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Special topic :

Declining bond yield spreads in the euro area

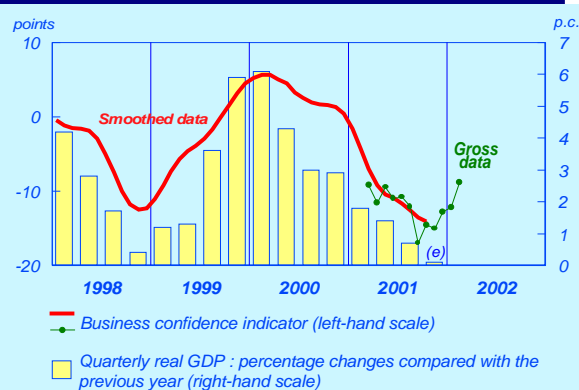
CONSENSUS FORECAST

	2000		2001 p			2002 p		
	Belgium	Euro area ³	Belgium Consensus	Belgium Previous consensus	Euro area ³	Belgium Consensus	Belgium Previous consensus	Euro area ³
Real GDP¹	4.0	3.4	1.1	1.2	1.6	1.2	1.0	1.3
Employment¹	1.6	1.9	1.2	1.0	1.2	0.1	0.1	0.2
Consumer prices¹	2.7	2.4	2.4	2.5	2.5	1.4	1.5	1.8
Current account²	4.4	-0.1	4.8	4.0	0.4	4.6	4.3	0.4
General government balance^{2*}	0.1	-0.8	0.0	0.0	-1.1	-0.1	-0.3	-1.4
Primary balance^{2*}	6.8	3.2	6.6	6.5	2.7	6.0	6.0	2.4
Public debt²	109.3	70.2	106.6	107.0	68.8	103.6	104.1	68.4

¹ P.c. change. ² In p.c. of GDP. ³ European Commission (forecast available since November 2001; next publication in Spring 2002).
 * Excluding the proceeds of the auction of UMTS licences.

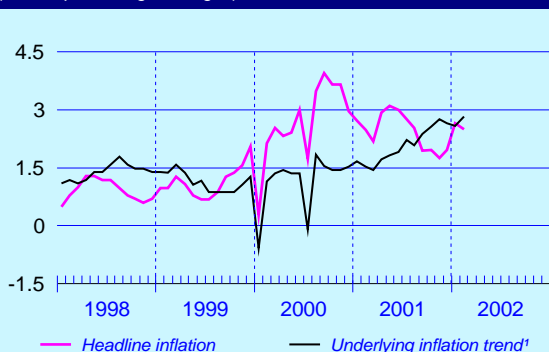
MACROECONOMIC DEVELOPMENTS

BUSINESS CYCLE INDICATOR AND GDP



Sources: NAI, NBB.

HARMONISED CONSUMER PRICES (annual percentage changes)



Source: EC.

¹ Headline inflation excluding energy and unprocessed food.

The Belgian economy recorded a marked slowdown in 2001, continuing the trend which started at the beginning of 2000. All in all, real GDP grew by only a modest 1.1%.

According to our consensus forecast, the Belgian economic activity is expected to show a clear upturn in 2002. Taking into account the unfavourable carry-over effect at the beginning of the year, this would result in a real annual GDP growth of 1.2%, largely comparable to last year's figure. However, the profile during the year would thus be completely different, as indicated by rising business and consumer surveys' results, both in Belgium and in other European countries. The expected recovery should be triggered by a more supportive external environment, and by the fading out of the massive stocks depletion observed in 2001.

Early 2002 the inflation rate rose to over 2.5%, mainly due to temporary elements, such as sharp price rises for vegetables and fruit as a result of unfavourable weather conditions and a base effect for energy prices. For the time being there is little evidence that the euro cash changeover has had a substantial upward effect on the aggregate price level, although prices of some services seem to have been affected. Over the next months, inflation would slow down as a result of the short-lived nature of high vegetable and fruit prices, the further easing of the upward pressure on prices due to the food crises and the lagged effects of lower import prices and the deceleration of economic growth in 2001. Therefore, Belgian consumer prices would rise in 2002 by an estimated 1.4%, which is some 1 percentage point below the figure recorded last year.

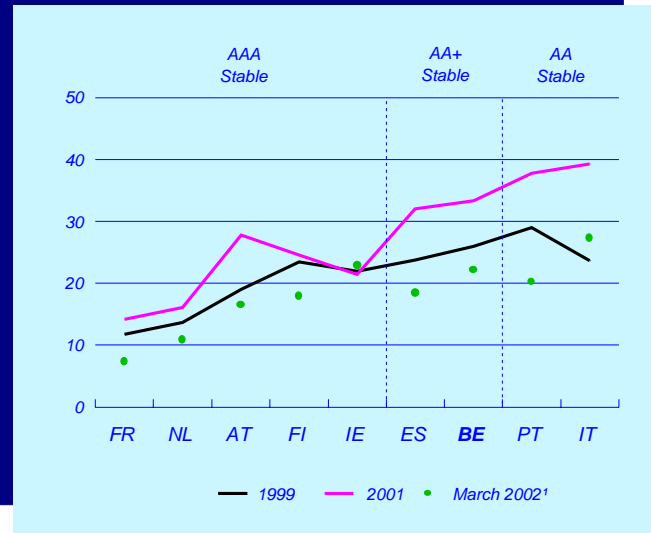
Despite the sharp adverse cyclical evolution, the Belgian public authorities managed to close their budget in 2001 with a small surplus. Based on a slightly more optimistic view on economic growth, the initial 2002 budget was balanced. Our consensus forecast shows a slight deficit of 0.1% of GDP. However, this estimate was made before the Belgian government finalised its budget review at the end of March in order to take account of the worsened economic situation.

DECLINING BOND YIELD SPREADS IN THE EURO AREA

TEN-YEAR BELGIAN OLO / GERMAN BUND YIELD SPREAD
(basis points)



TEN-YEAR BOND YIELD SPREADS VIS-A-VIS THE GERMAN BUND ACCORDING TO RATING ²
(averages, basis points)



Sources: BIS, Standard & Poor's.

¹ Average until 21 March.

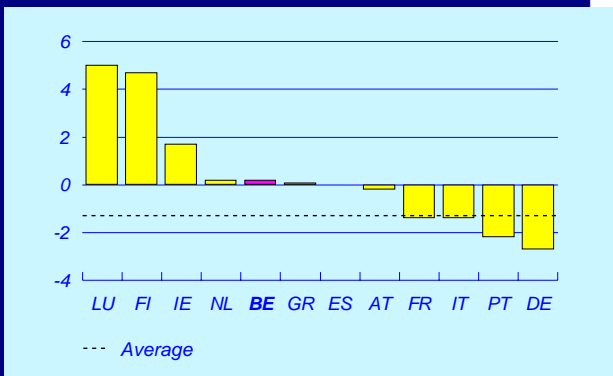
² Rating assigned at 21 March 2002 by Standard & Poor's for long-term debt in national currency. In addition to the rating, the chart shows its outlook.

Since the end of 1998 the rating or its outlook were reviewed upwards for Spain on 31 March 1999, for Finland on 1 September 1999, 3 October 2000 and 1 February 2002 and for Ireland on 3 October 2000 and 3 October 2001.

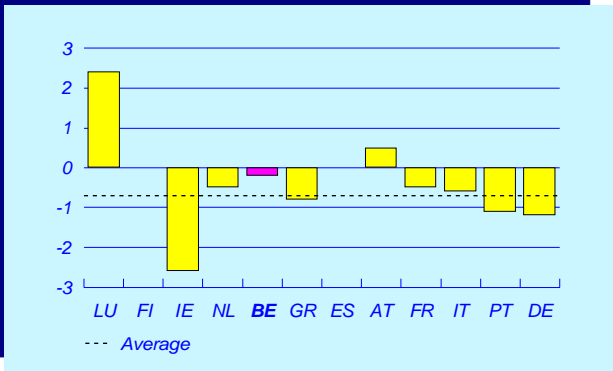
GENERAL GOVERNMENT BUDGET BALANCES IN THE EURO AREA IN 2001

(percentages of GDP)

BUDGET BALANCE



DEVIATION FROM THE TARGET BUDGET BALANCE UNDER THE STABILITY PROGRAMME



Source: EC.

The ten-year OLO/Bund yield spread rose steadily from around 10 basis points in 1997 to 40 basis points in March 2001. Then it declined to 22 basis points in March 2002, the downward adjustment having been particularly steep in December 2001. The movement in long-term interest rate differentials of other euro area countries against Germany was broadly similar.

Since the disappearance of exchange rate risks within the euro area, the relatively small remaining bond yield spreads are mainly determined by liquidity and credit risk concerns.

The widening of bond yield spreads since 1998 probably reflected the growing importance attached to the relative liquidity. Investors might have been inclined to reallocate their portfolios towards benchmark German bonds, because a higher correlation between bond investment returns after the start of Stage Three of EMU reduced the gains from diversifying portfolios across euro area government bond markets. Ten-year German bonds benefit from an active futures market and were increasingly used as the European benchmark. As a result, spreads against German Bund yields are the largest for the ten-year maturity.

However, liquidity differences were probably overvalued at the beginning of 2001. Larger spreads prompted investors to diversify again their bond portfolios. Moreover, fiscal developments caused a change in the market perception of credit risk differentials.

Indeed investors appear to have reassessed the risk differentials across euro area countries in the course of 2001. In December the sharp correction was apparently triggered by the raising of Spain's rating by Moody's, which led to a more general reassessment.

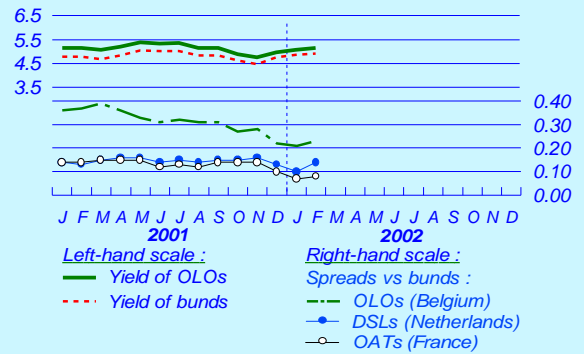
The deterioration of the relative fiscal position of Germany in 2001 obviously played a role in this respect. In 2001, three euro area countries had a surplus, like in preceding years, five other countries, including Belgium, had a budget close to balance, and four other countries, including Germany, had a budget deficit in excess of 1% of GDP. Germany and France were the only countries which have increased their debt/GDP ratio since 1993. In spite of the economic slowdown, Luxembourg, Austria, Finland, Spain and Belgium managed to get a financing position better than or close to the target position under their respective stability programmes, while the budgetary position of other countries, including Germany, deviated significantly from the target they had set.

GOVERNMENT SECURITIES MARKET

PRIMARY MARKET (billions of euros)

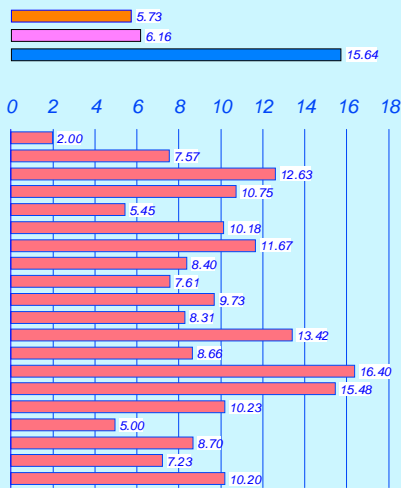
OLOs		TREASURY BILLS			
Gross issues		Net issues		Net issues	
2001	2002	2001	2002	2001	2002
J	5.345	J	5.345	J	-0.187
F	0.652	F	0.023	F	1.444
M	3.577	M	-0.213	M	2.172
A	0.890	A	0.087	A	0.182
M	2.418	M	0.110	M	1.021
J	5.151	J	1.579	J	-0.851
J	0.862	J	0.742	J	-0.611
A	3.119	A	2.224	A	0.635
S	3.621	S	2.914	S	-0.197
O	0.182	O	-0.043	O	-0.719
N	0.145	N	-0.110	N	0.646
D	0.000	D	-0.088	D	-2.151

BENCHMARK 10-YEAR BOND YIELDS (p.c.)



OUTSTANDING AMOUNT AND TURNOVER (billions of euros)

OUTSTANDING AMOUNT AT 28 FEBRUARY 2002



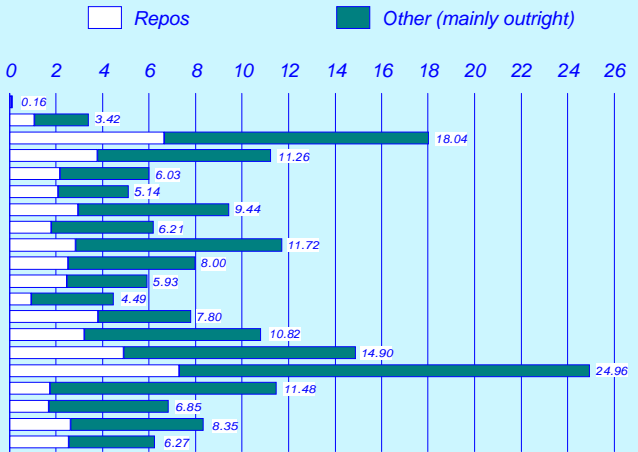
TURNOVER IN FEBRUARY 2002

TREASURY BILLS

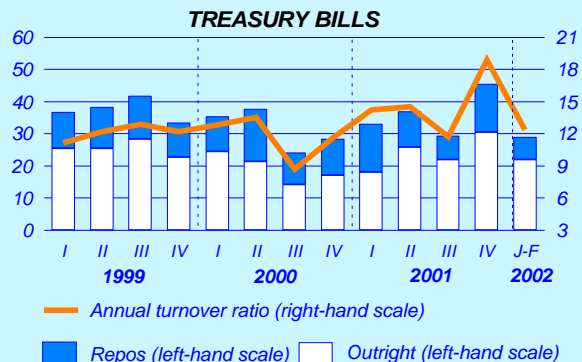
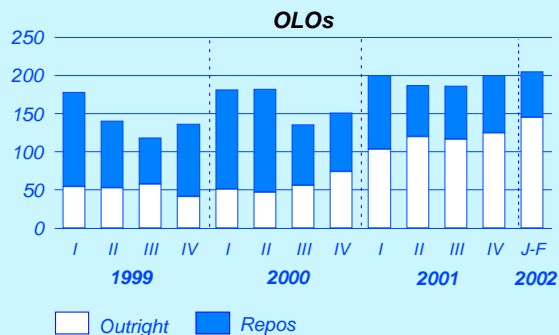
3-months
6-months
12-months

OLOs

OLO 293 - var. % - 04/02
OLO 259 - 8.75% - 06/02
OLO 251 - 9.00% - 03/03
OLO 265 - 7.25% - 04/04
OLO 275 - 7.75% - 10/04
OLO 273 - 6.50% - 03/05
OLO 294 - 4.75% - 09/05
OLO 283 - 7.00% - 05/06
OLO 297 - 4.75% - 09/06
OLO 286 - 6.25% - 03/07
OLO 257 - 8.50% - 10/07
OLO 288 - 5.75% - 03/08
OLO 268 - 7.50% - 07/08
OLO 292 - 3.75% - 03/09
OLO 295 - 5.75% - 09/10
OLO 296 - 5.00% - 09/11
OLO 298 - 5.00% - 09/12
OLO 262 - 8.00% - 12/12
OLO 282 - 8.00% - 03/15
OLO 291 - 5.50% - 03/28



SECONDARY MARKET ACTIVITY (billions of euros, standardised monthly averages)



TREASURY HIGHLIGHTS

In order to preserve fungibility of its OLO lines after the adoption of the future EU Directive on the taxation of savings, the Treasury organized on March 8 a special exchange offer for all OLO lines issued before March 1, 2001 and maturing in 2003 or later. All 16 OLO lines were exchanged against the Traditional Loan BE 280/86, for an amount of at least EUR 100,000. This ensures that they will not be subject to the grandfathering provision implying that the lines are entirely in the scope of the future Directive.

On March 18 the Treasury held a reverse auction on the Traditional Loan BE 284, also known as Philippe XVII, and maturing 21 November 2004. All primary and recognized dealers were invited to this auction. Offers from four bidders were accepted for an amount of EUR 2.355 billion, at an average weighted price of 105.955. The outstanding amount of the bond consequently diminished to EUR 7.221 billion.

OLO AUCTION AND EXCHANGE OFFER DATES

Month	Date	Settlement	Auction	Exchange Offers		
April 2002	29	02 May	Code 271	Philippe XII	6.5%	15 March 2003
May 2002	27	30	Auction			
June 2002	24	27	Code 271	Philippe XII	6.5%	15 March 2003
July 2002	29	01 Aug.	Auction			
August 2002	26	29	Code 271	Philippe XII	6.5%	15 March 2003
September 2002	30	03 Oct.	Auction			
October 2002	28	31	Code 271	Philippe XII	6.5%	15 March 2003
November 2002	25	28	Auction			
December 2002	02	05	Code 271	Philippe XII	6.5%	15 March 2003

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This publication is also available on the internet site www.nbb.be.

Information on the Belgian government debt can be found on the site of the Treasury: www.treasury.fgov.be/interdette.

General information on the Belgian government's action can be found on the site www.fgov.be.