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FOREWORD BY DIDIER REYNDERS, MINISTER OF FINANCE

The 1999 annual report on debt is a further contribution to the transparency initiative on public debt management launched over ten years ago. In the document, the reader will find all relevant information on issuance and management operations carried out by the Debt Agency during the last year. The Report also bears witness to a continuing improvement in Belgium's public finances.

For countries in the Economic and Monetary Union, 1999 was characterised by change associated with two major items: the advent of the single currency and the millennium changeover. These events presented debt managers with many challenges, although of an extremely varying nature. The transition to the euro introduced our country to the large euro-based market, whereas the millennium changeover was essentially technological. I am happy to be able to say that both transitions passed off smoothly. The intense prior preparation within the public service in general and the Ministry of Finance in particular was certainly a factor in this success.

After the European Council decision at the start of May 1998 allowing Belgium into the third phase of Economic and Monetary Union from 1 January 1999, adjustments to instruments and new mechanisms for managing federal public debt launched almost one year previously revealed their usefulness. In particular, I wish to highlight the establishment of a Debt Agency within the Treasury Department on 1 October 1998, the creation of a new extended group of debt security specialists (primary dealers) and fresh procedures for issuing OLOs and Treasury certificates, by far the two most important federal-debt instruments.

The pursuit of budgetary rectitude combined with dynamic management of public debt, strengthened by a reduction in short and long-term interest rates, has begun to bear fruit. As such, debt growth has slowed down in nominal terms and its size relative to wealth created (i.e. Gross Domestic Product) continues to decline. The pursuit and even acceleration of the debt-reduction operation comprise an essential priority for the Government and its importance was again emphasised in our country's 2000-2003 Stability Programme.

Thanks to economic growth and measures adopted by the Government, a balanced budget is now a foreseeable prospect. Even more positively, a structural surplus may be achieved before the end of the legislature along with an easing of the tax burden if growth is maintained at predicted levels.

Public debt management is entering into a new phase where exposure can genuinely be reduced.

Although already very efficient, the structure of public federal debt will be enhanced even further by the complete elimination of residual change risk, which has been designated one of our priorities along with improving the breakdown of the debt maturity schedule.

I have set debt managers the target of establishing permanent monitoring instruments which should enable us to determine the impact of each issue or management operation on the budget as well as on the debt's main variables (e.g. duration). The establishment of an integrated database facilitating constant supervision extends other reforms which have been implemented for the past ten years. The creation of a Belgian electronic trading platform, MTS Belgium, at the end of March, following the example of other euro-zone countries and involving all Belgian-debt primary dealers, will help to ensure greater liquidity in the OLO market and lead to a reduction in financing costs borne by the State.

With the help of this coherent group of instruments, procedures and partners, the Debt Agency can look on the future with confidence and make its contribution to reforming the federal finances.

These encouraging prospects should not, however, lead us to forget that Belgium's level of public debt remains high, which means that our public finances are vulnerable to lasting interest-rate shocks. Prudent, judicious use of the margins generated by the reverse snowball effect still seems more necessary than ever.

The Minister of Finance,

Didier REYNDERS

INTRODUCTION

In Belgium, 1999 was characterised by an average level of economic growth with a Gross Domestic Product expansion of 2.5%. While growth was lower than in the previous year, the results recorded were nonetheless better than those forecast following the Asian recession and dioxin crisis. During the first six months of the year, these disturbances had a negative impact on Belgian exports and caused a downturn in the business cycle. A clear upswing was generated by increased exports during the second half of the year. Globally, the current balance of payments surplus decreased slightly over the year, but was nonetheless sizeable given the economic environment (4.0% of GDP in 1999 compared with 4.1% of GDP in 1998).

While domestic demand continued to be a dynamic growth factor, exports appeared to take over as a driving force in 1999 (+3%). As such, the private consumption growth rate amounted to 2% compared with 3.8% the previous year, which was partially due to lower expansion in disposable household income. For their part, net exports again made a positive contribution to economic growth.

Inflation remained moderate in 1999: consumer prices increased slightly from an average of 0.9% in 1998 to 1.1% in the year under review. This minor rise was partially due to a hike in energy costs.

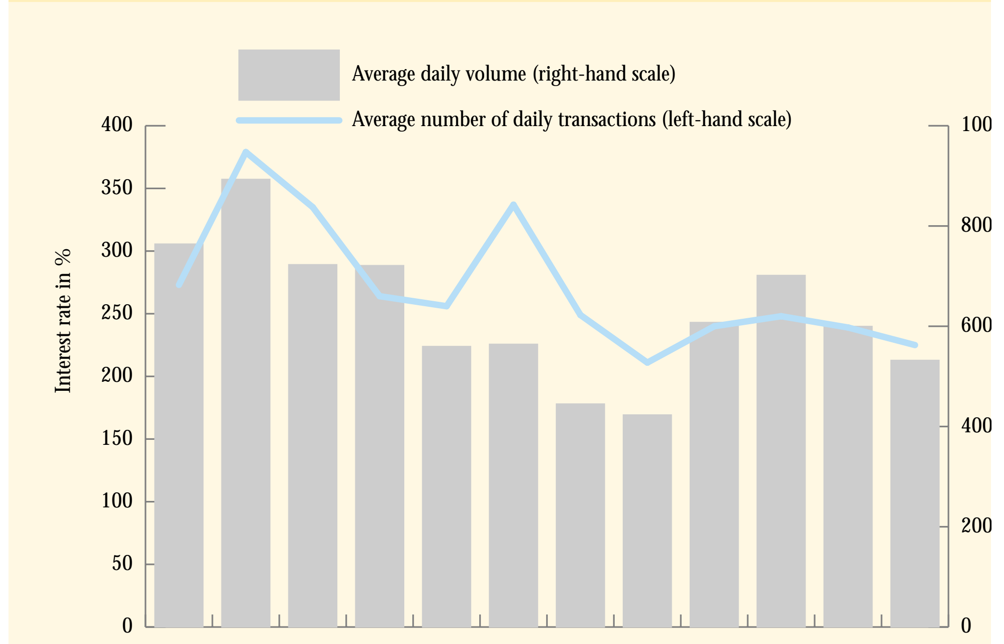
Despite an economic slowdown, unemployment, the traditional Belgian weakness, continued the downward trend begun in previous years (9% of the working population in 1999 compared with 9.5% the previous year). This was partially due to the employment policy pursued by the authorities, which particularly emphasised training, lowering indirect labour costs, controlling wage costs and maintaining competitiveness.

1999 was the year which saw the advent of the euro and its acceptance by the markets, a success resulting from Member States' ability to respect convergence criteria. In terms of public finance in the year under review, the combined Belgian public authorities' net borrowing requirement amounted to 0.9% of GDP, i.e. 0.4 of a percentage point better than forecast. This excellent performance can be ascribed to cost control and satisfactory levels of receipts which enabled us to achieve a primary surplus of 6.3% of GDP in 1999. For its part, the level of debt continued to fall, and reached 114.4% of GDP at the end of December 1999 compared with 117.4% in 1998.

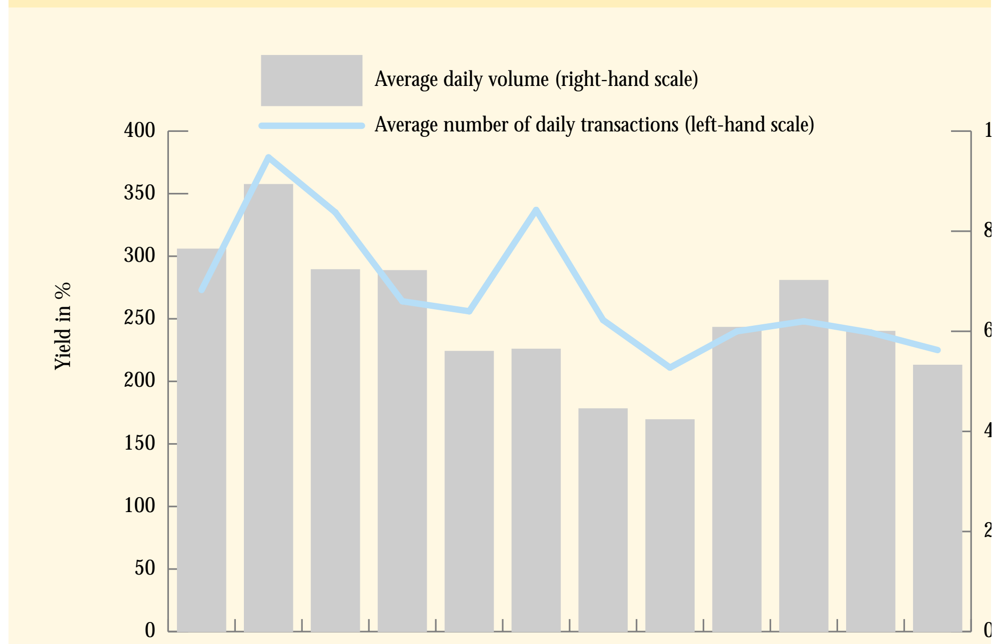
In 1999, Belgian short-term interest rates generated a stable curve of approximately 3% whereas long-term rates moved upwards, parallel to the trend experienced in other countries, thus anticipating and reflecting fresh impetus for growth in the economy.

From January to December 1999, Belgian short-term rates (3-month Treasury certificates) rose from 3% to 3.15% on average although they did approach lower levels during the middle of the year, partly as a result of the rate reduction decided by the European Central Bank in April 1999. Throughout the year, spreads relative to average 3-month euro yields were positive to the advantage of Belgian rates.

Graph 1: Average for 3-month interest rates in 1999.



Graph 2: Average yield on the national capital market for long-term public issues in 1999.



For their part, long-term rates calculated using Belgian public-sector issues of 6 years and over moved upwards, reflecting an anticipated economic recovery. On average, they rose from 3.9% in January to 5.40% in December 1999. The 10-year benchmark OLO yield moved up from 3.85% to 5.58% for the same period, with an average spread compared with bunds of the same maturity of approximately 26 basis points to the bunds' advantage.

Interest charges on federal debt again fell in 1999 compared with 1998, dropping from BEF 607.6 to BEF 586.9 billion. This positive trend was caused by a reduction in the weighted average rate for the debt as well as prudent management based on use of the benchmark debt portfolio.

Finally, the innovations introduced in 1999 included the establishment of a new group of primary dealers and recognised dealers, as well as recourse to use of syndication for the initial launch of new OLO lines to increase line liquidity and to diversify the investor base. A new variable-rate OLO (FRN) was also issued, and announcement of a range of amounts for Treasury certificate issues was introduced, while the issue schedule was adjusted and the number of Treasury certificate lines reduced to increase liquidity. Innovations relating to the year 2000 in particular were implemented e.g. the OLO issue and exchange offer calendar was adjusted and a domestic electronic trading platform (MTS Belgium) set up.

The table below represents the "major" federal public debt figures in 1999 compared with those for 1998. Except where otherwise stated, this comprises public debt excluding debt owed by Communities and Regions, local authorities and the Social Security services.

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Table 1: Principal debt-related figures (in billions of BEF or in %, on 31 December).

	1998	1999
1. Net Financing Requirement (NFR)	113.8	147.1
2. - Exchange differences	-3.7	38.8
- Capitalisation of interest	17.2	9.6
- Operations with the IMF	-13.5	55.5
- Miscellaneous (correction of issue and exchange differences)	-77.3	-24.6
- Capital gains on gold	-89.0	0
3. Debt taken over	0	10.7
4. Effective variation of the net debt (1+2+3)	-52.5	237.1
5. Net exposure (a)	9710.9	9948.1
6. Net increase in Debt in %	-0.54 %	2.44 %
7. Exposure on Treasury management operations (a)	47.4	6.0
8. Gross exposure [(5)+(7)]	9758.3	9954.1
9. Exposure on main debt instruments		
A. In EUR/BEF:		
- Linear bonds	5668.7	6377.1
- Traditional issues	1459.9	1287.7
- State notes	156.5	198.2
- Treasury certificates (net exposure) (b)		
- 3 months	570.7	199.1
- 6 months	207.4	353.9
- 12 months	668.2	618.7
- "Belgian Treasury Bills" in EUR/BEF	50.8	34.7
- Private, interbank and miscellaneous issues	275.0	324.0
- Funded debt in former euro-zone currencies	315.9	139.5
Total :	9373.1	9532.9
As a % of total debt in EUR/BEF		
- Linear bonds	60.48 %	66.90 %
- Traditional issues	15.58 %	13.51 %
- Treasury certificates	15.43 %	12.29 %
- Others (including State notes)	8.52 %	7.30 %
B. In foreign currencies		
- funded (EMTN + long term)	366.3	339.5
- floating	18.9	81.7
Total :	385.2	421.2

	1998	1999
10. Distribution by currency		
A. Domestic debt	9373.0	9532.9
- In funded and floating EUR/BEF	9057.2	9393.4
- in other euro-zone currencies	315.8	139.5
B. In foreign currencies	385.3	421.2
As a % of total gross exposure		
- EUR/BEF	96.05 %	95.77 %
- In foreign currencies	3.95 %	4.23 %
11. Distribution according to maturity on issue as a % of total gross exposure		
- long and medium term (>1 year)	82.49 %	84.37 %
- short term (<1 year)	17.51 %	15.63 %
12. Distribution according to the rate as a % of the total gross exposure		
- Fixed rate	80.8 %	84.1 %
- Variable rate	19.2 %	15.9 %
13. - Debt duration in BEF and EUR	3.96	3.80
- Debt duration in non-euro currencies	2.38	1.98
14. Federal State interest charges (c)	607.6	586.9
15. Weighted average interest rate	6.5 %	6.3 %
16. GDP	9088.9	9394.8
17. Ratio of federal State NFR/GDP in %	1.25 %	1.56 %
18. Ratio of federal interest charges on federal expenditure in %	36.5 %	35.6 %
19. Debt ratio for all public authorities (as a % of GDP)	117.4 %	114.4 %

(a) The difference between gross and net debt exposure (i.e. BEF 6 billion at the end of 1999) results, on the one hand, from the deduction of temporary investments made during treasury management operations (BEF 3 billion on 31 December 1999) and, on the other hand, of financing allocated by the Treasury to the Securities Regulation Fund (BEF 3 billion on 31 December 1999) on the basis of Article 30 of the law dated 2 January 1991.

(b) Net TC exposure = difference between the nominal sum issued and the discounted interest.

(c) Excluding capitalised interest (exchanges); this sum has been corrected by issue and exchange premiums distributed pro rata temporis over the durations of the issues concerned.

- in 1995, it comprised a gain of BEF 115 million.
- 1996: a gain of BEF 1 089 million.
- 1997: a gain of BEF 5 095 million.
- 1998: a gain of BEF 10 223 million.
- 1999: a gain of BEF 19 123 million.

Table 2: The principal debt-related figures (in billions of EUR or as a %, on 31 December).

	1998	1999
1. Net Financing Requirement (NFR)	2.82	3.65
2. - Exchange differences	-0.09	0.96
- Capitalisation of interest	0.426	0.239
- Operations with the IMF	-0.33	1.38
- Miscellaneous (correction of issue and exchange differences)	-1.916	-0.611
- Capital gains on gold	-2.206	0
3. Debt taken over	0	0.27
4. Effective variation of net debt (1+2+3)	-1.30	5.88
5. Net exposure (a)	240.727	246.608
6. Net increase in debt in %	-0.54 %	2.44 %
7. Exposure on Treasury management operations (a)	1.175	0.148
8. Gross exposure [(5)+(7)]	241.90	246.75
9. Exposure on the main debt instruments		
A. In EUR/BEF :		
- Linear bonds	140.52	158.08
- Traditional issues	36.1899	31.924
- State notes	3.8795	4.913
- Treasury certificates (net exposure) (b))		
- 3 month	14.147	4.935
- 6 month	5.14	8.774
- 12 month	16.56	15.338
- "Belgian Treasury Bills" in EUR/BEF	1.259	0.861
- Private, interbank and miscellaneous issues	6.817	8.037
- Funded debt in former euro-zone currencies	7.83	3.46
Total :	232.35	236.31
As a % of the total debt in EUR/BEF		
- Linear bonds	60.48 %	66.90 %
- Traditional issues	15.58 %	13.51 %
- Treasury certificates	15.43 %	12.29 %
- Others (including State notes)	8.52 %	7.30 %
B. In foreign currencies		
- funded (EMTN + long term)	9.08	8.42
- floating	0.468	2.024
Total :	9.55	10.44

	1998	1999
10. Distribution by currency		
A. Domestic debt	232.35	236.32
- funded and floating in EUR/BEF	224.52	232.86
- in other euro-zone currencies	7.828	3.458
B. In foreign currencies	9.55	10.441
As a % of the total gross exposure		
- EUR/BEF	96.05 %	95.77 %
- In foreign currencies	3.95 %	4.23 %
11. Distribution according to maturity on issue as a % of total gross exposure		
- long and medium term (>1 year)	82.49 %	84.37 %
- short term (<1 year)	17.51 %	15.63 %
12. Distribution according to the rate as a % of the total gross exposure		
- Fixed rate	80.8 %	84.10 %
- Variable rate	19.2 %	15.90 %
13. - Duration of debt in BEF and EUR	3.96	3.80
- Duration of debt in non-euro currencies	2.38	1.98
14. Federal State interest charges (c)	15.06	14.57
15. Weighted average interest rate	6.5 %	6.3 %
16. GDP	225.31	232.89
17. Ratio of federal State NFR/GDP in %	1.25 %	1.56 %
18. Ratio of federal interest charges compared with federal expenditure in %	36.5 %	35.6 %
19. Debt ratio of all public authorities (as a % of GDP)	117.4 %	114.4 %

(a) The difference between gross and net debt exposure (i.e. EUR 148 million at the end of 1999) results on the one hand from the deduction of temporary investments made as part of Treasury management operations (EUR 74 million on 31 December 1999) and, on the other hand, financing allocated by the Treasury to the Securities Regulation Fund (EUR 74 million on 31 December 1999) on the basis of Article 30 of the law dated 2 January 1991.

(b) Net TC exposure = difference between the nominal sum issued and discounted interest.

(c) Excluding capitalised interest (exchanges); this sum has been corrected to take account of issue and exchange premiums distributed pro rata temporis over the durations of the issues concerned.

- in 1995, this represented a gain of EUR 3 million.
- 1996: a gain of EUR 27 million
- 1997: a gain of EUR 126 million
- 1998: a gain of EUR 253 million
- 1999: a gain of EUR 474 million

SECTION 1

TRANSITION TO THE EURO

1999 was marked by a totally successful transition to the use of the euro on 1 January. Linear bonds and Treasury certificates, which represent the major public debt component, were converted into euros. This changeover profoundly altered the State's position as a sovereign issuer, placing it in competition in its own market with other euro-zone sovereign issuers. However, the euro also enabled the Treasury to access a particularly liquid market that allowed it to place its products well beyond the Belgian market. The wider market led to the establishment of a greater balance between supply and demand for State-debt securities, with the result that interest rates on the short-term segment decreased at the beginning of the year under review.

In terms of public-debt management, the wider market expanded the availability of financial instruments such as derivatives, which helped to reduce financing costs while diversifying debt ownership. Furthermore, Treasury management based on a benchmark debt portfolio became a source of transparency and therefore represented a competitive advantage in the euro environment.

The euro also offered investors enormous advantages by removing exchange risks between various national currencies, reducing interest-rate volatility and offering a stable macro-economic framework.

The following section deals, in particular, with market organisation, re-denomination of State debt, electronic trading systems as well as management of professional and system resources.

1. MARKET ORGANISATION

Various euro working groups began to meet in 1997 to formulate recommendations on market organisation. Of these, the FINEURO group's proposals covered market conventions among other areas. The system thus changed from a 30/360 base to an actual/actual base for calculating capital-market interest and from an actual/365 base to actual/360 for the money market on January 1 1999. The FINEURO group's recommendations were mainly incorporated into the law dated 30 October 1998 on the euro and, more specifically, in the case of State debt, into the Royal decree dated 26 November 1998 implementing this law.

Furthermore, the Treasury studied the technical aspects of the public-debt securities market along with the primary dealers in preparation for the advent of the euro. More particularly, it dealt with the organisation of the primary and secondary OLO and TC markets, securities exchanges and clearing structures. This led to the adoption of various concrete measures such as the announcement of a set of amounts to be issued before OLO and TC tendering in order to increase transparency, gradual reduction of the number of OLO and TC lines used in order to achieve greater volume per line, and standardised coupon dates to enhance liquidity. Recourse to the use of syndication in certain OLO issues also contributed to meeting this liquidity objective in the euro environment.

The Treasury also set up a new group of primary dealers to improve market organisation at the end of 1998. The creation of this group of euro-primary dealers was formalised at the start of 1999 by the signature of the latest Code of Duties for Primary Dealers in Belgian Treasury Securities, which takes account of the new euro environment. The primary dealers, who are more diverse geographically, were selected on the basis of the following criteria:

- strategy developed in the euro zone and, in particular, in the area of government debt,
- financial solidity,
- management quality and experience.
- operations in the Belgian State debt market,
- services rendered to the Treasury and quality of the existing relationship,
- interest shown by the institution in primary dealer status as well as the quality and originality of its presentations,
- the Treasury's interest in the applicant's regional specialisation.

This new group of primary dealers combines globally-oriented investment institutions with more regionally-oriented organisations (i.e. those operating in some European markets) in a balanced manner. Their main function is to ensure the competitive presence of the Treasury's euro products in Belgium and the main European financial markets.

At the end of 1998, the Treasury also selected a group of recognised dealers. Unlike primary dealers, these do not bear an obligation to achieve minimum shares in the primary and secondary markets for public debt securities. Recognised dealers must promote the placement of Treasury instruments in regions where demand for Belgian securities is low, non-existent or where it could be improved. The signature of a specific code of duties formalised the creation of this group of recognised dealers.

The Treasury therefore now has a placement and trading network for public debt securities with top-rank domestic, regional and global institutions at European and international level in the new euro environment.

2. RE-DENOMINATION

The recommendations of the FIN EURO working group on re-denomination (or conversion) of the dematerialised debt into euros, in keeping with the national changeover plan, were legally implemented by the provisions described in the previous section, i.e. the law dated 30 October 1998 on the euro and the Royal decree dated 26 November 1998.

Debt was re-denominated by converting it into euros up to two decimal places, line by line, and account by account. This prevented any cash transfers due to possible rounding (which was considered too troublesome by the banking system given the relatively few accounts to be processed in the Belgian system).

Linear bond re-denomination affected both instruments issued in Belgian francs and those issued in French francs and deutschmarks before 31 December 1998 as part of a move towards Europeanising Belgian State debt. Converging OLOs could be converted because Germany and France had taken the measures necessary to re-denominate their own debt.

Technically speaking, the National Bank of Belgium's securities clearing system automatically converted the sums in accounts listed in its system into euros for each of its participants by category of securities registered under a single ISIN code number on January 2 1999. For their part, the account keepers converted each of their customers' accounts using the same methodology.

The extremely slight differences due to totalling rounded figures (e.g. 41.03 euros for the linear-bond total) between the amounts converted by the account keepers and converted global customer accounts in the securities clearing system were borne by the Treasury, which consequently adjusted circulation of the re-denominated securities. All the conditions for successful re-denomination were therefore created and effectively met the interests of the Treasury, financial intermediaries and especially investors. The stock exchange government bond market and the off-stock exchange secondary market in linear bonds, stripped securities and Treasury certificates were able to operate in euros smoothly from 4 January 1999.

A purely voluntary system was also set up to enable investors to round the sums held in accounts to one thousand euros, the minimum unit for a stock exchange transaction. It enables them to sell compensation balances of up to 999.99 euros to the Securities Regulation Fund, the market regulation body. This institution then centralises all compensation balances and re-injects them into the market.

The Treasury also took the steps required to re-denominate Belgian franc and deutschmark Treasury bills governed by the Ministerial decree dated 6 July 1998. However, the potential for direct refinancing in euros from 1 January 1999 made this re-denomination operation superfluous. In contrast, the Treasury re-denominated Treasury certificates issued to pay for Belgium's financial support of international institutions of which it is a member in June 1999 in agreement with these institutions.

Materialised debt has not, however, been re-denominated as yet, in compliance with FINEURO's recommendations.

Linear bonds and Treasury certificates have only been issued in euros since the start of 1999, thus enabling the Treasury to supply the euro markets set up with debt in the new currency arising from the re-denomination operation on 2 January 1999.

Finally, it should be noted that the Treasury has decided not to re-denominate private issues or those covered by bearer securities issued in deutschmarks, French francs and Dutch guilders, in order to avoid a wide range of legal and technical difficulties as well as the costs associated with a re-denomination of this type abroad.

3. INCORPORATION OF OLO BENCHMARKS INTO THE EURO-MTS ELECTRONIC TRADING SYSTEM AND THE ESTABLISHMENT OF THE MTS-BELGIUM ELECTRONIC TRADING SYSTEM

The Treasury and primary dealers have exchanged views on numerous occasions concerning the usefulness and implementation of an electronic trading system for Belgian public securities aimed at certain professional market players, and covering trading in the secondary market off the stock exchange. This type of electronic trading platform has been used in Italy for the past ten years ("Societa per il Mercato dei Titoli di Stato SpA": "MTS SpA").

The platform in question led to the creation of EuroMTS in London in 1999 where EU Member State reference issues that fulfil certain conditions (exposure, issues, etc.) are traded. While EuroMTS began with German, French and Italian reference issues, these countries have been joined by the Netherlands, Belgium (5 OLO lines listed), Austria, Portugal and Spain since the start of summer 1999.

MTS was adopted in different countries where domestic MTS systems had already been or were in the process of being set up (the Netherlands, Portugal, France and Belgium). As such, these domestic MTS systems are aimed at processing the complete curve rather than just reference issues. In Belgium, the decision to select an MTS platform was mainly based on the following factors:

- MTS was the only electronic inter-broker system which was already operational on the European bond market,
- MTS is the only system involving an obligation by market makers to display prices,
- MTS is a pan-European platform: national platforms can be linked both to EuroMTS and among themselves, which makes it possible to create parallel listings.

The objective is to make the Belgian public securities trading system operational as quickly as possible. In practice, it is intended to set up a Belgian-law based company, MTS Belgium, which will acquire a right to use MTS software and where the primary dealers and "MTS SpA" will be shareholders. Furthermore, the Minister of Finance has asked the Parliament to authorise the Belgian State to acquire a stake in the company in order to emphasise the importance it attaches to its establishment.

4. MANAGEMENT OF PROFESSIONAL RESOURCES AND SYSTEMS

A. THE DEBT AGENCY

In October 1998, a Debt Agency was set up within the Treasury Department to facilitate improved management of State debt within the context of the advent of the euro. This agency entered service gradually and became fully operational at the start of 1999. On this date, its structure comprised civil servants from the Treasury as well as financial and IT experts from the private sector.

The Debt Agency is responsible for formulating strategy and all operational aspects of public debt management. It comprises three departments: the front-office, which acts as a trading room, the middle-office, which develops the management strategy, controls risks, develops new products, takes care of the budget and documentation and implements financial projects via its specialist legal department, and finally the back-office, which confirms, processes and records the transactions initiated by the trading room while providing IT support. An Executive Committee does preparatory work for decisions made by the Strategy Committee, which is chaired by the Treasury's General Administrator and includes the Director General of the Treasury and Debt, the Auditor General of Debt as well as a person representing the Minister of Finance.

B. INTERNAL AUDIT

At the start of 1999, the Debt Agency's internal audit function was assigned to a specialist department in the Agency which carries out its activities in compliance with the international methodological and ethical standards generally recognised by the profession. More precisely, the Internal Audit department bases its approach on systems analysis and test execution. It tries to ensure that the internal audit function meets the scope covered by the latest definition of internal auditing while emphasising its quality maintenance and advisory functions.

1999 was marked, on the one hand, by the establishment of the Department and identification of the risks inherent in the Agency's various tasks and, on the other, by a focus on the Agency's operational organisation and procedures. Account was also taken of general financial and compliance risks within this context. Finally, the Internal Audit department helped to answer questions posed by external supervisory bodies.

The Internal Audit department can safely state that audit work was carried out within the Agency in a very constructive atmosphere and that all Agency staff demonstrated a clear willingness to control risks. It also noted that the Debt Agency seeks to achieve reasonable objectives relating to efficiency, effectiveness,

security, information accuracy and compliance with laws and regulations when performing its duties.

C. TRANSITION TO THE YEAR 2000 AND THE RECOVERY CENTRE

The Belgian authorities and players in the financial markets adopted the view that, while the transition to the year 2000 could create problems, it could also offer an opportunity to overhaul the general system.

From an organisational point of view, the so-called Y2K problem was approached at two levels, i.e. federal authority and Treasury level. The federal authorities selected technical experts to optimise methodology and control instruments. They also insisted on performing an inventory on systems that were potentially sensitive to the transition to the year 2000, obtaining a description of guarantees given by suppliers as well as nominating Y2K managers within the respective public service departments.

The Treasury department, which has powerful computer systems, became involved in initiatives by federal authorities and informed them regularly of progress on the "year 2000 project". In practice, the Treasury replaced or transformed certain equipment and applications and tested systems as well as measures to be taken in the event of a system crash.

The Debt Agency received very special attention due to its strategic importance. In particular, the objective was to maintain the reputation of Belgian public debt on financial markets where it has a constant presence. The risk of being confronted with Y2K type problems was relatively minimal, however, in view of the fact that the highly computerised operational systems were very modern. A multi-skilled working group identified the applications and resources likely to be influenced by the Y2K problem, decided on corrective measures, carried out tests, and generally monitored as well as co-ordinated the Y2K project. The implementation of the integrated on-line recording, market-transaction processing and risk supervision programme was not held up by the steps taken to eliminate the Y2K problem.

The millennium-related proposals were incorporated into the business continuity planning policy intended to cope with loss or partial/full breakdown of operational installations or Agency premises in the event of a disaster. It was therefore decided that the Agency should also have an alternative operating site outside the Treasury as a last resort. The approach of the millennium transition motivated accelerated implementation of this idea.

The alternative operating site had to be equipped with technical installations which could at least accommodate a front office. The National Bank of Belgium formed an ideal partner for reasons of physical and operational security as well as the accessibility of the State Cashier and market regulator (Securities Regulation Fund). The National Bank of Belgium responded favourably to the

request for cooperation and availability of the necessary facilities before the end of the year, while ensuring confidentiality and protection of Treasury and National Bank data as well as guaranteeing independence from the Bank's computer systems.

The efforts made to ensure that the millennium transition passed smoothly mean that the Treasury Department now has equipment and methods which are both reliable in terms of date recording (four figures and the year 2000 leap year) and guarantee much safer operation in the event of any type of catastrophe.

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SECTION 2

THE PRIMARY MARKET
FOR MEDIUM AND LONG-TERM
DOMESTIC DEBT

Medium and long-term debt in Belgian francs and euros mainly comprises linear bonds (OLOs), State notes, traditional general-public issues (such as "Philippe" issues) and, to a lesser extent, private issues. Private issues, mainly arising from third-party debt taken over by the State and concluded with a determined counter-party, have been falling constantly in number for the past few years. In 1999, they represented merely 0.54% of total domestic debt compared with 1.7% in 1997 and 0.9% in 1998. The most important of these issues in terms of volume in circulation are those issued for the purposes of restructuring national sectors, issues for the Fonds d'Aide au Redressement Financier des Communes (Fund 208) and issues made by Société Nationale de restructuration des Secteurs Nationaux (SNSN).

In terms of the rating applied to long-term debt, Moody's and Standard and Poor's have confirmed the rating assigned to the Kingdom of Belgium. It should be noted that these two rating agencies have decided to forgo the traditional distinction between ratings for domestic debt and those for foreign-currency debt, at least for EMU members. Thus, Belgium's long-term issues enjoy an Aa1 rating from Moody's and AA+ from Standard and Poor's and have stable prospects. These grades reflect the excellent performance of Belgium's public finances as well as the soundness of the country's fundamental economic structure.

Linear bonds have continued to grow in importance as a State financing instrument (see Graph 3). The relative share of overall funded domestic debt held by OLOs increased from 76.9% to 80.5% between 1998 and 1999. It should be noted that this rise was partially due to the incorporation of DEM and FRF converging OLOs into exposure for euro OLOs in January 1999. Exposure on traditional issues decreased significantly following repayments made on final maturity and an operation to exchange traditional issues for OLOs.

Graph 3: Exposure on public issues in BEF and EUR.

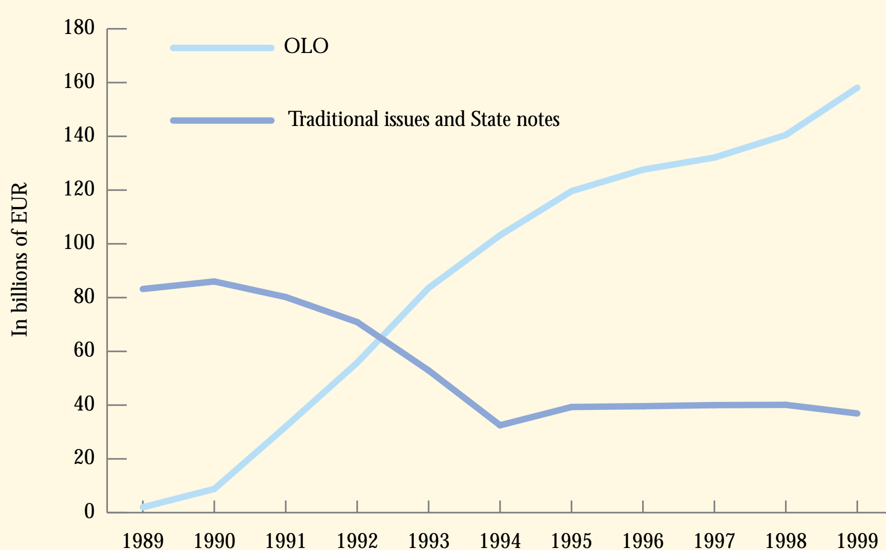


Table 3: Bond issues in BEF/EUR and exchange operations in 1999 (excluding syndicated issues).

LINEAR BONDS (in thousands of EUR)						
Tenders	**Volume issued**	**Exchanges**	**Volume issued**		**State notes (in millions of EUR)**	**Volume issued**
Olo 9% 2003	953500	Olo 9% 2003	325900	922/49	5 years extendable to 7 years - 3.35% 4 March 1999-2004-2006	129
Olo 8.75% 2002	684000	Olo 9% 2001	258000	923/50	3/5/7 reviewable rate and guaranteed minimum 4 March 1999-2002-2004-2006 (3.30%, 3.35%, 3.50%)	117.12
Olo 8% 2012	106300	Olo 8.50% 2007	521800	924/51	5 years extendable to 7 years - 3.30% 4 June 1999-2004-2006	115
Olo 6.50% 2005	589000	Olo 8.75% 2002	288000	925/52	3/5/7 reviewable rate and guaranteed minimum 4 June 1999-2002-2004-2006 (2.90%, 3.25%, 3.75%)	65.07
Olo 7.75% 2004	417400	Olo 8% 2012	876100	926/53	5 years extendable to 7 years - 4.35% 4 September 1999-2004-2006	221.5
Olo 7% 2006	210000	Olo 7.50% 2008	657000	927/54	3/5/7 reviewable rate and guaranteed minimum 4 September 1999-2002-2004-2006 (3.80%, 4.30%, 4.90%)	128
Olo 5.75% 2008	334900	Olo 6.50% 2005	665000	928/55	5 years extendable to 7 years - 4.55% 4 December 1999-2004-2006	128
Olo 5.50% 2028	643300	Olo 8% 2015	468100	929/56	8 years - 5.05% 4 December 1999-2007	130.75
Olo 3.75% 2009	5804900	Olo 7% 2006	630400			
Olo 4.75% 2005	951800	Olo 5% 2001	288500			
		Olo 6.25% 2007	140900			
		Olo 5.75% 2008	453200			
		Olo 5.50% 2028	1212000			
		Olo 3.75% 2009	489000			
		Olo 4.75% 2005	253000			
TOTAL :	**10695100**	**TOTAL:**	**7526900**	**TOTAL:**		**1034.44**

1. LINEAR BONDS

A. Issues and syndicated operations

No change was made at a regulatory level in 1999. In contrast, the method for issuing linear bonds was modified significantly following recourse to the use of syndication for the launch of new lines and primarily for the launch of a new 10-year reference bond in January 1999. Whilst this method had admittedly been used in 1997, it remained marginal due to the fact that it merely concerned converging OLOs denominated in DEM and FRF, whereas the BEF line to which they were linked was issued via the traditional tendering process.

Why syndication? The Treasury has decided to use syndication rather than tendering over the past year to launch its new 5-year, 10-year and floating rate lines so that it can position itself better in the large integrated euro market. The first new 10-year benchmark OLO denominated in euros was thus issued in January 1999 via a syndicate in which all primary and recognised dealers were invited to participate, either as a joint-leader, co-leader or co-manager. This change of issuing strategy was intended to:

- create a high degree of liquidity immediately,
- ensure a global, diverse placement,
- attract new investors who had never previously invested in Belgian State securities,
- maintain control of the development of OLO spreads compared with those for bonds issued by other sovereign issuers when major volumes were being issued,
- gather all the primary and recognised dealers together in support of a joint plan.

These objectives were reached with the first syndication.

The first OLO 32 issue amounted to EUR 5 billion and was received favourably by investors. The immediate creation of an important line was crucial for the establishment of a liquid secondary market and enabled the Treasury to position itself relative to instruments issued by other countries in the euro zone. The line was then increased by the traditional tender method to expand liquidity even further. At the end of December 1999, the sum circulating on this OLO amounted to EUR 11.3 billion.

The Treasury was also able to involve 400 investors distributed across the world as follows in this syndicated issue:

- 24% in Belgium,
- 51% in other euro-zone countries,
- 16% in Europe outside the euro-zone,
- 8% in South-East Asia and Japan,
- and finally, 1% in the United States.

Graph 4: Monthly OLO tenders in 1999.

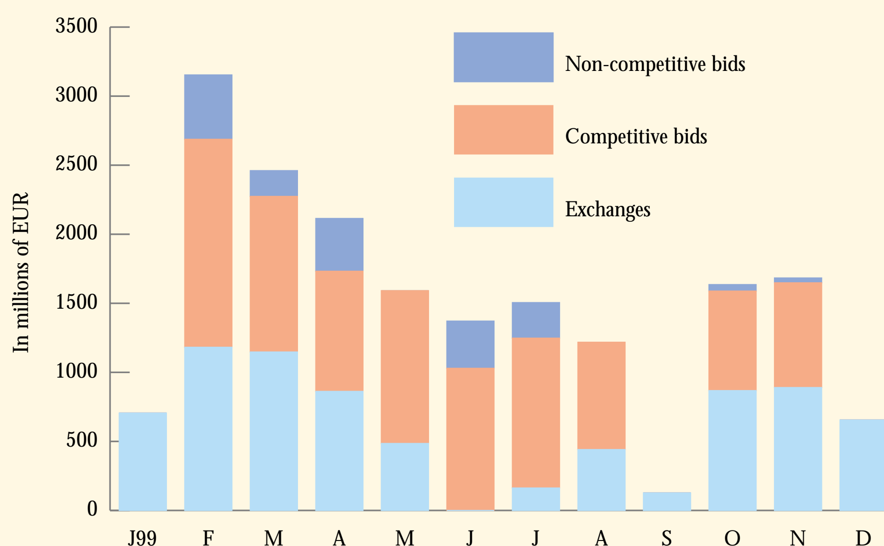
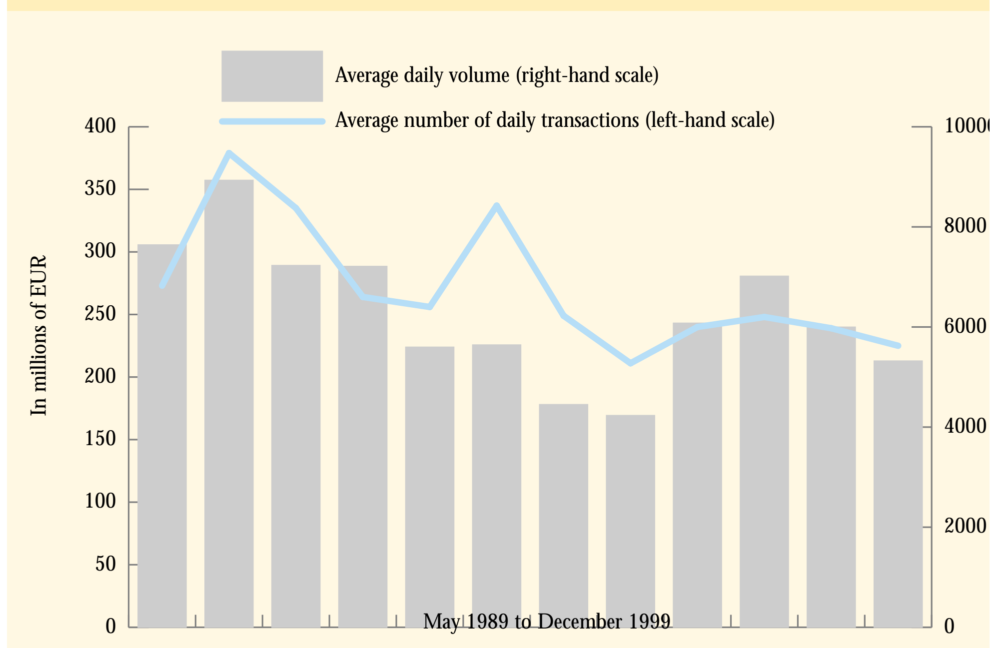


Table 4: OLO exposure at the end of December 1999 (in thousands).

		In BEF	In EUR
OLO 3	10% - 2 August 2000 (code 247)	187 239 852.700	4 641 554.706
OLO 6	9% - 28 March 2003 (code 251)	501 860 868.142	12 440 805.955
OLO 7	9% - 27 June 2001 (code 252)	330 477 694.238	8 192 328.048
OLO 9	8.50 % - 1r October 2007 (code 257)	329 434 359.820	8 166 464.464
OLO 10	8.75% - 25 June 2002 (code 259)	442 885 382.835	10 978 841.862
OLO 12	8% - 24 December 2012 (code 262)	269 534 917.754	6 681 596.081
OLO 14	7.25% - 29 April 2004 (code 265)	433 540 000.033	10 747 175.874
OLO 16	7.50% - 29 July 2008 (code 268)	335 868 314.304	8 325 958.029
OLO 19	6.50% - 31 March 2005 (code 273)	387 841 234.587	9 614 333.069
OLO 20	7.75% - 15 October 2004 (code 275)	220 152 874.280	5 457 447.199
OLO 21	7.75% - 22 December 2000 (code 278)	278 500 000.034	6 903 834.666
OLO 23	8% - 28 March 2015 (code 282)	211 683 107.191	5 247 487.158
OLO 24	7% - 15 May 2006 (code 283)	330 151 652.073	8 184 245.674
OLO 25	5% - 28 March 2001 (code 285)	318 993 061.144	7 907 631.431
OLO 26	6.25% - 28 March 2007 (code 286)	335 128 891.989	8 307 628.229
OLO 27	4% - 22 January 2000 (code 287)	19 366 921.422	480 093.442
OLO 28	5.75% - 28 March 2008 (code 288)	487 071 889.076	12 074 196.740
OLO 31	5.50% - 28 March 2028 (code 291)	251 492 617.313	6 234 339.136
OLO 32	3.75% - 28 March 2009 (code 292)	455 594 796.610	11 293 900.000
OLO 33	FRN - 22 April 2002 (code 293)	80 679 800.000	2 000 000.000
OLO 34	4.75% - 28 September 2005 (code 294)	169 621 211.500	4 204 800.000
	Total:	**6 377 119 447.065**	**158 084 661.763**

Graph 5: Development of OLO exposure from May 1989 to December 1999.



A demand for floating-rate sovereign paper emerged in April. The Treasury therefore decided to occupy this niche by issuing a new 3-year EUR 2 billion Floating Rate Note OLO with an interest rate based on 3-month euribor via a syndicate. Once again, the main objective of using syndication was to access the greatest possible range of investors, while guaranteeing an interesting issue price comparable to that of Treasury certificates. This OLO was mainly placed with central banks (44.5%), investment funds (16.5%) and the treasuries of commercial banks as part of their liquid asset management operations (35%). The placement was also international in this instance: 52% in continental Europe, 31% in the United Kingdom and 9% in Asia. The FRN OLO was swapped at a fixed rate on issue, in compliance with the rate risk management objectives contained in the "General Guide-lines" (GGs). This operation shows that domestic-debt rate risk management can now benefit from use of derivatives traded in the euro market. An operation of this type would have been much more difficult in the significantly more restricted market for BEF rate swaps.

For the same reasons referred to during the issue of the 10-year benchmark, syndication was again used in September for the issue of a new 5-year benchmark bond with maturity on 28 September 2005. This third syndication (EUR 3 billion) was distributed geographically as follows: 28% in Belgium, 58% in the euro zone, 11% in Europe outside the euro zone and 3% in South-East Asia and Japan. This line was also increased via the tendering process after its launch. Exposure amounted to EUR 4.2 billion at the end of December 1999.

In 2000, tenders have now been organised on a bi-monthly basis, except when syndication occurs, in which case the planned tender is cancelled. Reducing the number of tenders is intended to increase the size of each individual operation.

Greater-volume tenders in the euro market, where competition from other sovereign issuers is significant, are more likely to attract the attention of primary dealers and investors who have a better opportunity of seeing their requirements met at the proposed price.

A nominal total of EUR 28.22 billion was issued on the primary market for linear bonds in 1999. This sum comprised tenders (EUR 10.69 billion, representing 38% of the total amount issued), exchange operations (EUR 7.53 billion, representing 27% of the total issued) and syndicated issues (EUR 10 billion, representing 35% of the total issued). In 1998, the nominal total issued was 17% lower (EUR 23.32 billion) than the figure for 1999, with this breaking down into 57% in monthly issues (EUR 13.23 billion) compared with 43% in exchange operations (EUR 8.53 billion).

B. EXCHANGE OFFERS

The predetermined-price exchange operations affected five OLO lines and a "Philippe" issue approaching their final redemption dates.

These exchange operations enabled the Treasury to withdraw a nominal sum of EUR 8.286 billion in bonds approaching final maturity from circulation and to issue a total of EUR 7.527 billion in other lines with maturities varying between 2001 and 2028.

Exposure on the three lines whose final maturity was set in 1999 altered from EUR 4.005 billion to EUR 1.577 billion (TVR - 16 March 1999), from EUR 9.525 billion to EUR 3.240 billion (7% - 29 April 1999) and from EUR 2.266 billion to EUR 772 million (8.25% - 1 June 1999) respectively. EUR 10.207 billion (almost 65% of the sum issued), distributed over 1998 and 1999, was therefore amortised via exchange operations. In comparison, 73% of the outstanding exposure on the line reaching final maturity in 1998 was amortised using exchanges that year.

In terms of the OLO lines and Philippe bond reaching final maturity in 2000, exposure on 31 December 1999 was already down by 86% for the 22 January line (EUR 2.875 billion out of EUR 3.356 issued), by 15% for 2 August (EUR 844 million out of the EUR 5.485 billion issued) and by 12% for the 1993-June 2000 7% bond (EUR 719 million out of EUR 5.633 billion in circulation before exchanges), again as a result of exchanges. In terms of comparison once again, exposure for the two lines reaching final maturity in 1999 had already been reduced by 47% and 57% respectively at the end of 1998.

Table 5: OLOs issued during exchange operations in 1999 (in thousands of EUR).

OLO	JAN	FEB	MAR	APR	MAY	JUNE	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
5% 2001-285	75 500			213 000									288 500
9% 2001-252			258 000										258 000
8.75% 2002-259			165 000	10 000	23 700			50 000	13 800	25 500			288 000
9% 2003-251	2 500	168 100								55 300	100 000		325 900
7.25% 2004-265													-
7.75% 2004-275													-
4.75% 2005-294											183 000	70 000	253 000
6.50% 2005-273	187 400	75 600		190 000	155 000			16 000		41 000			665 000
7%2006-283	23 900		101 500	149 100	91 600		162 800	42 500	25 000	15 000		19 000	630 400
6.25% 2007-286	5 000	52 000	5 000						12 500	65 000	1 400		140 900
8.50% 2007-257			156 000	140 000	39 300			65 000	37 500	84 000			521 800
5.75% 2008-288		89 000			75 000					200	126 000	163 000	453 200
7.50% 2008-268		535 000	25 000								62 000	35 000	657 000
3.75% 2009-292									38 700	169 200		281 100	489 000
8% 2012-262	43 700	67 500		36 200						412 700	278 500	37 500	876 100
8% 2015-282	32 500	58 500	64 000	123 900							139 200	50 000	468 100
5.50% 2028-291	335 000	136 000	373 000		100 500			267 500					1 212 000
TOTAL	**705 500**	**1 181 700**	**1 147 500**	**862 200**	**485 100**	**0**	**162 800**	**441 000**	**127 500**	**867 900**	**890 100**	**655 600**	**7 526 900**

Table 6: OLOs withdrawn during exchange operations in 1999 (in thousands of EUR).

OLO	JAN	FEB	MAR	APR	MAY	JUNE	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
TVR 99-272	225 163.00	1 245 678.45	957 066.75										2 427 908.2
7%-99-264	550 246.55	202 156.00	334 222.00	740 260.95									1 826 885.5
4% 00-287				244 058.75	327 425.8		179 894	440 560.5	131 696.7	686 932.7	235 372.25	629 824.45	2 875 765.15
8.25% 99 -239					200 549.1								200 549.1
10% 00 - 247										130 652.25	713 552.8		844 205.05
7% 00 - 267										110 922.6			110 922.6
TOTAL	**775 409.55**	**1 447 834.45**	**1 291 288.75**	**984 319.7**	**527 974.9**	**-**	**179 894**	**440 560.5**	**131 696.7**	**928 507.55**	**948 925.05**	**629 824.45**	**8 286 235.6**

C. LINEAR BOND STRIPPING

In 1999, the Treasury authorised the stripping of line 3.75% - 28 March 2009, thus raising the number of strippable lines to eight.

Stripping and regrouping operations in 1999 affected a total of EUR 379.8 million, distributed as follows:

28 March 2001: 10
28 March 2003: 31
28 March 2007: 138
1 October 2007: 17
28 March 2008: 59
28 March 2009: 38
28 March 2015: 40
28 March 2028: 64.8

This represents EUR 398.6 million less than in 1998, despite the addition of a new line.

On 31 December 1999, the stripped securities total amounted to EUR 3337.5 million (i.e. 4.69% of total exposure on the eight lines) distributed as follows:

28 March 2001: 170.7 (representing 2.16% of total exposure for the line)
28 March 2003: 762.4 (6.13%)
28 March 2007: 355.4 (4.28%)
1 October 2007: 1615.5 (19.78%)
28 March 2008: 84.2 (0.71%)
28 March 2009: 38.0 (0.35%)
28 March 2015: 119.2 (2.29%)
28 March 2028: 192.1 (3.08%)

Compared with 1998, the primary strips market increased relative to the overall strips market from a nominal sum of EUR 3 240 million to EUR 3 337.5 million. This increase should, however, be seen in perspective, given that on 31 December 1998 the strips figure represented 6.4% of overall exposure on the seven lines whereas at the end of December 1999 it only accounted for 4.69% on eight lines. This situation seems to have resulted from the lack of liquidity characterising the OLO strips market. This phenomenon is not specifically linked to the Belgian market and exists in all countries in the euro zone. The main reason for investors' lack of interest in strips seems to be the low level of long-term rates.

2. STATE NOTES

State notes, which have been issued since June 1996, are fixed income instruments aimed mainly at Belgian citizens.

The Treasury organised four State note issues in 1999, as it does every year.

A. CLOSE OF THE 1998-1999 ISSUE YEAR

The 4 March 1999 issue closed the third issue year.

On this occasion, a State note was issued for the first time in euros. The bearer securities were represented by EUR 200, EUR 1000, EUR 2000 and EUR 10000 denominations.

The euro 5-year State note (extendable to 7 years) or 5/7 State note (4 March 1999-2004-2006) is a fixed income security with annual 3.35 % coupons. While it has 5-year duration, an extension option allows savers to waive repayment and to maintain their investment at the same 3.35 % interest rate for a further two years. It was issued at 99.75% of its nominal value. This State note can be redeemed at par on either 4 March 2004 or 4 March 2006.

The subscription total amounted to EUR 129 million.

For its part, the guaranteed-minimum reviewable-rate 3/5/7 State note or 3/5/7 State note (4 March 1999-2002-2004-2006) was issued in Belgian francs. It has an annual coupon of 3% for the first three years. A minimum interest rate of 3.35 % for the following two years and 3.50 % for the final two years is guaranteed. The actual interest rate for the final two periods will be set on the basis of the two-year average actuarial yield rate for linear bonds.

Aside from this guarantee of a minimum income, the holder has two put options: he can claim repayment of capital at par on 4 March 2002 or 4 March 2004.

This State note enabled the Treasury to raise BEF 4.725 billion.

A total of BEF 57 728 847 100 (equivalent to EUR 1.43 billion) was issued during this third year of business, i.e. BEF 28 578 847 100 in 5-year State notes (extendable to 7 years) and BEF 29 150 000 000 in guaranteed-minimum reviewable-rate 3/5/7 State notes. The following table provides an overview of the conditions set for 1998/1999 and the results achieved.

Table 7: State note issues for the 1998-1999 campaign.

1) 5-year State notes (extendable to 7 years)	Code	Coupon	Issue price	Sum expressed in BEF
4 June 1998-2003-2005	916/43	4.60 %	100 %	10 500 000 000
4 September 1998-2003-2005	918/45	4.20 %	100 %	8 325 000 000
4 December 1998-2003-2005	920/47	3.75 %	100 %	4 550 000 000
4 March 1999-2004-2006 émis in EUR (129 000 000 EUR)	922/49	3.35 %	99.75 %	5 203 847 100
Sub-total 1)				**28 578 847 100**
			Equal to EUR	**708 451 114**

2) BEF guaranteed-minimum reviewable-rate 3/5/7 State notes	Code	Coupon	Issue price	Sum expressed in BEF
4 June 1998-2001-2003-2005	917/44	4.20 % (1)		
		4.60 % (2)		
		5.00 % (3)	100 %	6 250 000 000
4 Sep. 1998-2001-2003-2005	919/46	4.00 % (1)		
		4.20 % (2)		
		4.50 % (3)	100 %	12 250 000 000
4 Dec. 1998-2001-2003-2005	921/48	3.50 % (1)		
		3.70 % (2)		
		4.00 % (3)	100 %	5 925 000 000
4 March 1999-2002-2004-2006	923/50	3.00 % (1)		
		3.35 % (2)		
		3.50 % (3)	99.75 %	4 725 000 000
Sub-total 2)				**29 150 000 000**
			Equal to EUR	**722 609 624**

Total issued during the 1998/1999 campaign: **in EUR 1 431 060 738**

B. FOURTH YEAR OF ISSUE

Nineteen placement banks and stockbrokers were selected to distribute State notes during the June, September, December 1999 and March 2000 issue operations in the 1999-2000 campaign (see annexes).

The placing institutions estimated their placement capacity at a total of BEF 47.4 billion (EUR 1.17 billion) for the four issues organised during the campaign.

The State issued four new 5/7 State notes, two new 3/5/7 State notes and two new 8-year State notes during the 1999-2000 campaign.

The following table summarises the conditions for the 1999/2000 campaign and its results.

Table 8: June, September and December 1999 and March 2000 State note issues.

1) EUR 5-year State notes (extendable to 7 years)	**Code**	**Coupon**	**Issue price**	**Sum expressed in EUR**
4 June 1999-2004-2006	924/51	3.30 %	100.00 %	115 000 000
4 September 1999-2004-2006	926/53	4.35 %	100.25 %	221 500 000
4 December 1999-2004-2006	928/55	4.55 %	100.00 %	128 000 000
4 March 2000-2005-2006	930/57	5.10 %	100.00 %	271 900 000
Sub-total 1)				**736 400 000**

2) Guaranteed-minimum reviewable-interest 3/5/7 State notes	**Code**	**Coupon**	**Issue price**	**Sum expressed in EUR**
4 June 1999-2002-2004-2006	925/52	2.90 % (1)		
issued in EUR		3.25 % (2)		
		3.75 % (3)	100.00 %	65 072 050
4 Sep. 1999-2002-2004-2006	927/54	3.80 % (1)		
issued in EUR		4.30 % (2)		
		4.90 % (3)	100.00 %	128 000 000
Sub-total 2)				**193 072 050**

3) EUR 8-year State notes	**Code**	**Coupon**	**Issue price**	**Sum expressed in EUR**
4 Dec. 1999-2007	929/56	5.05 %	100.00 %	130 750 000
4 March 2000-2008	931/58	5.50 %	100.00 %	140.600 000
Sub-total 3)				**271 350 000**
Total issued during the 1999/2000 campaign:				**in EUR 1 200 822 050**

The 1999-2000 campaign which closed in March 2000 saw the gradual adoption of the euro as the issuing currency for State notes so that savers could become used to this new currency.

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SECTION 3

THE PRIMARY MARKET FOR SHORT-TERM DOMESTIC DEBT

1. TREASURY CERTIFICATES

A. DEVELOPMENT OF TREASURY CERTIFICATE EXPOSURE

In 1999, the overall Treasury certificate exposure moved downward until April, when exposure began to grow again until August. As in the previous year, the volumes in circulation did not decrease during the summer holiday period. Starting in August, overall exposure continued to decrease up to the end of the year in compliance with the General Guide-lines, and in accordance with the receipts profile as well as the trend for the Net Financing Requirement. This meant that it finally reached a level far below that of January (BEF 1 171.7 billion/EUR 29 billion compared with BEF 1 606.1 billion/EUR 39.8 billion at the start of the year). Furthermore, the use of syndication with linear bonds led to a reduction in the sums tendered on Treasury certificates at certain times. The elimination of the final certificate tender in December reflected this trend.

In terms of short-term maturities, the 3-month component decreased substantially during the year to reach 17% of all Treasury certificate exposure at the end of December 1999 (compared with 39.5% at the end of December 1998). In contrast, exposure on 6-month certificates increased to reach 30.2% of the total at the end of 1999 (compared with 14.3% in the previous year). For its part, the twelve-month segment fell in absolute terms while increasing its relative share of total exposure (52.8% of the total compared with 46.2% at the end of 1998) following a rise up to July.

Finally, the bid to cover ratio (i.e. the ratio between bids and the sums selected at tender sessions) on all Treasury certificates irrespective of maturity increased significantly within the new euro environment. The average total bid per tender rose from EUR 4.025 billion to EUR 6.099 billion from 1998 to 1999. The average sum raised per tender fell from EUR 2.034 billion to EUR 1.343 billion during the same period. This led to the average bid to cover ratio moving up from 2.5 to 6 between 1998 and 1999. In this period, the bid multiplication factor and issue reduction factor amounted to 1.5. These two factors therefore equally affected the increase in the bid to cover ratio. They also helped to improve Treasury performance during certificate tenders.

B. TREND FOR RATES

Short-term rates moved down at the start of the year before turning around and rising above their initial levels at the end of 1999. The drop (8 April) and rise (4 November) in key rates decided by the European Central Bank (ECB) generated the profiles for certificate rate trends (Graph 7). These movements were often anticipated by the market in the month preceding ECB decisions, particularly for the 3-month segment.

Table 9: Monthly distribution of floating debt components: monthly exposure in 1999 (in billions of BEF).

Month	MT (1)	CCP (2)	INT ORG (3)	NBB (4)	Interbank (5) + miscellaneous	Treasury certificates (6) 3 month	6 month	12 month	Total for new certificates	Treasury bills	Treasury (7) management operations	Total for (8) floating debt
D91	1.1	90.5	96.3	0.7	6.5	1095.6	233.7	388.9	1718.2	/	124.4	1788.9
D92	0.9	81.7	129.3	0.2	28.9	1267.0	129.3	286.5	1682.8	/	149.9	1773.9
D93	0.9	75.6	132.8	0.0	34.0	1123.5	131.9	203.6	1459.0	/	267.0	1435.3
D94	0.6	74.4	138.4	0.0	96.3	1013.8	402.7	464.3	1880.8	/	149.7	2040.8
D95	0.5	81.1	125.2	0.0	29.0	644.4	357.8	500.5	1502.7	/	8.7	1729.8
D96	0.4	82.3	123.0	0.0	7.7	827.5	295.0	536.8	1659.3	/	77.3	1795.4
D97	0.3	90.2	122.0	0.0	38.2	728.1	337.9	615.6	1681.6	/	42.5	1889.8
D98	0.3	26.9	108	0.0	57.8	570.7	207.4	668.2	1446.3	50.8	47.4	1642.7
J99	0.3	39.7	107.2	0.0	19.5	658.3	235.9	711.9	1606.1	15	26.4	1761.4
F	0.3	18.3	106.9	0.0	26.5	575.7	241.8	724.6	1542.1	18.3	212.6	1499.8
M	0.3	37.3	103.0	0.0	29.2	522.4	270.5	741.3	1534.2	70.9	47.8	1727.1
A	0.2	46.6	102.9	0.0	32.7	429.3	272.2	771.2	1472.7	60.1	111.2	1604.0
M	0.2	27.4	160.0	0.0	46.3	412.0	284.6	780.7	1477.4	72.1	51.8	1731.5
J	0.2	26.6	163.8	0.0	67.1	391.7	336.4	783.6	1511.7	57.6	5.6	1821.4
J	0.2	23.0	162.8	0.0	9.6	391.9	377.9	801.1	1570.9	33.9	92.9	1707.5
A	0.2	27.7	162.7	0.0	9.4	406.9	409.7	758.4	1575.0	81.7	116.7	1740.0
S	0.2	17.7	161.7	0.0	74.0	353.4	359.2	760.2	1472.8	56.9	184.6	1598.7
O	0.2	30.7	161.0	0.0	9.8	305.5	352.3	734.9	1392.7	41.8	81.6	1554.6
N	0.2	21.9	162.7	0.0	102.4	247.4	338.9	726.0	1312.3	18.4	31.1	1586.8
D	0.2	21.9	161.4	0.0	84.7	199.1	353.9	618.7	1171.7	34.7	6.0	1468.6

(1) Medium-term certificates issued by the Treasury
(2) Private investors' assets at CCP (postal giro accounts)
(3) Treasury certificates held in the portfolios of international organisations (issued without interest)
(4) Line of direct advances at the NBB (end of month, using State Cashier receipts)
(5) Loans and investments organised on the interbank market
(6) Certificates issued by tender after the reform dated 29 January 1991. The sum shown represents NET exposure booked by the Treasury, i.e. after deduction of discounted interest and repayments in the previous month. In the case of 3-month instruments this includes maturities under 3 months
(7) Operations carried out to balance the daily treasury. Treasury surplus from tax receipts or Treasury certificate issues
(8) Total floating debt (7) deducted

NB: Due to rounding, the totals may differ slightly from the sums listed in the monthly Public Debt positions.

Graph 6: Annual exposure on Treasury certificates (monthly from January 1999).

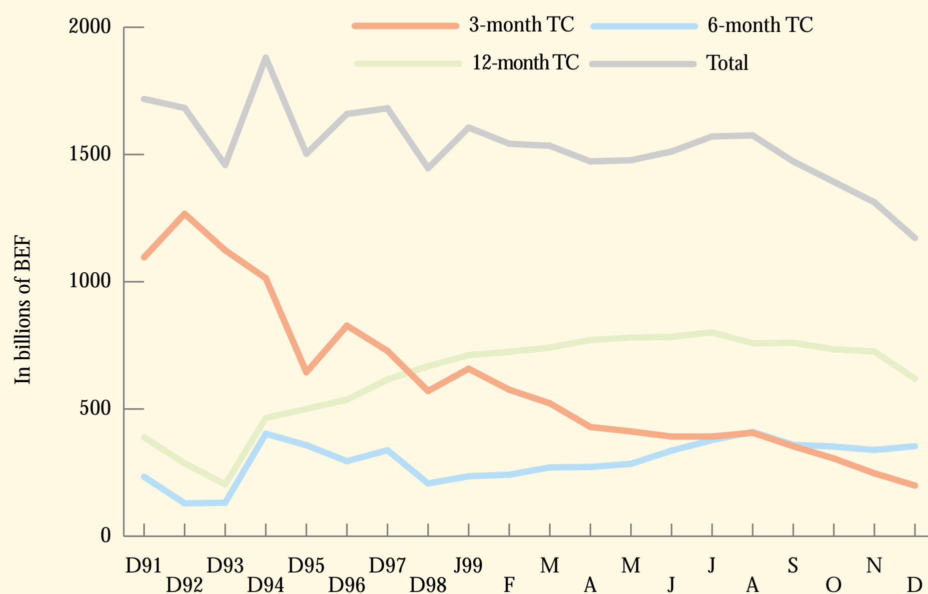


Table 10: Breakdown of Treasury certificate exposure (end of period) (in %).

	3 months	6 months	12 months
1991	63.8	13.6	22.6
1992	75.3	7.7	17
1993	77	9	14
1994	53.9	21.4	24.7
1995	42.9	23.8	33.3
1996	49.9	17.8	32.4
1997	43.3	20.1	36.6
1998	39.5	14.3	46.2
1999	17.0	30.2	52.8

Graph 7: Weighted average interest rates on 3, 6 and 12 month Treasury certificates in 1999.

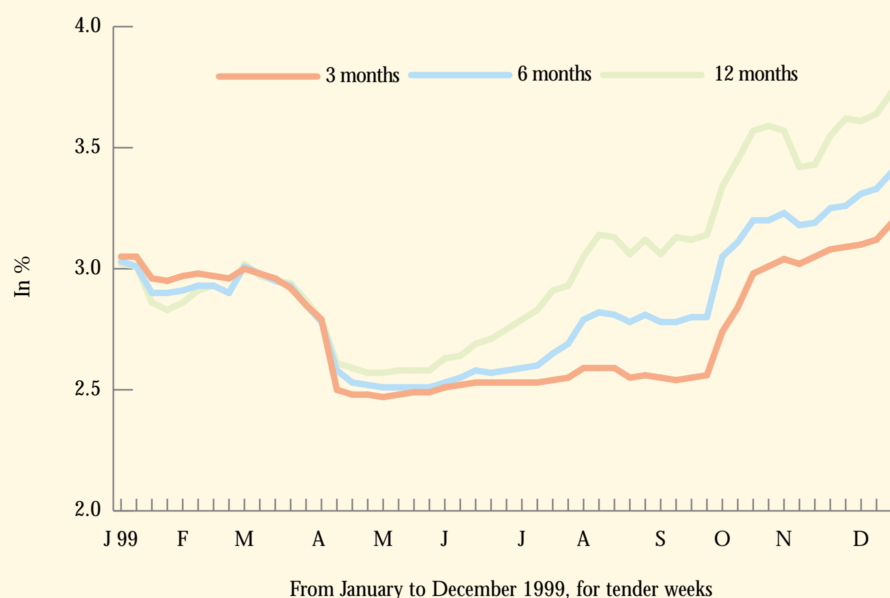


Table 11: Development of the weighted average for weighted average TC rates (annual base).

Maturities	3 months	6 months	12 months
Years			
1991	9.34%	9.38%	9.37%
1992	9.37%	9.19%	9.17%
1993	8.0%	7.43%	6.98%
1994	5.7%	5.83%	6.04%
1995	4.9%	4.89%	5.16%
1996	3.24%	3.29%	3.37%
1997	3.41%	3.47%	3.49%
1998	3.58%	3.59%	3.68%
1999	2.77%	2.84%	3.00%

C. TREND FOR SPREADS WITH EURIBOR

Graphs 8 to 10 show the 3, 6 and 12 month spread between the weighted average rate and EURIBOR.

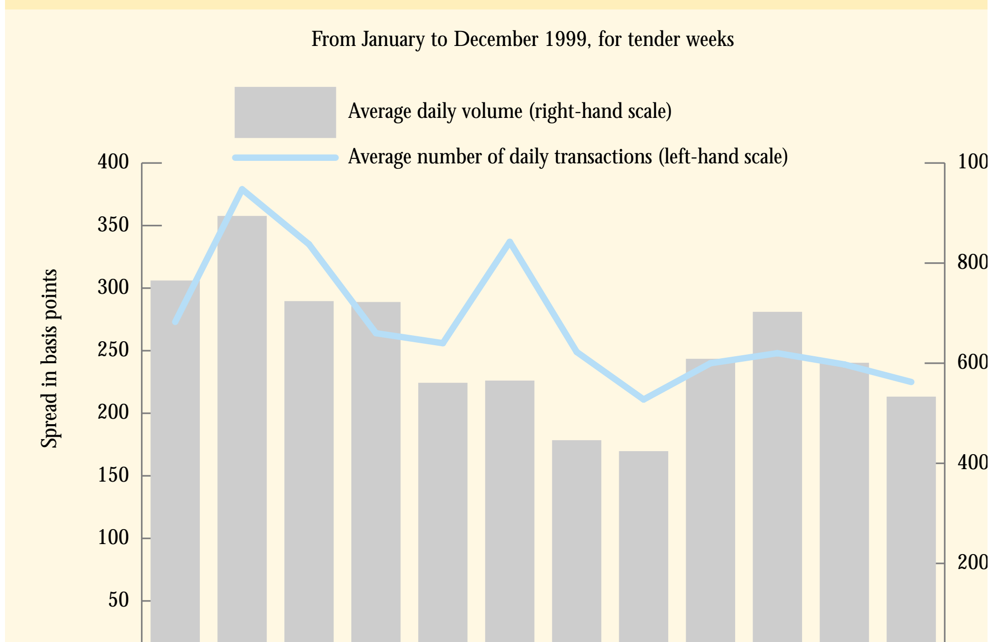
On average, spreads compared with EURIBOR were significantly greater in 1999 than those recorded in comparison with BIBOR in 1998. The 3-month spread achieved an average of -18.85 basis points in 1999 compared with -6.75 basis points in 1998. A peak of -51.2 basis points was even reached in October. The 6-month spread amounted to -18.61 basis points on average compared with -7.69 basis points in 1998. The 12-month spread reached an average of -14.61 basis points in 1999, which represented a very significant enhancement compared with 1998 (-8.29 basis points). This improvement in spreads must certainly be seen in combination with the effects of the larger euro market on debt and the issuer's sovereign quality.

The transition to the year 2000 and related fears also had an impact on the development of spreads, with investors very interested in sovereign instruments that would enable them to overcome the millennium transition without liquidity problems.

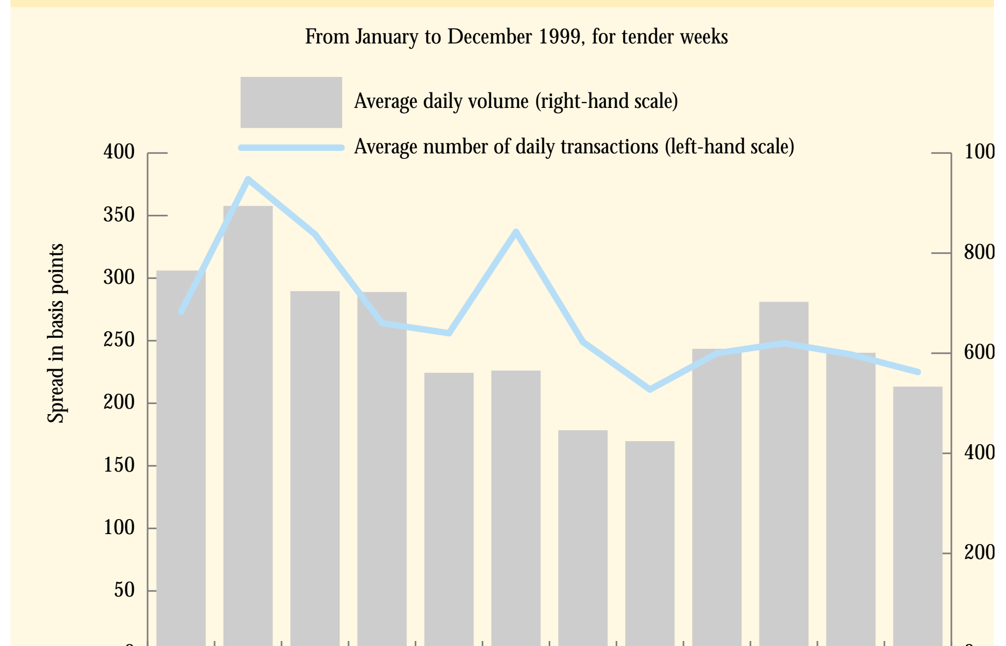
Spreads on 12-month certificates should logically have been the first to be affected by this phenomenon. Nonetheless, awareness of the year 2000 factor developed later and only really surfaced in the middle of the year. This explains the lower impact of the transition to the year 2000 on 12-month spreads.

For their part, 6-month spreads widened under the effect of the millennium phenomenon from the tender session held on 29 June 1999 and then continued

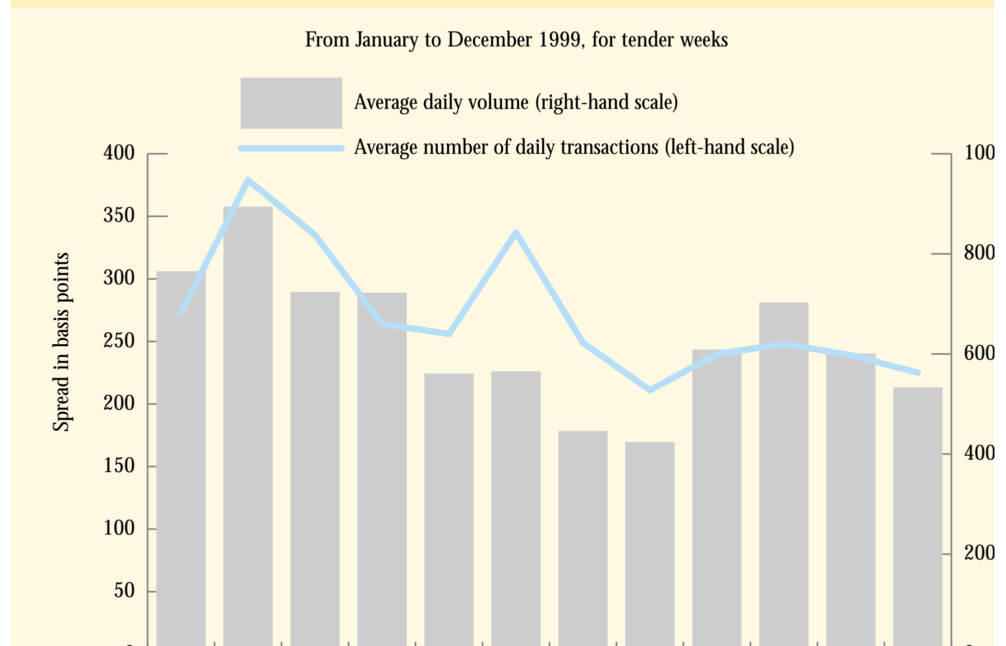
Graph 8: Spread between the weighted average TC rate and 3-month EURIBOR in 1999 (in basis points).



Graph 9: Spread between the weighted average TC rate and 6-month EURIBOR in 1999 (in basis points).



Graph 10: Spread between the weighted average TC rate and 12-month EURIBOR in 1999 (in basis points).



to rise until 26 October, a date after which investors were able to withdraw to the 3-month segment for the transition to the new year.

3-month spreads literally exploded from the tender session held on 5 October 1999 and then decreased until the end of the year, thus reflecting the reduction in fears about transition to the year 2000 as well as the gradual distancing of the maturity from the transition point (January).

2. BELGIAN TREASURY BILLS IN EUROS AND THE INTERBANK MARKET

It should be remembered that in September 1998 the Treasury adapted the foreign-currency Belgian Treasury Bill programme which had been launched in July 1996 (cf. 1996 Annual Report on Public Debt) to enable it to issue in BEF and EUR (from January 1999) as well. While these instruments are comparable to Treasury certificates in both form and status, they are issued on demand for irregular periods which are shorter than those applying to Treasury certificates.

The Belgian Treasury Bills (BTBs) issued in BEF in 1998 were not re-denominated in euros, as the short duration of the maturities did not require this operation (weighted average duration of 30 days). In 1999, the weighted average maturity of BTBs amounted to 25 days. Exposure fluctuated around a sum of EUR 1.5 billion and reached a peak of 3.06 billion during the year. At the end of 1999, exposure on BTBs was equal to EUR 860 million. The weighted average rate was 2.63%.

Interbank operations showed that treasury funds were more balanced in structure, i.e. an improved equilibrium between investments and borrowings existed in this market.

Furthermore, the number of operations in this area decreased significantly due to an increase in average volume against the background of the larger euro market. As such, the Treasury found itself operating in a new euro environment where it had lost the dominant position it previously enjoyed in the Belgian domestic market.

Finally, the absence of tension in the euro market substantially facilitated treasury management via the interbank market. In practice, liquidity in the euro market remained both stable and adequate with the result that it was possible to cover loss-making days without any difficulty.

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SECTION 4

THE SECONDARY MARKET FOR DOMESTIC DEBT

1. RECENT DEVELOPMENTS IN THE SECONDARY MARKET FOR DOMESTIC DEBT INSTRUMENTS

Table 12: Volumes and numbers of transactions on the secondary market for OLOs and Treasury certificates (in millions of EUR).

Date	OLO			Certificates			Incl. repos	
	Trans. (1)	Nom. value in millions (2)	Ratio in millions (2/1)	Trans. (1)	Nom. value in millions (2)	Ratio in millions (2/1)	Trans.	Nom. value in millions
J99	273	7641.6	27.976	97	2077	21.525	78	6354.4
F	379	8932.1	23.561	88	1475	16.716	106	7188.9
M	335	7230.2	21.563	87	1378	15.789	96	5578.6
A	264	7212.2	27.3	88	1443	16.473	93	5789
M	256	5598.3	21.893	75	1206	16.023	81	4138.2
J	337	5642.3	16.754	89	2507	28.208	82	4267.5
J	249	4450.7	17.894	85	1699	20.057	69	3544.3
A	211	4232.2	20.088	90	1794	19.919	67	2974.6
S	240	6077.4	25.274	87	2000	23	77	3962.1
O	248	7015.9	28.257	85	1778	20.907	87	5514
N	239	5998.4	25.06	70	1698	24.241	86	5286.4
D	225	5321.6	23.609	52	1080	20.9	70	4254.4
Average	**271.3**	**6279.4**	**23.26**	**83**	**1678**	**20.3**	**83**	**4904.4**

A. THE SECONDARY MARKET FOR LINEAR BONDS

Graph 11 shows the development of the volume and number of transactions on the secondary market for OLOs, expressed as a daily average per month (also see Table 12). In 1999, the average daily OLO trading volume amounted to EUR 6 279 million, representing a decrease on 1998 (EUR 8 279 million). The average daily number of OLO transactions was equal to 271 in 1999 compared with 342 in 1998. In contrast to the previous years, the average daily volume per transaction did not increase in 1999 (EUR 23 million compared with EUR 25 million in 1998).

Furthermore, as Graph 11 shows, the trends for the number of OLO transactions per month and their value in 1999 displayed a relatively parallel profile, i.e. downwards until August (except for June), followed by a slight rise at the end of the year. This downward trend succeeded the sharp rises recorded in 1998 after tensions in certain emerging markets led to high-quality sovereign securities being assigned safe-haven status. It should also be noted that, following the example of previous years, repo transactions dominated trading on OLOs.

Primary Dealer activity in the secondary market for OLOs, measured by these dealers' average annual share of trading volumes, amounted to 57.9% in 1999 compared with 47.8% in 1998. This rise can be partially explained by the increase in the number of primary dealers trading in Treasury securities. These figures nonetheless confirm the strong presence of non-primary dealers in trading on the secondary market for OLOs.

The Treasury's efforts to adapt to the new environment created by the euro led to a major change in the structure of debt ownership.

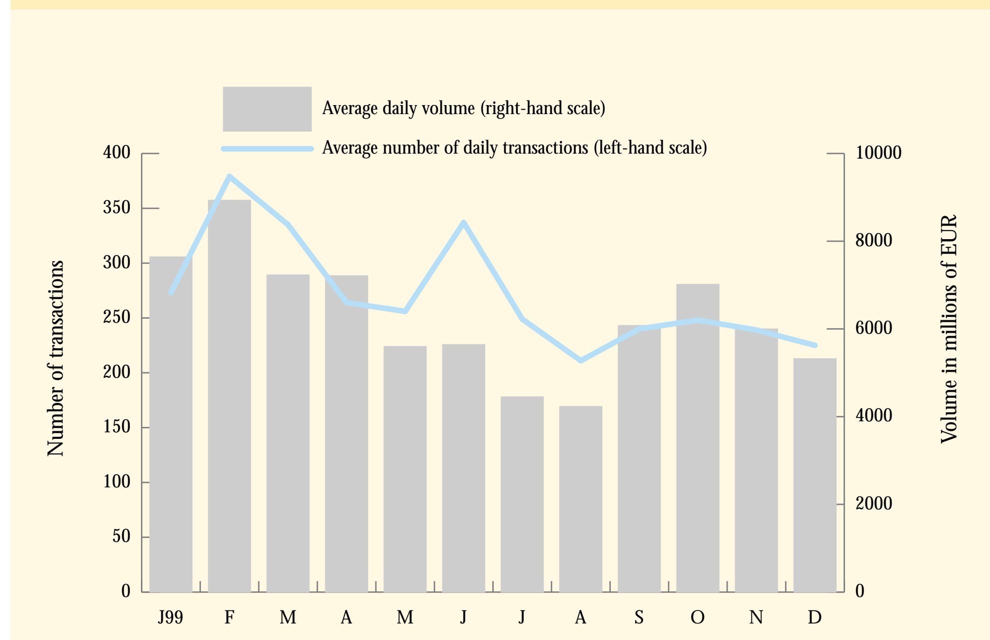
As in other countries, the authorities were faced with a methodological problem concerning the collection of reliable statistics on ownership of securities and their location.

The most rapidly available statistics are those based on information which account keepers affiliated to clearing systems must provide. According to this data, while 24.1% of OLOs were held abroad at the end of 1998, this percentage had climbed to 47.4% by the end of September 1999.

However, the statistics transmitted to the National Bank of Belgium on the financial accounts compiled by financial institutions published in what is termed Schedule A provide another picture of the situation. According to these figures, the percentage held abroad moved up from 8.1% at the end of 1998 to an estimated 21.6% at the end of September 1999.

These two sets of statistics are based on two different methods. The clearing system statistics take a legal approach as their starting point, while the financial-accounts statistics are compiled from an economic viewpoint. The difference

Graph 11: Volumes and numbers of transactions on the secondary OLO market. Daily averages from January to December 1999.



between the two is largely explained by the repo market. From an economic perspective, a security sold provisionally remains an asset in the institution's portfolio and it records an interbank debt in its liabilities. This does not apply to account keeper statistics which are based on a legal criterion whereby a security sold during a repo transaction changes ownership.

Irrespective of the statistical basis used, it is evident that the proportion of OLOs held abroad increased substantially in 1999.

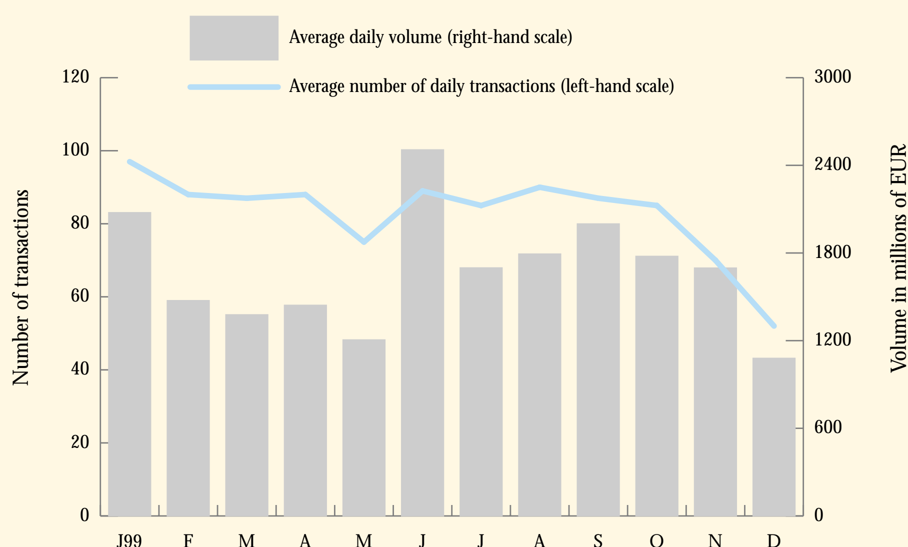
The differences between these two approaches also show one of the strengths associated with using OLOs, i.e. the establishment of a sound Belgian repo market.

B. THE SECONDARY MARKET FOR TREASURY CERTIFICATES

Graph 12 shows the development of the volume and number of transactions in the secondary market for Treasury certificates expressed as a daily average per month.

In 1999, the daily average volume for certificate transactions amounted to EUR 1 678 million, representing a decrease on 1998 (EUR 1 715 million). The average daily number of certificate transactions also declined: 83 transactions in 1999 as against 107 in 1998. The daily TC volume and number of transactions moved in parallel from month to month in 1999. In contrast, the relationship between these two indicators (which gives the average daily volume per transaction per month) increased to EUR 20 million in 1999, compared with EUR 16 million in 1998.

Graph 12: Volumes and numbers of transactions on the secondary TC market.
Daily averages from January to December 1999.



Repo operations represented an important share of total trading on Treasury certificates.

Primary Dealers accounted for 71.4% of business in the secondary market for certificates compared with 66.1% in 1998, thus confirming to a lesser extent the presence of non-primary dealers in the secondary market for these securities.

Readers can refer to the section on OLOs above for information on the methodology used to assess ownership of Treasury certificates. The geographical location of TCs had already begun to diversify some months before the introduction of the euro. According to statistics compiled by account keepers, the proportion of certificates held abroad rose from 45.1%, at the end of 1998 to 52.7% at the end of September 1999. Using the financial accounts as a basis, we obtain an estimated 43.5% and 44.3% respectively. Our country therefore occupies a prime position in euroland along with France, Italy and Spain.

C. THE SECONDARY MARKET FOR STATE NOTES

State notes are quoted on the Brussels Exchange fixing market and are therefore guaranteed constant liquidity. As such, they can be bought and sold at any time.

The comparative overall volume of trading in State notes in this market is growing constantly: it rose from 15% in 1997 to 22% in 1998 and 31% in 1999.

At each issue, the Securities Regulation Fund underwrites State notes in order to establish a securities portfolio that will enable it to operate as a counter-party for the sale and purchase of securities in the secondary market.

2. THE FUNDED DOMESTIC DEBT MATURITY SCHEDULE

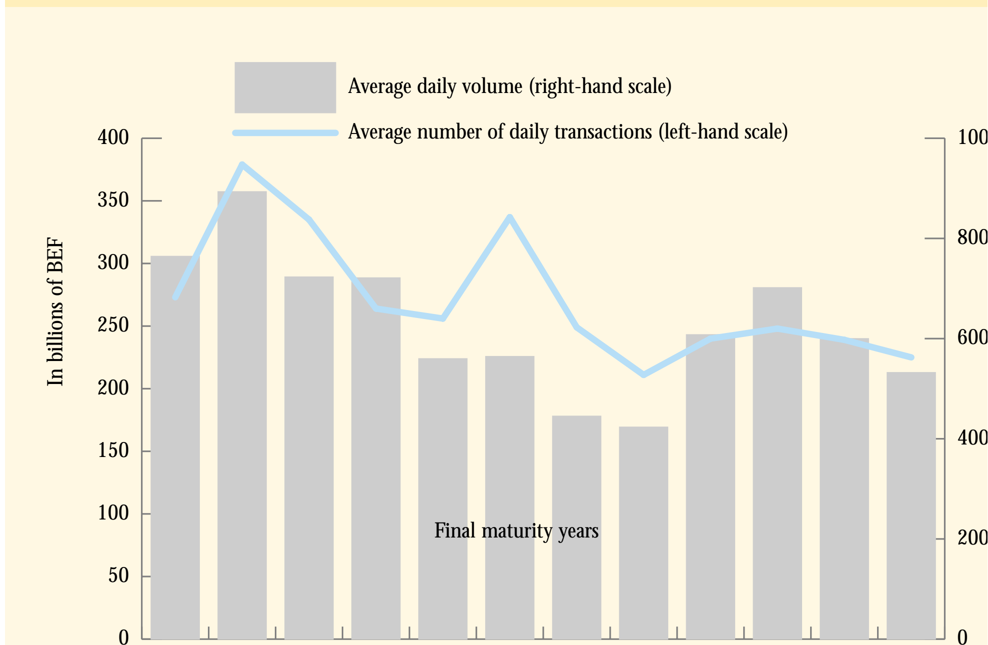
On December 31 1998, funded debt maturing in 1999 amounted to EUR 14.9 billion. The sum principally comprised three OLO lines reaching final maturity in 1999 (EUR 10.04 billion) including the TVR OLO as well as general public bonds (Philippe IV, V and VII worth a total of EUR 3.6 billion), a bond issued to support national sector restructuring (EUR 0.44 billion) and private issues (EUR 0.83 billion). In view of the fact that this constituted exposure at the end of December 1998, the sums for OLOs being redeemed in 1999 included exchanges made some months before repayment at final maturity.

Graph 13 displays the impact of issue and exchange operations in 1999 which enabled the Treasury to smooth out the maturity schedule for funded domestic public debt. It shows the exposure gaps between the maturity schedule for 31 December 1999 and that of 31 December 1998. In compliance with the

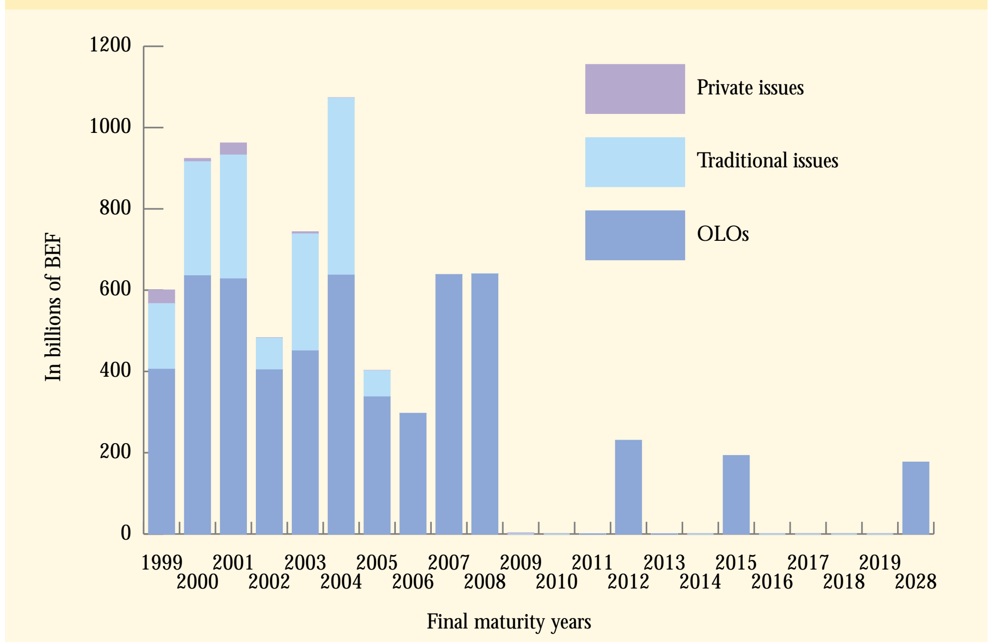
General Guide-lines, the Debt Agency adopted the policy of concentrating exchanges and tenders in redemption years which were relatively little occupied (e.g. 2002, 2005 and 2009) and avoiding years with a large number of redemption dates (e.g. 2001 and 2004).

Graphs 14 and 15 describe exposure on the funded domestic debt maturity schedule at the end of 1998 and the end of 1999 respectively. This comprises

Graph 13: Exposure differences (1999-1998) at the end of periods on the maturity schedule for funded BEF/EUR debt, including private issues.



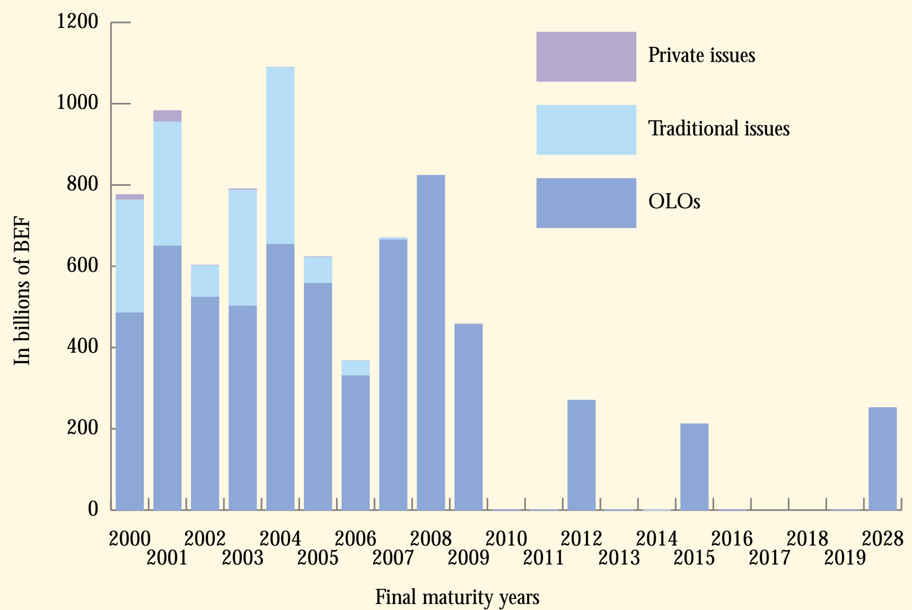
Graph 14: Final maturities for funded BEF debt at the end of December 1998.



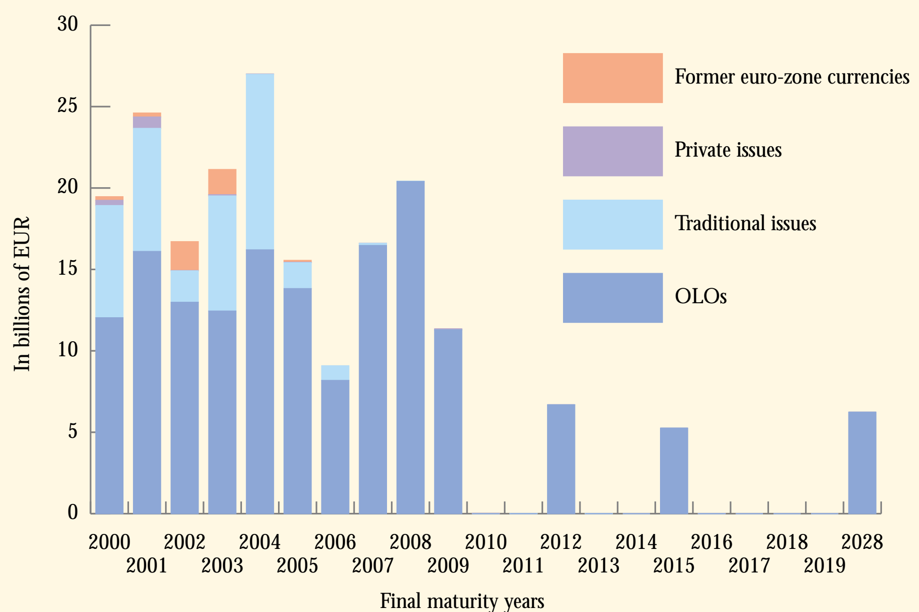
guaranteed-minimum reviewable-interest bonds ("Philippes" XII, XIII and XVII) issued in 1994 and 1995 and which are booked at their final maturity (9 years from the issue date) as well as exposure on State notes which are booked at final maturity (7 or 8 years where applicable from the date of issue).

The heaviest volume of maturities are concentrated in 2001, 2004 and 2008.

Graph 15: Final maturities for funded BEF/EUR debt at the end of December 1999.



Graph 16: Final maturities for funded domestic debt at the end of December 1999 (including issues in former euro-zone currencies).



The final maturity schedule shows all funded domestic debt, including debt in former euro-zone currencies (DEM, FRF and NLG).

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SECTION 5

THE PRIMARY AND SECONDARY MARKETS FOR FOREIGN-CURRENCY DEBT

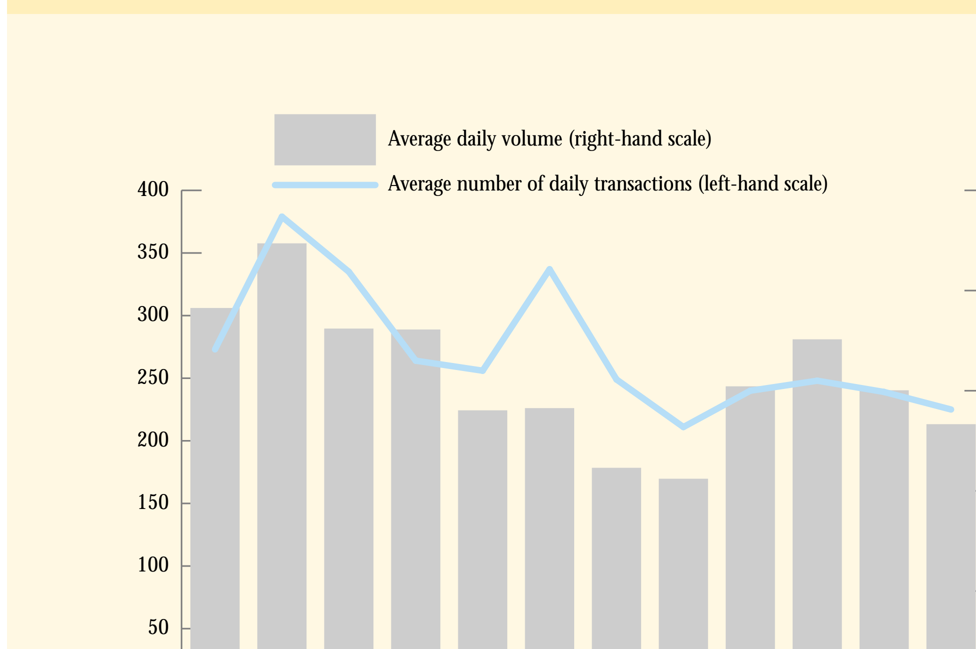
It should be remembered that, within the context of its preparation for the larger euro market and for the purposes of managing foreign-currency debt, the Treasury has made a very clear distinction since 1997 between core euro currencies (DEM, FRF, NLG and XEU), which are incorporated into domestic debt, and other currencies such as the CHF, JPY and USD. Since the introduction of the euro, only debt denominated in these three latter currencies has represented external debt.

In 1999, medium and long-term foreign-currency debt comprised public and private bonds and Euro Medium Term Notes (EMTNs), on the one hand, while Belgian Treasury Bills and interbank loans represented short-term foreign-currency debt, on the other.

On 31 December 1999, total foreign-currency debt exposure amounted to the equivalent of EUR 10 440.8 million (including exchange variations on currency debt management), which corresponded to 4.2% of total public-debt exposure.

The distribution of foreign-currency debt is given in the following graph.

Graph 17: Total foreign-currency debt at the end of December 1999. Breakdown by currency.



1. MEDIUM AND LONG-TERM DEBT

The three financial instruments covering medium and long-term debt comprise public bonds, private bonds and Euro Medium Term Notes. At the end of December 1999, medium and long-term debt exposure amounted to an equivalent of EUR 8 416.6 million compared with an equivalent of EUR 9 080.9 million one year previously. The Treasury did not issue any medium or long-term bonds denominated in foreign currencies in 1999.

2. SHORT-TERM DEBT

Short-term currency foreign-debt exposure increased in 1999. Long-term currency bonds approaching final maturity were refinanced on a short-term basis. In contrast to the previous year, there were neither repayments nor consolidation operations. Thus, exposure on short-term currency debt rose from an equivalent of EUR 442 million at the start of January to an equivalent of over EUR 2 billion at the end of December 1999.

The Treasury used two financial instruments (i.e. Belgian Treasury Bills (BTBs) and interbank loans) to manage its short-term foreign-currency debt.

The share represented by interbank operations decreased significantly during the second half of 1999. As such, the use of tendering on BTBs in order to increase competition between dealers meant that it was easy to refinance sums approaching maturity with BTBs. The remaining balances were refinanced on the interbank market. When the conditions on offer proved advantageous for the Treasury, it issued more than was necessary. The surpluses generated by this mechanism were then invested in the interbank market to cover subsequent maturities.

A. BELGIAN TREASURY BILLS (BTBs)

The Treasury used the tendering mechanism during BTB issues made in the second half of 1999. Previously, the Treasury had determined the maturities and issue rate levels at the start of the day after consultation with dealers. In the event of a rate increase, the Treasury could no longer approach the BTB market; instead it had to use the interbank market, which was a more expensive option. The new issuing procedure has the advantage of enabling the Treasury to raise its profile as regards maturities preferred by investors and market rates. A total of 129 foreign-currency BTB issues with an exchange-value of almost USD 6 billion were organised. The majority were issued in USD and then swapped into CHF.

The Treasury also intervened as a dealer in 1999, when it organised a total of 11 foreign-currency reverse inquiries with an exchange-value of USD 383 million.

It should be noted that BTB maturities were longer in 1999 than in 1998. On average, they were 2 months compared with 38 days in 1998.

The weighted average rates for BTBs amounted to 1.14% and 5.12% for CHF and USD issues respectively. The post-swap spreads compared with LIBID varied between LIBID-3 and LIBID-22. Thanks to open competition and flexible maturities, the Treasury was able to benefit from particularly advantageous conditions. Furthermore, at the end of the year, exceptional spreads compared with LIBID were reached following a strong demand for sovereign paper with maturities extending beyond the millennium transition.

B. INTERBANK LOANS

As in 1998, the Treasury had little recourse to the interbank market relative to volumes raised on BTBs and only called on it to refinance balances which were not renewed via BTBs. The average maturity of interbank loans decreased to 10 days.

The weighted average rate on foreign-currency interbank loans amounted to 1.53% in 1999.

It should be noted that the Treasury made placements on the interbank market for the first time in 1999, as explained above.

3. FOREIGN-CURRENCY DEBT RISK MANAGEMENT

The Treasury continued its policy of gradually reducing foreign-currency debt in 1999. Thus, JPY 14.5 billion in long-term debt (equivalent to EUR 115 million, i.e. approximately 4% of the JPY debt) coming up to maturity was refinanced in EUR. However, this policy has not yet been fully reflected in the figures, which is partially due to the depreciation of the euro against the US dollar and yen during the year under review.

Since the major restructuring of arbitrage swaps in 1998, 23.9% of liabilities have been denominated in EUR and the remainder in CHF. All assets are in EUR.

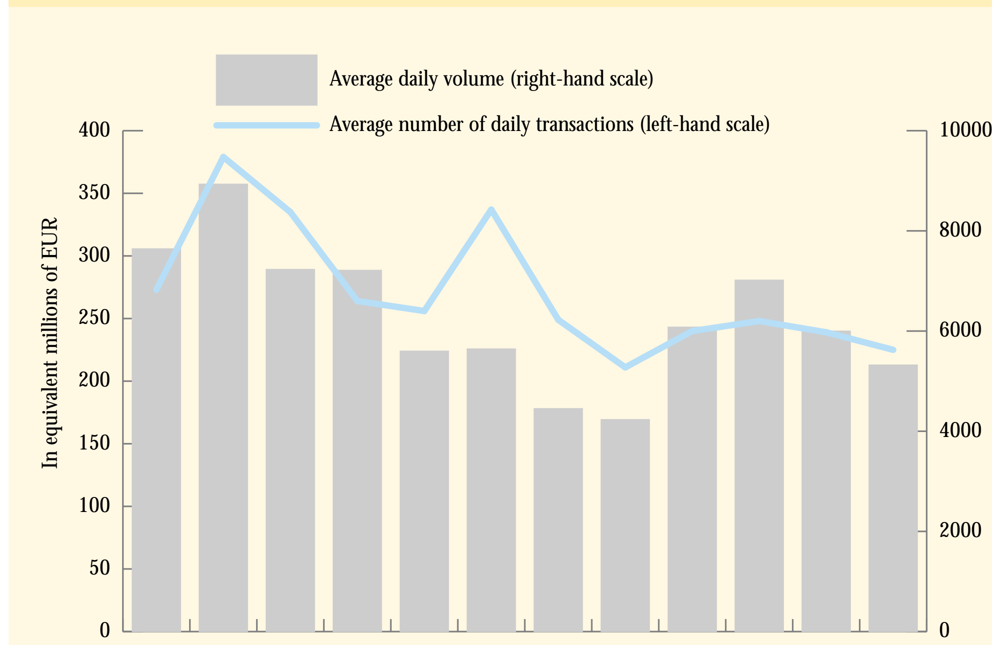
4. THE PROGRAMME FOR THE ISSUANCE OF DEBT INSTRUMENTS

This multi-currency programme set up in 1997 enables the Treasury to issue the majority of financial instruments available on the capital Euromarket (public or private issues, structured issues, etc.) using the same legal framework. The programme's "arranger" is the bank Morgan Stanley Dean Witter in London and the following financial institutions act as dealers: Deutsche Bank, Goldman Sachs International, Lehman Brothers, Merrill Lynch International, J.P Morgan Securities Ltd., Morgan Stanley Dean Witter, Nomura International and Warburg Dillon Read. The Treasury did not use the programme in 1999. Due to the launch of the euro market, the Treasury preferred to issue OLOs in order to optimise the liquidity of domestic instruments and to create new benchmarks.

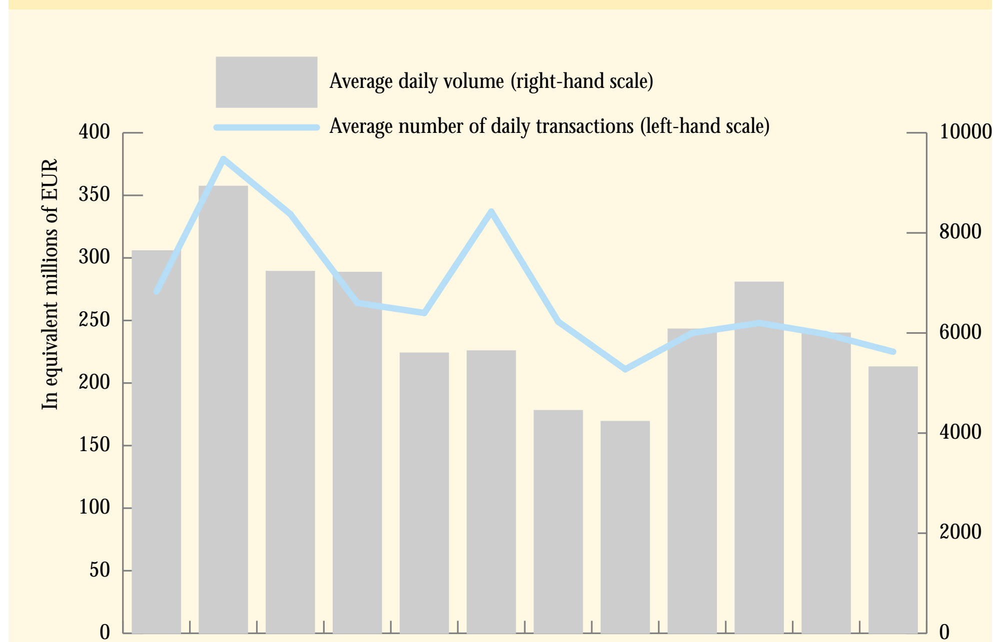
5. THE FUNDED FOREIGN-CURRENCY DEBT MATURITY SCHEDULE

The following graphs present the funded foreign-currency debt maturity schedule at the end of 1999, exclusively comprising exposure after swaps into USD, CHF and JPY, while excluding exchange variations relating to management operations. On this date, the funded foreign-currency debt

Graph 18: Funded foreign-currency debt maturity schedule on 31 December 1999. Breakdown by currency and maturity



Graph 19: Funded foreign-currency debt maturity schedule on 31 December 1999. Breakdown by maturity



amounted to an equivalent of EUR 7.6 billion compared with 8.4 billion at the end of 1998.

2001 is the most important year in volume terms due to the presence of CHF, JPY and USD redemption dates. This foreign-currency portfolio maturity schedule may be altered via management operations if conditions become favourable.

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SECTION 6

THE MAJOR AGGREGATE DEBT-FINANCING FIGURES IN 1999

This section presents the major characteristics of issue, redemption and repayment trends in 1999. It then describes redemption of direct debt in BEF and EUR via the Redemption Fund's operations and finally comments on debudgetised and guaranteed debt.

1. DEBT REFINANCING TRENDS IN 1999

A. MAJOR CHARACTERISTICS

The main debt-related figures presented at the beginning of this Report and the following tables emphasise the principal trends noted in 1999, i.e.

a. The level of funding of overall BEF/EUR and foreign currency debt improved. As such, funded debt accounted for 84.37% of debt on 31 December 1999 compared with 82.49% one year previously.

   The Treasury calculated the breakdown of total debt on the basis of several residual maturities, i.e. debt maturing within 2 years (including upper limit), debt maturing between 2 years and 4 years (upper limit), debt maturing between 4 years and 9 years (upper limit) and debt maturing in over 9 years (Table 14). Graph 20 shows these debt segments as a changing percentage of total debt since 1990. In 1999, we notice a continued increase in the proportion of debt maturing between 4 and 9 years and a lower proportion of debt maturing in 4 years or under. These results can be partly explained by a decrease in the volume of Treasury certificates issued as well as by the structure of OLO issues in 1999 when the medium and long-term type dominated (EUR 24.9 billion).

b. The proportion of debt denominated in foreign currencies increased very slightly to 4.23% of the total in 1999, compared with 3.95% in 1998.

c. The share represented by fixed-rate debt increased to 84.1% in 1999 versus 80.8% in 1998. It should be remembered that variable-rate debt comprises funded variable-rate debt and short-term debt.

d. The weighted average interest rate calculated on total public debt exposure continued the downward trend begun in recent years to reach 6.3% in 1999, compared with 6.5% the previous year. It should be noted that, given that OLO issues were made above par during 1999 (as in 1998), the resulting positive issue premiums somewhat distort the weighted average rate, which is calculated using the face rate. In this instance, this rate was overestimated for 1999. It nonetheless remains an indicator of the Treasury's interest burden. As Table 16 shows, this has been declining steadily in the last few years.

Table 13: Public debt: composition by maturity.

Proportion of final debt maturing in year X after the year considered	Exposure at the end of the year (as a % of the annual total)													
	1986	**1987**	**1988**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
1 (a)	41.32	40.31	38.93	37.76	39.32	33.62	31.64	34.30	30.69	24.87	23.62	24.62	23.72	22.50
(excluding short term)	(3.69)	(3.29)	(4.57)	(2.57)	(6.97)	(4.36)	(5.54)	(8.04)	(2.39)	(5.37)	(5.08)	(6.10)	(7.34)	(8.43)
2	3.89	5.06	2.98	7.17	4.75	6.86	10.03	4.01	6.50	7.08	8.31	9.92	10.04	11.30
3	5.52	2.61	7.96	4.85	7.43	11.26	7.46	7.28	6.42	8.22	10.07	9.33	11.18	7.65
4	2.65	8.64	5.31	7.84	10.55	8.00	9.31	9.55	8.80	8.99	8.86	10.41	6.53	8.95
5	9.51	5.95	8.59	11.15	9.05	10.95	10.10	9.67	9.28	8.84	10.01	6.07	8.58	11.55
6	5.73	9.00	12.21	9.17	11.06	11.01	8.84	6.27	5.85	7.00	5.37	7.79	11.25	6.24
7	10.12	13.53	10.17	8.70	11.38	5.59	4.57	6.07	7.20	5.38	7.45	10.83	4.04	3.54
8	14.63	8.16	8.30	8.30	0.99	3.80	3.44	5.11	4.24	7.38	10.54	3.42	3.12	6.87
9	0.55	0.78	2.62	1.04	2.68	3.35	4.36	4.04	7.60	10.60	2.87	3.08	6.64	8.64
10	0.85	2.87	0.35	2.67	1.74	3.07	3.85	4.85	6.03	2.91	2.95	6.37	8.17	4.69
11	0.39	0.04	0.92	0.07	0.30	0.11	2.58	3.25	0.82	0.64	3.80	4.30	0.03	0.52
12	0.04	1.13	0.07	0.31	0.05	2.03	0.02	0.01	0.00	2.91	3.15	0.03	0.42	0.00
13	1.25	0.42	0.33	0.01	0.33	0.02	0.01	0.00	2.98	2.27	0.00	0.42	0.00	2.77
14	0.50	0.43	0.01	0.35	0.02	0.01	0.00	2.90	1.65	0.00	0.40	0.00	2.40	0.01
15	0.48	0.08	0.64	0.00	0.01	0.00	3.18	0.90	0.00	0.42	0.01	1.97	0.01	0.00
16 and over	2.58	1.00	0.61	0.61	0.34	0.32	0.63	1.80	1.95	2.50	2.58	1.43	3.87	4.77
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
5 years and less	62.90	62.57	63.78	68.78	71.10	70.00	68.53	64.81	61.68	57.99	60.88	60.35	60.06	61.95
between 6 and 10 years	31.87	34.34	33.65	29.88	27.86	26.82	25.05	26.33	30.93	33.26	29.18	31.50	33.22	29.99
between 11 and 15 years	2.65	2.09	1.97	0.73	0.71	2.17	5.79	7.06	5.44	6.25	7.36	6.72	2.85	3.30
16 years and over	2.58	1.00	0.61	0.61	0.34	0.32	0.63	1.79	1.95	2.50	2.58	1.43	3.87	4.77
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
10 years and less (a)	94.77	96.91	97.42	98.66	98.95	97.51	93.58	91.15	92.61	91.25	90.06	91.85	93.28	91.94
11 years and over	5.23	3.09	2.58	1.34	1.05	2.49	6.42	8.85	7.39	8.75	9.94	8.15	6.72	8.06
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
(a) including short-term debt	37.63	37.03	34.36	35.19	32.35	29.26	26.10	26.26	28.30	19.49	18.54	18.52	16.38	14.07

Table 14: Residual maturity of public debt issues from 1990 to 1999, at the end of the year (as a % of the total).

	< or = 2 years	> 2 and < or = 4 years	> 4 and < or = 9 years	> 9 years
1990	44.07	17.98	35.16	2.79
1991	40.48	19.26	34.70	5.56
1992	41.67	16.77	31.31	10.27
1993	38.31	16.83	31.16	13.71
1994	37.19	15.22	34.17	13.42
1995	31.95	17.21	39.20	11.66
1996	31.93	18.93	36.24	12.89
1997	34.54	19.74	31.19	14.52
1998	33.76	17.71	33.63	14.89
1999	33.80	16.60	36.84	12.76

Graph 20: Proportion of debt to total debt depending on residual maturity.

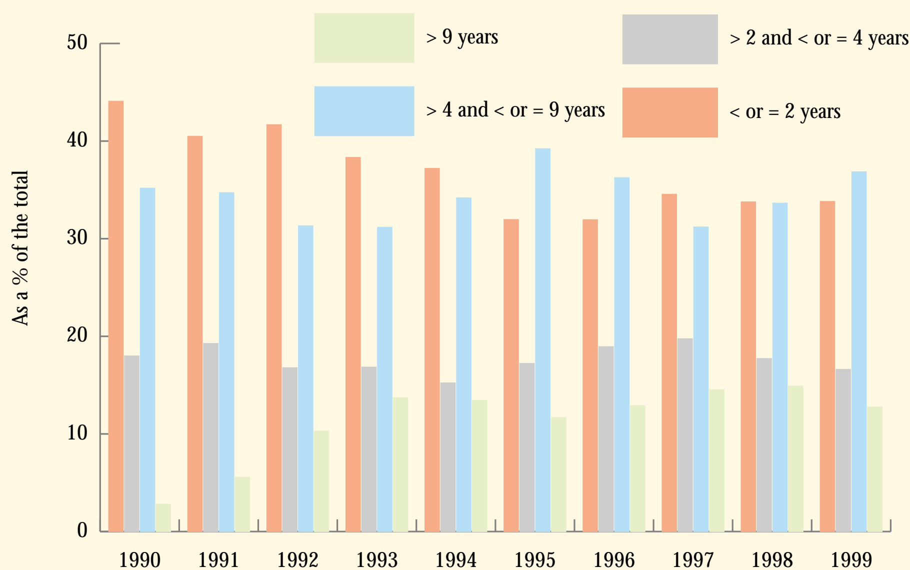
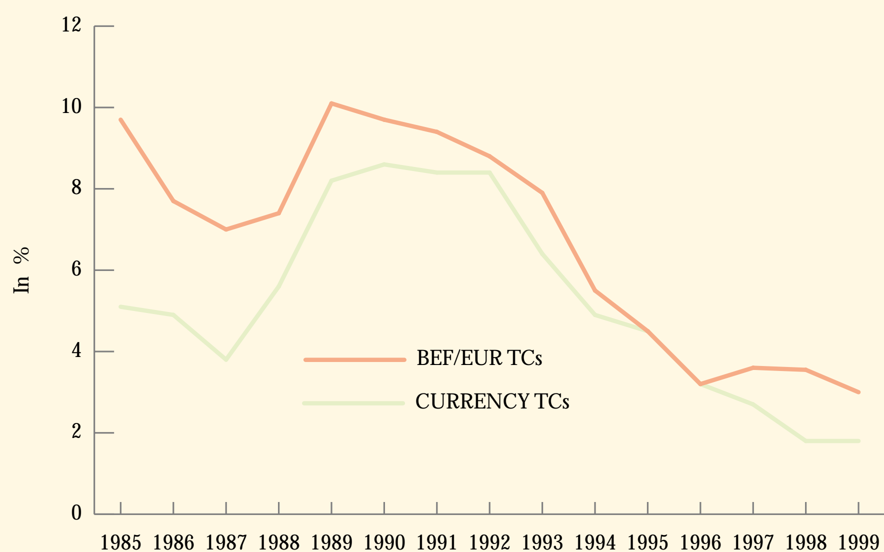


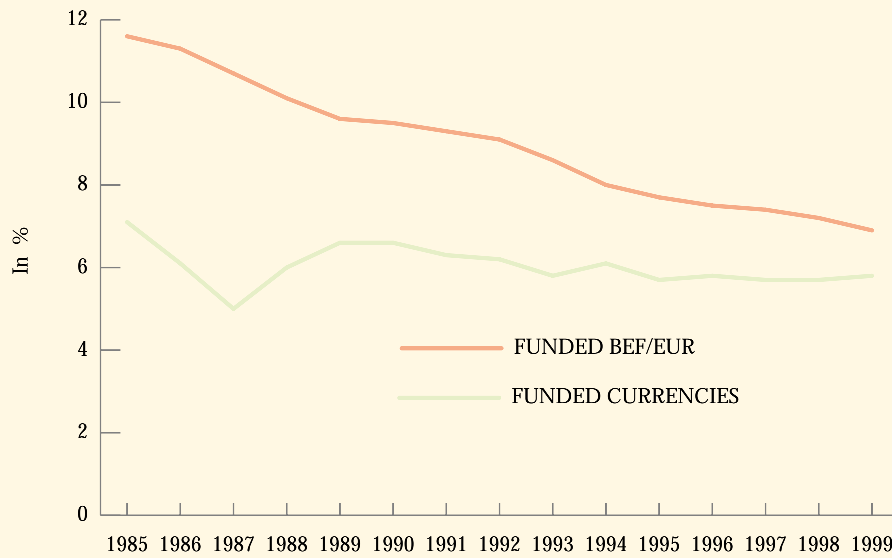
Table 15: Annual weighted average public-debt interest rates.

	BEF FUNDED	FUNDED CURRENCIES	FLOATING BEF	FLOATING CURRENCIES	TOTAL BEF	TOTAL CURRENCIES	TOTAL DEBT
1985	11.6	7.1	9.7	5.1	11.0	6.3	10.0
1986	11.3	6.1	7.7	4.9	10.0	5.5	9.2
1987	10.7	5.0	7.0	3.8	9.5	4.4	8.5
1988	10.1	6.0	7.4	5.6	9.3	5.8	8.7
1989	9.6	6.6	10.1	8.2	9.7	7.4	9.3
1990	9.5	6.6	9.7	8.6	9.6	7.5	9.3
1991	9.3	6.3	9.4	8.4	9.3	7.3	9.0
1992	9.1	6.2	8.8	8.4	9.0	7.1	8.8
1993	8.6	5.8	7.9	6.4	8.5	6.1	8.1
1994	8.0	6.1	5.5	4.9	7.4	5.6	7.1
1995	7.7	5.7	4.5	4.5	7.1	5.4	6.9
1996	7.5	5.8	3.2	3.2	6.7	5.5	6.6
1997	7.4	5.7	3.6	2.7	6.7	5.5	6.6
1998	7.2	5.7	3.5	1.8	6.6	5.6	6.5
1999	6.9	5.8	3.0	1.8	6.4	5.0	6.3

Graph 21: Annual weighted average interest rates for floating public debt in BEF/EUR and currencies from 1985 to 1999.



Graph 22: Annual weighted average interest rates for funded public debt in BEF/EUR and currencies from 1985 to 1999.



Graph 23: Annual weighted average interest rates for total public debt, BEF/EUR debt and currency debt from 1985 to 1999.

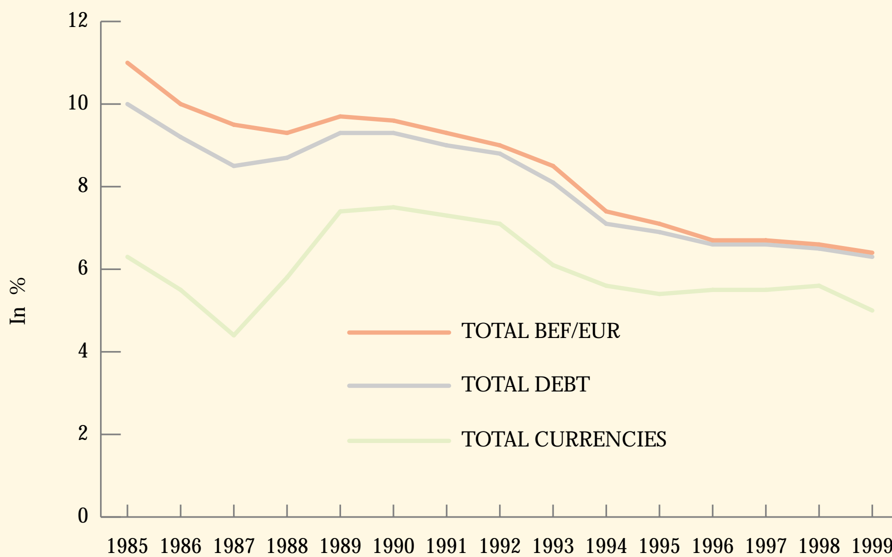


Table 16: Authorized interest charges by debt category. Nominal sums (in equivalent millions of BEF).

Years	FUNDED DEBT			FLOATING DEBT					Amounting to		
				in BEF/EUR							
	in BEF/EUR	in currencies	TOTAL	Medium-term	Short-term	total in BEF/EUR	in currencies	TOTAL	Total debt	in BEF/EUR	in currencies
1980	106 306.5	3 898.9	110 205.4	508.3	39 868.7	40 377.0	4 716.9	45 093.9	155 299.3	146 683.5	8 615.8
1981	119 324.3	17 218.0	136 542.3	501.5	69 008.2	69 509.7	10 487.3	79 997.0	216 539.3	188 834.0	27 705.3
1982	139 277.0	29 400.7	168 677.7	501.5	100 844.5	101 346.0	25 761.5	127 107.5	295 785.2	240 623.0	55 162.2
1983	151 704.8	34 926.0	186 630.8	854.3	97 659.1	98 513.4	32 830.5	131 343.9	317 974.7	250 218.2	67 756.5
1984	190 585.2	39 806.3	230 391.5	4 912.6	108 514.4	113 427.0	18 595.8	132 022.8	362 414.3	304 012.2	58 402.1
1985	225 381.4	59 383.2	284 764.6	13 561.1	106 858.3	120 419.4	29 617.9	150 037.3	434 801.9	345 800.8	89 001.1
1986	* 279 368.9	39 747.7	319 116.6	20 922.9	101 082.2	122 005.1	35 265.7	157 270.8	476 387.4	401 374.0	75 013.4
1987	* 272 812.6	27 993.5	300 806.1	14 608.5	101 904.8	116 513.3	27 095.4	143 608.7	444 414.8	389 325.9	55 088.9
1988	* 292 135.4	25 994.7	318 130.1	6 977.3	102 484.9	109 462.2	29 889.5	139 351.7	457 481.8	401 597.6	55 884.2
1989	* 298 515.1	32 690.8	331 205.9	4 422.2	139 467.0	143 889.2	31 371.8	175 261.0	506 466.9	442 404.3	64 062.6
1990	* 320 900.0	37 877.0	358 777.0	3 264.7	180 462.2	183 726.9	44 008.0	227 734.9	586 512.0	504 626.9	81 885.0
1991	* 381 555.7	36 075.6	417 631.3	1 761.2	150 555.3	152 316.5	47 990.9	200 307.4	617 938.7	533 872.2	84 066.5
1992	* 422 587.6	37 296.4	459 884.0	71.5	176 710.1	176 871.6	42 022.4	218 804.0	678 688.0	599 459.2	79 318.8
1993	* 457 085.4	39 803.4	496 888.8	60.4	155 389.6	155 450.0	34 628.8	190 078.8	686 967.6	612 535.4	74 432.2
1994	* 494 532.5	42 991.9	537 524.4	24.6	113 552.2	113 576.8	39 172.7	152 749.5	690 273.9	608 109.3	82 164.6
1995	* 471 301.2	46 757.6	518 058.8	24.6	106 113.4	106 138.0	29 954.8	136 092.8	654 151.6	577 439.2	76 712.4
1996	* 497 109.4	46 631.5	543 740.9	13.5	68 097.0	68 110.5	17 323.5	85 434.0	629 174.9	565 219.8	63 955.1
1997	* 504 450.1	41 813.7	546 263.8	0.0	60 168.4	60 168.4	2 961.5	63 129.9	609 393.7	564 638.4	44 775.2
1998	* 488 446.7	43 616.1	532 062.8	0.0	73 185.6	73 185.6	2 367.2	75 552.9	607 615.7	561 632.3	45 983.4
1999	* 516 514.4	19 664.6	536 179.0	0.0	50 175.0	50 175.0	512.0	50 687.0	586 866.0	566 689.4	20 176.6

* Excluding the difference for issues affected by regularisation operations, without taking account of interest capitalisation linked to exchange offers and taking account of gains (1993) and issue and exchange premiums (1994, 1995, 1996, 1997, 1998 and 1999).

B. REFINANCING FACTORS IN 1999

Readers are referred to Table 17 below for information supporting the following comments. This provides an overview of issue, amortisation and repayment trends for 1998 and 1999.

a. In terms of BEF and EUR debt, the funded debt issue volumes refinanced in 1999 amounted to an equivalent of BEF 824.4 billion. This principally included 422.3 for final maturities (including private issues) and 334.3 for exchanges. Former euro-zone currency issues worth the equivalent of BEF 50 billion were refinanced.

   Funded BEF/EUR debt issues represented the equivalent of BEF 1 199.7 billion compared with 1 009.2 billion in 1998. Excluding exchanges, the gross funded BEF/EUR issue volume increased sharply in 1999 compared with 1998, rising from an equivalent of BEF 601.9 billion to BEF 880.7 billion. Linear bond issues went up substantially in 1999 to reach an equivalent of BEF 834.8 billion compared with BEF 533.7 billion in 1998. In contrast, the volume of exchange offer issues decreased to represent an equivalent of BEF 303.6 billion in 1999 versus 407.3 billion in 1998. State notes worth BEF 42 billion were also issued.

   Finally, BEF 10.7 billion in debt was taken over in 1999.

   In 1999, net funded BEF debt issues amounted to the equivalent of BEF 375.1 billion and represented an increase on the previous year (278 billion). For its part, short-term EUR debt fell by the equivalent of BEF 215.3 billion. It can be seen therefore that in terms of exposure, the level of funding of BEF and EUR debt increased in 1999, in keeping with the General Guide-lines based on an analysis of the benchmark debt portfolio for public debt in the year in question.

b. There were no long-term issues in currencies other than BEF and EUR in 1999. Euro refinancing to repay a portion of the foreign-currency debt represented the equivalent of BEF 60.2 billion. Taking account of exchange variations (loss of an equivalent of BEF 37.3 billion) and foreign-currency management operations, the nominal trend for this debt translated into a debt reduction of the equivalent of BEF 26.8 billion in 1999. Short-term debt in foreign currencies increased by an equivalent of BEF 62.7 billion.

Table 17: Overview of issue, amortisation and repayment flows in 1998 and 1999, in billions of BEF.

1. In 1999, funded EUR/BEF debt increased by BEF 375.1 billion.
(EUR 9 299.5 million)

	1998	1999	1999 (millions of EUR)
I. Increases			
a) Issues			
- Traditional Government issues (including capitalisation of interest on Philippe issues: 4.2 in 1999)	+68.2	+45.9	+1137.6
- OLOs	+533.7	+834.8	+20695.1
- OLOs issued during exchange operations	+407.3	+303.6	+7526.9
- Issues in currencies swapped into euros	-	+4.7	+115.8
Total	+1009.2	+1189.0	+29475.4
b) Debt taken over			
- Régie des Voies Maritimes	-	+10.7	+265.3
Sub-total I	+1009.2	+1199.7	+29740.7
II. Decreases			
a) Amortisation			
- Repurchase both on and off the stock exchange	-6.1	-5.9	-146.1
- Other contractual amortisation	-10.5	-6.3	-156.9
b) Repayment on final maturity:			
- Public State issues	-223.2	-386.4	-9579.8
- Private issues	-58.8	-35.9	-890.4
- Issues in former currencies from the euro-zone	-	-50.0	-1238.9
c) Early repayment			
- Issues repaid during exchange operations	-432.6	-334.3	-8286.3
d) Exchange variations relating to management operations for debt in euro-zone currencies	-	-5.6	-138.4
e) Exchange gains due to transition to the euro	-	-0.2	-4.4
Sub-total II	-731.2	-824.6	-20441.2
Total (I + II)	+278.0	+375.1	+9299.5

2. In 1999, funded foreign-currency debt (including exchange variations) fell by BEF 26.8 billion due to the following operations:
(EUR 664.3 million)

	1998	1999	1999 (millions of EUR)
I. Increases			
a) Issues			
- Long-term issues	+69.7	-	-
- Euro-medium term notes	-	-	-
b) Exchange variations	-	+37.3	+924.9
c) Currency management operations	+3.9	-	-
Sub-total I	+73.6	+37.3	+924.9
II. Decreases			
a) Contractual amortisation	-16.5	-	-
b) Early or final-maturity repayments:	-101.2	-60.2	-1492.4
c) Exchange variations (gains):	-4.1	-	-
d) Currency management operations	-	-3.9	-96.7
Sub-total II	-121.8	-64.1	-1589.2
Total (I + II)	-48.2	-26.8	-664.3

3. Short-term EUR/BEF debt fell by BEF 215.3 billion. This trend breaks down as follows:
(EUR 5335.7 million)

	1998	1999	1999 (millions of EUR)
a) Non-interest bearing certificates subscribed by			
- The International Monetary Fund	-13.4	+55.5	+1375.5
- other organisations	-0.6	-2.0	-50.3
b) Assets at Postchèque	-63.4	-5.0	-122.8
c) Interest-bearing certificates			
- certificates issued by tender (net) (1)	-235.2	-274.6	-6806.8
- miscellaneous issues (interbank market and Treasury bills)	+70.3	+10.8	+268.7
Sub-total (pt. 3)	-242.3	-215.3	-5335.7

4. Short-term foreign-currency debt (debt variation included: +1.5) increased by BEF 62.7 billion, i.e. (+37.8) (EUR 1554.9 million)

	1998	1999	1999 (millions of EUR)
- Treasury bills	-35.5	+34.4	+852.2
- Interbank	+0.4	+28.3	+702.7
General total: nominal debt trend:			
(including IMF)	-47.6	+195.7	+4852.0
(excluding IMF)	-34.2	+140.2	+3477.0

(1) A breakdown by type of certificate is provided in Table 9.

2. AMORTISATION OF DIRECT DEBT IN BEF AND EUR

A. ROLE OF THE REDEMPTION FUND

The law dated 2/8/55 relating to the abolishment of the Public Debt Redemption Fund, amended by the law dated 4/4/1995 relating to taxation and financial provisions, provided for the establishment of a new Redemption Fund. This is responsible for receiving and using amortisation allowances which, in compliance with issue laws and contracts, are intended for purchasing or repaying public debt securities, including dematerialised securities exclusively registered in accounts.

B. THE REDEMPTION FUND'S ACTIVITIES

The Redemption Fund's stock-exchange repurchases increased by slightly more than 70% compared with 1998, as Table 18 shows.

For their part, the volumes generated by exchange offers decreased in size.

The following lines were offered on the exchange in 1999:

- line 247 - OLO 10 % - 02/08/1991-2000
- line 264 - OLO 7% - 29/04/1993-1999
- line 272 - TVR - 16/03/1994-1999
- line 287 - OLO 4 % - 22/01/1997-2000
- line 267 - (traditional issue) 7% - 23/06/1993-2000

The Redemption Fund's repayment activities increased in 1999.

Whilst early repayments sank to almost zero, final repayments, increased by approximately 70%.

Table 19 shows the trend for stock exchange repurchases by the Redemption Fund.

A major gap has traditionally existed between the amortisation authorised by the issue decrees ("5% of the issued capital, increased each year by interest on the amortised capital") and the sums really used by the Redemption Fund via budgetary allocations registered in the public debt budget and allocated to the public debt each month by the debt servicing department.

This gap was reduced slightly during the last year.

Table 18: Effective operations carried out by the Redemption Fund (in equivalent billions of BEF).

	1999		1998	
	Nominal	Cost	Nominal	Cost
Repurchases				
Stock exchange repurchases	10.4	11.2 (1)	6.07	6.8 (1)
Repurchase tenders	-	-	-	-
Exchange offers	329.8	318.7 (2)(3)	432.6	442.0 (2) (3)
Total	**340.2**	**329.9**	**438.6**	**448.8**
Repayments (4)				
Drawings	0.3	0.3	0.3	0.4
Early repayments	0.04	0.04	0.1	0.1
Final repayments	385.3	385.3	223.1	223.1
Total	**385.6**	**385.7**	**223.5**	**223.6**

1) cost = (nominal x market price) + interest accrued.

2) cost = nominal capital value of the exchanged linear bonds.

3) Including the exchange offers made in December 1998: BEF 14 310 965 000 (expense incurred in 1998 and booked in 1999).
Not including the exchange offers made in December 1999: BEF 25 407 055 331 (expense incurred in 1999 and booked in 2000).

4) The Fund's repayments are made over 30 years from the maturity of the issues.

Table 19: Repurchases on the stock exchange: authorised and real amortisation from 1989 to 1999 (in equivalent millions of BEF).

Years	Authorised amortisation	Real amortisation	Difference
1990	162 181	57 130	105 051
1991	200 230	10 801	189 429
1992	187 289	12 610	174 679
1993	131 459	31 154	100 305
1994	56 233	5 250	50 983
1995	37 974	6 070	31 904
1996	55 402	8 331	47 071
1997	81 576	5 381	76 195
1998	76 196	6 813	69 383
1999	69 386	11 223	58 163

3. DEBUDGETISED AND GUARANTEED DEBT

A. DEBUDGETISED DEBT

New issues were organised by la Régie des Bâtiments (Public Building Department) to finance the construction of a prison at Ittre (BEF 2 billion) and to finance the construction of a courthouse in Courtrai (BEF 900 million).

The Société Fédérale d'Investissement (Federal Investment Company) also raised a second tranche of EUR 30.7 million (BEF 1.2 billion) for the A.S.T.R.I.D. project ("all round semi-cellular trunking radio-communication network with integrated dispatching" = a mobile digital wireless network intended for use by all public assistance and security services).

Debudgetised debt exposure continued to decrease following periodic repayments.

Table 20: Trend for debudgetised debt (in equivalent billions of BEF).

1994	1995	1996	1997	1998	1999
67.2	75.7	72.5	69.7	66.8	62.1

B. GUARANTEED DEBT

Efforts to privatise the OCCH (Central Mortgage Office) were continued without interruption.

On the basis of a decree discussed by the Council of Ministers, the law dated 23 April 1999 authorised the King to instruct Société Fédérale de Participation (Federal Participation Company) to subscribe a capital increase in the OCCH or to organise a division of the OCCH into companies governed by private law so that some or all of the corporate shares generated by the split could be sold. Alternatively, the Federal Participation Company could instruct the OCCH to contribute some of its activities to a private-law subsidiary so that some or all of the shares in the latter could be sold.

The Royal decree dated 31 December 1999 aims to change the OCCH into a private law Public limited company as soon as a private shareholder has acquired a stake of at least 25.1% in the OCCH by purchase or subscription of a capital increase. In this case, the ceiling of liabilities guaranteed by the State would be reduced. This reduction cannot, however, be implemented to the detriment of early repayments for which a re-use premium must be paid.

As in previous years, the OCCH's business entailed covering rate risks.

La Financière TGV raised new State-guaranteed funds worth BEF 6 billion with the result that outstanding State-guaranteed issues amounted to BEF 74.96 billion at the end of December 1999, i.e. just below the ceiling for non-payment of the State guarantee. La Financière TGV was also involved in covering rate risks.

FADELS (Public Housing Loans Amortisation Fund) made refinancing issues worth a total of EUR 450 million. A step-up callable issue worth BEF 1 billion was also made to replace an issue which was redeemed early.

In 1999, Théâtre Royal de la Monnaie organised a State-guaranteed issue worth BEF 97.5 million to purchase a building.

A protocol between the Belgian State and the Belgian Association of Banks was signed on 25 August 1999 against the background of the dioxin crisis. As a result, sound agricultural businesses which found themselves in financial difficulties following the exceptional disturbance in the market due to dioxin contamination can receive loans on advantageous terms from lending institutions which signed the Protocol.

These institutions can provide agricultural businesses with loans totalling BEF 25 billion (EUR 619.7 million), while the sum per business is limited to BEF 5 million (EUR 123 946.76). The loan has a maximum maturity of 7 years and the capital is to be repaid in equal annual instalments starting from the end of the third year. The loan is granted at a fixed rate which cannot exceed the Belgian Prime rate minus 30 basis points. These loans enjoy a State guarantee covering 50% of the capital and interest (including late payment interest).

Table 21: Guaranteed debt exposure (in equivalent millions of BEF).

	1994	1995	1996	1997	1998	1999
In BEF/EUR	1474.4	1085.4	925.9	738.6	693.5	707.7
In currencies	141.4	188.6	211.9	184.2	175.5	43.4
Total	1615.8	1274.1	1137.9	922.8	869.0	751.1

The agricultural businesses had to submit their loan application to the participating lending institutions before 1 December 1999. The Bureau d'Intervention et de Restitution Belge (Belgian Intervention and Restitution Office) is responsible for managing the files.

At the end of December 1999, outstanding loans amounted to BEF 1 274.9 million of which BEF 637.5 was guaranteed by the State.

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SECTION 7

MANAGEMENT OF STATE DEBT WITH REFERENCE TO THE BENCHMARK DEBT PORTFOLIO

1. INTRODUCTION

Following a brief recapitulation of the concepts underlying debt management with reference to the benchmark debt portfolio, this section describes the experience of a third year managing public debt on this basis.

2. OBJECTIVES AND CONCEPTS

The main purpose of public debt management is to minimise the cost of State debt within the framework of appropriate risk management. For the past number of years, the Treasury has used a methodology to identify the portfolio structure which is best able to manage public debt strategically with optimum effectiveness in the short and medium term. This methodology aims to define and quantify the main parameters which enable the Treasury to control and manage market risks faced by the debt portfolio, i.e. interest-rate risks, refinancing risks and exchange risks. Quantifying these various parameters leads to the production of a benchmark debt portfolio that acts as a reference for public debt management.

The interest rate risk is calculated on the basis of the average duration of sub-portfolios established to manage exchange risk and by a breakdown of the debt maturity schedule. The benchmark debt portfolio structure quantifies two distinct levels of interest rate risk:

- the impact of general interest-rate volatility which is a function of the average portfolio duration, and

- the interest-rate risk level determined by the debt maturity schedule's regularity. This makes it possible to assess periodical repricing of a varying proportion of the debt portfolio for a determined period (e.g. one year) and a given duration on the basis of refinancing rates.

The refinancing risk is calculated on the basis of the sum which has to be refinanced annually on the public debt maturity schedule. The refinancing risk for a given portfolio will be minimised if the portfolio has a regular maturity schedule, involving equal refinancing each year. The objective is therefore to smooth out the debt-portfolio maturity schedule.

The exchange risk is calculated on the basis of the relative proportion of domestic debt to debt in other currencies and the breakdown of these currencies.

Management of these four parameters (exchange risk, duration-related interest-rate risk, interest-rate risk related to the maturity schedule breakdown and refinancing risk) largely determine the efficiency, stability and the risk/cost ratio of the existing portfolio.

The benchmark debt portfolio structure provides the basis for the General Guide-lines applying to State debt management, and which are decreed by the

Table 22: Principal parameters of the portfolio structure (exchange and interest rate risks).

	Exchange composition		Duration	
	Benchmark debt portfolio (flexibility margins)	Portfolio (December 1999)	Benchmark debt portfolio (flexibility margins)	Portfolio (December 1999)
Domestic debt	96%-97%	96.02%	3.75-4.75 years	3.80 years
Non-euro debt	3%-4%	3.98%	0.75-2.25 years *	1.98 years

* The exact thresholds depend on the currency concerned

Minister of Finance at the start of the year following a proposal by the Treasury Strategy Committee. The Strategy Committee implements the provisions set out in the General Guide-lines during the year. This delegation framework and decision-making process were ratified for the first time at the end of 1996 by the law defining the 1997 Budget for Ways and Means and included since then in the laws for 1998, 1999[1] and 2000.

It is important to point out that the risk objectives and limits proposed by the benchmark debt portfolio comprise global financial-management indicators. As such, they provide the Strategy Committee and Debt Agency with a constant point of reference which obliges them to raise questions about any non-marginal deviations from these indicators and justify them to the supervisory and control authorities. These indicators therefore do not comprise standards that the Treasury cannot breach.

3. MANAGEMENT OF PUBLIC DEBT WITH REFERENCE TO THE BENCHMARK DEBT PORTFOLIO BY APPLYING GENERAL GUIDE-LINES

The 1999 GGs recommended some restructuring of the existing portfolio so that its structure would more closely reflect that of the benchmark debt portfolio, at least to the extent determined by the flexibility margins. The 1999 GGs also recommended a specific strategy for 1999 in order to manage each aspect of market risk inherent in the portfolio.

In view of the dominance of interest-rate and refinancing risks as a proportion of overall risk, priority was assigned to appropriate management of duration and the domestic-debt maturity schedule. In terms of exchange risk, the residual foreign-currency debt portfolio following the transition to the euro only

(1) With slight modifications of the 1999 law to take account of the establishment of the Debt Agency within the Treasury.

requires a limited number of operations which are well defined within the present framework. The Treasury is gradually implementing the recommendations made by the General Guide-lines while assessing their financial and budgetary feasibility as well as market circumstances.

4. MANAGEMENT OF INTEREST-RATE AND REFINANCING RISKS

A. DOMESTIC DEBT

The 1999 GGs set the average reference duration for domestic debt and core euro debt at 4.25 years. The improvement in the situation of the public finances at the end of 1998 made it possible to purchase duration more easily than in the past. The relative flattening of European interest rate curves compared with the end of 1997 also enabled the Treasury to extend the average duration of domestic debt slightly. It was therefore able to reduce its interest-rate risk without increasing financial costs significantly, i.e. at the start of the year, duration cost substantially less than in the past. Furthermore, extending duration in favourable financial conditions was also intended to facilitate achievement of the objective of "smoothing out" the debt maturity schedule.

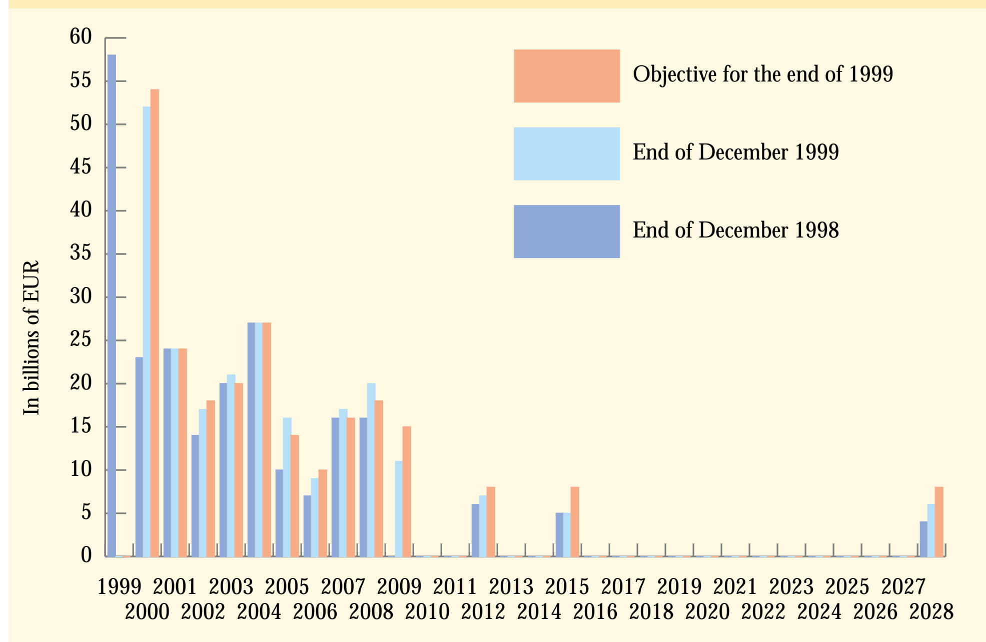
The average domestic-debt duration nonetheless fell from 3.96 to 3.80 years between the end of 1998 and the end of 1999. This shrinkage was mainly due to a major increase in long-term euro rates which mechanically led to a reduction in duration. If rates had remained at the level recorded at the start of the year, the portfolio duration would have been 4.07 years instead of the 3.80 years found at the end of 1999. The Treasury continued its policy of extending the average maturity (5.75 years at the end of 1999) against this background of increasing rates. Between the end of 1998 and the end of 1999, the ratio of long-term debt (maturity exceeding 1 year) to overall debt increased from 83.41% to 85.76%. In practice, long-term euro rates hovered around 4% between the start of January and the end of April, with the 10-year OLO returning its lowest yield of 3.92% in January and producing 4.10% at the end of April. In contrast, long-term rates increased by over 150 basis points between the start of May and the end of the year, with the 10-year OLO producing a yield of 5.65% on 30 December 1999.

1999 was the first year when a precise maturity schedule objective was proposed as a guideline. The 1999 GGs recommended organising a debt maturity schedule which was as regular as possible, as global risk would then be adequately controlled. The maturity-schedule objective was intended to help combined management of interest-rate and refinancing risks. In particular, such management aimed to equate the refinancing and interest-rate risks for future periods with a given duration by limiting the amount of debt subject to rate fluctuation to each period and by increasing the liquidity of OLO lines within the new context of the large euro market. Meeting this objective implied:

- reducing the refinancing volume and proportion of debt subject to rate fluctuation in 2000 compared with 1999,
- concentrating a large portion of new maturities in the long-term segment of the maturity schedule (10 years and over) and
- as regards medium-length maturities, avoiding maturities which were already heavily burdened (in particular, maturities in 2001 and 2004) by promoting less encumbered maturities (such as 2002 and 2005).

Graph 24 shows the results of this maturity-schedule management. Although the maturity schedule still reveals major disparities in terms of sums to be refinanced from year to year, active management of the maturity schedule clearly made it possible to avoid increasing the burden on maturities which were already heavily loaded (e.g. 2001 and 2004). It was also possible to concentrate financing on less encumbered maturities (e.g. 2002 and 2005) or those which were completely free (2009) as well as consciously reduce the refinancing needed the following year. In practice, total refinancing of domestic debt during the year fell by EUR 6 billion and short-term euro debt by EUR 5 billion between the start of 1999 and the start of 2000.

Graph 24: EUR debt maturity schedule.



B. FOREIGN CURRENCY DEBT

Foreign-currency debt was refinanced in the short-term in order to reduce its duration. In fact, interest-rate and refinancing risks relating to foreign-currency debt do not represent significant risk factors in terms of the global risk affecting the debt portfolio. The average durations proposed for this section of the debt were therefore relatively short to take advantage of the lower average level of short-term rates.

5. MANAGEMENT OF EXCHANGE RISKS

The 1999 GGs set the reference proportion of domestic debt at 96.5% of total debt. The current proportion of domestic debt, 96.02% of total debt, fits within the margin of flexibility proposed by the benchmark debt portfolio. For information purposes, the proportion of foreign-currency debt altered from 7.02% to 3.66% on 1 January 1999 following the introduction of the euro.

The exchange proportions between CHF, USD/CAD and JPY remained very stable during the year. The Treasury continued its policy of gradually reducing debt in JPY, but the strengthening of the JPY's exchange value relative to the euro during the year compensated for the reduction in this section of the debt.

At present, the exchange risk has become a minor component of the global risk inherent in the public debt portfolio. At this level of currency debt and for a portfolio whose global risk has been significantly reduced for the past number of years, the exchange risk has lost its diversification value compared with interest rate risk. The global debt portfolio may therefore be considered as almost a "single currency" portfolio.

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SECTION 8

THE DEVELOPMENT OF PUBLIC AUTHORITY FINANCES IN 1999

1. IMPLEMENTATION OF THE 1999-2002 STABILITY PROGRAMME [1]

The 1999-2002 Stability Programme drawn up at the end of 1998 planned to maintain the primary balance at 6% of GDP in compliance with previously made commitments. This was intended to enable the State to reduce the net financing borrowing for 1999 to 1.3% of GDP.

The net financing borrowing for 1999 was estimated at 0.9% of GDP, which comprised an 0.4 percentage point improvement compared with the Stability Programme's objectives. In fact, this meant that we were a year ahead of schedule on the programme. The budget standard stipulated that the deficit would not be reduced to 1% of GDP before 2000. It should also be noted that this was the seventh year in a row that the deficit was reduced.

Table 23: Stability programme 1999-2002: targets and results achieved in terms of net financing borrowings (as a % of GDP).

	1998	1999	
	Achieved	Targets	Achieved
Public services (total)	-1.0	-1.3	-0.9
Entity I	-1.5	-1.3	-1.3
- Federal authority	-1.9	-1.6	-1.8
- Social security	+0.4	+0.3	+0.5
Entity II	+0.4	0.0	+0.5
- Communities and Regions	+0.2	0.0	+0.5
- Local authorities	+0.2	0.0	-0.1

N.B.: The sum of the components may differ from the totals due to rounding (apparent difference = 0.1% of GDP).

Source: National Bank of Belgium. Annual Report for 1999.

(1) The 1999-2002 Stability Programme's objectives were set out in accordance with the ESA 79 methodology. In contrast, the results were presented by following the ESA 95 methodology. This meant that the two statistical series were not completely comparable.

As the previous table shows, the improved results can essentially be ascribed to the Communities and Regions. In compliance with recommendations made by the "public authorities' financing requirements" Section at the Higher Finance Council, receipts and expenditure for the Communities and Regions as a whole were planned to balance in 1999. In the end, the result recorded emerged as significantly better than that expected. Local authorities returned a limited deficit, whereas a balanced result was awaited. This slight deterioration should undoubtedly be seen in tandem with the approach of municipal elections. On an overall basis, Entity II achieved a better result than the expected balance by returning a financing surplus of 0.5% of GDP. For its part, the federal power experienced difficulty in complying with the objectives of the Stability Programme. This situation was not surprising insofar as the federal authority had to bear the main brunt of the dioxin crisis from a budget perspective. The slight overrun recorded by the federal authority was, however, compensated for by a better than expected result by the social security services with the result that Entity I's net financing borrowing met its assigned objective.

As stated above, the main objective of the 1999-2002 Stability Programme was to maintain the primary surplus at approximately 6% of GDP. On an overall basis, the primary surplus amounted to 6.3% of GDP, and therefore constituted an improvement on the figure planned in the programme. At 0.9% of GDP, the net financing borrowing also remained well below the level required in the programme (1.3% of GDP). Thus, despite the consequences of the dioxin crisis, the finances of the combined public authorities more than met the objectives of the Stability Programme.

Table 24: Receipts and expenditure of all public authorities (in % of GDP).

	1998 (actual)	1999 (estimates)
Receipts (1)	46.4	46.3
Primary expenditure(*)(2)	39.8	40.0
Primary balance(*) [3=1-2]	6.6	6.3
Interest charges (4)	7.7	7.1
Net financing borrowing [5=3-4]	-1.0	-0.9

(*) excluding interest charges

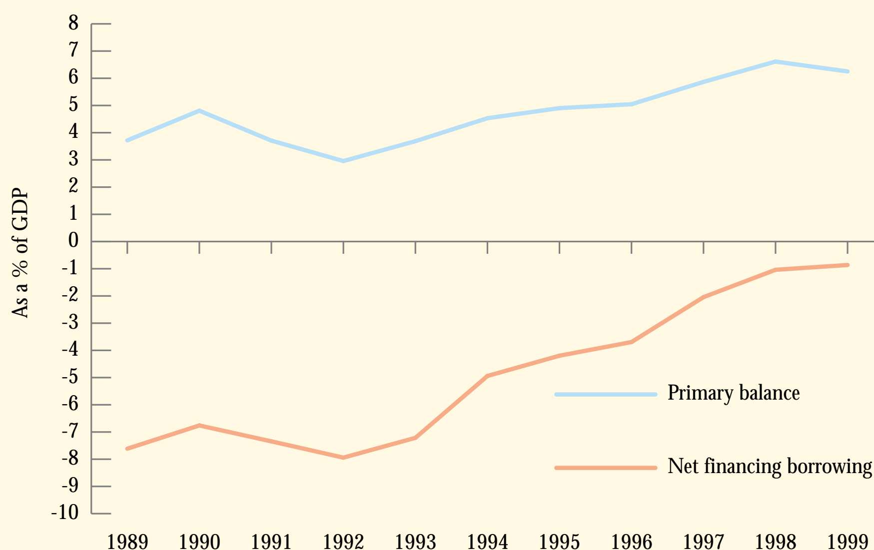
Source: National Bank of Belgium. Annual Report for 1999.

The net financing borrowing amounted to 0.9% of GDP, while a primary surplus of 6.3% of GDP was recorded. The reduction in the primary balance, which fell from 6.6% of GDP in 1998 to 6.3% in 1999, should be considered against the background of the global economic context. Following economic expansion of 3.5% and 2.7% in 1997 and 1998 respectively, growth slipped back to an estimated 2.5%. Furthermore, the budgetary implications of the dioxin crisis also had to be taken into account. It is difficult to evaluate the impact of this crisis on receipts. As regards expenditure, the 1999 budget had already incorporated an increase of approximately BEF 20 billion. For their part, interest charges represented a declining share of expenditure under the influence of the reduction in the implicit debt rate which moved down from 7.7% to 7.1% between 1998 and 1999.

Thus, with a deficit of approximately 0.9% of GDP, Belgium achieved a better result than the average for the 11 countries in the euro zone (estimated at 1.2% of GDP).

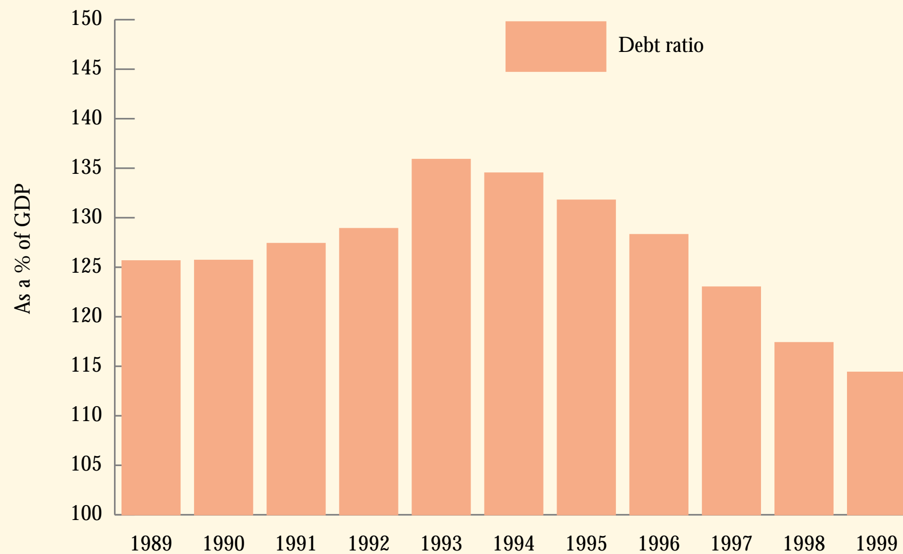
Graph 25 very clearly shows the continuing reduction in the net financing borrowing since 1993. This was made possible by a decrease in interest charges and the availability of a high primary surplus.

Graph 25: Trend for the net financing borrowing and primary balance.



The reduction in the budget deficit, the use of privatisation receipts and efforts towards consolidating the debt within the public authorities led to a structural reduction of the debt ratio. This ratio therefore fell from 135.9% of GDP in 1993 to 114.4% in 1999. Aside from the reduction in the debt's implicit rate, the decrease in the debt ratio also contributed to a drop in interest charges.

Graph 26: Trend for the debt ratio.



2. BUDGET POLICY FOR 2000 AND THE BELGIAN STABILITY PROGRAMME (2000-2003)

The 2000 budget reflects the political priorities defined by the new government which entered office in July 1999. It was drawn up on the basis of extremely prudent macro-economic hypotheses and fits in perfectly with the medium-term objective of reaching a balanced budget in 2002. Even though the government is keeping to a strict programme to eliminate the budget deficit and to very prudent hypotheses, it was possible to generate margins of manoeuvre that allowed the launch of major new initiatives in various domains. The overall sum aimed at reducing social contributions were therefore raised from BEF 80.6 billion in 1999 to BEF 130.7 billion in 2000. This led to a substantial structural reduction in the contributions paid by employers as well as a series of more targeted measures (expansion of the Maribel social plan, a reduction in personal contributions paid by low-paid employees, and the introduction of a "first employment" system, etc.). Aside from a major reduction in special-tax levies, in advance of a more far-reaching tax reform, the government took a range of ad hoc measures aimed at lowering the pressure of taxes. Among other provisions, these included the first step towards abolishing the supplementary recession levy and reducing VAT on highly labour-intensive services. In terms of expenditure, resources were notably made available for the development of a security policy and modernising public service departments.

In compliance with the Pact for Stability and Growth, Member States must submit an updated version of their Stability Programme to the European authorities each year. At the end of 1999, the Belgian government introduced its updated Stability Programme for 2000-2003. This presents the framework for budgetary policy in the coming years. The objective of the budget strategy

is to achieve a balanced budget in 2002. Once equilibrium is reached in 2002, the authorities will take all possible steps towards developing a certain structural surplus. The predicted results of this strategy are based on the use of prudent macro-economic hypotheses. These assume economic growth of 2.5% in 2000 and 2001 followed by a subsequent decline to 2.3%. Without taking account of possible receipts from privatisation, this strategy should bring the level of debt down to the level of GDP by around 2003. If the macro-economic trends prove to be more favourable, the government will allocate the share of growth exceeding 2.7% to reducing the deficit.

Belgium's Stability Programme was welcomed very favourably by the European authorities.

Table 25: Interest charges and budgetary balances of the public-authority entities under the Stability Programme (2000-2003).

	2000	2001	2002	2003
Entity I				
Primary Surplus	5.2	5.3	5.7	5.6
Interest charges	6.3	6.0	5.7	5.4
NFB	-1.1	-0.7	0.0	0.2
Entity II				
Primary Surplus	0.9	0.9	0.6	0.6
Interest charges	0.7	0.7	0.6	0.6
NFB	0.2 [1]	0.2 [1]	0.0	0.0
Entities I and II				
Primary Surplus	6.0	6.2	6.4	6.2
Interest charges	6.9	6.7	6.4	6.0
NFB	-1.0	-0.5	0.0	0.2

(1) This is the local authority surplus which was estimated at 0.15% of GDP. This percentage has been rounded to 0.2% for presentation reasons.

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GLOSSARY

The definitions included in this glossary are merely intended to help the reader to understand the terms used in the report, other terms found in previous reports or literature on management of Belgian public debt. They do not have any scientific purpose.

Amortisation

Generally speaking, any repayment which reduces or pays off a debt. In the narrow sense, repayment planned in the issue contract entailing the spreading of the financial cost of debt repayment over several years.

Assets and liabilities management

This term covers the range of portfolio asset and liability management techniques used to provide an objective view of strengths/weaknesses and mainly entails the use of the marked to market technique.

These approaches enable users to optimise decision making.

Belgian Treasury Bills

Short-term issues in OECD member state monetary units. They correspond to the foreign-currency equivalent of EUR Treasury certificates. These dematerialised securities are issued via an arranger and panel of dealers. The first issue was made in July 1996. It has also been possible to issue BTBs in BEF and EUR since September 1998. These securities have a maximum maturity of one year.

Bond-stripping

A technique introduced in October 1992 aimed at splitting the capital and interest of linear bonds. This makes it possible to trade a right to capital and a right to interest as independent securities.

Call option (early redemption option)

A right which enables the issuer to redeem a bond before final maturity on dates defined in the issue contract and according to its conditions, subject to providing a set notice period.

Cap

Limit on the upward movement of an interest rate or coupon.

Capital market

Place where medium and long-term financial instruments are traded.

Clearing system

This system, which has been used by the National Bank of Belgium since 1991, is aimed at ensuring secure completion of all operations involving securities. The clearing system has made a distinction between accounts which are exempt from a withholding tax (X accounts) and those which are not (N accounts) since 1994. A more detailed explanation of the system's operations can be found in the National Bank of Belgium's 1995 Annual Report.

Funding (of floating debt)

In the present report, the term funding describes the repayment of a floating debt via the yield from a long-term bond, except where the floating debt has been issued as part of a prefinancing operation. The level of debt funding is given by the proportion of medium and long-term debt within the overall debt.

Funded debt

Long term debt (over 1 year) where the yield from the issue is transferred to the Budget for Ways and Means. This debt can lead to contractual amortisation via annual allocations registered in the public debt budget.

Debt exchange: see repurchase

Debudgetised debt

Range of loans paid for by the Treasury which are not listed in the official breakdown of the public debt. These loans are issued by independent public bodies or local authorities instead of the central authorities to meet expenditure associated with the latter's budget. These expenses are debudgetised and only appear later during payment of interest charges and capital. This technique enables the authorities to spread the initial budgetary burden over several budget years.

Direct debt

Debt contracted by the State directly to cover its own needs.

Duration

A measurement of an asset's remaining lifetime which takes account of intermediate payments (e.g. coupons) generated by this asset. This measurement makes it possible to determine the sensitivity of the asset's value to yield variations.

Euro-Commercial Paper (ECP)

Short-term paper (notes) distributed by several intermediaries (dealers) among Euro-market investors interested by the high level of liquidity offered by this financial instrument.

The intermediaries inform the issuer of their margin relative to Libid and the amount they wish to lend. The issuer then accepts the best bids.

Euro-medium Term Note (EMTN)

Long or medium-term paper (notes) distributed by several intermediaries among Euro-market investors interested by the high degree of liquidity offered by this financial instrument.

In contrast to ECP, the issuer informs intermediaries of the rate at which it intends to launch the notes while also stating their level above US Treasury Bills, the sum involved and the instrument's duration.

Eurobond

Long-term security issued simultaneously in several countries which have different currencies from the one in which the bond is denominated, using the facilities of an international syndicate of financial intermediaries.

Exchange variations

Modifications of the exchange rate which lead to movements in the public debt resulting from an accounting revaluation of foreign currency debt. Thus, when the BEF/EUR depreciates relative to the currencies in which foreign-currency debt is denominated, debt exposure increases. In contrast, an appreciation of the BEF/EUR leads to a reduction in outstanding public debt.

Financial instruments

On the basis of the law dated 6 April 1995 (B.M. dated 3 June 1995) on secondary markets, the status of investment companies and their supervision, investment intermediaries and advisors, financial instruments are deemed to comprise (Art.1):

1. a) - shares and other securities comparable to shares,
   - bonds and other debt securities, which can be traded on the capital market, and

   b) - all other securities commonly traded to enable investors to acquire such financial instruments via subscription or exchange, or those which lead to cash payment (excluding payment instruments),
2. shares in a unit-trust fund,

3. categories of financial instruments commonly traded on the money market, hereinafter referred to as money market instruments,
4. forward contracts (futures), including equivalent financial instruments leading to cash payment,
5. forward rate agreements (FRAs),
6. interest-rate or currency swap contracts, as well as swaps on equity or equity index flows (equity swaps),
7. options for the purchase or sale of all financial instruments described in the present paragraph, including equivalent financial instruments leading to cash payment and, in particular, currency and interest rate options.

The financial instrument concept replaces the term "security" used in previous glossaries.

Finance Law

A law which authorises the Executive to impose taxes, receive non-fiscal receipts and to meet Treasury financing borrowings not covered by taxation and non-fiscal receipts for a determined period of the budget year via issues.

A Finance Law is passed by parliament each time that the Budget for Ways and Means has not been passed before the start of the budgetary year.

Financial market

Capital and money markets.

Fixed-rate bond

A fixed-rate eurobond with a relatively long duration.

Fixed rate issue

Issue whose interest rate remains the same until final maturity

Fixed-rate note

A fixed rate eurobond with a relatively short duration.

Floating Rate Note (FRN)

A medium or long-term eurobond whose interest rate varies depending on the trend for a reference interest rate, usually the interbank euro-currency rate in London (Libor, Libid or Limean). An FRN's coupon is usually set every six months, and in rarer cases every three months or only once a year. A fixed margin (spread) may be added to the interbank rate. This margin may be deducted from the interbank rate for very good debtors.

Floating debt

Short-term debt. Only the interest paid on this debt is covered by an allocation in the public debt budget. In contrast, the yield from short-term issues and their repayments are entered in a Treasury account.

Foreign bond

A long-term security issued by a foreign issuer in a foreign country. The issue currency is that of the local market and the issue complies with local regulations.

Forward exchange contract

A contract whereby the parties undertake to exchange a certain amount of currency at a previously set future date and an agreed exchange rate in order to hedge against exchange risks.

Global Note

A global certificate representing a bond issue

Grey market

Particular form of the off-stock exchange market where trading is carried out in public issues that are not yet officially quoted.

Transactions between financial intermediaries begin as soon as the essential issue conditions for the new issue have been set.

Indirect debt

Debt issued by some public institutions to cover their own financing needs. The financial expenses are borne by the State.

Interbank market

Market in which banks carry out financial trading among themselves.

Libid

London Interbank Bid Rate or the rate of payment for deposits on the London interbank market.

Libor

London Interbank Offered Rate or the rate paid by borrowers on the interbank market in London.

Limean

London Interbank Mean or the average between Libid and Libor. In view of the fact that Libid and Libor generally differ by 1/8 %, Limean is obtained by either adding 1/16 % to Libid or by subtracting 1/16 % from Libor.

Linear bond (OLO)

The Treasury has issued long-term linear bonds with a fixed rate, duration and redemption value since May 1989. These are issued in monthly sets and their issue price and consequent yield are defined on the basis of a tendering system, without the involvement of banking consortiums. This, in turn, enables certain financial institutions (Primary Dealers and Recognised Dealers) to bid freely. These linear bonds are dematerialised and registered in an account. Purchase/sale operations are carried out via the National Bank of Belgium's clearing system.

Local authority debt

Debt incurred by Regions and Communities, provinces, municipalities, intermunicipal authorities and various institutions such as C.P.A.S., church councils, etc.

Marked to market evaluation

In principle, this evaluation technique used in the context of assets and liabilities management involves constantly determining the value of an asset and liability relative to the state of the market.

This technique is particularly useful for managing foreign-currency debt so that its exchange value in BEF or EUR can be established.

Market

Location where supply and demand for goods or financial instruments meet:

1. In terms of linear bonds and Treasury certificates:
   a) primary market: the regulatory issue provisions defining criteria for accessing tenders or subscriptions of these financial instruments; cf.: Royal Decree dated 16 October 1997 on linear bonds (B.M. 25 October 1997) and the Ministerial decree dated 17 December 1998 on Treasury certificate issues (B.M. 24 December 1998).
   b) secondary market: linear bonds are listed on the stock exchange. Transactions under BEF 25 million are also regulated by the Securities Regulation Fund (fixing market).

   The off-exchange secondary market for linear bonds, stripped securities and Treasury certificates is governed by the Royal Decree dated 22 December 1995 (B.M. 3 January 1996). These securities can, however,

be traded outside regulated markets subject to the investor providing explicit authorisation.

2. In the case of traditional issues, the primary market is organised by a royal decree determining the issue's characteristics (rate, duration, etc.) while a Ministerial decree sets the issue price and subscription period. The secondary (fixing) market is regulated by the Securities Regulation Fund which plays the main role in setting prices in order to protect non-professional bearers intervening in this market.

   Professional investors access a block market where the Securities Regulation Fund does not intervene. Transactions can be made here with great freedom among investors. An unregulated secondary market outside the stock exchange also exists.

Money market

The market for financial operations with maturities up to one year.

Net Borrowing Requirement (NBR)

Balance of receipts and expenditure of the combined public services (i.e. the federal authorities, Regions and Communities, the social security service and local authorities) established using the ESA national accounts methodology. This balance notably includes debudgetised items but excludes loan allocations and corporate holdings. It differs from public authority financial deficits (which partially include the Treasury's Net Financing Requirement), mainly due to time differences between the dates for recording operations under the two systems and imperfect data collection.

Net Financing Requirement (NFR)

Total balance of current and capital operations, plus treasury operations. It is referred to as net because debt amortisation instalments are not included in the above-mentioned categories. The net budget balance only refers to the sum of current and capital operations. In theory, the Net Financing Requirement corresponds to the growth in public debt. In practice, a certain number of factors nonetheless explain the difference between the Net Financing Requirement and the nominal variation in public debt. In particular, these comprise variations affecting Treasury certificates held by the IMF, exchange differences on long-term debt in foreign currencies, interest capitalised during exchange operations, recovery of certain debts, Treasury management operations which now mainly cover investments in the strict sense of the term, purchase of Treasury certificates and financing of the Securities Regulation Fund.

Primary Dealers

The off-stock exchange secondary market for linear bonds and Treasury certificates has been organised by Primary Dealers in order to increase its liquidity since the 1991 reform.

These Treasury securities specialists are also responsible for facilitating investment of these securities outside issue operations.

In exchange for an obligation to participate in competitive tenders and to take a secondary market listing, Primary Dealers benefit from certain advantages, in particular, the right to subscribe for issues according to the non-competitive procedures reserved for them.

Their functions, obligations and advantages are contained in a "code of duties" to which they must adhere.

Primary market

The market in new issues (see Market).

Public debt

In the strict sense of the term, the public debt comprises direct or indirect Belgian State debt (central or federal authorities), thus excluding guaranteed debt, debudgetised debt and debt incurred by other public authorities (Communities and Regions, etc.). This report deals with debt in the strict sense of the term.

Public debt ledgers

Ledgers where the Treasury records registered subscriptions for public issues, repayments and transfers between registered holders. Copies of the ledgers are kept in the Audit Office.

Put option

An investor's right to seek early repayment of its loan at a price determined in the issue contract.

Rating

A practice which involves estimating a debtor's ability to service its financial commitments. The best-known rating agencies are Standard & Poor's and Moody's, which may regularly publish a rating for the Belgian State.

Recognised Dealers

These are institutions selected by the Belgian Treasury to promote its financial products in regions where these are less well-known. In contrast to Primary Dealers, Recognised Dealers do not bear market-share obligations. Nor do they have access to non-competitive tenders for linear bonds and Treasury certificates. They have access to competitive tenders and occupy the position of preferred Treasury partners during its public debt management operations.

Refinancing

Early reimbursement of an issue using the yield from a new issue organised in more advantageous conditions (cf. call option).

Renewal

Reimbursement of an issue reaching maturity using the yield from a new issue of the same type issued in compliance with current conditions (short and medium term).

Repurchase

Aside from stock-exchange repurchase operations, the State has acquired circulating securities by tender before maturity since the start of 1991: this entails the State removing a set of debts from the market by buying them back at the price prevailing in the market when the operation is carried out.

The repurchase may comprise an exchange: a new debt is then issued in exchange for the recovered debt.

Reviewable-rate issue

A issue whose interest rate is reviewed annually or after a certain number of years, depending on the contract concerned. This type of issue is considered as a fixed-rate issue in the present report.

Sale-repurchase agreement or repo

A cash securities sale involving a simultaneous forward purchase between the same parties of securities with the same characteristics for the same sum, irrespective of the agreed price or maturity conditions. A reverse repo entails the reverse operation, i.e. a purchase followed by a forward sale of securities. The Treasury uses these operations to increase or reduce its liquid assets.

Schuldschein

Certificate showing that the issuer has a debt to a third party. The term "Schuldschein" is used for DEM issues made on the German capital market.

Secondary market

The market in which investors trade in circulating financial instruments (see Market).

Securities Regulation Fund

An independent public body responsible for regulating the secondary market for public funds, mainly on behalf of persons intervening in the market in a non-professional capacity (individual investors). On the basis of the Royal Decree dated 22 December 1995, the Fund is also responsible for administering and supervising the regulated off-exchange market for OLOs, Treasury certificates and stripped securities. It can also provide technical assistance for managing State debt.

Short-term debt

Debt represented by securities whose duration does not exceed 1 year and intended to meet a relatively short-term Treasury overdraft due to lack of synchronisation between expenditure and receipts due to seasonal or unexpected flows (cf. floating debt).

Snowball ("snowball" effect)

Auto-fuelling of debt due to the interest paid on this debt.

Spread

The (generally fixed) margin which is added or subtracted from the reference interest rate selected for all variable rate issues.

State-guaranteed debt

The range of loans issued by various public sector organisations or institutions to cover their own financing requirements. In certain cases, loan interest and/or amortisation is guaranteed by the State. This debt does not fall within the debt incurred by the federal State. The guarantee provided by the State is only invoked where the issuer becomes insolvent.

Structured issue

An issue with a structure of varying complexity in order to meet investors' requirements and to lower the financing costs borne by issuers (dual currency issues, integrated options, etc.).

The former EMTN programme was traditional in type and only provided for plain vanilla issues in USD. The new programme allows the use of all structures

(zero-coupon bonds, dual currency notes, indexed notes, etc.) in the complete range of OECD currencies. The financial intermediary plays the role of presenting a structure which will meet both investors' and issuers' requirements.

Swap

A financial transaction whereby two parties undertake to exchange equal but opposing financial streams for a certain period of time. The swap can affect the interest rate, currency or both.

These are respectively called interest rate swaps, currency swaps and cross swaps.

An interest-rate swap involves exchanging interest payment streams for underlying capital, e.g. a fixed rate against a floating rate, a floating rate against a floating rate based on different references.

A currency swap entails exchanging payment streams comprising both interest and capital repayments in two different currencies in accordance with previously agreed rules.

Swaps enable investors and borrowers to hedge against interest rate and exchange risks on foreign currency debts.

Swaps panel

A group of banks which compete to provide the best possible conditions for executing a swap operation.

Swaption

Option enabling an investor or borrower to contract for a swap at a future date and with a predetermined rate or price.

Syndicated issue

Operation whereby a group of banks (the banking syndicate) make funds available to an issuer via a subscription by syndicate members acting on their own behalf, subject to identical terms and conditions applying to all members.

Tendering

System of placing an issue whereby the bidders (potential subscribers) either offer an issue price or interest rate, due to the fact that all the other conditions of the issue are set by royal or ministerial decree. The range of bids submitted are classified according to the prices or rates offered.

Since the launch of linear bonds (OLOs) in May 1989, price tenders have been organised on the basis of a "threshold price" set by Treasury officials as a means of selecting offers from the bids received.

Since the reform dated 29 January 1991, the Treasury has also organised Treasury certificate (TC) tenders using ceiling rates according to its requirements.

Offers above the minimum price or below the ceiling rate are honoured at the level offered by the subscribers. These offers are referred to as "competitive offers". The tendering system therefore operates with multiple prices and rates.

Non-competitive offer (OLO): offer without any price indication, accepted at the weighted average price derived from the competitive tender.

Non-competitive offer (TC): offer without any rate indication accepted at the weighted average rate derived from the competitive tender.

Treasury bonds (cf. Belgian Treasury Bills - BTBs)

Securities representing short and medium-term foreign-currency issues made by the Treasury and held by financial intermediaries in Belgium or abroad. These securities were replaced by foreign-currency interbank loans in July 1996.

The term Treasury bond is also used to designate interest-bearing or interest-free securities issued to cover Belgian investment in the capital of international organisations of which it is a member (e.g. the IMF).

Treasury certificates

Short-term securities in euros issued by the Treasury via a tendering system in the primary market.

Three types of Treasury certificate exist, i.e. three-month, six-month and twelve-month instruments. These dematerialised securities are allocated using a multiple-rate tendering system.

An active secondary market is also created and supported by Primary Dealers, who guarantee an effective, transparent, and liquid market.

Treasury certificates have become accessible to everyone (residents/non-residents, institutional investors and individuals) since their entry into the X/N clearing system.

Variable rate issue

Issue whose interest rate is periodically adjusted to take account of the reference interest rate.

Zero-coupon bond

Bond which does not bear interest, as its name suggests. However, its issue price is lower than the sum paid out on final maturity.

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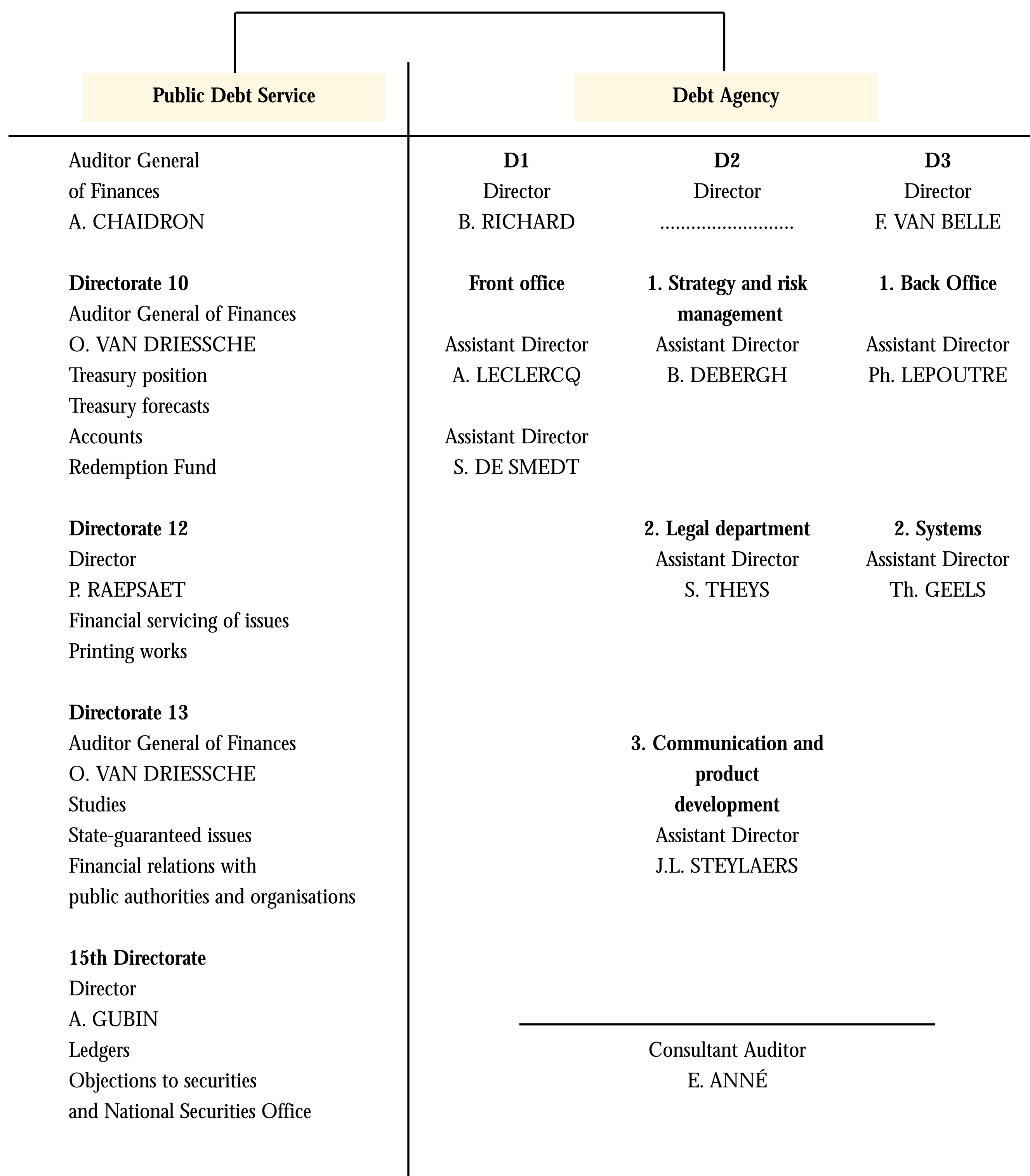
ANNEXES

Treasury Administration
ORGANISATION CHART

Jean-Pierre ARNOLDI, Administrator General
Hiliana COESSENS, Director General



PRIMARY DEALERS

ABN-AMRO BANK
Foppingadreef 22
NL-1102 BS-AMSTERDAM

ARTESIA BANKING CORPORATION
Bld du Roi Albert II, 30 bte 2
B-1000-BRUSSELS

BANQUE BRUXELLES LAMBERT SA /
BANK BRUSSEL LAMBERT NV
Marnixlaan, 24, avenue Marnix
B-1050 BRUSSELS

BANQUE ET CAISSE D'EPARGNE DE L'ETAT
DU GRAND-DUCHE DE LUXEMBOURG
Place de Metz, 1-2
L-2954 LUXEMBOURG

BANQUE GENERALE DU LUXEMBOURG SA
Avenue J.F. Kennedy, 50
L-2951 LUXEMBOURG

BARCLAYS CAPITAL
Boulevard de la Madeleine, 21
F-75038 PARIS Cédex 01

CDC Marchés
56, rue de Lille
F-75356 Paris Cédex 07

DEUTSCHE BANK AG
Grosse Gallusstrasse, 10-14
D-60272 FRANKFURT AM MAIN

DEXIA
Pachecolaan 44, bvd Pacheco
B-1000 BRUSSELS

FORTIS BANK
Warandeberg, 3, Montagne du Parc
B-1000-BRUSSELS

GOLDMAN SACHS INTERNATIONAL
Fleet Street, 133
GB-LONDON EC4A

JP MORGAN SECURITIES Ltd LONDON
Victoria Embankment, 60
GB-LONDON EC4Y 0JP

KBC BANK NV
Arenbergstraat, 7, rue d'Arenberg
B-1000 BRUSSELS

MORGAN STANLEY & Co INTERNATIONAL
LIMITED
Cabot Square, 25
GB-LONDON E14 4QA

PARIBAS CAPITAL MARKETS
Harewood Avenue, 10
GB-LONDON NW1 6AA

SOCIETE GENERALE
Tour Société Générale
F-92972 PARIS La Défense Cédex

WARBURG DILLON Read
(division of UBS AG London)
Finsbury Avenue, 1
GB-LONDON EC2M 2PP

RECOGNIZED DEALERS

BANCA D'INTERMEDIAZIONE
MOBILIARE IMI SpA
Corso Matteotti, 6
I-20121 MILANO

CAIXA GERAL DE DEPOSITOS
Av. Joâo XXI 63,
P-1000 LISBOA

COMMERZBANK
Neue Mainzerstrasse, 32-36
D-60261 FRANKFURT AM MAIN

HSBC MARKETS
Queen St Place, 10
GB-LONDON-EC4R 1BQ

NOMURA INTERNATIONAL plc
St Martin's-le-Grand, 1
GB-LONDON-EC1A 4NP

TOKYO-MITSUBISHI INTERNATIONAL plc
Broadgate, 6
GB-LONDON-EC2M 2AA

BTB APPOINTED DEALERS

FORTIS BANK, co-arranger
CREDIT COMMUNAL / GEMEENTEKREDIET
DEUTSCHE BANK A.G., London
GOLDMAN SACHS INTERNATIONAL, arranger
LEHMAN BROTHERS
WARBURG DILLON READ, (division of UBS AG London)

PLACING INSTITUTIONS (STATE NOTES)

Artesia Banking Corporation
Banque Axa
Banque Bruxelles Lambert
Banque de La Poste
Banque Nagelmackers
Bonnewijn, Renwart, Van Goethem et Cie.S.A.
Fortis Bank
Oostvlaams Beroepskrediet
KBC
Crédit agricole S.A.
Crédit communal de Belgique
Deutsche Bank (Crédit lyonnais)
Crédit professionnel du Hainaut
Société de Bourse De Buck & Cie
Société de Bourse Dierickx, Leys & Cie
Fortis (Générale de Banque)
Banque Van de Put & C C.V.A.
Société de bourse Riga & Cie S.A.
Société de bourse J. Leleux & Cie S.A.
Banque d'Epargne Westkrediet S.A.

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