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Special topic : Public Finances in Belgium

Last update: on 6 January 2003, the government has announced a surplus of 114 million euros (+0.0% of GDP) on its 2002 public finances. The debt stands at 106.1% of GDP.

CONSENSUS FORECAST

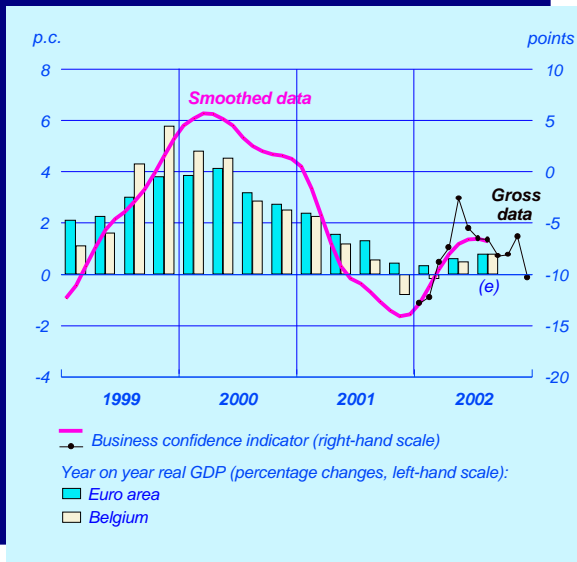
	2001		2002 p			2003 p		
	Belgium	Euro area ³	Belgium		Euro area ³	Belgium		Euro area ³
			Consensus	Previous consensus		Consensus	Previous consensus	
Real GDP¹	0.8	1.4	0.7	0.8	0.8	1.6	2.2	1.8
Employment¹	1.4	1.3	0.1	0.2	0.4	0.4	0.7	0.4
Consumer prices¹	2.4	2.5	1.6	1.6	2.3	1.4	1.3	2.0
Current account²	3.8	-0.2	4.4	4.7	1.0	4.6	5.1	1.0
General government balance^{2*}	0.2	-1.5	-0.1	-0.3	-2.3	-0.1	0.1	-2.1
Primary balance^{2*}	6.7	2.5	6.3	6.2	1.5	6.1	6.1	1.6
Public debt²	108.5	69.3	105.7	104.6	69.6	102.6	99.7	69.1

¹ P.c. change. ² In p.c. of GDP. ³ European Commission (forecast available since November 2002; next publication in Spring 2003).

* Excluding the proceeds of the auction of UMTS licences.

MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

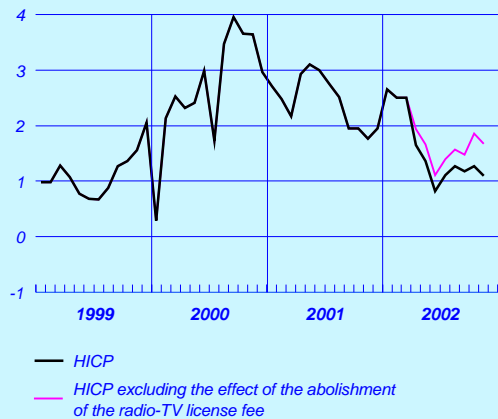
Real GDP decreased by 0.2% y-o-y during the first quarter of 2002, but regained a positive 0.5% growth rate during the second quarter. Private consumption recovered and exports improved, but investments remained subdued. From the fourth quarter of 2001 onwards, three consecutive negative growth rates have been recorded in investment spending, as a result of the prevailing overall uncertainty and the emergence of excess productive capacities in view of the weak economic activity. During the third quarter of 2002, GDP growth showed a slight strengthening and reached 0.8%, catching up with the euro area.

Activity growth seems not to have improved at the end of 2002, which has still been characterized by a high degree of uncertainty. The latest NBB survey's results show mitigated signs as the overall synthetic indicator, despite a jump in November, is downwards oriented. The consumer confidence indicator also dropped in December. In spite of this weakening it is still at a level significantly above the turning point of November 2001, though.

The signs that a significant economic recovery did not arise in 2002 were already pointed out in the previous Belgian Prime News. As a result, the consensus forecast for GDP growth has hardly been modified, i.e. 0.7% in 2002, against an updated increase of 0.8% in 2001. As the recovery is not expected to take place before the second half of 2003, the participating primary dealers have adjusted their forecast for 2003 more significantly, from 2.2% in September 2002 to 1.6% in January 2003.

MACROECONOMIC DEVELOPMENTS (continuation)

BELGIUM HARMONISED CONSUMER PRICES (annual percentage changes)



Sources: EC, NBB.

HICP inflation decreased from 2.6% in January 2002 to 0.8% in June 2002. Inflation increased somewhat later on, hovering around 1.2% between July and November 2002. In the euro area, inflation has amounted to 2.2% in November 2002.

The development of HICP in Belgium is influenced by the abolishment of radio and television license fees in the Flemish Region and the Brussels-Capital Region, which has brought about a downward adjustment of the consumer price index by 0.3% in April 2002 and an additional 0.3% in October 2002. The observed deceleration of inflation exceeded however the mere effect of this measure, as a result of falling unprocessed food prices, lower import prices due to the strengthening of the euro and the fact that the economy is running below its potential growth. The effect of these elements was somewhat tempered during the second half of 2002 by unfavourable base effects for oil prices.

For the whole year of 2002, inflation is expected to amount to 1.6%, compared to 2.4% in 2001. In 2003, the consensus forecast expects an increase of 1.4%.

Concerning labour costs, a new project of multi-sectoral agreement has been concluded in December 2002 for the period 2003-2004. A total rise of 5.4% for the two years has been set as indicative norm for nominal wage increases. This norm should help to moderate inflation particularly in 2003.

SPECIAL TOPIC: Public Finances in Belgium

TARGETS ACCORDING TO THE SUCCESSIVE STABILITY PROGRAMMES FOR BELGIUM (in p.c. of GDP)

	1999	2000	2001	2002	2003	2004	2005
Overall balance							
December 2000		-0.1	0.2	0.3	0.5	0.6	0.7
November 2001			0.0	0.0	0.5	0.6	0.7
November 2002				0.0	0.0	0.3	0.5
Outcome	-0.5	0.1	0.2 ¹	-0.1 e*	-0.1 e		
Public Debt							
December 2000		110.6	105.8	101.4	97.2	92.9	88.7
November 2001			107.0	103.3	97.7	93.0	88.6
November 2002				106.1	102.3	97.9	93.6
Outcome	114.9	109.6	108.5	105.7 e*	102.6 e		

Sources: Ministry of Finance, NAI, NBB and Prime News Consensus estimates.
*Government announcement on 6 January 2003: Overall balance +0.0;
Public debt: 106.1

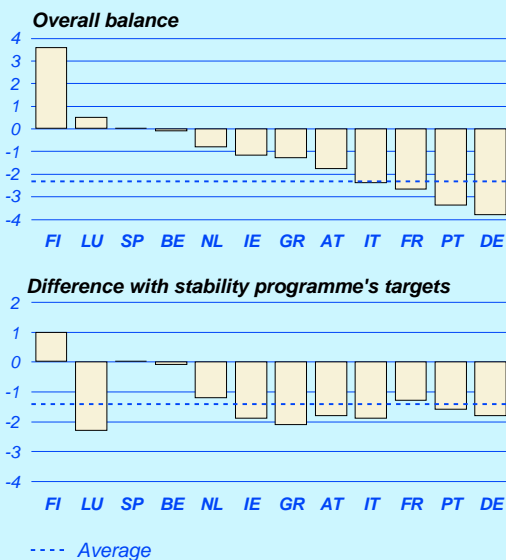
In November 2002, Belgium submitted its new Stability Programme, covering the period 2003-2005 (treasury.fgov.be/interstaben/). This programme constitutes the second update of the initial 2001-2005 Programme submitted in December 2000.

According to the new Stability Programme, the overall balance should gradually improve, from a balanced budget in 2002 and 2003 to a surplus of 0.3% of GDP in 2004 and 0.5% in 2005. Despite the less favourable economic environment, these objectives are only slightly below those set in the previous Programme and the Government has reaffirmed its resolve to build up budgetary surpluses. Such a guiding principle will help to ensure a sustained reduction of the debt ratio in the future, which should be cut by 12.5% of GDP between 2002 and 2005, dropping well below 100%. A large political consensus exists as to the necessity of running budgetary surpluses to foster the reduction of the public debt in the longer run, with a view to securing sufficient margins to deal with the budgetary implications of the ageing population.

As a matter of fact, in spite of the sluggish activity growth, Belgium succeeded in recording a small surplus on its 2002 public finances, as announced by the government on 6 January 2003. The structural reforms initiated - the personal tax cuts and the improvement of the health system - have thus not endangered the Belgian public finances. The relative good results of Belgium as to its public finance may for a large part be ascribed to the tight monthly monitoring of revenue and expenditure developments. The government should keep on with this continuous control in the coming months in order to achieve the balanced budget for 2003, even if the general elections scheduled to take place in June 2003 are getting near.

The outcomes for Belgium compare favourably with most of the European countries. Only Finland showed a higher surplus than provided in its Stability Programme. Like Belgium, Spain also met its objective of a balanced budget, while in Luxembourg, the surplus is lower than expected. In all other countries of the euro area, the overall budget has shown a deficit in 2002 - in some cases even exceeding the 3% of GDP ceiling for excessive deficit -, i.e. a deterioration of 1 to 2 percentage points of GDP compared to the November 2001 Stability Programmes' targets.

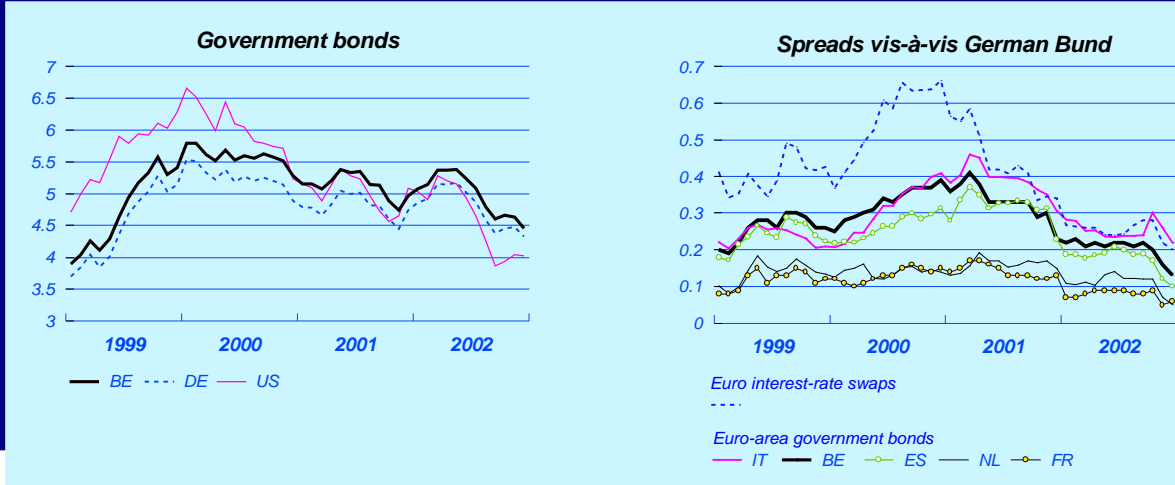
OVERALL BALANCE 2002 IN THE EURO AREA¹ (in p.c. of GDP)



Sources: EC, Prime News Consensus estimates.
¹ Excluding UMTS receipts.

GOVERNMENT SECURITIES MARKET

10-YEAR INTEREST RATES (percentage points, monthly averages)

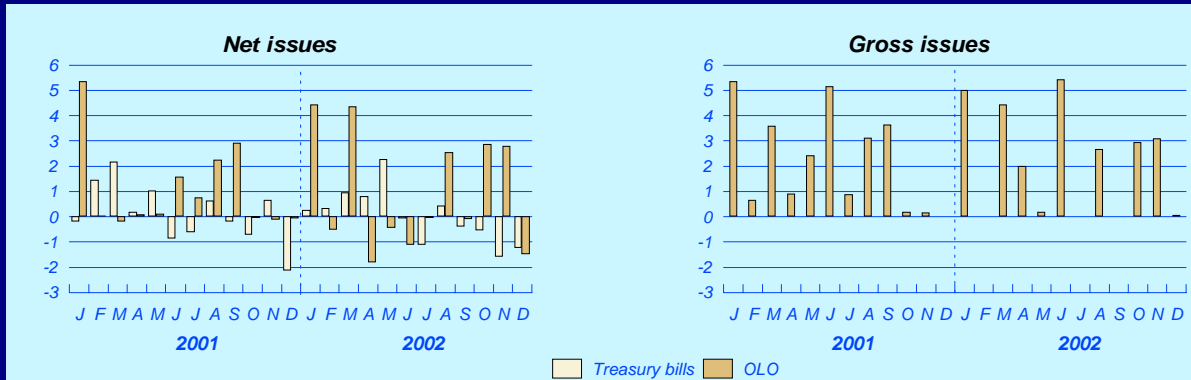


Sources: BIS, Datastream

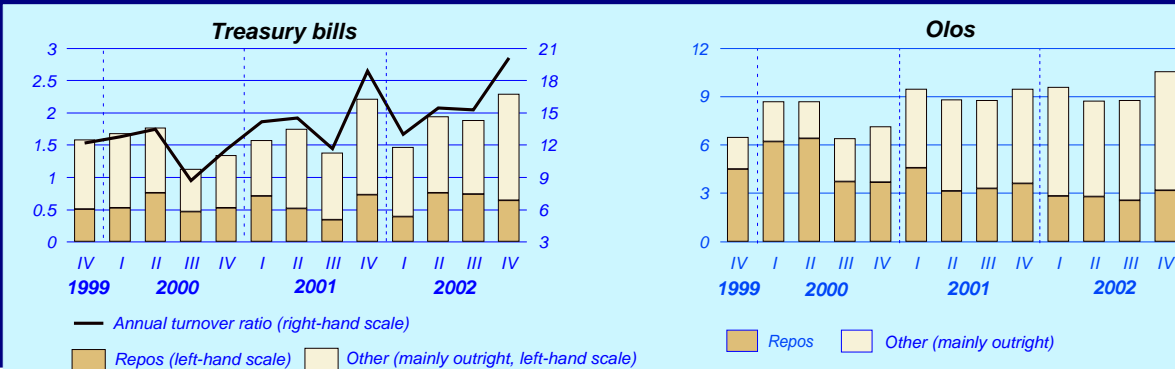
After having been quite stable for most of the year, euro-area government spreads vis-à-vis the German Bund have declined markedly during the last quarter of 2002. In particular, the spread shown by the 10-year OLO has come under the 15 basis points, a level not seen since the beginning of 1998. These movements can be explained by the mounting concern about German public finances and the debate that has arisen around the Stability and Growth Pact. In this context, maintaining the Belgian State's budget in balance despite the slow pace of economic recovery has surely been evaluated favorably by the markets.

Interestingly, this decline in the spreads vis-à-vis the Bund has also concerned the euro interest-rate swaps. During the last months of the year it has even shown a tendency to fluctuate below the Italian government bond spread. Indeed market preferences seem to be gradually moving towards interest-rate swaps as the benchmark rate.

PRIMARY MARKET (billions of euros)



SECONDARY MARKET (billions of euros unless otherwise mentioned, daily averages)



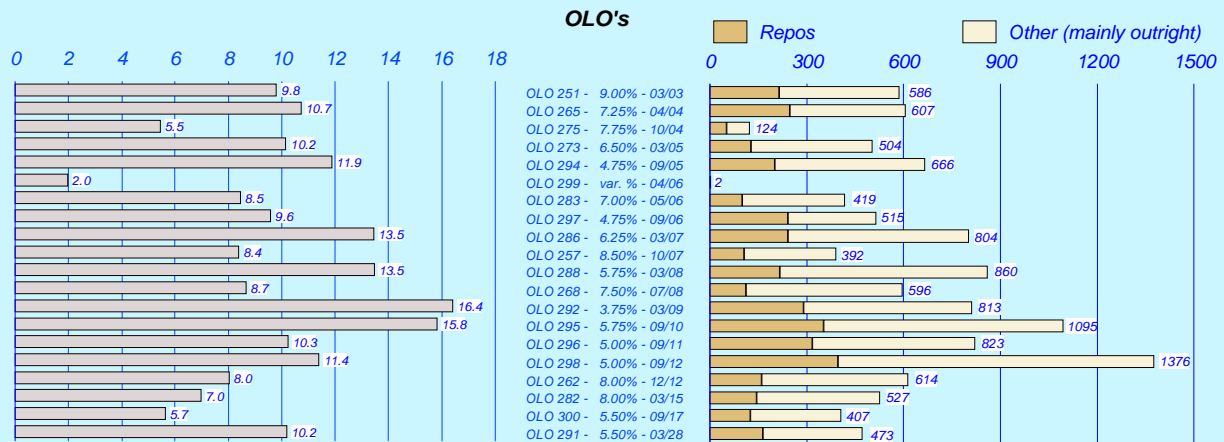
GOVERNMENT SECURITIES MARKET (continuation)

OUTSTANDING AMOUNT AND TURNOVER

Outstanding amount at 31 December 2002
(billions of euros)



Turnover in December 2002
(millions of euros, daily averages)



TREASURY HIGHLIGHTS

- On December 2nd the Kingdom of Belgium conducted a reverse auction of the OLO 12, December 24, 2012 (BE0000262684) and of the OLO 23, March 28, 2015 (BE0000282880). An amount of 1,260 bn EUR was bought back, split in 780 mln for the OLO 12 and 480 mln for the OLO 23. The objective of this reverse auction was to provide the market with an opportunity to offer the bonds in a transparent manner. The outstanding amount of both the OLO 12 and the OLO 23 will remain above € 5 bn so as to maintain their liquidity.
- The issuance calendars 2003 are available on the Treasury's website www.treasury.fgov.be/interdette.
- The 2003 borrowing requirements and funding plans are now available on the Treasury's website. Contrary to the situation in most EMU countries, the forecasted funding means of the Kingdom for 2003 (EUR 25.68 bn) will be significantly lower than in 2002 (EUR 28.53 bn), which is mainly due to a reduction of the forecasted OLO issuance by EUR 2.05 bn.

OLO AUCTION AND EXCHANGE OFFER DATES

Month	Date	Settlement	Auction	Exchange Offers			
January 2003	27	30	Auction				
February 2003	24	27		Code 271	Philippe XII	6.5%	15 March 2003
March 2003	31	3 April	Auction				
May 2003	26	29	Auction				

LIST OF CONTACT PERSONS

PARTICIPATING INSTITUTIONS :

Federal Public Service Finance
Bank Brussels Lambert
Barclays Capital
BNP Paribas
Dexia Bank
Fortis Bank
KBC Bank
UBS Warburg

TECHNICAL EDITORS :

Mr Stefan Theys
Mr Peter Vanden Houde
Mr Jacques Delpla
Mr Dominique Barbet
Mr Jacques de Pover
Ms Carine Brasseur
Mr Bart Van Craeynest
Ms Monique Wong

TELEPHONE :

32 2 233 72 23
32 2 547 80 09
33 1 44 58 32 26
33 1 42 98 15 67
32 2 222 44 71
32 2 565 86 49
32 2 429 59 91
44 20 7568 3435

FAX :

32 2 233 71 14
32 2 547 80 63
33 1 44 58 32 58
33 1 42 98 34 77
32 2 222 33 76
32 2 565 62 36
32 2 429 01 35
44 20 7567 3906

GENERAL INFORMATION

National Bank of Belgium

Mr Luc Dresse

32 2 221 20 39

32 2 221 31 62

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.belgium.be.