

# **2004 BORROWING REQUIREMENTS AND FUNDING PLAN**

## **KINGDOM OF BELGIUM**

### **BELGIAN DEBT AGENCY**

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## 2003 REVIEW

### 1. IMPLEMENTATION OF THE 2003 FUNDING PLAN

The expected **2003 gross financing requirements** (€25.90 billion) correspond very well to plan (€25.56 billion). A smaller than planned deficit is balanced by a higher amount of debt bought back.

The federal budget is, indeed, expected to show a smaller deficit (€0.59 billion) than planned (€2.65 billion), it being understood that an amount of €5.00 billion, representing the payment by Belgacom for the takeover of its pension obligations by the federal government, has been taken into account.

But the Treasury enhanced its buyback activity in reaction to the extra receipts (Credibe, Belgacom). In total, €6.76 billion of debt originally maturing in 2004 or later is expected to be bought back at the end of the year, compared to €5.00 billion initially forecasted.

**Funding in the medium and long term** (€28.00 billion) will exceed plan (€25.68 billion).

Yet OLO issuance (€3.27 billion) will be marginally smaller than the initially forecasted amount (€4.05 billion). On the contrary, Treasury Bonds issued for the Silver Fund will exceed budget and will totalise at €3.45 billion, primarily due to the proceeds of the sale of Credibe's mortgage portfolio (€2.65 billion). The amount of State Notes issued (€1.28 billion) was also higher than originally expected.

Short-term debt is consequently expected to decrease, whereas outstandings were planned to be stable. The Treasury however estimates that the decline of €1.33 billion of outstanding short-term euro debt will not harm its liquidity.

### 2. REVIEW OF THE 2003 DEBT MANAGEMENT STRATEGY

#### A. GENERAL

In 2003, the Debt Management Strategy focused on:

- limiting the **refinancing risk** through the introduction of a maximum for the percentage of debt to be refinanced within 12 months (**22.50%**) and 60 months (**60.0%**)
- limiting the **interest rate risk** through the introduction of a maximum for the percentage of debt subject to a re-fixing of interest rate conditions within 12 months (**25.00%**)
- maintaining stable amounts, on average, of **Treasury Certificates** outstanding
- reducing further the **foreign currency** denominated debt

## **B. NEW INITIATIVES**

- within the framework of the Working Party on **STRIPS**, the Debt Agency and its Primary Dealers continued discussing measures to enhance the liquidity and the transparency of the OLO STRIPS market. The implementation of these measures is expected for early 2004.

## **C. GOVERNMENT DEBT PRIMARY MARKET**

During 2003, the Debt Agency:

- launched **2 new OLO benchmarks** through syndication: a 10-year (OLO41) and a 5-year (OLO42), both for an initial amount of €5.0bn and consequently qualifying as a European benchmark.
- organised **4 OLO auctions**. In each auction, 2 or 3 lines were offered, the 10-year always being offered. The 5 year was three times reopened, and the 15 and 30 year both once.
- Organised **1 bond exchange** on the traditional loan 271 (PH XII 6.50% March 2003).

## **D. GOVERNMENT DEBT SECONDARY MARKET**

The Debt Agency took the following initiatives in the Secondary Market in 2003:

- Buy back program of OLOs coming to maturity within 12 months of time on MTS Belgium (OLO6, OLO 14 and OLO 20).
- A buy back operation through book building on the OLO 28 and OLO 16. This operation took place simultaneously with the launch of the OLO42, though it was separate from it, giving the opportunity to the investors to reduce holdings in off-the-run OLOs in a transparent manner. €716.5 million was bought back for OLO 16, and €1,092.5 million for OLO 28.
- A buy back operation through book building on the OLO 12 and OLO 23, simultaneously with, though separately, from the September auction. The investors were able to reduce holdings in off-the-run OLOs for reinvestment in an on-the-run benchmark. Also the Debt Agency used some of the proceeds of the Credibe operation avoiding a disturbance of the 2003 issuance program. €278 million was bought back for OLO 12, and €791 million for OLO 23.
- Buy back of the traditional loan BE 284 (Ph XVII). The Debt Agency offered the possibility for buy backs as early as in July, 16 months before maturity, in order to use the proceeds of the Credibe operation. In addition, bid prices were offered on MTSB as from the end of November onwards.

**E. USE OF DERIVATIVES**

In 2003, the Debt Agency continued using:

- IRS and FRAs to optimise the interest rate profile of its debt or to hedge interest rate risks of upcoming issuances.
- Foreign exchange derivatives to repurchase foreign currency debt.
- Repos and reverse repos.

## IMPLEMENTATION OF THE 2003 FUNDING PLAN

Eur billion

	Achieved as of 30/11/2003	Forecast 31/12/2003	Budget 2003
<b><u>I. Gross financing requirements 2003</u></b>	<b><u>31.39</u></b>	<b><u>25.90</u></b>	<b><u>25.56</u></b>
<b><u>1. 2003 funding needs</u></b>	<b><u>24.87</u></b>	<b><u>18.27</u></b>	<b><u>20.24</u></b>
<u>Budget deficit</u>	7.99	0.59	2.65
<u>Debt maturing in 2003</u>	16.87	17.68	17.59
- Long and medium term debt in euro	16.84	17.11	17.02
- Long and medium term debt in foreign currencies	0.03	0.57	0.57
<b><u>2. Pre-funding planned (bonds maturing in 2004 and later)</u></b>	<b><u>6.37</u></b>	<b><u>6.76</u></b>	<b><u>5.00</u></b>
Buy backs	6.37	6.76	5.00
Bond exchanges	0.00	0.00	0.00
Calls	0.00	0.00	0.00
<b><u>3. Other financing requirements (1)</u></b>	<b><u>0.14</u></b>	<b><u>0.87</u></b>	<b><u>0.32</u></b>
<b><u>II. Funding resources 2003</u></b>	<b><u>27.24</u></b>	<b><u>28.00</u></b>	<b><u>25.68</u></b>
<b><u>1. Medium and long term issues in euro</u></b>	<b><u>27.24</u></b>	<b><u>28.00</u></b>	<b><u>25.68</u></b>
OLOs	23.28	23.27	24.05
Syndications	10.00	10.00	10.00
Auctions	12.86	12.86	14.00
Bond exchanges (including capitalised interests)	0.41	0.41	0.05
Treasury bonds - Silver Fund	3.10	3.45	0.63
State notes	0.86	1.28	1.00
Other (2)	0.00	0.00	0.00
<b><u>2. Long and medium term issues in foreign currencies</u></b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>
<b><u>III. Net change of short term debt in foreign currencies</u></b>	<b><u>-0.05</u></b>	<b><u>-0.77</u></b>	<b><u>-0.06</u></b>
<b><u>IV. Net change of short term debt in euro (3)</u></b>	<b><u>4.19</u></b>	<b><u>-1.33</u></b>	<b><u>-0.05</u></b>

(1) Including capitalised interests on bond exchanges, puts exercised on state bonds, funding of public entities, redemptions of the treasury bonds representing Belgian participation in international organisations, and a part of the difference between the market value and the nominal value of bonds that are bought back

(2) Including the issues of treasury bonds representing Belgian participation in international organisations.

(3) Outstanding short term debt in euro on 01/01/2003 : 31.11 billion euro

## 2004 OUTLOOK

### 1. BORROWING REQUIREMENTS

**2004 gross financing requirements** are forecasted to amount to **€32.13 billion** (an increase of €6.23 billion compared to 2003). Taking into account a transfer of €5.0 billion to the Silver Fund, related to the Belgacom Pension Fund operation of 2003, in total €37.13 billion will be required.

The funding plan for 2004 is based on the assumption of a federal budget deficit of €4.15 billion. This is €3.56 billion more than the 2003 federal deficit. However, the General Government budget, measured in accrual terms, and determined according to the Maastricht Treaty, is expected to be balanced.

Redemptions of long and medium term debt are expected to amount to €2.20 billion, an increase of €4.52 billion compared to 2003. In addition, the Treasury expects to buy back bonds maturing in 2005 or later for an amount of €5.30 billion.

### 2. FUNDING PLAN

**The Treasury plans to meet the financing requirements mainly, but not entirely, by issuing in the medium and long term. Hence the outstanding amount of short-term debt is expected to increase.**

The Treasury foresees to issue **OLOs** for an amount of €27.90 billion (€4.63 billion more than the 2003 OLO issuance).

In 2004, retail investors will have the opportunity to invest in State Notes and in a new product: the OLO for private investors. The Treasury has not specified an objective for the latter, so €1.0 billion is planned for both products together.

As a result, **medium and long-term issues** are expected to amount to **€28.90 billion** (€3.90 billion taking into account the planned issuance of €5.0 billion Treasury bonds for the Silver Fund).

Short-term debt in euro is, as a result, planned to increase by €3.23 billion.

**The amount of OLO issuance might be reduced in case of budgetary results being better than expected, e.g. as a consequence of privatisations or the sale of assets.**

### 3. 2004 FUNDING STRATEGY

The main features of the forecasted **issuance strategy** in 2004 are:

- the launch of new **benchmarks through syndication**
- the intention to offer the 10-year benchmark at each auction
- the extension of the **bond OTC buy back program** to OLO 19 – 6.50% 31 March 2005 and OLO 34 – 4.75% 28 September 2005. These OTC buy backs can be complemented by reverse auctions
- the **changing of the TC issuance calendar** towards a schedule where **2 auctions are held per month**, in order to increase the issuance size and to construct a large outstanding of the 12-month line at once.

### 4. 2004 DEBT MANAGEMENT STRATEGY

The Treasury's **Debt Management Strategy** in 2004 will consist of the following:

- Maintaining upper limits for the refinancing risk (**22.50%** on 12 months; **60.0%** on 60 months) and interest rate risk (**25.0%** on 12 months)
- Reduction in foreign currency debt, subject to favourable exchange rates

The duration of the debt portfolio is expected to stay within a range of 3.75 – 4.25, except in cases where important changes in the level or shape of the interest rate curve would occur.

As was the case in 2003, the Debt Agency plans to implement the conclusions of the Working Party on STRIPS, regarding the enhancement of the liquidity and transparency of the OLO STRIPS market.

Jean-Pierre ARNOLDI  
Administrator General

## 2004 BORROWING REQUIREMENTS

*Eur billion*

	<u>Budget 2004</u> <small>(n = 2004)</small>	<u>Forecast 2003</u> <small>(n = 2003)</small>
<b><u>I. Gross financing requirements</u></b>	<b><u>37.13</u></b>	<b><u>25.90</u></b>
<b><u>1. Funding needs</u></b>	<b><u>26.35</u></b>	<b><u>18.27</u></b>
<u>Budget deficit</u>	4.15	0.59
<u>Debt maturing in year n</u>	22.20	17.68
- Long and medium term debt in euro	21.10	17.11
- Long and medium term debt in foreign currencies	1.10	0.57
<b><u>2. Pre-funding planned (bonds maturing in n+1 and later)</u></b>	<b><u>5.30</u></b>	<b><u>6.76</u></b>
Buy backs	5.30	6.76
Bond exchanges	0.00	0.00
Calls	0.00	0.00
<b><u>3. Other financing requirements (1)</u></b>	<b><u>5.48</u></b>	<b><u>0.87</u></b>
<b><u>II. Funding resources</u></b>	<b><u>33.90</u></b>	<b><u>28.00</u></b>
<b><u>1. Medium and long term issues in euro</u></b>	<b><u>33.90</u></b>	<b><u>28.00</u></b>
OLOs	27.90	23.27
Treasury bonds - Silver Fund	5.00	3.45
Retail products (State Notes, OLOp)	1.00	1.28
Other (2)	0.00	0.00
<b><u>2. Long and medium term issues in foreign currencies</u></b>	<b><u>0.00</u></b>	<b><u>0.00</u></b>
<b><u>III. Net change of short term debt in foreign currencies</u></b>	<b><u>0.00</u></b>	<b><u>-0.77</u></b>
<b><u>IV. Net change of short term debt in euro</u></b>	<b><u>3.23</u></b>	<b><u>-1.33</u></b>

(1) Including capitalised interests on bond exchanges, puts exercised on state bonds, funding of public entities (credibe), redemptions of the treasury bonds representing Belgian participation in international organisations, and financing of the Silver Fund (2004)

(2) Including the issues of treasury bonds representing Belgian participation in international organisations.

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