



# Public Finances and Debt Management Strategy

## Presentation to Investors

March 2010



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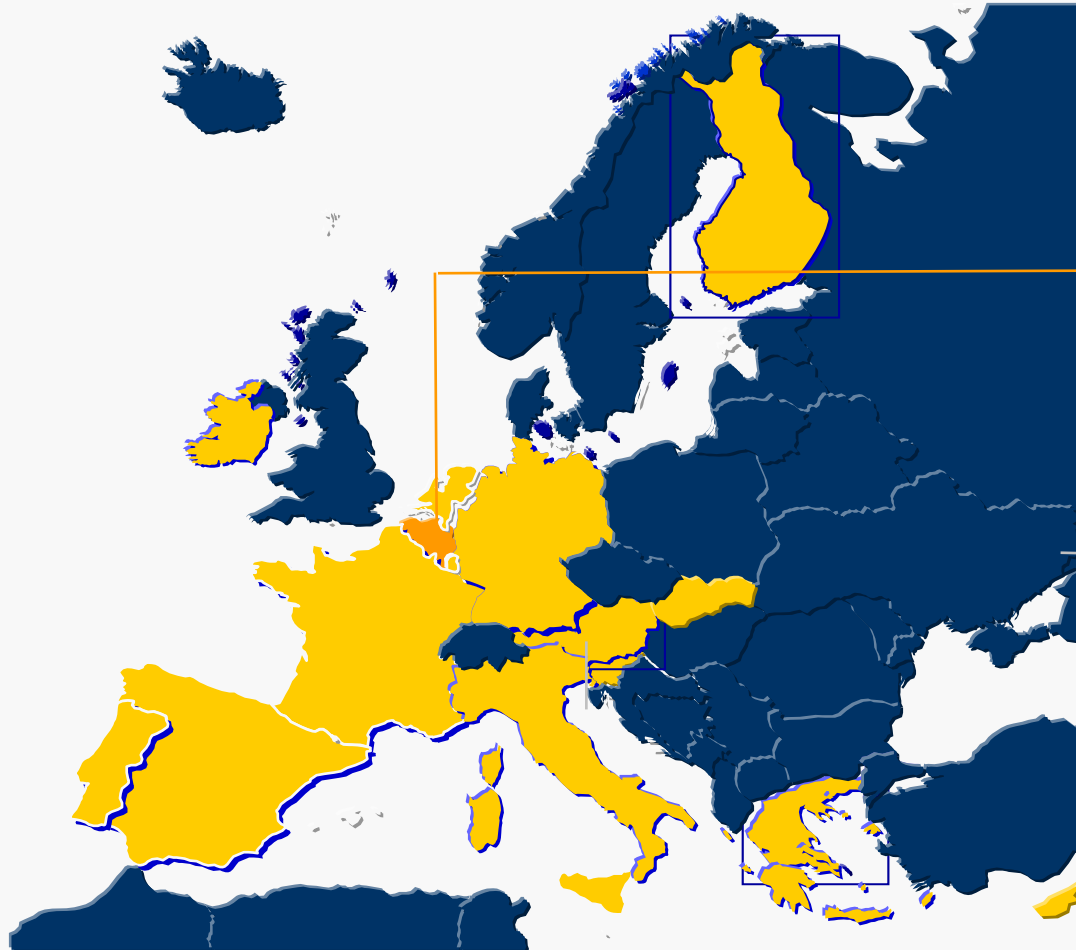
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## Economy and population statistics of the EA16

Belgium's is the 6<sup>th</sup> economy of the Euro-zone.

Its GDP amounted to **338** billion euro in 2009.



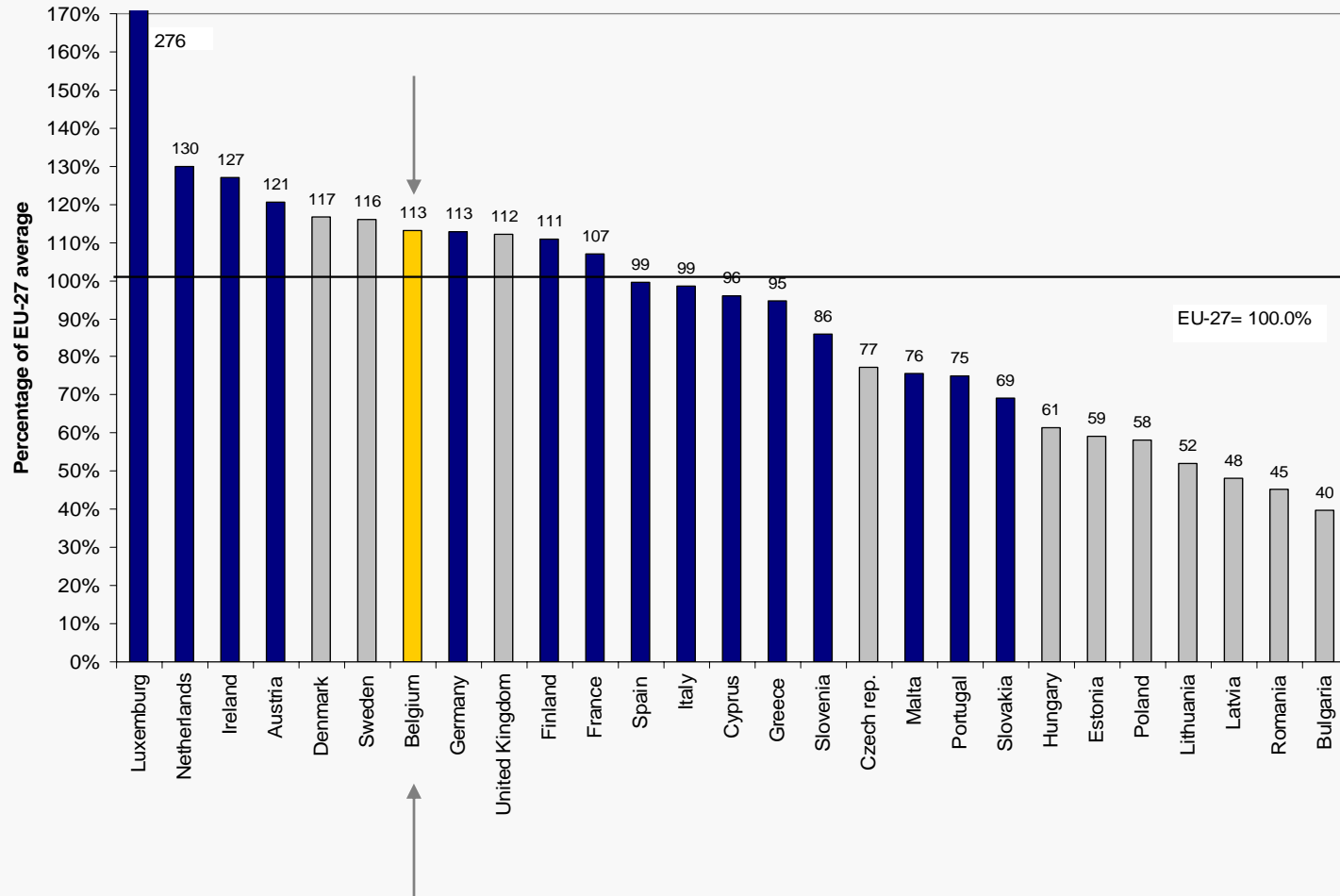
	GDP (% EA16)	Population (millions)
Germany	26.9%	82.2
France	21.0%	63.8
Italy	17.0%	59.6
Spain	11.8%	45.3
Netherlands	6.4%	16.4
<b>Belgium</b>	<b>3.7%</b>	<b>10.7</b>
Austria	3.0%	8.3
Greece	2.6%	11.2
Ireland	2.0%	4.4
Finland	2.0%	5.3
Portugal	1.8%	10.6
Slovakia	0.7%	5.2
Luxemburg	0.4%	0.5
Slovenia	0.4%	2.0
Cyprus	0.2%	0.8
Malta	0.1%	0.4
<b>Euro-zone</b>	<b>100.0%</b>	<b>326.6</b>

Source: Eurostat



## Economic Performance

2009 GDP per capita in PPS (forecasts) relative to EU-27  
(other members euro-zone in blue)



In 2009, Belgium's GDP per capita has been equivalent to the one of the Germany.

It is about **13% higher** than that of the E.U.



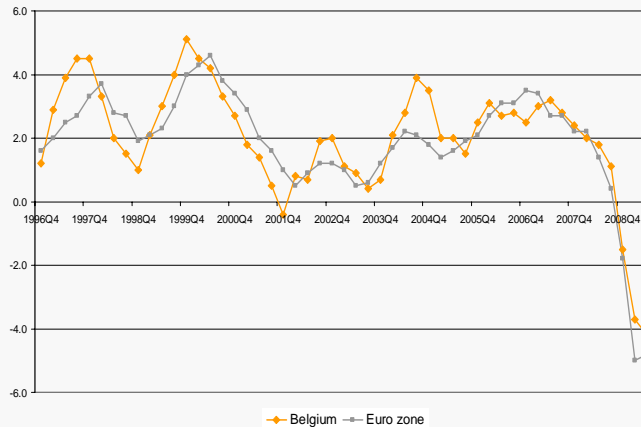
## The Business cycle

The Belgian business cycle is **front running** the Euro-zone's cycle by three to six months. As such, the National Bank's business confidence indicator is considered to be a good leading indicator for the European economy.

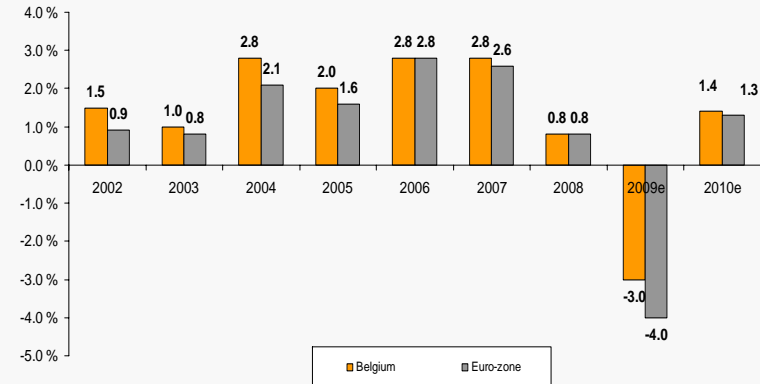
This characteristic of the Belgian economy is due both to its **openness** and to its specialisation in the production of **semi-finalized goods**.

Over the past eight years, Belgium's annual economic growth surpassed the economic growth of the Euro-zone by **0.39%**.

### Belgian and Euro-zone GDP-growth

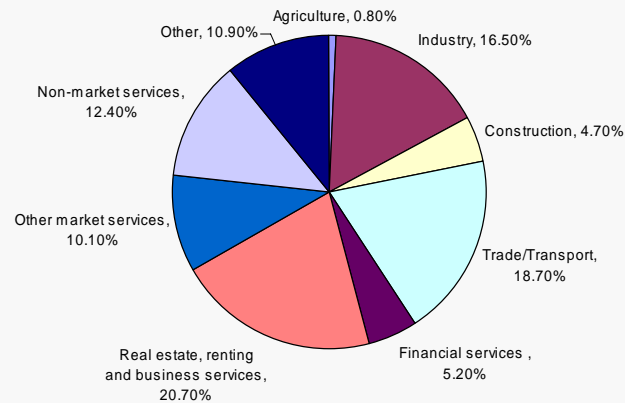


Source: National Bank of Belgium



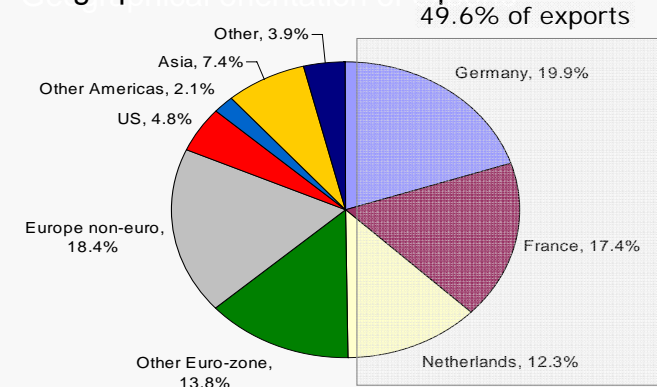
Source: 2002-2009 National Bank of Belgium, European Commission  
2010: Federal Planning Bureau

### Value added per business sector



Source: National Bank of Belgium

### Geographical orientation of exports





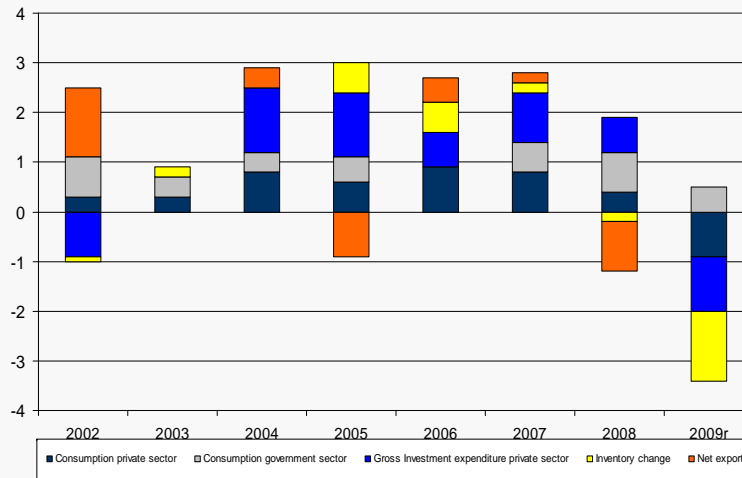
## The recession in Belgium ended in Q3 2009

In 2009, private consumption and investment, together with an inventory drawdown, resulted in a **negative growth of 3.0%**. Net exports were stable, so the only positive stimulus was government expenditure.

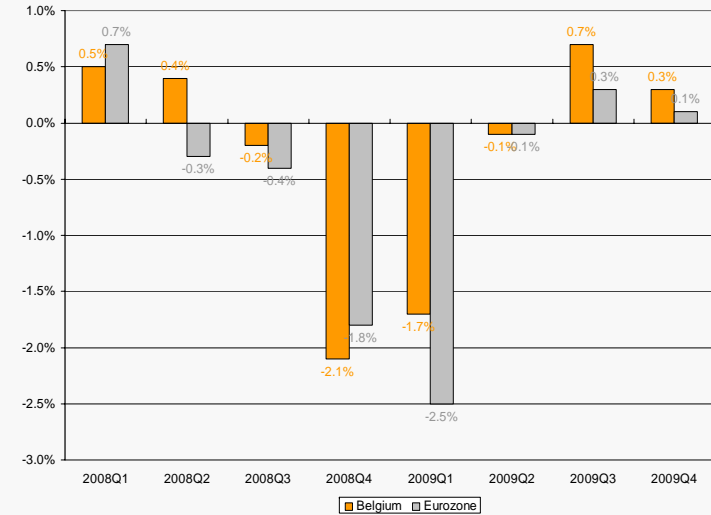
The quarterly profile however shows that the strongest decline in GDP occurred in **2008Q4**, when Belgian GDP declined more than euro-zone GDP. Since then, the Belgian economy **recovered quicker** than the euro-zone economy.

The trade balance moved into positive territory (Belgium's trade balance is usually positive), and business confidence has reached levels associated with positive growth. The latter however stabilized in January en February 2010.

### Growth decomposition



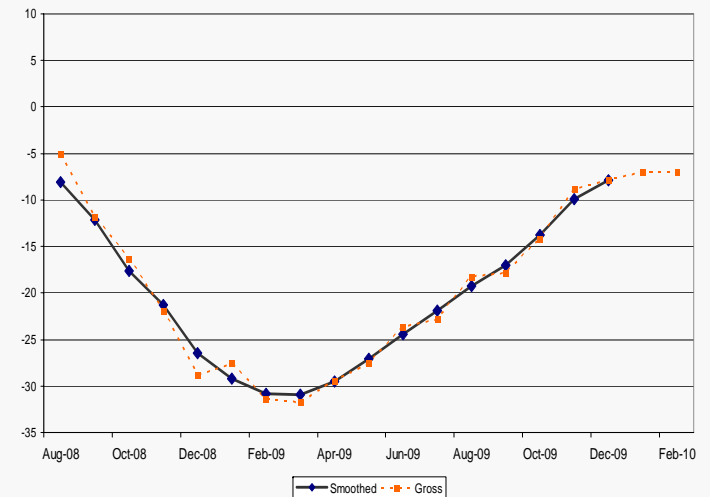
### Quarterly GDP growth



### Merchandise trade balance



### Business Confidence (BNB)



Source: National Bank of Belgium



Compared to other countries, these measures appear to be rather limited. Yet the **automatic stabilizers** are important in Belgium.

## Government intervention

The government has taken discretionary measures to stimulate the economy.

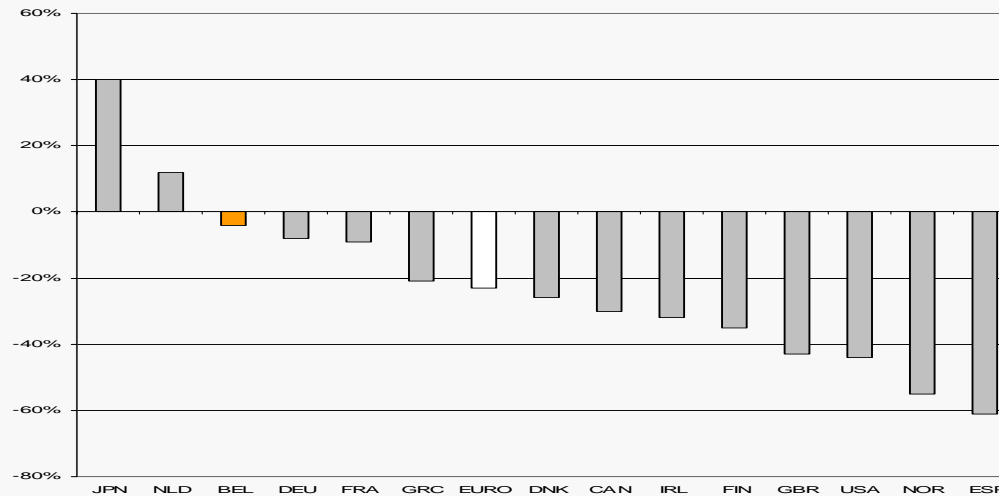
- In 2009, these measures amount to **1.1% of GDP**. They were aimed at:
  - ✓ providing 'oxygen' to companies
  - ✓ ensuring employment and increase purchasing power
  - ✓ investing in growth and sustainability
- For instance, the **reduction of the V.A.T. rate** to 6.0% on the first layer of EUR 50,000 for new residential construction proves to be very successful.
- Other measures included a faster reimbursement of V.A.T., and a 3-months delay in withholding tax for companies.



## Explaining the relatively limited downturn in 2009

The construction sector has held up. Prices nevertheless have decreased by 8 to 10% in 2009

Residential construction permits in selected OECD countries

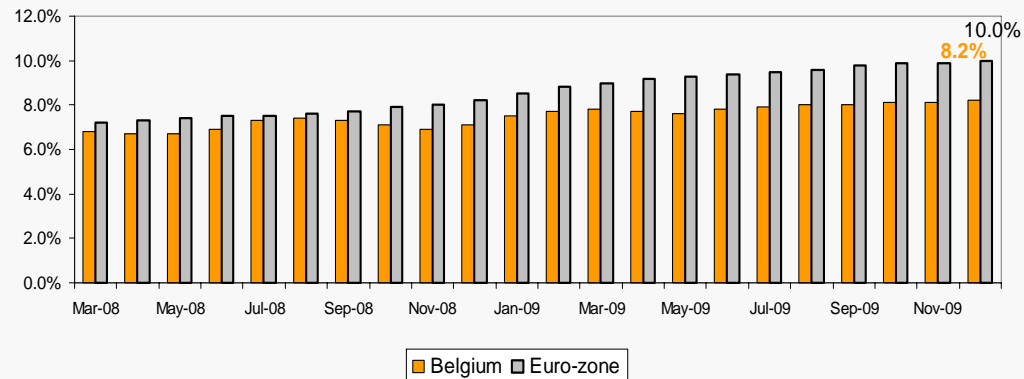


← Year-on-year figures, early 2009 (source: OECD).

Companies have been using **temporary unemployment**. The system is now also available to white-collar workers.

Thanks to this, Belgium's ranking for the labour market criterion in the WEO's competitiveness report improved from 79 to 44 in one year

Harmonized unemployment rate





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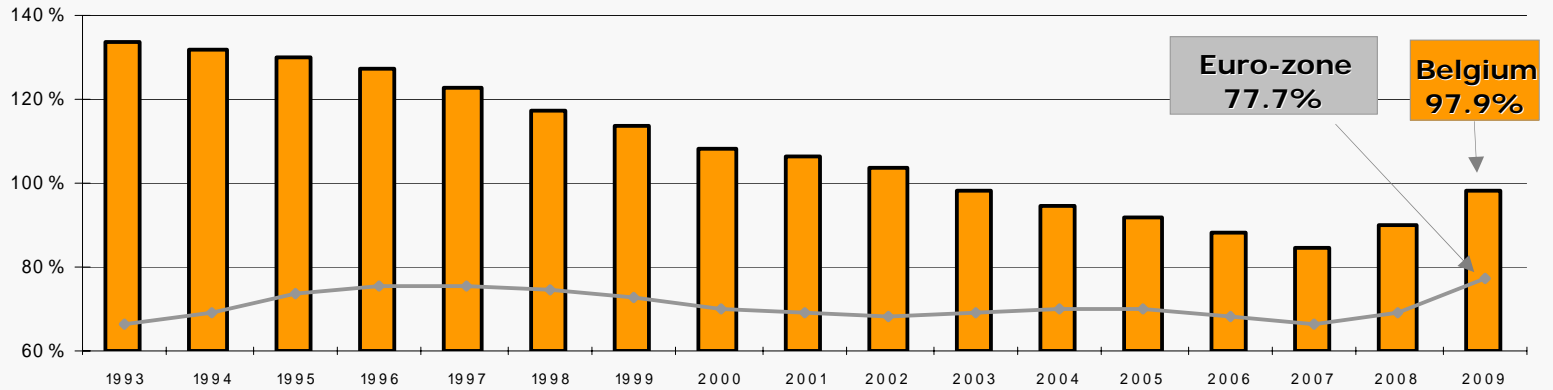
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**Appendix**            Belgian financial Institutions (interventions)  
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Belgium's debt-to-GDP ratio was on its way to reach the **Euro-zone average**, and it was approaching the Maastricht reference value of 60%. But the rescue of the financial sector resulted in a setback in 2008.

## Debt-to-GDP ratio and budgetary projections (Stability Program)



Source: National Bank of Belgium  
2009 : government

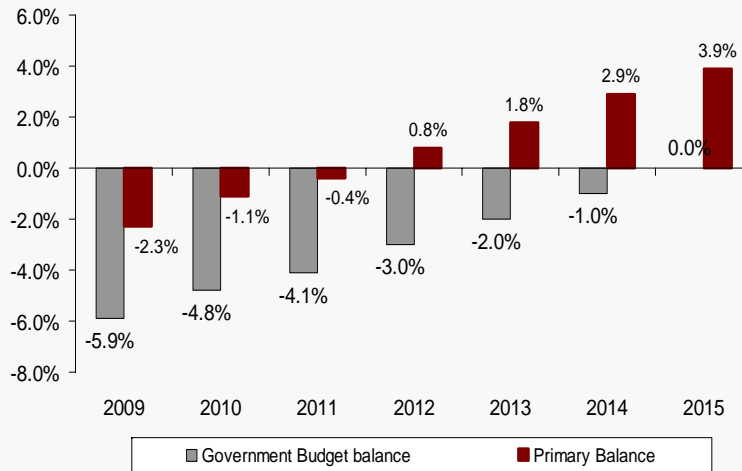
The costs of rescuing Belgian financial institutions amounted to 6.1% of GDP.

According to Belgium's Stability Program 2009-2012, the debt ratio should decrease again as from 2012 onwards.

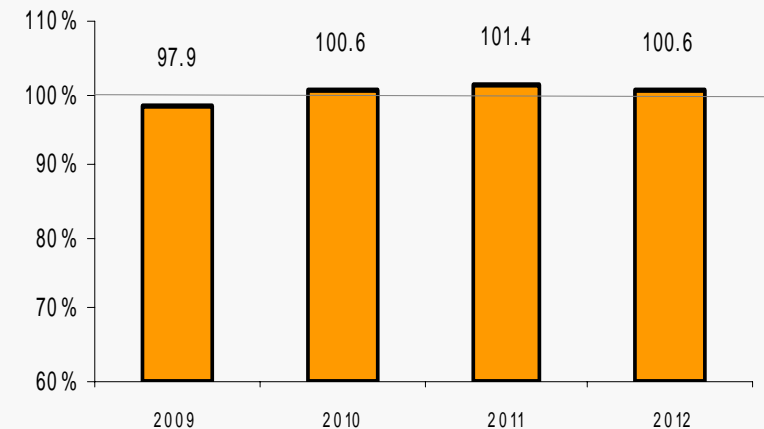
The target is to achieve a **balanced budget in 2015**.

Growth is assumed to amount to 1.1% in 2010 and to 1.7% in 2011.

### Deficit projections (Stability Program 2009-2012)



### Debt projections (Stability Program 2009-2012)



Remark: No sale of participations in, or reimbursement of loans by financial institutions is incorporated in these figures



## Federal Government budget for 2010 and 2011: measures

The federal government has set up a detailed budget for **2010** and for **2011**.

In 2010, the government already introduces savings in its budget. The measures will have a recurring effect.

	2010		2011	
	EUR (billion)	%GDP	EUR (billion)	%GDP
<b>1. Expenses (savings)</b>	<b>0.95</b>	<b>0.27%</b>	<b>1.15</b>	<b>0.32%</b>
<b>2. Tax income</b>	<b>0.70</b>	<b>0.20%</b>	<b>1.08</b>	<b>0.30%</b>
<b>3. Other</b>	<b>0.55</b>	<b>0.16%</b>	<b>1.18</b>	<b>0.33%</b>
<b>4. Complementary measures <sup>1</sup></b>	<b>0.34</b>	<b>0.10%</b>	<b>0.53</b>	<b>0.15%</b>
<b>5. 'New initiatives'</b>	<b>-0.72</b>	<b>-0.21%</b>	<b>-0.59</b>	<b>-0.16%</b>
<b>6. Net impact</b>	<b>1.81</b>	<b>0.52%</b>	<b>3.34</b>	<b>0.93%</b>

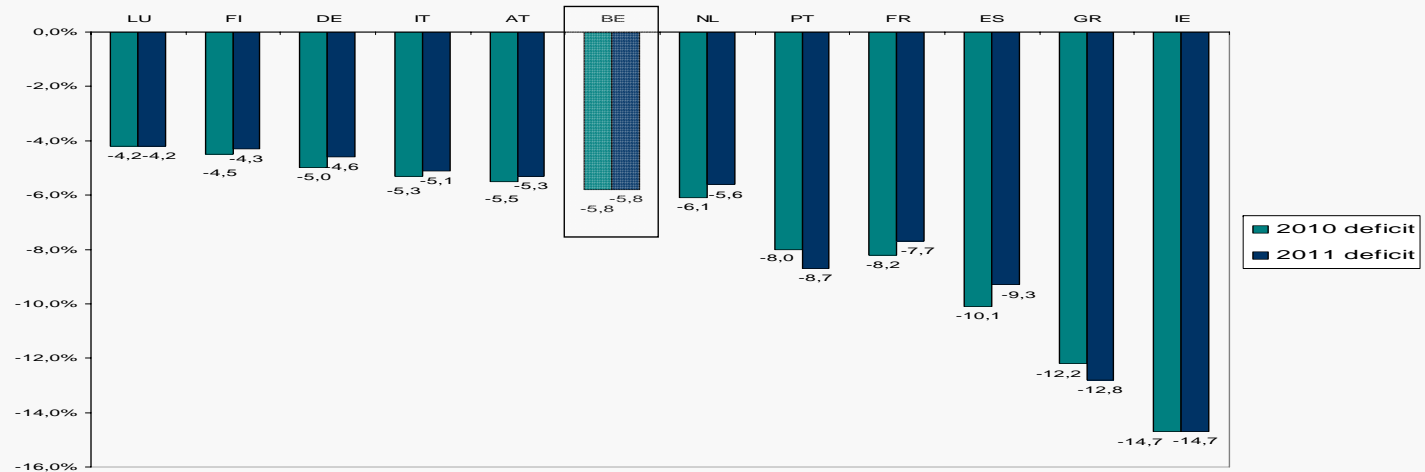
<sup>1</sup>: taken in order to finance the new initiatives



## European Commission Autumn forecasts

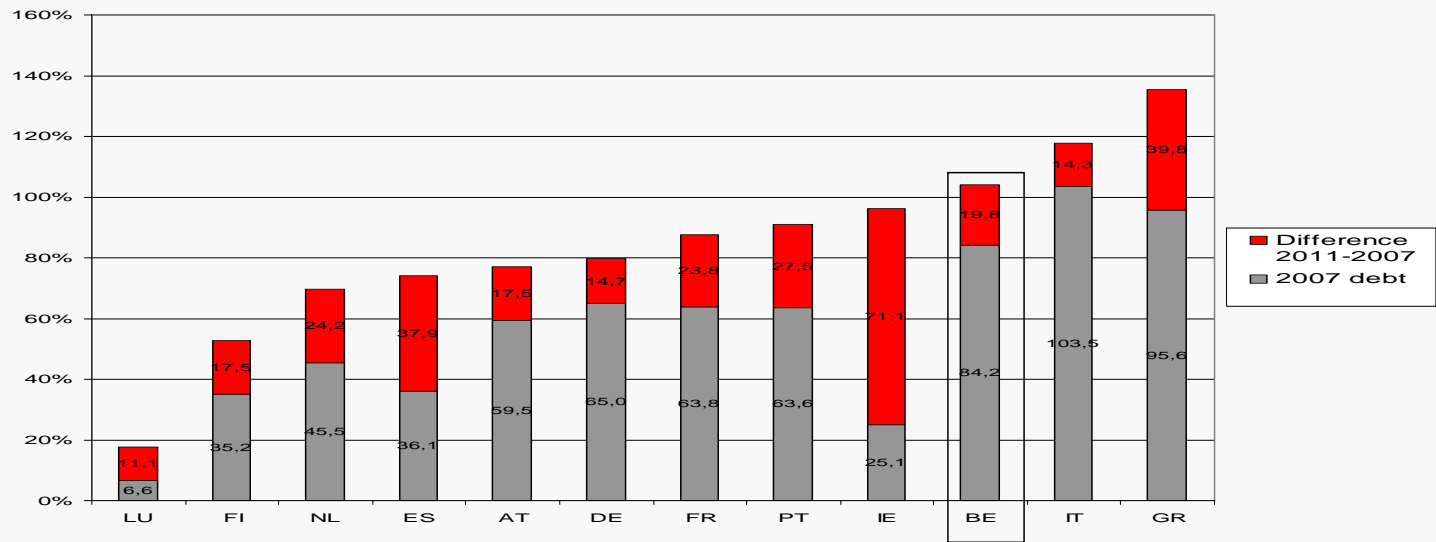
The European Commission forecasts sizeable deficits for all euro-zone members in 2010-2011.

Yet Belgium's deficit would be **lower** than the euro-zone average (-6.9% in 2010; -6.5% in 2011)



In four years time, government debt of these countries (not counting Ireland) would typically increase by 22.6%.

Belgium's debt would increase by 19.8% over the same period.



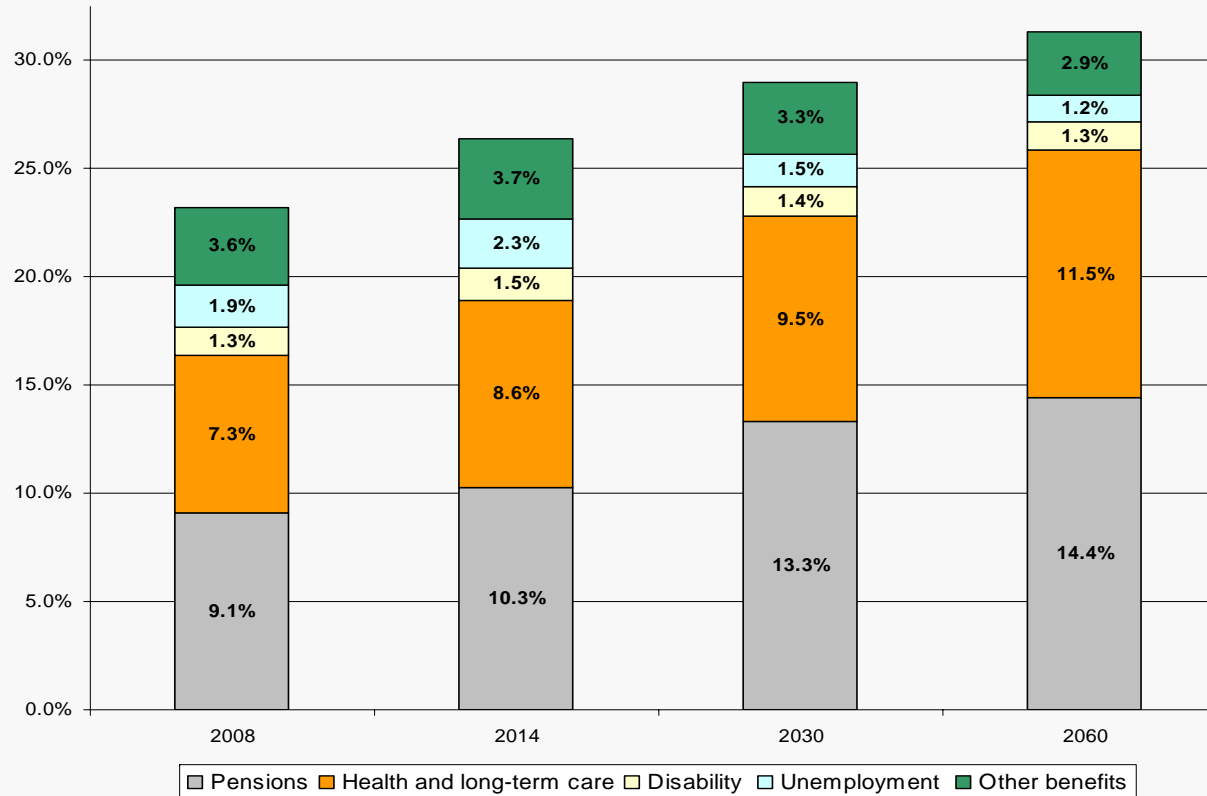


## Long-term costs of ageing

Reducing government debt is required for dealing with the burden of the ageing population

Total social security expenditure would increase by **5.8% of GDP towards 2030**, and by 8.2% of GDP towards 2060.

The recession has had negative effects on these projections due to the lower projected potential output



Source : Expert Group on aging, June 2009



The main rating agencies have **maintained** Belgium's strong long-term ratings.

## Belgium's rating

- On December 7, 2009, **Standard & Poor's** confirmed once again the stable outlook for its long-term **AA+ rating**
- On January 13, 2009, **Moody's Investors Service** changed the outlook for its long-term **Aa1 rating** from positive to stable.
- **FitchRatings** confirmed the stable outlook for its long-term **AA+ rating** on January 19, 2010.
- Finally, the **Japanese Credit Rating Agency** confirmed its **AAA rating** on March 19th, 2009.

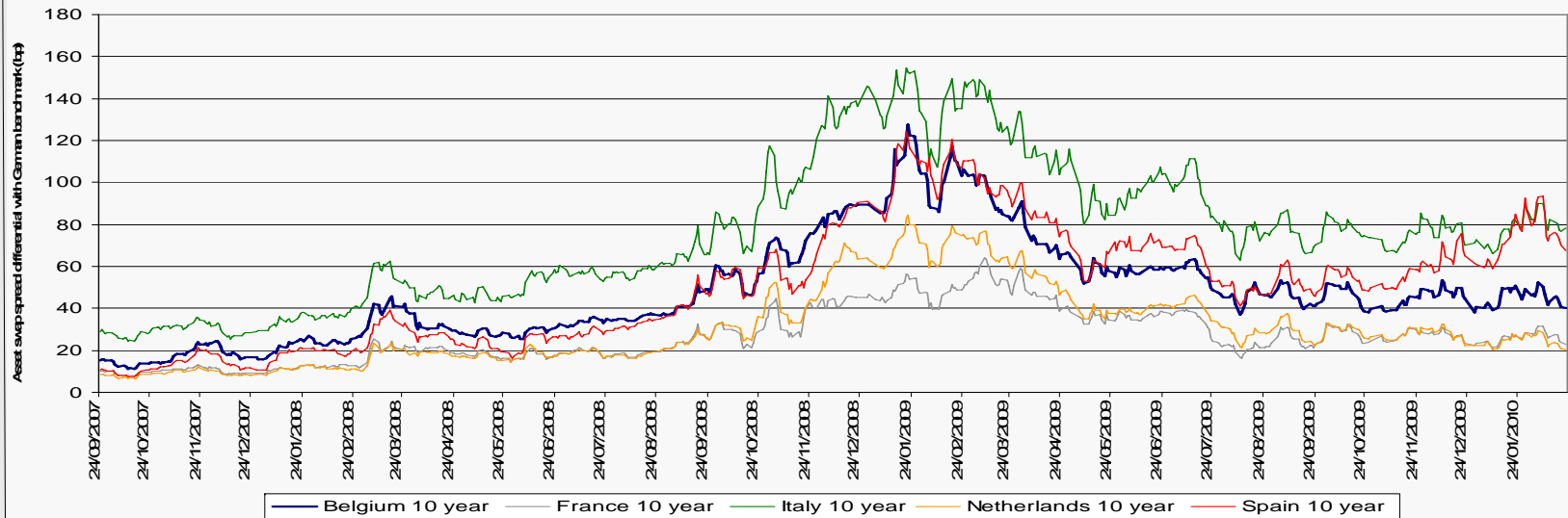
Rating Agencies are convinced that the debt ratio will again be on a downward path, once the crisis will be over. Belgium's current account position (+0.6% in 2009 according to the European Commission) is also supporting the high rating and the stable outlook.



# Cross-Country spreads

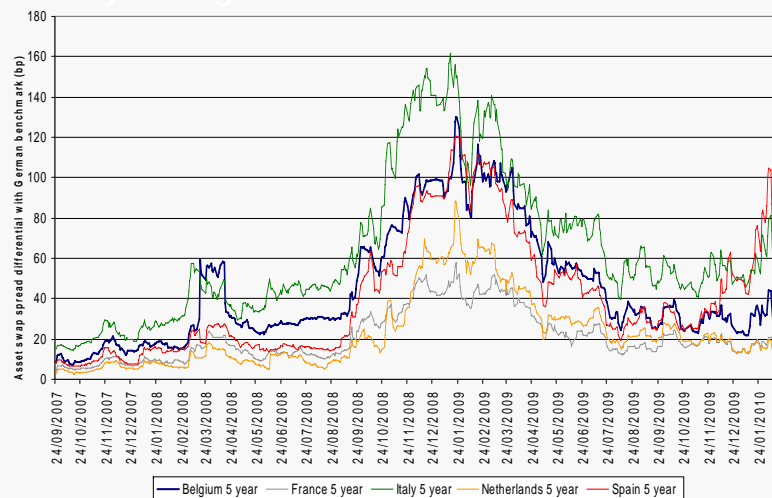
Since July 2009, Belgian 10s-yield towards Germany have been trading range-bound with a spread of 40 and 50bp. They have performed well compared to the periphery.

Cross-country spreads with the German 10 year-benchmark

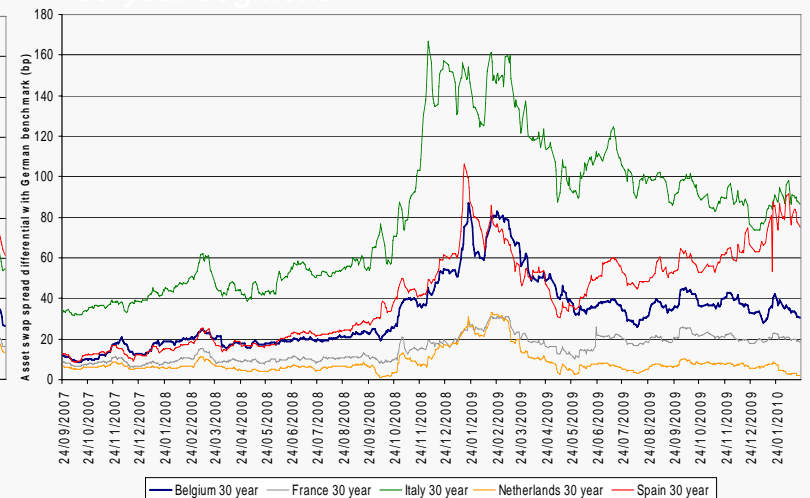


In 30s, spreads towards Germany are smaller than in 10s, reflecting the importance of the 10yr Bund future.

5-year segment



30-year segment





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## Debt Management Strategy

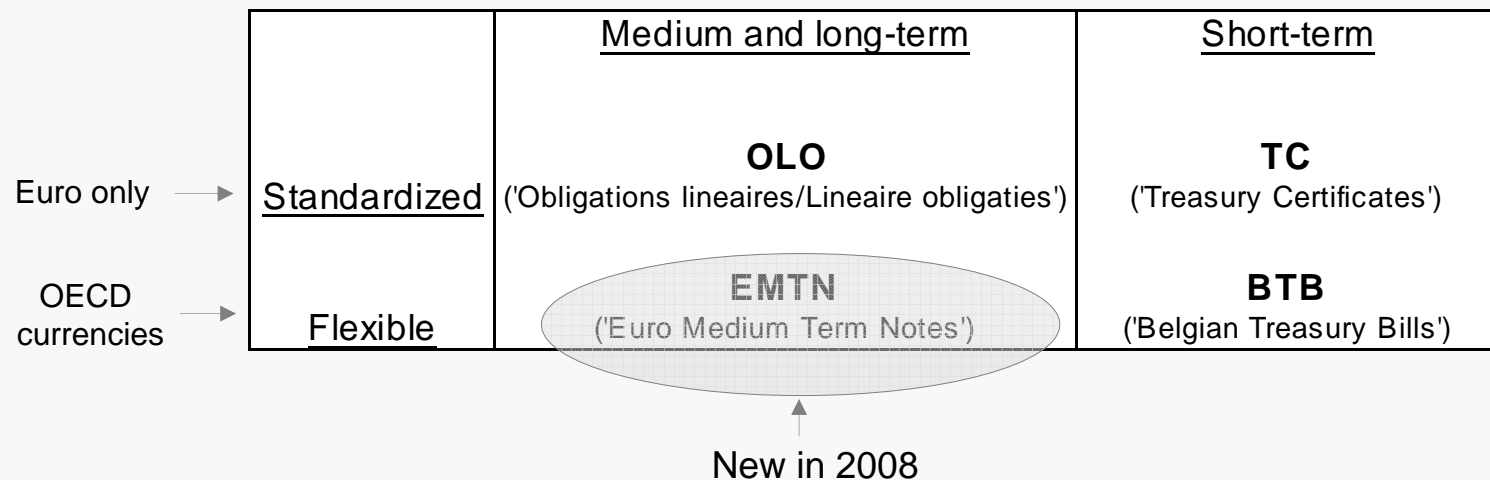


Belgium's Debt Management Strategy is based on four axes

The standardized and plain vanilla products are complemented by flexible products. Belgium is now one of the **most diversified** sovereign issuers.

→ The Belgian Debt Agency publishes an issuance calendar for its standardized products on [www.debtagency.be](http://www.debtagency.be).

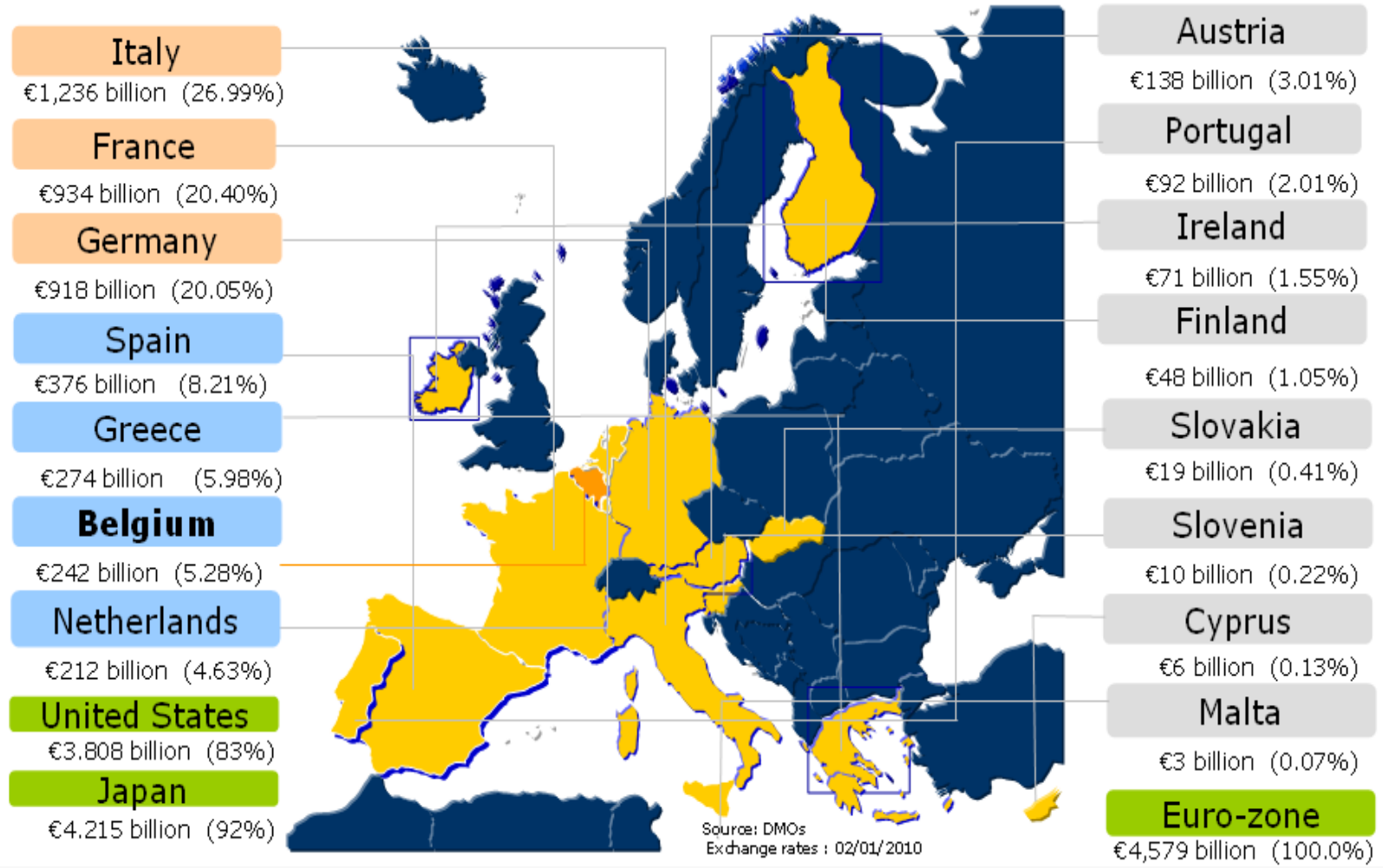
## Belgian Government Debt: Products





The Belgian Public Government Bond Market ranks **6th** in the Euro-zone

## Bond Market : Outstanding amounts per 31/12/2009 (nominal, and % of Euro-zone total)

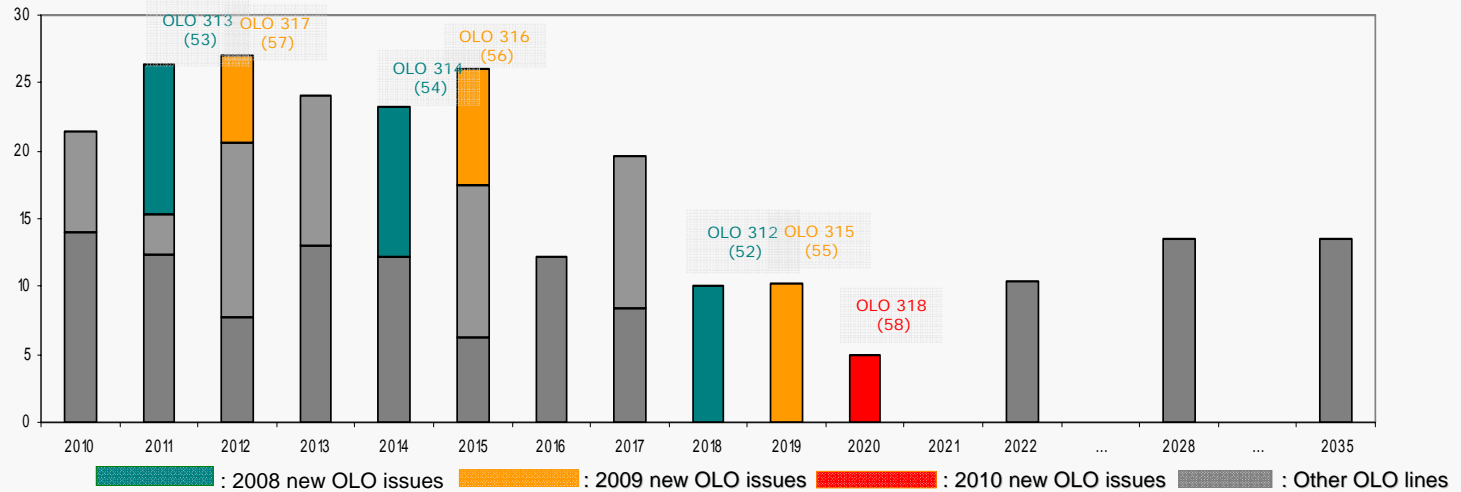




The Belgian Debt Agency aims at creating OLOs all over the curve with an average outstanding amount of more than **10 billion euro**.

The Belgian Debt Agency has a transparent OLO issuance strategy

### OLO portfolio (as of 31 January 2010) <sup>(1)</sup>



<sup>(1)</sup> Net of OLOs which have been bought back and held in portfolio.

### Issuance Strategy

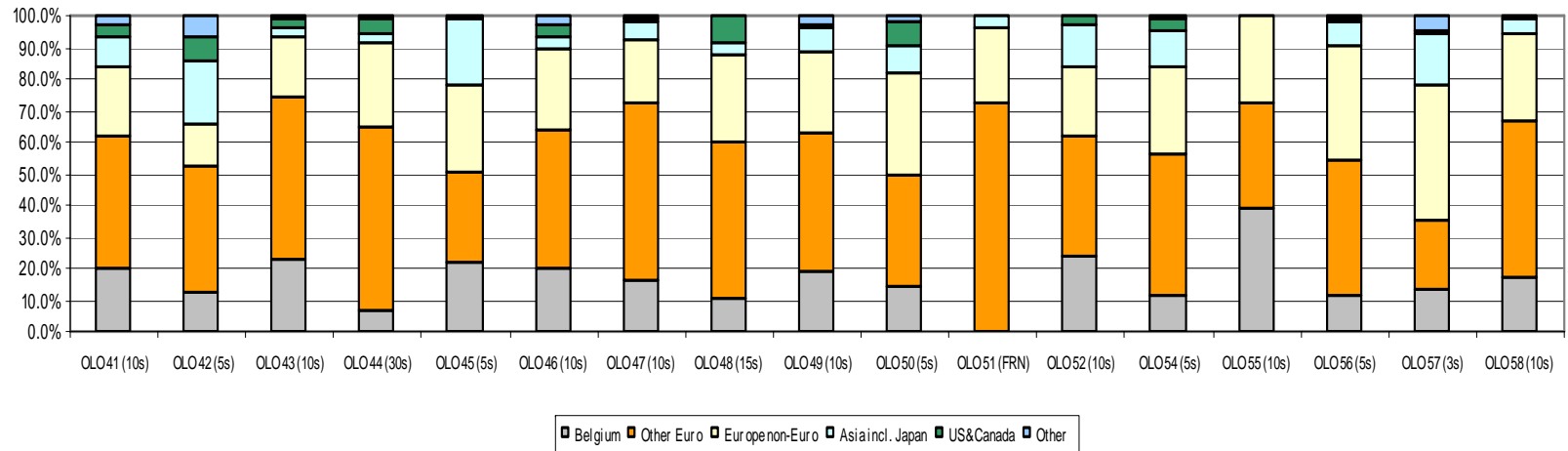
- New benchmarks are **launched** via **Syndication** and **again offered** through auctions (last Monday of the month)
- The **2010** issuance strategy is a continuation of the issuance strategy of 2009 which was **adapted** as a result of the financial crisis
  - Combination of transparency, predictability and FLEXIBILITY
  - Predictability: the financing plan announced size and monthly auctions (11)
  - Flexibility : demand dictates
    - ✓ the size issued
    - ✓ the maturity to be issued
    - ✓ the number of lines.



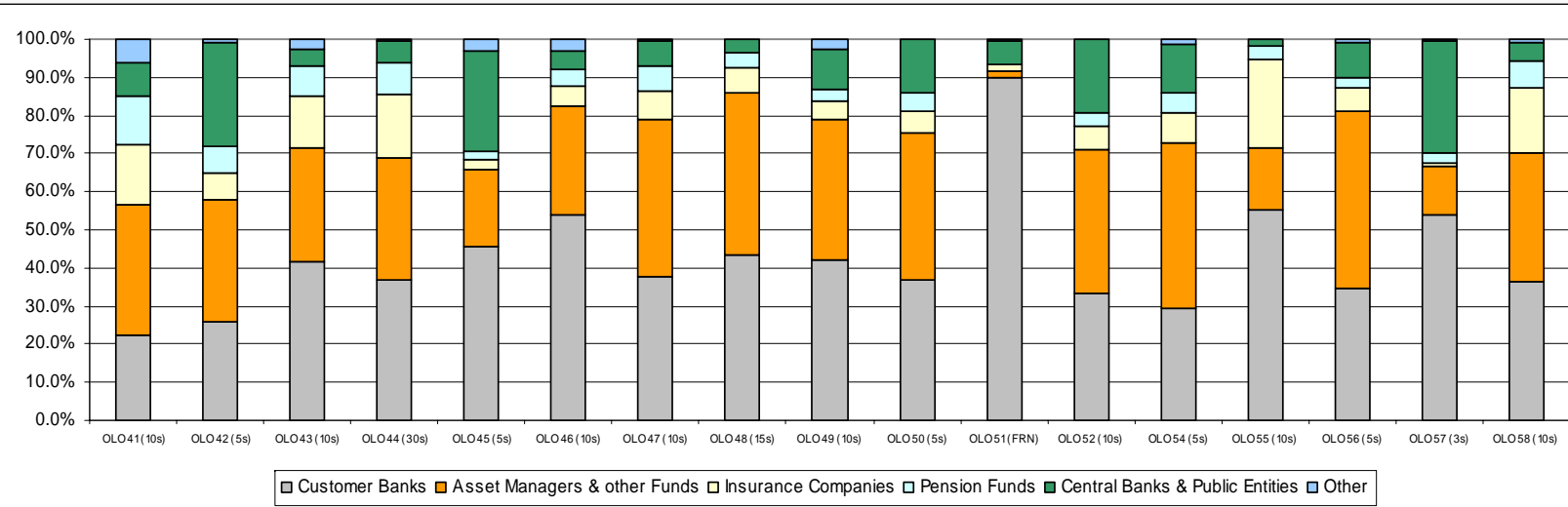
## New benchmarks launched via syndication

- In the majority of cases, issuance size is EUR 5.0 billion
- On average, only 21% is taken up by Belgian accounts

Geographical split (syndicated transactions)



Split per investor type



Syndicated deals allow the Treasury to control the **geographical distribution**. This contributes to liquidity.

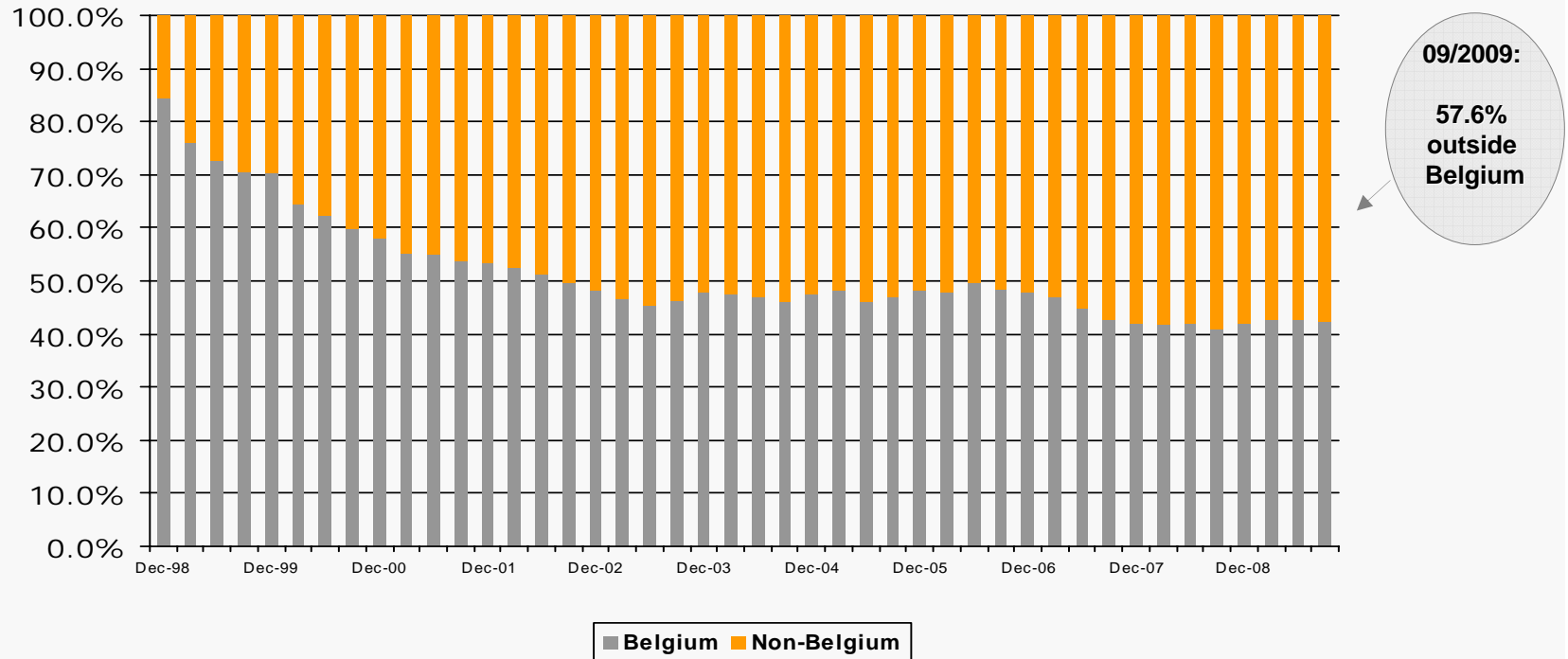
The participation of **foreign investors** did not decrease in 2009 and 2010.

At the same time, the Debt Agency is able to strike a **balance** between real money investors and trading investors.



## Localisation of OLO holders

This strategy enhanced the participation of investors outside Belgium. In 2007, non-Belgian investors have **increased** their exposure to OLOs.



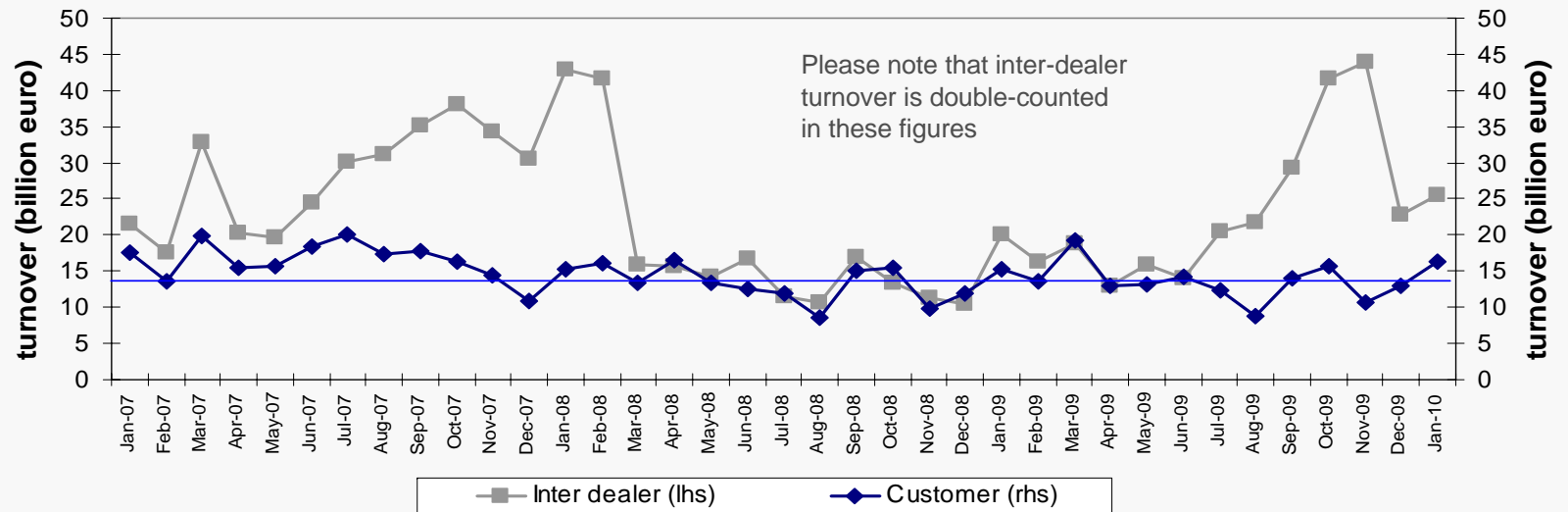
Source: National Bank of Belgium



## Secondary market (OLOs) turnover and spreads

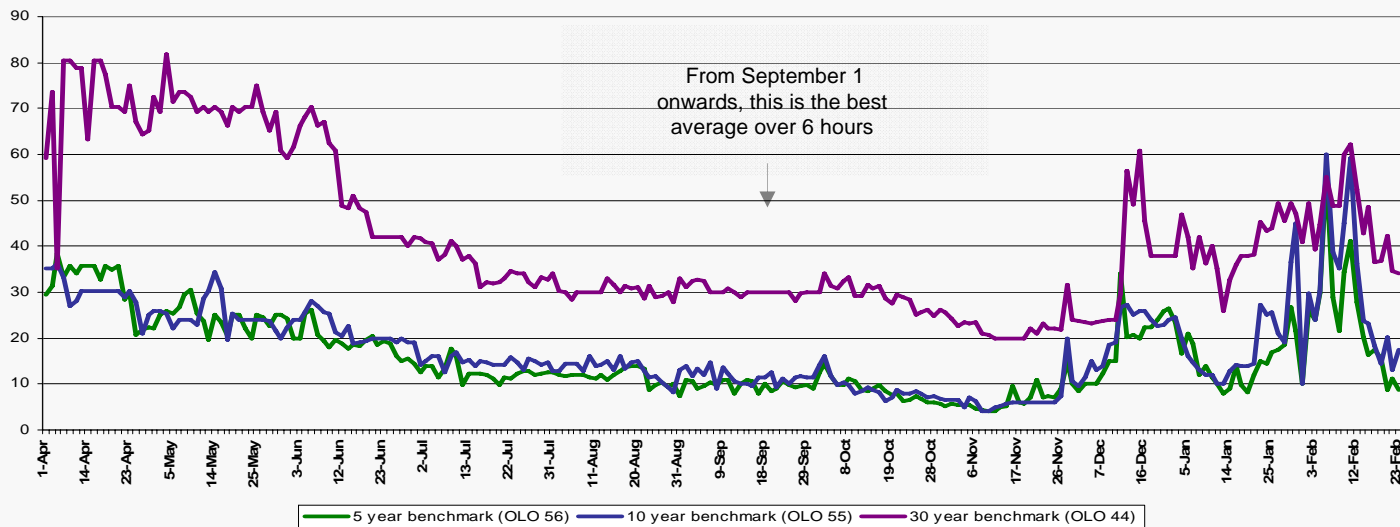
Since mid-summer 2009, inter-dealer turnover is again high, while overall, volumes with customers are more stable.

PD/RD total monthly turnover split between interbank deals and customer deals



Bid/offer spreads on the selected inter-dealer electronic systems had considerably tightened, but then widened again recently (Greece effect)

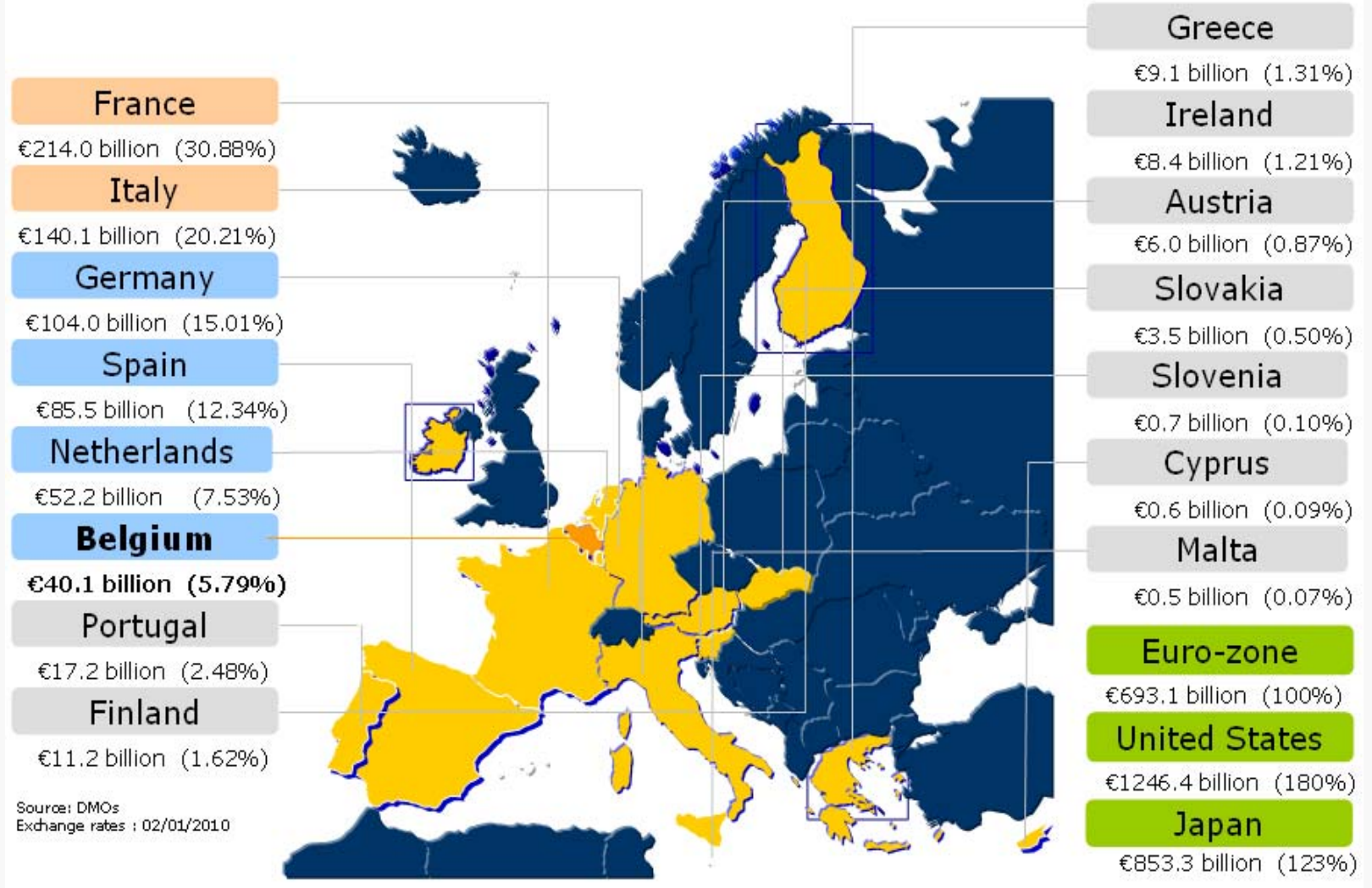
Best quoted Bid/offer spreads (OLO)





## T-Bill Market : Outstanding amounts per 31/12/2009 (nominal, and % of Euro-zone total)

Belgium has the **6th** T-Bill market of the Euro zone





## Belgian T-Bills are named Treasury Certificates

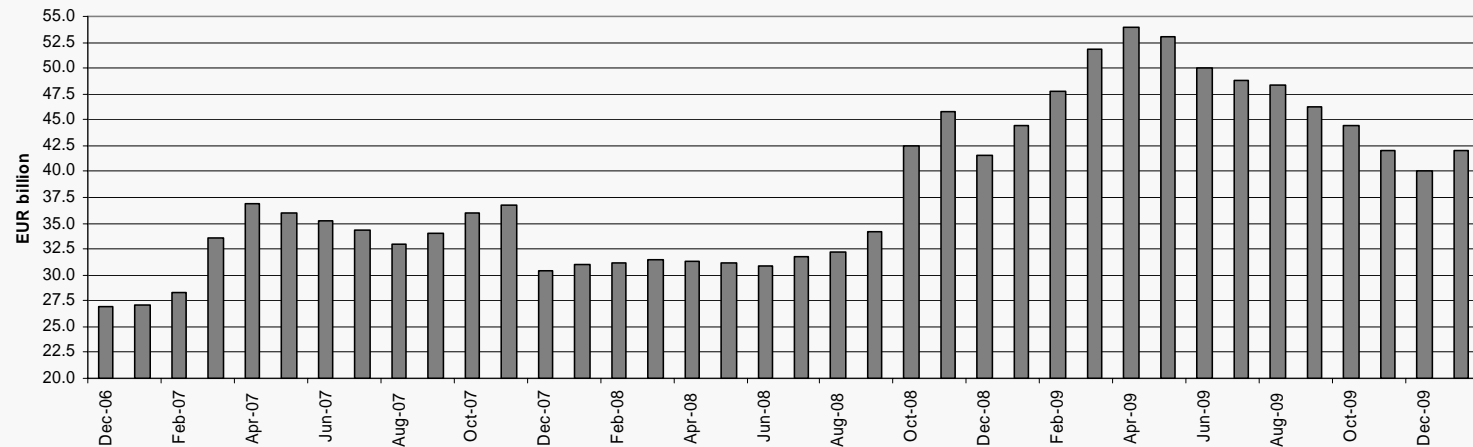
The outstanding amount of Treasury Certificates increased materially in 2008 and 2009. It has nevertheless diminished by EUR 1.38 billion in the course of 2009.

The Treasury issues 3-month, 6-month and 12-month tenors. However, the Treasury can also issue Certificates maturing in 1 and 2 months, for cash management reasons.

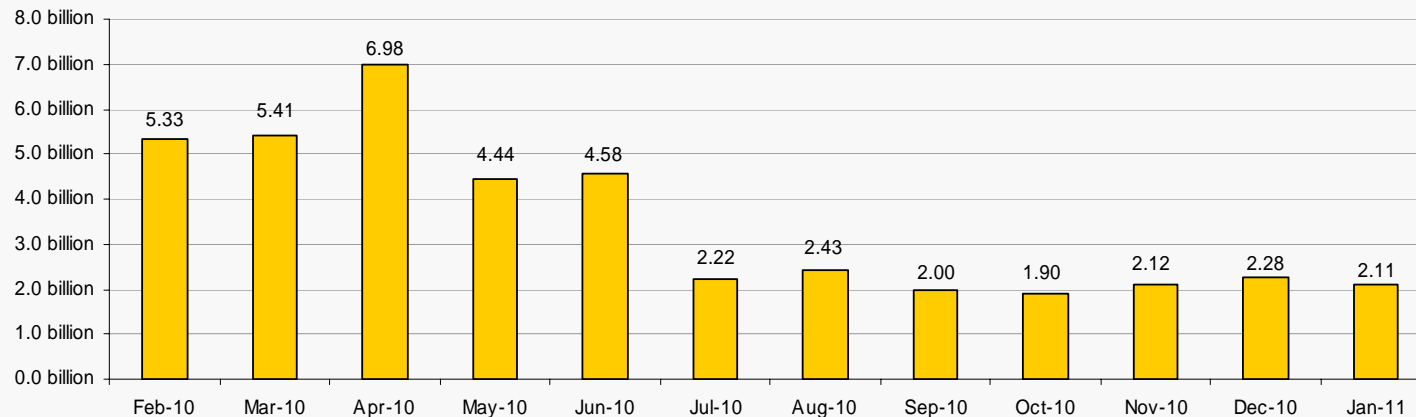
The longest maturity is 12 months.

Treasury certificates are issued twice a month, either as a 3- and a 6-month line, or as a 3- and a 12-month line. The lines are fungible.

Outstanding amount



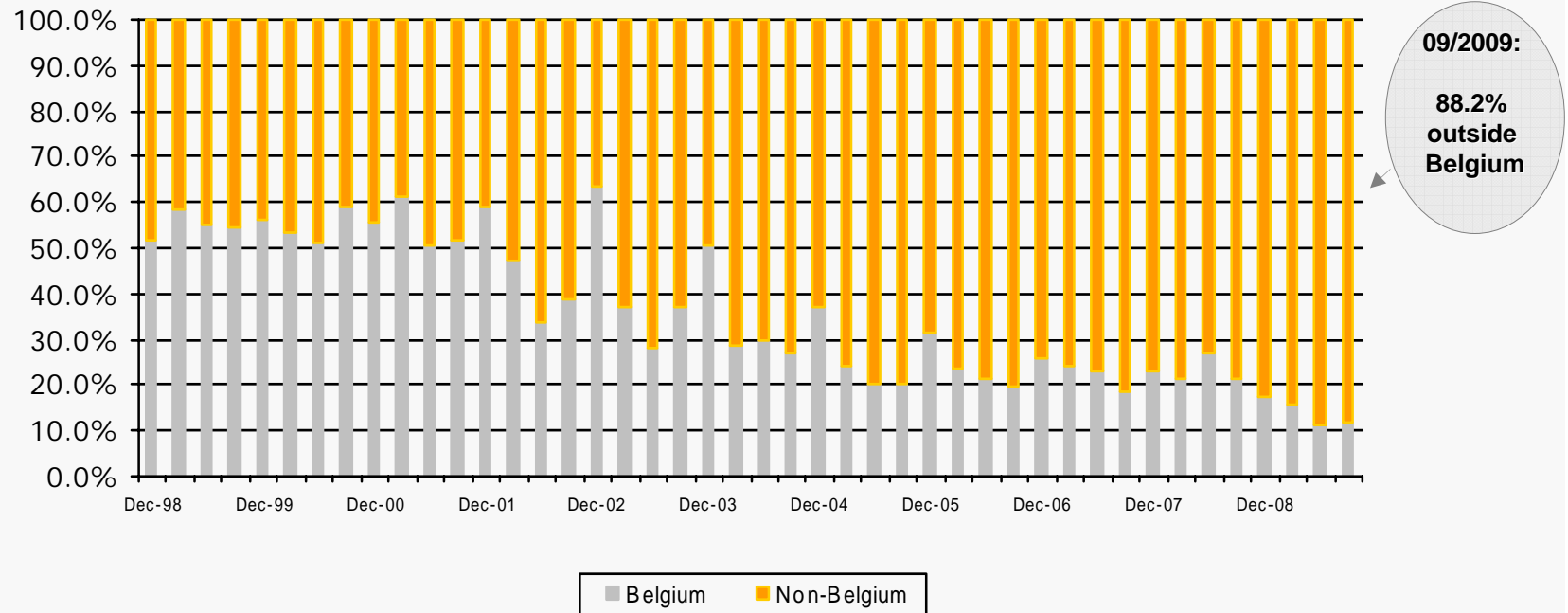
Outstanding per line (EUR billion, as of 31<sup>st</sup> January 2010)





## Localisation of Treasury Certificate holders

There is a clear trend towards **more internationalisation** for Treasury Certificates



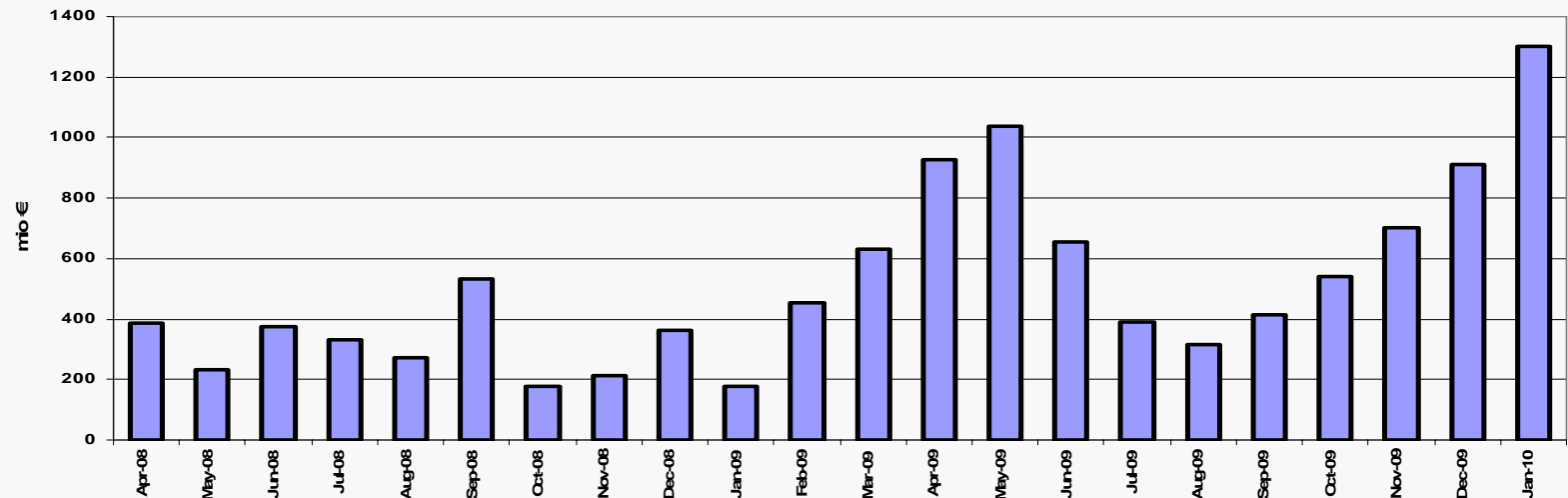
Source: National Bank of Belgium



## Secondary market (Treasury Certificates) turnover and spreads

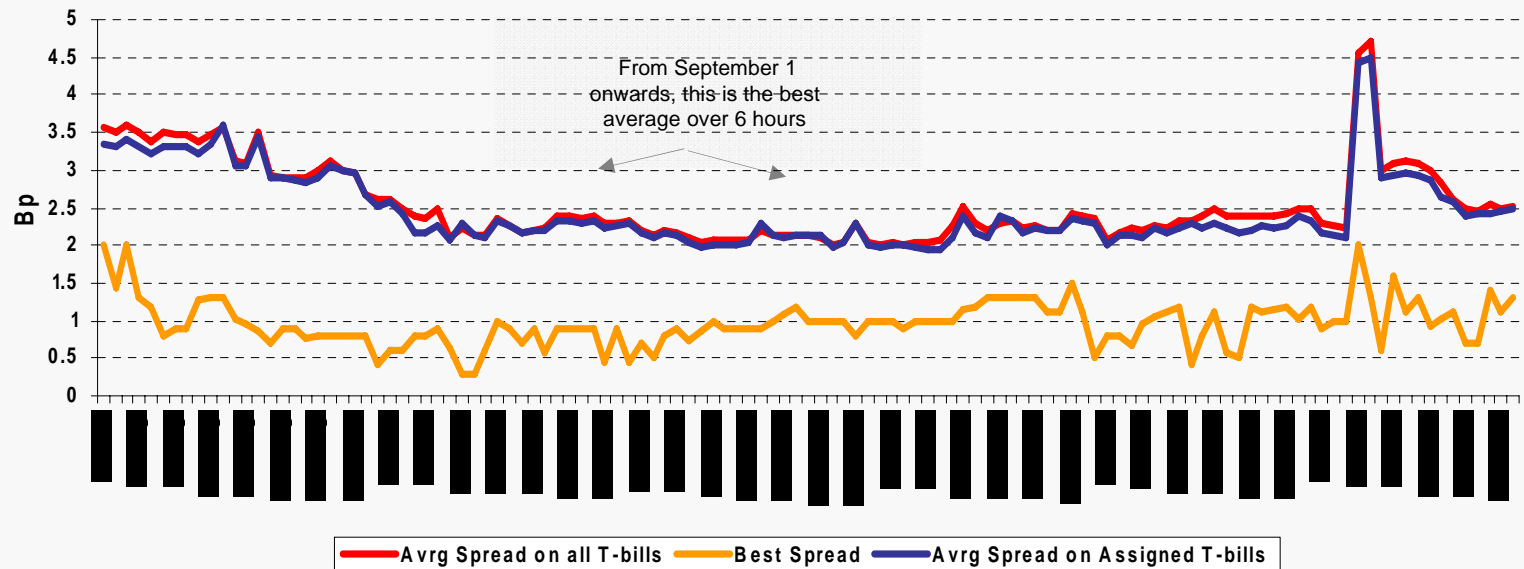
Turnover on the inter-dealer electronic platforms reached again highs in January 2010...

Average Daily TC-Turnover on inter-dealer e-Platforms



... and bid/offer spreads on these systems are now lower than pre-crisis levels.

Best and average bid/offer spreads





## Euro Medium Term Notes (EMTN) program

The Euro Medium Term Note program was established in 2008 to achieve more **cost efficiency**, and to target a **new investor base**.

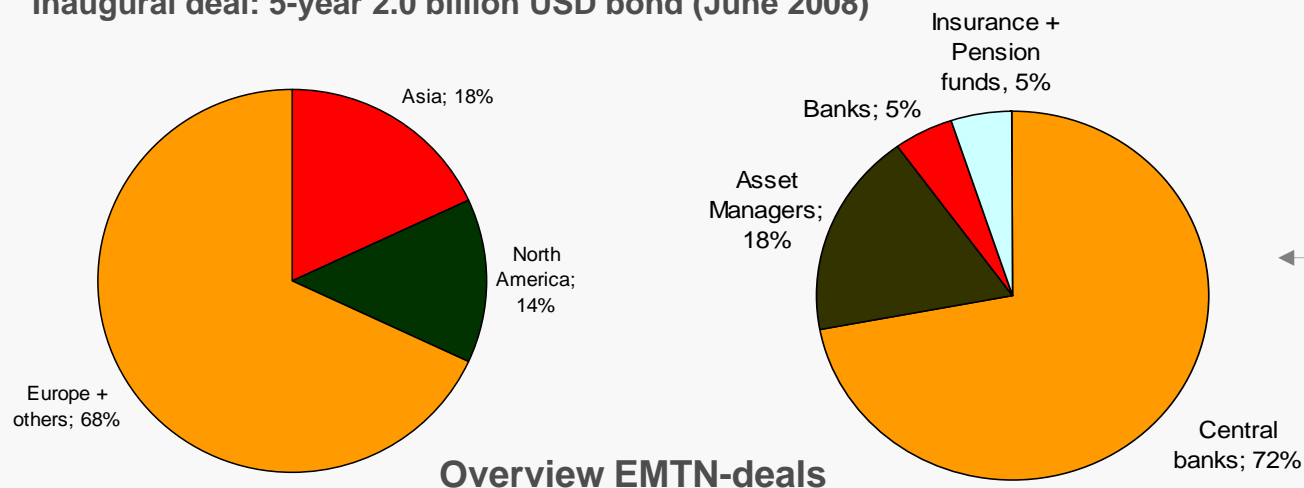
Transactions can be both public and private, in euro or in foreign (OECD) currencies, and possibly structured but they need to be swapped back to euro fixed or floating.

A minimum size of €50 million applies.

The program has a 144A clause.

In 2009, the issuance target is €3.0 billion, whereas for 2010 **€4.5 billion** is planned.

### Inaugural deal: 5-year 2.0 billion USD bond (June 2008)



Value Date	Amount	EUR equivalent	Maturity	Type
01/07/2008	USD 2.00 billion	EUR 1.28 billion	09/2013	Fixed rate
15/12/2008	USD 0.10 billion	EUR 0.08 billion	12/2011	Fixed rate
-----				
20/02/2009	EUR 0.23 billion	EUR 0.23 billion	02/2014	Floating rate
06/08/2009	USD 2.00 billion	EUR 1.42 billion	08/2012	Floating rate
15/09/2009	USD 1.00 billion	EUR 0.69 billion	09/2014	Fixed rate
23/09/2009	USD 0.25 billion	EUR 0.17 billion	09/2014	Floating rate
-----				
05/03/2010	USD 1.00 billion	EUR 0.74 billion	05/2015	Fixed rate



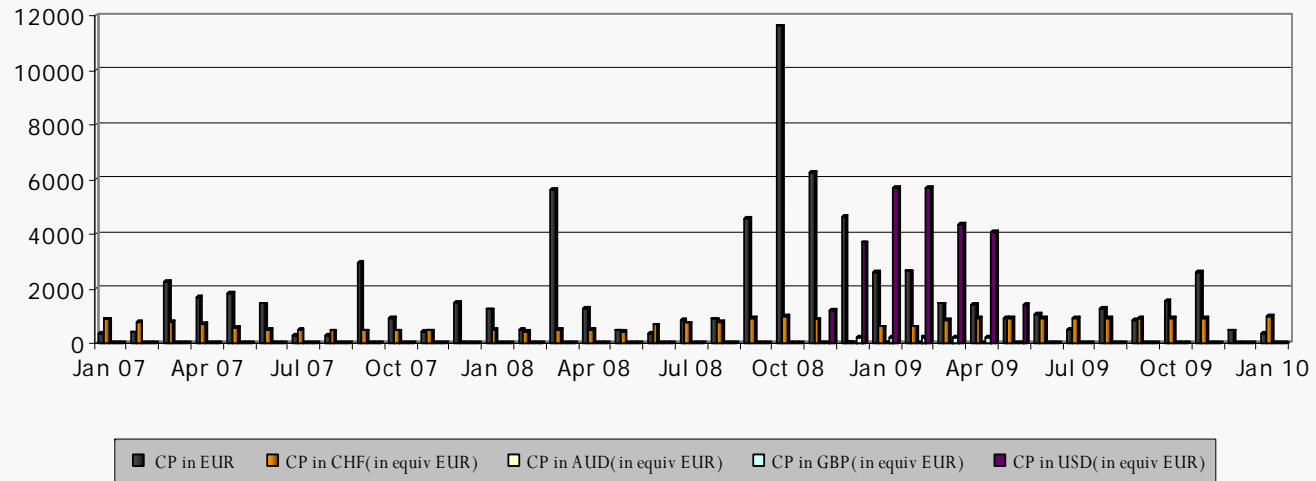
## Belgian Treasury Bills: ECP program

The Kingdom issues Commercial Paper (named Belgian Treasury Bills) to roll over foreign currency debt as well as to cover temporary higher funding requirements (e.g. March and September OLO redemptions)

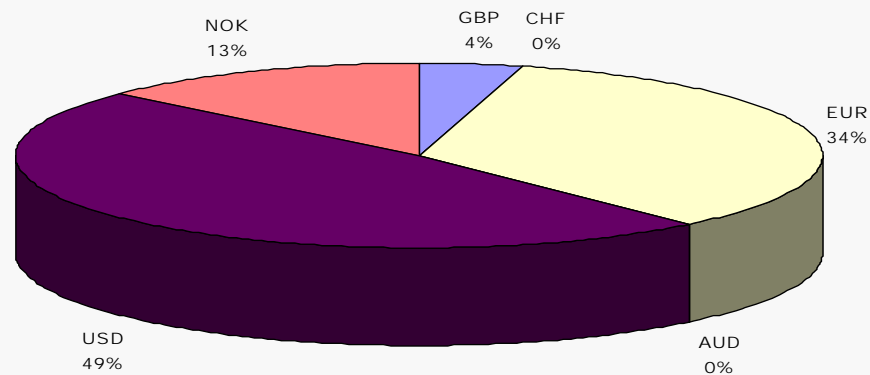
These instruments can be issued in OECD-currencies up to a maturity of 12 months

Barclays Bank PLC, Fortis Bank, Citibank International, Deutsche Bank AG (London), Dexia, Goldman Sachs, KBC Bank and UBS are BTB-dealers

Outstanding of the BTB program at month end (in equiv million EUR)



Breakdown of the issuance by currency in 2009 (January-December)





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## 2010 Financing Requirements and Funding Plan

In the course of **2009**, the Treasury was able to **reimburse part of the short-term debt** issued in order to finance the interventions in the Belgian financial institutions. Redemptions of debt (EUR 17.92 billion) were indeed unusually low, and the new agreement by which Fortis Bank was sold to BNP Paribas resulted in the reimbursement of a part of Royal Park Investment's funding.

The **2010** funding plan **maintains** the long-term issuance at its 2009 level, with an enhanced use of the EMTN program.

(EUR billion)	2010 plan	2009	2008
<b>Financing Requirements</b>	<b>42.78</b>	<b>28.79</b>	<b>57.34</b>
Federal budget deficit	14.10	7.77	27.45
Redemptions of MT/LT debt	25.85	17.92	26.51
Pre-funding (buy backs)	2.83	3.09	3.28
Other financing requirements	0.00	0.02	0.10
<b>Funding Means</b>	<b>39.32</b>	<b>38.28</b>	<b>33.80</b>
<b>OLO issuance</b>	<b>32.75</b>	<b>34.99</b>	<b>31.75</b>
<b>EMTN issuance</b>	<b>4.50</b>	<b>2.52</b>	<b>1.36</b>
State Notes	0.50	0.67	0.68
Treasury Bonds – Silver Fund	1.57	0.00	0.00
Other	0.00	0.09	0.00
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<b>Change in Treasury Cert. Stock</b>	<b>1.49</b>	<b>-1.38</b>	<b>11.13</b>
Change ST-foreign currency debt	-0.40	-4.04	4.31
Change other ST debt and assets	2.37	-4.06	8.10



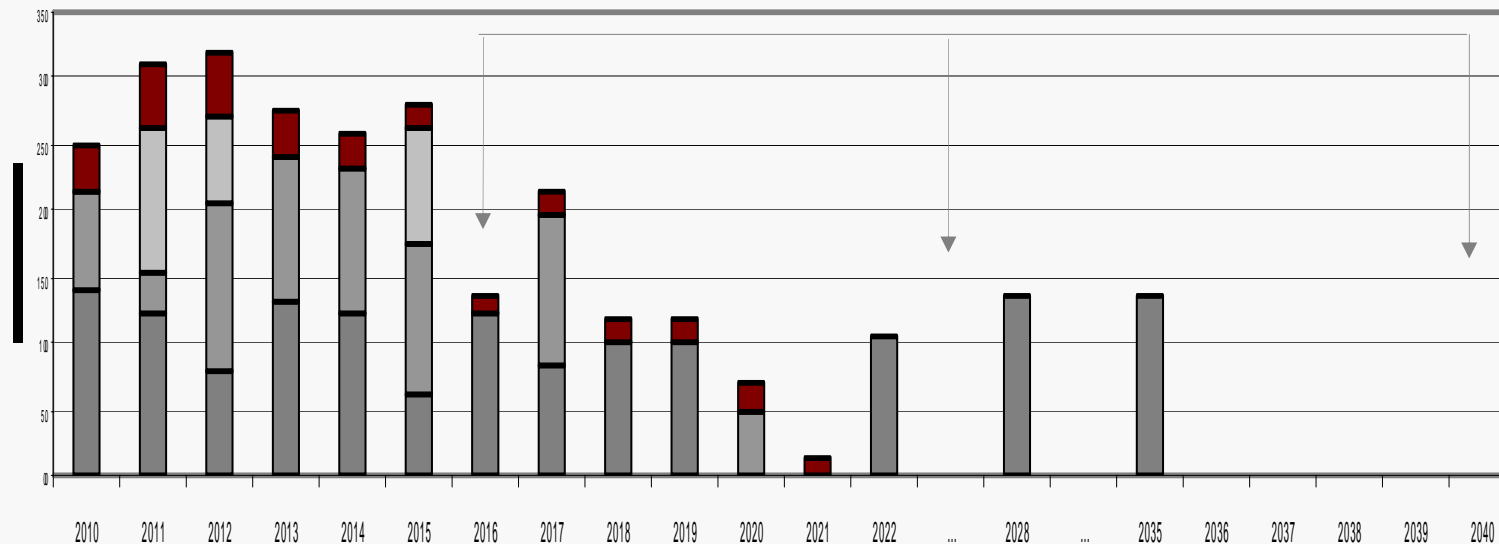
Most likely, the Treasury will issue **two** other new OLO benchmarks this year. It will choose between the 6, 15 and 30-year segment.

In the mean time, the Treasury's funding plan has already well advanced (at **27.3%** of target<sup>1</sup>).

<sup>1</sup>: EUR 37.25 billion (OLO & EMTN)

### Maturity schedule for long-term euro debt as at 31 January 2010

Possibilities for the 2<sup>nd</sup> and 3<sup>rd</sup> new OLO benchmarks



### Long Term Funding as of 28 February 2010

Value Date	Maturity	Amount	EUR equivalent	Instrument
19/01/2010	28 Sep 2020	EUR 5.00 billion	EUR 5.00 billion	OLO
22/02/2010	28 Mar 2015	EUR 1.18 billion	EUR 1.18 billion	OLO
	28 Sep 2020	EUR 1.95 billion	EUR 1.95 billion	OLO
	28 Mar 2022	EUR 1.31 billion	EUR 1.31 billion	OLO
05/03/2010	05 Mar 2015	USD 1.00 billion	EUR 0.74 billion	EMTN
<b>Total</b>			<b>EUR 10.18 billion</b>	



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**Appendix**            **Belgian financial Institutions (interventions)**  
**Key figures Government Debt**



The Belgian government has intervened in a number of financial institutions.

## Interventions in financial institutions

- FORTIS:
  - Capital injection** of EUR 9.42 billion, resulting in a stake of 25.0% in BNP Fortis Bank and 11.6% in BNP Paribas.
  - Capital injection** of EUR 0.74 billion in Royal Park Investments (RPI), resulting in a stake of 43.5%.
  - State Guarantee** of RPI's debt of EUR 4.365 billion
  - State Guarantee** covering Fortis Bank's losses on its portfolio of structured products amounting to EUR 1.5 billion in excess of a first layer of EUR 3.5 billion.
  - State Guarantee** for the claims by Fortis Bank related to the Relative Performance Note (up to a maximum of EUR 2.35 billion)
- DEXIA:
  - Capital injection** of EUR 1.0 billion. The three Regions also injected EUR 1 billion in total.
  - State Guarantee** for :
    - certain new debt up to EUR 100 billion (together with France and Luxemburg);
    - FSA's Financial Products Portfolio up to USD 16.9 billion (together with France) in exchange of shares, Dexia taking the first loss of USD 4.5 billion.
- KBC:
  - Structured and perpetual loan** of EUR 3.50 billion (which is nevertheless expected to be reimbursed in the short/medium term). In addition, the Flemish region also lent EUR 3.5 billion
  - State Guarantee** covering 90% of KBC's losses on a portfolio of structured products (CDOs) with a nominal value of EUR 19.97 billion. The guarantee is effective if losses exceed a first layer of EUR 3.156 billion and KBC can opt for the issuance of shares to third parties for the first EUR 1.769 billion of losses exceeding the threshold.
- ETHIAS:
  - Capital injection** of EUR 0.5 billion

At this stage, the Treasury does not expect that any of the guarantees will be called upon in the coming 24 months.



## Key Figures of the debt portfolio (31 January 2010)

Rating : S&P:AA+/A1+, Moody's: AA1/P1, Fitch: AA+/F1+

**Federal Government Debt (gross) :** € 327.9 billion

### Main marketable Debt Instruments

■ Linear Bonds (OLOs) :	€ 246.6 billion
■ Treasury Certificates :	€ 41.8 billion
■ EMTN-issuance:	€ 3.7 billion
■ Belgian Treasury Bills in EUR	€ 1.3 billion

### Breakdown

■ Euro-denominated :	99.52%
■ Foreign currencies (after swaps) :	0.48%

### Duration, average life (euro debt), Average term to next fixing (total debt), weighted average yield

■ Duration :	3.94 yr
■ Average life :	5.96 yr
■ Average term to next fixing :	4.75 yr
■ Weighted average yield:	3.81 %