

**FOR
AGENDA**

SM/08/65
Supplement 1

February 29, 2008

To: Members of the Executive Board

From: The Secretary

Subject: **Belgium—Staff Report for the 2007 Article IV Consultation—
Informational Annex**

The attached informational annex is being issued as a supplement to the staff report for the 2007 Article IV consultation with Belgium (SM/08/65, 2/29/08), which is tentatively scheduled for discussion on **Friday, March 21, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Belgium indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Everaert (ext. 38667), Mr. Luzio (ext. 38327), and Ms. Yontcheva (ext. 39912) in EUR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Central Bank forthwith; to the WTO Secretariat on Monday, March 10, 2008; and to the European Commission and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. This supplement is not being disseminated in hard copy. It can be accessed in the Institutional Repository. A link to this document can be found in the daily list (<http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm>) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

BELGIUM

Staff Report for the 2007 Article IV Consultation—Informational Annexes

Prepared by European Department

February 28, 2008

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ANNEX I. BELGIUM: FUND RELATIONS
(As of January 31, 2008)

Mission: Brussels, December 6–17, 2007 and January 23-28, 2008

Staff team: Messrs. Everaert (Head), Christou (first mission only), Luzio (second mission only), Ms. Yontcheva (all EUR), and Mr. De Broeck (FAD, first mission only).

Country interlocutors: The prime minister, the vice-prime minister for the budget, the governor of the National Bank of Belgium, the director of the Treasury, the chairman of the Finance, Banking and Insurance Commission, the Head of the Federal Planning Bureau, the chairman of the public borrowing section of the High Finance Council, and their staffs; staff of the federal ministry of finance, the health care administration, the regional ministries of the budget for Flanders, Brussels and Wallonia, respectively; representatives of labor unions, employer organizations, and the financial sector. Mr. Kiekens (Executive Director) or Mr. Rottier (Advisor to the Executive Director) attended the meetings.

Fund relations: The previous Article IV consultation took place on February 16, 2007. The associated Executive Board's assessment is available at <http://www.imf.org/external/np/sec/pn/2007/pn0726.htm> and the staff report at <http://www.imf.org/external/pubs/ft/scr/2007/cr0789.pdf>. Belgium accepted the obligations under Article VIII and, apart from certain security restrictions, maintains an exchange system free of restrictions.

Data: Belgium subscribes to the Fund's Special Data Dissemination Standard, and comprehensive economic data are available on a timely basis (Appendix II).

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

| II. General Resources Account: | SDR Million | Percent of Quota |
|---------------------------------------|--------------------|------------------------------|
| Quota | 4,605.20 | 100.00 |
| Fund holdings of currency | 4,303.11 | 93.44 |
| Reserve position in Fund | 302.130 | 6.56 |
| | | |
| III. SDR Department: | SDR Million | Percent of Allocation |
| Net cumulative allocation | 485.25 | 100.00 |
| Holdings | 387.00 | 79.75 |
| [Designation plan] | | |

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

V. **Latest Financial Arrangements:** None

VI. **Projected Payments to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

| | Forthcoming | | | | |
|------------------|-------------|-------------|-------------|-------------|-------------|
| | 2008 | 2009 | 2010 | 2011 | 2012 |
| Principal | | | | | |
| Charges/interest | <u>3.18</u> | <u>3.06</u> | <u>3.06</u> | <u>3.06</u> | <u>3.06</u> |
| Total | 3.18 | 3.06 | 3.06 | 3.06 | 3.06 |

VII. **Article IV Consultations:**

Belgium is on the 12-month cycle; the last consultation was completed on February 16, 2007 (EBM/07/14).

VIII. **Exchange Rate Arrangements**

- Belgium's currency is the euro, which floats freely and independently against other currencies.
- Belgium maintains an exchange system free of restrictions on payments and transfers for current international transactions, except for restrictions maintained solely for security reasons. These measures are established by European Union regulations and have been notified to the Fund pursuant to Executive Board Decision No. 144-(52/51) (see EBD/90/251 (8/17/90), EBD/94/187 (11/29/94), EBD/92/139 (7/7/92) and EBD/06/133 (11/6/2006)).

IX. **FSAP Participation:**

FSAP Assessment

IMF Country Report No. 06/75

Summary: The report concluded that Belgium's financial system is resilient and benefits from a number of Belgium-specific features that help stability. These include a traditionally cautious attitude toward risk by banks, large holdings of government securities, extremely low holdings of equity by banks, a stable source of funding benefiting from generous tax incentives, a high standard of banking supervision, and a stable macroeconomic policy framework. Overall, supervision showed a high degree of compliance with international standards. Near-term vulnerability appears low, reflecting the soundness of the dominant banking system, the generally benign financial environment, the strong financial condition of the corporate sector, and the relatively healthy financial position of the household sector. Financial institutions were found to withstand an adverse macroeconomic stress well, helped in part by the beneficial diversification in the *bancassurance* model.

Notwithstanding the strengths of the Belgian financial sector, a number of issues emerged from the FSAP. The heavy exposure abroad, the open nature of the economy, and the importance of the Euroclear Group globally, made the domestic financial system potentially vulnerable to global economic developments and financial contagion. Risks remained and may increase with a downturn in the business cycle, increased cross-border operations, and deeper links with the global money centers. In line with the 2005 FSAP recommendations, the supervisory framework has been strengthened. The Banking, Finance, and Insurance Commission's (CBFA) management committee has been streamlined and synergies between the CBFA and the National Bank of Belgium (NBB) have been further developed. Regular stress tests have helped promote a systematic dialogue between supervisory authorities and market participants, while detailed procedures for financial crisis management have been tested. Prudential supervision of the insurance sector has been upgraded and regulation of the pension funds sector reinforced.

ANNEX II. BELGIUM: STATISTICAL ISSUES

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

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

General government revenue, expenditure, and balance on an accrual basis (ESA95) are published annually. The NBB publishes monthly data on central government operations. It would be helpful to present these data quarterly on a national accounts basis to facilitate monitoring of public finances.

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 |
| Institute for National Accounts | www.inr-icn.fgov.be |
| National Bank of Belgium | www.nbb.be |
| Federal Planning Bureau | www.plan.be |
| Banking, Finance, and Insurance Commission | www.cbfa.be |
| High Finance Council | www.docufin.be |
| Central Economic Council | www.ccecrb.fgov.be |

BELGIUM: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(As of February 14, 2008)

| | Date of Latest Observation | Date Received | Frequency of Data ⁶ | Frequency of Reporting ⁶ | Frequency of Publication ⁶ |
|--|----------------------------|---------------|--------------------------------|-------------------------------------|---------------------------------------|
| Exchange Rates | 2/14/08 | 2/14/08 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹ | 11/07 | 1/14/08 | M | M | M |
| Reserve/Base Money | 12/07 | 1/08 | M | M | M |
| Broad Money | 12/07 | 1/08 | M | M | M |
| Central Bank Balance Sheet | 12/07 | 1/08 | M | M | M |
| Consolidated Balance Sheet of the Banking System | 12/07 | 1/08 | M | M | M |
| Interest Rates ² | 2/14/08 | 2/14/08 | D | D | D |
| Consumer Price Index | 12/07 | 1/08 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing ³ —General Government ⁴ | 2006 | 6/30/07 | A | A | A |
| Revenue, Expenditure, Balance, and Composition of Financing ³ —Central Government | 2006 | 6/30/07 | A | A | A |
| Stocks of Central Government and Central Government-Guaranteed Debt ⁵ | 12/07 | 1/08 | M | M | M |
| External Current Account Balance | Q3 2007 | 12/07 | Q | Q | Q |
| Exports and Imports of Goods and Services | Q3 2007 | 12/07 | Q | Q | Q |
| GDP/GNP | Q3 2007 | 12/07 | Q | Q | Q |
| Gross External Debt | Q3 2007 | 12/07 | Q | Q | Q |

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

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

³Foreign, domestic bank, and domestic nonbank financing.

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

⁵Including currency and maturity composition.

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