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Sources : NBB, unless otherwise mentioned

Special topic :
Government bond spreads and budget balance differences

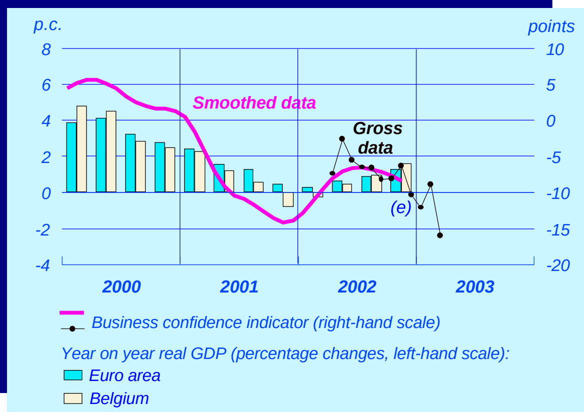
CONSENSUS FORECAST

	2002(e)		2003 p			2004 p	
	Belgium	Euro area	Belgium Consensus	Belgium Previous consensus	Euro area [3]	Belgium Consensus	Euro area [3]
Real GDP [1]	0.7	0.8	1.3	1.6	1.8	2.3	2.6
Employment [1]	-0.1	0.4[3]	-0.1	0.4	0.4	0.8	1.0
Consumer prices [1]	1.6	2.2	1.5	1.4	2.0	1.6	1.8
Current account [2]	5.5	0.9	5.5	4.6	1.0	5.4	1.1
General government balance [2]	0.0	-2.2	-0.1	-0.1	-2.1	0.3	-1.8
Primary balance [2]	6.0	1.4	5.8	6.1	1.6	5.9	1.8
Public debt [2]	105.4	69.1	101.8	102.6	69.1	97.5	68.2

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

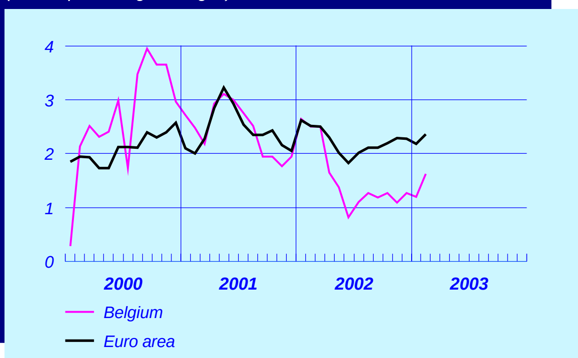
MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED CONSUMER PRICES
(annual percentage changes)



Source: EC.

Real GDP in Belgium increased by a modest 0.7% during 2002, slightly less than the 0.8% growth rate recorded in 2001. While year-on-year growth rates kept on improving over 2002, new signs of weakness emerged since mid-2002 when quarter-on-quarter growth started to slow down from 0.5% in the first quarter to 0.2% in the fourth quarter. The subdued growth pace in 2002 mainly resulted from low domestic demand with business investment decreasing by 3.8% and from sluggish external demand with exports decreasing by 1%.

Up to now, signs for a robust recovery in 2003 are still absent. According to the latest NBB survey's results, business climate extended its downward trend in March. Also consumer confidence is still heading downwards caused by concerns about both the domestic and international economic environment and employment outlook.

As a consequence of the weak second half of 2002, in conjunction with the absence of any clear indications that a strong recovery is imminent and the prevailing uncertainties, the participating primary dealers further reduced their forecasts for 2003, from 1.6% in January 2003 to 1.3% in March 2003. For 2004, primary dealers expect real GDP to increase by 2.3%.

The average annual HICP inflation rate in 2002 amounted to 1.6% in Belgium compared to 2.4% in 2001 and 2.2% in the euro area. As explained in previous editions of the Prime News, the low inflation rate in Belgium compared to the euro area is partly due to the abolishment of radio and television license fees. In early 2003, HICP inflation in Belgium started to edge up a bit from 1.3% in January to 1.6% in February. Also in the euro area HICP inflation increased slightly from 2.2% to 2.4%, which is roughly the same rate as a year ago. These increases stem for a large part from the increase in energy prices.

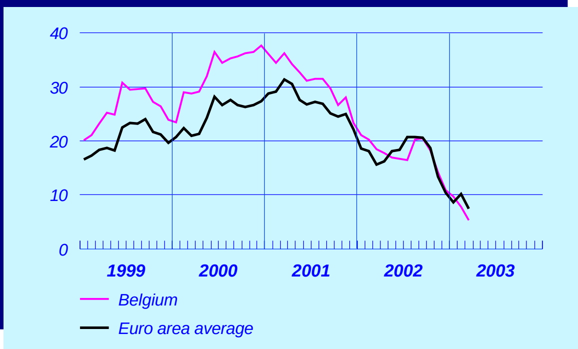
MACROECONOMIC DEVELOPMENTS (continuation)

The primary dealers slightly altered their forecast for the inflation rate in 2003 and expect HICP inflation to be 1.5% for Belgium. Favourable elements are the abolishment of radio and television license fees in the Walloon region later this year, comparable to what happened in Flanders and Brussels last year. Also the modest economic growth and the strength of the euro contribute to a favourable inflation environment. Inflation is expected to stay limited in 2004, with a consensus of 1.6%, notwithstanding a higher growth.

According to the NAI estimate, released on 31 March 2003, Belgian authorities managed to obtain a balanced budget for 2002 according to the ESA definition. Defined in excessive debt procedure-terms, including swap interest payments, it reached a 0.1% surplus. Public debt is estimated to have fallen from 108.5% of GDP in 2001 to 105.4% of GDP in 2002. For 2003, the Belgian government affirmed to reach a balanced budget as was set out in the 2003-2005 Stability Programme. This would allow to rebuild surpluses as soon as economic growth starts to pick up.

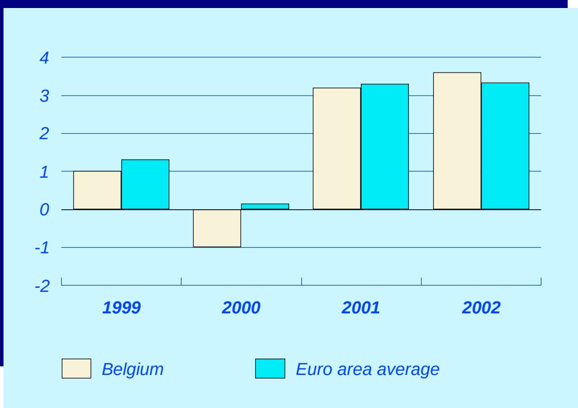
SPECIAL TOPIC: Government bond spreads and budget balance differences

TEN-YEAR GOVERNMENT BOND SPREADS AGAINST GERMANY (basis points)



Source: Datastream, monthly averages.
Euro area average is a simple average excluding Greece up to 2001 and Germany.

BUDGET BALANCE DIFFERENCE WITH GERMANY (percentage points of GDP)



Source: EU.
Note: Budget balances include UMTS receipts. Euro area average is a simple average excluding Greece up to 2001 and Germany.

The 10-year Belgian government bond spread against Germany has come down considerably since the second part of 2000. In the initial phase of the EMU, spreads on Belgian government debt widened from around 20 basis points to around 40 basis points in the latter part of 2000. Since then, spreads decreased considerably and fell below 10 basis points during the first months of 2003. On average, the spreads of the other euro area countries witnessed the same move.

It is well known that the residual spreads in EMU reflect differences in liquidity, credit risk differentials and technical factors such as the existence of a well-developed derivatives market. The liquidity-enhancing measures of the Belgian debt managers over the recent years may have contributed to the decline in the spread between Belgian and German government bond yields. However, most of the spread movement of Belgium and of most other euro area countries can be well explained by their relative budget balance positions against Germany.

There is a strong negative correlation between the difference of a country's budget balance and the budget balance of Germany and the spread level. As can be seen, the widening of the Belgian spread from 1999 to 2000 corresponds with a deterioration of the Belgian fiscal balance against the German one, in essence caused by the high German UMTS receipts. Since then, Belgium's relative budget position improved quite heavily, which is reflected in the continued fall of the spread level. The same pattern holds for the euro area average. The slightly larger fall of the Belgian spread in 2002 may be attributed to the increase of its relative budget position during 2002, while that of the euro area average stayed on its level of 2001.

Another reason why the Belgian spread came down more heavily than the euro area average might be the credibility the Belgian government has built up in recent years. Since 1999, Belgium is, with Finland, the country of the euro area which has best managed to fulfil its stability programme targets. This is especially remarkable given the slowdown since 2001. In 2002, only Belgium and Finland fulfilled their stability programme targets. This shows that the Belgian fiscal targets are credible and well defined.

INTEREST RATE SPREAD AND BUDGET BALANCE DIFFERENCE WITH GERMANY

	1999	2000	2001	2002
Belgium				
Interest rate spread¹	26	33	31	18
Budget balance difference²	1.0	-1.0	3.2	3.6
Euro area average				
Interest rate spread¹	20	25	27	17
Budget balance difference²	1.3	0.2	3.3	3.3

Sources: Datastream, EU.
¹ Basis points.
² Percentage points of GDP.
Note: Interest rate spreads are yearly averages.

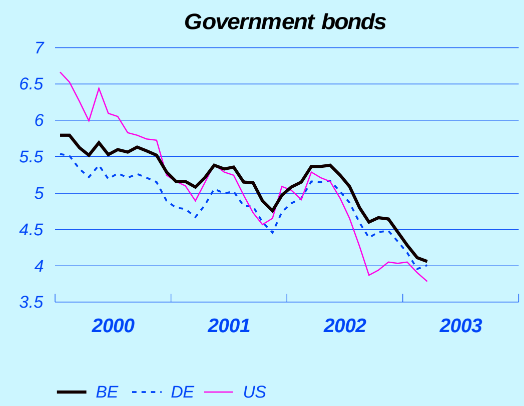
DEVIATION FROM STABILITY PROGRAMME (percentage points of GDP, '-' worse than programme)

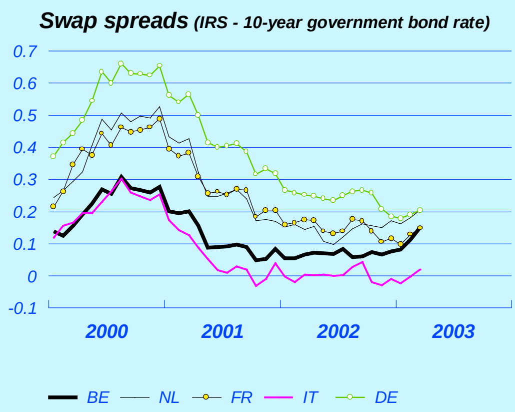
	1999	2000	2001	2002
Belgium	0.8	1.1	0.0	0.0
Germany	0.5	-0.4	-1.3	-1.6
Spain	0.4	0.0	-0.1	-0.1
France	0.5	0.3	-0.6	-1.7
Ireland	0.6	3.1	-3.2	-1.0
Italy	0.3	-0.3	-1.8	-1.8
Netherlands	2.0	2.1	-0.6	-1.5
Portugal	-0.8	-1.7	-3.1	-0.9
Austria	-0.3	-0.2	1.0	-0.6
Finland	-0.4	2.2	0.4	2.1
Euro area average	0.5	0.9	-0.7	-0.8

Sources: EU and national stability programmes.
Note: Deviations calculated as the difference between a country's budget balance and the target proposed in the stability programme. Figures exclude UMTS receipts. Euro area average is a simple average excluding Greece up to 2001.

GOVERNMENT SECURITIES MARKET

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



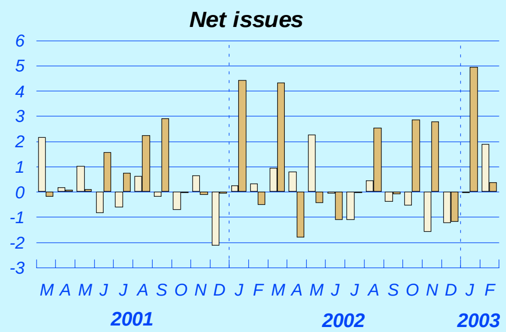


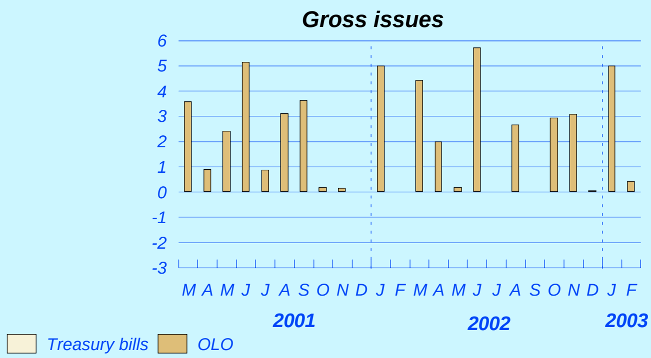
Source: Datastream

During the major part of 2002, long-term interest rates declined sharply in the euro area and in the US. Downward revisions of growth prospects reinforced the expectations of inflation and interest rates falling further. In a context of growing geopolitical tensions, bond yields declined further in the first quarter of 2003, with the exception of a temporary rebound in March, when prospects of a rather quick war were rising. According to break-even inflation rates computed on the bonds of indexed and nominal bond yields, the narrowing of the interest-rate differential between the US and the euro area is related to higher inflation expectations in the US.

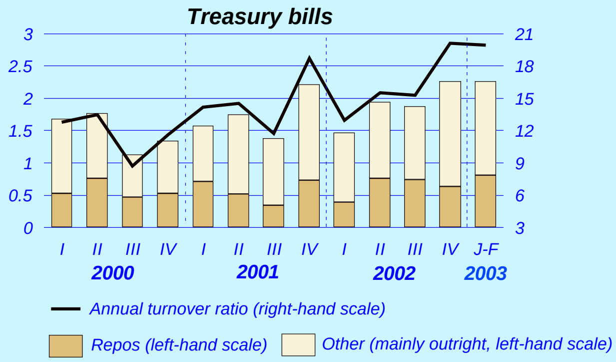
Swap spreads increased slightly in the first quarter of 2003, reflecting a heightened perception of the risks linked to assets on the banking sector, but remained quite moderate.

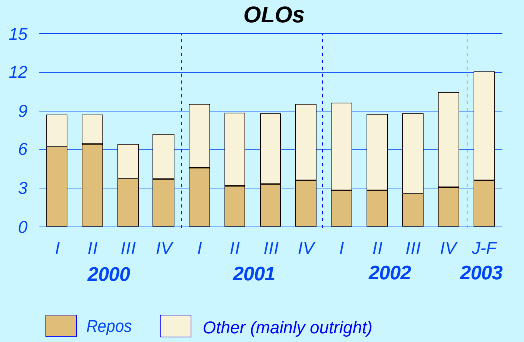
PRIMARY MARKET (billions of euros)





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



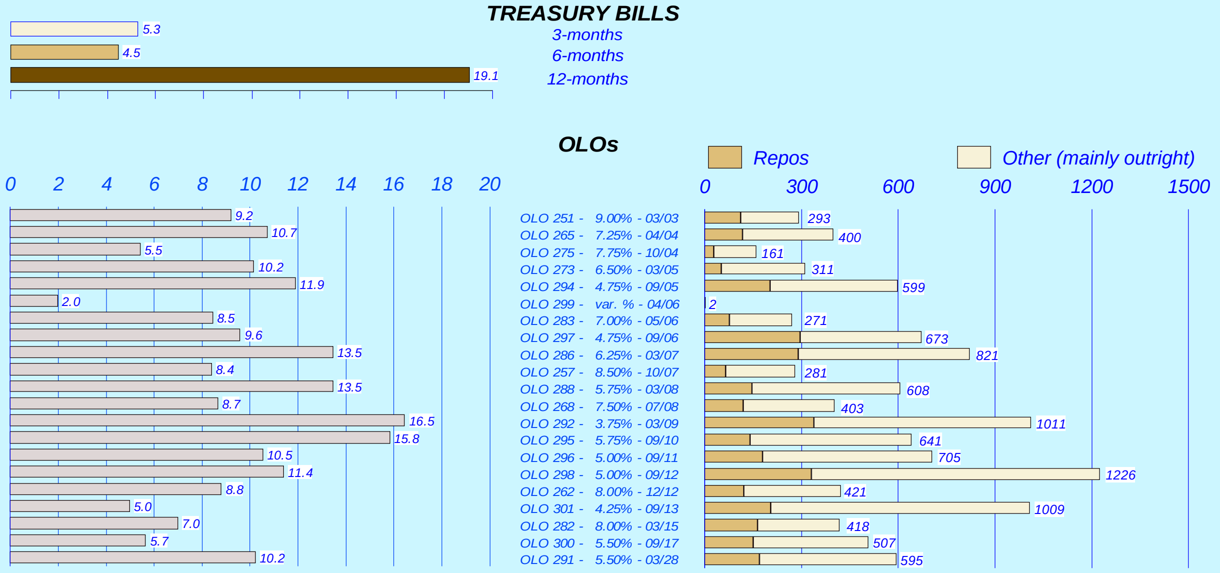


GOVERNMENT SECURITIES MARKET (continuation)

OUTSTANDING AMOUNT AND TURNOVER

Outstanding amounts at 28 February 2003
(billions of euros)

Turnover in February 2003
(millions of euros, daily averages)



TREASURY HIGHLIGHTS

The Kingdom syndicated 5 billion euros of its new 10-year benchmark bond (4.25% OLO 41, due 28.09.2013) with a yield spread of 16 basis points vis-à-vis the Bund maturing January 2013.

The allocation of the bonds was the following:

• *Belgium*	*20.2%*	• *US & Canada*	*3.5%*
• *Euro non-Belgium*	*42.0%*	• *Japan*	*6.2%*
• *Europe non-Euro*	*21.6%*	• *Other*	*6.7%*

The deal was approximately 2 times oversubscribed. 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.

OLO AUCTION DATES

Month	Date	Settlement	Auction
March 2003	31	3 April	Auction
May 2003	26	29	Auction
July 2003	28	21	Auction
September 2003	29	2 October	Auction

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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.belgium.be.