FOR AGENDA

SM/08/65
Correction 1

March 19, 2008

To: Members of the Executive Board

From: The Secretary

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

The attached corrections to SM/08/65 (2/29/08) have been provided by the staff.

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views

Page 1, Executive Summary, third para., line 3: for "without recourse to one-off measures" read "without recourse to significant one-off measures"

Page 4, para. 1, line 4: for "lowest level in a decade." read "lowest level since 2002."
Box 1, first para., penultimate line: for "regional and community levels" read "regional, community, and local levels"

Page 6, Text Table 1: corrected for data error.

Page 7, Figure 6, footnote, first line: for "1.9 percent in 2007" read "2.7 percent in 2007"

Page 8, Figure 8: for "Source: National Bank of Belgium."
read "Source: National Bank of Belgium and IMF estimates."
footnote: added to read "1/ The estimates for 2008 reflect IMF staff projections."
Text Table 2, last column: corrected for data error.

Page 9, para. 9, lines 2–4: for "Public sector wages and about two-thirds of private sector wages are indexed to a core inflation index, the so-called 'health index.'"
read "Public and private sector wages are indexed to a core inflation index, the so-called "health index," though some increases are subject to a lower cap."

Page 10, Text Table 3: corrected for data error and source.

Page 11, Text Table 4: for “Source: Belgian authorities.”
read “Source: Belgian authorities and IMF staff estimates and projections.”

Page 13, para. 17, line 4: for “liabilities of less than” read “liabilities of around”

Page 16, para. 21, line 1: for “Fiscal adjustment is” read “Fiscal adjustment should be”
Figure 12: for “5.8 percent of GDP increase” read “6.1 percent of GDP increase”

Page 21, Figure 17: legend corrected.

Pages 25–27, Tables 1–3: corrected for data error.

Page 32, Draft PIN, line 1: for “unit labor costs” read “hourly labor costs”

Page 33, Draft PIN, Selected Economic and Social Indicators table: corrected for data error.

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

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (16)

Other Distribution:
Department Heads

Corrected: 3/18/08

INTERNATIONAL MONETARY FUND

BELGIUM

Staff Report for the 2007 Article IV Consultation

Prepared by Staff Representatives for the 2007 Consultation with Belgium

Approved by Alessandro Leipold and Michael Hadjimichael

February 28, 2008

EXECUTIVE SUMMARY

Headwinds from a more testing international environment and domestic political tensions are challenging Belgium's enviable economic performance. Economic growth is expected to decelerate significantly—in the staff's view to 1.6 percent in 2008, though the authorities remain somewhat more sanguine. The recent spike in energy and food prices will likely push average inflation to 2.9 percent in 2008. Partial indexation will temper its impact on real incomes, but poses risks to competitiveness. With political tensions following the June 2007 elections, federal policy making has been at a standstill since April 2007, delaying much needed fiscal consolidation and structural reforms. Meanwhile, the window to tackle the implications of population aging—through fiscal pre-funding and higher growth—is closing rapidly.

The impact of financial turmoil on the financial system appears contained but, together with heightened cross-border integration, will continue to require the dedicated attention of supervisors. While not ruling out downside surprises, especially in the event of a severe and prolonged economic downturn, supervisors indicated that financial institutions remained sound. More transparent disclosure of exposures and valuation assumptions and their implications for banks' earnings and capital would dampen market volatility. While already high-quality prudential supervision is being further enhanced, the relentless rise in the cross-border dimension of the financial system requires stronger coordination with host country authorities.

Though the policy agenda to address aging and fiscal federalism imbalances is well known, timely delivery is not certain. On the positive side, fiscal consolidation is set to resume in 2008, without recourse to significant one-off measures. But plans fall short of staff advice and the urgent reform of fiscal federalism arrangements will need to be executed without fiscal costs. Greater accountability, more transparency, and stronger coordination among federal and sub-federal entities are key to achieving the required medium-term buildup of fiscal surpluses. Structural reforms will need to resume without delay to boost employment rates and productivity.

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I. Introduction

1. **While economic performance has remained good, difficulties in building consensus for institutional reform have caused an ill-affordable hiatus in economic policy making.** Economic growth was robust in 2007, bringing down unemployment to the lowest level since 2002. As elsewhere in the euro area, growth is expected to slow significantly owing to a weakening of the international environment and financial turbulence, though the domestic financial system appears to be resilient. The recent spike in energy and food prices is of concern, as partial indexation may pose risks to competitiveness. More worrisome is the interruption in policy-making at the federal level, broadly since April 2007, reflecting a complex political environment (Box 1). The coordinated early and decisive policy response to tackle long-term challenges that Executive Directors called for in last year's consultation has thus remained absent.

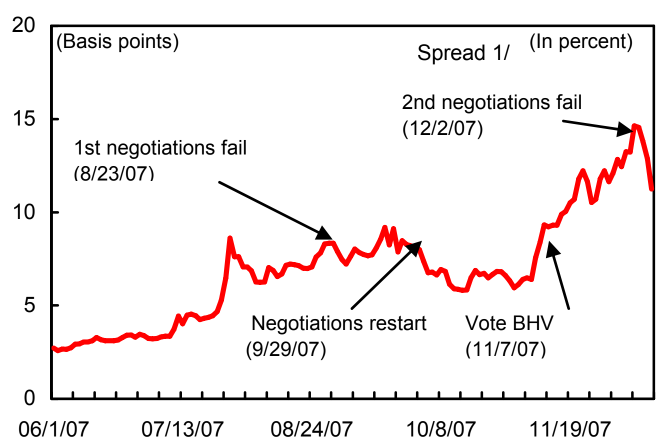
Box 1. Complex Political Environment

In the June 2007 federal elections, voters rejected the outgoing left-right coalition and put the center Christian Democrats in a commanding position to form a new coalition, but disagreements on reforms of fiscal federalism arrangements led to a 6-month political impasse. In the absence of a federal government, policy making continued only at the regional, community, and local levels but without the usual coordination mechanisms.

To deal with urgent policy matters, especially the 2008 budget, an interim federal government was formed on December 21, 2007, under outgoing Prime Minister Verhofstadt. A regular federal government is expected to be put in place by March 23, 2008, consisting of the same coalition partners but headed by a new Prime Minister. However, serious tensions remain within the coalition, especially surrounding constitutional reforms, and the policy agenda is already being influenced by the perspective of the regional elections of 2009.

The impact of the political uncertainty can be seen in movements in sovereign spreads (Figure 1), with spikes in political tensions[1] leading to their widening. Indeed, fiscal policy has so far been the main victim of the political turmoil: the general government is likely to record a deficit of 0.1 percent of GDP in 2007 instead of the targeted surplus of 0.3 percent of GDP required under the previously agreed strategy to deal with aging.

Figure 1. Political Tensions and Sovereign Spreads



Source: Belgium Debt Agency
1/ Compared to average of Germany, France, Spain, and Netherlands.

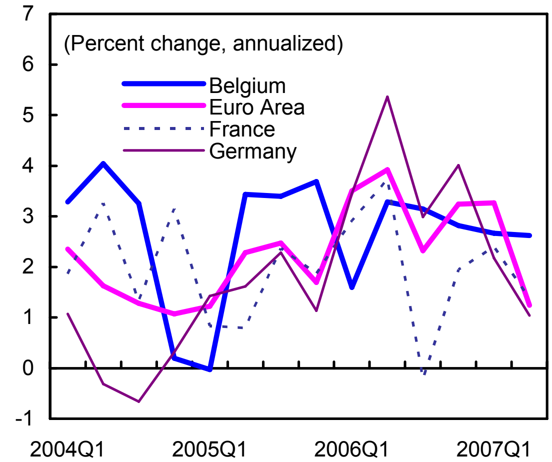
[1] Political tensions peaked when negotiations to form a government failed twice and when a dispute over an electoral district (BHV) evoked the specter of a partition of the country.

II. Outlook: Supporting Growth, Managing Inflation, and Preserving Competitiveness

A. How Significant a Slowdown Lies Ahead?

2. **A mostly favorable global environment and strong domestic demand delivered robust economic growth in 2007** (Figure 2). The strong performance of Germany and emerging markets as well as easy financing conditions created a supportive external environment during most of the year. Domestically, household and business confidence indicators rose significantly, inflation was subdued, and job creation increased significantly. All in all, GDP rose by 2.7 percent in 2007.

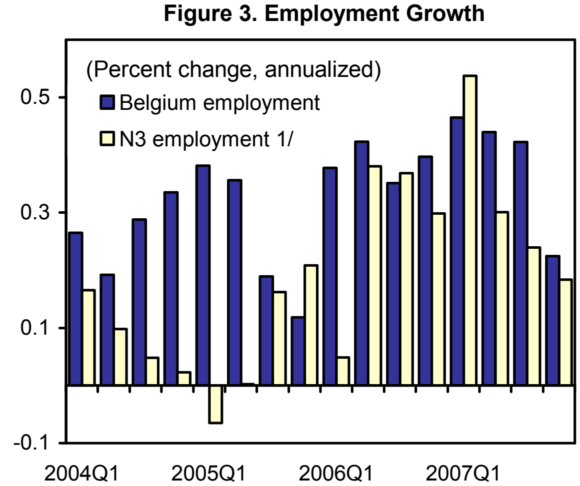
Figure 2. GDP Growth



Source: WEO

3. **Robust economic activity absorbed a growing labor force and allowed the unemployment rate to decline continuously** (Figure 3). In addition to cyclical factors, employment growth also benefited from a sharp increase in the self-employed, associated with labor immigration following EU enlargement, and the government-subsidized voucher program for domestic services which led to the creation of low-skill jobs in the services sector. As a result, 55,000 jobs were added during the first 9 months of 2007, raising households' net disposable income which, in turn, spurred strong consumption growth. Meanwhile, labor shortages have started to appear in some regions and sectors.

Figure 3. Employment Growth



Sources: Eurostat; and OECD, Economic Outlook.
1/ France, Germany, and the Netherlands.

4. **The authorities and staff agreed that growth would decline significantly, but differed on the degree of the slowdown.** The authorities' macroeconomic framework underlying the budget is based on GDP growth of 1.9 percent in 2008, which they felt was only slightly on the optimistic side. The staff expects economic growth to fall to 1.6 percent (Text Table 1). There was agreement that the slowdown would affect all demand components. Business investment is expected to decelerate due to greater uncertainty and to a lesser extent because of less favorable financing conditions (Figure 4). Residential

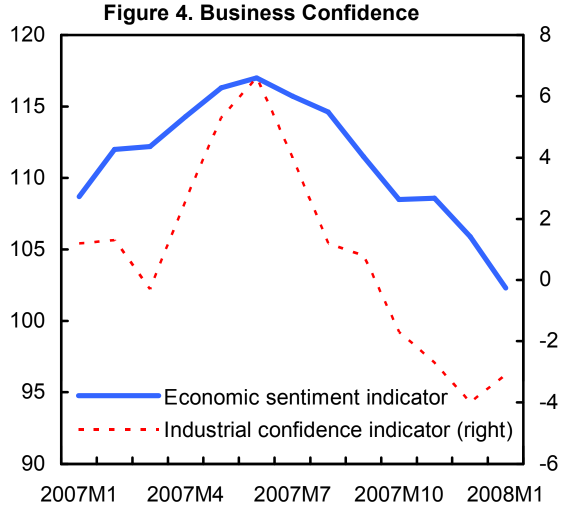
construction will ease from historic highs in line with developments in house prices and mortgage markets (Figure 5).[1] Consumption will grow at a lower pace mostly due to sluggish real disposable income growth as inflation rises and the pace of job creation diminishes. However, with consumer credit less developed than in Anglo-Saxon countries, the drag from less favorable financing conditions will be smaller. Finally, the global slowdown and euro appreciation will dampen export growth.

Text Table 1. Economic Outlook
(Annual growth rates from previous period, unless otherwise indicated)

			Est.	Proj.		2007		Est.	Projections 2008			
	2005	2006	2007	2008	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Real GDP (constant prices)	2.0	2.9	2.7	1.6	3.0	2.8	2.6	2.4	2.0	1.6	1.4	1.4
Private consumption expenditure	1.4	2.1	2.5	1.5	1.9	2.4	2.8	2.9	2.4	1.7	1.0	1.1
Gross fixed capital formation	6.7	4.2	4.9	1.4	4.8	4.7	4.2	6.1	2.6	1.2	1.0	0.7
Unemployment rate	8.4	8.2	7.5	7.4	...	...	...	...	...	...	...	...
Consumer price index	2.5	2.3	1.8	2.9	1.8	1.5	1.3	2.6	3.3	3.1	2.8	2.6
General government balance (in percent of GDP)	-2.3	0.4	-0.1	-0.5	...	...	...	...	...	...	...	...
Current account balance (in percent of GDP)	2.6	2.7	3.3	3.0	...	...	...	...	...	...	...	...
Memorandum items:												
Oil prices (US$ per barrel) 1/	41.3	20.5	10.7	21.3	-6.2	-3.2	7.0	48.4	52.6	30.8	16.9	-2.7
Partner country growth 2/	1.2	2.6	2.4	1.8	2.9	2.1	2.5	2.2	1.7	1.1	0.9	1.1

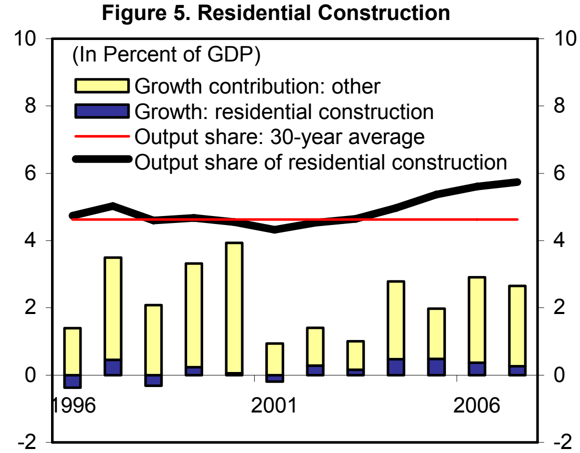
Source: IMF, World Economic Outlook.
1/ Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh, US$ per barrel.
2/Real GDP growth (France, Germany, Netherlands).

Figure 4. Business Confidence



Source: National Bank of Belgium

Figure 5. Residential Construction

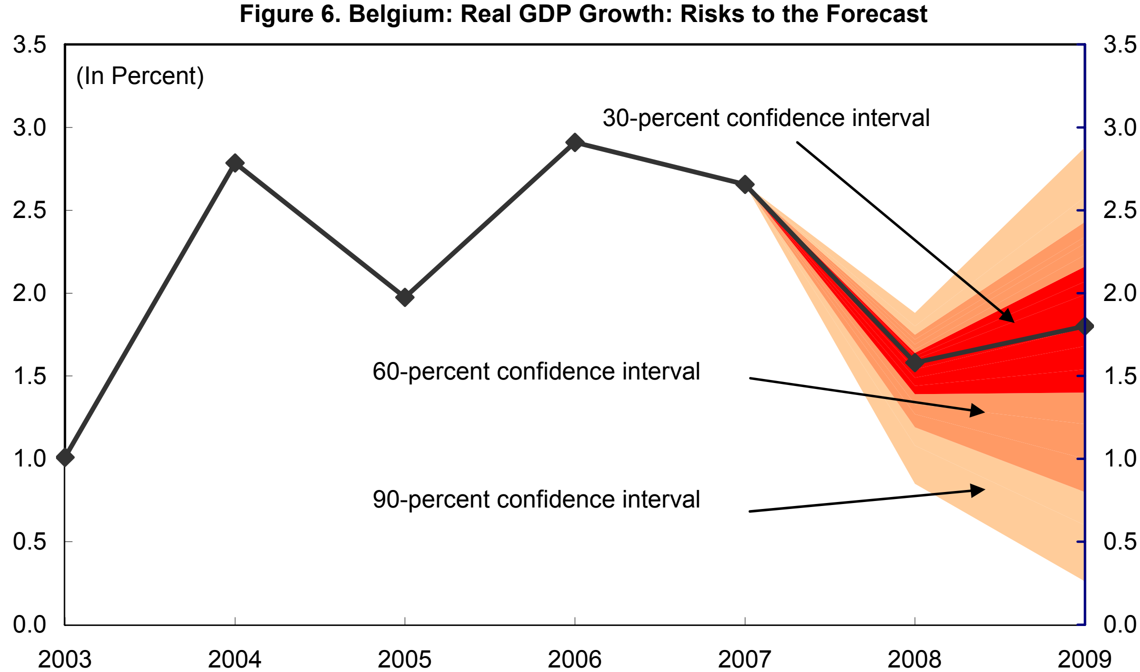


Source: National Bank of Belgium

[1] However, with residential construction only making up 5.7 percent of GDP in 2007, the slowdown in this sector is not a major factor.

5. **There was agreement that risks were tilted to the downside, but that there was no need for a policy response beyond the operation of automatic fiscal stabilizers**. Oil prices, the euro appreciation and the duration of the financial turmoil are all weighing on the downside, while lack of decisive progress with domestic reforms could further sap confidence (Figure 6). The staff supported the authorities' intention to allow automatic stabilizers to operate, thus abandoning the past procyclical practice of targeting nominal balances. However, the staff cautioned that consolidation would need to resume in earnest (see Section IV.A.) and that, with widespread indexation practices (see Sections II.B and II.C), broader fiscal support to the economy could prove counterproductive.

Figure 6. Belgium: Real GDP Growth: Risks to the Forecast



The chart includes the following risks to the baseline projections of growth (2.7 percent in 2007 and 1.6 percent in 2008):
- persistent tightening of financing conditions;
- 10 percent euro appreciation;
- 1 percent drop in foreign demand;
- boost in domestic confidence reflecting steady progress in reform agenda;
- a US recession and a disorderly unwinding of global imbalances.

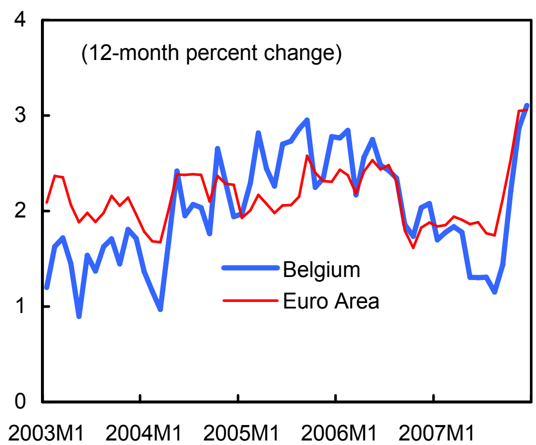
They are weighted by the staff's subjective probability assessment of their occurrence.
Source: IMF staff estimates.

B. How is Inflation Affecting the Economy?

6. **The factors that moderated inflation in the course of 2007 reversed toward the end of the year.** The liberalization of the gas and electricity markets in Brussels and Wallonia initially reduced the consumer price of energy, exerting a moderating effect on the HICP until the summer of 2007, and allowing inflation to stay well below the average of the euro area. However, subsequently, the sharp increase in energy and food prices pushed inflation up to 3.1 percent in December 2007.

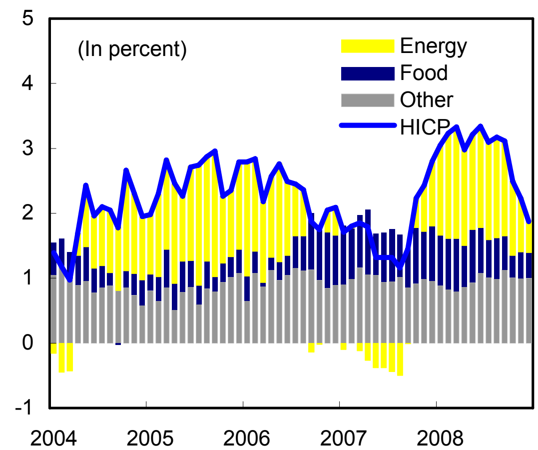
7. **Inflation is expected to peak in early 2008 and recede in the course of the year** (Figures 7 and 8). Even though energy and food markets are likely to stabilize, base effects and increases in the distribution margins in the energy sector in January will keep inflation high during the first quarter of 2008. Thereafter, inflation is projected to decline gradually to around 2 percent by year-end, but the year average will register about 2.9 percent.

Figure 7. Headline Inflation



Source: Eurostat.

Figure 8. Contribution to Inflation 1/



Source: National Bank of Belgium and IMF estimates.
1/ The estimates for 2008 reflect IMF staff projections.

8. **Low-income groups are being disproportionately affected by the food and energy price increases, triggering a necessary increase in targeted income support.** With consumption patterns varying according to the income level of the household, a study by the central bank (NBB) shows that lower-income households suffer greater loss of purchasing power when these components register above average increases. This was observed between 2004 and 2006 (Text Table 2), and is again applicable since September 2007. Hence, the authorities have increased the subsidies to low-income households for purchases of heating oil, through a mechanism that is generally well targeted and whose budgetary implications are capped.

Text Table 2. Inflation Impact on Lowest Income Group

	1997-1998	1999-2003	2004-2006	2007
Inflation	2.4	9.7	6.9	1.8
Inflation first decile	2.9	8.8	7.8	2.0
Implicit gain (+)/loss (-) in purchasing power for lower income	-0.5	0.8	-0.9	-0.2

Source: National Bank of Belgium

9. **More general income support measures would not be justified, especially since existing partial indexation practices already hold up purchasing power.** Public and private sector wages are indexed to a core inflation index, the so-called "health index," though some increases are subject to a lower cap. These mechanisms will boost wages by 3 percent in 2008. Even so, against the background of tight labor markets, there are calls for further wage increases. The mission cautioned against broader wage increases, which would evoke past episodes of mishandled supply shocks and subsequent painful adjustment. In line with the tradition of responsible wage bargaining and mindful of the risks to competitiveness, labor union leaders emphasized the need to stick to existing wage agreements, though they recognized that recent price increases had raised social tensions. Meanwhile, the authorities indicated that they had no intention to provide broad income support and would consider the mission's advice to seek ways to contain prices by further promoting competition, especially in the retail sector, and reviewing the distribution margins in the energy sector.

C. Is Competitiveness an Issue?

10. **The authorities agreed that various indicators suggest that the current level of the real effective exchange rate is broadly appropriate**. Export performance remains relatively robust, with the trend decline in export shares, except for a brief episode in 2006, fully in line with what is to be expected from the mature structure of the economy. Based on the CGER methodology, staff estimates of the REER range between a 2 percent undervaluation (reduced-form estimation) and a 4 percent overvaluation (external sustainability approach). The former approach evaluates the difference between the current REER and an equilibrium REER derived from a panel regression in which fundamental determinants of the REER are evaluated at their trend levels.[2] The latter approach verifies whether on the basis of current trade elasticities, the actual exchange rate is consistent with maintaining a benchmark level of net foreign assets as a share of GDP, here chosen to be the 2006 level.

11. **Current and trade accounts have been recording a steady surplus.** The current account surplus reflects net savings of the private sector, more than offsetting public sector deficits. This is driven by high corporate savings, while Ricardian equivalence considerations have led to a decline in household savings (Text Table 3).[3]

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[2] For Belgium, the relevant fundamental variables are: relative productivity, the net foreign asset position, the terms of trade, and government consumption. For details, see Methodology of CGER Assessments www.imf.org/external/np/pp/eng/2006/110806.pdf.

[3] The government's fiscal consolidation led individuals to lower their saving rate (see e.g. J. C. Cuaresma, and G. Reitschuler, 2007, "Is the Ricardian Equivalence Proposition an 'Aerie Fairy' Theory for Europe?" Economica, 74).

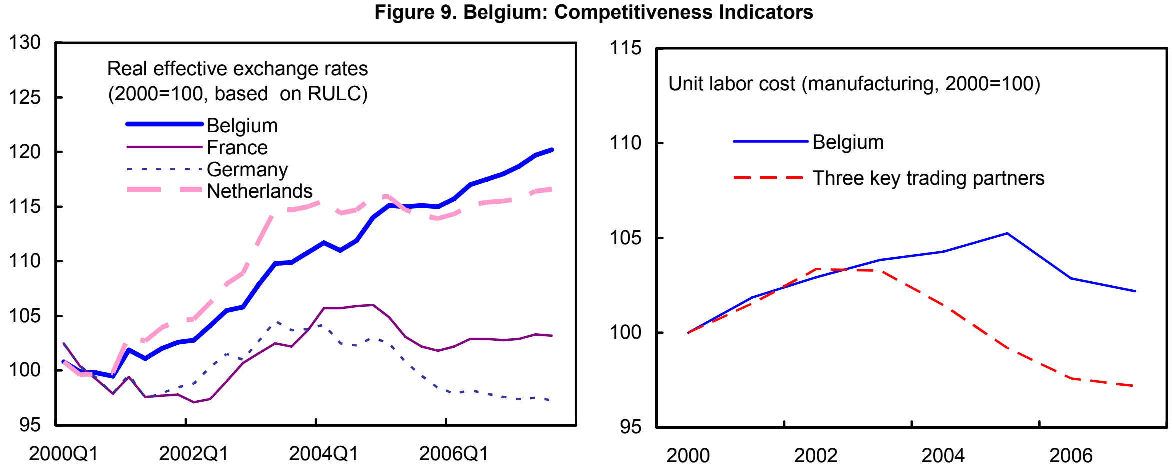
Text Table 3 . Belgium: Saving-Investment Balances
(in percent of GDP)

	2002	2003	2004	2005	2006	2007 Est.
Private savings	24.0	23.3	23.7	23.8	24.9	26.0
Private investment	17.6	17.1	18.1	18.6	19.1	19.2
Private saving surplus	6.4	6.1	5.6	5.2	5.8	6.8
Government saving surplus	-1.7	-1.7	-1.7	-1.8	-1.7	-2.1
National saving surplus	4.7	4.4	3.9	3.4	4.1	4.7

Source: IMF staff estimates.

12. **Investment in Belgium remains attractive, but the high level of labor costs underscores the importance of preserving competitiveness through wage moderation.** The authorities have eased business regulation and cut corporate income taxes, thereby supporting corporate profitability. Moreover, the 2007-08 wage agreements planned to keep wage growth well below key trading partners. However, higher-than-expected inflation will trigger wage indexation in 2008 and lift wages above the envisaged path. Hence, labor costs will evolve in line with partner countries, albeit from a higher starting level. Consequently, additional wage moderation will be necessary, though the extent of the recent REER appreciation would be smaller with more up-to-date weights (Figure 9, Text Table 4). Continuing labor and product market reforms would also help boost productivity (Section V).

Figure 9. Belgium: Competitiveness Indicators



Sources: IMF, DOT, IFS, and WEO; and OECD, Economic Outlook.

Text Table 4. Belgium: Unit Labor Costs in the Private Sector, 2003-08
(Percentage change from previous year, adjusted for seasonal and calendar effects)

	2003	2004	2005	2006	2007	2008
Gross wages per hour worked	**2.1**	**2.5**	**2.4**	**3.3**	**2.4**	**3.0**
Collectively-agreed wages 1/	1.9	2.4	2.3	2.3	1.9	2.7
Agreed real wage increases	0.4	1.0	0.3	0.5	0.2	0.6
Indexations	1.5	1.4	2.0	1.8	1.6	2.1
Wage drift 2/	0.2	0.1	0.1	1.0	0.5	0.3
Employers' social security contributions 3/	0.0	-0.1	-0.5	-0.1	0.0	0.0
Labor costs per hour worked	**2.1**	**2.4**	**1.9**	**3.2**	**2.4**	**3.0**
In France, Germany, and the Netherlands	3.2	1.9	1.7	2.3	2.5	3.3
Labor productivity 4/	2.1	2.3	1.1	1.6	1.1	1.1
Unit labor costs	**0.0**	**0.1**	**0.8**	**1.6**	**1.3**	**1.9**

Source: Belgian authorities and IMF staff estimates and projections.

1/ Wage increases fixed by Interprofessional Wage Agreements (IPA).

2/ Resulting from increases and bonuses granted by firms, as well as from changes in employment structures.

3/ Contribution to changes in labor costs.

4/ Private sector value added per hour.

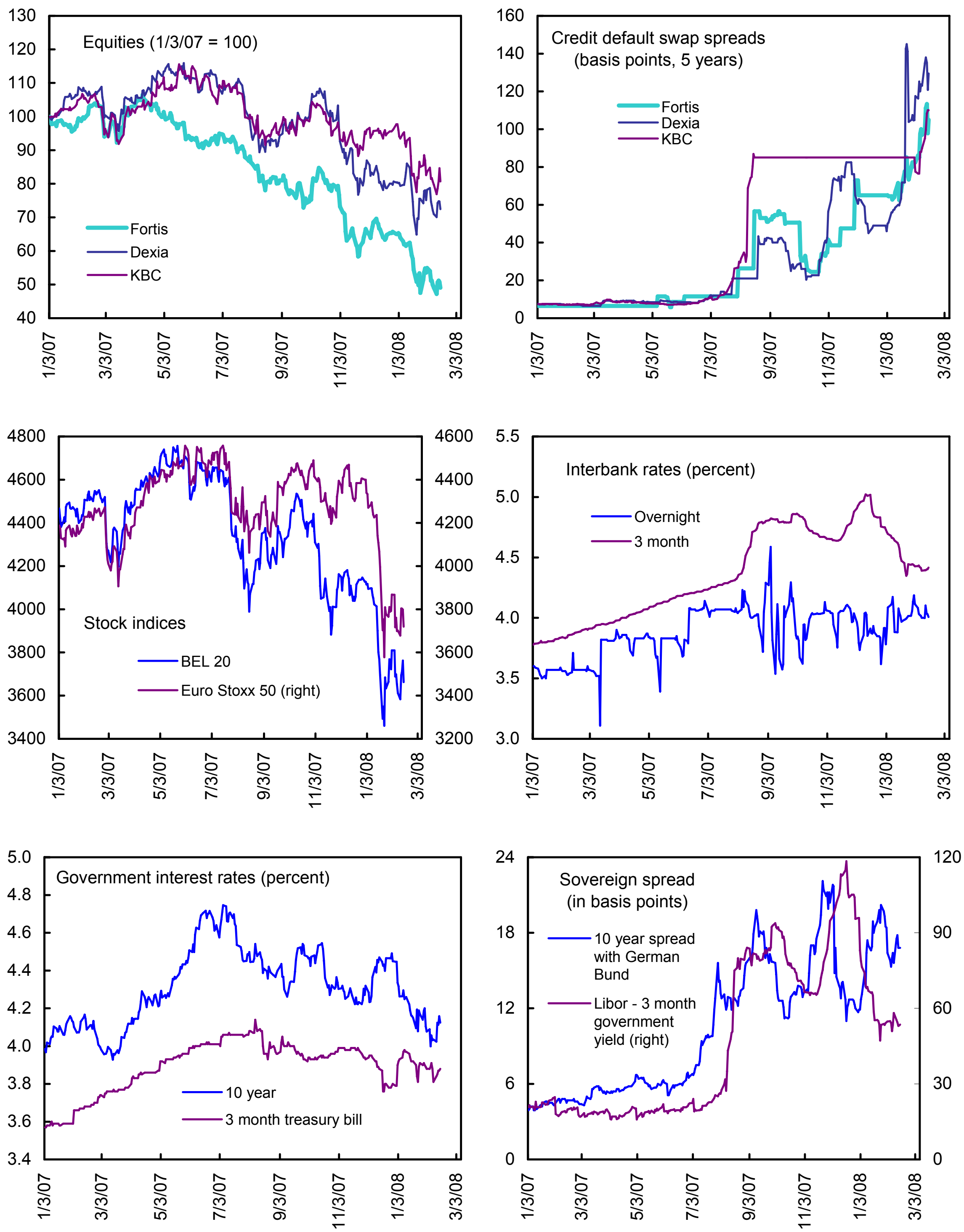
III. Financial Sector: Addressing Turbulence and Enhancing Stability

A. How is the Financial System Coping with Financial Turbulence?

13. **The impact on the financial sector of the ongoing financial turbulence appears manageable**. The balance sheets of the major banks have deteriorated since mid-2007 and synthetic credit default insurance spreads have risen significantly in response to the global financial problems (Figure 10). However, strains appear to be smaller than in other major markets, although they vary from bank to bank. Bank exposure to subprime mortgages is limited to less than 1 percent of total assets and credit risk stress tests for subprime-related exposures do not result in a significant impact. Although the size of current financial vulnerabilities is inevitably subject to much uncertainty and differs by bank, estimated exposures to asset-backed securities (ABS) and collateralized debt obligations (CDO) also appear moderate. ABCP conduits sponsored by some of the largest banks have experienced difficulties in rolling over maturing commercial paper and some banks have brought these vehicles back on their books, but their size is small compared to the banks' total on-balance sheet assets.

14. **Despite some write-offs related to the financial turmoil, supervisors judged the financial system to have remained sound.** Banks remain well capitalized, and solvency and coverage ratios of insurance companies and pension funds have been increasing. Participation in ECB liquidity operations does not seem to have been affected by the financial turmoil, and in response to the stress in financial markets, banks have taken liquidity-enhancing measures and reinforced contingency funding plans and liquidity

Figure 10. Belgium: Financial Indicators



Sources: Thomson Financial/DataStream and Bloomberg.

contingency procedures. Moreover, banks' vulnerability to liquidity shocks is mitigated by the traditionally large costumer deposit base relative to the loan book, and the presence of a large securities portfolio, which can be deployed to obtain secured financing in wholesale markets. Exposure to emerging markets is modest at less than 4 percent of total assets.

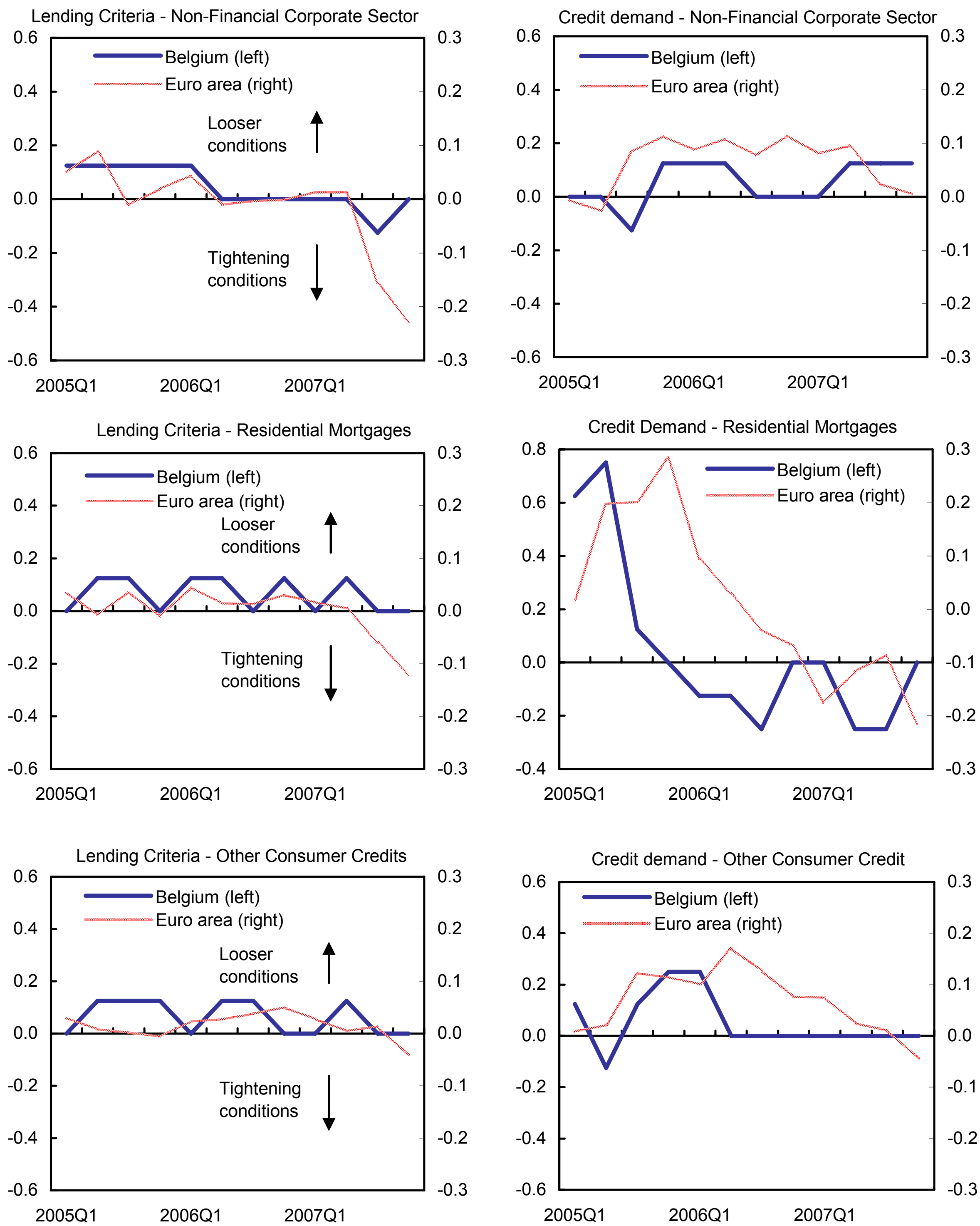
15. **Nonetheless, recent volatility in equity prices of financial institutions indicates the need for more transparent disclosure of exposures and their implications for banks' earnings and capital**. Recent actions taken by some banks to consolidate off-balance sheet exposures, albeit generally not large, generated unease about banks' earnings, even while the adverse impact of the turbulence on profitability and balance sheets of financial institutions appears manageable. Supervisory authorities agreed that early and clear disclosure of exposure by financial institutions and their valuation assumptions and methods would help ease such concerns and were actively encouraging financial institutions to improve transparency. Nevertheless, valuation remained a difficult task and volatile market conditions were likely to persist for some time. The authorities also support an international tier to supervision for regionally and globally systemic institutions and coordinated efforts to address and prevent further financial turbulence.

B. Will Financial Strains Impact the Real Economy?

16. **Repercussions of the financial turbulence on the real economy have so far been limited.** In contrast to the tightening credit standards in the euro area as a whole, there is no tightening trend in the lending criteria applied by Belgian banks (Figure 11). Bank credit demand by non-financial corporate firms increased in late 2007 and was expected to stabilize in early 2008. Household appetite for credit was robust in late 2007 and anticipated to hold up in early 2008, despite a slowdown in the mortgage market. At the same time, banks remained cautious about lending prospects, noting the adverse impact of the financial turbulence on their balance sheets. The authorities agreed that continued turbulence in financial markets but, more importantly, a severe and protracted slowdown of economic activity, could strain the financial sector's balance sheets, with repercussion for credit conditions.

17. **The high personal savings ratio and low household leverage provide a buffer to financial turbulence, but not complete insulation**. Gross financial assets of the household sector amount to over 400 percent of gross disposable income compared to financial liabilities of around 80 percent, contributing to one of the highest levels of accumulated net worth in industrialized countries. At the same time, the household sector has sharply increased its borrowing in recent years, lifted by a buoyant mortgage market. With housing and equity prices moderating, net wealth creation is expected to slow down. In addition, households have been increasing their claims on institutional investors, raising the risk profile of household assets. Hence, while households do not appear overly sensitive to credit

Figure 11. Belgium: Bank Lending Survey Data



Source: National Bank of Belgium.

conditions, financial turbulence has raised uncertainty about household real incomes. With the sensitivity of private consumption to changes in real income comparatively high in Belgium, a slowdown in private demand is likely.

18. **The deleveraging of the corporate sector has reduced debt-financing risks in the short term.** Profit margins of nonfinancial corporations continued to rise through mid-2007, allowing internal funds to finance investment. Similarly, with the implementation of the notional interest rate deduction for corporate equity in 2006, equity financing exploded. The corporate sector's healthy balance sheets suggest resilience to a credit squeeze. However, the financial turbulence-induced slowdown in domestic and global demand is likely to pressure profit margins and delay investment plans.

C. How Can Financial Stability be Further Enhanced?

19. Commendable progress has been made in enhancing the effectiveness of the prudential supervision, helping to safeguard financial stability. In line with the 2005 FSAP recommendations, the supervisory framework is being continuously upgraded. The management committee of the Banking, Insurance and Finance Commission (CBFA) has been streamlined and synergies between the CBFA and the central bank (NBB) have been further developed. Regular stress tests have helped promote a systematic dialogue between supervisory authorities and market participants, while a thorough test of detailed procedures for financial crisis management yielded a satisfactory outcome. Prudential supervision of the insurance sector has been upgraded and regulation of the pension funds sector reinforced.

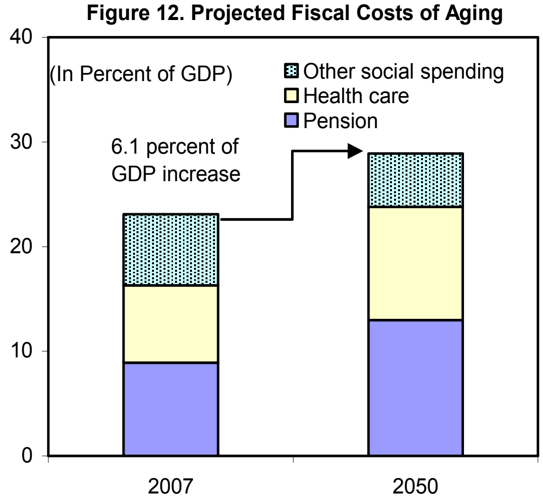
20. **At the same time, financial innovations and cross-border consolidation are modifying the financial landscape considerably.** Given the increasing sophistication of financial instruments and the complexity of bancassurance conglomerates, the authorities are well aware of the need to remain vigilant and ensure that their capacity to identify risks keep pace with market developments. To help limit the adverse effects of the ongoing financial turbulence, they favor more disclosure of exposures, risks, and valuation assumptions and methodologies. The staff noted that with the cross-border dimension of the financial system continuing to gain importance, especially following the recent Fortis-ABN AMRO transaction, deeper coordination with host country authorities will be needed.

IV. Fiscal Policy: Resuming Consolidation and Improving Institutions

A. Why has Fiscal Consolidation Become an Urgent Priority?

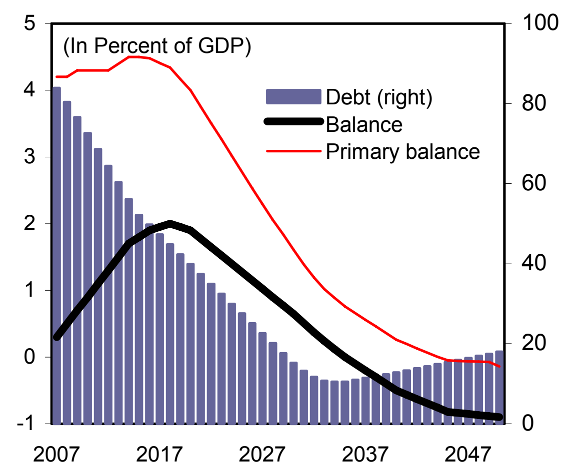
21. **Fiscal adjustment should be at the core of a comprehensive strategy to address the projected rise in aging-related costs**. Population aging will raise public expenditures by close to 6 percentage points of GDP by 2050 (Figure 12). In the absence of fiscal adjustment, the public debt-to-GDP ratio is set to move onto an unsustainable path. There is broad public support for a significant pre-funding of the rise in aging-related spending, reflecting concerns about intergenerational fairness and the need to avoid activity-discouraging tax increases or drastic spending cuts in the future. This strategy, as carefully articulated by the High Finance Council (HFC), consists of building surpluses gradually and using the savings from declining public debt to finance part of the costs of aging (Figure 13). Durable primary expenditure restraint will be needed to deliver the required primary surpluses as Belgium's revenue-to-GDP ratio—close to 50 percent of GDP—is already very high. Ideally, spending should be lowered even further to allow a reduction in the tax burden on labor, which would help job creation, as would growth-enhancing policies and entitlement reforms.

Figure 12. Projected Fiscal Costs of Aging



Source: Hight Finance Council.

Figure 13. HFC Recommended Adjustment



Source: High Finance Council

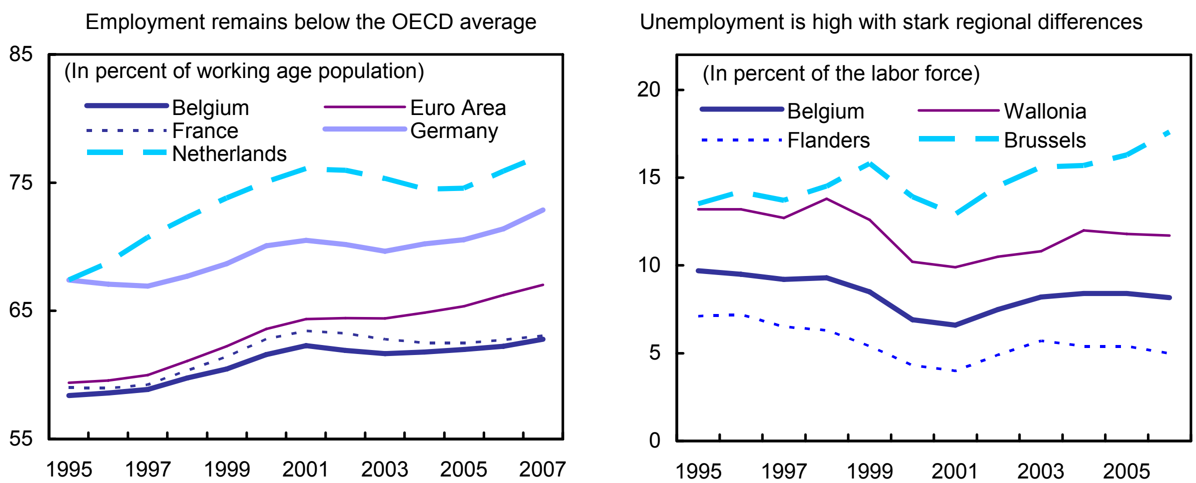
22. **Initially planned to begin in 2007, fiscal consolidation has slipped below the HFC's recommended path**. The 2007 budget is now estimated to post a small deficit instead of the planned surplus of 0.3 percent of GDP (Text Table 5). The authorities stressed that fiscal slippage was mostly due to the hiatus in policy making since April 2007, albeit partly offset by higher revenue reflecting higher-than-anticipated economic growth. In addition, with the elimination of one-off measures, fiscal policy was broadly neutral, with the structural balance remaining close to balance. However, on current policies, the fiscal position is set to deteriorate, raising concerns about medium and long-term sustainability (Figure 14). In this context, the authorities recognized that fiscal consolidation is a priority to address the projected rise in aging-related costs.

30. **Successful medium-term adjustment will also require greater accountability, more transparency, and stronger coordination among government entities**. The arrangements to coordinate fiscal policy between levels of government centered on the High Finance Council overall have been effective, but could be further strengthened. To avoid a hiatus in these arrangements in periods of political uncertainty, targets for the different levels of government could be fixed for a rolling multi-year horizon, which would facilitate medium-term expenditure planning, and be embedded in published internal stability pacts. The role of the High Finance Council could be reinforced and expanded through a mandate that includes an assessment of compliance with the internal stability pact at the stage of budget submission to parliament, and through a strengthening of the analytic capacity of the HFC. The authorities agreed that further devolution of competencies would necessitate strengthening of coordination and accountability for budgetary and other economic policies, but there was no agreement yet on what mechanism to put in place.

V. Structural Reforms: Raising Employment and Productivity

31. **Pressing ahead with structural reforms, especially in the labor market, is key to preserving high living standards.** Without further reforms, demographic trends will dampen long-term growth, as population aging curbs labor supply and sharply raises dependency ratios. Despite recent increases, employment rates remain among the lowest in the industrialized world, especially among older and low-skilled workers (Figure 17). While some areas of the country are close to full employment, others are mired in high unemployment, contributing to geographical differences in growth and income. In addition, labor market participation is low throughout the country, underscoring fundamental skill mismatches and limited labor mobility.

Figure 17. Employment and Unemployment



Sources: National Bank of Belgium; OECD; and IMF.

32. **To sustain good rates of job creation, further labor market reforms will be essential.** The spotlight on activation policies (i.e., enforcing job search requirements and providing job search assistance) has been appropriate, and has taken advantage of the until recently buoyant economy. Nonetheless, better tailoring of labor market policies to regional needs and coordination across regions and sub-regions is necessary to raise their effectiveness. Consensus is lacking for a new round of comprehensive labor market reforms, though most stakeholders agree on the need to further improve labor market performance. Specifically, labor market reforms should involve:

- ***Raising investment in human capital.*** There is broad agreement that the pursuit of ongoing initiatives with respect to R&D, the further strengthening of programs for on-the-job and life-long training, and an increase in the efficiency of secondary and higher education are likely to pay off handsomely in terms of the economy's ability to adopt new technologies, attract foreign investment, and maintain comparatively high living standards.

- ***Removing inactivity traps and keeping older workers in the labor force.*** To achieve the first, a comprehensive review of the tax-benefit system would be useful, but parts of the political spectrum and labor unions are adverse to lowering or taxing benefits. In line with OECD recommendations, a balanced reform could consist of the phasing out of unemployment benefits—virtually all other industrialized countries have strict time limits and phased benefits—in exchange for an increase in payouts during the first few months of unemployment. It could be accompanied by the inclusion of all out-of-work benefits and allowances in taxable income, in exchange for a gradual, rather than immediate removal of these benefits when jobs are taken up. Alternatively, a higher earned income tax credit could be considered. Such an approach would reap the synergies between fiscal adjustment and labor market polices. To help raise employment rates of older workers, the planned extension of activation policies to these workers is welcome, but it will need to be complemented by a complete phasing out of early retirement regimes.

- ***Sustaining wage moderation and increasing wage flexibility***. While the central wage-bargaining framework is likely to continue to maintain wage moderation, shifting its focus from job preservation to job creation would improve labor market outcomes. To take better account of productivity differentials between regions, sectors, and enterprises, and foster a dynamic reallocation of workers to new activities, the practice of "all-in" wage agreements should be extended and larger margins for wage differentiation allowed. Social partners, however, do not see a need for any significant changes to the current wage-bargaining framework.

33. **More competition in product markets will boost productivity.** The authorities agreed that continuing the reduction in the administrative burden on businesses and households, and the swift implementation of EU directives regarding market liberalization

Table 1. Belgium: Main Economic Indicators, 2003-09

(Percentage change from previous year; unless otherwise indicated)

					Est.	Proj.	
	2003	2004	2005	2006	2007	2008	2009
Demand and output (in real terms)							
GDP	1.0	2.8	2.0	2.9	2.7	1.6	1.8
Private consumption	0.7	1.4	1.4	2.1	2.5	1.5	1.9
Public consumption	2.1	1.8	-0.2	0.0	1.8	2.4	2.2
Gross fixed investment	-0.3	7.5	6.7	4.2	4.9	1.4	2.7
Of which: enterprise investment	-1.8	7.4	4.6	3.9	5.1	1.9	3.0
Stockbuilding 1/	0.0	0.2	0.2	0.8	0.1	0.0	0.0
Exports of goods and nonfactor services	2.9	6.3	4.1	2.6	4.6	4.6	5.4
Imports of goods and nonfactor services	2.8	6.5	4.9	2.5	5.0	5.2	5.4
Foreign balance 1/	0.2	0.1	-0.5	0.2	-0.1	-0.4	0.1
Output gap (in percent of potential GDP)	-0.9	0.0	-0.2	0.2	0.4	-0.2	-0.4
Labor market							
Labor force (national definition)	1.1	1.5	1.5	1.0	0.5	0.5	0.5
Employment (national definition)	0.1	0.7	1.2	1.3	1.6	0.6	0.4
EU harmonized unemployment rate 2/	8.2	8.4	8.4	8.2	7.5	7.4	7.5
NAIRU 2/	7.9	7.9	7.8	7.7	7.6	7.5	7.5
Prices, wages, and incomes							
GDP deflator	1.6	2.4	2.4	2.0	1.7	2.4	2.1
Terms of trade (goods)	-0.4	-0.2	-0.5	-0.7	0.8	0.3	0.0
Consumer price index (harmonized)	1.5	1.9	2.5	2.3	1.8	2.9	1.9
Labor productivity 3/	0.9	2.1	0.7	1.6	1.1	1.0	1.4
Interest rates (percent)							
Money market rate (3 month)	2.3	2.1	2.2	3.1	4.3	...	...
Government bond yield	4.2	4.2	3.4	3.8	4.3	...	...
Saving and investment (in percent of GDP)							
Private saving	23.3	23.7	23.8	24.9	25.6	25.4	25.4
Private investment	17.1	18.1	18.6	19.1	19.3	19.1	19.1
Private saving surplus	6.1	5.6	5.2	5.8	6.3	6.3	6.3
Government saving surplus	-1.7	-1.7	-1.8	-1.7	-2.1	-2.4	-2.4
National saving surplus	4.4	3.9	3.4	4.1	4.2	3.9	3.8
Public finances, general government (in percent of GDP) 4/							
Revenue	51.1	49.2	49.4	48.7	48.5	48.2	48.1
Expenditure	51.1	49.2	51.6	48.4	48.7	48.7	48.6
Of which: interest on public debt	5.3	4.7	4.2	4.0	3.8	3.7	3.6
Fiscal balance	0.0	0.0	-2.3	0.4	-0.1	-0.5	-0.5
Primary balance	5.3	4.7	1.9	4.3	3.7	3.2	3.0
Structural balance 5/	-1.0	-0.6	0.4	-0.1	-0.1	-0.2	-0.2
Gross public debt	98.7	94.4	92.2	88.1	85.1	82.2	79.7
Balance of payments							
Current account balance (in billions of euros)	11.4	10.2	7.9	8.4	10.7	10.2	10.6
(In percent of GDP)	4.1	3.5	2.6	2.7	3.2	3.0	3.0
Trade balance (in billions of euros)	9.7	7.8	4.7	2.6	3.8	4.3	4.6
(In percent of GDP)	3.5	2.7	1.6	0.8	1.2	1.3	1.3
Exchange rates							
Nominal effective rate (2000=100)	105.7	106.8	106.9	107.3	109.1	...	...
Real effective rate (2000=100) 6/	110.3	111.9	113.3	115.0	117.6	...	...

Sources: Data provided by the authorities; and IMF staff estimates and projections.

1/ Contribution to growth.

2/ Percent of the labor force.

3/ Based on national accounts data, for economy-wide.

4/ Includes the effect of the restructuring of the national railway company in 2005 as presented by Eurostat.

5/ Excludes effect of one-off measures, including the restructuring of the national railway company in 2005.

6/ Based on relative unit labor costs in manufacturing.

Table 2. Belgium: Operations of the General Government, 2000-2006 1/

(In percent of GDP, unadjusted for working days)

	2000	2001	2002	2003	2004	2005	2006
Revenue	49.1	49.6	49.8	51.1	49.2	49.4	48.7
Tax revenue	44.4	44.4	44.7	44.2	44.5	44.3	43.9
Direct taxes	17.1	17.3	17.1	16.7	16.7	16.9	16.5
Personal income tax	13.6	14.0	13.9	13.6	13.3	13.3	12.6
Company income tax	3.3	3.2	3.2	3.0	3.3	3.6	3.9
Other direct taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Indirect taxes	12.9	12.5	12.7	12.7	13.0	13.0	13.2
Social contributions	13.9	14.2	14.4	14.3	14.0	13.7	13.6
Other taxes	0.5	0.5	0.5	0.5	0.8	0.6	0.7
Nontax revenue	4.7	5.2	5.1	6.9	4.7	5.1	4.8
Expenditure	49.0	49.1	49.8	51.1	49.2	51.6	48.4
Primary expenditure	42.4	42.6	44.1	45.8	44.5	47.5	44.4
Current expenditure	39.3	40.2	41.6	42.7	42.2	42.4	41.9
Wages	11.5	11.7	12.2	12.3	12.0	12.0	11.8
Operations and maintenance	3.2	3.3	3.8	3.7	3.7	3.6	3.6
Social transfers	21.3	21.8	22.3	23.0	23.0	22.8	22.4
Old age	8.3	8.4	8.6	8.7	8.6	8.5	8.4
Health	5.6	5.8	5.7	6.1	6.2	6.3	6.1
Unemployment	1.7	1.8	2.0	2.1	2.1	2.0	1.9
Other social transfer	5.7	5.8	6.0	6.1	6.1	6.0	6.0
Subsidies to enterprises	1.3	1.3	1.3	1.4	1.2	1.6	1.7
Other transfers	2.0	2.0	2.1	2.3	2.4	2.4	2.4
Capital expenditure	3.1	2.4	2.5	3.1	2.2	5.1	2.5
Interest	6.6	6.5	5.7	5.3	4.7	4.2	4.0
Overall balance	0.1	0.6	0.0	0.0	0.0	-2.3	0.4
Primary balance	6.7	7.0	5.7	5.3	4.7	1.9	4.3
Memorandum items:							
Structural balance	-0.5	-0.4	-0.2	-1.0	-0.6	0.4	-0.1
Central government balance	0.1	-0.1	0.2	0.0	-0.2	-0.3	-0.6
Gross public debt (Maastricht definition)	107.7	106.5	103.5	98.7	94.4	92.2	88.1

Source: Data provided by the Belgian authorities.

1/ Includes the effect of the restructuring of the national railway company in 2005 as per Eurostat. According to the authorities, the government balance should be 0.1 percent of GDP in 2005 and the public debt 91.5 percent of GDP.

Table 3. Belgium: Fiscal Scenarios, 2004-13

(In percent of GDP, unadjusted for working days; unless otherwise indicated)

				Est.	Projection					
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Current policies (A)										
Revenue	49.2	49.4	48.7	48.5	48.2	48.1	48.1	48.0	48.0	47.9
Expenditure	49.2	51.6	48.4	48.7	48.7	48.7	48.5	48.4	48.3	48.2
Primary expenditure	44.5	47.5	44.4	44.8	45.0	45.1	45.1	45.1	45.0	45.0
Interest payments	4.7	4.2	4.0	3.8	3.7	3.6	3.5	3.4	3.3	3.2
Balance 1/	0.0	-2.3	0.4	-0.1	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3
Structural balance 2/	-0.6	0.4	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Change in structural balance	0.5	0.9	-0.5	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Primary balance	4.7	1.9	4.3	3.7	3.2	3.0	3.0	3.0	2.9	2.9
Structural primary balance 2/	4.2	4.5	3.8	3.8	3.5	3.3	3.3	3.2	3.1	3.0
Debt 1/	94.4	92.2	88.1	85.1	82.3	79.8	77.3	74.9	72.6	70.4
Memorandum items (in percent):										
Real primary expenditure growth 2/	-0.2	8.9	-3.7	3.7	2.0	2.0	2.0	2.0	2.0	2.0
Output gap	0.0	-0.2	0.2	0.4	-0.2	-0.4	-0.3	-0.2	-0.1	0.0
GDP growth	2.8	2.0	2.9	2.7	1.6	1.8	2.0	2.0	2.0	2.0
Staff-recommended scenario (B)										
Revenue	49.2	49.4	48.7	48.5	48.2	48.1	48.1	48.0	48.0	47.9
Expenditure	49.2	51.6	48.4	48.7	48.1	47.6	47.1	46.8	46.4	46.1
Primary expenditure	44.5	47.5	44.4	44.8	44.4	44.1	43.8	43.5	43.3	43.2
Interest payments	4.7	4.2	4.0	3.8	3.7	3.5	3.4	3.2	3.1	2.9
Balance 1/	0.0	-2.3	0.4	-0.1	0.1	0.5	0.9	1.3	1.6	1.9
Structural balance 2/	-0.6	0.4	-0.1	-0.1	0.4	0.8	1.2	1.5	1.8	2.0
Change in structural balance	0.5	0.9	-0.5	0.1	0.4	0.4	0.4	0.3	0.3	0.2
Primary balance	4.7	1.9	4.3	3.7	3.8	4.1	4.3	4.5	4.6	4.7
Structural primary balance 2/	4.2	4.5	3.8	3.8	4.1	4.4	4.6	4.7	4.8	4.9
Debt 1/	94.4	92.2	88.1	85.1	81.7	78.2	74.3	70.4	66.4	62.3
Memorandum items (in percent):										
Real primary expenditure growth 2/	-0.2	8.9	-3.7	3.7	0.6	0.9	1.2	1.5	1.5	1.6
Output gap	0.0	-0.2	0.2	0.4	-0.2	-0.5	-0.4	-0.3	-0.2	-0.1
GDP growth	2.8	2.0	2.9	2.7	1.6	1.7	1.9	1.9	2.0	2.0

Sources: Data provided by the authorities; and IMF staff projections.

1/ Includes the effect of the restructuring of the national railway company in 2005 as presented by Eurostat. According to the authorities, the government balance should be 0.1 percent of GDP in 2005 and the public debt 91.5 percent of GDP.

2/ Excludes one-off measures including the restructuring of the national railway company in 2005.

Table 4. Belgium: Financial Soundness Indicators of the Non-Banking Sectors, 2001-07
(In percent)

		2001	2002	2003	2004	2005	2006	2007
Insurance sector 1/								
Coverage ratio 2/		276.0	254.1	248.4	250.7	258.8	252.6	256.7
Profitability (return on equity) 3/		12.1	-10.4	7.3	18.0	23.3	20.8	30.1
Life	Premiums 4/	13.1	14.4	17.6	20.0	25.2	20.4	23.1
	Technical result/premiums 3/	6.1	-1.7	2.7	4.0	4.7	4.9	6.8
Non-life	Premiums 4/	7.8	8.5	9.0	9.6	8.9	9.3	9.8
	Combined ratio 3/	117.5	111.6	102.1	99.6	104.3	101.7	100.4
	Technical result/premiums 3/	0.0	-3.4	8.8	12.8	12.0	12.7	16.7
Corporate sector 5/								
Total debt (percent of equity)		83.0	79.5	78.2	70.6	65.6	60.5	...
Profitability (return on equity)		9.8	11.7	12.9	10.4	15.8	14.8	...
Debt service coverage ratio		113.6	176.7	195.6	182.8	285.0	236.4	...
Household sector								
Debt (in percent of GDP) 6/		41.3	41.4	42.3	43.1	41.1	46.2	48.8
Interest burden (in percent of disposable income) 7/		2.5	1.8	1.5	1.2	1.6	2.0	2.0
Financial savings ratio (in percent of GDP) 6/		7.5	5.0	4.0	4.8	1.5	2.4	6.2
Savings rate 7/		16.6	15.9	14.8	13.5	12.3	12.6	12.8
Real estate sector 8/								
House price inflation								
	Houses	6.4	8.2	6.6	10.3	18.1	11.2	7.1
	Apartments	4.4	8.3	8.9	14.6	9.4	10.1	6.3
Mortgage loans as percent of total loans		20.5	22.3	27.6	27.4	26.2	34.0	30.5
o/w	Domestic households	13.3	14.2	15.6	15.5	14.5	17.5	16.7
Variable rate mortgages (in percent of new loans)		6.2	12.3	25.9	53.3	36.3	7.4	1.2

Sources: CBFA, NBB, Stadim, UPC.

1/ Unconsolidated data.
2/ Provisional figure for end-September 2007.
3/ Provisional 2007 figure for first 9 months annualised.
4/ Provisional figure for full year 2007, based on projection by Assuralia.
5/ Data for 2006 based on a sample of available annual accounts in the Central Balance Sheet Register.
6/ 2007 figure for end-June 2007.
7/ Projection for full year 2007.
8/ 2007 data for first half of 2007.

APPENDIX I. DRAFT PUBLIC INFORMATION NOTICE

Public Information Notice (PIN) No. 08/xx
FOR IMMEDIATE RELEASE
[March xx, 2008]

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

IMF Executive Board Concludes 2007 Article IV Consultation with Belgium

On [March xx, 2008], the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Belgium.[1]

Background

With a supportive external environment and buoyant domestic demand, GDP is estimated to have grown by 2.7 percent in 2007 and unemployment declined to its lowest level in a decade. Rapid job creation contributed to rising households' net disposable income and private consumption. Meanwhile, business investment firmed up, boosted by strong net revenue growth in the first half of 2007. However, headwinds from a worsening international environment, combined with domestic political tensions, contributed to a slowdown of activity toward the end of the year.

Looking ahead, the spike in oil prices, euro appreciation, the spillovers from the global financial turmoil, and dimmer economic prospects in partner countries will exert a drag on activity. Hence, the staff projects output growth to weaken to 1.6 percent in 2008. Greater economic uncertainty and less favorable financing conditions will lower business investment and consumption will decelerate in response to more sluggish real disposable income growth and a slower pace of job creation. Moreover, concerns about the depth and persistence of the ongoing financial market turmoil and its effects on growth constitute downside risks.

Headline inflation has risen to 3.1 percent in December 2007 with the surge in food and energy prices. Partial wage indexation will boost wages and shield purchasing power,

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

but it will drive up hourly labor costs in excess of what was envisaged in earlier wage agreements. These agreements contained moderate wage increases to help preserve competitiveness. The authorities have responded to the energy price spike by raising targeted income support for the energy needs of low-income households.

The ongoing financial turbulence has so far had only a limited impact on the financial system and the economy. Banks' exposure to the U.S. subprime market is small, bank capitalization is strong, and liquidity shocks have been absorbed. Nonetheless, market concerns about banks' off-balance sheet exposures and their implications for earnings and capital remain. Meanwhile, the cross-border dimension of the financial system has gained further importance with a partial merger between a Belgian and Dutch bank.

With political tensions following the June 2007 elections, federal policy making has been at a standstill, delaying fiscal consolidation and structural reforms. The 2007 general government outcome is estimated to show a small deficit, short of the planned surplus of 0.3 percent of GDP. The stance of fiscal policy was broadly neutral, with the structural balance remaining close to balance. The authorities are in the process of finalizing a 2008 budget which is expected to resume fiscal consolidation. Current fiscal federalism arrangements have led to unsustainable fiscal imbalances, both between the federal and regional entities and between the regions, but lack of consensus about a new allocation of competencies between federal and regional governments has delayed their reform.

Demographic trends are projected to dampen long-term growth, as population aging curbs labor supply and sharply raises dependency ratios. Despite recent increases, employment rates remain among the lowest in the industrialized world. At the same time, skill mismatches and geographical differences in growth and income persist, amid limited labor mobility.

Executive Board Assessment

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Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Belgium: Selected Economic and Social Indicators
(Annual percentage change; unless otherwise indicated)

	2003	2004	2005	2006	2007 1/	2008 1/
Real economy						
Real GDP	1.0	2.8	2.0	2.9	2.7	1.6
Domestic demand	0.9	2.9	2.4	2.8	2.9	1.7
CPI Inflation	1.5	1.9	2.5	2.3	1.8	2.9
Unemployment rate (in percent)	8.2	8.4	8.4	8.2	7.5	7.4
Gross national saving (percent of GDP)	23.2	23.6	23.8	24.9	25.2	24.6
Gross domestic investment (percent of GDP)	19.1	20.1	21.2	22.2	21.9	21.6
Public finance (percent of GDP) 2/						
General government balance	0.0	0.0	-2.3	0.4	-0.1	-0.5
Structural balance	-1.0	-0.6	0.4	-0.1	-0.1	-0.2
Primary balance	5.3	4.7	1.9	4.3	3.7	3.2
General government debt	98.7	94.4	92.2	88.1	85.1	82.2
Interest rates (percent)						
Money market rate (3 months)	2.3	2.1	2.2	3.1	4.2	…
Government bond yield	4.2	4.1	3.4	3.9	4.3	…
Balance of payments 3/						
Exports of goods (percent of GDP)	66.0	68.3	70.0	70.6	74.6	76.6
Volume growth	2.9	6.3	4.1	2.6	5.6	5.7
Imports of goods (percent of GDP)	-62.5	-65.6	-68.4	-69.8	-73.5	-75.3
Volume growth	2.8	6.5	4.9	2.5	6.0	5.9
Trade balance (percent of GDP), of which:	3.5	2.7	1.6	0.8	1.2	1.3
Oil (US$ billion)	-6.8	-10.0	-16.1	-16.4	-18.1	-19.9
Current account (percent of GDP)	4.1	3.5	2.6	2.7	3.2	3.0
FDI (percent of GDP)	10.8	12.1	9.2	16.1	...	...
Official reserves (US$ billion) 4/	11.0	10.4	8.2	8.8	8.7	...
Fund position (February 12, 2008)						
Holdings of currency (percent of quota)						91.9
Holdings of SDRs (percent of allocation)						74.3
Quota (SDR millions)						4605.2
Exchange rate						
Nominal effective rate (2000=100, ULC based) 4/	105.7	106.8	106.2	108.2	108.1	...
Real effective rate (2000=100, ULC based) 4/	110.3	111.9	113.2	115.4	116.2	...

Social Indicators (reference year):
Per capita GDP (2006): $37,301; **Income distribution** (ratio of income received by top and bottom quintiles, 2005): 4.1;
Life expectancy at birth (2005): male: 76.7, female: 82.4; **Gender pay gap** (as percent of male pay, 2005): 7;
Passenger car ownership (2000): 467 per thousand inhabitants; **Greenhouse gas emissions** (2003): kg CO2 per capita: 11.2
Population density (2006): 343.6 inhabitants per sq. km.; **At-risk-of-poverty rate** (2005): 15 percent.

1/ Staff estimates and projections.
2/ Staff projections for 2008, assuming no policy adjustment. According to Eurostat, the debt transfer of the national railway company to the Railway Infrastructure Fund should be accounted as expenditure in 2005.
3/ Staff projections for 2007-08.
4/ Data for 2007 refers to end-December 2007.