# BELGIAN PRIME NEWS

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**Special topic :**
The control of Belgian public finances for the year 1999 : the course maintained

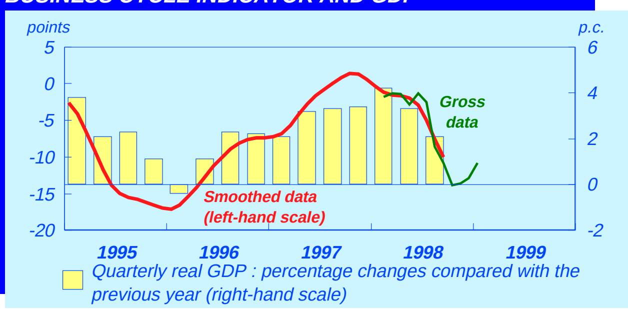
## CONSENSUS FORECAST

| | 1998 | | 1999 p | | | 2000 p | |
|---|---|---|---|---|---|---|---|
| | Belgium | Eur 11[3] | Belgium Consensus | Belgium Previous consensus | Eur 11[3] | Belgium Consensus | Eur 11[3] |
| **Real GDP [1]** | 2.9 | 3.0 | **2.0** | 2.0 | 2.6 | **2.7** | 2.9 |
| **Employment [1]** | 1.0 | 1.1 | **0.7** | 0.8 | 1.0 | **1.0** | 1.0 |
| **Consumer prices [1]** | 0.9 | 1.3 | **1.1** | 1.3 | 1.5 | **1.4** | 1.7 |
| **Current account [2]** | 4.4 | 1.9 | **4.2** | 5.9 | 1.9 | **4.3** | 1.8 |
| **General government balance [2]** | -1.3 | -2.3 | **-1.3** | -1.3 | -1.9 | **-0.9** | -1.7 |
| **Primary balance [2]** | 6.1 | 2.4 | **6.0** | 6.0 | 2.5 | **6.1** | 2.6 |
| **Public debt [2]** | 115.8 | 73.8 | **113.5** | 114.5 | 72.5 | **109.5** | 70.9 |

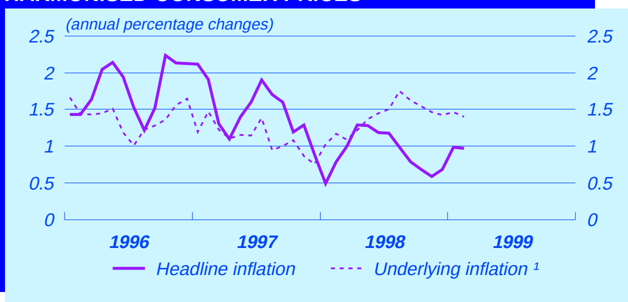
[1] P.c. change. [2] In p.c. of GDP. [3] Forecast from the European Commission (available since October 1998; next publication in spring 1999).

## MACROECONOMIC DEVELOPMENTS

**BUSINESS CYCLE INDICATOR AND GDP**




**HARMONISED CONSUMER PRICES**




[1] Headline inflation, after exclusion of energy and unprocessed food products.

*In 1998 real GDP grew by 2.9 p.c., boosted by a strong increase in private consumption (+ 3.6 p.c.). However, activity weakened significantly from the summer of last year onwards with a drop in industrial production and exports. Recent indicators suggest that this slowdown will be temporary and that activity will soon recover: the National Bank of Belgium's business cycle indicator reversed its trend and improved in January for the third consecutive month. This survey revealed rising domestic and export orders. The strengthening of the dollar offers better prospects for exports. There are no signs of a weakening of private consumption: car sales jumped again in January and February, while consumer confidence remained at a high level.*

*Despite the recent developments in the economic environment, it is worth noting that, compared to three months ago, there are no major changes in the consensus forecast of our institutions: GDP will expand by 2 p.c. in 1999, employment will grow by 0.7 p.c., inflation will amount to 1 p.c. and the general government deficit will reach 1.3 p.c. of GDP. For next year the consensus forecasts take into account an acceleration of real GDP growth to 2.7 p.c.*

*Inflation rose somewhat at the beginning of 1999; owing to bad weather, the price of unprocessed food products jumped by more than 3 p.c. in the first months of the year. This increase may be regarded as exceptional and temporary. Underlying inflation, where energy and unprocessed food products are excluded, remained stable around 1.5 p.c.*

## SPECIAL TOPIC

## The control of the Belgian public finances for the year 1999 : the course pursued

*The policy in the field of public finances which will be pursued by Belgium from 1999 onwards, was submitted to the European authorities in the form of the Stability Programme approved by the Government on 18 December 1998. In mid-February, the quality of the Belgian Stability Programme was acknowledged by the European Commission, which found it entirely in accordance with the European Pact for Stability and Growth and described the aimed-at stabilisation of the primary surplus at 6 p.c. as "appropriate and judicious for a guaranteed regular reduction of the high debt". The European Council of Ministers of Finance and Economic Affairs will undoubtedly confirm this approval during its next session in March.*

*The adjusted budget for 1999 is entirely in keeping with the commitments laid down in the Stability Programme and even exceeds them, inasmuch as the public deficit in 1999 will be even lower than expected, i.e. 1.2 p.c. of GDP instead of 1.3 p.c. ; however, the budgetary data enabling this 1.2 p.c. result to be arrived at include a safety margin of 0.2 point which will very probably not have to be encroached upon.*

*Taking into account the effect of the automatic stabilisers of the public finances, the overall primary surplus amounts to 6 p.c. of GDP in 1999. According to the rule of operation of these stabilisers, every difference in economic growth from its historic trend of 2.25 p.c. brings about a deviation (with the same sign) of the primary balance equal to half that difference. As the economic growth predicted in the forecasts for 1999 has declined to 2 p.c., this rule leads to an automatic reduction on the primary surplus of only 0.1 p.c. in comparison with last year.*

*In view of the assumptions concerning interest rates in 1999, the Government has, as in the past, opted for a resolutely cautious approach in order to make the budgetary targets more reliable by incorporating a considerable safety margin. Thus, it has been decided to add a safety margin of BEF 18 billion to the estimates in the public debt budget which are believed necessary to cover the interest charges based on an average rate of 3.25 p.c. for 3-month interest rates in euro, an assumption that is already very conservative in itself. <u>Account being taken of this safety margin, it may be considered right to assume that the overall public deficit in 1999 will in fact amount to 1 p.c. of GDP</u>, as the section entitled "Financing requirement of general government" of the Superior Finance Council forecasts in the recommendations which it has just published, on 4 March, in its "Advice concerning the execution of the New Convergence Programme in 1998".*

*As far as public debt is concerned, a further contraction by 2.2 percentage points of GDP is expected, bringing it down to 113.6 p.c. of GDP, more than 20 points lower than six years ago. The apparent slowing of the rate of reduction, owing to the nominal slackening of economic activity this year, is only temporary.*

*The consolidation of the public finances is evidenced not only by the development of the public deficit or the public debt but also by the regaining in the budgetary margins for financing the cutbacks in fiscal and parafiscal levies or some new expenditure necessary for the implementation of the priority policy issues pursued by the Government.*

*This budgetary margin was increased by some BEF 10 billion in the course of the budgetary control, especially owing to the expenditure allotted to the budget of the European Union and for covering the guarantees of the exchange losses of a former public financial institution, which appear to be lower than was originally expected.*

*The priorities which were laid down in the initial budget and which the Government intended to implement from 1 July onwards, particularly through action to reduce social charges and fiscal measures and through social adjustments, are once again confirmed in connection with the budgetary control. The increase in the budgetary margin compared to what was expected when the initial budget was drawn up was first of all used to bring forward the implementation of these measures from 1 July 1999 to 1 April. With a view to promoting employment, the additional reduction in employers' contributions is also brought forward by one quarter and amounts to BEF 3.95 bilion. Thus the employment funds appropriated in favour of enterprises and the non-profit sector, including the measures to recruit nursery staff under the health care programme, are increased to about BEF 25 billion.*

**MAJOR INDICATORS OF THE PUBLIC FINANCE SITUATION**
**(As percentage of the gross domestic product)**

| | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|
| **Primary financing surplus** | + 5.4 | + 6.0 | + 6.1 | + 6.0 |
| **Net borrowing requirements** | - 3.1 | - 1.9 | - 1.3 | - 1.2 |
| p.m. Net borrowing requirements of the other Menber States of the European Union (idem Euro-11) | - 4.2<br>(- 4.1) | - 2.4<br>(- 2.5) | - 1.9<br>(- 2.3) | - 1.6<br>(- 1.9) |
| **Gross public debt** | 126.9 | 121.9 | 115.8 | 113.6 |

*The effort made to modernise and reform the Justice Department and to increase safety is also evident from the budget, as the resources allotted to these areas are increased by some BEF 4 billion. On 1 April 1999 several social security measures in favour of the needy will come into effect. These measures comprise a 0.5 p.c. increase in small pensions which came into effect before 1991, the linking of the guaranteed minimum old-age pension to prosperity, the 0.5 p.c. raising of the income limit for assistance to the elderly and finally, a small rise in the allowance for single unemployed persons. Child allowances, too, are raised, the additional monthly allowance for young people aged 18 years and over being increased by BEF 70 from 1 April 1999 onwards.*

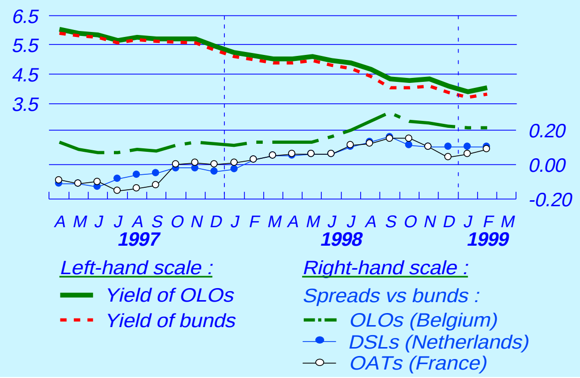
*With regard to taxes on earned income, the above-mentioned measures are supplemented by a series of measures for reducing income taxes, particularly by the complete re-indexation of the taxation scales in 1999. Finally, fiscal discrimination between married and unmarried couples is reduced by BEF 1,000 per partner with effect from the second quarter of this year.*

# GOVERNMENT SECURITIES MARKET

## PRIMARY MARKET (billions of EUR)

| | OLOs Gross issues 1998 | OLOs Gross issues 1999 | | OLOs Net issues 1998 | OLOs Net issues 1999 | | TREASURY BILLS Net issues 1998 | TREASURY BILLS Net issues 1999 |
|---|---|---|---|---|---|---|---|---|
| J | 2.754 | 3.811 | J | -0.498 | 3.035 | J | 2.692 | 3.962 |
| F | 2.065 | 3.153 | F | 1.153 | 1.705 | F | -1.547 | -1.587 |
| M | 0.786 | | M | -0.015 | | M | 1.775 | |
| A | 2.811 | | A | 2.224 | | A | -3.557 | |
| M | 1.577 | | M | 1.247 | | M | 2.432 | |
| J | 1.765 | | J | -0.196 | | J | 0.892 | |
| J | 2.828 | | J | -0.347 | | J | 0.488 | |
| A | 0.645 | | A | -0.072 | | A | 0.630 | |
| S | 2.635 | | S | 1.286 | | S | -2.531 | |
| O | 3.116 | | O | 2.072 | | O | -3.024 | |
| N | 0.263 | | N | -0.027 | | N | -3.101 | |
| D | 2.083 | | D | 1.728 | | D | -0.978 | |

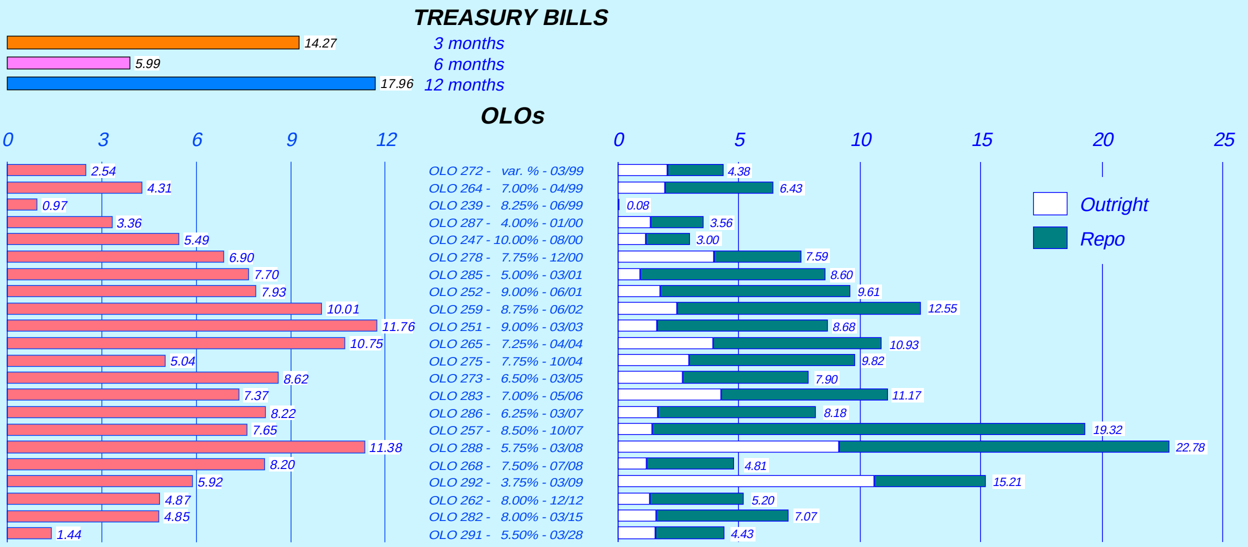
## BENCHMARK 10-YEAR BOND YIELDS (p.c.)



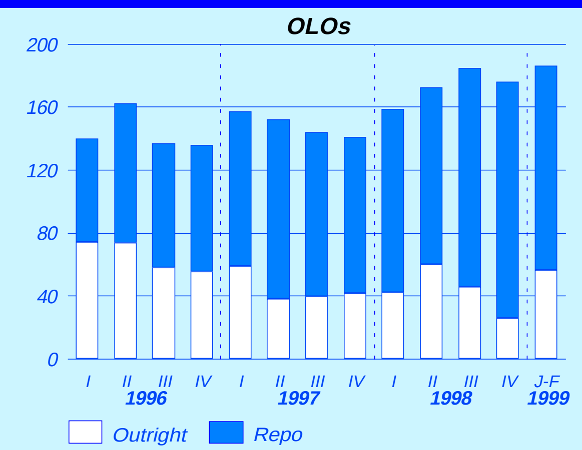

## OUTSTANDING AMOUNT AND TURNOVER (billions of EUR)

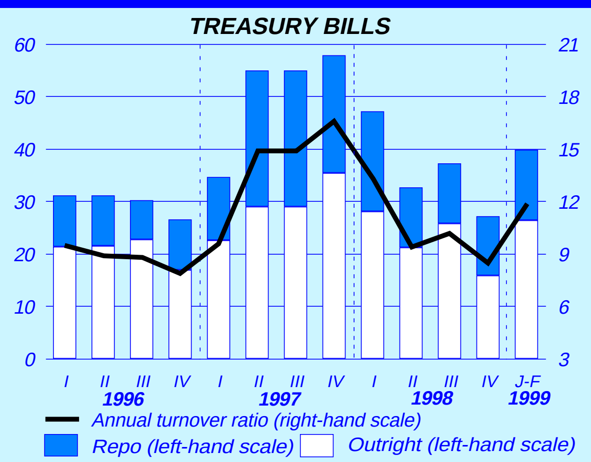
OUTSTANDING AMOUNT AT 28 FEBRUARY 1999

TURNOVER IN FEBRUARY 1999




## SECONDARY MARKET ACTIVITY (billions of EUR, standardised monthly averages)



## TREASURY HIGHLIGHTS

*Belgium has appointed new primary dealers and recognized dealers. More information about this item can be found on the website of the Treasury : www.treasury.fgov.be.*

*The Kingdom syndicated 5 billion euros of its new 10-year benchmark bond (3.75 p.c. OLO 32, due 28.03.2009) at a yield spread of 26 basis points to the Bund maturing in 2009 and of 17 basis points to the OAT curve. By doing this, Belgium establishes a new record for a single international government bond syndicate. The Kingdom has taken advantage of investor demand for liquid, high quality debt after the Russian and Brazilian turmoil. Belgium used the syndication, rather than the auction issuance technique for its inaugured long term issue in euro in order to boost liquidity and to expand its foreign investor base. The joint lead and co-lead management groups included all primary dealers, while recognized dealers joined forces in the selling group. This issue will be tapped via auctions when appropriate in the future.*

## MONETARY POLICY HIGHLIGHTS

*At the beginning of 1999, the monetary policy instruments of the Eurosystem were introduced successfully.*

*The minimum reserves were applied for a first maintenance period which started on 1 January 1999 and ended on 23 February 1999. Their introduction increased the liabilities of the Eurosystem hereby enlarging the structural liquidity shortage of the euro area money market.*

*The liquidities needed by the market participants were essentially provided by the Eurosystem through the main refinancing operations. These weekly operations were organised as fixed rate tenders. The interest rate applicable to the first main refinancing operation with settlement on 7 January 1999 was set at 3.0 p.c., the level reached through the co-ordinated reduction of key central bank interest rates in the euro area at the beginning of December 1998. At its meetings held between 22 December 1998 and 4 March 1999, after having taken into consideration the latest available monetary, financial and other economic data against the background of its stability-oriented monetary policy strategy, the Governing Council confirmed on each occasion that forthcoming main refinancing operations would be conducted at a fixed rate of 3.0 p.c. In addition to these main refinancing operations, monthly longer-term refinancing operations were conducted through a variable rate tender using the single rate allotment procedure.*

*The Governing Council set the interest rate for the marginal lending facility at a level of 4.5 p.c. and the interest rate for the deposit facility at a level of 2.0 p.c. for the start of Stage Three. However, between 4 and 21 January 1999 and to allow a smooth transition towards an unified money market, the interest rate for the marginal lending facility was set at a level of 3.25 p.c. and the interest rate for the deposit facility at a level of 2.75 p.c. These transitional measures were terminated on 22 January 1999.*

*This complete instruments-mix allowed an efficient control of the short-term money market rates, the operational variable of the Eurosystem, which were steered towards the level of the main refinancing operations. Notwithstanding minor adjustment problems, the volatility of those interest rates was limited through the averaging provisions provided by the reserve requirement of the Eurosystem.*

## LIST OF CONTACT PERSONS


| PARTICIPATING INSTITUTIONS : | TECHNICAL EDITORS : | TELEPHONE : | FAX : |
|---|---|---|---|
| Ministry of Finance | Mr Stefan Theys | 32 2 233 72 23 | 32 2 233 71 14 |
| Artesia | Mr Peter Van Dijcke | 32 2 204 40 17 | 32 2 204 41 61 |
| ASLK-CGER Bank | Mr Walter Van Nieuwenhove | 32 2 228 60 58 | 32 2 228 59 25 |
| BACOB Bank | Mr Wim Melyn | 32 2 285 37 72 | 32 2 285 35 02 |
| Bank Brussels Lambert | Mr Peter Vanden Houte | 32 2 547 80 09 | 32 2 547 80 63 |
| Crédit Communal de Belgique | Mrs Françoise Bernard | 32 2 250 70 70 | 32 2 222 31 23 |
| Crédit Lyonnais Belgium | Mrs Cathy Miroir | 32 2 516 05 94 | 32 2 516 06 94 |
| Generale Bank | Mrs Nancy Verret | 32 2 565 55 63 | 32 2 565 62 40 |
| KBC Bank | Mr. Edward Roosens | 32 2 429 50 81 | 32 2 218 36 36 |
| GENERAL INFORMATION | | | |
| National Bank of Belgium | Mr Jean-Jacques Vanhaelen | 32 2 221 38 16 | 32 2 221 31 62 |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