BELGIUM: 2016 Article IV Consultation—Press Release; Staff Report; And Statement By The Executive Director For Belgium

INTERNATIONAL MONETARY FUND

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BELGIUM

March 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR BELGIUM

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 2016 Article IV consultation with Belgium, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 2, 2016 consideration of the staff report that concluded the Article IV consultation with Belgium.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 2, 2016, following discussions that ended on December 15, 2015, with the officials of Belgium on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 12, 2016.
- An **Informational Annex** prepared by the IMF staff.

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

Selected Issues

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COMMUNICATIONS DEPARTMENT

Press Release No. 16/93
FOR IMMEDIATE RELEASE
March 7, 2016

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

IMF Executive Board Concludes 2016 Article IV Consultation with Belgium

On March 2, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Belgium.

The recovery is expected to continue at a modest pace in the near term, driven primarily by private consumption, supported by continued low energy prices. However, downside risks loom large, including from the slowdown in emerging markets, financial volatility, and geopolitical stress.

In its first year in office, the new government has taken important steps to promote competitiveness, job creation, and fiscal sustainability. Key reforms enacted include pension reforms, a suspension of wage indexation ("*saut d'index*"), and a "tax shift" reducing the labor tax wedge. The sixth reform of the state has brought a further devolution of responsibilities, greater tax autonomy for the regions, and a gradual rollout of a revised funding and transfer system.

Notwithstanding recent reform progress, major challenges continue to weigh on Belgium's economic prospects—including high public debt and severe labor market fragmentation. The fiscal gains made in previous decades have been reversed since the crisis, and the public debt-to-GDP ratio has returned to triple digits. The pace of consolidation since 2010 has been much slower than in other euro area countries, as public spending continued to grow faster than GDP until recently. With the deficit hovering around three percent of GDP, fiscal sustainability is tenuous and sensitive to potential macroeconomic shocks. And while private employment is beginning to recover, there is entrenched high unemployment and inactivity among certain groups, including the young, the low-skilled, and immigrants from outside the European Union.

[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.

Executive Board Assessment[2]

Executive Directors commended the authorities for the recent reforms, including wage moderation, the tax shift away from labor, and the recent pension reform, which should support job creation and significantly reduce the projected increase in the economic cost of aging. Looking ahead, Directors considered that high public debt and structural rigidities pose challenges to the outlook and that risks are tilted to the downside. They noted that in order to build buffers against future shocks, the focus should be to bring down public debt while nurturing the recovery and social cohesion. On the structural side, efforts are needed to address labor market fragmentation and further strengthen the financial sector.

Directors concurred that the government's ambitious goal of reaching structural fiscal balance by 2018 would require substantial additional measures. To minimize the drag on growth, fiscal consolidation should be primarily expenditure-based and underpinned by high quality structural measures. In particular, Directors saw scope for making public spending more efficient, including through well-targeted reductions in public employment, enhanced means-testing in social spending to better protect the most vulnerable, and improved budgetary control across all levels of government. On the revenue side, Directors recommended more efficient taxation of wealth and real estate and phasing out of generous tax exemptions.

Directors agreed that addressing the severe labor market fragmentation through a comprehensive and inclusive jobs strategy is essential to boosting growth prospects. They encouraged further efforts to reduce the labor tax wedge for the low-skilled, improve education and training, and strengthen incentives toward active labor market participation. These employment policies should be complemented by steps to remove barriers to geographic mobility, promote competition, and reduce the administrative burden on companies.

Directors shared the view that Belgium's financial sector is generally healthy, and maintaining its soundness will be important to ensure resilience against shocks. Banks' business models should continue to adapt in the context of a protracted low-interest environment. Given the strong growth in mortgage lending, Directors recommended vigilance and proactive supervision, including consideration of targeted prudential measures to limit overexposures of vulnerable borrowers.

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

Belgium: Selected Economic Indicators (2013–16)

	2013	2014	2015 Est.	2016 Proj.
Output (change in percent)				
Real GDP growth	0.0	1.3	1.4	1.4
Domestic demand	-0.7	1.7	1.6	0.8
Foreign balance (contribution to GDP growth)	0.7	-0.3	-0.2	0.6
Employment				
Employment (change in percent)	-0.4	0.3	1.0	0.7
Unemployment (percent)	8.4	8.5	8.4	8.2
Prices (change in percent)				
Inflation	1.2	0.5	0.6	1.6
General government finances (percent of GDP)				
Revenue	52.7	52.0	51.2	50.8
Expenditure	51.4	51.0	50.3	49.7
Fiscal balance	-2.9	-3.1	-2.8	-2.6
Public debt	105.1	106.7	106.2	105.9
Money and credit				
Credit to the private sector (change in percent)	5.7	5.3	6.5	…
3-month treasury bill interest rate (percent)	0.0	0.0	-0.2	…
Balance of payments (percent of GDP)				
Current account	-0.2	-0.2	0.9	1.4
Foreign Direct Investment	0.9	2.6	2.8	3.0
Exchange rate (change in percent)				
Real effective exchange rate	3.6	0.5	-8.7	…

Sources: Haver, Belgostat, and IMF staff projections.

INTERNATIONAL MONETARY FUND

BELGIUM

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

February 12, 2016

KEY ISSUES

Context. The new government has taken important steps to support job creation and address the cost of aging—notably through wage moderation, pension reform, and a tax shift. But growth prospects remain mediocre, public debt very high, and the labor market severely fragmented. Downside risks loom large, including from the slowdown in emerging markets, financial volatility, and geopolitical stress.

Policies. The central task is to achieve a lasting reduction in public debt while nurturing the recovery and social cohesion. With persistent fiscal deficits and public debt again well above 100 percent of GDP, fiscal sustainability is highly sensitive to shocks. While employment is recovering, there is entrenched high unemployment among the young, the low-skilled, and immigrants from outside the EU.

Fiscal. The government's goal of achieving structural fiscal balance by 2018 is laudable but ambitious—with almost two percent of GDP of measures yet to be identified. Adjustment should be based on reforms that improve efficiency, thereby minimizing the drag on growth. There is significant scope for greater spending efficiency, including through targeted staffing reductions, enhanced means-testing in social spending, and improved budgetary control. The tax shift could be partly financed through a more efficient taxation of wealth and real estate, and a further greening of taxes, including by eliminating generous fiscal incentives for company cars.

Jobs. To tap Belgium's full economic potential, there is an urgent need to address the severe labor market fragmentation via a comprehensive and inclusive jobs strategy. This should include further cuts in the labor tax wedge for lower incomes, better education and training to meet language and technical requirements, as well as enhanced activation policies and work incentives. Barriers to geographical mobility should be reduced, including by addressing the severe traffic congestion in large urban centers. And the high administrative burden of regulation should be reduced.

Financial stability. The banking sector has returned to profitability. Challenges from the protracted low-interest environment and heavy reliance on mortgage lending warrant further adjustment in business models and targeted prudential measures.

Approved By
Mr. Decressin (EUR), Mr. Panth (SPR)

Discussions took place in Brussels December 2–15, 2015. The staff team comprised C. Mumssen (head), J. Eugster, J.J. Hallaert, P. Kongsamut (all EUR), and H. Schoelermann (EUO), and was assisted at HQ by D. Mason and A. Valladares. W. Kiekens and J. Clicq (OED) and J. Decressin (EUR) participated in the discussions. Staff met with central bank governor J. Smets, Ministers J. Van Overtveldt (Finance), K. Peeters (Economy and Labor), S. Wilmés (Budget), and D. Bacquelaine (Pensions), C. Lacroix (Minister of Budget, Public Service, and Administrative Simplification of Wallonia), A. Turtelboom (Vice minister-president and Minister of Finance, Budget, and Energy of Flanders), senior officials from the Brussels Capital Region, other senior government officials, and representatives of the private sector, academics, and trade unions.

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CONTEXT: MODERATE RECOVERY, REFORMS ADVANCE

1. **In its first year in office, the government has taken important steps to promote competitiveness, job creation, and fiscal sustainability**. The three main reforms enacted were pension reforms raising the retirement age, a suspension of wage indexation ("*saut d'index*"), and a "tax shift" reducing the labor tax wedge. Widespread strikes took place in the initial months of the right-leaning coalition, but recent efforts to better involve social partners in certain policy deliberations have helped improve relations. At the same time, the sixth reform of the state has brought a further devolution of responsibilities, greater tax autonomy for the regions, and a gradual rollout of a revised funding and transfer system. These policies are generally consistent with several of last year's Article IV recommendations (Appendix I).

2. **Output growth has been resilient, supported by solid wage growth and comparatively slow fiscal consolidation.** Consumer spending contributed more than half to 2007–14 real GDP growth, benefiting from healthy private sector balance sheets, robust mortgage lending, and solid wage growth including from the automatic indexation mechanism (until its suspension a year ago). In contrast to many other euro area countries, post-crisis fiscal consolidation was very modest, notwithstanding a sizeable level of debt and deficits, making government spending another important driver of growth. Investment contributed the remainder, while net exports were broadly neutral (Figure 1). In 2015, growth was again highly reliant on private consumption as public spending slowed while trend investment and net export growth (abstracting from large one-off transactions) were relatively subdued.[1]

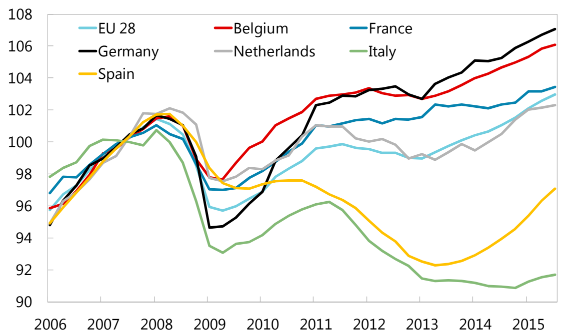
3. **Government policies have also contributed to inflation and employment growth above euro area averages.** Wage indexation and continued government spending propped up domestic demand in the aftermath of the crisis, and the output gap did not widen as much as in other EU countries. As a result, core inflation has remained above peers, averaging around 1½ percent since 2011. Headline inflation rebounded in 2015, as the effect of the collapse of energy prices in the second half of 2014 wore off. At the same time, employment growth has benefitted from public support through direct hiring as well as a sharp rise in labor subsidies. As a result, the unemployment rate, at 8½ percent, is only one percentage point above the pre-crisis level, and almost entirely structural.

[1] Investment and import figures were distorted by two large transactions in late 2014 and early 2015 involving a purchase of container ships and of patents.

Figure 1. Real Sector Developments

Output growth has been resilient …

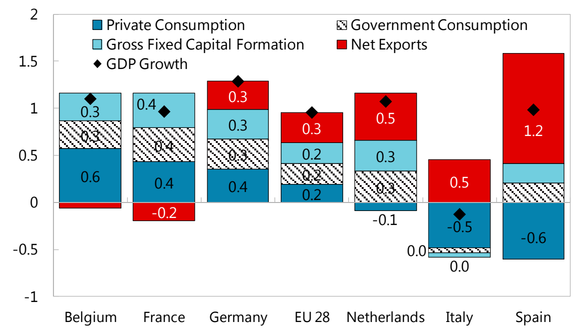
Real GDP During and Since the Crisis
(In index, 100 = 2007)



Sources: Haver Analytics and Eurostat.

…thanks to robust domestic demand.

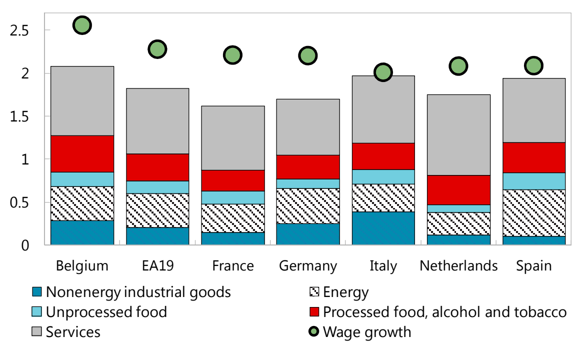
Growth Contributions of Selected Components
(In percent, 2007-14 average)



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

Inflation and wage growth have been above euro area peers.

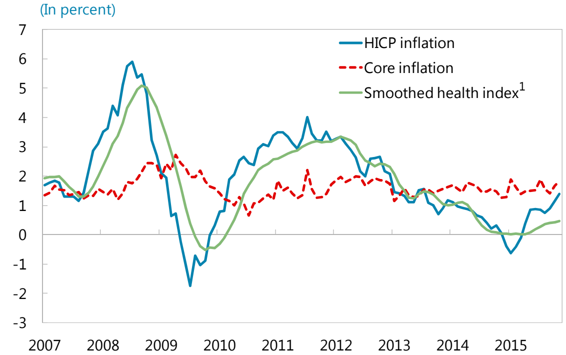
Contributions to HICP Inflation
(In percent, 2007-2014 average)



Sources: Haver Analytics and Eurostat.

Core inflation has been stable, while consumer prices and the health index declined due to low energy prices.

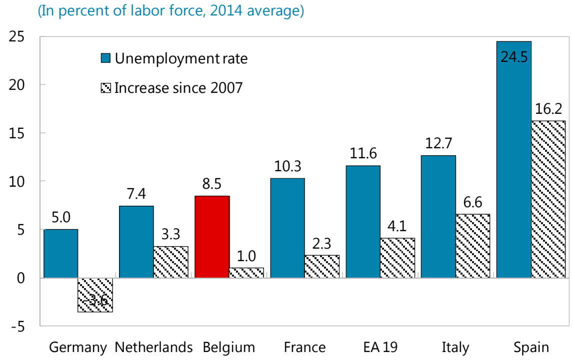
Annual Inflation
(In percent)



Source: Haver Analytics.

The unemployment rate has increased only modestly since the crisis…

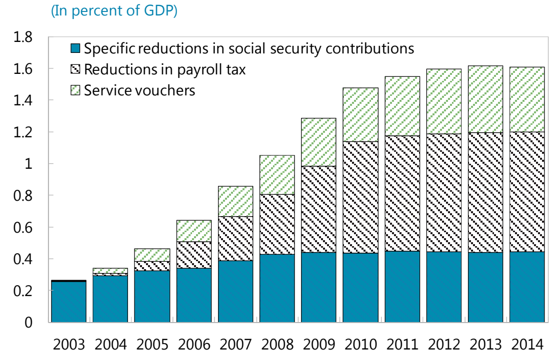
Unemployment Rates
(In percent of labor force, 2014 average)



Sources: Haver Analytics and Eurostat.

… partly due to ballooning labor subsidies.

Labor Subsidies
(In percent of GDP)



Source: NBB.

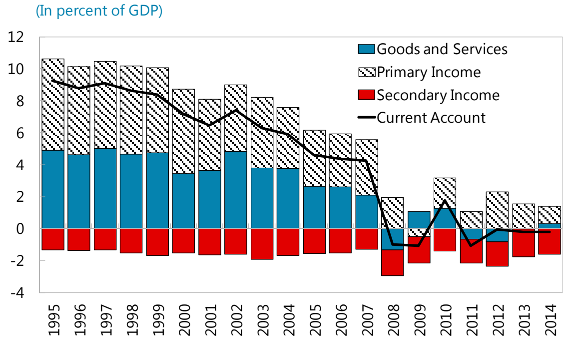
[1] Used for wage indexation.

4. **Belgium's external competitiveness has declined significantly since the early 2000s.** After years of large current account surpluses, Belgium gradually lost export market shares, until a sharp fall in net exports brought the current account into broad balance during the crisis (Figure 2). This trend was partly due to high and rapidly growing labor costs that had outpaced productivity growth since the mid-2000s. More recently, with policy actions imposing wage moderation (including the *saut d'index*), a weaker euro, and growing labor productivity, the current account may again move into a small surplus, thanks to strong growth of service exports and income from the large net international investment position. Notwithstanding these recent improvements, staff's preliminary assessment under the External Balance Assessment (EBA) suggests that Belgium's external position is still moderately weaker than medium-term fundamentals and desirable policies would imply (see Appendix I). On the basis of the EBA exchange rate assessment, staff considers the real effective exchange rate to be overvalued by between 0 to 10 percent.

Figure 2. External Competitiveness

The current account surplus vanished during crisis.

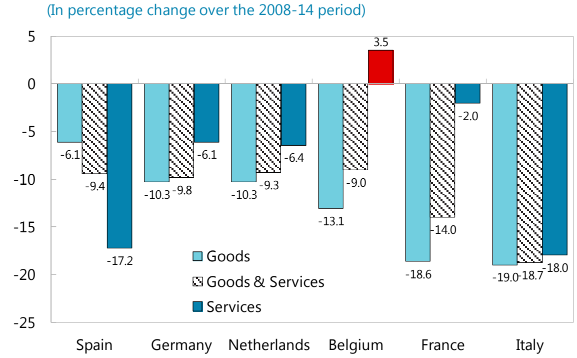
Current Account Balance and Components
(In percent of GDP)



Sources: NBB, Haver Analytics and IMF Staff calculations.

Falling export market shares for goods were partially compensated by gains in services.

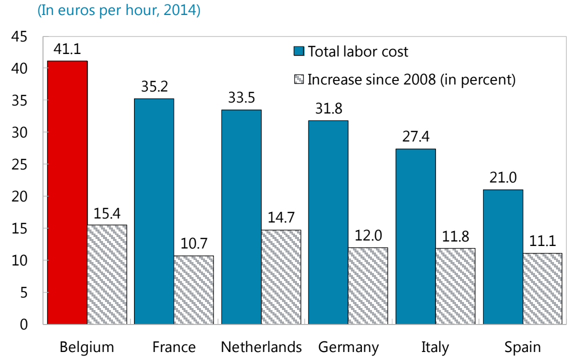
Evolution of World Export Shares by Type
(In percentage change over the 2008-14 period)



Sources: Eurostat and IMF Staff calculations.

Competitiveness has suffered from high and growing labor costs, which current policies are trying to reverse.

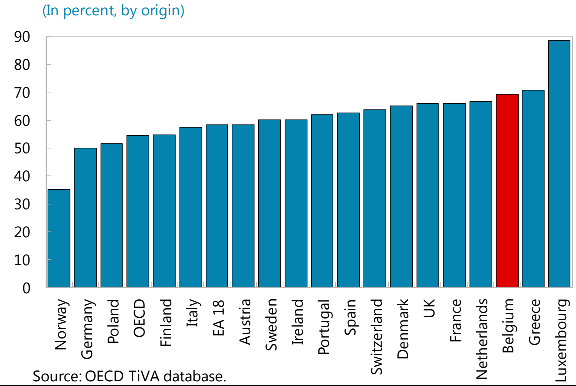
Total Labor Costs - Business Economy
(In euros per hour, 2014)



Sources: Haver Analytics and Eurostat.

Belgium's exports rely heavily on services, which are constrained by product market regulation.

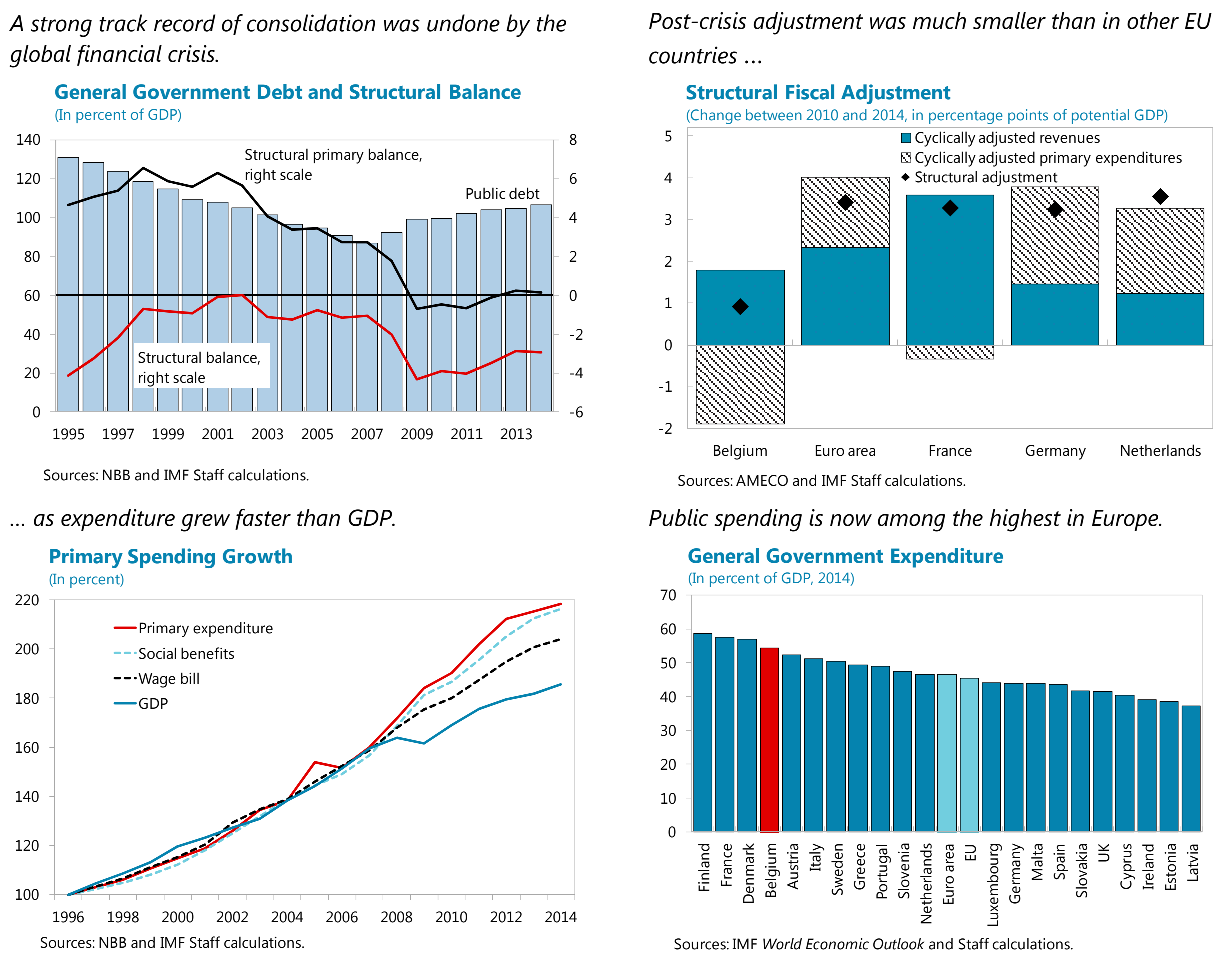
Services Share in Exports Value Added, 2011
(In percent, by origin)



Source: OECD TiVA database.

5. **A long track record of fiscal consolidation has been undone during the crisis, bringing the public debt ratio back well into the triple digits.** After more than a decade of running large structural primary surpluses, Belgium reduced its public debt-to-GDP ratio from 131 percent in 1995 to 87 percent in 2007 (Figure 3). Since then, real primary expenditure growth, driven by social benefits and the wage bill, outpaced real GDP growth, offsetting much of the revenue-based adjustment effort. The resulting structural deficits—plus the one-off costs for crisis support to banks—have brought public debt back to 106 percent of GDP at end-2015. While Belgium exited the Excessive Deficit Procedure in June 2014, the 2014 deficit turned out still marginally above 3 percent of GDP. The European Commission judged this episode to be due to exceptional and temporary factors; an assessment that was supported by significant reforms advanced by the new government and ambitious fiscal structural adjustment objectives.

Figure 3. Fiscal Developments



6. **The recent pension reform is a major step toward addressing the long-term cost of aging.** Successive reforms of early retirement schemes starting in 2012 have been complemented by a broader pension reform adopted in August 2015 (See Appendix III). The main elements involve: first, a gradual increase in the legal retirement age from 65 to 66 in 2025 and 67 in 2030; second, raising the minimum age and career length required for early retirement starting in 2017; and third,

boosting the minimum age for survivor's pension. The reforms are expected to halve the annual growth in pension costs in the long run from the current 4–5 percent per year. They should also accelerate progress in increasing the employment rate as well as the effective retirement age, which in 2012 was the second lowest in the OECD (59.2 years).

7. **The reduction in social security contributions as part of the tax shift should boost employment growth**. The tax shift aims to improve competitiveness and strengthen purchasing power through tax relief and lower social security contributions for employers and reduced personal income taxes for employees. Given that the main measures are targeted toward lower incomes, they could stimulate significantly employment rates of vulnerable groups (see Box 1). Counterbalancing measures under the tax shift include increases in the VAT on electricity, excises on diesel, alcohol, tobacco, and sugary drinks, increases on withholding taxes, and new taxes on certain financial vehicles and on short-term capital gains. The yield of some of the new tax measures is uncertain, and the tax shift is not revenue neutral, even if supply-side benefits (Box 1) are taken into account.

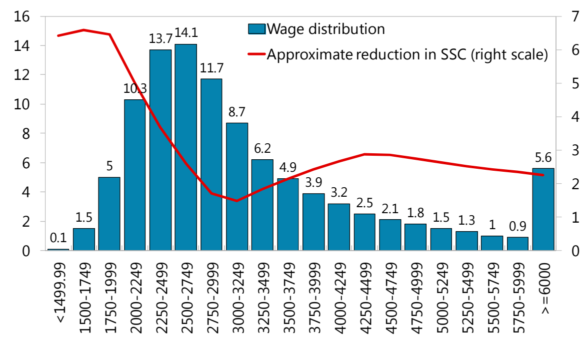
Box 1. Employment Impact of Tax Wedge Reductions

To address some of the effects related to the high and—until recently—rapidly increasing labor costs, the coalition government, building on the previous government's measures, is reducing the employers' social security contribution (SSC) gradually from 33 percent to 25 percent in 2019. This reduction is in effect smaller on average than it might seem, given the numerous existing exceptions which leave the current effective contribution rate closer to 27 percent.

The measure is targeted at lower salaries, whose contribution rates will be reduced over-proportionally (chart). The contribution for an employee at the minimum wage will be reduced by 6½ percentage points, while labor costs for the median worker will fall by only about 1¾ percent. The targeting of low wages favors the young and the unskilled, who tend to have lower wages, but also the lowest employment rates. The tax shift has thus the potential to support activation for some of the most vulnerable groups.

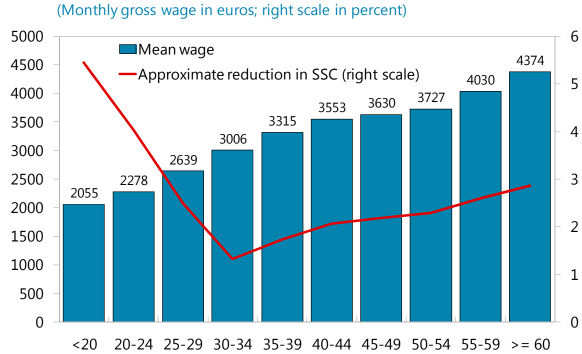
Aggregate effects could be significant. Regression results based on data that distinguishes wage- and non-wage labor costs suggest that the employment rates of workers close to the median of the distribution will increase by about 0.7 percentage points, and that for minimum wage earners by 1.6 percentage points.

Wage Distribution in Belgium and SSC Reduction, 2013
(In percent of full-time employed, by wage; right scale in percent)



Sources: SPF Economy and IMF Staff calculations.

Average Gross Wage by Age Group, 2013
(Monthly gross wage in euros; right scale in percent)



Sources: SPF Economy and IMF Staff calculations.

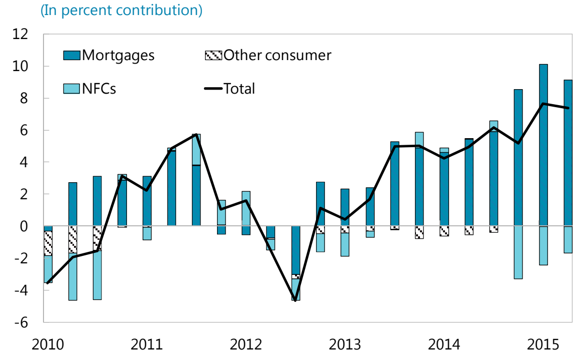
This could be substantial, particularly for the low-skilled whose employment rate is 37 percent. The reduction of labor costs alone could increase aggregate employment by an additional 35,000–40,000 jobs, of which more than a third would be among the lower-skilled. Belgian estimates by the Planning Bureau and the National Bank of Belgium (NBB) using more fully specified models are in a similar range. They suggest the creation of an additional 45,000–65,000 jobs by 2021. In the NBB's model, the reduction of the employers' SSC contributions alone will create 49,000 jobs by 2021.

8. **The banking sector has refocused on the domestic market, in particular mortgage lending**. Bank assets have fallen from above 400 percent of GDP in 2008 to about 275 percent in 2014, largely by shedding activities abroad. Credit to the private sector has risen strongly since early 2013, driven primarily by household mortgage growth (Figure 4), although the most recent growth is affected by anticipating reductions in tax deductibility ("*bonus logement*") at the regional level. Gross household indebtedness has risen to about 62 percent of GDP, though net financial assets have remained comparatively high. Bank credit to non-financial corporations has been growing much more moderately, partly because large companies can finance themselves on the markets. The aggregate size of corporate balance sheets, with liabilities at almost 290 percent of GDP in 2014, reflects Belgium's position as a corporate treasury center where multinationals raise funds in Belgium and distribute them to related entities abroad. Excluding these positions, corporate debt (bank loans and debt securities issued) was around 45 percent of GDP in mid-2015.

Figure 4. Credit Conditions

Credit growth has been rising, driven by mortgages.

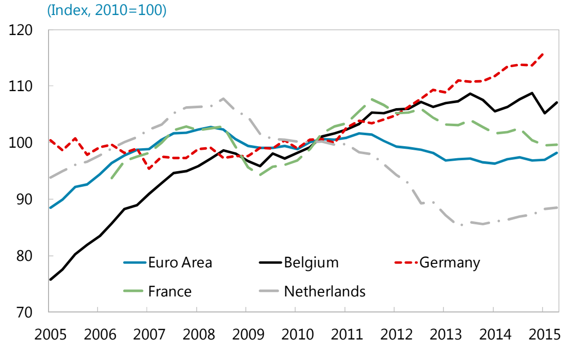
Credit to the Non-Financial Private Sector
(In percent contribution)



Sources: NBB and IMF Staff calculations.

House prices have recently stabilized.

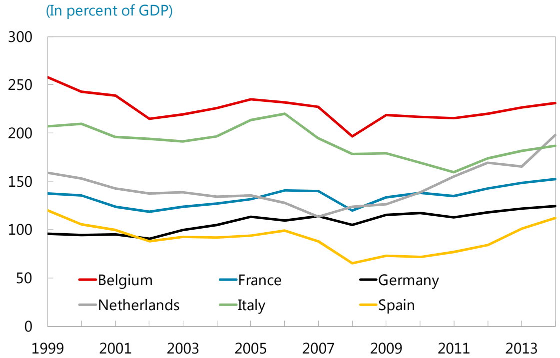
International Comparison of House Price Evolutions
(Index, 2010=100)



Source: EuroStat.

Household net financial wealth has remained above peers.

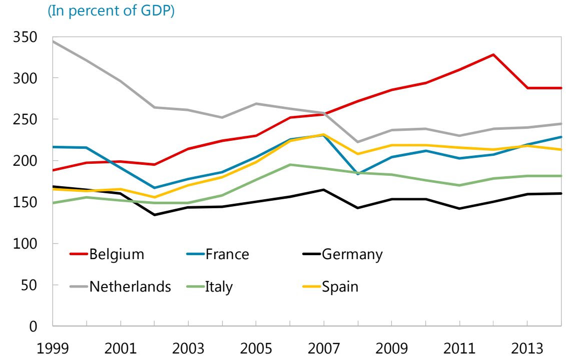
Household Net Financial Assets
(In percent of GDP)



Sources: Haver Analytics and Eurostat.

Corporate liabilities are high, partly inflated by holding companies and treasury centers with related firms abroad.

Consolidated Gross Liabilities of Non-Financial Corps.
(In percent of GDP)



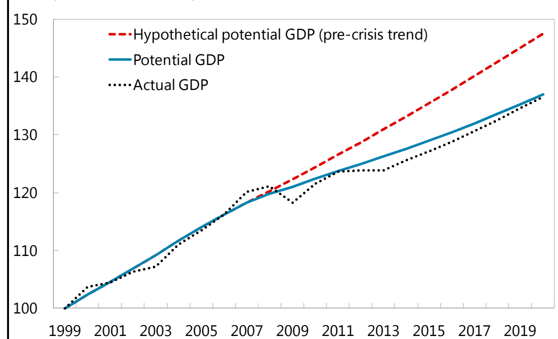
Sources: Haver Analytics and Eurostat.

OUTLOOK: MEDIOCRE GROWTH, DOWNSIDE RISKS

9. **The recovery is expected to continue at a modest pace in the near term, while inflation will spike temporarily due to tax measures**. Real GDP growth is projected to remain just under 1½ percent in 2016 (as in the previous two years), driven again primarily by private consumption (supported by continued low energy prices), while investment growth pauses due to base effects from one-off transactions in previous years. External demand will help somewhat, driven by the moderate euro area recovery and the depreciated exchange rate. Headline inflation is set to rise to 1¾ percent in 2016 due to tax increases under the tax shift. Under the projected baseline medium-term recovery, the output gap will close gradually, bringing inflation back closer to euro area average and unemployment down to its structural level of around 7½ percent by 2020.

10. **Medium-term growth prospects remain mediocre.** Though the economy has been resilient, potential output and total factor productivity have fallen, and a return to trend output is not expected. Potential output growth will also remain below pre-crisis levels (Box 2). While this is consistent with trends in other euro area countries, prospects for Belgium are worsened by slowing demographics, structural inefficiencies in specific labor market segments, and low competition in some regulated services. While capital's contribution to potential growth is expected to return close to pre-crisis levels, both those from employment and Total Factor Productivity (TFP) will likely remain substantially reduced.

Belgium: Loss in Potential Output Since the Crisis
(In index, 1999 = 100)



Sources: IMF *World Economic Outlook* and Staff calculations.

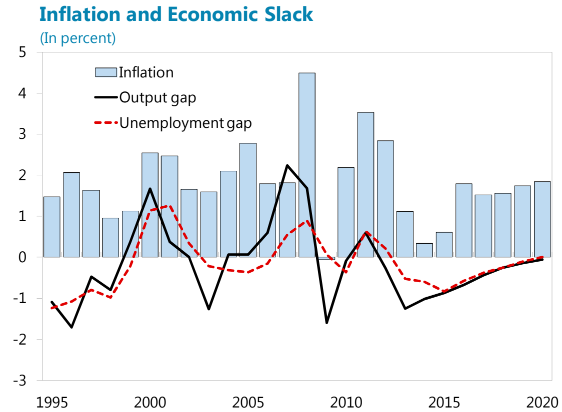
11. **In the current volatile global environment, downside risks loom large**. External risks are particularly elevated, while domestic risks are large but more of a medium-term nature. Key risks can be summarized as follows (see Appendix IV):

- *China and emerging markets slowdown*. Direct exposures are relatively low, but the economy's openness and strong integration into global value chains through Germany means high exposure to indirect shocks from abroad. Preliminary calculations suggest that for every 1 percent reduction in the Chinese average 2016–20 growth due to a domestic negative investment demand shock, the Belgian economy could grow by about 0.2 percent slower.

- *Financial markets volatility*. New shocks from unanticipated changes in growth and financial fundamentals in large and emerging economies could enhance financial volatility (from already elevated levels in recent months), impair confidence in euro area economies, and eventually stifle the incipient recovery.

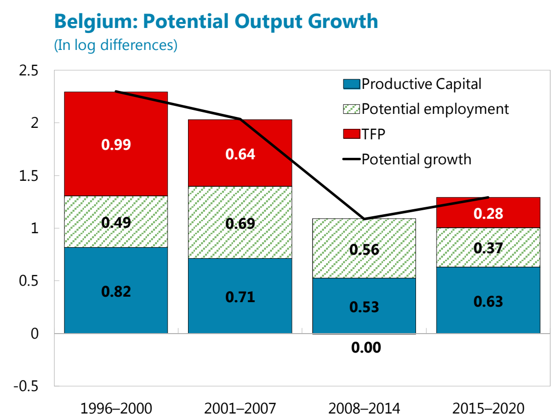
Box 2. Potential Output in Belgium

Potential output plays an important role in assessing fiscal efforts and projecting future growth, inflation, unemployment, and debt dynamics. Following significant revisions in recent years, IMF staff has sought to improve the consistency and robustness of its estimates by using a multivariate filter approach that incorporates empirical relationships between actual and potential GDP, unemployment, and inflation. This filter has been applied to assess potential output in the global economy (2015 April WEO) and to some of the euro area's biggest economies.[1]



Belgium's potential growth has slowed significantly since the late 1990s, likely mostly due to a gradual decline in TFP growth, mirrored in other advanced economies and partially related to structural factors. These include lower growth returns from ICT and the reallocation of factors to sectors with comparatively lower productivity levels and slower productivity growth; e.g personal- and non-market services[2]. In Belgium, more dynamic employment growth initially offset this decline and maintained potential growth above 2 percent until the mid 2000s. However, the collapse of TFP growth during the crisis cut potential growth by half; despite labor and capital contributions that still compared rather favorably with peers. On average, the contribution of TFP has been zero since the crisis.

Looking ahead, Belgium's potential growth appears substantially weaker than before the crisis. Under current policies, including recent and planned reforms, potential growth should increase over the medium term, but average only about 1.3 percent over 2015–20. A continuing rebound in investment is projected to bring the contribution of capital back close to pre-crisis levels. The average contribution of labor on the other hand will be held back by slowing demographics, more than offsetting reforms in favor of employment activation. With capacity utilization rebounding, TFP growth will return to positive territory, but may be reduced (in favor of the employment contribution) if policies are effective in activating low-skilled employees. The Non-Accelerating Inflation Rate of Unemployment (NAIRU), estimated at approximately 8 percent, is expected to decline only very slowly over the forecast horizon.



[1] N. Budina, H. Lin, E. Pérez Ruiz, J. Vandenbussche and A. Weber, 2015, "Potential output in France, Germany, and Spain: A re-assessment," Chapter III, Selected Issues paper for Spain 2015 Article IV consultation.

[2] IMF Staff Discussion Note No. 15/3; Era Dabla-Norris, Si Guo, Vikram Haksar, Minsuk Kim, Kalpana Kochhar, Kevin Wiseman, Aleksandra Zdzienicka; "The New Normal: A Sector-level Perspective on Productivity Trends in Advanced Economies."

- *Regional risks*. If the euro area recovery were to falter, Belgium will be particularly affected given its openness and strong intra-EU trade linkages, including to Germany, France, and the Netherlands. The EU's refugee surge has so far had a modest impact on Belgium, but could eventually pose a significant challenge, especially given Belgium's poor track record of labor market integration of non-EU migrants (see below).

- *Fiscal policy*. A key domestic policy risk relates to the longer-term fiscal outlook, which could veer off course if benefits of recent reforms (such as the tax shift) turn out to be smaller than anticipated and/or fiscal federalism hampers the ability to deliver the overall intended adjustment. This, together with potentially lackluster growth, could worsen debt dynamics and eventually undermine confidence in fiscal sustainability.

- *House prices*. After a long period of rapid growth, house prices have stabilized since 2013. A sharp reversal could have a significant impact on consumption, even if banks' exposures could be managed (see below). However, staff analysis does not suggest a major overvaluation, as past price trends were broadly in line with borrowing cost, demographic and income developments.[2]

POLICY CHALLENGES

12. **Notwithstanding recent reform progress, major challenges continue to weigh on Belgium's economic prospects—including high public debt and severe labor market fragmentation.** The fiscal gains made in previous decades have been reversed since the crisis, and the public debt-to-GDP ratio has returned to triple digits. The pace of consolidation since 2010 has been much slower than in other euro area countries, as public spending continued to grow faster than GDP until recently. With the deficit hovering around three percent of GDP, fiscal sustainability is tenuous and sensitive to potential macroeconomic shocks. While private sector employment is beginning to recover, there is entrenched high unemployment and inactivity among certain groups, including the young, the low-skilled, and non-EU immigrants. This has not only considerable human and social costs, but also detracts from Belgium's longer-term economic potential.

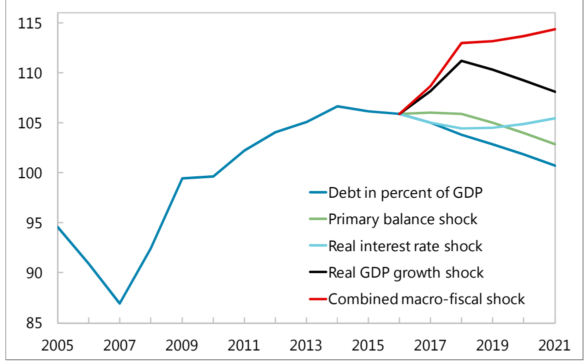
13. **Belgium needs to rebuild buffers against future shocks by laying the foundations for a lasting reduction in public debt**. Downside risks have already increased, as evidenced by the increased volatility in financial markets in recent months, underscoring the urgency of rebuilding buffers while growth remains solid, as projected under staff's baseline. This requires bringing down the deficit, but doing so without undermining the recovery or social cohesion. The policy discussions thus focused on how to square this circle, in particular by making tax and expenditure policies more efficient, advancing growth-oriented reforms, and maintaining financial stability.

[2] See Selected Issues, 2015 Article IV Consultation for a more extensive discussion.

A. Getting to Budget Balance

14. **Belgium's high level of public debt is a risk to fiscal sustainability**. Under baseline projections, with moderate growth and low inflation, debt will remain above 100 percent of GDP throughout the projection period. Gross financing needs are currently almost 20 percent of GDP. Staff's debt sustainability analysis (Appendix V) suggests that even modest changes in the economic environment would push the public debt ratio above 110 percent. The debt ratio is most sensitive to shocks to GDP growth, and a combined macro-fiscal shock could place the debt ratio on a rising trajectory throughout the forecast horizon.

Gross Nominal Public Debt
(In percent of GDP)



Text Table. Fiscal Adjustment Under Current Policies and the Authorities' Objective
(In percent of GDP and in percent of potential GDP)

Fiscal adjustment under current policies and the authorities' objective
(in percent of GDP/ structural balance in percent of potential GDP)

	2015 1/	2016	2017	2018
Current policies				
Revenue	51.2	50.8	50.8	50.5
Expenditure	54.0	53.4	52.9	52.4
Fiscal balance	-2.8	-2.6	-2.2	-1.9
Structural balance	-2.4	-2.3	-1.9	-1.8
Gross debt	106.2	105.9	105.0	103.9
Authorities' objective				
Revenue	51.4	51.2	51.2	51.3
Expenditure	54.0	53.3	52.2	51.6
Fiscal balance	-2.6	-2.1	-0.9	-0.3
Structural balance	-2.0	-1.2	-0.5	0.0
Gross debt	106.5	106.3	104.7	102.3
Authorities' objective with estimated demand impact 2/				
Fiscal balance		-2.4	-1.5	-1.0
Gross debt		105.9	104.9	103.0
Cumulative impact on nominal GDP (in percent of current policies GDP)		-0.2	-0.7	-0.9

Sources: staff estimates, 2016 draft budget.

1/ Fiscal deficit and debt estimates differ because outturn figures are not yet available. Debt figures include the impact of early KBC debt repayment.

2/ Multiplier assumptions were 0.7 for expenditure and 0.5 for revenue.

15. **A balanced budget would be a credible medium-term anchor for addressing the debt problem.** The authorities' objective is to achieve structural balance at all levels of government by 2018, which means about ⅔ percent of GDP adjustment on average per year for the next three years.[3] This pace can be justified given the importance of underpinning longer-term fiscal sustainability after a period where structural adjustment has been very limited—just ¼ percentage point of GDP per year since 2010. Over the medium term, reaching budget balance would help reinforce the decline in the public debt ratio. However, the design of the consolidation strategy should take into account that the accelerated pace of adjustment will create significant drag on aggregate demand (even under modest multiplier assumptions, see text table above), thereby slowing the initial reduction in the debt ratio compared to the authorities' stated objective. The quality of adjustment measures is thus of critical importance.

16. **The authorities' target is very ambitious and requires additional measures, the bulk of which should come from the expenditure side.** To reach structural balance by 2018 (using staff's estimate of potential GDP), additional structural effort of 1¾ – 2 percent of GDP would be needed over the coming three years.[4] There are differing views in Belgium on how to close the fiscal gap—some are skeptical about new taxes, while others are concerned about the impact of possible spending cuts. Staff argued that, given the high tax level and past strong expenditure growth, the consolidation should be mostly expenditure-based, especially as staff's analysis (Selected Issues) indicates significant scope for making public spending more efficient, thus mitigating the impact on growth.

Text Table. Possible Additional Fiscal Measures
(In percent of GDP)

	By 2018	Long Term 1/
Expenditure		
Reduce wage bill 2/	0.3	1.8
Reduce subsidies 3/	0.5	2.1
Increase social benefits efficiency 4/ 5/	0.3	2.0
Revenue		
Reform of taxation 6/	0.4	1.3-2.6
Total	1.5	7.2 - 8.5

1/ Long term effect estimated as a convergence to EU average.
2/ Through faster attrition.
3/ Subsidies are about 2 percent higher than in EU average and the three neighbors' average (France, Germany, Netherlands).
4/ Beyond the government plan to cut social security spending (See Hallaert and Nowak, 2015). Additional measures could include (1) tightening the eligibility rules of sickness and disabilities schemes and unemployment to avoid their use as early retirement scheme and (2) increasing the use of means testing.
5/ Assuming that the redistributive power of social benefits is increased to the EU average, Belgium could achieve the same reduction in income inequality at a fiscal cost lower by 3¼ points of GDP. This number is reduced by the planned reforms of social security (See Hallaert and Nowak, 2015).
6/ Includes the reform of capital income taxation. Belgium's High Council of Finance (2014) estimates that a comprehensive reform of the capital income taxation alone could increase the revenue by 1 to 2 percent of GDP per year.

[3] The European Council calls for structural fiscal adjustment of at least 0.6 percent of GDP in 2015 and 2016. The calculation of structural balance depends on potential output and the output gap, with Fund staff and the Commission estimating a less negative output gap than the authorities, implying that to achieve structural balance, even more structural adjustment would be needed according to staff's methodology.

[4] This fiscal projection reflects the high uncertainty surrounding yield estimates from certain new revenue streams under the tax shift and substantial budgeted expenditure savings that are yet to be specified in detail. Other differences from the authorities' 2016 budget estimates include macroeconomic assumptions and the projection of the 2015 budget outturn. Both the authorities' and staff projections include additional security-related spending following the recent security lockdown in Brussels.

17. **Making public spending more efficient requires deep reforms at all levels of government**. At around 55 percent of GDP, the level of government spending is among the highest in the EU. While it is projected to decline gradually, there is significant scope for securing additional adjustment through reforms to ensure that spending translates well into better economic and social outcomes (Figure 5 and Selected Issues). Possible measures include:

- *Wage bill*. At 12.7 percent of GDP in 2014, the wage bill is high by international standards and has been increasing rapidly. To complement wage moderation, there is scope for faster than planned attrition-based and well-targeted reductions in public employment across all levels of government.

- *Social spending*. The efficiency of social spending could be improved significantly, notably through enhanced means-testing of benefits with a view to better targeting the most vulnerable. To illustrate the potential for efficiency gains, if the redistributive power of social benefits was at EU average, Belgium could achieve the same reduction in income inequality at a lower fiscal cost by 3¼ percentage points of GDP.

- *Health spending*. A significant factor in the cost of aging, health spending could be made much more efficient, including by further reducing medication and hospitalization costs, and better enforcing budget ceilings.

- *Unemployment benefits*. Linking benefits to job search and accelerating the phase-out of benefits with employer top-up that act as an early retirement scheme could improve the unemployment benefit system. More generally, as reforms are implemented, care should be taken to limit the scope for substitution across benefits, for example as observed when the tightening in early retirement was accompanied by increased use of disability benefits.

- *Education spending* has increased sharply without apparent improvements in test scores. Reviewing the system and refocusing it on the areas with the biggest education gaps would also help address labor market issues described below.

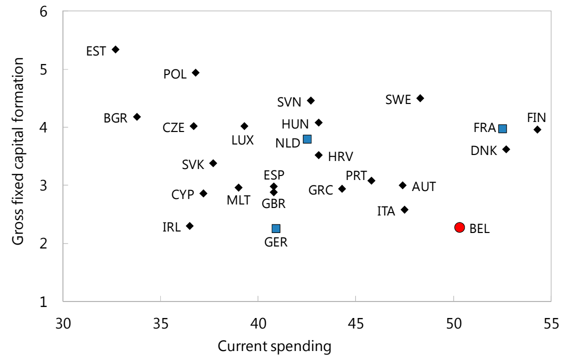
- *Public investment*. With overall investment relatively modest, the focus should be on redirecting resources to more productive projects, notably in transport infrastructure.

Figure 5. Public expenditure

Current spending is among the highest, and investment among the lowest in Europe.

Current Spending vs. Gross Fixed Capital Formation, 2014

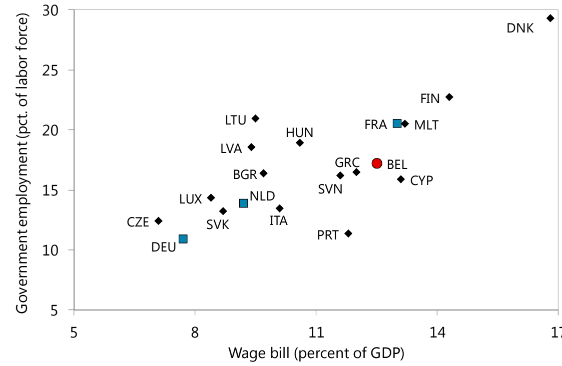
(In percent of GDP)



High current spending is explained by (i) the public wage bill …

General Government Wages and Employment

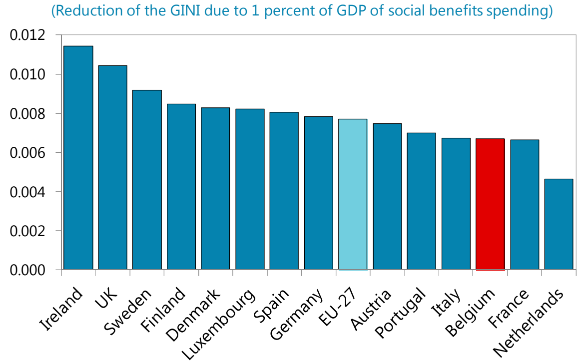
(In percent of GDP and labor force, 2013 or most recent)



…. and (ii) large social expenditures, which have a relatively low redistributive power.

The Redistributive Power of Public Spending, 2013

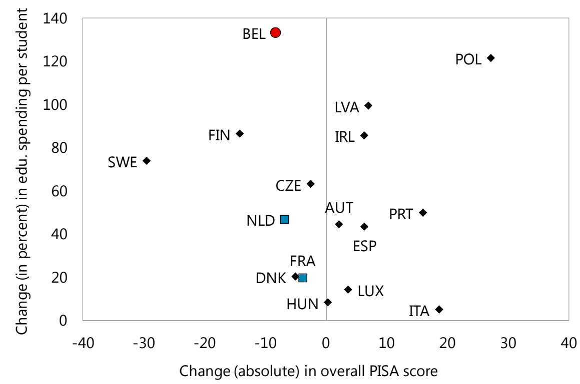
(Reduction of the GINI due to 1 percent of GDP of social benefits spending)



Sources: EuroStat and IMF Staff calculations.

Higher education spending did not yield clear benefits so far.

PISA Scores and Spending per Student, 2003-2012



Sources: Eurostat, Euromod, OECD, and IMF staff estimates.

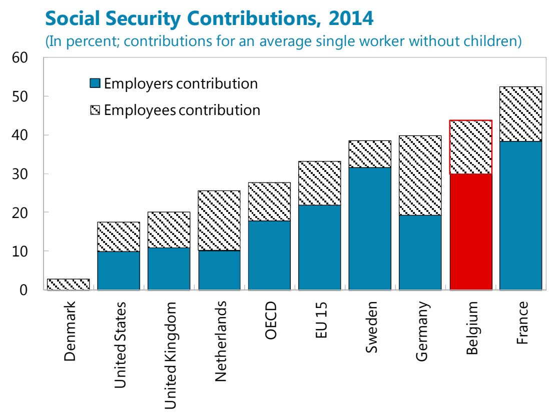
[1] Dash lines represent the EU median.

18. **Strengthening budget monitoring and close coordination between levels of government are even more important after the sixth reform of the state.** The reform devolves many fiscal responsibilities to communities and regions, and involves a revised system of financing and transfers which will require additional adjustment at the sub-national level. For example, because transfers from the federal government are in part linked to specific taxes such as the personal income tax (PIT), lower PIT rates under the tax shift will imply lower revenues for communities. Closer coordination will be needed to ensure that fiscal commitments at the general government level can be met. In this context, it is crucial to improve budgetary control through strengthening and integrating intra-year monitoring of budget execution across all levels of government.

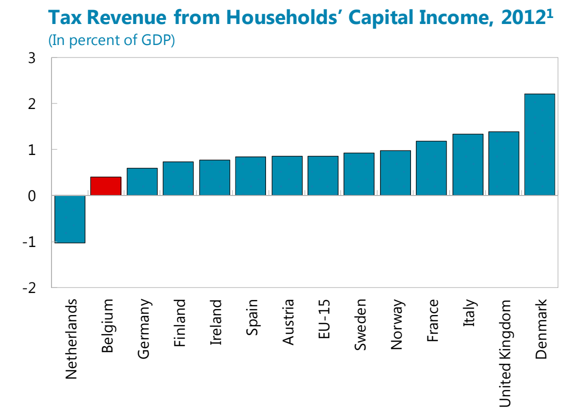
19. **There is still scope to improve the efficiency and fairness of the tax system.**[5] Beyond the measures already passed under the tax shift, staff argued for a more efficient taxation of wealth, including by introducing a broader capital gains tax, shifting real estate taxes from transactions to recurring charges, and limiting the favorable tax treatment of rental income. Further strengthening environmental charges and eliminating the generous fiscal incentives for company cars would have both environmental and fiscal benefits. There is also scope for improving VAT efficiency. Finally, regions could use their new fiscal responsibilities to further target the income tax cuts toward the lower wage ranges.

Figure 6. Tax System[1]

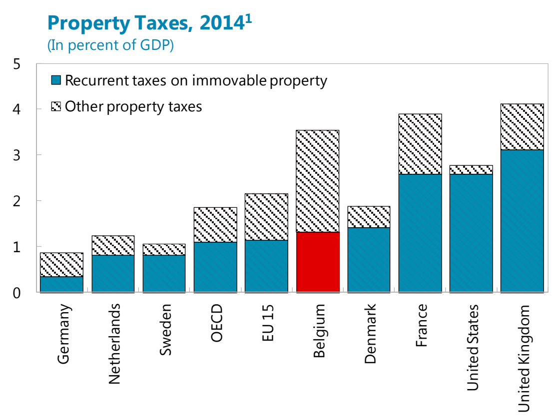
The tax shift will partly address the high labor tax wedge.



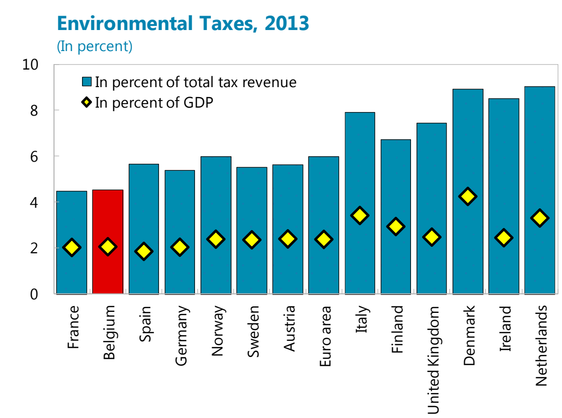
Tax revenue from households' capital income is low.



Property taxes are high but inefficient …



… and there is room to raise more revenue from environmental taxes.



Sources: OECD and IMF staff estimates.
[1] OECD and EU15 are simple averages for OECD and EU15 countries, respectively.

[5] For further details see Selected Issues of the 2015 Article IV Consultation.

20. ***Authorities' views****. The authorities reiterated their commitment to reaching structural budget balance by 2018. They acknowledged that further measures would be needed, but expressed confidence that the adopted policies will go a long way toward this goal, especially as reductions in labor costs under the tax shift will lead to increased employment and revenues. They also pointed to expected savings from a redesign of the functioning of the federal government, including improving the management of real estate holdings and centralizing and streamlining procurement practices. They stressed their determination to continue the reform efforts. For example, they intend to further reform the pension system in 2016 by focusing on the second pillar, notably by disallowing benefitting from the supplementary pension before the legal age of retirement. Additional measures to reduce the growth in spending on health should further help limit the cost of aging over the medium-term. The authorities also intend to promote reactivation policies for people benefiting from disability allowance and strengthen the benefit allocation control mechanism. With respect to the sixth reform of the state, communities and regions have taken steps to improve monitoring and control, and all plan to close their (relatively small) budget deficits by 2018.*

B. Tapping Belgium's Full Labor Market Potential

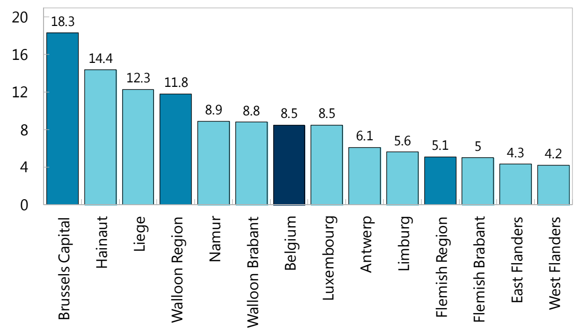
21. **The severe fragmentation of the labor market has major social and economic costs**. Belgium's unemployment rate is slightly below the euro area average, partly thanks to public employment and labor subsidies. However, the labor market is deeply segmented (Figure 7, Selected Issues). Differences are particularly stark in four dimensions—*regionally*, with unemployment just 5 percent in Flanders, almost 12 percent in Wallonia, and a staggering 18½ percent in the Brussels capital region; *age-wise*, with employment rates low among the young and the elderly; *skill-related*, with mismatches resulting in structurally high job vacancies and low employment rates of the low skilled; and by *immigration background*, with only about half of non-EU born residents aged 25–54 employed, compared to over 80 percent for Belgian-born residents. The underlying problems are complex and interlinked—involving longer-term structural changes affecting the regions, barriers to labor mobility, language barriers, significant gaps in education and training for certain groups, ill-aligned incentives for work, and a wage setting process that does not fully reflect economic conditions.

22. **Addressing this problem is all the more urgent given the ongoing refugee crisis.** Between 2015 and 2017, asylum seekers alone may add up to one percent to Belgium's population (Box 3). In the long run, the inflow of refugees could benefit potential output growth and help reduce the cost of aging, especially when migrants are young and educated. To reap these benefits, however, Belgium needs to dramatically improve the integration of non-EU migrants. The government's decision to reduce the waiting period for refugees to get a work permit from six to four months is an important step in the right direction. However, staff noted that active labor market policies in the form of training and language support, and specific adjustments to labor and product market regulations may be needed to accelerate their integration. Because the benefits of such policies would not be limited to refugees, substantial synergies exist between facilitating their integration and addressing the underlying causes of the wider labor market segmentation.

Figure 7. Labor Market Segmentation

Regional differences in unemployment rates are huge.

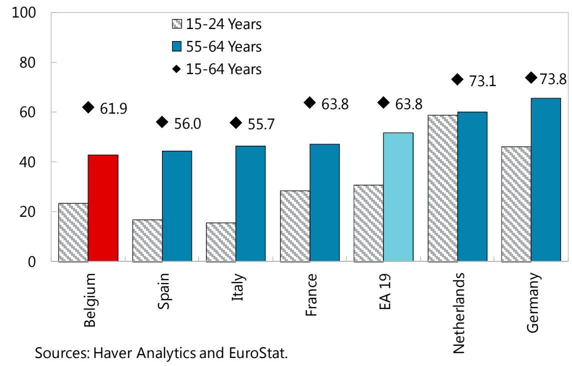
Unemployment Rate by Regions and Provinces
(In percent, 2014)



Sources: Haver Analytics and EuroStat.

Other structural challenges include low employment rates among the young and the elderly…

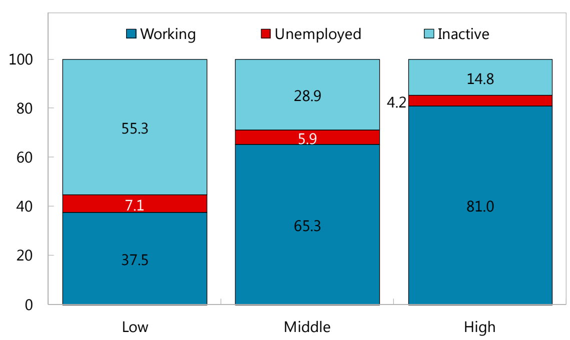
Employment Rates by Age Group
(In percent of labor force, 2014 average)



Sources: Haver Analytics and EuroStat.

… high inactivity among the low-skilled…

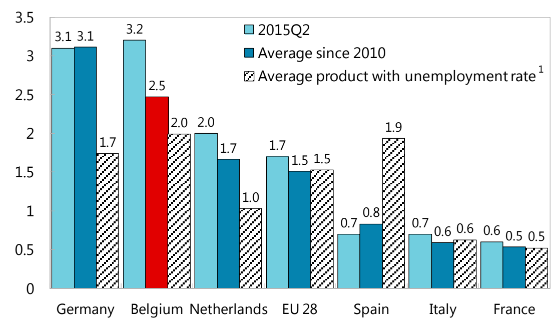
Labor Market Outcome by Education Level
(In percent, share of total population aged 15-64)



Source: SPF Economy.

… skill mismatches, as seen in a structurally high vacancy rate …

Job Vacancy Rate
(In percent of total positions, business economy)

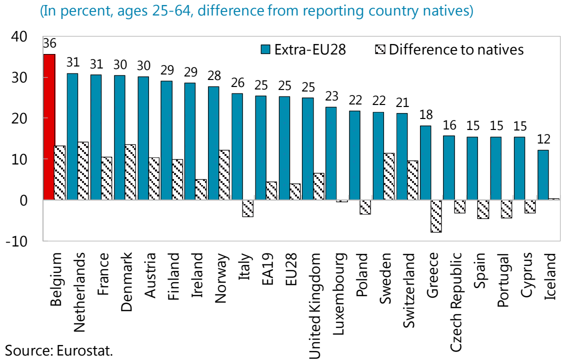


Sources: Haver Analytics and EuroStat.

[1] Defined as (average vacancy rate) * (average unemployment rate) / 10.

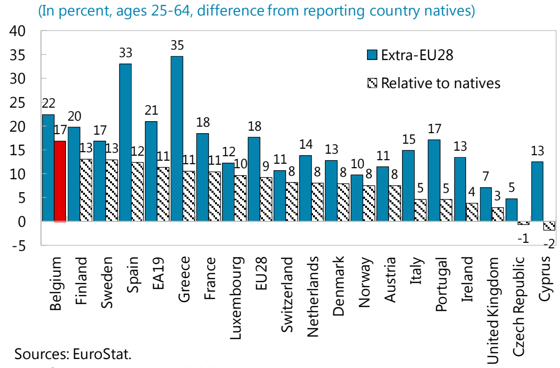
… and very poor labor market integration of non-EU migrants, as seen in both activity and unemployment rates.

Inactivity Rates Among Extra-EU28 Migrant, 2014
(In percent, ages 25-64, difference from reporting country natives)



Source: Eurostat.
Data for Germany not available.

Unemployment Among Extra-European Migrants, 2014
(In percent, ages 25-64, difference from reporting country natives)

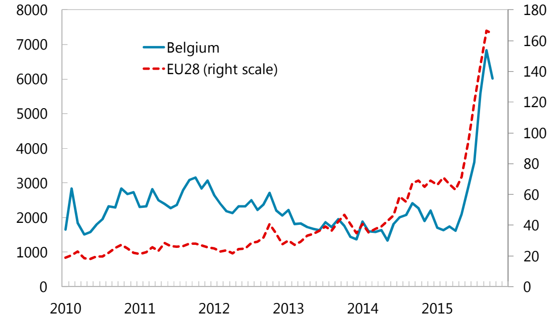


Sources: EuroStat.
Data for Germany not available.

Box 3. Integration of Migrants

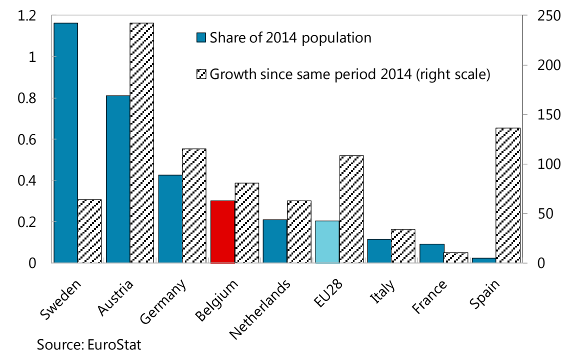
Belgium has a poor track record of integrating non-EU migrants into the labor market. Immigration from other European countries and from outside the EU has been the main driver behind Belgium's relatively healthy population growth. Poor integration of immigrants from outside the EU is however a source of concern not only for public finances, but also for social cohesion. In no other European country is inactivity among non-EU migrants as prevalent as in Belgium. Further, the likelihood of a non-EU migrant in Belgium being employed is the lowest on the continent.

Asylum Applicants
(In total persons; right scale in thousands of persons)



Source: EuroStat.

Belgium in Perspective: Asylum Requests, 2015M1-M10
(In percent; right scale in percentage change)



Source: EuroStat

Belgium is heavily affected by the ongoing refugee crisis. As in many other European countries, refugee inflows to Belgium have increased dramatically since the beginning of 2015. The number of first-time asylum applications during the first 10 months of 2015 was two and a half times higher than during the same period a year earlier. As a share of total population, this inflow is 50 percent above the EU average, but still far below levels experienced by Sweden or Austria. As the geopolitical instability in the countries of origin continues, the authorities expect the number of applications to decline only very gradually. Between 2015 and 2017, the number of asylum seekers may reach 100,000 (including 6,000 under the agreed EU agreement), which would correspond to about 0.9 percent of Belgium's total population.

Inflows of refugees bring opportunities … Predominantly male, and substantially younger than the Belgian average, the current wave of refugees can bring a demographic boost and thus benefits in terms of potential output and fiscal sustainability in the longer run. While details on skill levels are not available, there are indications that the education level for many refugees may be higher than during earlier refugee crises. Many natives of Syria and Iraq also have relevant language skills.

… but also risks. Apart from the political and social risks that poor integration can bring, creating labor market opportunities should be a priority to minimize the short-term burden on public expenditure. The longer it takes for refugees to find a job, the bigger the social expenditure and foregone tax revenues. A combination of poor labor market opportunities and a generous welfare system could create inactivity traps and reduce incentives to assimilate, learn the local languages and upgrade existing skills. This would be particularly problematic in Belgium, where also low-skilled natives have comparably higher unemployment and inactivity rates.

23. **Tapping Belgium's full labor market potential requires a comprehensive and inclusive jobs strategy.** Wage moderation and the *saut d'index* have led to improvements on the cost side, and the government has reinforced activation policies to address long-term unemployment, increased the effective retirement age, and strengthened incentives to return to work after long-term illness. These are important steps, which are expected to provide positive impulses for the coming years. Areas for further policy improvements include:

- To lock in the benefits from recent wage moderation, the wage formation process could be reformed to account not only for price developments but also broader labor market and economic conditions.

- Education and training could be improved to better meet languages and technical skill requirements. This could be supported by aligning curricula closer to local labor market needs and by intensifying the cooperation between schools and employers, including under apprenticeship programs (which are a successful tradition in the German-speaking community). Promoting and improving the targeting of continuous education could support the labor force's flexibility and quality, for example to allow for greater movement between economic sectors.

- Work incentives for the unemployed could be strengthened, e.g. by making benefits still more degressive and enforcing strengthened job search requirements. In the meantime, the job search could benefit from more effective support by unemployment agencies, and individualized training offers. Additional targeted reductions in the labor tax wedge could further promote job creation for the low-skilled.

- Geographic segmentation could be addressed by reducing barriers to mobility and improving collaboration between local governments. Addressing the severe traffic congestion in some large urban centers (see below), improving public transport, and reducing disincentives to buy/sell a house (see 2015 Selected Issues) would make the labor force more mobile. Collaboration between regional entities could be further encouraged to improve the flow of information, harmonize administrative procedures, and share opportunities more effectively.

24. ***Authorities' views**. The authorities acknowledged the labor market challenges, including the need to integrate non-EU migrants better into the labor force. They noted that the recent efforts at wage moderation, including through the saut d'index, and the cuts in the labor tax wedge under the tax shift should help improve conditions for vulnerable groups. They did not favor a special minimum wage, as previous experiments with lower minimum wages for the young did not boost youth employment. While a reform of the collective wage negotiation process is being discussed by social partners—including the role of seniority in the wage setting—it is unlikely that this would involve moving away from automatic indexation as this system has been an important anchor of the social contract in Belgium. Other areas for reform include the regulation of night work for e-commerce businesses and the establishment of career accounts for training. They highlighted the continued efforts to improve vocational training schemes.*

C. Supporting Economic Growth and Financial Stability

25. **To unlock Belgium's full economic potential, employment policies alone will not suffice**. The administrative burden remains substantial, especially for smaller companies, and heavy regulation of some product markets is limiting competition and constraining export growth. Moreover, severe traffic congestion in large urban centers is impeding economic activity. Addressing these bottlenecks will require targeted policy action:

- *Alleviating traffic congestion in urban areas.* Drivers in Belgium lose more time in traffic than in any other European country.[6] Besides disrupting commuter traffic, congestion also hampers business and investment in urban centers, and carries significant health costs. To reduce these pressures, staff recommended abolishing the tax deductibility of company cars (which account for more than 40 percent of new car registrations in Belgium), expanding road pricing schemes, and investing in well-targeted public transport projects.

- *Easing the regulatory burden to support growth and employment.* Staff analysis has shown that liberalization could be most effective in retail, transport, and professional services, notably accounting and legal professions. Some of the barriers appear to be in the form of self-regulatory organizations, which can impose standards that complicate entry. Staff reiterated that deregulation of these sectors would benefit competition and exports, both directly as well as indirectly through linkages with other sectors, as greater productivity in services would improve service inputs for manufacturing exports. Moreover, despite efforts to lighten administrative procedures for businesses, compliance remains onerous for SMEs and the regionalization of market access under the sixth reform of the state could set further hurdles. Additional simplification as well as harmonization across regions should help support growth and employment.

26. **Maintaining a sound financial sector is critical for supporting the recovery and ensuring resilience against shocks**. Since the crisis, which resulted in the restructuring of Dexia and Fortis banks, the banking sector has become smaller and focused primarily on the Belgian market. It is now more resilient and more profitable. The system's regulatory Tier I capital ratio reached 15.6 percent in 2015:H1, and NPLs remain low (Figure 8). In contrast to other euro area countries, Belgian banks' customer deposits exceed their loans at the system level. However, with interest rates expected to remain low and continuing mortgage refinancing which will lock in lower returns, banks' business models must continue to adapt and regulators need to remain vigilant and reactive to existing and emerging risks:

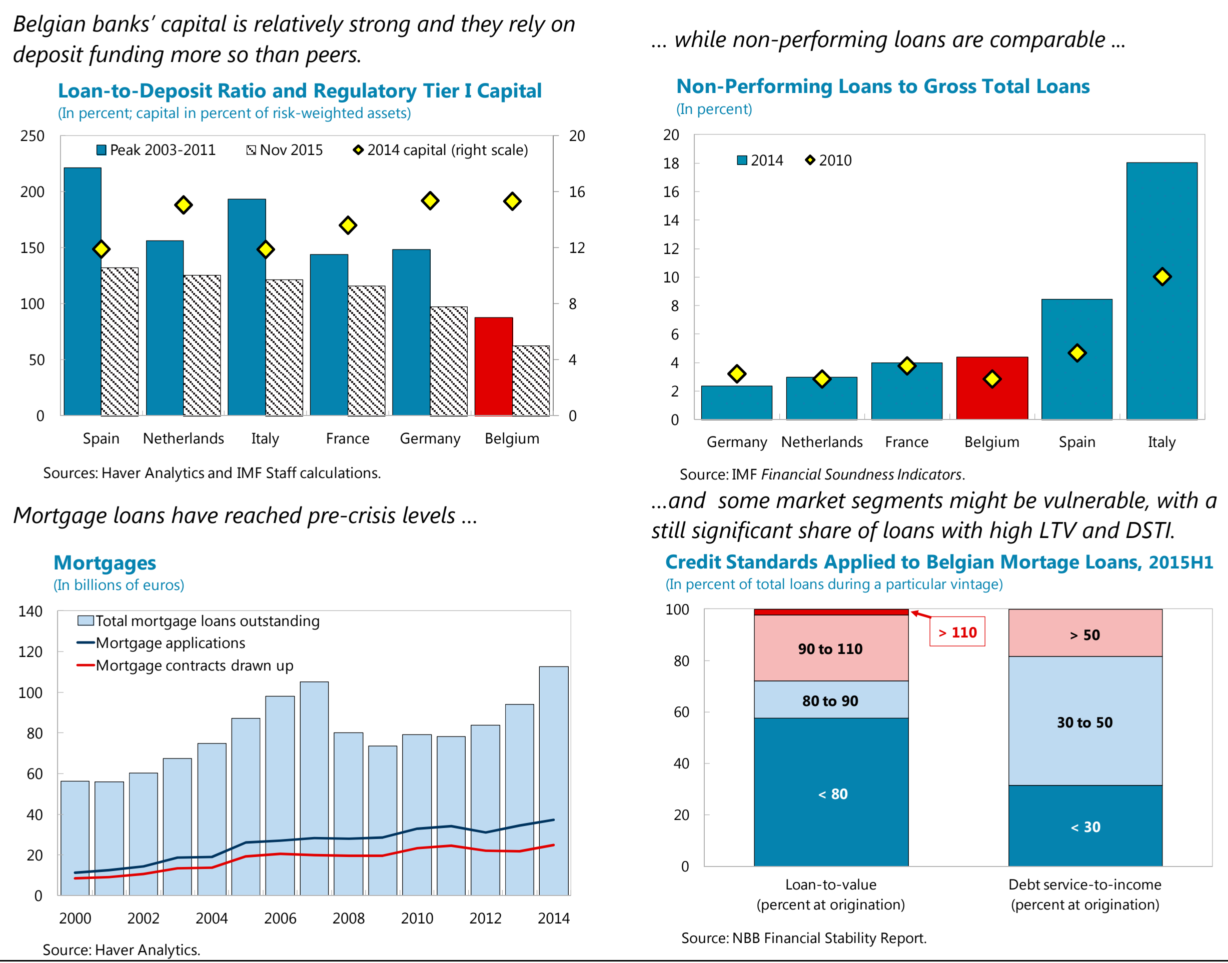
- Recent strong household credit growth could be a cause for concern. Risks to bank's balance sheets are mitigated by the prevalence of owner-occupancy and of fixed-rate mortgages, as well as a default law that protects against selective default, and more generally by a relatively strong net asset position of households. In addition, recent prudential measures raising risk weights on

[6] INRIX 2014 Urban Mobility Scoreboard (http://inrix.com/scorecard/)

mortgages appear to have borne fruit. However, a significant share of loans still have relatively high loan-to-value and/or debt-service-to-income ratios, suggestive of pockets of vulnerabilities, particularly in the young and low to middle income borrowers, that warrant continued vigilance. Staff thus recommended considering more targeted actions to limit overexposures of vulnerable groups (for example, additional risk weights or caps on loan-to-value ratios or limits on debt-service-to-income ratios). Staff also cautioned against banks' over-reliance on the mortgage business.

- Low growth and low inflation will limit profitability in the medium-term, while new forms of finance will create competition. Although many banks have started to cut costs, further adjustment of the business model may be needed in some cases. In this context, the similarity in strategies being pursued may result in reduced system resilience in the face of shocks that would likely impact the major banks in the same way. For insurance and long-term savings, the reduction of some minimum guaranteed interest rates (e.g. on complementary pensions) is a step towards reducing the sector's exposure to protracted low inflation.

Figure 8. Banking System Health



27. ***Authorities' views***. *The authorities pointed to progress made in reducing the regulatory burden and in making the financial system more resilient, but agreed that certain areas still required further attention, in particular:*

- *The authorities saw some scope for facilitating market entry and reducing the administrative costs that fall disproportionally on small firms. They pointed out, however, that the overall regulatory burden in Belgium was comparable to the EU average, and that productivity growth has been satisfactory in firms linked to the export sector. The authorities agreed with the need to address traffic congestion including through well-targeted public investment in transport infrastructure.*

- *Regarding concerns about mortgage credit growth, the authorities have extended the add-on to the risk weights for mortgages while also raising capital requirements for eight banks which were designated domestic systemically important institutions. Before taking further measures, they planned to let the impact of changes in tax regimes for mortgage deductibility, now a regional competency, play out. They also pointed to the more complex institutional environment, with the European Commission and the European Systemic Risk Board needing to weigh in.*

STAFF APPRAISAL

28. **One year into office, the government has made important progress in delivering on its economic reform agenda.** At the center of the program are steps to improve external competitiveness and address the country's fiscal challenges, with a view to supporting private sector growth and employment. The *saut d'index*, building on earlier wage moderation efforts, has further narrowed the wage gap with neighboring countries. The tax shift, with its reductions in the labor tax wedge, should support job creation over the medium run. The 2015 pension reform should raise employment rates and significantly reduce the projected long-term increase in the cost of aging.

29. **The central challenge is to bring down public debt while also nurturing the recovery and supporting social cohesion.** Growth prospects remain mediocre, weighed down by high public debt and severe labor market fragmentation, and downside risks loom large. The favorable external conditions that have supported the recovery—including low interest rates, a depreciated euro, and low oil prices—may not last. And the slowdown in emerging markets, financial market volatility, and geopolitical stress could dampen or throw the recovery off course. To build buffers against future shocks, it is imperative to achieve a lasting reduction in public debt. But the challenge is to do so without undermining the recovery or jeopardizing social cohesion. To this end, fiscal adjustment should be based on more efficient spending and taxation, while structural reforms should be focused on the severe fragmentation of the labor market and other obstacles to growth.

30. **The government's goal of reaching fiscal balance by 2018 is ambitious, and will require quality measures**. Budget balance is a critical milestone toward lasting debt reduction. Staff estimates that substantial additional fiscal measures are needed over three years to reach structural balance. To minimize the drag on aggregate demand, it is imperative that fiscal consolidation be underpinned by high quality structural measures to improve efficiency, even if these may take some

time to yield results. The bulk of adjustment will have to come from the expenditure side, where staff sees significant scope for greater efficiency, with a smaller contribution coming from tax measures, given the already high level of taxation in Belgium.

31. **Public spending should be made much more efficient, while the tax system can also be further improved.** Efforts toward operational improvements at the federal level are welcome, and there is ample scope for further spending efficiency, for instance through well-targeted reductions in public employment, enhanced means-testing in social spending to better target the most vulnerable, and improved budgetary control across all levels of government. These efforts would allow room for more productive public investment. On revenues, there is scope to partly finance the tax shift through a more efficient taxation of wealth and real estate and a further greening of the tax system, including by eliminating generous tax incentives for company cars.

32. **To tap Belgium's full economic potential, there is an urgent need to address the severe labor market fragmentation via a comprehensive and inclusive jobs strategy.** The current refugee surge highlights the urgency of adopting measures that would help address deep segmentation along age, skill level, geographic, and migration background. This should involve further reducing the labor tax wedge for the low-skilled, improving education and training in languages and technical skills, strengthening activation policies, and addressing barriers to geographic mobility. The wage formation process could be adapted to better account for employment conditions—which could help lock in gains from recent wage moderation.

33. **Efforts to ease traffic congestion and red tape would be important complements to the employment policies.** The severe traffic congestion in some large urban centers could be alleviated through road pricing schemes, the elimination of tax incentives for company cars, and well-targeted public transport projects. Structural reforms, such as reducing the administrative burden on smaller companies and lowering barriers to competition in some service sectors, would help support employment growth.

34. **The soundness of the financial sector should be maintained to support the recovery and ensure resilience against shocks.** The banking sector has restructured since the crisis, and returned to profitability. But banks' business models must continue to adapt. The protracted low-interest environment weighs on medium-term prospects of both banks and insurance companies, requiring vigilance and proactive supervision. With credit growth driven primarily by mortgage lending, additional targeted prudential measures to limit overexposures of vulnerable borrowers should be considered.

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

Table 1. Belgium: Selected Economic Indicators, 2012–21

				Projections						
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	(Percentage change from the previous period; unless otherwise indicated)									
Real economy										
Real GDP	0.2	0.0	1.3	1.4	1.4	1.5	1.5	1.5	1.5	1.5
Domestic demand	-0.2	-0.7	1.7	1.6	0.8	1.4	1.5	1.5	1.5	1.5
Private consumption	0.6	0.9	0.4	1.4	1.3	1.3	1.3	1.4	1.4	1.4
Public consumption	1.5	-0.1	0.6	0.2	0.4	0.7	0.8	0.9	1.1	1.3
Gross fixed investment	0.2	-1.7	7.0	1.7	0.3	2.6	2.7	2.5	2.3	2.0
Business investment	0.0	-0.5	8.0	2.0	0.0	3.3	3.2	3.0	2.7	2.3
Public investment	2.2	-3.7	4.0	3.5	1.5	1.4	2.0	1.6	1.5	1.4
Dwellings	-0.1	-4.1	5.7	-0.1	0.6	0.9	1.3	1.5	1.5	1.5
Stockbuilding[1]	-0.9	-0.7	-0.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Foreign balance[1]	0.3	0.7	-0.3	-0.2	0.6	0.1	0.1	0.0	0.0	0.0
Exports, goods and services	1.8	1.6	5.4	2.9	3.1	3.5	3.7	3.9	3.9	3.9
Imports, goods and services	1.4	0.8	5.9	3.2	2.4	3.4	3.7	4.0	3.9	3.9
Household saving ratio	13.6	12.5	12.7	12.6	12.7	13.0	13.1	13.2	13.3	13.5
Potential output growth	1.0	1.0	1.1	1.2	1.2	1.3	1.3	1.4	1.4	1.4
Potential output growth per working age person	0.7	0.8	1.0	1.0	1.0	1.1	1.3	1.4	1.5	1.5
Output gap (in percent)	-0.3	-1.2	-1.0	-0.9	-0.7	-0.4	-0.3	-0.1	-0.1	0.0
Employment										
Unemployment rate	7.6	8.4	8.5	8.4	8.2	8.0	7.8	7.5	7.4	7.4
Employment	0.4	-0.4	0.3	1.0	0.7	0.9	0.8	0.7	0.5	0.4
Prices										
Consumer prices	2.6	1.2	0.5	0.6	1.6	1.4	1.6	1.7	1.8	1.9
GDP deflator	2.0	1.3	0.7	1.1	1.3	1.4	1.5	1.6	1.7	1.9
	(Percent of GDP; unless otherwise indicated)									
Public finance										
Revenue	51.6	52.7	52.0	51.2	50.8	50.8	50.5	50.1	49.9	49.9
Expenditure	55.8	55.6	55.1	54.0	53.4	52.9	52.4	52.3	52.1	52.1
General government balance	-4.1	-2.9	-3.1	-2.8	-2.6	-2.2	-1.9	-2.2	-2.2	-2.2
Structural balance	-3.7	-2.9	-2.9	-2.4	-2.3	-1.9	-1.8	-2.2	-2.2	-2.2
Structural primary balance	-0.1	0.4	0.2	0.4	0.3	0.5	0.6	0.2	0.2	0.2
Primary balance	-0.6	0.4	0.0	0.0	-0.1	0.3	0.5	0.2	0.2	0.2
General government debt	104.1	105.1	106.7	106.2	105.9	105.0	103.9	102.9	101.9	100.8
Balance of payments										
Trade balance	-0.8	0.0	0.3	1.7	2.2	2.4	2.3	2.3	2.3	2.3
Current account	-0.1	-0.2	-0.2	0.9	1.4	1.6	1.6	1.6	1.7	1.7
Terms of trade (percent change)	-1.6	0.4	1.2	0.2	1.8	1.6	-0.8	-0.4	-0.3	-0.2
Exports, goods and services (volume, percent change)	-0.9	2.7	2.0	2.9	3.1	3.5	3.7	3.9	3.9	3.9
Imports, goods and services (volume, percent change)	-1.2	0.7	2.6	3.2	2.4	3.4	3.7	4.0	3.9	3.9
Exchange rates										
Euro per U.S. dollar, period average	0.8	0.8	0.8	...	...	...	...	...	...	...
NEER, ULC-styled (2005=100) [2]	100.2	102.2	102.1	98.3	...	...	...	...	...	...
REER, ULC-based (2005=100) [2]	101.7	104.6	105.8	103.3	...	...	...	...	...	...
Memorandum items										
Gross national savings (in percent of GDP)	23.1	21.9	22.8	24.2	24.2	24.6	24.9	25.1	25.3	25.5
Gross national investment (in percent of GDP)	23.2	22.1	23.0	23.3	22.8	23.0	23.3	23.5	23.7	23.8
Nominal GDP (in billions of euros)	387.4	392.7	400.6	410.6	422.1	434.5	447.9	461.9	476.7	492.7
Population (in millions)	11.1	11.2	11.2	11.3	11.4	11.5	11.6	11.7	11.8	11.8

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

[1] Contribution to GDP growth.

[2] Data for 2015 is October value.

Table 2. Belgium: Balance of Payments, 2012–21

(In percent of GDP)

	2012	2013	2014	Projections 2015	2016	2017	2018	2019	2020	2021
Balance on current account	-0.1	-0.2	-0.2	0.9	1.4	1.6	1.6	1.6	1.7	1.7
Balance on goods and services	-0.8	0.0	0.3	1.7	2.2	2.4	2.3	2.3	2.3	2.3
Balance of trade (f.o.b., c.i.f.)	123.3	122.8	121.2	118.6	118.1	120.1	122.1	124.2	126.0	129.2
Exports of goods and services	81.8	82.2	83.4	82.4	82.3	83.7	85.1	86.5	87.8	89.9
Exports of goods	60.4	60.6	60.1	59.3	59.3	60.3	61.3	62.3	63.2	64.8
Exports of services	21.4	21.6	23.3	23.0	23.0	23.4	23.8	24.2	24.5	25.1
Imports of goods and services	-82.6	-82.2	-83.1	-80.6	-80.0	-81.3	-82.7	-84.2	-85.5	-87.7
Imports of goods (f.o.b.)	-62.9	-62.2	-61.1	-59.3	-58.8	-59.8	-60.8	-61.8	-62.8	-64.4
Imports of services	-19.7	-20.0	-22.0	-21.4	-21.2	-21.5	-21.9	-22.3	-22.7	-23.2
Income, net	2.3	1.6	1.0	0.7	0.8	0.8	0.9	0.9	1.0	1.0
Current transfers, net	-1.6	-1.8	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Balance on capital account	0.6	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Balance on financial account	0.4	0.0	-0.6	0.6	1.2	1.3	1.4	1.4	1.4	1.4
Direct investment, net	5.5	0.9	2.6	2.8	3.0	3.2	3.4	3.6	3.8	4.0
Portfolio investment, net	-12.7	-7.5	-2.4	-1.9	-1.8	-2.1	-2.4	-2.8	-3.3	-3.7
Financial derivatives, net	-0.5	-0.5	-0.6	-0.3	-0.3	-0.3	-0.4	-0.3	-0.3	-0.3
Other investment, net	8.0	7.2	0.1	0.3	0.5	0.7	0.9	1.1	1.3	1.6
Reserve assets	0.1	-0.1	-0.3	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Errors and omissions, net	-0.1	0.3	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

Table 3. Belgium: General Government Statement of Operations, 2010–21

(In percent of GDP)

				Est.			Projections			
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	51.6	52.7	52.0	51.2	50.8	50.8	50.5	50.1	49.9	49.9
Taxes	30.1	30.8	30.6	30.8	30.6	30.7	30.5	30.2	30.2	30.2
Personal income tax	12.8	13.3	13.2	13.0	12.5	12.5	12.2	11.8	11.8	11.8
Corporate income tax	3.1	3.2	3.3	3.5	3.6	3.5	3.5	3.5	3.5	3.5
Taxes on property	2.1	2.3	2.2	2.3	2.3	2.4	2.4	2.4	2.4	2.4
VAT	6.9	6.9	6.9	6.9	7.1	7.1	7.1	7.1	7.1	7.1
Excise	2.1	2.1	2.1	2.1	2.2	2.3	2.4	2.5	2.5	2.5
Other taxes	3.1	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Social contributions	16.6	16.9	16.7	16.5	16.2	16.1	16.0	15.9	15.7	15.7
Actual social contributions	14.2	14.4	14.3	14.2	14.0	13.8	13.7	13.7	13.5	13.5
Imputed social contributions	2.4	2.5	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Other revenue (incl. grants)	5.0	5.1	4.7	3.9	3.9	4.0	4.0	4.0	4.0	4.0
Expenditure	55.8	55.6	55.1	54.0	53.4	52.9	52.4	52.3	52.1	52.1
Expense	50.8	51.4	51.0	50.3	49.7	49.3	48.7	48.7	48.5	48.5
Compensation of employees	12.5	12.7	12.7	12.5	12.4	12.4	12.3	12.1	12.0	11.9
Use of goods and services	4.3	4.3	4.4	4.3	4.3	4.3	4.3	4.2	4.2	4.2
Interest	3.6	3.3	3.1	2.9	2.6	2.5	2.4	2.4	2.4	2.4
Subsidies	3.4	3.5	3.4	3.3	3.3	3.3	3.3	3.2	3.2	3.2
Grants	1.2	1.3	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.2
Social benefits	24.8	25.3	25.3	25.2	25.0	24.9	24.6	24.7	24.7	24.7
Other expense	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.8	0.8
Net acquisition of nonfinancial assets	5.0	4.2	4.1	3.8	3.7	3.6	3.7	3.7	3.7	3.7
Gross operating balance	0.8	1.3	1.0	0.9	1.1	1.5	1.7	1.4	1.5	1.5
Net lending/borrowing	-4.1	-2.9	-3.1	-2.8	-2.6	-2.2	-1.9	-2.2	-2.2	-2.2
Net financial transactions	-4.1	-2.9	-3.1	...	...	...	...	...	...	...
Net acquisition of financial assets	-0.8	-0.2	-0.2	...	...	...	...	...	...	...
Currency and deposits	-0.1	-0.1	-0.1	...	...	...	...	...	...	...
Securities other than shares	-1.6	-0.4	-0.4	...	...	...	...	...	...	...
Loans	1.7	1.2	1.2	...	...	...	...	...	...	...
Shares and other equity	-0.7	-1.1	-1.1	...	...	...	...	...	...	...
Other financial assets	0.0	0.2	0.1	...	...	...	...	...	...	...
Net incurrence of liabilities	3.4	2.8	2.9	...	...	...	...	...	...	...
Currency and deposits	0.0	0.0	0.0	...	...	...	...	...	...	...
Securities other than shares	1.9	1.4	1.4	...	...	...	...	...	...	...
Loans	1.5	1.6	1.6	...	...	...	...	...	...	...
Other liabilities	0.0	-0.1	-0.1	...	...	...	...	...	...	...
Statistical discrepancy	0.1	0.1	0.0	...	...	...	...	...	...	...
Memorandum items										
Primary balance	-0.6	0.4	0.0	0.0	-0.1	0.3	0.5	0.2	0.2	0.2
Structural fiscal adjustment	0.5	0.7	0.0	0.5	0.1	0.4	0.1	-0.3	0.0	0.0
Structural fiscal primary adjustment	0.5	0.5	-0.2	0.2	-0.2	0.2	0.1	-0.4	0.0	0.0
Gross government debt	104.1	105.1	106.7	106.2	105.9	105.0	103.9	102.9	101.9	100.8
Real growth of primary expenditure[1]	1.5	1.5	0.8	-0.2	0.8	0.9	0.6	1.4	1.0	1.5

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

[1] Excludes the 2012 Dexia recapitalization.

Table 4. Belgium: General Government Consolidated Balance Sheet, 2006–14
(In percent of GDP)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Net worth and its changes	...	...	...	...	...	...	...	...	...
Nonfinancial assets	...	...	...	...	...	...	...	...	...
Net financial worth	-80.3	-74.0	-76.5	-82.9	-81.5	-83.1	-91.9	-89.9	-100.2
Financial assets	19.5	19.6	24.4	26.5	26.1	26.9	28.2	28.0	29.4
Currency and deposits	2.5	2.7	4.6	4.4	4.7	4.8	4.5	4.4	4.4
Securities other than shares	0.6	0.6	0.8	0.8	0.6	0.5	0.5	0.4	0.3
Loans	5.2	5.1	5.3	5.9	6.0	6.4	7.7	8.1	8.4
Shares and other equity	6.1	6.4	9.0	10.5	10.0	10.1	10.6	10.0	11.0
Insurance technical reserves	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts receivable	5.1	4.8	4.7	4.9	4.8	5.1	5.0	5.1	5.2
Liabilities	99.8	93.6	100.9	109.3	107.6	110.0	120.1	117.9	129.6
Special Drawing Rights	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Currency and deposits	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.3
Securities other than shares	82.0	76.4	84.0	90.6	88.5	89.7	98.7	96.0	105.6
Loans	13.8	13.1	13.3	14.4	15.0	16.1	17.0	17.9	20.2
Shares and other equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Insurance technical reserves	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Financial derivatives	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other accounts payable	3.5	3.6	3.2	3.8	3.5	3.6	3.8	3.5	3.2

Sources: Haver Analytics and IMF's staff calculations.

Table 5. Belgium: Structure of the Financial System, 2009–15

	2009	2010	2011	2012	2013	2014	2015H1[3]
Banking sector							
Number of credit institutions	104	107	108	104	104	103	100
Domestic	48	48	47	42	39	37	37
Branches of foreign banks	56	59	61	62	65	66	63
Total assets (in billions of euros)[1]	1,191	1,151	1,147	1,049	961	996	1019
of which Four largest banks	1,092	1,003	968	857	775	816	824
of which claims on Belgian residents	483	478	500	527	488	476	480
Insurance sector							
Number of insurance companies	147	145	142	134	130	128	122
Life	29	28	26	24	23	23	23
Mixed	23	24	25	25	25	25	25
Non-life	94	91	89	83	80	78	72
Reinsurance	1	2	2	2	2	2	2
Total assets (in billions of euros)[2]	234	249	257	265	271	281	281
Net premiums written (in billions of euros)[2]							
Life	19	19	18	21	16	16	11
Non-life	9	10	10	11	11	12	10
Other financial intermediaries							
Stockbroking firms							
Number	23	23	22	20	20	20	20
Income (in billions of euros)	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Total assets (in billions of euros)	2.3	2.4	2.0	2.2	2.3	3.2	4.5
Portfolio management companies							
Number	24	24	20	21	19	19	20
Income (in billions of euros)	0.0	0.0	0.0	0.1	0.1	0.1	0.0
Assets under management (in billions of euros)	49	62	3	4	3	4	6
Management companies of undertakings for collective investment							
Number	7	7	7	7	7	7	7
Income (in billions of euros)	0.5	0.9	0.8	0.8	1.0	1.1	0.68
Assets under management (in billions of euros)	189	194	178	178	175	201	215
Undertakings for collective investment distributed in Belgium							
Number of investment companies	425	460	484	509	521	578	604
Belgian law	149	148	142	144	130	128	129
Foreign law	276	312	342	365	391	450	475
Assets under management	135	139	115	118	132	164	180
Pension funds							
Number	263	251	245	237	201	196	199
Total assets (in billions of euros)	14	16	16	19	20	23.4	…

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

1 On consolidated basis.

2 On company basis.

3 For insurance companies, data refer to the end-Sept. 2015 situation. For the number of credit institutions, data refer to situation of 4 Nov.

Table 6. Belgium: Financial Soundness Indicators of the Banking Sector, 2009–15[1]
(In percent unless otherwise indicated)

	2009	2010	2011	2012	2013	2014	2015H1
Earnings and profitability							
Return on assets	-0.1	0.5	0.0	0.1	0.3	0.5	0.6
Return on equity	-2.7	10.7	0.7	3.0	5.9	7.7	9.5
Net interest income to total income	79.1	68.3	71.2	71.6	62.6	70.2	64.9
Interest margin	0.8	1.2	1.2	1.3	1.2	1.6	1.8
Average yield on assets	2.8	2.8	2.9	2.9	2.6	2.7	2.6
Average cost of funding	2.0	1.6	1.7	1.7	1.4	1.1	0.8
Noninterest income to gross income	20.9	31.7	28.8	28.4	37.4	29.8	35.1
Of which Net fee and commission income	30.1	25.6	26.8	28.3	27.7	25.8	27
Cost/income ratio	77.7	66.0	67.3	73.4	62.4	61.2	59.3
Structure assets							
Total assets (in percent of GDP)	349.2	323.2	310.2	278.7	251.0	249.0	252.0
Of which (in percent of total assets):							
Loans to credit institutions	13.1	17.0	15.2	12.4	12.3	9.1	11.0
Debt securities	22.3	20.1	18.5	18.4	18.9	19.6	18.3
Equity instruments	0.8	0.5	0.4	0.6	0.4	0.6	0.7
Derivatives	11.3	11.6	14.6	11.5	6.8	8.4	6.7
Loans to customers	45.0	44.0	44.4	48.1	53.9	54.1	55.1
Of whic Belgian residents (in percent of loans)	59	64	70	72.0	69.4	69.2	67.6
Other EMU residents (in percent of loans)	19	19	17	15.0	15.7	16.2	17.1
Rest of the world (in percent of loans)	22	17	13	13.0	14.9	14.5	15.3
Term loans (in percent of loans)	44.0	42.3	40.0	39.3	40.8	…	…
Reverse repo operations (in percent of loans)	7.3	7.3	4.2	3.3	3.1	2.3	5.6
Funding and liquidity (in percent of total assets)							
Debts to credit institutions	14.1	15.4	11.2	11.0	10.7	9.1	9.6
Bank bonds and other debt securities[3]	12.6	10.9	8.8	10.6	10.1	9.3	9.1
Customer deposits	46.8	46.0	46.5	49.3	54.7	58.5	60.8
Liquid assets[6]	31.5	32.5	34.3	36.4	36.8	32.8	32
Asset quality							
Sectoral distribution of loans (in percent of total assets)							
Credit institutions	13.1	17.0	15.2	12.4	12.3	9.1	11.0
Corporate (until 2013) /Non financial corporations (as of 2014)	20.5	17.2	16.4	16.3	18.5	20.6	20.9
Retail (until 2013) / Households (as of 2014)	19.9	22.1	22.9	26.3	29.4	25.5	25.5
Central governments (until 2013)/ General government (as of 2014)	1.2	1.0	0.8	0.8	1.0	4.4	4.5
Non-credit institutions (until 2013) / Other financial corporations (as of 2014)	3.4	3.8	4.3	4.7	5.0	3.5	4.2
Non-performing loans (NPL) as percent of gross loans[6]	2.7	2.8	3.2	3.2	3.1	2.7	2.7
Provisions and write-offs as percent of NPL[6]	51	53	49	53.0	54.1	57.1	55.9
Capital adequacy							
Regulatory capital to risk-weighted assets	17.3	19.3	18.5	18.1	18.7	17.3	18
Regulatory Tier 1 capital to risk-weighted assets	13.2	15.5	15.1	15.8	16.4	15.1	15.6
Capital to assets	4.5	5.0	4.6	5.8	6.4	6.6	6.5
NPL net of provisions as percent of Tier 1 capital[6]	13.8	12.2	14.2	13.4	12.3	12.0	12.9
Net open position in foreign exchange to capital	4.7	3.3	1.4	2.1	2.1	3.4	3.1

Sources: National Bank of Belgium.

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

[2] Only loans to households as of 2014

[3] Excluding saving certificates as of 2014

[4] Deposits booked at amortized cost only.

[5] Only household deposits as of 2014

[6] Unconsolidated data.

Appendix I. Main Recommendations of the 2015 Article IV Consultation and Authorities' Response

Fund Recommendations	Policy Actions
Fiscal Policy	
Further rebalance the tax burden away from taxes on labor income toward indirect and environmental taxes and taxes on capital income	Building on earlier efforts, a tax shift was approved by Parliament which continued to reduce the labor tax wedge targeted at lower incomes and increased other taxes including excise taxes on specific items, VAT on electricity.
Enhance coordination among federal, regional, and community governments on fiscal and other shared economic policies	Coordination is ongoing, including through the *Comité de Concertation,* in the context of the European fiscal governance framework and burden sharing between levels of government
Financial Sector Policy	
Heighten vigilance in supervision of financial sector, given the challenging operating environment and a more demanding regulatory framework	National Bank and ECB continue active monitoring.
Structural Reforms	
Sustain momentum of labor and product market reforms to foster productivity growth	Labor market reforms continue, see Appendix II.
Boost productivity by	Efforts are ongoing in all these areas:
• Facilitate job creation through more flexible contract arrangements	• More flexible work at night is now available for e-commerce purposes
• Strengthen the quality of education, training and apprenticeship schemes	• These efforts continue, including for vocational training, joint work/study programs, and apprenticeship programs
• Opening sheltered sectors to competition and reducing the regulatory burden	• These efforts are complicated by the sixth reform of the state, which involves devolution of certain new regulatory powers to communities and regions.

Source: IMF Staff

Appendix II. External Balance Assessment

	Belgium	Overall Assessment
Foreign asset and liability position and trajectory	**Background**. The net international investment position (NIIP) remains strong, averaging 61 percent of GDP during the first three quarters of 2015, reflecting very healthy private balance sheets. Despite Belgium's decline as a financial center, gross foreign assets are large (averaging 502 percent of GDP). Gross foreign assets of the financial sector stood at 112 percent of GDP, down considerably from the pre-crisis peak. The external debt of the public sector was 70 percent of GDP. 1/ **Assessment**. Belgium's large gross international asset and liability positions are bloated by the presence of corporate treasury units, without creating macro-relevant mismatches. The remaining risk exposures on the asset side mostly relate to financial sector claims. Risk exposures on the liability side are related to external public debt. Based on the projected current account and growth paths, the NIIP to GDP ratio is expected to increase gradually going forward. The strongly positive NIIP and its trajectory do not raise sustainability concerns.	**Overall Assessment**: *The external position in 2015 was moderately weaker than medium-term fundamentals and desirable policy settings would imply. The positive trend compared to previous years as well as recent measures to improve competitiveness point towards a further strengthening of the external position in 2016; conditional on the euro depreciation and policies not being reversed* The strong net international investment position mitigates vulnerabilities associated with the high external public debt. **Potential policy responses**: Planned steady fiscal consolidation, reductions in labor taxes and continued wage moderation will help towards making the external position fully consistent with fundamentals and policy settings. To protect against a reversal of the projected improvements, productivity enhancing structural reforms (in the labor and product markets) would be useful.
Current account	**Background**. After declining since the early 2000s and reaching deficits of around 1 percent of GDP during the crisis, the CA has been close to balance during the last three years. 2/ The effect on the trade balance of falling dollar-denominated energy prices was smaller than expected due to the simultaneous depreciation of the euro and the importance of energy re-exporting, both as raw material and as input in other exports. The cyclically-adjusted CA balance has also improved to an estimated 0.9 percent of GDP for 2015. **Assessment**. The EBA model estimates a CA gap of -1.7 percent of GDP for 2015. The staff assessment is similar, estimating a CA gap in the range of -2.5 to -0.5 percent of GDP. 3/ The projected CA evolution is consistent with a fiscal consolidation and a recovery in the household saving rate, which are offset by a more gradual increase in both private and public investment.	
Real exchange rate	**Background**. Unit labor costs point to a gradual loss of competitiveness since 2005. Most of this loss has come from lower productivity growth, with a smaller contribution from wage growth exceeding that of trading partners. Real wage moderation since 2013 had only limited effect on the ULC-based REER, which continued to appreciate between 2013 and 2014 [The CPI-based REER depreciated by less than 1 percent between 2013 and 2014. However, the substantial nominal effective depreciation, which accelerated in early 2015, has lowered the 2015 REER by approximately 5 percent compared to its 2014 average. **Assessment**. Estimates of the EBA model for 2015 point to a REER overvaluation of 4 (index model) to 6 percent (level model). The staff assessment, consistent with the CA assessment, is a 2015 REER gap in the range of 0 to 10 percent. 4/	
Capital and financial accounts: flows and policy measures	**Background**. Gross financial outflows and inflows were on an upward trend during the pre-crisis period along the expansion of banks' cross-border operations. Since 2007 along the bank deleveraging they have shrunk and have been more volatile. Short-term debt accounts for about 47 percent of the external liabilities and financing need 1/. The capital account is open. **Assessment**. Belgium remains exposed to financial market risks but the structure of financial flows does not point to specific vulnerabilities. The strong NIIP reduces the vulnerabilities associated with the high public debt.	
FX intervention and reserves level	**Background**. The euro has the status of a global reserve currency. **Assessment**. Reserves held by the euro area are typically low relative to standard metrics, but the currency is free floating.	
Technical Background Notes	1/ All numbers refer to averages over the first three quarters of 2015. 2/ The Belgian CA numbers have undergone major upward revisions in the fall of 2014 as well as in spring and fall of 2015, complicating the comparison with the previous ESR assessment. 3/ Belgium's status as a center of corporate treasury activities and its resulting large gross foreign asset and liability positions complicate the measurement of the current account, and thus are a source of uncertainty about the CA assessment. 4/ The REER gap assessment is consistent with the staff's CA gap assessment, considering the relatively high ratios of exports and imports to GDP, which tend to make the CA more responsive to the REER.	

Appendix III. Labor Market and Pension Reform Measures

2011	2012/2015 and 2016–2020	Status
	UNEMPLOYMENT BENEFITS	
Search requirements		
Suitable job is 25 km away or less	Suitable job is 60 km away or less	Implemented
Restrict rights to search for the same kind of job to six months	Restrict right to search for the same kind of job to three months (young unemployed) and five months (other unemployed)	Implemented
Monitor search efforts for 18–21 months after unemployment, with an annual follow-up	Monitor search efforts nine months (<26 years old) or 12 months (26 or older) after start of unemployment, with follow-ups every nine months	Implemented
Search requirement until 60	Search requirements applicable until 60 and according to concept of "adequate availability" between 60 and 65. Exemptions are still possible according to the length of the career.	Pending the agreement on the definition of "adequate availability"
Exemption of search requirements for familial and social reasons	Use of the exemption is restricted (exemption for caregivers with more restrictive access conditions).	Implemented
To obtain unemployment benefits, unemployed have to be registered as job seekers within 2 weeks from the day they are laid off	Registration as job seeker has to be done within 4 weeks following the notice of lay-off	Postponed at request of the social partners
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
No degressivity of unemployment benefits for unemployed proving long periods of work	Required career length did raise from 20 years in 2012, to 23 years in 2015, and will become 25 years from November 2016 on.	Implemented
Higher unemployment benefits for unemployed above 50 (Seniority complement)	Eliminated for new entrants, ecept in specific cases related to collective dismissals or heavy jobs	Implemented
Unemployment benefit based on the wage of the last work period of at least 4 weeks	Unemployment benefit based on the average wage of the last 12 months	administratively complicated – research for alternatives with the same goal

Involuntary part time workers can obtain an allowance for income support so that their net income is higher than the unemployment benefit in case of full unemployment	Allowance for income support in case of part time job (AGR) is divided by 2 after two years of work Calculation of the allowance for income support (AGR) will be reviewed based on the calculation that was made before 2008	Planned by the new government – still under examination Adapted calculation: implemented.
Unemployment benefits for the young entering the labor force		
Available after nine months of unemployment	Available after 12 months of unemployment	Implemented
Evaluation of search efforts before opening the right on unemployment benefits for young people leaving school	Two evaluations of search efforts 7 and 11 months after registering as jobseeker. Opening of right on unemployment benefits only after two positive evaluations	Implemented for all youngsters that have left school after June 1, 2013
Search effort requirement every 12 or 16 months when on unemployment benefits based on studies (insertion benefits, the earlier waiting allowances)	Evaluation of search requirements every six months. In case of negative evaluation: no UB until the next evaluation, and no earlier than after 6 months	Implemented
Unlimited	Limited to three years (five years for worker on the margin of the labor market) for unemployed living with family with other income, or until the age of 33 in other family situations. Period of three years could be extended by six months if at least worked six months in the last 24 months.	Implemented - first application started in January 2015
Young school leavers can apply for unemployment benefit if they have participated in the secondary education final exam	Until 21, young school leavers can apply for unemployment benefit if they have obtained a secondary education degree or another degree opening good prospects on the labor market	Implemented
For school leavers, the maximum age to introduce a demand for unemployment benefits is 30	Maximum age reduced to 25	Implemented
Easing the transition to the labor market for low-skilled youth		
At sectoral level social partners have to conclude collective agreements addressing the employment needs of groups at risk for the equivalent of al least 0,10 % of gross wage cost of the whole sector.	2013: at least one quarter (0.025%)of the money spend has to go to unemployed youngsters < 26 years 2015: sectors are invited to raise the effort for youngsters: at least 0.05 % has to go to actions for youngsters	Implemented
Supplementary efforts at sectorial level for so called "ingrown" jobs for youngsters < 26 years without work-experience	Sectorial plans to offer supplementary job experience for youngsters in ingrown-jobs (total budget of €12 million), only accessible for sectors that have foreseen an effort of at least 0.05 % (see previous line)	13 plans approved – implementation in 2016–2017
Government subsidy for temporary unemployment		
Without employer penalty	Employers will pay a penalty if there is excess use of the system	Implemented and strengthened from 2016 on

Allowance for temporary unemployment is 70 percent of last salary	Reduced to 65 percent of salary	Implemented
No limits on the use by employers of temporary unemployment	Stronger penalty in case of excessive use	Implemented
Government subsidy for time-credit and career break system		
Five year duration before the age of 50	2013: One year duration (two to five years if part-time), with supplementary credit of maximum 36 months for specific motivated breaks, such as childcare or studies (maximum 48 months for specific cases such as taking care of a handicapped child less than 21 year old)	Implemented
	2015: Elimination of the rights to benefits for one year non-motivated break. For childcare, one supplementary year of break with benefits	Implemented
Unlimited duration above the age of 50 (time reduction)	2013: Unlimited duration above the age of 55 (time reduction)	Implemented
	2015: Unlimited duration (time reduction) above the age of 60 and 25 years of seniority (with transitional measures and possible derogations till 2019)	Implemented with some exceptions (age limit 55) for long periods of night- and shiftwork
72 month duration in public sector	60 month duration in public sector	Implemented
More favorable rights on career breaks in the public sector	Progressive harmonization of career break in the public sector with time credit in the private sector (full harmonization by 2020)	Planned by the new government
PENSION BENEFITS		
Pre-pension benefits (renamed to "Unemployment benefits with employer top-up")		
Minimum age and career length: 60/30 (men) 60/26 (women)	2012/13: Minimum age and career length 60/40 for new collective agreements (60 years in 2015 for existing agreements with 40 years career in 2015 for men and in 2024 for women)	Implemented
Or: 58/37 (men) and 58/33 (women) for long careers	2012/13: 60/40 for men, 35 for women (40 in 2015) for new collective agreements. For existing agreements: 60 in 2015 for men and 38 for women (40 in 2017)	Implemented
Or: 58/35 for heavy jobs	58/35 for heavy jobs 2015: Minimum age 62 for new entrants No more "long career" scheme Minimum age 58 for new entrants in case of hardship jobs (60 on a date to be fixed by the National Labour Council) Special schemes 56/33 become 58/33 (60 on a date to be fixed by the National Labour Council)	Implemented – transitional period 2015–2017 with possibility to maintain 60 instead of 62.

Pre-pension years count fully towards pension rights at the last wage level	Pre-pension years below the age of 60 do not count towards pension rights at last wage level but on a lower fictive level	Implemented
Reduced social security contributions on employer's top-up payment	Employer social security contributions will be higher and linked to age of worker entering pre-pension	Implemented
The age limit in restructuring companies and loss-making companies is between 50 and 55	2015: The age limit is 55 in 2015 and rises every year with one year to arrive at the minimum age of 60 in 2020 for companies in difficulty. For companies undergoing restructuring, the age limit will be 60 in 2020.	Implemented
Top-up from the employer is submitted to taxation	No taxation during periods of work by another employer	Implemented
Part-time pre-pension system		
Part-time pre-pension system	No new entries from 2012	Implemented
Government subsidy for working time reduction to part time (time-credit with unlimited duration)		
Minimum age 50	2013: Minimum age 55 (with exceptions for physically demanding jobs)	Implemented
	2015: Minimum age 60 (with exceptions for physically demanding jobs) -	Planned by the new government
Statutory early retirement benefit		
2012 and before: Minimum age 60, full career length 35 years (5 years for civil servants)	2013: Minimum age increased by six months every year to 62 by 2016, career length increased by one year every year to 40 years by 2015 Exceptions for long career: 61/41 or 60/41 in 2016	Implemented
	2015: Minimum age will increase by six months in 2017 and 2018 to 63 on condition of a full career length that will increase by one year to 41 in 2017 and to 42 in 2019 In statutory regime, early retirement will be always possible three years before statutory retirement age Exceptions for long career will be stricter: required career length to retire at 60 will increase from 42 years in 2016 to 43 years in 2017 and 44 in 2019 (and for an early retirement at the age of 61 career length rises from 41 in 2016 to 42 in 2017 and 43 in 2019)	Implemented
Pension bonus for workers and self-employed persons: €2.2974 for every day worked extra if 62 or a career of 44 years Pension complement for statutory government employees: percentage increase for every month worked after 60 years of age.	Unified pension bonus for workers, self-employed persons and statutory government employees: progressively increasing lump sum amount (from €1.5 to €2.0) for every day worked extra. Bonus starts not earlier than 12 months after earliest possible date for early retirement. Bonus continued after 65 years of age. Only real working days create bonus rights.	Implemented

	Pension bonus phased out. Only people who met conditions for early retirement by December 31, 2014 or were 65 years old and had a career of 40 before December 31, 2014 were still eligible to a pension bonus.	Implemented
Diploma bonus: Years spent to get a bachelor or a master degree required to become civil servants are accounted for in the calculation of the career condition for early retirement	Diploma bonus will be phased out (6 months each year)starting 2016	Implemented
Employer obligations towards older workers		
None	Draw up a plan to retain older workers	Implemented by collective agreement n° 104
Social security contributions and wage subsidies		
Reduced for hiring of older long-term unemployed	Before 2013: reduced for hiring of older long term unemployed and pre-pensioners	Implemented/transferred to Regions in 2015
	2013: stronger reduction, but starting at 54 years instead of 50 years and only for those with gross wage under 4.453/month	Implemented
Reduced for older workers from 50 years on	2015: reductions to social security contributions for "target" groups becomes a competence of the Regions (sixth state reform)	Implemented in the framework of the "tax shift"
	2015: Higher reductions for the first 3 employees in small SME's	Subject to advice of National Labour Council
	2014: First hiring in SMEs extended to 4 and 5	Implemented
	2016: First hirings extended to 6+, strengthening for 1–5 hirings	Implemented
	2014: SSC cuts for the catering sector combined with anti-fraud measures	In preparation
Reduction for small SME's	2016–2020 tax shift package: Two-stage overhaul of the SSC reductions in the profit sector: lower headline SSC rates (down to 30% in 2016 and 25% in 2018), strengthening the low-wage measure (2016–2020), removing high-wage measure (2018) and removing across-the-board cut per employee (2018)	Implemented but low uptake
	2020 tax shift package: SSC cuts mainly for construction	Law and Royal Decree in preparation
	2016 tax shift package: Night and shift work wage subsidies (from 15.6% in 2015 to 22.8% in 2016)	Law and Royal Decree in preparation
	2014: Strengthening shift work wage subsidies for around-the-clock activities	Law and Royal Decree in preparation
	2016: tax shift package: Strengthening around-the-clock shift work wage subsidies	Implemented

	in high-tech sectors	
	2014: Increase general wage subsidy rate for SMEs (from 1% to 1.12%)	In preparation
	2015 tax shift package: Strengthening general wage subsidy in micro start-ups from 1.12% to 10% or 20% (2015)	Implemented
	2016 tax shift package: Strengthening overtime wage subsidies in construction and catering (2016)	Implemented
	2016-2020 tax shift package: Labor cost reducing package for non-profit sector (50% non-profit wage subsidy, 45% SSC cuts for low wages, 5% hospitals)	In preparation
	Tax shift package: Removing 1% general wage subsidy (2016)	In preparation
	Employees' SSC cuts for low-wage earners: compensation for non-indexation wages (2015)	In preparation
	Tax shift package: employees' SSC cuts for low-wage earners (2016-2020)	Implemented
Encourage longer employment via pension system reforms		
Encourage longer employment	For pensioners aged 65 or more, abolish ceiling on permitted earned incomes for those with careers spanning more than 42 years	Implemented
	No limits to income for pensioners who are 65 year old or have a career of 45 years	Implemented
Full valorization of assimilated periods in pension calculation at last wage earned: unemployment, unemployment with company top-up and time credit	Limited valorization of assimilated periods in pension calculation: • 3rd period unemployment, unemployment with company top-up before 60 and end of career time credit before 60 at pension minimum wage • unmotivated time credit limited to 1 year assimilation	Implemented
	Unmotivated time credit is still possible but gives no right to any benefit since 2015	Implemented
Survivors' pension for widow(er)s: always for survivors of 45 years and older, under certain conditions in case of survivors younger than 45	For widow(er)s younger than 45 survivors' pension replaced by transition allowance (12 months if no children, 24 months if children) that can be combined without limitation with work income, followed by automatic access to unemployment benefit if no gainful occupation and entitled to appropriate and early guidance. Eligibility age of 45 increased gradually to 50 by 2025	Implemented

	As for 2025, the eligibility age of 50 will increase gradually by one year each year to reach 55 in 2030	Planned by the new government
In workers' and self-employed persons' pension schemes the months of professional activity in the year of retirement are not taken into account for pension calculation.	In workers' and self-employed persons' pension schemes the months of professional activity in the year of retirement are taken into calculation.	Implemented
Principle of career unity in pension calculation in pension schemes of workers, self-employed persons and statutory government employees: career fraction or sum of career fractions cannot exceed 1 (45/45)	Notion career no longer expressed in years (45), but in full time equivalent days (14,040)	Social partners have given positive advice – Law project is sent to the Parliament
Increased taxation of the second pillar system in case of early retirement	From July 1, 2013, 20 percent instead of 16.5 percent if leaving at 60 and if leaving at 61 without legal pension 18 percent instead of 16.5 percent	Implemented
Legal age for full pension is 65	Increased to 66 in 2025 and 67 in 2030	Implemented
The legal framework for the second pillar system will be adapted such that the accessage will be more in line with the statutory retirement age		Planned by the new government
Decrease pension expenditure		
Pension complement for frontier or seasonal workers in workers' pension scheme: frontier or seasonal workers residing in Belgium granted pension complement to increase foreign pension to level of pension they would have received if they had worked in Belgium	As of 2015, pension complement for frontier or seasonal workers is granted to people who worked as frontier or seasonal workers before 2015 and who are before December 1, 2015: • 65 years old, or • Fulfill the conditions for early retirement	Social partners have given positive advice – Law project is sent to the Parliament
Minimum pension: Career condition to benefit from 1/45th of the minimum pension is 30 years of 208 days	From 2015, at least 52 days in a year are required to obtain 1/45th of the minimum pension.	Royal Decree in preparation
Structural reform of the pension scheme		Planned by the new government

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

Appendix IV. Risk Assessment Matrix

Source of Risk and likelihood	Impact if realized and transmission channel	Policy response
Low/ Medium **Significant China slowdown**. Suppresses commodity prices, roils global financial markets, and reduces global growth	**Medium** **Indirect impact via Germany** and global value chain could slow the cyclical recovery	*Slow the pace of fiscal consolidation somewhat by letting automatic stabilizers operate.*
High **Structurally weak growth in the euro area.** Weak demand and persistently lower inflation from failure to fully address crisis legacies, leading to low medium-term growth and persisting financial imbalances	**High** **Strong impact through trade channel and by implication investment**. Protracted growth shortfall could in turn lower potential growth, raise structural unemployment and complicate further fiscal adjustment.	*Coordinated policy response at European level to which Belgium could contribute by slowing the pace of consolidation.*
Medium **Tighter or more volatile global financial conditions** from unanticipated changes in growth and financial fundamentals in large economies	**Low** **Limited exposure of domestic banks to global risks.** While the sovereign-banking nexus remains important, it is being gradually unwound.	*Euro area monetary policy is first line of defense against liquidity stress, supported by activation of backstops and resolution mechanism.*
High **Dislocation in labor flows**, sharp rise in migrant flows, with negative global spillovers	**Medium** **The migrant crisis will have a relatively minor immediate fiscal impact**, but the medium-term impact will depend on the speed of integration of migrants into the workforce	*Adopt proactive policies to hasten integration of migrants, including active labor market policies, strengthening language and skill training*
Low **Rapid and disruptive housing price correction.**	**Medium** **Overvaluation is expected to be resolved gradually, but if not, private adjustment could occur through low consumption.** Banks are relatively well protected given capital buffers and full recourse loans.	*Following the increase in capital requirements on mortgage lending in 2014, additional macro-prudential measures could be introduced while also working on the supply side of the housing market to alleviate price pressures*
Low **Weak implementation of fiscal and structural reforms.**	**Medium** Failure to keep up with gains from reforms in the rest of the euro area would trigger **adverse growth-fiscal dynamics**	*Continue with labor market, public spending and social transfers reforms, complemented with product market and regulatory reforms.*

Appendix V. Debt Sustainability Analysis

Public debt sustainability risks remain high. Under the baseline scenario, the public debt-to-GDP ratio is projected to have peaked at 106.7 percent in 2014 and to decline to 101.1 percent by 2021 as the fiscal deficit narrows gradually and economic recovery gains traction. Gross financing needs are estimated at 17.9 percent of GDP in 2016 and are expected to decline to 13–15 percent in the medium term. The projected decline in public debt is relatively sensitive to macroeconomic shocks, particularly involving combined shocks.

Baseline and Realism of Projections

Under the baseline, economic recovery and modest fiscal consolidation result in a gradual decline in the gross financing need and the public debt ratio over the medium term. Relative to the DSA from 2014, the projection for the debt ratio has increased through the whole projection period, mainly due to slower projected fiscal consolidation and changes in the historical debt ratio (due to statistical changes on the coverage of public debt).

- **Macroeconomic assumptions.** Growth is estimated at 1.4 percent in 2016 and rising to 1½ percent in 2017 on the back of stronger demand. The output gap narrows over the medium term and is projected to close by 2021. Inflation is projected to stay below 2 percent throughout the period, reflecting the still negative output gap, lower oil prices, and the ongoing wage moderation.

- **Fiscal outlook.** In staff's baseline projections, the general government deficit comes down from 3.1 percent of GDP in 2014 to 2.1 percent in 2018, before rising again in the medium-term due mainly to unfinanced revenue losses from tax shift. Similarly, the primary surplus is projected improve until 2017 and thereafter remain close to balance. The projected fiscal path results in a structural deficit of 2.3 percent in 2021. This reflects staff's assessment of the authorities' plans over the medium-term, in which some measures remain to be identified.

- **Debt levels and gross financing needs.** Belgium's high level of government debt and gross financing requirement calls for using the higher scrutiny framework.[7] Government gross debt has increased significantly since 2007, reflecting sizable fiscal stimulus, declining real and nominal growth, and a large recapitalization of (and financial support to) the banking sector. Public debt is estimated to have reached 106.2 percent of GDP in 2015 (helped by early repayment of bank recapitalization funds) and is projected to stay above 100 percent through the medium term. Gross financing needs are estimated at 17.9 percent of GDP in 2016 and are expected to remain around 13–15 percent of GDP in the medium term.

[7] For advanced economies that (i) have a current or projected debt-to-GDP ratio above 60 percent; or (ii) have current or projected gross financing needs-to-GDP ratio above 20 percent; or (iii) have or are seeking exceptional access to Fund resources; teams are required to use an extended set of tools to identify and assess specific risks to debt sustainability. For these "higher scrutiny" cases, teams are also required to produce a standardized summary of risks in a heat map and prepare a write-up to discuss risks, including any country-specific considerations.

- **Realism of baseline assumptions.** The median forecast error for real GDP growth during 2006–14 is -0.58 percent, while that for inflation (GDP deflator) is 0.2 percent, both of which are relatively small. The median forecast error for primary balance suggests that staff projections have been optimistic (a forecast bias of -0.31 percent of GDP), but the forecast biases are in line with other surveillance countries.

- **Cross-country experience suggests the projected fiscal adjustment is feasible.** The adjustment in the cyclically-adjusted primary balance (CAPB) over the projection period is moderate and Belgium was able to deliver impressive fiscal consolidation in the past. However, staff does not rule out implementation risks, as discussed in the text.

- **Heat map.** Risks from the debt level are deemed high given that the relevant threshold to which Belgium's values are compared is 85 percent and this threshold is breached under baseline and all stress test scenarios. Belgium's gross financing needs are just below the benchmark of 20 percent of GDP in 2015 and decline over the medium-term. Belgium also faces risks relating to its external financing requirement and a large share of public debt held by foreigners. At 99 percent of GDP, the external financing requirement is significantly above the upper threshold of early warning benchmarks and the share of debt held by foreigners is relatively high at 55 percent of total.

Shocks and Stress Tests

The DSA framework shows Belgium's sensitivity to GDP growth and real interest rate shocks, and a combined macroeconomic-fiscal shock. They illustrate how difficult reducing public debt could be as the effect of these shocks, based on Belgium's own historical record, play out. In some cases debt ends the projection period on a rising trajectory.

- **Growth shock.** Under this scenario, real output growth rates are lower by one standard deviation starting in 2017–18, i.e. 1.6 percentage points relative to the baseline scenario. The assumed decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth). Under this scenario, the debt-to-GDP ratio increases to 111 percent of GDP in 2018 and declines thereafter.

- **High interest rate scenario.** This scenario examines the implications for debt sustainability of an increase in spreads by 470 basis points (a historical high observed in 1995) starting in 2018. The deterioration of public debt and gross financing needs are back-loaded as old debt gradually matures and new higher interest rate debt is contracted. In 2021, the impact on financing needs is 2.9 percent of GDP. Debt dynamics are reversed as the debt ratio no longer follows a downward trajectory.

- **Real exchange rate shock.** This scenario assumes 10 percent depreciation in the real exchange rate in 2017. This shock results in small effects relative to the baseline.

- **Primary balance shock.** This scenario examines the implications of a revenue shock and a rise in interest rates leading to a cumulative 2 percentage points of GDP deterioration in the primary balance (one standard deviation shock) in 2017–18. This scenario illustrates risks of delayed fiscal adjustment, due to insufficient adjustment measures. This shock leads to a deterioration in the debt ratio of 2½ percentage points relative to the baseline in 2021 and slightly higher gross financing needs.

- **Combined macro-fiscal scenario.** This scenario aggregates shocks to real growth, the interest rate, the exchange rate, and the primary balance while taking care not to double-count the effects of individual shocks. Under this scenario, debt would reach 113 percent of GDP in 2018 and continue rising through 2021. The impact on financing needs would be significant, keeping financing needs high through 2018 and remaining above 15 percent of GDP through 2021.

- **Persistent fiscal deficits shock.** This scenario a primary balance close to 1 percent of GDP through 2021. This results in the debt ratio hovering at current rates over the medium-term.

The authorities agreed with the conclusion of the analysis, and noted that foreign holdership of public debt can be a source of risk as well as a sign of confidence by investors in Belgium's public finances. They also observed that the methodology did not take into account projections for the cost of aging.

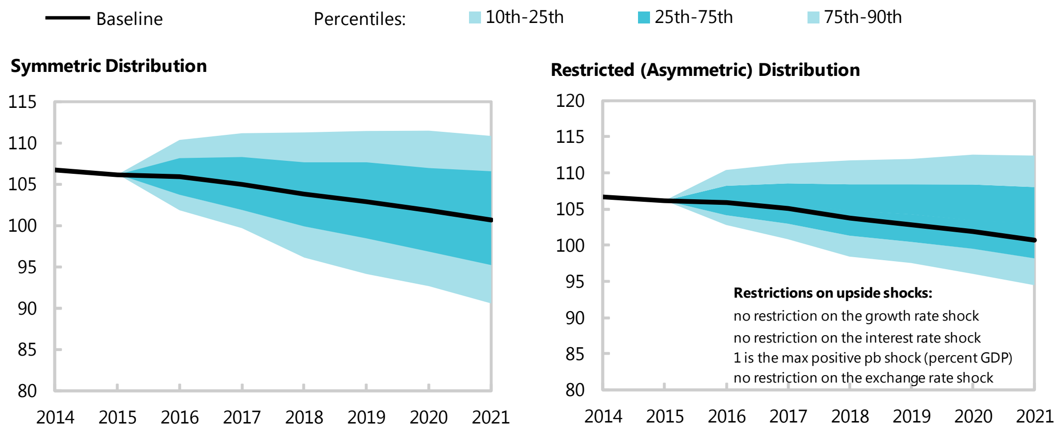
Belgium: Public DSA Risk Assessment

Heat Map

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

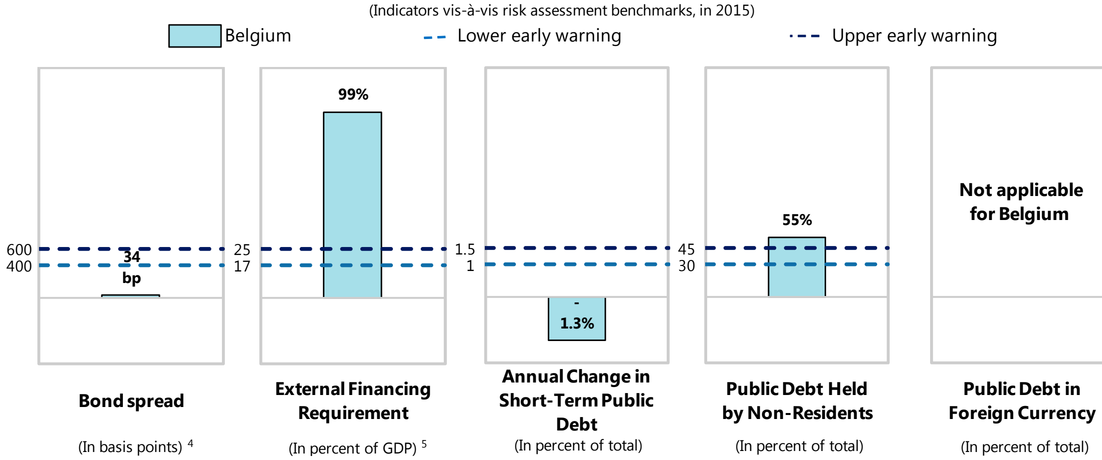
Evolution of Predictive Densities of Gross Nominal Public Debt

(In percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)



Source: IMF staff.

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

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

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

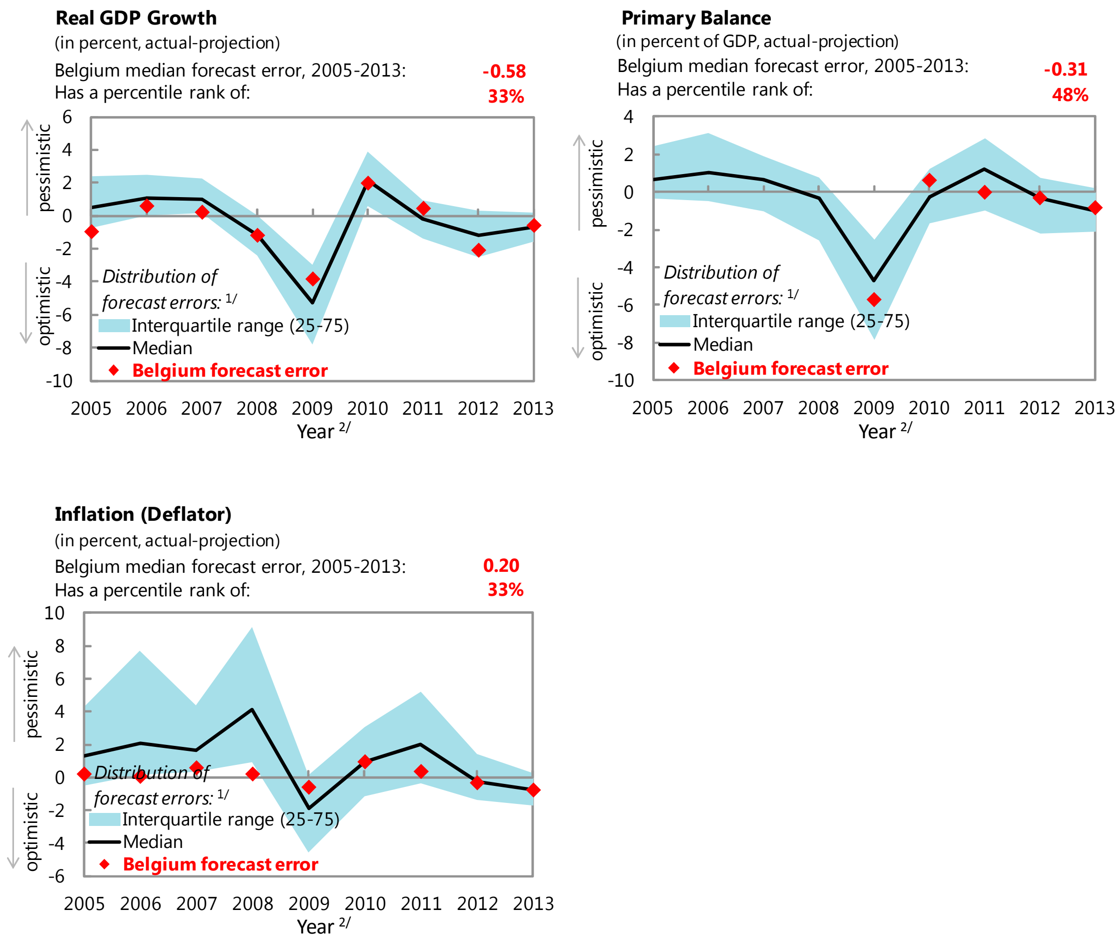
400 and 600 basis points for bond spreads; 17 and 25 percent of GDP for external financing requirement; 1 and 1.5 percent for change in the share of short-term debt; 30 and 45 percent for the public debt held by non-residents.

[4] Long-term bond spread over German bonds, an average over the last 3 months.

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

Belgium: Public DSA – Realism of Baseline Assumptions

Forecast Track Record, versus surveillance countries



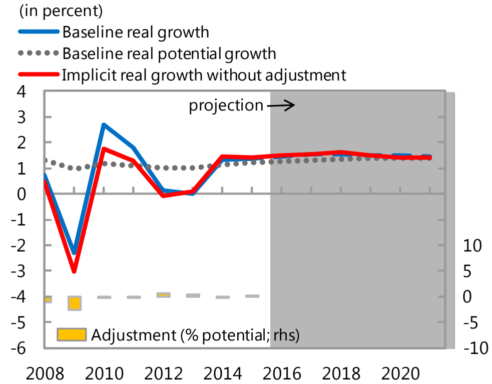
Source : IMF staff.
1/ Plotted distribution includes surveillance countries, percentile rank refers to all countries
2/ Projections made in the spring WEO vintage of the preceding year
3/ Not applicable for Belgium

Belgium: Public DSA – Realism of Baseline Assumptions (continued)

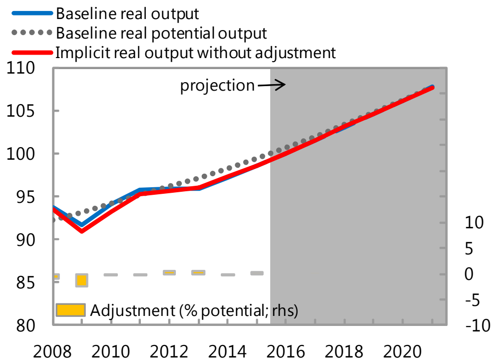
Growth and Level of Output in Absence of Fiscal Adjustment

Assumed multiplier of 0.3, persistence of 0.5

Real GDP Growth
(in percent)

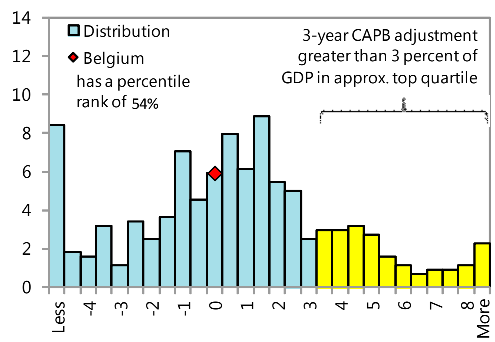


Real Output Level
(Baseline real output in 2016=100)

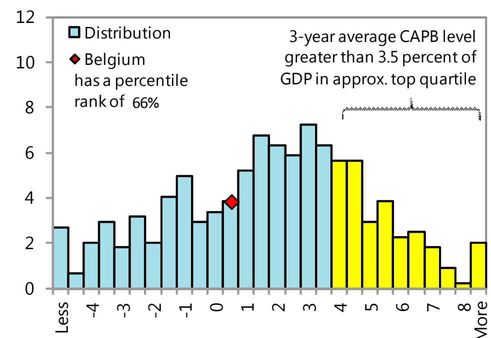


Assessing the Realism of Projected Fiscal Adjustment

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



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



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

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

(In percentage of GDP unless otherwise indicated)

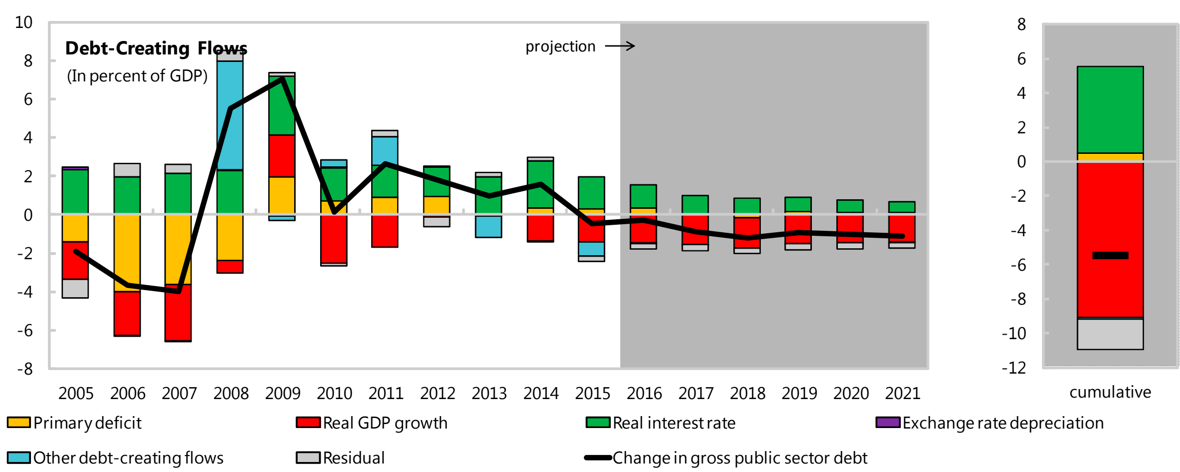
Debt, Economic and Market Indicators[1]

	Actual			Projections					
	2005-2013 [2]	2014	2015	2016	2017	2018	2019	2020	2021
Nominal gross public debt	97.3	106.7	106.2	105.9	105.0	103.8	102.9	101.8	100.7
Public gross financing needs	21.8	19.4	19.5	17.9	17.9	16.0	15.3	13.6	12.9
Real GDP growth (in percent)	1.2	1.3	1.4	1.4	1.5	1.5	1.5	1.5	1.5
Inflation (GDP deflator, in percent)	1.8	0.7	1.1	1.3	1.4	1.5	1.6	1.7	1.9
Nominal GDP growth (in percent)	3.1	2.0	2.5	2.8	3.0	3.1	3.1	3.2	3.4
Effective interest rate (in percent) [4]	4.1	3.0	2.7	2.5	2.4	2.4	2.4	2.4	2.4

As of January 27, 2016		
Sovereign Spreads		
Over German bonds[3]		40
5Y CDS (bp)		36
Ratings	Foreign	Local
Moody's	Aa3	Aa3
S&Ps	AA	AA
Fitch	AA	AA

Contribution to Changes in Public Debt

	Actual			Projections							
	2005-2013	2014	2015	2016	2017	2018	2019	2020	2021	cumulative	debt-stabilizing primary balance[9]
Change in gross public sector debt	1.0	1.6	-0.5	-0.3	-0.9	-1.2	-0.9	-1.0	-1.1	-5.5	
Identified debt-creating flows	0.8	1.4	-0.2	0.0	-0.6	-0.9	-0.6	-0.7	-0.8	-3.7	
Primary deficit	-0.8	0.3	0.3	0.4	0.0	-0.2	0.1	0.1	0.1	0.5	-0.9
Primary (noninterest) revenue and grants	49.4	51.6	50.9	50.5	50.5	50.2	49.8	49.6	49.6	300.2	
Primary (noninterest) expenditure	48.6	52.0	51.2	50.8	50.5	50.0	50.0	49.7	49.7	300.7	
Automatic debt dynamics [5]	0.9	1.1	0.3	-0.3	-0.6	-0.7	-0.8	-0.8	-0.9	-4.1	
Interest rate/growth differential [6]	1.0	1.1	0.3	-0.3	-0.6	-0.7	-0.8	-0.8	-0.9	-4.1	
Of which: real interest rate	2.1	2.4	1.7	1.2	1.0	0.8	0.7	0.7	0.5	5.0	
Of which: real GDP growth	-1.1	-1.4	-1.4	-1.5	-1.6	-1.6	-1.5	-1.5	-1.4	-9.1	
Exchange rate depreciation [7]	0.0	0.0	0.0	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.7	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	
Net privatization proceeds (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other debt flows (incl. ESM and euro area loans)	0.7	0.0	-0.7	0.0	0.0	0.0	0.0	0.0	0.0	-0.1	
Residual, including asset changes [8]	0.1	0.2	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-1.8	



Source: IMF staff.

[1] Public sector is defined as General government. Medium-term projections for debt differ somewhat from the baseline due to differing methodologies.

[2] Based on available data.

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

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

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

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

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

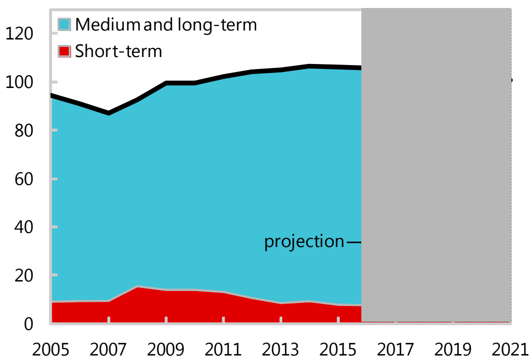
[8] Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

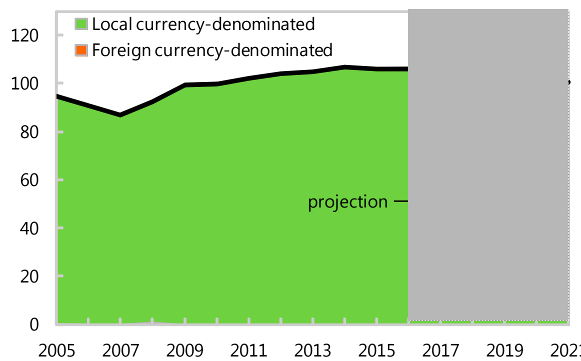
Belgium: Public DSA - Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(In percent of GDP)



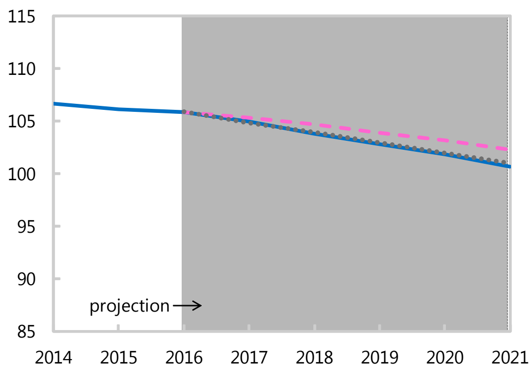
By Currency
(In percent of GDP)



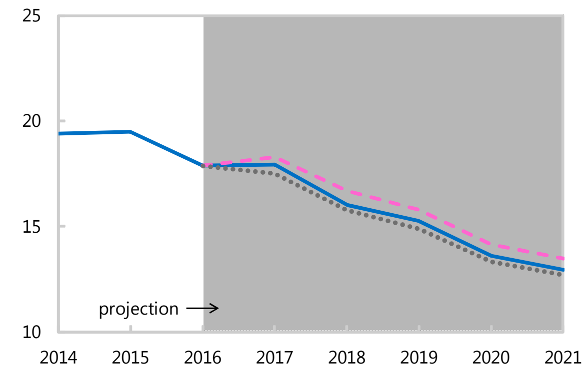
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(In percent of GDP)



Public Gross Financing Needs
(In percent of GDP)



Underlying Assumptions
(In percent)

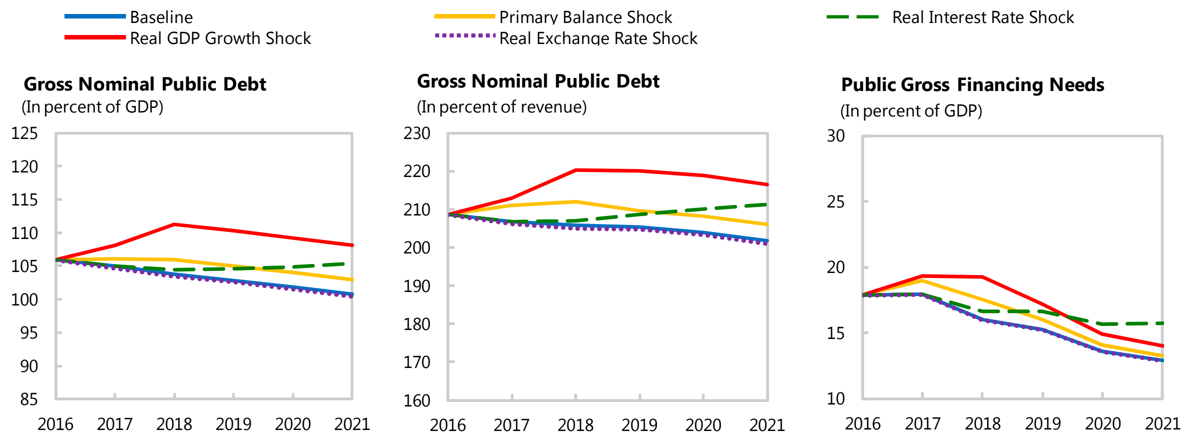
Baseline Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.4	1.5	1.5	1.5	1.5	1.5
Inflation	1.3	1.4	1.5	1.6	1.7	1.9
Primary Balance	-0.4	0.0	0.2	-0.1	-0.1	-0.1
Effective interest rate	2.5	2.4	2.4	2.4	2.4	2.4
Constant Primary Balance Scenario						
Real GDP growth	1.4	1.5	1.5	1.5	1.5	1.5
Inflation	1.3	1.4	1.5	1.6	1.7	1.9
Primary Balance	-0.4	-0.4	-0.4	-0.4	-0.4	-0.4
Effective interest rate	2.5	2.4	2.4	2.4	2.4	2.4

Historical Scenario	2016	2017	2018	2019	2020	2021
Real GDP growth	1.4	1.2	1.2	1.2	1.2	1.2
Inflation	1.3	1.4	1.5	1.6	1.7	1.9
Primary Balance	-0.4	0.5	0.5	0.5	0.5	0.5
Effective interest rate	2.5	2.4	2.5	2.7	2.8	2.9

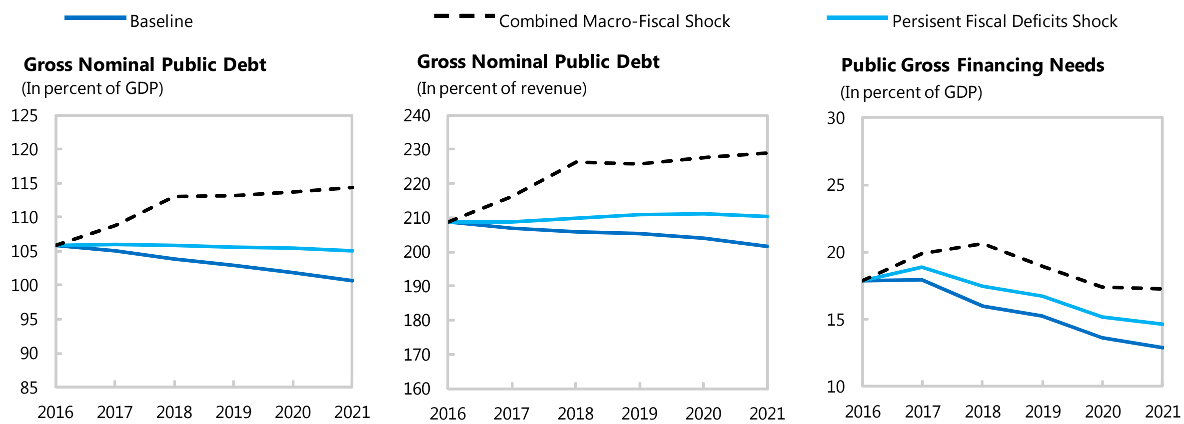
Source: IMF staff.

Belgium: Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(In percent)

	2016	2017	2018	2019	2020	2021
Primary Balance Shock						
Real GDP growth	1.4	1.5	1.5	1.5	1.5	1.5
Inflation	1.3	1.4	1.5	1.6	1.7	1.9
Primary balance	-0.4	-1.0	-0.9	-0.1	-0.1	-0.1
Effective interest rate	2.5	2.4	2.4	2.4	2.5	2.5
Real Interest Rate Shock						
Real GDP growth	1.4	1.5	1.5	1.5	1.5	1.5
Inflation	1.3	1.4	1.5	1.6	1.7	1.9
Primary balance	-0.4	0.0	0.2	-0.1	-0.1	-0.1
Effective interest rate	2.5	2.4	3.0	3.4	3.8	4.1
Combined Shock						
Real GDP growth	1.4	-0.1	-0.1	1.5	1.5	1.5
Inflation	1.3	1.0	1.1	1.6	1.7	1.9
Primary balance	-0.4	-1.6	-2.4	-0.1	-0.1	-0.1
Effective interest rate	2.5	2.4	3.0	3.5	3.9	4.2

	2016	2017	2018	2019	2020	2021
Real GDP Growth Shock						
Real GDP growth	1.4	-0.1	-0.1	1.5	1.5	1.5
Inflation	1.3	1.0	1.1	1.6	1.7	1.9
Primary balance	-0.4	-1.0	-1.9	-0.1	-0.1	-0.1
Effective interest rate	2.5	2.4	2.4	2.4	2.5	2.5
Real Exchange Rate Shock						
Real GDP growth	1.4	1.5	1.5	1.5	1.5	1.5
Inflation	1.3	1.7	1.5	1.6	1.7	1.9
Primary balance	-0.4	0.0	0.2	-0.1	-0.1	-0.1
Effective interest rate	2.5	2.4	2.4	2.4	2.4	2.4
Persient Fiscal Deficits Shock						
Real GDP growth	1.4	1.5	1.5	1.5	1.5	1.5
Inflation	1.3	1.4	1.5	1.6	1.7	1.9
Primary balance	-0.4	-0.8	-0.9	-0.9	-0.9	-0.9
Effective interest rate	2.5	2.5	2.4	2.4	2.4	2.5

Source: IMF staff.

INTERNATIONAL MONETARY FUND

BELGIUM

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 12, 2016

Prepared By | European Department

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FUND RELATIONS

(As of December 31, 2015)

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

General Resources Account:

	SDR Million	Percent of Quota
Quota	4,605.20	100.00
IMF's Holdings of Currency (Holdings Rate)	4,089.95	88.81
Reserve Tranche Position	515.29	11.19
Lending to the Fund		
New Arrangements to Borrow	766.07	

SDR Department:

	SDR Million	Percent of Allocation
Net Cumulative Allocation	4,323.34	100.00
Holdings	4,067.29	94.08

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

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

Overdue Obligations and Projected Payments to Fund [1/]

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

	Forthcoming				
	2015	2016	2017	2018	2019
Principal					
Charges/Interest	0.20	0.20	0.20	0.20	0.20
Total	0.20	0.20	0.20	0.20	0.20

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

Implementation of HIPC Initiative: Not applicable

Safeguards Assessments: Not applicable

Exchange Rate Assessments:

- Belgium's currency is the euro, which floats freely and independently against other currencies.
- Belgium has accepted the obligations under Article VIII, Section 2(a) and 3, and maintains an exchange system free of restrictions on payment and transfers for current international transactions except for restrictions maintained solely for security reasons, which have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51).

Last Article IV Consultation:

The last Article IV consultation was concluded on March 2, 2015. The associated Executive Board assessment is available at http://www.imf.org/external/np/sec/pr/2015/pr15111.htm and the staff report (IMF Country Report No. 15/70) at http://www.imf.org/external/pubs/ft/scr/2015/cr1570.pdf. Belgium is on the standard 12-month consultation cycle.

FSAP Participation and ROSC:

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

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

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

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

Summary: 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. This makes the Court of Audit's recent Single Audit initiative to minimize overlap, coordinate work programs, and to share common data and analysis, timely.

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

Belgium's AML/CFT framework was last assessed in July 2014. The assessment was conducted by the Financial Action Task Force (FATF) against the 2012 FATF standard using the 2013 assessment methodology, both of which place greater emphasis on the effectiveness of AML/CFT measures in mitigating the money laundering and terrorist financing risks. The evaluation report was adopted during the FATF February 2015 plenary meeting and found that the core elements of a sound AML/CFT regime were present, although some elements remained to be brought in line with the 2012 FATF standard.

STATISTICAL ISSUES

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

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

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

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

Key publicly accessible websites for macroeconomic data and analysis are:

National Statistical Portal, www.belgostat.be

National Statistics Institute, www.statbel.fgov.be

National Bank of Belgium, www.nbb.be

Federal Planning Bureau, www.plan.be

High Council of Finance, www.docufin.be

Central Economic Council, www.ccecrb.fgov.be

Belgium: Common Indicators Required for Surveillance

(As of January 2016)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of Publication[6]
Exchange Rates	1/29/16	1/29/16	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	12/15	1/16	M	M	M
International Investment Position	2015:Q3	1/16	Q	Q	Q
Reserve/Base Money	12/15	1/16	M	M	M
Broad Money	12/15	1/16	M	M	M
Central Bank Balance Sheet	12/15	1/16	M	M	M
Consolidated Balance Sheet of the Banking System	12/15	1/16	M	M	M
Interest Rates[2]	1/29/16	1/29/16	D	D	D
Consumer Price Index	12/15	1/16	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]—General Government[4]	2015:Q3	1/16	Q	Q	Q
Revenue, Expenditure, Balance and Composition of Financing[3]—Central Government[5]	12/15	1/16	M	M	M
Stock of Central Government Debt	12/15	1/16	M	M	M
External Current Account Balance	9/15	1/16	M	M	M
Exports and Imports of Goods and Services	9/15	1/16	M	M	M
GDP/GNP	2015:Q3	1/16	Q	Q	Q
Gross External Debt	2015:Q3	1/16	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)