance	-4.0	-3.4	-3.3	-2.5
Primary structural balance[1]	-0.7	0.1	0.0	0.8
Memorandum items				
Real GDP growth	1.8	-0.2	0.2	0.2
Output gap	0.7	-0.2	-0.9	-0.9

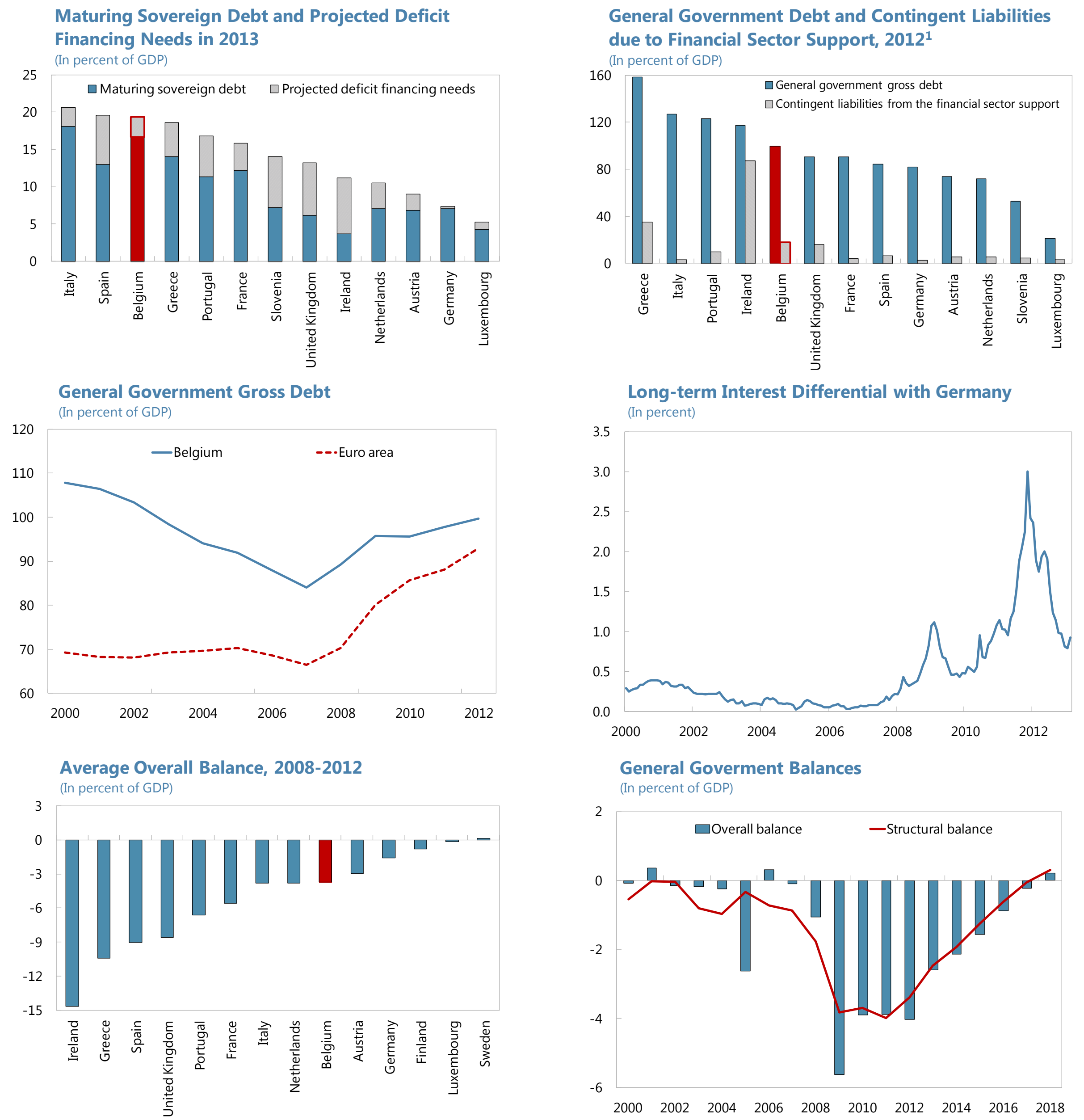
Source: Haver and IMF staff calculations.

[1] Defined as in the Excessive Deficit Procedure.
[2] As measured by IMF Staff. Structural adjustment in 2013 as measured by the authorities is 1 percent of GDP owing to differences in potential GDP estimates.

6. **The high public debt and large contingent liabilities are the main sources of fiscal vulnerability.** The gross financing need of the government stands at 21 percent of GDP in 2013, and is expected to stay around this level in the medium-term (Figure 3). The government debt ratio has risen by 15½ percentage points since 2007 (to just below 100 percent in 2012). About half of this increase stems from financial sector rescue operations, and another 15 percent from financial assistance to EU member states and participation in the EU rescue funds. Contingent liabilities in the form of guarantees to the financial sector stood at 18 percent of GDP at end-2012.

7. **Fiscal consolidation is complicated by the difficulty of coordinating policies across the different levels of government**. Subnational governments, encompassing regional, community, and local governments account for about 40 percent of total government primary spending. The regions and communities receive net transfers from the central government that are linked to real GDP and inflation, with other parametric adjustments. In 2012, the Flemish government was in a balanced position, while the other subnational governments ran a combined deficit of 0.4 percent of GDP. Over the period 2002-12, real primary spending grew at an average annual rate of 3.2 percent for subnational governments and 3.5 percent for the federal government (central government plus social security). The contribution of regional and community governments to the consolidation effort is negotiated in terms of deficit targets. Although transfers from the central to the subnational governments are predetermined by law, there is in principle a claw back provision related to the contribution that subnational entities should make (but have not yet made) to cover their share of civil service pension contributions. Unless subnational governments agree to run surpluses (or to lower net transfers from the central government), the responsibility for the fiscal consolidation will fall primarily onto the federal entity (and the social transfer system in particular). The Sixth Reform of the State, agreed in late 2011, will increase the degree of fiscal federalism by devolving additional spending responsibilities (estimated at 4.4 percent of GDP) to subnational governments and reforming their funding (Box 2 in Belgium's

Figure 3. Belgium: Fiscal Developments

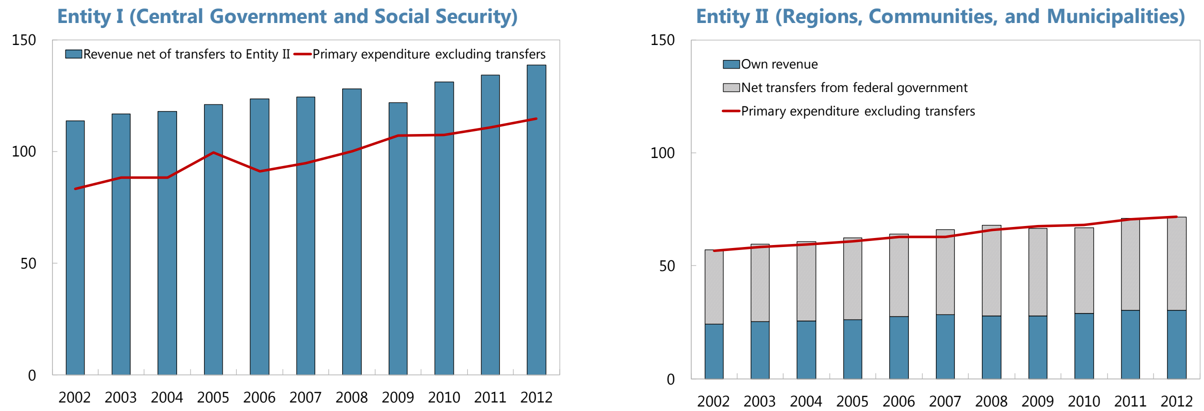


Sources: National Bank of Belgium, Bloomberg, Eurostat, Haver; and IMF, *World Economic Outlook* and staff calculations.

[1] Contingent liabilities reflect support to the financial sector during 2008-2012 for Belgium and 2007-2011 for other countries.

Belgium: Fiscal Accounts by the Level of Government

(In billions of 2010 euros)



Source: National Bank of Belgium and IMF staff calculations.

2011 Article IV Staff Report[4]). Implementation of the reform could begin in 2014 or 2015, pending an agreement on the terms of future financial transfers from the central government, which will be critical to defining the degree of burden sharing in future consolidation.

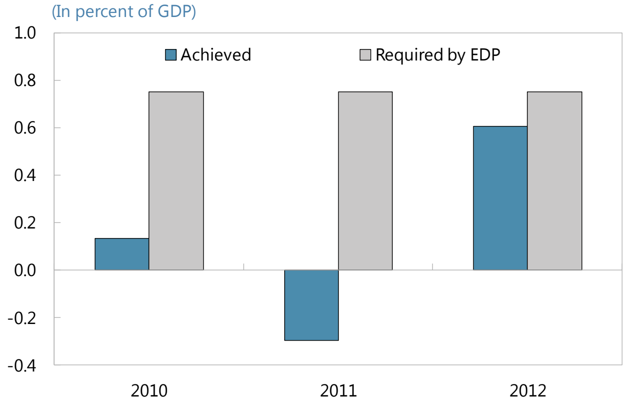
8. Financial sector repair has continued to reduce risks to financial stability. As a result of decisive policy actions and divestment of cross-border operations, the banking system has become smaller (from nearly 500 percent of GDP in 2007 to 310 percent in mid-2012), less complex, and less leveraged. In the process, foreign ownership of banks has increased to 65 percent of assets (essentially BNPP and ING), and government ownership to 16 percent of assets (i.e., Belfius, the nationalized and rebranded banking arm of Dexia). A large and stable deposit base and the strategic re-orientation towards the domestic market helped support domestic credit supply, while non-performing loans have remained low so far. However, this reorientation to the domestic market has also increased loan concentration. Supervisory action, deleveraging, and improved risk management pushed banks to stronger capital positions, with aggregate Tier 1 capital ratio rising to 15.3 percent in September 2012 (Figure 4). The largest part of legacy assets has been removed from the balance sheet of banks, although KBC (the largest Belgian private bank) and Belfius still retain some structured products (in runoff mode). Liquidity has improved and domestic banks have made progress in repaying European Central Bank's (ECB) longer-term refinancing operations (LTRO) support since the beginning of the year.

[4] IMF Country Report Number 12/55

Box 1. The EU's Excessive Deficit Procedure (EDP)

Belgium's fiscal consolidation since 2009 has fallen short of the commitments under the EDP. The EU Treaty requires EU member states to maintain a general government deficit below 3 percent of GDP and gross government debt below 60 percent of GDP. Failure to comply with these requirements triggers an EDP. Belgium has been subject to the EDP since December 2009, when the overall deficit rose to 5.6 percent of GDP. The government committed to bringing the deficit below 3 percent of GDP by 2012 in a "credible and sustainable manner," with an annual structural budgetary effort of 0.75 percent of GDP in 2010-2012. However, the headline deficit breached the 3 percent of GDP ceiling for a fourth successive year in 2012 and the cumulative improvement in the structural balance for 2010-12 was below 1 percent of GDP.

Annual Improvement in Structural Balance
(In percent of GDP)

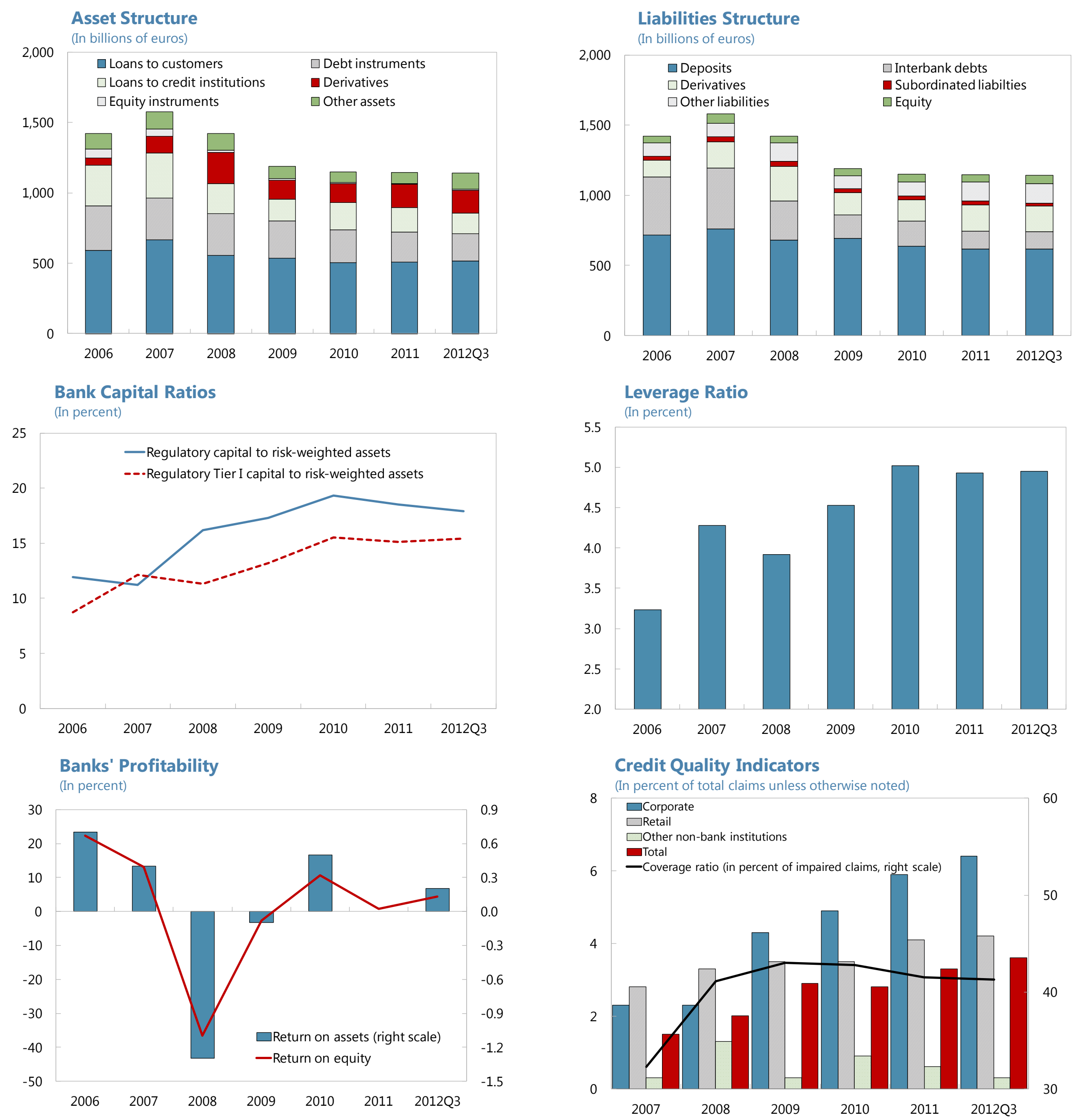


Sources: Haver and IMF staff calculations.

As a result, Belgium could face a fine of up to 0.2 percent of GDP. The fine, based on a recommendation by the European Commission, and after consideration of a possible reasoned request put forward by Belgium, shall be deemed adopted by the Council of Ministers, unless a qualified majority of member states overturns it. The Council, acting by qualified majority, may amend the Commission's recommendation. The Commission will make its assessment in the context of its 2013 Spring Forecast, which will be published in May 2013. Belgium is the first EU member state faced with the prospect of a fine for having failed to take effective action to correct its excessive deficit.

9. With the retrenchment of banks onto the domestic market, the main financial vulnerabilities are related to the weak growth outlook and increased linkages with the sovereign. Increased domestic competition, in a context of economic stagnation, is constraining banks' profitability, which is already hampered by low lending rates, and structurally high costs. The recent FSAP Update stress tests found that, while bank capital buffers are strong in aggregate, deterioration of profitability under stress in some banks could create capital shortfalls in the medium term relative to Basel III requirements. Exposures to the sovereign, accounting for 11 percent of assets, create vulnerabilities to a downgrade of the sovereign. Insurers meet the current regulatory solvency regime, but vulnerabilities are apparent when a more risk-based solvency framework is applied.

Figure 4. Belgium: Selected Financial Indicators

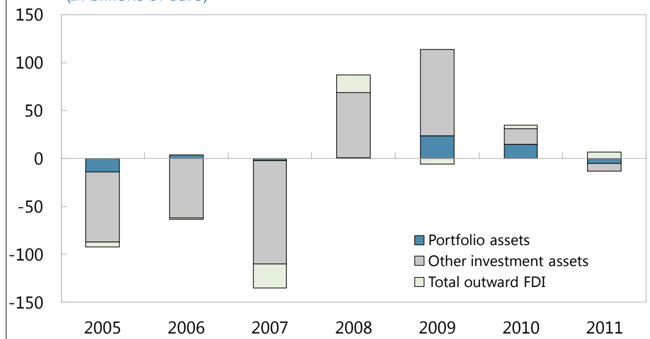


Source: National Bank of Belgium and IMF staff calculations.

10. Pressures on profitability also reflect the broader impact of financial market segmentation in Europe and the difficulty Belgian banks face in putting their structural liquidity surplus to use in a saturated domestic market. Structural over-liquidity (as illustrated by a low loan-to-deposit ratio and a high deposit-to-GDP ratio) reflects the combination of a high financial saving rate by households and the preferential tax treatment of retail deposits. Whereas domestic deposits were used by banks to fund cross-border business in the past, market segmentation along national lines has now forced these funds to compete in a smaller and less buoyant market. Similar to other countries in Europe, segmentation was influenced by: (i) limits set by the regulator in 2011 to the exposure of subsidiaries to their foreign parent banks, prompted by the spillover risks associated with an incomplete banking union; and (ii) forced divestments and a ban on new cross-border operations imposed by the EC as a condition for public support of banks. Since 2008, the structural liquidity surplus generated by banks has been reflected in the improvement of their liquid asset ratio, from 23 percent in 2008 to 35 percent in June 2012. Pressures to deploy these resources efficiently will increase going forward.

Bank Accumulation of Non-Resident Assets[1]

(In billions of euro)

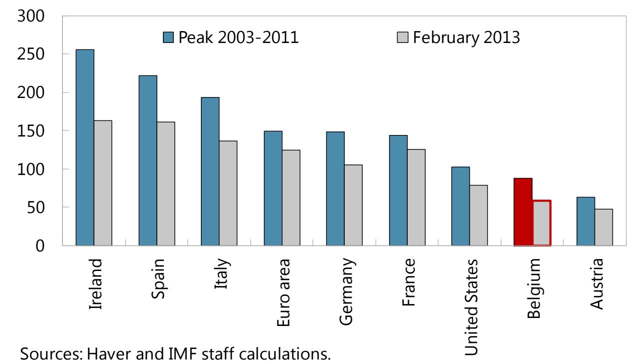


Sources: National Bank of Belgium and IMF staff calculations.

[1]Transactions in foreign equity and securities by Belgian banks; "+" is sell and "-" is buy.

Loan-to-Deposit Ratio[1]

(In percent)

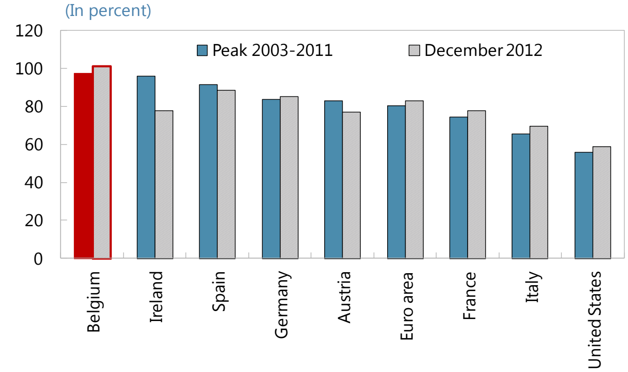


Sources: Haver and IMF staff calculations.

[1]Loans and deposits to households and nonfinancial corporations only for Euro area countries.

Deposit-to-GDP Ratio[1]

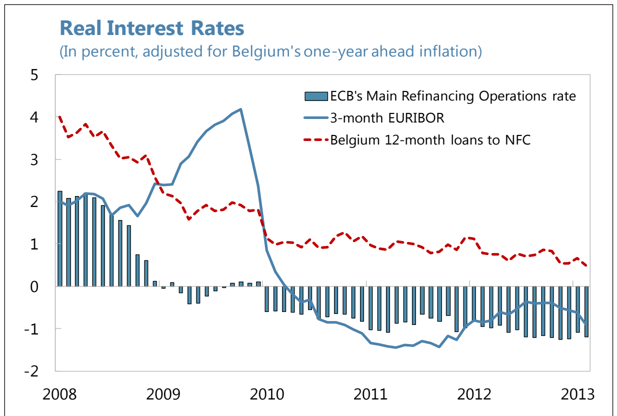
(In percent)



Sources: Haver and IMF staff calculations.

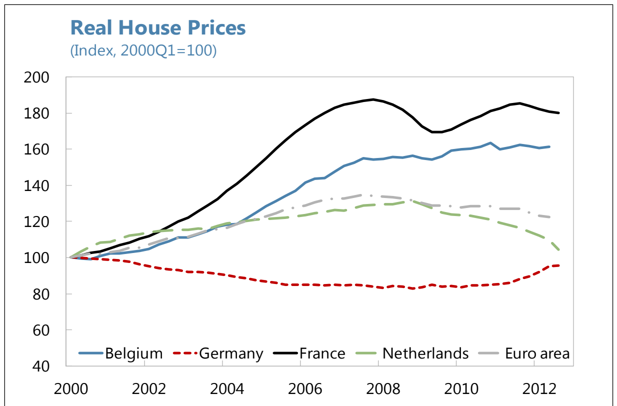
[1]Loans and deposits to households and nonfinancial corporations only for Euro area countries.

11. The supervisory framework was strengthened in the wake of the crisis and the FSAP Update found that it is functioning well, with few remaining gaps. The FSAP Update found that compliance with international standards for regulation and supervision of banks and insurers is generally high, and the National Bank of Belgium (NBB) made progress in improving its supervisory practices. The NBB is now empowered to take a wide range of actions related to domestic systemically important financial institutions and stricter liquidity rules have been in place since 2011. Legislation for covered bonds was enacted in 2012, enabling banks to diversify their longer-term resources, with already successful issuances by Belfius and KBC. KBC has also returned to the markets with a new equity issue (EUR 1.2 billion) and a contingent capital instruments (EUR 0.75 billion).



Sources: Haver, Consensus Economics, and IMF staff calculations.

12. Financial conditions remain accommodative for Belgium. Real lending rates (based on consensus expected inflation) have been positive, but low and declining. In ex-post terms, real interest rates have been rising, reflecting the fact that the consensus inflation forecast did not anticipate the recent deceleration of inflation. Overall, the transmission of ECB policy rates to domestic lending rates appears to be efficient and symmetric, with interest rates on loans to non-financial corporations and households in Belgium co-moving with the ECB refinancing rate. The growth in lending to households and non-financial corporations continues to outpace the euro area average, even though credit standards were tightened in 2012 (Figure 5).



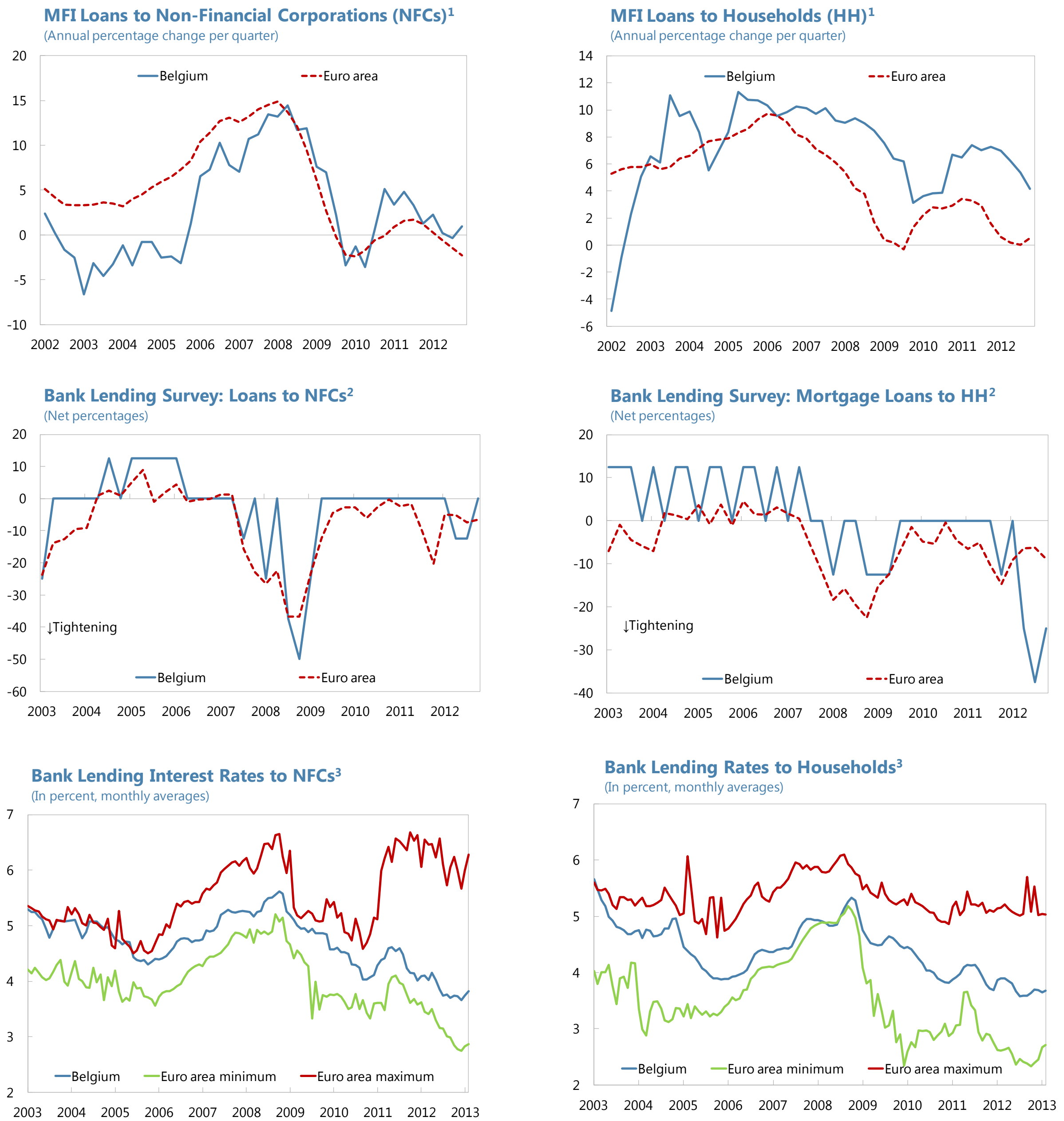
Sources: OECD and IMF staff calculations.

Sources: KBC Bank, Economagic.com, and IMF staff calculations.

13. Real estate prices have continued to increase steadily through the financial crisis, outpacing increases in other advanced countries. Prices have increased by 60 percent in real terms since 2000,[5] and—unlike in other EU countries—there has been no price correction during the crisis. Marked increases in price-to-income and price-to-rent ratios relative to historical average suggest significant overvaluation. However, these measures do not account for the fact that housing was relatively inexpensive to begin with, and that there is therefore a large catching up effect underlying the rise of these indicators. Also, the rental market is very narrow as it is focused only on low-income social housing on one hand and high-end apartments in Brussels on the other. A broader assessment, including a comparison of absolute price levels relative to the rest of Europe, suggests that the degree of overvaluation is of the order of 5 to 20 percent.

[5] Based on the OECD data. According to the data from Belgium's Ministry of Economy, prices have increased by 90 percent since 2000.

Figure 5. Belgium: Loans to the Non-Financial Private Sector



Sources: National Bank of Belgium, European Central Bank, and IMF staff calculations.

[1] Monetary Financial Institutions (MFI) loans include securitised loans and are bank loans to residents.

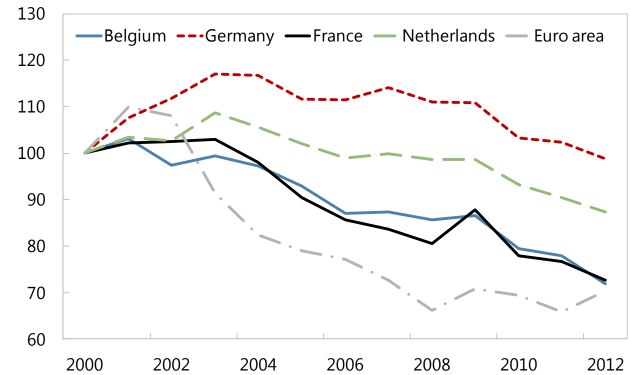
[2] Weighted net percentage of banks indicating a tightening or a easing of credit standards over the past 3 months.

[3] MFI interst rates on loans to NFCs are up to an amount of EUR 1 million, over 5 years intial rate fixation (new business data). MFI interest rates on loans to HH are for house purchases, over 10 years intial rate fixation (new business). Minimum and maximum values are derived from a sample of the following euro area countries: Austria, Belgium, Germany, Spain, France, Italy, and Netherlands.

Contrary to other countries, there is no evidence of an over-supply of housing, given the underlying strength of demand from immigration flows and from a declining average household size.

14. Notwithstanding the recent loss of cost competitiveness relative to euro area partners, the External Balance Assessment (EBA) methodology suggests that Belgium's real exchange rate is broadly in line with fundamentals. The EBA is IMF's new methodology for assessing global external imbalances introduced in 2012. The results, based on the end-2011 data, indicate that Belgium's fiscal policy and the current account are aligned to their respective norms. The path of fiscal consolidation, which is driven by the need to reduce risks from contingent liabilities and high debt, is thus consistent with exchange rate stability. The additional loss of cost competitiveness relative to euro area partners (since 2011) could, if not reversed, lead to an assessment of real exchange rate misalignment. Other indicators of competitiveness confirm that, while competitiveness has been stable or improved in global terms since 2008, Belgium's position relative to its European partners has deteriorated. This is also reflected in a faster loss of export market share.

Market Share in World Exports
(Index, 2000 = 100)

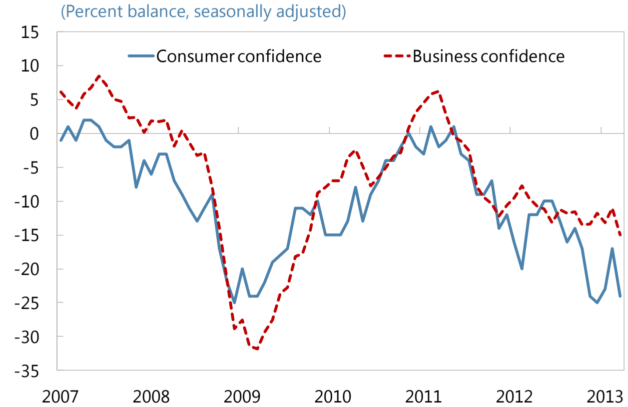


Sources: IMF, *World Economic Outlook* and staff estimates.

OUTLOOK AND RISKS

15. Real GDP is projected to grow by 0.2 percent in 2013 and by 1.2 percent in 2014, with downside risks linked to the unsettled external environment and the speed at which cost competitiveness will improve. The 2013 forecast reflects weak conditions in Belgium's export markets, and no growth in domestic demand. Investment is projected to increase only slightly relative to its low level of 2012Q4 level, owing to low capacity utilization rates, uncertain growth prospects, and the political cycle of infrastructure spending by local authorities. Insufficient employment growth should push the unemployment rate to 8 percent in 2013. Headline and core inflation are expected to decelerate markedly reflecting lower food and energy prices, the reform of the domestic energy market, the real wage freeze in the private sector, and the adjustment to the measurement of inflation. Given the relatively healthy financial position of households and the non-financial corporate sector, domestic demand is expected to recover apace with an improvement in external conditions in 2014.

Consumer and Business Confidence
(Percent balance, seasonally adjusted)

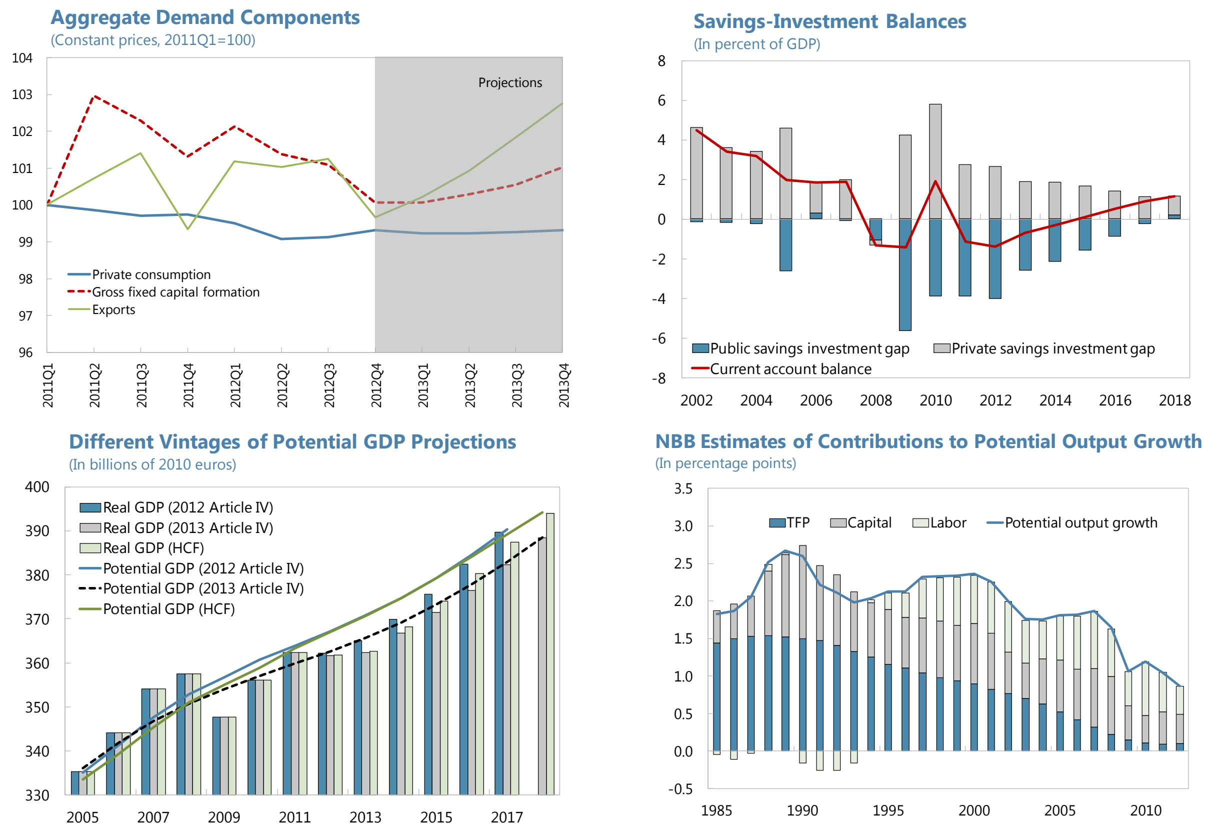


Sources: Haver.

16. Staff has revised downward Belgium's potential growth outlook. The revision reflects steadily declining total factor productivity (TFP). In their latest forecast, the authorities maintain a more optimistic outlook for GDP and potential GDP growth (Figure 6).

17. The main external risks, and related spillovers, stem from the possible reemergence of euro area tensions and protracted stagnation in Europe. These medium-likelihood risks would have a medium to high impact in Belgium. Stagnation in Europe would threaten Belgium's "soft core" status owing to its high exposure to European trade, the vulnerability of public debt dynamics to lower growth and higher interest rates (especially in light of the high rollover need), and a further erosion of the profitability of banks and insurers, all of which could reactivate a feedback loop between sovereign and financial sector stress. To a large extent the policy response to the realization of these risks would lie at the European level, in the form of a supportive monetary policy stance by the ECB, accompanied by appropriate liquidity support. At the national level, these risks call for locking in adequate adjustment before the 2014 elections (see paragraph 18), and strengthening banks' capital buffers (see paragraph 29). Belgian banks have limited direct exposure to the euro area periphery, but a large share of the banking sector is vulnerable to inward spillovers from (cross-border) intra-group exposures to French, Dutch, and German banks. The main channel of outward spillovers is from the exposure of a large Czech subsidiary to its Belgian parent (KBC). Regulatory measures by host countries to limit intra-group exposures of subsidiaries have, however, diminished the spillover risks from parents since the crisis.

Figure 6. Belgium: Medium-term Projections



Sources: Haver, National Bank of Belgium (NBB), Belgium's High Council of Finance (HCF), and IMF staff calculations.

18. Domestic vulnerabilities stem from political uncertainty, financial sector fragilities, and the housing market:

- **Possible backtracking on fiscal consolidation.** A prolonged period of political uncertainty following the elections could undermine confidence and raise sovereign and banking sector spreads. In the absence of new policy measures (e.g., under a caretaker government), the primary balance of the federal government would likely deteriorate, driven by rising social transfers. A scenario that assumes unchanged policies for the three year period 2015—17 is included in the Debt Sustainability Analysis (DSA) for illustrative purposes (Appendix II). Even if a stable majority can form a government, fiscal and structural reforms which are key to reducing macroeconomic vulnerabilities will remain difficult to coordinate in the fractured institutional set up of central, regional and community governments. Sustaining consolidation would be more difficult if the adjustment responsibility fell solely on the federal government.

- **Prolonged squeeze on bank profitability or spillover from high sovereign spreads.** Realization of these two risks could again threaten financial stability and, in the process, reactivate the sovereign-financial nexus. Activation of state guarantees to the financial sector could also be triggered by a rise in the cost of rolling over Dexia's liabilities or valuation losses on the asset side (notably from the structured product portfolio). However, the guarantees are unlikely to be called all at once, given Dexia's extended run-off schedule. The DSA (Appendix II) illustrated the impact of a partial realization of these guarantees.

- **Housing price correction.** Overvaluation of real estate (see paragraph 13), even if moderate, is likely to lead to a price correction, which could be triggered by the recent tightening of mortgage lending standards and low income growth. This medium-likelihood risk would likely have a low to medium impact, since such a correction would likely be gradual, reflecting the fact that there is no oversupply, households are generally not over-indebted, absolute prices are moderate by international comparison, and high real estate transaction taxes deter market transactions. Wealth effects could nonetheless contribute to dampening the recovery of consumption, particularly among lower income households. In the event of a sharp and rapid housing downturn, pressure on banks' capital could emerge.

POLICY DISCUSSIONS

Staff and the authorities agreed on the short-term outlook, although the authorities retain a more positive view of medium-term growth prospects. The authorities shared the staff's risk assessment and also underscored that policies followed by the government have matched past Fund recommendations (Appendix III). Discussions focused on policies to reduce macroeconomic and financial vulnerabilities and to support growth, with emphasis on the appropriate pace of fiscal adjustment and its instruments, labor market reforms, and measures to reinforce financial sector stability and efficient intermediation.

A. Sustaining Quality Fiscal Adjustment

19. Sustaining the consolidation effort was recognized as critical to addressing vulnerabilities and the authorities underscored that, despite the weak economic situation, they would take additional measures in 2013 to accelerate the pace of structural adjustment. Even though the original budget target for 2012 appeared beyond reach, the authorities considered it important to keep the debt ratio from breaching the 100 percent level. Staff also underscored that, in the Belgian context, the government had a narrow window of opportunity to lock in durable fiscal adjustment ahead of the next elections and the risks that came with it. Staff proposed that the structural adjustment effort embedded in the 2012-15 Stability Program of June 2012 remained a relevant guide to policy, and that accordingly the authorities should aim to lock in before elections an improvement of the structural primary balance of 1.5 percent of GDP over two years, i.e. 2013–14. Staff emphasized the merits of anchoring policies to a structural target, so as to reduce reliance on one-off measures and allow more predictability in policies. Based on the staff's macroeconomic assumptions, this path of fiscal adjustment would reduce the headline deficit to around 2½ percent of GDP in 2013 and 2 percent in 2014 (Figure 3). The debt ratio would return to a downward path starting in 2014. Following the mission, the authorities agreed on new measures with the objective of reducing the deficit to 2.5 percent of GDP in 2013. The package is about evenly divided between revenue and expenditure measures. Based on staff estimates, the structural primary balance would improve by 0.8 percent of GDP in 2013 relative to 2012, consistent with staff recommendations.

20. In view of the already high burden of taxation, and the need to increase the economy's growth potential, staff recommended that the fiscal effort be redirected to expenditure containment over revenue measures. Given the unsustainable trend rise in social spending (which will be further boosted by rapid population ageing) and the need to create fiscal space to sustain pro-growth public spending in support of R&D, training, and infrastructure, staff urged further reforms of social transfer policies, notably pensions, as well as curbs on discretionary increases in benefits over and beyond price indexation. It also suggested tightening controls on health spending, targeting a faster compression of public sector employment through attrition at the subnational level, reducing subsidies and transfers that discourage labor participation, and increasing the use of means-testing for government benefits and tax expenditures. Staff underscored that revenue measures should be used primarily to achieve a revenue-neutral shift of the tax burden from labor taxes to less distortive taxes. The authorities indicated that they had

Belgium: Medium-term Fiscal Projections Based on the 2013 Supplementary Budget and Fiscal Efforts Assumed under the 2012-2015 Stability Program
(In percent of GDP)

	2012	2013	2014	2015	2016	2017	2018
Revenue	50.8	51.0	51.2	51.3	51.5	51.7	51.7
Expenditure	54.8	53.6	53.3	52.9	52.4	51.9	51.5
Primary expenditure	50.6	50.3	49.8	49.4	49.0	48.6	48.3
Dexia recapitalization	0.8						
Interest charges[1]	3.4	3.3	3.5	3.5	3.4	3.3	3.2
Real primary expenditure growth[2]	0.8	-0.4	0.2	0.5	0.5	0.8	0.9
Overall balance[1]	-3.9	-2.5	-2.0	-1.5	-0.8	-0.1	0.3
Structural balance	-3.4	-2.5	-1.9	-1.3	-0.6	-0.1	0.3
Primary structural balance[1]	0.1	0.9	1.7	2.3	2.9	3.3	3.6
Gross debt	99.6	100.3	99.9	99.0	97.3	94.9	92.1
Projections based on unchanged policy scenario[3]							
Overall balance[1]	-3.9	-2.5	-2.8	-2.9	-3.0	-3.0	-2.9
Gross debt	99.6	100.3	100.6	101.2	101.7	102.0	102.2

Source: NBB, Ministry of Budget, and IMF staff calculations.

[1] Defined as in the Excessive Deficit Procedure.

[2] Excludes the 2012 Dexia recapitalization.

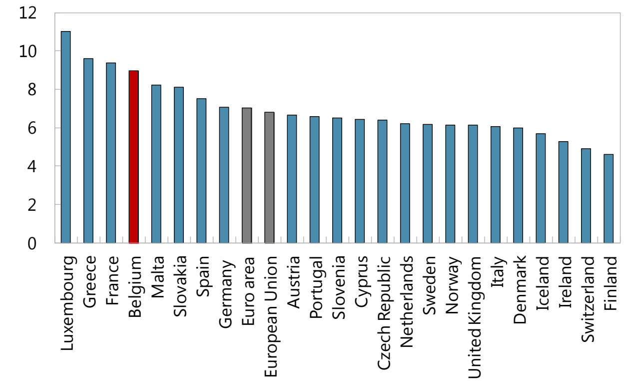
[3] The scenario assumes real spending growing 1.5 percent per year.

launched a consultation on pension reform, which could inform deeper reforms by the next government.

21. **Staff noted that meeting the requirements of European fiscal governance provided an opportunity to strengthen internal mechanisms of fiscal coordination to ensure adequate burden sharing and effective correction mechanisms at all levels of government**. Such reforms would also mitigate the risks of backsliding on fiscal consolidation. The authorities indicated that they had not yet begun to transpose into national legislation the requirements of the Fiscal Compact, and recognized the challenge given that institutional reforms were actually going in the direction of greater decentralization of fiscal authority. Presently, fiscal coordination is facilitated by the High Council of Finance (HCF), whose advisory opinion on the medium-term deficit objectives of the various governments carries significant legitimacy on account of its broad political representation. In its latest opinion, communicated at the end of March, the HCF recommended that the government focus on meaningful structural consolidation, with the objective of achieving a structural surplus of 0.75 percent of GDP in 2016. Underlying this objective is a fiscal effort consistent with the staff's advice, although given the authorities' (and HCF's) more optimistic potential growth assumptions, the medium-term target would be reached much sooner in the HCF scenario than in the staff's scenario. This advice will form the basis for the government's new three

year Stability Plan to be issued shortly. Staff recommended that the Stability Plan go beyond intentions on fiscal targets, and provide a stronger multi-year framework, based on conservative revenue projections, and a clearer articulation of the measures and reforms required to reach the desired targets. This would avoid the risk of a repeated and inefficient ratcheting up of taxes in pursuit of annual deficit targets that are unrelated to structural reform efforts. The above table also shows an unchanged policy scenario, where expenditure is assumed to grow at the same rate it did in 2011 under the care-taker government.

Employment in Public Administration, 2012
(In percent of total employment)



Sources: Eurostat and IMF staff calculations.

B. Labor Market and Other Structural Reforms

22. Demographic and productivity trends are putting increasing strains on the Belgian economic and social model. This model places a premium on redistribution, which however carry costs in the forms of disincentives to work and invest. These costs were manageable in a higher growth environment, but are increasingly difficult to sustain. The discussions focused on ways to raise the economy's growth potential, by improving the wage formation process, continuing to reform social benefits, and reducing labor market rigidities.

23. There was agreement that restoring cost competitiveness was, in the short term, the most effective way to boost growth, with discussions focused on wage indexation and the high tax wedge on labor. The authorities acknowledged the need to reverse the accumulated loss in cost competitiveness relative to partners and noted that steps in this direction had already been taken, including the real wage freeze for 2013-14 and technical changes in the measurement of inflation. The authorities also considered that competitiveness could be improved by reducing the high tax wedge on labor, but given the fiscal constraint this would require a budget-neutral increase in other taxes, which remains controversial.

24. While indexation itself is politically difficult to tackle, revisions to the 1996 Law on Competitiveness could help ensure that labor cost developments in Belgium bear a closer link to those in neighboring countries and that sufficient flexibility be allowed to correct for past deviations. Although this was in fact the intent of the law, three flaws have undermined its effectiveness: first, the norm for domestic real wage negotiations under the law is based solely on expected wage developments in partner countries, and does not take into account the possibility of diverging productivity growths; second, nominal wage growth in partner countries has proven very difficult to project with any accuracy; third, the law does not provide a formal correction mechanism for past deviations of wages from the desired norm, although the government has some discretionary powers to intervene in exceptional circumstances, as it has in the recent wage round. Possible improvements to the law include: establishment of a formal correction mechanism (e.g., in the form of a cap on wages) for past deviations relative to wage (or preferably ULC) developments in partner countries; and introduction of a safety buffer in the forecasts to reduce the risk of overstating foreign wage growth and underestimating domestic inflation.

25. Staff noted that price indexation in the economy more generally creates risks for cost competitiveness. Indexation is pervasive, including in government contracts and market services such as in public transport, legal services, rents, and insurance premia. Such indexation contributes to accentuate second round effects from increases in energy prices, as seen in recent years. Staff noted that the current low inflation environment provided an opportunity to phase out such practices, with limited consequences on the public.

26. Low labor participation (and employment) rates are another growth handicap for Belgium, which point to the need for continued pension and labor market reforms, as well as improved activation and training policies. Measures already undertaken to raise the effective retirement age appear to have shown some early positive results. However, to reach the 73 percent employment rate target set for 2020, more measures will likely be needed beyond those already taken, i.e., increasing the degressitivity of unemployment benefits and tightening job search and monitoring. Subsidies to enterprises to support job creation have also succeeded in raising employment of less skilled workers, but at a considerable fiscal cost of around 1.5 percent of GDP. The authorities noted that they had commissioned a study to propose further pension reforms that could be adopted by a new government after the 2014 elections. Staff submitted that additional changes to the pension system could be enacted before the elections, and that various subsidy schemes that reduced labor market participation (such as the "time credit" mechanism[6]) should be tightened.

27. Labor market rigidities more generally adversely affect the economy's competitiveness and employment creation. High statutory severance payments, long notification periods, and special procedures for collective dismissals, all intended to protect jobs and workers, seem to encourage enterprises to postpone restructuring rather than doing so preemptively. Staff noted that the retooling of such workers for alternative employment *before* the failure of a company would result in less value destruction overall. Rules on severance payments differ between white and blue collar workers, and the ongoing discussions on aligning the two regimes has brought this issue to a head. Implicit labor costs would be raised appreciably if convergence takes place toward the more costly white collar regime.

28. Innovation, education and competitive markets could also boost productivity growth and provide a source of sustained growth. Overall expenditures on research and development are not far from the euro area average, and Belgium also compares favorably in terms of innovation of existing processes. However, research efforts have not translated into product innovation and a move up the value added chain in terms of exports. The authorities described regional programs to

[6] Under the time-credit system, employees can work less than full-time and receive a top-up to their part-time salary from the government. Workers above 55 with a 25 year professional career are eligible to participate until their retirement.

foster innovation and research and development and pointed to some budding clusters around certain universities as early signs of progress. On market competition, the telecommunications and retail electricity and gas markets have been opened up to greater competition, and the authorities noted that prices had declined as a result. With respect to electricity, they agreed that reform of the distribution activities will be an important next step to reduce costs. Beyond these network industries, competition could be increased in other services, notably professional services where barriers to entry are high.

C. Financial Sector Stability

29. Supervisory challenges remain considerable in the wake of the crisis, and in the face of euro area vulnerabilities and the reorientation of banks to the domestic market. The authorities welcome the FSAP Update recommendations and are already taking steps to implement them (Appendix IV). They acknowledged that continued vigilance is required as weak profitability would not only impair banks' ability to raise capital buffers through retained earnings, but could also lead to a loosening of lending standards and the possible fueling of a domestic asset bubble. The NBB noted that it had asked banks to tighten lending standards to households, and lending surveys already point to tightening. The NBB also underscored that profitability could be improved sizably by reducing the very high operating costs (the cost-to-income ratio stands presently at 71 percent). The authorities agree with staff recommendations for strengthening the banks' capital buffers in line with forthcoming Basel III requirements and for taking additional actions, as required in response to the ongoing reviews of banks' business models. The authorities welcome the introduction of the Single Supervisory Mechanism (SSM) and are cognizant of the important role that national authorities will continue to play in both the transition and steady-state stage.

30. The long-term restructuring process of Dexia requires continued close monitoring. The Belgian and French authorities undertook a new round of recapitalization of the runoff Dexia Group of EUR 5.5 billion (of which Belgium contributed EUR 2.9 billion under a new burden sharing key) at the end of 2012 to address its deteriorating capital position. Going further, the complex execution of the Dexia Group restructuring plan continues to require close oversight and coordination with the French authorities and, with advent of the SSM, the ECB.

31. As long as the Belgian banks attract a surplus of liquidity, cross-border operations will remain a natural outlet for these funds, and the authorities noted that the constraints of market segmentation are waning. Already, limits on intra-group exposures are being overcome: BNPP and ING have responded to the regulatory limits on the upstreaming of liquidity by downstreaming group assets and operations to their Belgian subsidiaries, such as trade and project financing. The regulator acknowledges the added supervisory challenge of assessing the quality of the downstreamed assets and of cross-border credits. By the same token, once the ban on KBC on engaging in cross-border operations (as per European Commission state aid conditionality) is lifted in November 2014, KBC will be in a position to develop its external network if needed. In the absence of a full banking union, the NBB considers, and staff agrees, that the current liquidity regime (including limits on exposure to foreign parents) should be maintained until the new liquidity rules are fully phased in at the European level in 2018.

32. The banks' ability to attract a surplus of liquidity reflects, in part, the tax advantages that benefit savings accounts at the expense of other financial instruments. The combination of declining interest rates and a high cap on the tax exemption that can be claimed per account (EUR 1,880 in 2013) has resulted in a massive shift of savings toward saving accounts. To a large extent, however, the shift appears to have occurred at the expense of term deposits rather than non-bank financial instruments. The regulator noted that, even though saving accounts have been historically stable, they are in fact callable and as such they are associated with higher liquidity requirements that term deposits. Discussions touched on the desirability of reforming these tax breaks, not only for fiscal reasons, but also with a view to level the playing field across financial instruments. It was agreed that tax advantages, if any, should be used to promote long-term saving rather a specific financial instrument.

STAFF APPRAISAL

33. The economy has entered a second year of near zero growth amid persistent vulnerabilities. While an improvement in external conditions, even if gradual, should support the recovery, the economy's capacity to rebound and create jobs is constrained by structural rigidities and a loss of competitiveness. The financial sector has been transformed and downsized in the aftermath of the financial crisis, but vulnerabilities remain. Combined with the fragile situation of public finances, these vulnerabilities could, in an adverse environment, undermine macroeconomic stability.

34. Despite the weak growth outlook and current low interest rate environment, macroeconomic vulnerabilities put a premium on maintaining a steady pace of fiscal adjustment. The government's policy resolve in addressing a fragile financial situation in 2011 was met with a marked improvement in market confidence. The window of opportunity that exists before the next elections should be used to lock in some additional durable and quality adjustment. The government's revised 2013 budget is welcome in this regard. The pace of structural adjustment targeted by the authorities is in line with what staff considers appropriate at this juncture. An average structural primary adjustment target of 0.75 percent annually appears appropriate in this regard, and is consistent with maintaining the momentum of social expenditure reform which is needed to promote growth. The government's decision to launch a consultation on deeper pension reform is welcome, but additional (parametric) measures could already be taken ahead of a more comprehensive reform. Anchoring fiscal adjustment to a structural deficit target would also increase the predictability of policies, avoid reliance on stop gap revenue measures to meet annual deficit targets, and allow automatic stabilizers to operate in the event of higher or lower than anticipated growth. A clearer rule-based multi-year fiscal policy framework would increase policy efficiency, as well as ensure adequate burden sharing across all levels of government and consistency with fiscal targets agreed at the European level.

35. The structural reforms agenda should continue to focus on raising growth by restoring cost competitiveness, raising labor market participation rates, and boosting productivity. Absent an acceleration of reforms, Belgium risks losing additional ground to peers that are engaged in structural reforms. Substantial productivity gains could be realized by reorienting labor market policies away from protecting specific jobs to making the labor force more adaptable to the requirements of a dynamic economic through skill development and job search support. Also, deeper pension and social policy reforms, consistent with fiscal consolidation objectives, are needed to raise the effective age of retirement, and increase employment rates generally. These actions require close coordination across all levels of government given the divided competencies.

36. Wage and price indexation continue to create risks of cost misalignment and lost growth. Beyond the recent real wage freeze, a reform of the 1996 Law on competitiveness could strengthen the link between domestic wage developments and those in partner countries, and provide flexibility to correct for past deviations. A one-off improvement in cost competitiveness could be achieved by reducing further the high tax wedge on labor in a budget-neutral way, and in the framework of broader tax reform. More generally, Belgium needs to confront the inherent structural weakness of maintaining wage indexation while its peers do not. Price indexation in the economy, notably in services, should be phased out.

37. **Important policy actions have helped to safeguard financial stability, but the legacy of the crisis and euro area vulnerabilities require continued attention**. Banks' capital buffers should be further strengthened in line with forthcoming Basel III requirements. In this regard, possible pressures on profits, as well as remaining vulnerabilities related to legacy assets, call for a regular review of the viability of banks' business models as underlined in the FSAP Update. The national resolution and deposit insurance frameworks are also in need of strengthening, and positive changes to supervisory practices need to be sustained in view of the important role that the national supervisor will play in both the transitory and steady state stages of the SSM. The unwinding of the Dexia Group is progressing, but its full resolution will take time and requires continued supervisory and government oversight.

38. **The incomplete banking union in Europe has hampered the efficient intermediation of the liquidity surplus of Belgian banks, but the tax advantage granted to savings account may have exacerbated the problem**. While national regulatory measures to limit intra-group exposures may complicate liquidity management within large cross-border groups and contribute to financial fragmentation in Europe, they are a prudent response to addressing the liquidity stress and resolution problems that have resulted from the financial crisis in Europe and the absence of a common resolution framework. The market response of bringing assets to the local deposit base is providing a partial solution to the intermediation problem, albeit one that requires added supervisory oversight and that may result in less efficient cross-border financial intermediation. A common resolution framework and deposit guarantee scheme in the euro area, together with harmonized liquidity regulations, in line with the Basel III framework will eventually help eliminate regulatory and market obstacles in the intermediation of savings and credit. At the same time, the Belgian banks' need to intermediate a large pool of saving may reflect not only the strong financial position of households, but also the tax advantages that benefit bank deposits. Taxation of financial income should be rethought to promote long-term saving regardless of the underlying financial instruments.

Table 1. Belgium: Selected Economic Indicators, 2009-18

				Prelim.	Projections					
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
	(Percentage change from the previous period; unless otherwise indicated)									
Real economy										
Real GDP	-2.8	2.4	1.8	-0.2	0.2	1.2	1.3	1.4	1.5	1.6
Domestic demand	-2.2	1.8	1.8	-0.6	-0.1	1.0	1.1	1.3	1.4	1.5
Private consumption	0.6	2.7	0.2	-0.6	0.0	0.9	1.1	1.4	1.5	1.6
Public consumption	1.9	0.7	0.8	0.1	0.0	0.5	0.6	0.6	0.8	0.8
Gross fixed investment	-8.4	-1.4	4.1	-0.6	-0.5	1.6	1.8	2.0	2.1	2.2
Business investment	-10.2	-3.2	8.6	0.1	-0.7	1.5	1.6	1.7	1.8	1.9
Public investment	9.7	-3.1	5.3	1.5	-4.1	-1.0	0.4	1.0	1.6	2.0
Dwellings	-8.6	3.1	-5.3	-3.0	1.0	2.6	2.7	2.8	2.9	3.0
Stockbuilding[1]	-1.0	0.4	0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance[1]	-0.7	0.6	0.0	0.4	0.3	0.3	0.2	0.1	0.1	0.1
Exports, goods and services	-11.1	9.6	5.5	0.4	0.6	2.5	2.7	3.0	3.2	3.5
Imports, goods and services	-10.6	8.9	5.6	-0.1	0.3	2.2	2.6	3.0	3.2	3.5
Household saving ratio (in percent)	18.1	15.2	14.1	15.1	15.7	16.1	16.4	16.5	16.7	16.7
Potential output growth	0.9	0.8	0.8	0.8	0.8	1.0	1.1	1.2	1.4	1.4
Output gap (in percent)	-1.8	-0.2	0.7	-0.2	-0.9	-0.7	-0.5	-0.4	-0.2	0.0
Employment										
Unemployment rate	7.8	8.2	7.2	7.6	8.0	8.1	8.1	7.8	7.6	7.4
Employment	-0.2	0.7	1.4	0.2	-0.2	0.4	0.7	0.8	0.9	0.9
Prices										
Consumer prices	0.0	2.3	3.4	2.6	1.7	1.4	1.2	1.2	1.2	1.2
GDP deflator	1.2	2.0	2.0	2.1	1.8	1.4	1.2	1.2	1.2	1.2
ULC (in whole economy)	3.8	-0.3	2.7	3.6	1.2	1.3	1.2	1.2	1.2	1.2
	(Percent of GDP; unless otherwise indicated)									
Public finance										
Revenue	48.1	48.7	49.5	50.8	51.0	51.2	51.3	51.5	51.7	51.7
Expenditure	53.7	52.6	53.4	54.8	53.6	53.3	52.9	52.4	51.9	51.5
General government balance[2]	-5.6	-3.8	-3.7	-3.9	-2.5	-2.0	-1.5	-0.8	-0.1	0.3
Structural balance	-3.8	-3.7	-4.0	-3.4	-2.5	-1.9	-1.3	-0.6	-0.1	0.3
Structural primary balance	-0.2	-0.3	-0.7	0.1	0.8	1.6	2.2	2.8	3.2	3.5
Primary balance	-1.9	-0.4	-0.4	-0.5	0.8	1.5	2.0	2.6	3.2	3.5
General government debt	95.7	95.5	97.8	99.6	100.3	99.9	99.0	97.3	94.9	92.1
Balance of payments										
Trade balance	0.5	1.0	-1.2	-0.7	-0.6	-0.3	-0.1	0.2	0.4	0.7
Current account	-1.4	1.9	-1.1	-1.4	-0.7	-0.3	0.1	0.5	0.9	1.2
Terms of trade (percent change)	3.5	-2.0	-1.4	-1.7	-0.1	0.2	0.2	0.2	0.1	0.1
Exports, goods and services (volume, percent chan	-10.9	8.5	4.1	-1.1	0.6	2.5	2.7	3.0	3.2	3.5
Imports, goods and services (volume, percent chan	-11.6	7.0	3.7	-1.6	0.3	2.2	2.6	3.0	3.2	3.5
Memorandum items										
Nominal GDP (billions of euros)	341	356	370	377	384	394	404	415	426	438
Population (millions)	10.8	10.8	11.0	11.1	11.2	11.3	11.3	11.4	11.5	11.6

Sources: Haver, Belgostat, and IMF staff projections.
1/ Contribution to GDP growth.
2/ Defined as in the Excessive Deficit Procedure.

Table 2. Belgium: Balance of Payments, 2009–18
(In percent of GDP)

				Prelim.	Projections					
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Balance on current account	-1.4	1.9	-1.1	-1.4	-0.7	-0.3	0.1	0.5	0.9	1.2
Balance on goods and services	0.5	1.0	-1.2	-0.7	-0.6	-0.3	-0.1	0.2	0.4	0.7
Balance of trade (f.o.b., c.i.f.)	-1.3	-0.9	-2.3	-2.0	-2.6	-3.1	-3.6	-4.1	-4.6	-5.1
Exports of goods and services	71.7	78.9	83.7	84.2	83.1	83.0	83.1	83.4	83.8	84.3
Exports of goods	53.5	59.5	65.0	64.1	62.4	61.7	61.2	60.9	60.7	60.6
Exports of services	18.2	19.4	18.7	20.1	20.7	21.3	21.9	22.5	23.1	23.7
Imports of goods and services	71.3	77.9	84.8	84.9	83.7	83.3	83.2	83.3	83.4	83.6
Imports of goods (f.o.b.)	54.8	60.4	67.3	66.1	65.0	64.7	64.8	65.0	65.3	65.7
Imports of services	16.4	17.5	17.6	18.8	18.7	18.5	18.4	18.2	18.1	17.9
Income, net	-0.1	2.6	1.8	1.7	2.2	2.3	2.5	2.7	2.8	2.8
Current transfers, net	-1.8	-1.7	-1.8	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3	-2.3
Balance on capital account	-0.4	-0.2	-0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance on financial account	2.0	-1.8	1.6	1.2	0.6	0.2	-0.2	-0.6	-1.0	-1.2
Direct investment, net	11.3	8.9	4.0	-3.4	-3.5	-3.5	-3.5	-3.5	-3.4	-3.4
Portfolio investment, net	9.1	-5.3	-3.5	12.5	11.7	11.3	10.9	10.5	10.1	9.9
Other investment, net	-18.4	-5.3	1.1	-7.9	-7.6	-7.6	-7.6	-7.7	-7.7	-7.7
Reserve assets	-0.2	-0.2	-0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions, net	0.1	0.3	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Belgian authorities; and IMF staff projections.

Table 3a. Belgium: General Government Statement of Operations, 2009–18
(In percent of GDP)

	2009	2010	2011	Prelim. 2012	Projections 2013	2014	2015	2016	2017	2018
Revenue	48.1	48.7	49.5	50.8	51.0	51.2	51.3	51.5	51.7	51.7
Taxes	28.3	29.0	29.3	30.1	30.2	30.4	30.4	30.5	30.7	30.7
Personal income tax	12.6	12.7	12.9	13.0	13.1	13.1	13.1	13.2	13.2	13.2
Corporate income tax	2.6	2.8	3.1	3.4	3.4	3.4	3.4	3.4	3.5	3.5
Taxes on property	1.9	1.9	2.0	2.1	2.1	2.1	2.1	2.1	2.2	2.2
VAT	6.8	7.0	6.9	7.1	7.1	7.1	7.1	7.2	7.2	7.2
Excise	2.1	2.1	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.2
Other taxes	2.4	2.4	2.3	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Social contributions	16.8	16.5	16.6	17.0	17.1	17.1	17.2	17.2	17.3	17.3
Actual social contributions	14.4	14.1	14.2	14.5	14.6	14.6	14.7	14.7	14.8	14.8
Imputed social contributions	2.4	2.4	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.5
Other revenue[1]	3.0	3.2	3.6	3.7	3.7	3.7	3.7	3.7	3.7	3.7
Expenditure	53.7	52.5	53.3	54.7	53.6	53.3	52.9	52.4	51.9	51.5
Expense	52.0	50.8	51.6	53.0	51.9	51.7	51.3	50.8	50.3	49.9
Compensation of employees	12.8	12.5	12.6	12.8	12.9	12.7	12.7	12.5	12.4	12.3
Use of goods and services	3.9	3.7	3.7	3.7	3.5	3.5	3.5	3.4	3.4	3.4
Interest	3.7	3.5	3.5	3.5	3.4	3.6	3.6	3.5	3.4	3.3
Subsidies	2.2	2.6	2.7	2.7	2.6	2.6	2.5	2.5	2.5	2.5
Grants	1.2	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Social benefits	25.2	24.8	25.1	25.8	25.9	25.7	25.5	25.3	25.1	24.9
Other expense	3.0	2.5	2.9	3.4	2.5	2.5	2.4	2.4	2.4	2.4
Net acquisition of nonfinancial assets	1.7	1.7	1.8	1.7	1.7	1.7	1.6	1.6	1.6	1.6
Gross Operating Balance	-3.9	-2.2	-2.1	-2.2	-0.9	-0.5	0.1	0.8	1.4	1.8
Net lending/borrowing	-5.6	-3.8	-3.8	-4.0	-2.6	-2.1	-1.6	-0.9	-0.2	0.2
Net financial transactions	-5.6	-3.8	-3.8	-4.0	-2.6	-2.1	-1.6	-0.9	-0.2	0.2
Net acquisition of financial assets	0.1	-0.1	2.0	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Currency and deposits	-1.1	0.3	0.2	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Securities other than shares	-0.1	-0.7	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loans	0.1	0.2	0.5	1.3	0.9	0.9	0.9	0.9	0.9	0.9
Shares and other equity	1.2	0.0	1.1	-0.8	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Other financial assets	0.0	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net incurrence of liabilities	5.7	4.0	5.9	4.6	2.8	2.3	1.8	1.1	0.4	0.0
Currency and deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities other than shares	4.8	3.4	4.5	3.3	2.0	1.7	1.3	0.8	0.3	0.0
Loans	0.3	0.6	1.1	1.0	0.6	0.5	0.4	0.2	0.1	0.0
Other liabilities	0.6	0.0	0.3	0.2	0.1	0.1	0.1	0.1	0.0	0.0
Statistical discrepancy	0.0	0.3	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items										
Primary balance	-1.9	-0.3	-0.4	-0.4	0.8	1.5	2.0	2.6	3.2	3.5
Net lending/borrowing per EDP procedure	-5.6	-3.8	-3.7	-3.9	-2.5	-2.0	-1.5	-0.8	-0.1	0.3
Gross government debt	95.7	95.5	97.8	99.6	100.3	99.9	99.0	97.3	94.9	92.1
Net government debt	79.5	79.7	81.2	81.9	82.9	82.9	82.4	81.2	79.2	76.9

Sources: Haver, Statistics Belgium, and IMF staff projections.

[1] Includes grants.

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

	2006	2007	2008	2009	2010	2011	2012
Net worth and its changes	...	...	...	...	...	...	...
Nonfinancial assets	...	...	...	...	...	...	...
Net financial worth	-77.0	-73.1	-73.3	-79.4	-79.7	-81.2	-81.9
Financial assets	14.6	14.8	19.4	20.4	19.9	20.8	22.1
Currency and deposits	1.7	2.0	3.7	2.8	3.0	3.1	2.9
Securities other than shares	0.1	0.1	0.1	0.2	0.2	0.2	0.3
Loans	0.5	0.5	0.4	0.5	0.7	1.1	2.3
Shares and other equity	7.2	7.5	10.5	12.2	11.4	11.7	12.1
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	5.1	4.7	4.6	4.6	4.5	4.7	4.6
Liabilities	91.6	87.9	92.7	99.8	99.5	102.0	103.9
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.3	0.3	0.3	0.4	0.4	0.4	0.4
Securities other than shares	77.6	74.3	79.4	85.4	85.1	86.6	87.6
Loans	10.1	9.3	9.5	9.9	10.1	10.8	11.6
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Insurance technical reserves	0.2	0.1	0.1	0.2	0.2	0.2	0.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	3.5	3.7	3.4	4.0	3.8	4.0	4.1

Sources: Belgian authorities and IMF staff projections.

Table 4. Belgium: Financial Soundness Indicators, 2006–12
(In percent, unless otherwise noted)

	2006	2007	2008	2009	2010	2011	2012Q2	2012Q3
Earnings and profitability								
Return on assets	0.7	0.4	-1.3	-0.1	0.5	0.0	0.1	0.2
Return on equity	22.4	13.2	-36.5	-2.7	10.7	0.7	2.9	4.4
Net interest income to total income	47.9	50.3	75.0	79.1	68.3	71.2	76.1	71.7
Interest margin	1.0	1.1	1.0	0.8	1.2	1.2	1.4	1.3
Average yield on assets	4.6	5.3	5.0	2.8	2.8	2.9	3.0	2.9
Average cost of funding	3.6	4.2	4.0	2.0	1.6	1.7	1.6	1.6
Noninterest income to gross income	52.1	49.5	24.9	20.9	31.7	28.8	23.9	28.3
Of which: Net fee and commission income	25.1	27.9	35.1	30.1	25.6	26.8	30.8	28.8
(Un)realized capital gains booked in P&L	14.6	14.3	-19.9	-14.5	-0.2	-3.9	-6.0	-0.7
Cost/income ratio	55.7	61.1	86.1	77.7	66.0	67.3	75.3	71.4
Structure assets								
Total assets (in percent of GDP)	446.0	470.0	410.5	349.2	323.2	310.2	308.9	303.3
Of which (in percent of total assets):								
Loans to credit institutions	20.1	20.3	15.0	13.1	17.0	15.2	13.9	12.7
Debt securities	22.5	18.8	21.0	22.3	20.1	18.5	17.3	17.1
Equity instruments	3.6	3.3	1.1	0.8	0.5	0.4	0.4	0.5
Derivatives	4.5	7.6	15.7	11.3	11.6	14.6	14.5	14.4
Loans to customers	41.6	42.2	39.1	45.0	44.0	44.4	44.3	45.1
Of which: Belgian residents (in percent of loans)	43	43	53	59	64	70	69	69
Other EMU residents (in percent of loans)	29	30	20	19	19	17	17	17
Rest of the world (in percent of loans)	28	27	28	22	17	13	14	14
Mortgage loans (in billion euro)	190	208	132	158	179	184	185	185
Consumer loans (in billion euro)	15	17	17	17	24	23	24	24
Term loans (in percent of loans)	46.1	40.1	47.8	44.0	42.3	40.0	38.9	39.2
Reverse repo operations (in percent of loans)	16.9	10.5	10.1	7.3	7.3	4.2	4.4	4.9
Funding and liquidity (in percent of total assets)								
Debts to credit institutions	29.2	27.4	19.4	14.1	15.4	11.2	11.6	10.8
Bank bonds and other debt securities	11.2	11.3	8.7	12.6	10.9	8.8	9.4	9.8
Customer deposits	39.1	37.9	40.2	46.8	46.0	46.5	46.4	46.4
Of which: Sight deposits[2]	11.1	11.8	10.9	13.2	13.7	12.6	13.5	14.0
Saving deposits[2]	10.2	8.5	9.2	14.1	16.6	16.8	17.4	17.9
Term deposits[2]	10.6	11.5	11.7	8.9	8.5	9.6	9.0	8.9
Retail deposits	20.4	17.8	18.2	23.8	26.1	26.5	27.1	27.8
Repo's	4.2	3.5	6.4	7.1	5.0	5.2	5.0	3.8
Liquid assets[3]	27.0	24.0	23.0	32.0	31.0	32.0	35.1	...
Asset quality								
Sectoral distribution of loans (in percent of total assets)								
Credit institutions	20.1	20.3	15.0	13.1	17.0	15.2	13.9	12.7
Corporate	18.3	19.9	20.5	20.5	17.2	16.4	15.6	15.7
Retail	18.3	17.5	14.6	19.9	22.1	22.9	23.7	24.1
Central governments	0.8	1.0	0.9	1.2	1.0	0.8	0.7	0.8
Non-credit institutions	4.1	3.8	3.1	3.4	3.8	4.3	4.3	4.5
Non-performing loans (NPL) as percent of gross loans[3]	1.7	1.4	1.7	2.7	2.8	3.2	3.2	3.2
Provisions and write-offs as percent of NPL[3]	51	41	67	51	53	49	51	53
Capital adequacy								
Regulatory capital to risk-weighted assets	11.9	11.2	16.2	17.3	19.3	18.5	17.5	17.9
Regulatory Tier 1 capital to risk-weighted assets	8.7	12.1	11.3	13.2	15.5	15.1	14.8	15.4
Capital to assets	3.3	4.1	3.3	4.5	5.0	4.6	4.8	5.2
NPL net of provisions as percent of Tier 1 capital[3]	10.9	9.2	6.5	13.8	12.2	14.2	13.9	13.3
Net open position in foreign exchange to capital	5.0	3.0	7.0	5.0	4.0	5.0	2.8	...

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. Labor Market and Pension Reform Measures

2011	2012/2013	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 after unemployment, with semiannual follow-ups	Under discussion with regional authorities
Unemployment benefit levels		
Initial unemployment benefits are 60 percent of last wage, falling after one year to 55 percent for people living alone and 40 percent for people living in a family with another income	Initial unemployment benefits are 65 percent of last wage for three months, then 60 percent for the following nine months. After 13 months there is a reduction to 55 percent for people living alone and 40 percent for people living in a family with another income. Between 15 and 24 months of unemployment, depending on career length before unemployment, a stepwise reduction to arrive after maximum 48 months at a level just above social assistance	Implemented
Higher unemployment benefits for those above 50	Higher unemployment benefits for those above 55	Implemented
Unemployment benefits for the young entering the labor force		
Available after nine months of unemployment	Available after 12 months of unemployment	Implemented

2011	2012/2013	Status
No search effort required	Unemployment benefits conditional on search effort to be monitored semiannually	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	Implemented
Government subsidy for temporary unemployment		
Responsibility for supplementary contribution organized at the sectoral level	Responsibility for supplementary contribution at the employer level; employers will pay an increasing penalty for excess use of the system	In progress
Government subsidy for time-credit and career break system		
Five year duration before the age of 50	One year duration (two to five years if part-time) before the age of 55, with supplementary credit of maximum 48 months for specific motivated breaks, such as childcare or studies	Implemented
Unlimited duration above the age of 50	Unlimited duration above the age of 55	Implemented
72 month duration in public sector	60 month duration in public sector	Implemented
Pension benefits		
Pre-pension benefits (renamed to "Unemployment benefits with employer top-up")		
No job search requirement	Job search requirement until the age of 55 (in 2013) and 58 (2016)	Implemented
Minimum age 58	Minimum age 60 for new collective agreements (2015 for existing agreements)	Implemented
Minimum career length for full benefits 38 years for men, 25 years for women	Minimum career length 40 years for new collective agreements (2015 for existing agreements)	40 years for men, 35 years for women

2011	2012/2013	Status
Pre-pension years count fully towards pension rights at the last wage level	Pre-pension years below the age of 60 only count towards pension rights at a fixed minimum level	Implemented, also for collective dismissals
Reduced social security contributions on employer's top-up payment	Employer social security contributions will be higher and linked to age of worker entering pre-pension	Implemented
Part-time pre-pension system		
Part-time pre-pension system	No new entries from 2012	Implemented
Government subsidy for time-credit with unlimited duration		
Minimum age 50	Minimum age 55 (with exceptions for physically demanding jobs)	Implemented
Pre-pension for collective dismissal		
Minimum age 50	Minimum age 52 for loss-making companies (from 2012), raised by six months every year to 55 in 2018, 55 for restructuring companies (from 2013)	Implemented
No restrictions on dismissed workers' age structure in collective dismissals	Collective dismissals must reflect the age structure of the firm	Under discussion with social partners
Standard social security contributions	Employer social security contributions will be linked to age of worker entering pre-pension	Implemented
Unemployment benefits		
No job search requirement for those above the age of 50	Job search requirement until the age of 55 (in 2013)	Implemented
Early retirement benefit		
Minimum age 60, full career length 35 years	Minimum age increased by six months every year to 62 by 2016, full career length increased by one year every year to 40 years by 2016	Implemented
Employer obligations to older workers		
Provide a right to outplacement for those 45 and over	Outplacement right maintained. Also, draw up a plan to retain older workers	Implemented

2011	2012/2013	Status
Social security contributions		
Reduced for hiring of older long-term unemployed	Reduced for hiring of older long term unemployed and pre-pensioners	Implemented
Encourage longer employment		
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

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

Appendix II. Debt Sustainability Analysis (DSA)

To better appreciate risks, staff expanded the DSA to include scenarios that reflect some of the specific risks highlighted in the Staff Report (paragraphs 15-18). The shocks illustrated in Appendix II Figure I are as follows:

- **Growth shock.** This scenario assumes a permanent decline of real GDP growth by 1/2 standard deviation, i.e., 0.9 percentage points relative to the baseline scenario. While debt dynamics would become clearly explosive, this shock appears to be on the extreme side of the probability distribution.

- **Backtracking on fiscal consolidation.** To capture risks associated with the uncertain policy context in the post 2014 election period, this scenario assumes that no new fiscal measures are taken for the three year period 2014-16, and that consolidation resumes thereafter, albeit gradually. Specifically, for the period 2014-16, the tax ratio is assumed to remain constant, and primary expenditures are assumed to grow by 1.5 percent in real terms annually, consistent with the experience of 2011 when Belgium was under a caretaker government. The scenario illustrates that the additional amount of adjustment locked in for 2013, helps offset the subsequent slippage.

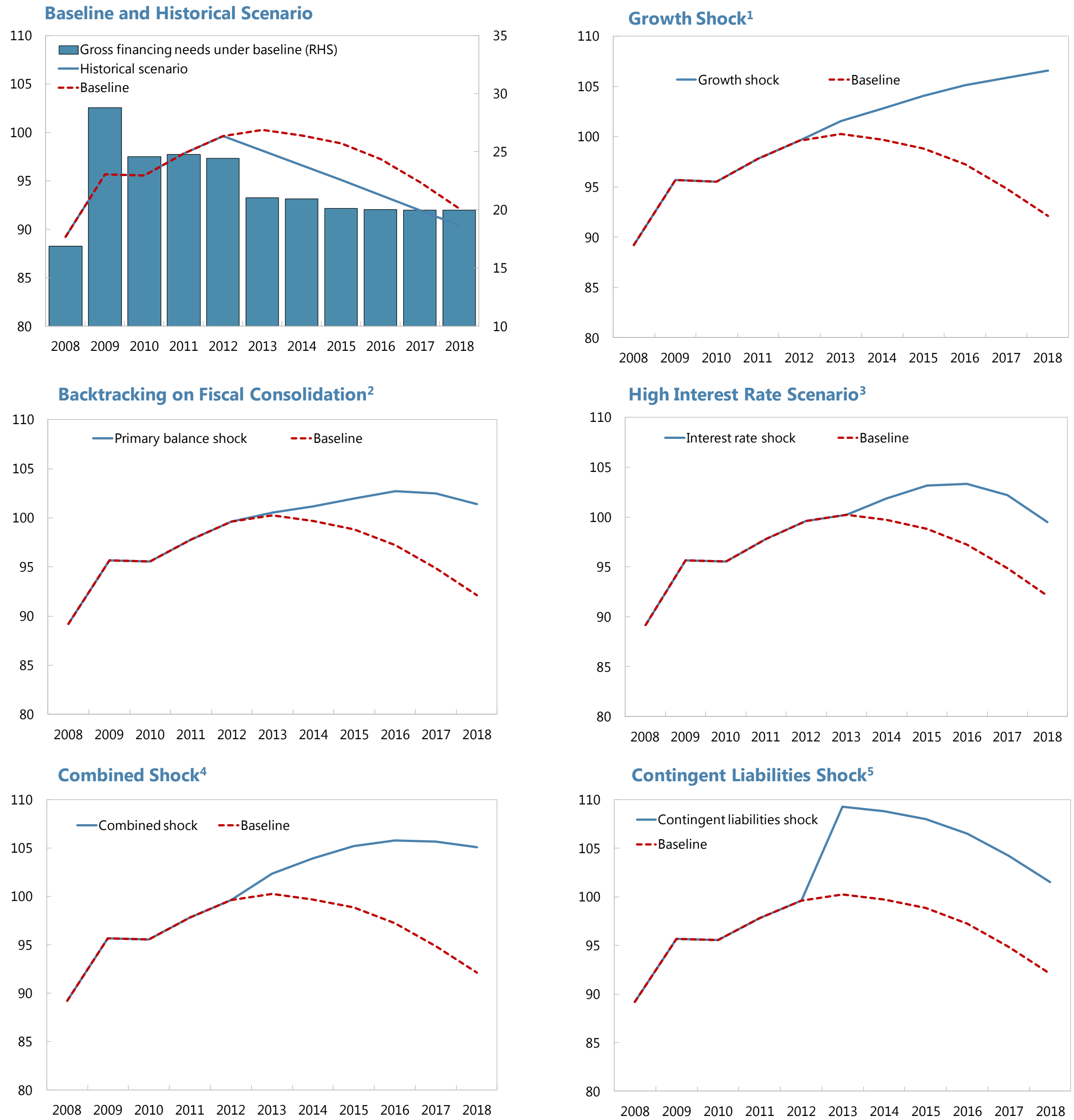
- **High interest rate scenario.** To capture the risks of renewed euro area tensions, this scenario assumes that interest rate spreads (vis-à-vis Germany) rise to the same (peak) level observed in 2011 (300 basis points), and then converge gradually back to the baseline scenario level by 2018. It does not differ very much from the standard bound test.

- **Combined scenario.** Reflecting the fact that backtracking on fiscal consolidation would likely undermine confidence, and possibly weaken growth in the short term, this scenario combines the previous two scenarios. In addition, this scenario assumes that the economic recovery will be delayed by a year, with zero real growth in 2014.

- **Contingent fiscal shock.** This scenario assumes that half of the state guarantees to the financial sector are called upon in 2013. While the debt impact is high, the nature of the state guarantees is such that they are unlikely to be exercised to such a degree.

Appendix II Figure 1. Belgium: Public Debt Sustainability: Bound Tests

(Public debt in percent of GDP)



Sources: Belgian Debt Agency and IMF staff calculations.

[1] A permanent 1/2 standard deviation shock applied to growth rate.

[2] This scenario assumes that revenue-to-GDP ratio will remain at 2013 level in 2014-2016, with real primary expenditure growing 1.5 percent per year. In 2017-2018, revenue-to-GDP is assumed to increase by 0.2 percentage points, with overall fiscal consolidation effort of 0.75 percent in structural terms.

[3] This scenario assumes that interest rate spreads vis-à-vis Germany rise to 300 basis points, and then converge gradually back to the baseline scenario level by 2018.

[4] A combined fiscal and interest rate shock, with no real growth in 2014.

[5] One-time 9 percent of GDP shock to contingent liabilities (50 percent of guarantees to the financial sector) occurs in 2013.

Appendix II Table 1. Belgium: Public Sector Debt Sustainability Framework, 2008–18
(In percent of GDP, unless otherwise indicated)

					Prel.	Projections						
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Debt-stabilizing primary balance 9/
Baseline: Public sector debt	89.2	95.7	95.5	97.8	99.6	100.3	99.7	98.8	97.2	94.9	92.1	0.6
o/w foreign-currency denominated	1.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Change in public sector debt	5.2	6.5	-0.1	2.2	1.8	0.6	-0.6	-0.9	-1.6	-2.4	-2.8	
Identified debt-creating flows	-0.9	7.2	6.3	-0.7	2.2	0.6	-0.6	-0.9	-1.6	-2.4	-2.8	
Primary deficit	-2.8	1.9	0.4	0.4	0.5	-0.9	-1.6	-2.0	-2.6	-3.1	-3.4	
Revenue and grants	48.7	48.1	48.7	49.5	50.8	51.0	51.2	51.3	51.5	51.7	51.7	
Primary (noninterest) expenditure	45.9	50.0	49.1	49.9	51.3	50.1	49.7	49.4	49.0	48.6	48.3	
Automatic debt dynamics	1.3	5.1	-0.6	-0.1	1.7	1.5	1.0	1.1	1.0	0.8	0.7	
Contribution from interest rate/growth differential	1.3	5.2	-0.6	-0.1	1.7	1.5	1.0	1.1	1.0	0.8	0.7	
Of which contribution from real interest rate	2.1	2.7	1.6	1.5	1.5	1.6	2.2	2.3	2.3	2.2	2.1	
Of which contribution from real GDP growth	-0.8	2.5	-2.2	-1.6	0.2	-0.2	-1.2	-1.3	-1.3	-1.5	-1.5	
Contribution from exchange rate depreciation	0.0	-0.1	0.0	0.0	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.6	0.2	6.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.6	0.2	6.5	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes	6.1	-0.7	-6.4	2.9	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	
Public sector debt-to-revenue ratio	183.0	199.0	196.4	197.6	196.2	196.6	194.6	192.5	188.7	183.5	178.1	
Gross financing need	16.9	28.8	24.6	24.8	24.5	21.0	21.0	20.2	20.1	20.0	20.0	
in billions of U.S. dollars	86.2	136.8	116.3	127.7	118.6	107.5	109.1	106.7	108.2	110.0	112.3	
Scenario with key variables at their historical averages					99.6	98.1	96.6	95.1	93.5	91.9	90.4	1.0
Scenario with no policy change (constant primary balance) in 2013-2018					99.6	101.6	103.1	104.7	106.3	107.6	108.8	0.8
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (in percent)	1.0	-2.8	2.4	1.8	-0.2	0.2	1.2	1.3	1.4	1.5	1.6	
Average nominal interest rate on public debt (in percent)	4.7	4.1	3.8	3.7	3.7	3.5	3.7	3.7	3.6	3.6	3.5	
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	2.6	2.9	1.8	1.7	1.6	1.7	2.3	2.4	2.4	2.4	2.3	
Nominal appreciation (increase in US dollar value of local currency, in percent)	-6.6	7.2	-9.5	-0.3	...	...	...	...	...	...	...	
Inflation rate (GDP deflator, in percent)	2.1	1.2	2.0	2.0	2.1	1.8	1.4	1.2	1.2	1.2	1.2	
Growth of real primary spending (deflated by GDP deflator, in percent)	4.6	5.9	0.5	3.6	2.5	-2.0	0.3	0.7	0.5	0.8	0.9	
Primary deficit	-2.8	1.9	0.4	0.4	0.5	-0.9	-1.6	-2.0	-2.6	-3.1	-3.4	

Source: Haver and IMF staff calculations.

Appendix III. Main Recommendations of the 2011 Article IV Consultation and Authorities' Response

Fund Recommendations	Policy Actions Taken
Fiscal Policy	
Focus fiscal consolidation on expenditure containment particularly pensions, health care, and public sector employment.	Growth of health care costs reduced and effective retirement age increased through pension reform. Additional reforms under consideration. Public sector employment reduced at the federal level, but gain more than offset by increases at subnational level.
Adopt a rules-based framework and a burden-sharing agreement between all levels of government	Burden-sharing subject to continued negotiations, including on the terms of the Sixth reform of the State; rule-based system difficult under fiscal federalism.
Allow automatic stabilizers to operate freely around medium-term consolidation path.	Automatic stabilizers allowed to operate, but fiscal policy still guided by nominal budget targets defined on a year-by-year basis.
Financial Sector Policy	
Strengthen capital buffers and stand ready to provide the necessary backstop if private capital cannot be tapped.	Capital buffers in private banks reinforced through private capital injections. Public injection of capital into Dexia, most recently in December 2012. Stress-test results of FSAP Update used to review viability of business plans and future capital needs.
Strengthen bank supervision and implement the Basel III and Solvency II regulatory frameworks.	Bank supervision being strengthened in line with FSAP Update recommendations. Implementation of Basel III and Solvency II in line with EU calendar.
Structural Reforms	
Push ahead with labor and product market reforms, including a reform of the wage indexation system.	Adjustment made to the indexation system. Zero real wage growth imposed for 2013-14. Reform of the 1996 law on competitiveness under consideration to improve linkage to wage developments abroad.
Job-friendly and revenue neutral tax reform to shift the burden away from labor taxes.	Social security contributions by employers have been reduced for certain categories.

Appendix IV. Main Recommendations of the FSAP Update

The FSAP Update for Belgium took place between November 2012 and January 2013. The mission found that the Belgian financial system has largely stabilized since the onset of the global financial crisis, but pockets of vulnerability remain. Both banks and insurers are challenged by low profitability, persistently low interest rates, and large sovereign exposures. The new regulatory structure is functioning relatively well, with clear improvements in the prudential supervision of banks and insurers. The main recommendations relate to:

Continue to enhance the intensity and intrusiveness of supervision by:

- putting in place a more systematic an proportional supervisory approach for smaller banks;
- improving the supervisory tools for monitoring conglomerates-specific risks;
- making stress testing an integral part of the macroprudential policy and surveillance framework.

Expand the review process of business models of financial institutions by:

- broadening the scope of the review to a larger sample of banks and insurance companies;
- analyzing financial stability implications of the ongoing transformation of the business models;
- implementing timely supervisory follow-up, as needed.

Strengthen the resolution framework and the deposit guarantee system (DGS) by:

- formalizing the domestic institutional arrangements for crisis management and resolution;
- revamping the DGS by establishing a segregated fund, with a recalibrated target size and enhanced scope;
- improving the resolution toolkit by introducing greater options for burden sharing; broadening the scope of asset transfers; and strengthening the powers of special inspectors.

The National Bank of Belgium (NBB) has approved an action plan to implement the FSAP Update recommendations. Immediate steps have already been taken: an MOU on cooperation and information exchange has been signed between the NBB and the Financial Services Regulatory Authority (FSMA); the NBB is considering designing the macroprudential institutional framework in line with staff advice; and a program for a systematic monitoring of small banks utilizing a risk scoring methodology has been endorsed by the NBB Board.

INTERNATIONAL MONETARY FUND

BELGIUM

April 25, 2013

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department

CONTENTS

FUND RELATIONS

(As of March 31, 2013)

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

General Resources Account:

	SDR Million	**Percent of Quota**
Quota	4,605.20	100.00
Fund Holding of Currency (Exchange Rate)	3,196.46	69.41
Reserve Tranche Position	1,408.76	30.59
Lending to the Fund		
New Arrangements to Borrow	986.81	

SDR Department:

	SDR Million	**Percent of Allocation**
Net Cumulative Allocation	4,323.34	100.00
Holdings	4,111.50	95.10

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				
	2013	2014	2015	2016	2017
Principal					
Charges/Interest	0.18	0.22	0.22	0.22	0.22
Total	0.18	0.22	0.22	0.22	0.22

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments: Not applicable

Exchange Rate Arrangements:

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

- Belgium has accepted the obligations under Article VIII, Sections 2(a) and 3 and maintains an exchange system free of restrictions on payments and transfers for current international transactions except for restrictions maintained solely for security reasons. These measures are established by the European Union regulations and have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Last Article IV Consultation :

The last Article IV consultation was concluded on March 9, 2012. The associated Executive Board assessment is available at http://www.imf.org/external/np/sec/pn/2012/pn1228.htm and the staff report (IMF Country Report No. 12/55) at http://www.imf.org/external/pubs/ft/scr/2012/cr1255.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, Securities Regulation, Insurance Supervision and Regulation, and Securities Settlement Systems	IMF Country Report No. 06/75

Summary: The 2006 FSAP found that the financial system was resilient and benefited from a number of Belgium-specific features that helped stability. The report outlined that near-term vulnerabilities appeared low, reflecting the soundness of the dominant banking system, the generally benign international financial environment, the strong financial condition of the corporate sector, and the relatively healthy financial position of the household sector. Nevertheless, identified risks may increase with a downturn in the business cycle, the increased cross-border operations, and deeper links to the global money centers.

Maintaining the soundness of the financial system and safeguarding financial stability would, in the short run, call for actions aimed at: (i) addressing identified weaknesses in the supervision of the insurance sector; (ii) establishing an effective mechanism for consolidated supervision of the bancassurance groups; (iii) devoting adequate resources and capacity to the oversight and supervision of the Euroclear Group/Euroclear Bank; (iv) putting in place an overarching corporate governance framework applicable to the financial sector; (v) continuing to place emphasis on liquidity management; and (vi) further enhancing the existing crisis management arrangements.

The 2006 FSAP outlined that over the medium term, the main challenges were to: (i) ensure that the authorities' capacity to identify and address risks in the financial system keeps pace with the rapidly evolving markets and increased complexity of financial groups against the backdrop of European and global integration; (ii) maintain vigilance over the financial sector's expansion abroad to prevent such a beneficial move from threatening the stability of the financial system; and (iii) overhaul the supervision of the pension industry.

During the 2013 FSAP Update, staff assessed progress with the implementation of the 2006 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 macro-financial risk dashboard to monitor systemic and emerging risk. Funding and risk management standards are being improved. Supervisory tools for monitoring group-wide risks need to be upgraded. The crisis management framework, while updated for handling systemic firms, is in need of a further upgrade owing in part to EU-wide developments.

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

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

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

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

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

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

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

In line with the relevant IMF Board decisions, a full reassessment of Belgium's AML/CFT framework is required. Belgium was last assessed in 2005 by the Financial Action Task Force (FATF), and is tentatively scheduled to undergo a new assessment to be conducted by the FATF in September 2014.

STATISTICAL ISSUES

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

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

General government revenue, expenditure, and balance on an accrual basis (ESA95) are published annually. The NBB publishes monthly data on central government operations and quarterly data on general government operations since April 2007.

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

Key publicly accessible websites for macroeconomic data and analysis are:

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

Table of Common Indicators Required for Surveillance

(As of April 12, 2013)

	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	4/11/13	4/12/13	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	3/13	4/13	M	M	M
International Investment Position	2011	6/12	A	A	A
Reserve/Base Money	3/13	4/13	M	M	M
Broad Money	3/13	4/13	M	M	M
Central Bank Balance Sheet	3/13	4/13	M	M	M
Consolidated Balance Sheet of the Banking System	3/13	4/13	M	M	M
Interest Rates[2]	4/11/13	4/12/13	D	D	D
Consumer Price Index	2/13	4/13	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2012:Q3	1/13	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[5]	2012:Q3	1/13	Q	A	A
Stock of Central Government Debt	3/13	4/13	M	M	M
External Current Account Balance	2012:Q4	4/13	Q	Q	Q
Exports and Imports of Goods and Services	12/12	3/13	Q	Q	Q
GDP/GNP	2012:Q4	3/13	Q	Q	Q
Gross External Debt	2012:Q4	3/13	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)

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/55
FOR IMMEDIATE RELEASE
May 17, 2013

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

IMF Executive Board Concludes 2013 Article IV Consultation with Belgium

On May 10, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belgium.[1]

Background

The economy has entered a second year of near zero growth amid persistent vulnerabilities. The economy showed considerable resilience through 2011 both in terms of output and employment, reflecting the effects of large automatic stabilizers and job subsidies, as well as the strong financial position of the non-financial private sector which prevented a severe retrenchment of private investment and consumption. However, the rebound stalled in 2012 as rising unemployment and the weak outlook in Europe took a toll on consumption and investment: domestic demand contracted by 0.6 percent, and real GDP by 0.2 percent. Since 2011, Belgium has also fallen behind its main economic partners (Germany, France, and the Netherlands) in terms of export performance, as unit labor costs (ULCs) have grown faster, pushed by sticky inflation and wage indexation. To help restore competitiveness, a real wage freeze is in force for 2013 and 2014. The revision of the composition of the price index, in line with an updated consumption basket, is expected to moderate measured inflation by an estimated 0.4 percentage points in 2013-14.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

After a prolonged period of political negotiations, the broad coalition government that came into office in December 2011 was able to take decisive action which contributed to a marked improvement of financial market conditions for Belgium. Specifically, the government undertook significant fiscal consolidation, introduced ambitious reforms to pensions and unemployment insurance, and decided on a further devolution of powers to the regions and communities. Consolidation efforts reduced the structural fiscal deficit by 0.6 percent of GDP in 2012. However, the headline deficit rose from 3.7 percent of GDP in 2011 to 3.9 percent in 2012, reflecting cyclical factors and a further recapitalization of the Dexia Group in late 2012. Notwithstanding these efforts, the trend growth of primary government spending remains elevated due to widespread indexation of public spending, occasional real increases in social transfers on top of that, and rising operational expenses and employment at the level of subnational governments.

Demographic and productivity trends pose a significant challenge to Belgium's potential growth prospects. The interactions of the pension and unemployment benefit systems, as well as various schemes to promote partial employment have created unemployment traps and encouraged early departure from the labor force. As a result, the employment rate has been structurally low (67 percent of working age population in 2011). The government undertook important reforms in 2012 to increase incentives to work, with the objective of raising the employment rate to 73 percent by 2020. At the same time, total factor productivity growth has also slowed significantly over the past decade, undermining real wage growth prospects.

Financial sector repair has continued to reduce risks to financial stability. As a result of decisive policy actions and divestment of cross-border operations, the banking system has become smaller, less complex, and less leveraged. In the process, foreign ownership of banks has increased to 65 percent of assets, and government ownership to 16 percent of assets (i.e., Belfius, the nationalized and rebranded banking arm of Dexia). A large and stable deposit base and the strategic re-orientation towards the domestic market helped support domestic credit supply, while non-performing loans have remained low so far. Supervisory action, deleveraging, and improved risk management pushed banks to stronger capital positions, with aggregate Tier 1 capital ratio rising to 15.3 percent in September 2012. The largest part of legacy assets has been removed from the balance sheet of banks, although KBC (the largest Belgian private bank) and Belfius still retain some structured products (in runoff mode). Liquidity has improved and domestic banks have made progress in repaying ECB Long-term Refinancing Operation (LTRO) support since the beginning of the year.

Executive Board Assessment

Executive Directors welcomed the efforts undertaken by the government to consolidate public finances and the result in improvement in market confidence. Notwithstanding these efforts, the external environment remains unfavorable and the growth outlook continues to be weak. Directors called for sustained strong policies to mitigate vulnerabilities in the fiscal position, competitiveness, and the financial sector.

Directors emphasized that the weak macroeconomic environment, high public debt, and contingent liabilities put a premium on maintaining a steady pace of structural fiscal adjustment. They agreed that anchoring fiscal adjustment to a structural deficit target would have several benefits, including more predictable policies, a reduced reliance on one-off revenue measures, and the ability of automatic stabilizers to operate. In this context, most Directors broadly welcomed the government's revised 2013 budget and considered the targeted pace of structural adjustment to be appropriate. A number of Directors suggested that an accelerated pace of fiscal adjustment would help strengthen credibility and anchor expectations. Directors saw benefits in a clear rule-based multi-year fiscal policy framework, which would ensure adequate burden-sharing across all levels of government and consistency with overall fiscal targets.

Directors agreed that structural reforms should be accelerated to enhance productivity, restore cost competitiveness, and boost labor supply, which would contribute to enhancing growth prospects. They emphasized that further pension and social policy reforms, consistent with fiscal consolidation objectives, are needed to raise the effective age of retirement and employment rates. Directors noted that wage and price indexations reduce the economy's ability to adjust to cost misalignments. They recommended the authorities phase out price indexation and strengthen the link between domestic wage developments and those in partner countries, while providing flexibility to correct for past deviations.

Directors welcomed the important actions taken to preserve financial stability, and encouraged the authorities to maintain the momentum to address remaining vulnerabilities. Directors recommended that banks' capital buffers be further strengthened in line with Basel III requirements and noted that pressures on profits call for a regular review of the viability of banks' business models. They underscored the need to strengthen the national resolution and deposit insurance frameworks and to sustain positive changes to supervisory practices. Finally, Directors considered that the incomplete banking union in Europe has hampered the efficient intermediation of the liquidity surplus of Belgian banks, but the tax advantage granted to savings account may have exacerbated the problem. Directors recommended that taxation of financial income should be rebalanced in favor of long-term saving regardless of the underlying financial instruments.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case. The staff report (use the free Adobe Acrobat Reader to view this pdf file) for the 2013 Article IV Consultation with Belgium is also available.

Belgium: Selected Economic Indicators, 2009–18

				Prelim.			Projections			
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
	(Percentage change from the previous period; unless otherwise indicated)									
Real economy										
Real GDP	-2.8	2.4	1.8	-0.2	0.2	1.2	1.3	1.4	1.5	1.6
Domestic demand	-2.2	1.8	1.8	-0.6	-0.1	1.0	1.1	1.3	1.4	1.5
Private consumption	0.6	2.7	0.2	-0.6	0.0	0.9	1.1	1.4	1.5	1.6
Public consumption	1.9	0.7	0.8	0.1	0.0	0.5	0.6	0.6	0.8	0.8
Gross fixed investment	-8.4	-1.4	4.1	-0.6	-0.5	1.6	1.8	2.0	2.1	2.2
Business investment	-10.2	-3.2	8.6	0.1	-0.7	1.5	1.6	1.7	1.8	1.9
Public investment	9.7	-3.1	5.3	1.5	-4.1	-1.0	0.4	1.0	1.6	2.0
Dwellings	-8.6	3.1	-5.3	-3.0	1.0	2.6	2.7	2.8	2.9	3.0
Stockbuilding[1]	-1.0	0.4	0.6	-0.2	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance[1]	-0.7	0.6	0.0	0.4	0.3	0.3	0.2	0.1	0.1	0.1
Exports, goods and services	-11.1	9.6	5.5	0.4	0.6	2.5	2.7	3.0	3.2	3.5
Imports, goods and services	-10.6	8.9	5.6	-0.1	0.3	2.2	2.6	3.0	3.2	3.5
Household saving ratio (in percent)	18.1	15.2	14.1	15.1	15.7	16.1	16.4	16.5	16.7	16.7
Potential output growth	0.9	0.8	0.8	0.8	0.8	1.0	1.1	1.2	1.4	1.4
Output gap (in percent)	-1.8	-0.2	0.7	-0.2	-0.9	-0.7	-0.5	-0.4	-0.2	0.0
Employment										
Unemployment rate	7.8	8.2	7.2	7.6	8.0	8.1	8.1	7.8	7.6	7.4
Employment	-0.2	0.7	1.4	0.2	-0.2	0.4	0.7	0.8	0.9	0.9
Prices										
Consumer prices	0.0	2.3	3.4	2.6	1.7	1.4	1.2	1.2	1.2	1.2
GDP deflator	1.2	2.0	2.0	2.1	1.8	1.4	1.2	1.2	1.2	1.2
ULC (in whole economy)	3.8	-0.3	2.7	3.6	1.2	1.3	1.2	1.2	1.2	1.2
	(Percent of GDP; unless otherwise indicated)									
Public finance										
Revenue	48.1	48.7	49.5	50.8	51.0	51.2	51.3	51.5	51.7	51.7
Expenditure	53.7	52.6	53.4	54.8	53.6	53.3	52.9	52.4	51.9	51.5
General government balance[2]	-5.6	-3.8	-3.7	-3.9	-2.5	-2.0	-1.5	-0.8	-0.1	0.3
Structural balance	-3.8	-3.7	-4.0	-3.4	-2.5	-1.9	-1.3	-0.6	-0.1	0.3
Structural primary balance	-0.2	-0.3	-0.7	0.1	0.8	1.6	2.2	2.8	3.2	3.5
Primary balance	-1.9	-0.4	-0.4	-0.5	0.8	1.5	2.0	2.6	3.2	3.5
General government debt	95.7	95.5	97.8	99.6	100.3	99.9	99.0	97.3	94.9	92.1
Balance of payments										
Trade balance	0.5	1.0	-1.2	-0.7	-0.6	-0.3	-0.1	0.2	0.4	0.7
Current account	-1.4	1.9	-1.1	-1.4	-0.7	-0.3	0.1	0.5	0.9	1.2
Terms of trade (percent change)	3.5	-2.0	-1.4	-1.7	-0.1	0.2	0.2	0.2	0.1	0.1
Exports, goods and services (volume, percent change)	-10.9	8.5	4.1	-1.1	0.6	2.5	2.7	3.0	3.2	3.5
Imports, goods and services (volume, percent change)	-11.6	7.0	3.7	-1.6	0.3	2.2	2.6	3.0	3.2	3.5
Memorandum items										
Nominal GDP (billions of euros)	341	356	370	377	384	394	404	415	426	438
Population (millions)	10.8	10.8	11.0	11.1	11.2	11.3	11.3	11.4	11.5	11.6

Sources: Haver, Belgostat, and IMF staff projections.
1/ Contribution to GDP growth.
2/ Defined as in the Excessive Deficit Procedure.