BELGIAN PRIME NEWS

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Sources : NBB, unless otherwise mentioned

Special topic :

Features of the current economic cycle

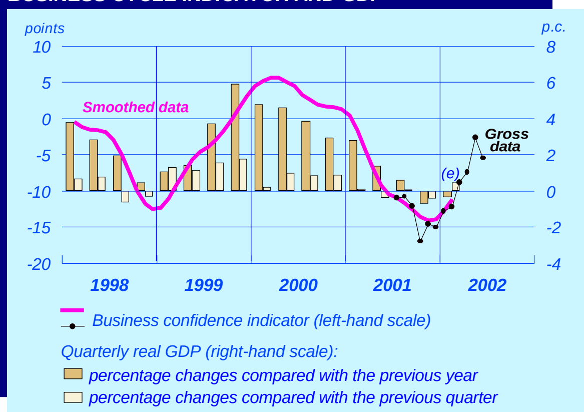
CONSENSUS FORECAST

	2001		2002 p			2003 p	
	Belgium	Euro area ³	Belgium Consensus	Belgium Previous consensus	Euro area ³	Belgium Consensus	Euro area ³
Real GDP ¹	1.0	1.6	1.3	1.2	1.4	2.8	2.9
Employment ¹	1.2	1.3	0.4	0.1	0.3	1.2	1.1
Consumer prices ¹	2.4	2.5	1.7	1.4	2.2	1.5	2.0
Current account ²	4.7	0.8	4.4	4.6	1.1	4.8	1.0
General government balance ² *	0.0	-1.3	-0.2	-0.1	-1.4	0.2	-1.2
Primary balance ² *	6.6	2.6	6.2	6.0	2.3	6.2	2.4
Public debt ²	107.7	69.1	104.6	103.6	68.6	99.8	67.2

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

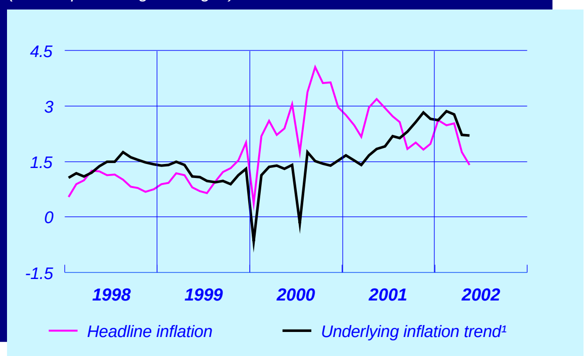
MACROECONOMIC DEVELOPMENTS

BUSINESS CYCLE INDICATOR AND GDP



Sources: NAI, NBB.

HARMONISED CONSUMER PRICES
(annual percentage changes)



Source: EC.
¹ Headline inflation excluding energy and unprocessed food.

Due to slackening external demand, that pressed down exports, but also investments and inventories, and to subdued private consumption, activity in Belgium declined in the course of 2001. In the fourth quarter, y-o-y change in real GDP fell to -0.7%, the first negative growth figure in over than 5 years. According to the flash national account estimate, real GDP started to bottom out in the first quarter of 2002, attaining a 0.5% q-o-q growth; for the first time since the end of 2000 quarterly real GDP growth thus could clearly escape negative territory.

The latest business and consumer surveys' results also point in the direction of a recovering economy. During the last months, the overall synthetic indicator of the NBB sharply rose and now reaches a level well above the turning point of October 2001, suggesting that activity is likely to gradually gain strength in the course of the year. However, because of an unfavourable carry-over effect, GDP is expected to grow by 1.3% on average in 2002. Following the consolidation of activity, business investments and private consumption should accelerate in 2003, supporting an expected 2.8% GDP growth rate.

Following a sharp increase in consumer prices early this year, the inflation rate fell from 2.6% in January to a moderate level of 1.4% in May 2002. Besides a decreasing unprocessed food inflation, the main part of the reduction can be ascribed to the abolishment of the radio and television license fees in the Flemish Region and the Brussels-Capital Region. Half of the adjustment of the price index for that specific factor has been made in April and a second correction of the same magnitude will follow in October, i.e. the months at which the fees used to be paid. Therefore, total inflation for 2002 is expected to slow down. Also forwarding this slowdown are the still well below potential GDP-growth, albeit increasing, and the lower import prices due to a strengthening of the euro. The consensus forecast anticipates an increase of 1.7% in Belgian consumer prices over the year 2002 and 1.5% in 2003, against 2.4% in 2001.

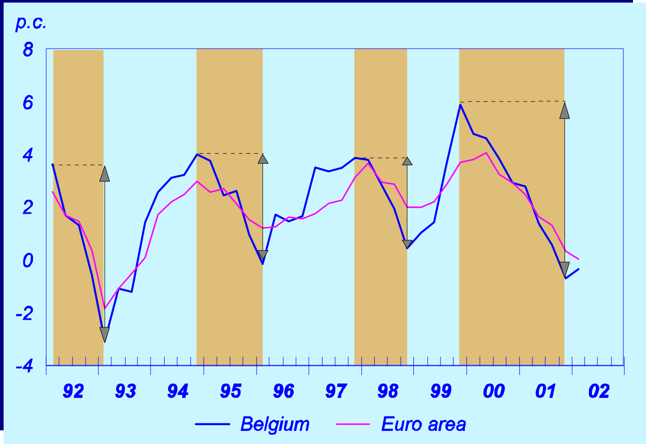
Public finances should show a slight 0.2 % GDP deficit for the year 2002. This favourable outcome can be attributed to lower interest payments and to the efforts made by the government to alleviate the negative impact of a sluggish economic growth on the primary balance. Public debt is expected to fall below 100% of GDP in 2003.

SPECIAL TOPIC

FEATURES OF THE CURRENT BUSINESS CYCLE

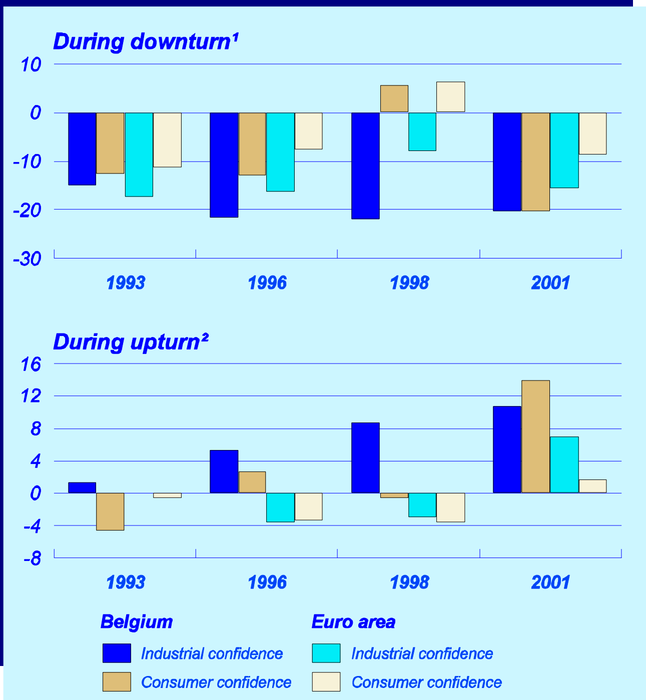
The latest economic data suggest that the economic activity in Belgium has reached a crucial turning point. After 4 quarters of negative or close to zero quarterly growth rates (q-o-q), GDP growth was significantly positive during the first quarter of 2002 (+0.5%). This confirms the picture outlined by the main business cycle indicators which showed a clear upward trend over the past months, indicating that the economy is improving and that we have had the worst. Whether the current upturn will last and how strong it will be seems more uncertain. Comparisons with previous business cycles in Belgium and in the euro area, including signals drawn from the confidence indicators and the contribution to real GDP growth made by the main expenditure components, could help to get a better view on the current economic dynamics.

YEAR-ON-YEAR REAL GDP GROWTH IN BELGIUM AND THE EURO AREA



Sources: EC, NAI.

MOVEMENTS OF CONFIDENCE INDICATORS



¹ Changes in points between peak and trough quarters.
² Changes in points between trough quarter and the first quarter of economic recovery.

Sources: EC, own calculations.

1. Comparison or of business cycles and the signals provided by confidence indicators.

Over the past ten years, four downturns and upturns can be identified in the real y-o-y growth rate of the Belgian economic activity, with troughs reached in 1993-Q1, 1996-Q1, 1998-Q4 and most recently 2001-Q4. The timing of the Belgian and euro area turning points does roughly coincide, but the euro area is lagging behind by one or two quarters in the four most recent cases. Another difference is that the swings in economic activity are much more pronounced in Belgium than in the euro area.

The comparison between downturns shows that the last one stands out by both its magnitude and its length. It was relatively sharp, with the second highest fall in economic growth rates since 1993 (-6.6 percentage points), and the decline in growth rate persisted for eight consecutive quarters, that is twice the length of the 1993 and 1998 downturns. These features also hold for the euro area, although it is not yet clear if the y-o-y growth rate already reached its low in the first quarter of 2002. Since the euro area economic activity tends to lag the Belgian economic activity it is expected that the first will shortly display the same signs of recovery.

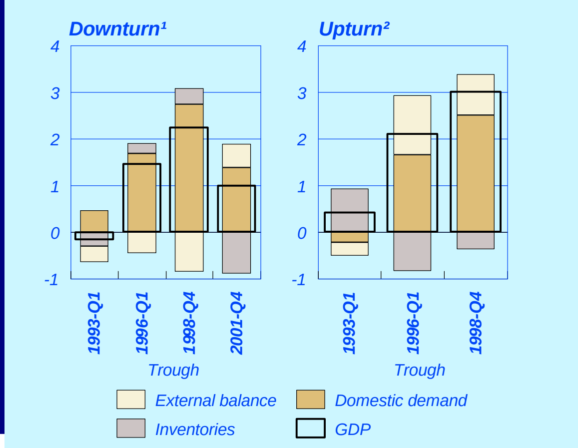
On comparing the acceleration of the growth rate during the first quarter of the recovery, it becomes clear that the current upturn in its initial phase is the least powerful of all (+0.4 percentage point). Probably, the recovery will be spread over a longer time period than usual, following a longer than usual downturn.

In order to gain some more insight in the current economic recovery we examine the signals provided by the confidence indicators. As is shown by the second chart, all indicators displayed a considerable decrease during the 2001 downturn and, just as was the case for growth rates, the drop in the confidence indicators was greater for Belgium than for the euro area. Overall, the fall in the industrial confidence indicators was comparable with the fall in previous downturns whereas the fall in consumer confidence in Belgium was sharper.

More interesting for the immediate future is the improvement in the various confidence indicators during the first months of economic recovery. First, the sharp increase in the different confidence indicators sharply contrasts with the modest improvement in the quarterly growth rate of GDP during the first quarter of the recovery. Moreover, for the first time all indicators have improved, which was not the case during previous economic upturns. The reason why the lagging feature of the euro area activity now does not show in the development of the confidence indicators has probably to do with the unique circumstances characterising the period after September 11th. Confidence indicators dropped steeply in the aftermath of the terrorist attacks, but much of this movement was reverted in the beginning of this year. So the improvement in the confidence indicators during the current recovery is likely to overstate the improvement of activity. However, the rapid increase of all indicators, in particular for industrial confidence in Belgium and in the euro area, suggests that the current recovery is likely to gain momentum during the course of the year.

SPECIAL TOPIC (continuation)

CONTRIBUTIONS TO GDP GROWTH



¹ Last four quarters of the downturn, with respect to the four quarters before.
² First four quarters of the upturn, with respect to the four quarters before.

Sources: NAI, NBB.

2. <u>Contributions of the various expenditure components to real GDP growth.</u>

During the last downturn, the contribution of domestic demand to growth was weak compared with the two previous downturns. At the same time net exports contributed positively to GDP growth, while in all other recessions the external balance made a negative contribution. However, this can surely not be attributed to a supportive external demand, as the level of real exports declined in 2001. It was merely a consequence of the steeper drop in imports. Another feature of the 2001 downturn was the huge depletion of stocks that took place. The growth contribution of stocks was highly negative compared with a positive contribution of stocks during the 1996 and 1998 downturns. The negative growth contribution of inventories seems to be related to the more severe downturns, as in 1993.

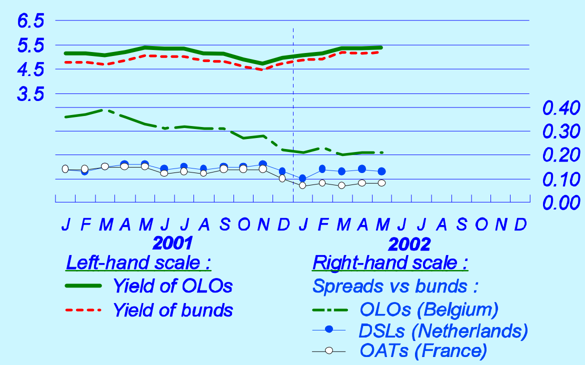
Taking a look at the boosts for the different recoveries, it appears that generally the cause of the recession also triggered the revival. Following the troughs of 1996 and 1998, the external balance showed a positive growth contribution to real GDP, compared with a negative contribution before. In the recovery following the trough of 1993, stocks provided a high contribution to real GDP growth. For economic activity now to resume as it did in the previous upturns, stocks should quickly make a positive contribution to GDP growth, following the massive destocking last year. A second element that could steer the recovery is a higher growth contribution of exports driven by a recovery of the world economy. Afterwards, as demand resumes, investment should accelerate.

GOVERNMENT SECURITIES MARKET

PRIMARY MARKET (billions of euros)

	OLOs Gross issues 2001	OLOs Gross issues 2002		OLOs Net issues 2001	OLOs Net issues 2002		Treasury Bills Net issues 2001	Treasury Bills Net issues 2002
J	5.345	5.000	J	5.345	4.415	J	-0.187	0.243
F	0.652	0.000	F	0.023	-0.532	F	1.444	0.339
M	3.577	4.410	M	-0.213	4.332	M	2.172	0.952
A	0.890	2.000	A	0.087	-1.828	A	0.182	0.798
M	2.418	0.162	M	0.110	-0.438	M	1.021	2.260
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	

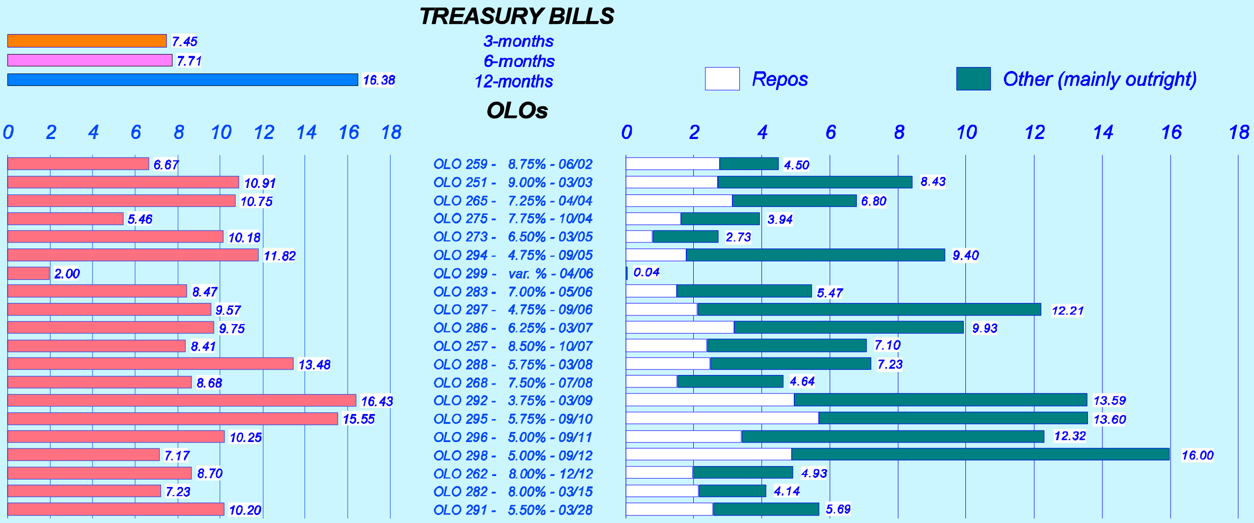
BENCHMARK 10-YEAR BOND YIELDS (p.c.)



OUTSTANDING AMOUNT AND TURNOVER (billions of euros)

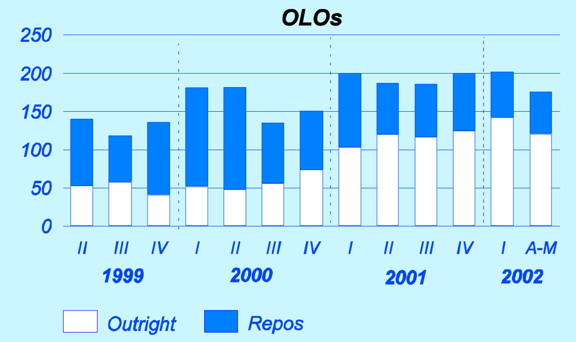
OUTSTANDING AMOUNT AT 31 MAY 2002

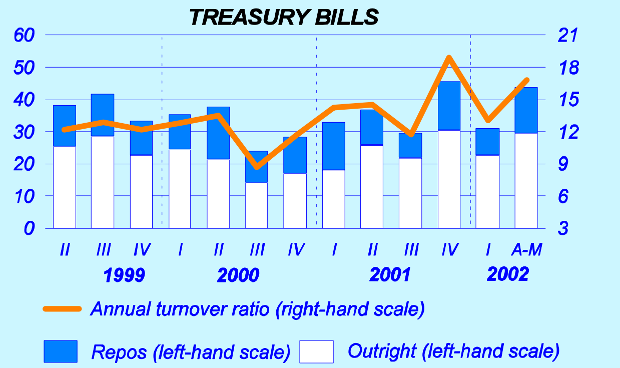
TURNOVER IN MAY 2002



GOVERNMENT SECURITIES MARKET (continuation)

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





TREASURY HIGHLIGHTS

1. *The Kingdom syndicated 5 billion euros of its inaugural 15-year benchmark bond (5.50 p.c. OLO 40, due 28.09.2017) with a yield spread of 14 basis points vis-à-vis the OAT maturing October 2016.*

   The allocation of the bonds was the following:
   - *Belgium 23.2 %;*
   - *Euro non-Belgium 45.9 %;*
   - *Europe non-Euro 20.6 %;*
   - *US 4.6 %;*
   - *Other Americas 0.6 %;*
   - *Non Japan Asia 2.8 %;*
   - *Other 2.2 %.*

   Demand amounted to 8.4 billion. The Kingdom however is committed to keep the auction size at attractive levels for investors. The liquidity of the issue is being ensured by its initial size, its listing on electronic platforms such as MTS Belgium and Euro-MTS and by subsequent auctions.
   The syndication included all primary dealers, while recognised dealers joined forces in the selling group.

   Rationale for a 15- year issue are:
   - *to meet a growing structural demand for paper with longer duration in the eurozone;*
   - *to diversifie Belgium's investor base by reaching a new range of investors who are natural buyers of long dated assets;*
   - *to add strategic value to the OLO-curve and*
   - *to fit well into Belgium's redemption schedule.*

   As a result of chosing a 15- year maturity instead of a 5 year tenor, the OLO 26 (6.5 %, 28.03.2007) will be the new 5 year benchmark until at least the first quarter of 2003. Its outstanding is 9.7 bn euros. The intention is to further increase its liquidity by offering it at each regular auction in July, September and November. It is expected that it will have reached by then a total size between 12 and 13 bn euros. This "jumbo size" will ensure that it will be regarded as one of the most liquid 5 year alternatives in the euro zone.

2. *The Kingdom also issued a new FRN (OLO 39, 2 bn, due 28.03.2006, 6 months Euribor – 10 bp) the proceeds of which have been used to refinance the successful reverse auction of one of the few remaining classical bonds. The proceeds of that operation amounted to 2.3 bn euros. Moreover, the timing of this transaction coincides with the maturity date of the existing OLO FRN issued in April 1999. Finally, the Kingdom wanted to benefit from the currently strong demand (particularly in the UK) for top-quality FRN products. The lack of supply coupled with heavy redemptions in the FRN market has provided an excellent backdrop for Belgium's return to the floating rate note sector.*

OLO AUCTION AND EXCHANGE OFFER DATES

Month	Date	Settlement	Auction	Exchange Offers			
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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Dexia Bank	Mr Jacques de Pover	32 2 222 44 71	32 2 222 33 76
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General information on the Belgian government's action can be found on the site www.fgov.be.