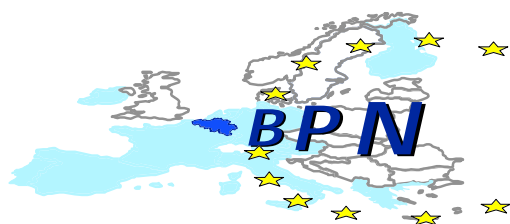


# BELGIAN PRIME NEWS

June 2005  
No. 28



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**Next issue:** Sept. 2005  
**Sources:** NBB, unless otherwise stated

## Special topic :

**Recent economic developments in Belgium and the euro area**

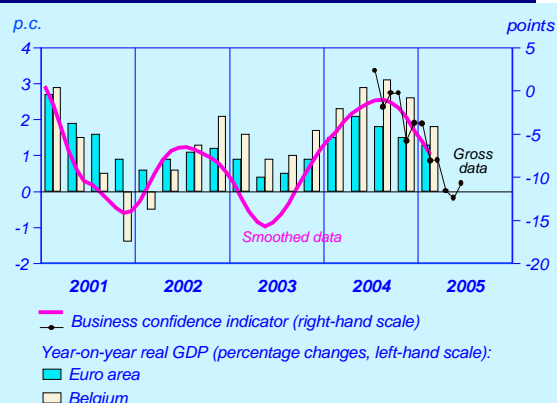
## CONSENSUS: Average of participants' forecasts

	2004		2005 p			2006 p		
	Belgium	Euro area <sup>4</sup>	Belgium		Euro area <sup>4</sup>	Belgium		Euro area <sup>4</sup>
			Consensus	Previous consensus		Consensus	Previous consensus	
<b>Real GDP<sup>1</sup></b>	2.7	1.7	1.4	2.2	1.6	2.1	2.4	2.1
<b>Employment<sup>1</sup></b>	0.7	0.6	0.5	0.7	0.7	0.6	0.8	0.9
<b>Consumer prices<sup>1</sup></b>	1.9	2.1	2.1	1.9	1.9	1.8	1.7	1.5
<b>Current account<sup>2</sup></b>	3.4	0.6	2.9	3.6	0.6	3.2	3.8	0.6
<b>General government balance<sup>2,3</sup></b>	0.0	-2.7	-0.3	-0.2	-2.6	-0.7	-0.1	-2.7
<b>Primary balance<sup>2</sup></b>	4.9	0.6	4.2	4.5	0.6	3.5	4.5	0.6
<b>Public debt<sup>2</sup></b>	95.5	71.3	95.6	95.0	71.7	93.2	92.0	71.9

<sup>1</sup> P.c. change. <sup>2</sup> In p.c. of GDP. <sup>3</sup> ESA 1995 definition. <sup>4</sup> European Commission (forecast available since April 2005).

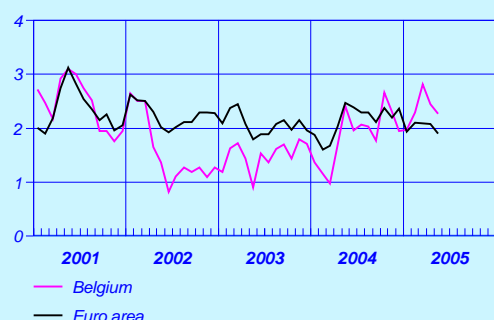
## MACROECONOMIC DEVELOPMENTS

### GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

### HARMONISED CONSUMER PRICES (annual percentage changes)



Source: EC.

Hit by a less supportive international environment, the pace of activity growth decelerated markedly during the recent months. While the year-on-year GDP growth had peaked in mid-2004 at slightly over 3% in Belgium and 2% in the euro area, it dropped to 1.8% and 1.3%, respectively, in the first quarter of 2005. In particular, according to the latest NAI results for Belgium, the GDP level stabilised during that quarter.

The deceleration of economic activity is also reflected in the NBB business survey indicator which has been declining since September 2004 and dropped quite sharply during the first months of 2005. The pronounced fall in confidence results from slackening foreign and domestic demands. The protracted sluggishness of euro area consumption and investment weighted on Belgian exports, while higher oil prices and increased uncertainty among the consumers also pressed down consumption. The causes of the recent slowdown are highlighted in detail in the Special Topic.

As a result, the average forecast of the participating institutions for **GDP growth in 2005 has been considerably revised to 1.4%**, down from 2.2% in March. However, a moderate strengthening of consumption and exports is expected in 2006, as the international climate should improve and the adverse factors weighting on confidence should abate. **The forecast for 2006 was revised to a lesser extent for 2005, from 2.4% to 2.1%.**

HICP inflation in Belgium increased to 2.8% in March compared to 1.9% on average in 2004. Since then, inflation slowed down somewhat to 2.3%. Meanwhile, euro area inflation remained close to 2% and dropped slightly beneath 2% in May. Belgian inflation mainly increased as a result of higher energy and non-processed food prices. However, despite the continued increase in euro-denominated oil prices, inflation remained relatively contained. The underlying inflation is likely to remain modest as, due to weak demand conditions, little pressure would be exerted by internal cost developments. As a result of higher oil prices, primary dealers **slightly increased their inflation forecast for 2005 from 1.9% to 2.1%. For 2006 they expect inflation to decelerate to 1.8%.**

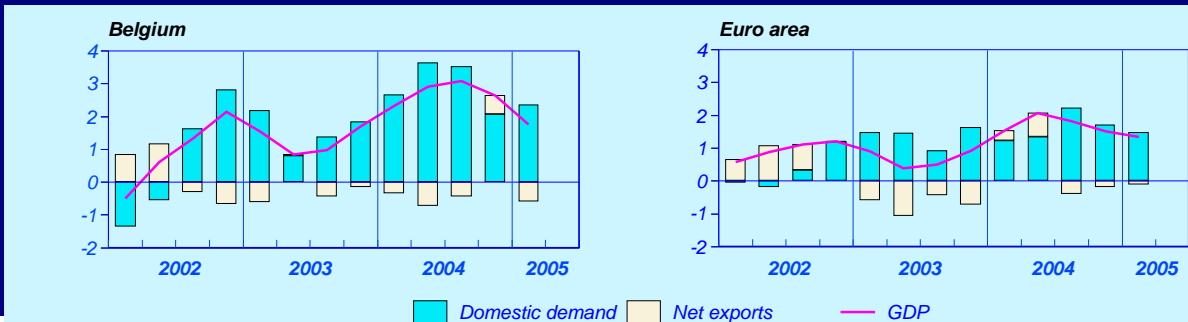
## MACROECONOMIC DEVELOPMENTS (continued)

Despite a less favourable economic environment, but taking into account the recent budgetary reviews' actions, the BPN participants only slightly adjusted their **estimate for the general government balance for 2005, from a 0.2% to a 0.3% of GDP deficit**. The deterioration is mainly due to slower economic growth and lesser reliance on one-off measures than the previous years. **For 2006, the deficit is expected to widen to 0.7% of GDP**, since at present no measures are taken that could compensate for the loss of income as a result of the tax cuts.

The primary dealers expect **the government debt ratio to remain nearly stable in 2005, at 95.6% of GDP**. The temporary pause in the debt reduction trend stems also from the incorporation of the new entity managing the assets and historical liabilities (2.5% of GDP) of the national railway company into the statistical boundaries of the public sector. **For 2006, government debt is expected to fall to 93.2% of GDP**.

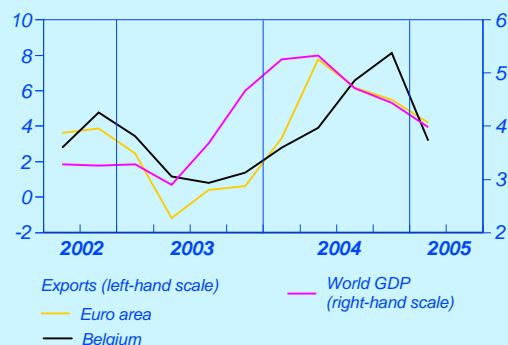
## SPECIAL TOPIC: Recent economic developments in Belgium and the euro area

**CONTRIBUTION OF EXPENDITURE CATEGORIES TO REAL GDP GROWTH**  
(with respect to the corresponding quarter of the previous year, adjusted for calendar effects)



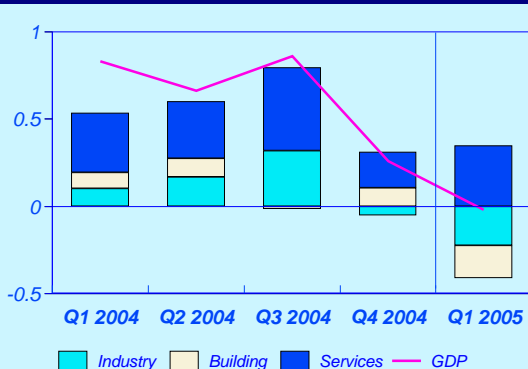
Sources: EC, NAI.

**EXPORTS AND WORLD GDP AT CONSTANT PRICES**  
(annual percentage changes, adjusted for calendar effects)



Sources: EC, IMF, NAI.

**CONTRIBUTION OF THE MAIN BRANCHES TO REAL GDP GROWTH**  
(with respect to the previous quarter, adjusted for seasonal and calendar effects)



Source: NAI.

Following by one quarter the setback within the euro area, growth in Belgium started to decrease during the last quarter of 2004. Activity even remained stable in the first quarter of 2005. Though some slowing down was expected after the buoyant developments during the preceding year, the extent of the downward pressure on activity was a surprise for most forecasters. As a result, the consensus forecast for Belgian real GDP growth in 2005 has been revised considerably downward. Belgian economic growth is now expected to be closer to that of the euro area, after having been higher the two previous years.

Prior to this weakening, an accelerating world growth had stimulated an export-led recovery in the euro area. However, the upswing remained contained due to large imports and a lacklustre domestic demand. Since 2003 domestic demand in the euro area has been weak and contributed less than usual to economic growth. Belgium deviated somewhat from this picture due to a more dynamic domestic demand relying on a relatively strong consumption growth (see BPN No 25).

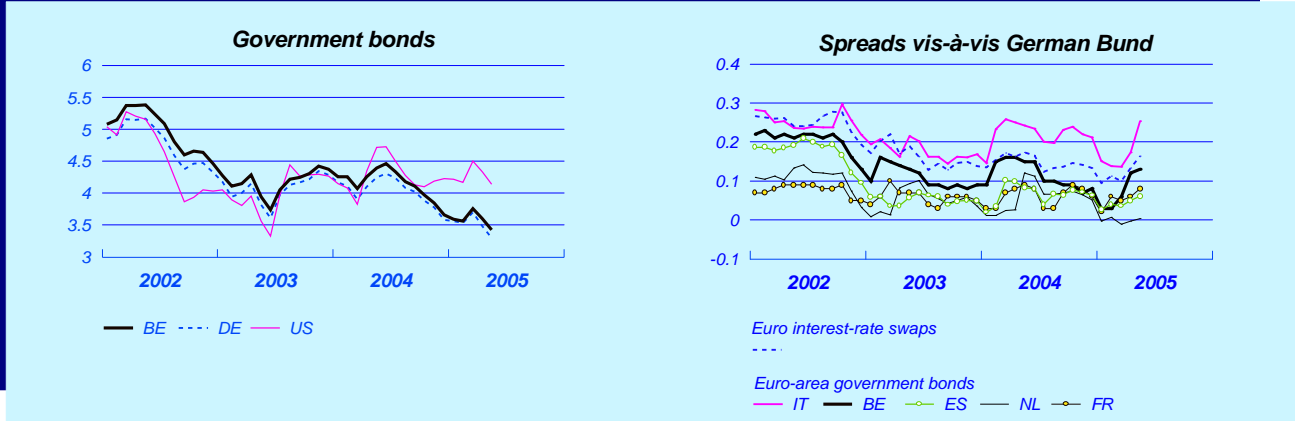
The recent slowdown in Belgium and the euro area has largely been caused by the world economy's cooling down from its record highs in mid-2004. Exports in the euro area slowed down almost instantaneously, while in Belgium they held on somewhat longer. The positive impetus from the external environment during the first half of 2004 largely failed to spill over into employment and investment. Therefore domestic demand remained dull and even started to weaken in both the euro area and Belgium at the end of 2004, as a result of higher oil prices, which weighed on household disposable income, consumer and business confidence.

With the business cycle entering a slowdown, Belgian GDP growth, as usual, gets more in line with that of the euro area. Together with the slowdown in exports, industrial activity decreased and made a negative contribution to Belgian GDP growth in the last two quarters. Also the building sector contributed negatively to economic growth in the first quarter of 2005. On the other hand, services kept on supporting economic activity. While the slowdown in the building sector might be partially due to temporal factors, such as bad weather conditions, the prospects for industrial activity, as well as for exports, will largely depend on worldwide economic activity, oil prices and exchange rate developments.

A large amount of uncertainty seems to be present in the foreign exchange and the oil markets at the current juncture. However, the slump in economic activity might prove temporary should euro oil prices tend to abate and the exchange rate to stabilise, in accordance with the primary dealers' consensus. The recent developments once more showed that the euro area as well as the Belgian economy is highly sensitive to external shocks. Structural improvements are necessary in the fields of productivity, investment and labour participation for improving their resilience, but also for coping with the challenges ahead.

# GOVERNMENT SECURITIES MARKET

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

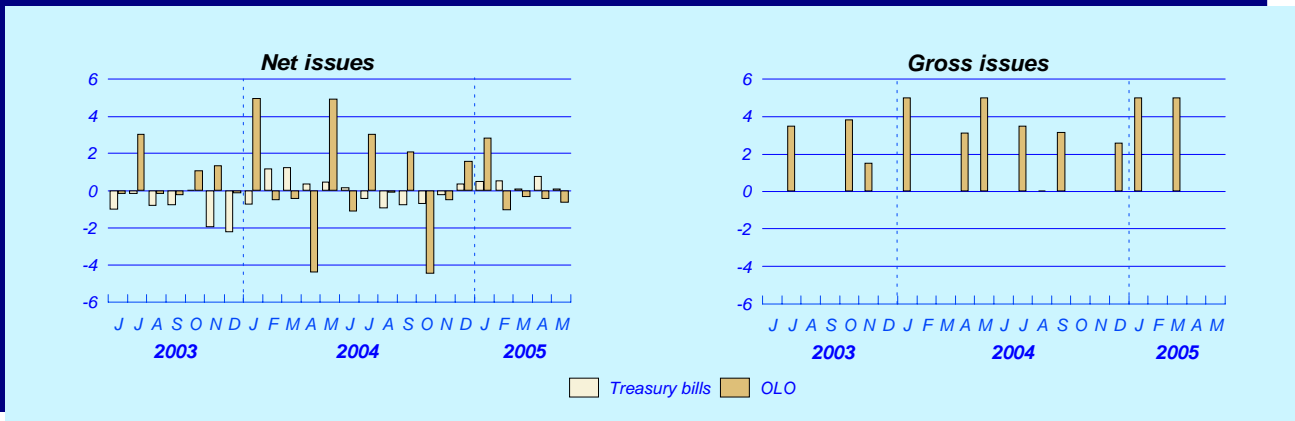


Sources: BIS, Datastream.

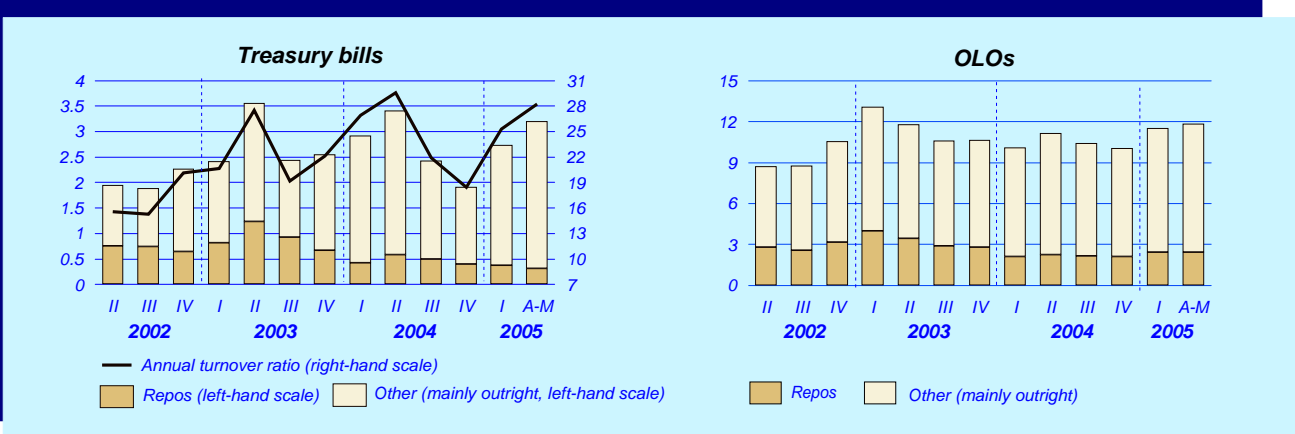
The downward trend in long-term bond yields in Belgium and Germany which started in mid-2004 resumed, after a small increase in March, leading to record low levels. This development resulted from decreasing real interest rates, while the inflation perspectives, after a surge in March, gradually slowed down again. Interest rates on US 10-year government bonds also increased in March, but later on dropped again to the level attained in the autumn of the previous year.

The rise of euro area countries' government bond spreads vis-à-vis the German Bund, which started at the beginning of 2005, continued, except in the Netherlands. Also the spread for euro area interest-rate swaps showed a similar pattern, i.e. a slight increase in recent months.

## PRIMARY MARKET (billions of euros)

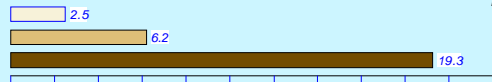


## SECONDARY MARKET (billions of euros unless stated, daily averages)



## OUTSTANDING AMOUNTS AND TURNOVER

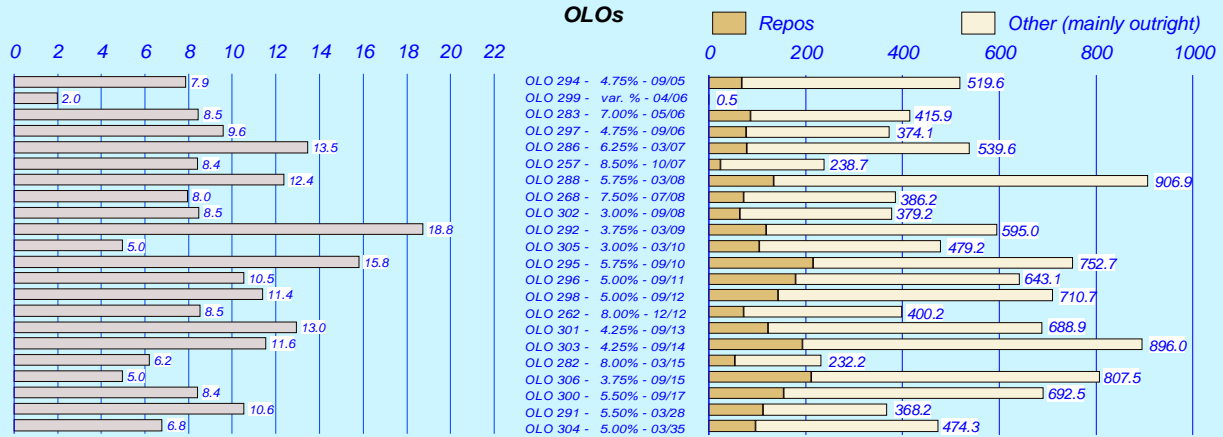
### Outstanding amounts at 31 May 2005 (billions of euros)



### TREASURY BILLS

3-month  
6-month  
12-month

### Turnover in May 2005 (millions of euros, daily averages)



## TREASURY HIGHLIGHTS

1. The Treasury organised its first OLO auction of this year on May 30, following its two syndicated new issues in January and March.

Three OLO lines - OLO 45 03/10, OLO 46 09/15 and OLO 44 03/35 - were opened. The Treasury accepted an amount of 2.96 billion euros during the competitive tour, and received a total amount of 4.10 billion euros, including non-competitive bids.

The auction had a bid-to-cover ratio of 1.85.

- 2.. The Belgian Primary Dealers delivered their quarterly activity report for Q1 2005 in a new and more detailed format, enabling the Treasury to monitor closely the OLO and Treasury Certificate transactions in which they participate.

Some Primary Dealers already used the European harmonised format agreed upon by the EFC Group on Government Bonds and Bills.

### OLO AUCTIONS AND SYNDICATIONS

Month	Date	Settlement
July (Auction)	25	28
September (Auction)	26	29
November (Auction)	28	1 December

## LIST OF CONTACT PERSONS

#### PARTICIPATING INSTITUTIONS:

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Barclays Capital  
BNP Paribas  
Calyon  
Dexia Bank  
Fortis Bank  
ING  
KBC Bank  
UBS Warburg

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This publication is also available on the internet site [www.nbb.be](http://www.nbb.be).

Information on the Belgian government debt can be found on the site of the Treasury: [www.debtagency.be](http://www.debtagency.be).

General information on the Belgian government's action can be found on the site [www.belgium.be](http://www.belgium.be).