

Belgian Prime News



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Special topic: Will there be a credit crunch in Belgium?

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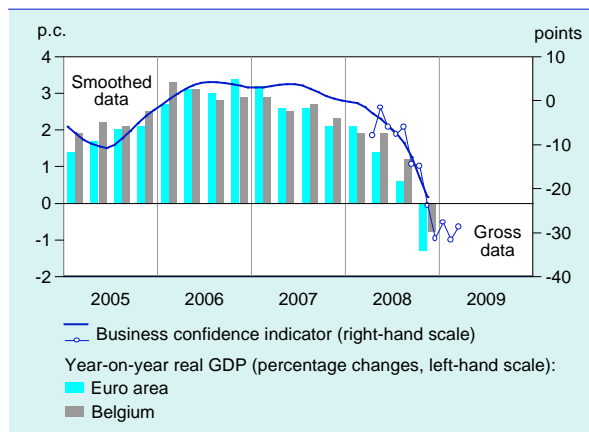
Consensus: Average of participants' forecasts

	2008		2009 p		2010 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP ⁽¹⁾	1.1	0.8	-2.4 (-0.6)	-2.6 (-1.0)	0.8 (n.)	0.6 (n.)
Inflation (HICP) ⁽¹⁾	4.5	3.3	0.7 (1.5)	0.6 (1.3)	1.4 (n.)	1.4 (n.)
General government balance ⁽²⁾	-1.1	-1.7	-3.3 (-1.9)	n.	-3.9 (n.)	n.
Primary balance ⁽²⁾	2.7	1.3	0.4 (2.4)	n.	0.1 (n.)	n.
Public debt ⁽²⁾	88.7	68.7	92.8 (86.1)	n.	94.6 (n.)	n.

Numbers in parentheses refer to the previous consensus forecast of January 2009.
(1) Percentage changes. (2) EDP definition; percentages of GDP. n. Not available.

Macroeconomic developments

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

In recent months, the economic outlook has again deteriorated sharply. The position of the financial sector is still very fragile and uncertainty about banks' balance sheets is far from being lifted. In addition, the current synchronised downturn in activity is expected to cause loan default rates to rise, putting further pressure on the financial sector. The timing of the eventual recovery is therefore highly uncertain. Despite the sizeable downward revisions, the risks to these new projections remain tilted to the downside.

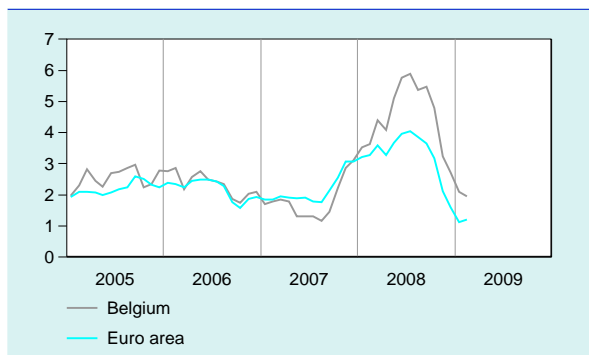
Following the exceptionally sharp fall in activity in the last quarter of 2008, output will most likely continue to contract through 2009. **The primary dealers now expect negative GDP growth in Belgium in 2009 of -2.4% on average.** Foreign demand is being hit by the global slowdown, while domestic demand is depressed mainly by the generalised fall in confidence and by tight financial conditions which are discussed in the special topic. **For 2010, growth is expected to pick up only moderately to 0.8%.** The outlook for the euro area is even more pessimistic, with GDP growth projected to be -2.6% in 2009 and 0.6% in 2010.

In Belgium, annual HICP inflation continued its downward trend and stood at 1.9% in February. Due to important base effects, headline inflation should temporarily even become negative in the next few months. Beyond that horizon, inflation will recover somewhat, but it will be curbed considerably by the very negative outlook for growth and unemployment. The risk of deflation is still assessed to be limited, however. **On average, the primary dealers have halved their inflation forecast for 2009 to 0.7%. For 2010, they expect inflation to reach 1.4% on average.** For the euro area, broadly similar inflation rates are projected: 0.6% in 2009 and 1.4% in 2010.

The primary dealers on average expect the general government deficit in Belgium to rise from 1.1% of GDP in 2008 to 3.3% in 2009 and 3.9% in 2010. The sharp deterioration in 2009 mainly reflects the impact of the automatic stabilisers and, to a lesser extent, of the recovery plan. While interventions in favour of the financial sector have raised the **public debt ratio to 88.7% of GDP in 2008, it is expected to rise further to 92.8% in 2009 and 94.6% in 2010.** The assessment of the primary dealers is that the Belgian government does not have much room for further fiscal stimulus on top of the recovery plan that has already been decided, due to this weak starting position. In addition, it is crucial to return to fiscal consolidation as soon as the economic conditions allow this.

HARMONISED INDEX OF CONSUMER PRICES

(annual percentage changes)

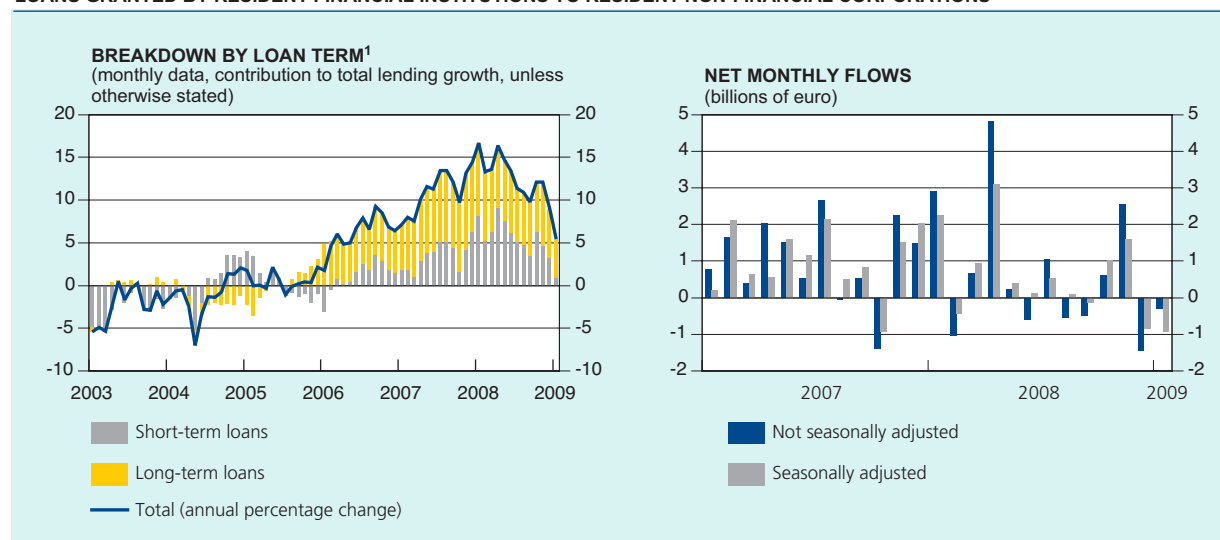


Source: EC.

Special topic: Will there be a credit crunch in Belgium?

The international financial crisis has infected the real economy of Belgium through different channels. One of the direct effects of the crisis is the rise in financing costs and constraints confronting non-financial corporations. Finance obtained directly from the financial markets through share and corporate bond issues was badly hit by a scarcity of funds, thus inducing much higher financing costs. Bank lending to firms, which had remained buoyant in the first quarter of 2008, slowed sharply thereafter. The annual growth of lending by resident banks thus declined from 16.7% in January 2008 to 5.4% one year later. Even more striking is the pattern of net monthly flows which were negative in December 2008 and January 2009.

LOANS GRANTED BY RESIDENT FINANCIAL INSTITUTIONS TO RESIDENT NON-FINANCIAL CORPORATIONS



Source: NBB.

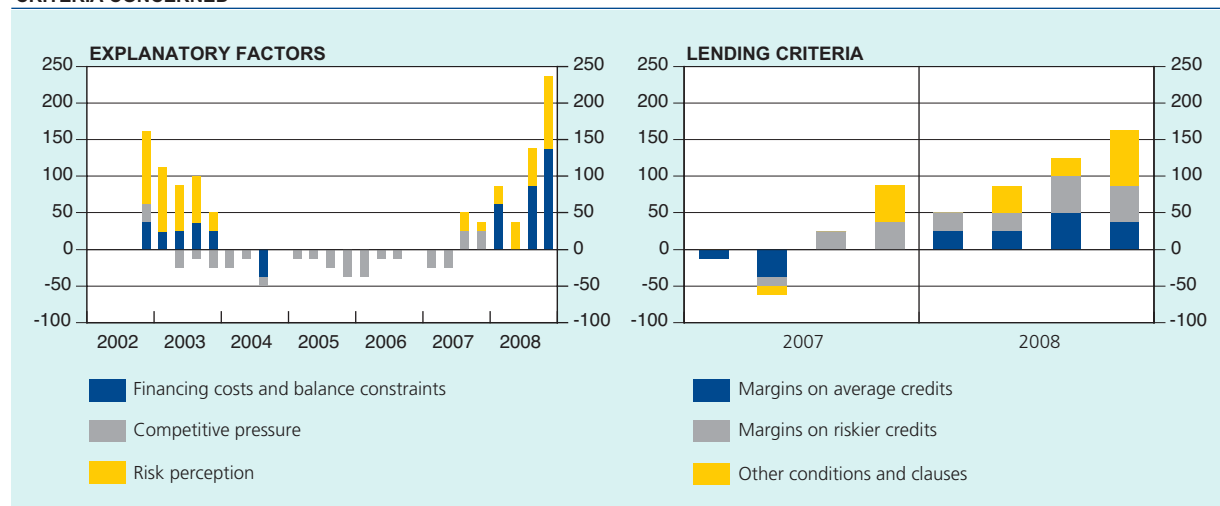
¹ Short-term loans have a maturity of up to one year, long-term loans have a maturity of over one year.

Could these figures indicate the beginning of a credit crunch where the financial institutions try to solve their balance sheet problems by a deleveraging process with drastic cuts in the credit available for the private sector?

When corporate lending decelerates as it has done since the spring of 2008, it is very difficult to distinguish between the effects due to the supply of funds and the demand-side effects. Actual statistics show the balance on the credit market in terms of quantity, but they do not permit the identification of any imbalances between supply and demand.

Survey data, like the Eurosystem Bank Lending Survey, are very useful here and provide a clearer picture of the influences of the forces at work. So the slowdown in bank lending to enterprises is due to a contraction in both the supply of and demand for credit. Firms are likely to see a sharp fall in their need for funding, particularly since the volume of gross fixed capital formation is set to diminish in 2009. On the other hand, banks are also tightening their lending criteria. While boosting margins was undeniably the preferred option used by banks to curb their lending, they recently also reported a gradual tightening of other lending criteria, particularly loan amounts and charges associated with arranging new loans. One of the factors behind this tightening is an increase in risk perception, against the background of the economic downturn. However, the rise in financing costs and balance constraints appear to be the main explanatory factors in the latest period of tightening.

TIGHTENING OF LENDING CRITERIA APPLIED TO ENTERPRISES IN BELGIUM: MAIN EXPLANATORY FACTORS AND LENDING CRITERIA CONCERNED¹



Source: NBB (Eurosystem Bank Lending Survey).

¹ Weighted net percentages of responses by credit institutions questioned about the explanatory factors and lending criteria. A positive (negative) percentage corresponds to a factor which has contributed to a tightening (easing) of credit conditions or a criterion reflecting that tightening (easing). The responses are weighted according to the distance from a "neutral" response: mention of a "considerable" change in the explanatory factors or lending criteria is accorded double the weighting of the mention of a "slight" change.

Different measures could influence these factors and prevent a further development of a credit crunch. The more accommodative monetary policy of the ECB together with recapitalisation and guarantee schemes by the public authorities could relieve the financial constraints that banks face. Different measures – better information, guarantee schemes, mediation, etc. – discussed in a recently created working group, could improve risk perception, notably by a lowering of asymmetric information. For instance, Belgian SMEs seeking credit can now apply directly to the Federal Participation Fund for a new type of loan – called Initio – and then contact their bank, with the backing of the Fund, to complete the arrangements for their loan. Also, the regional authorities have expanded their guarantee schemes.

Treasury highlights

1. According to the funding plan published in December 2008, the Treasury would issue **€30.50 billion of OLOs** and **€3.00 billion** of instruments under the **EMTN** programme in 2009. As a result, the outstanding amount of short-term paper would decrease by some **€8.14 billion** in the course of the year. The issuance of new long-term paper would by far exceed the redemptions of long-term instruments, of which only a relatively small amount of **€17.63 billion** reaches maturity in 2009.

It is nevertheless increasingly likely that the Treasury's net borrowing requirement will be higher than the figure estimated in the aforementioned funding plan, leading to a less marked decline in the outstanding volume of short-term instruments.

2. Long-term issuance has been frontloaded with the traditional new **10-year OLO benchmark (OLO55)** issue for an amount of **€4.00 billion** on 14 January, and two OLO auctions on 26 January and 23 February, resulting in **€6.58 billion** being issued, including non-competitive subscriptions. As such, by the end of February, 34.6% of the OLO issuance plan had already been realised.
3. OLO55 4% 28 March 2019 has been issued at MS + 50bp from a revised spread guidance in a volatile market environment resulting *inter alia* from S&P's decision to put Spain and Portugal under negative credit watches. Around 155 investors participated in the deal, which was characterised by strong demand from real money investors and by good domestic support (39% of total allocation).
4. In 2009, the Treasury will not automatically cancel the OLO auction scheduled in the month in which a syndicated issue took place. Also, auctions are scheduled each month (with the exception of December), and issuance of off-the-run OLOs is possible in case of sufficient market demand. Thus both the auctions of January and February went through, and during each auction, 4 different OLO lines were offered. All bid-to-cover ratios exceeded 2.0, with a maximum of 8.39 for the bid-to-cover of OLO31 5.5% March 2028.

The OLO auction dates for the remainder of 2009 are the following:

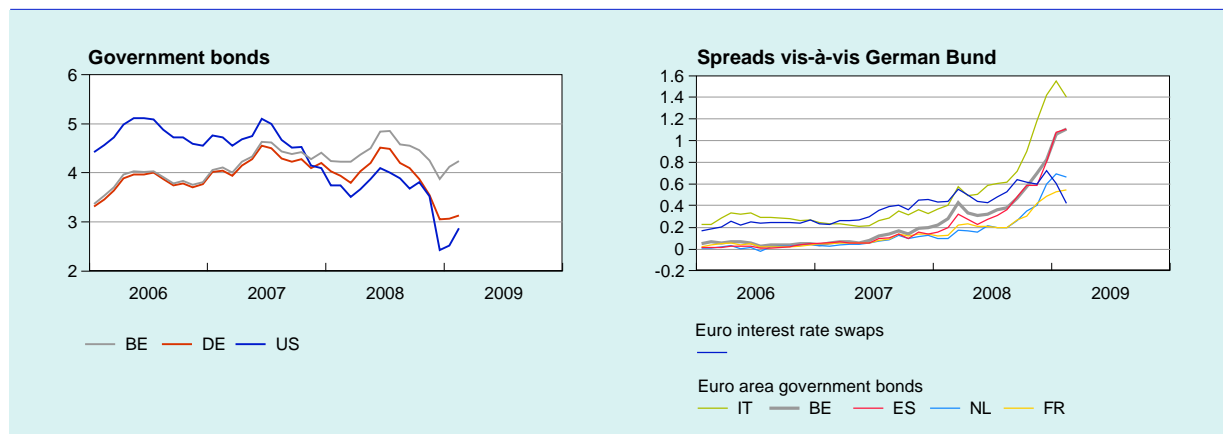
Issuance date	Settlement date	Issuance date	Settlement date	Issuance date	Settlement date
27 April	30 April	27 July	30 July	26 October	29 October
18 May	21 May	24 August	27 August	30 November	3 December
29 June	2 July	28 September	1 October		

Please note that this schedule may be modified and that a new syndicated issue may replace an auction.

Government securities market

10-YEAR INTEREST RATES

(percentage points, monthly averages)



Sources: BIS, Datastream.

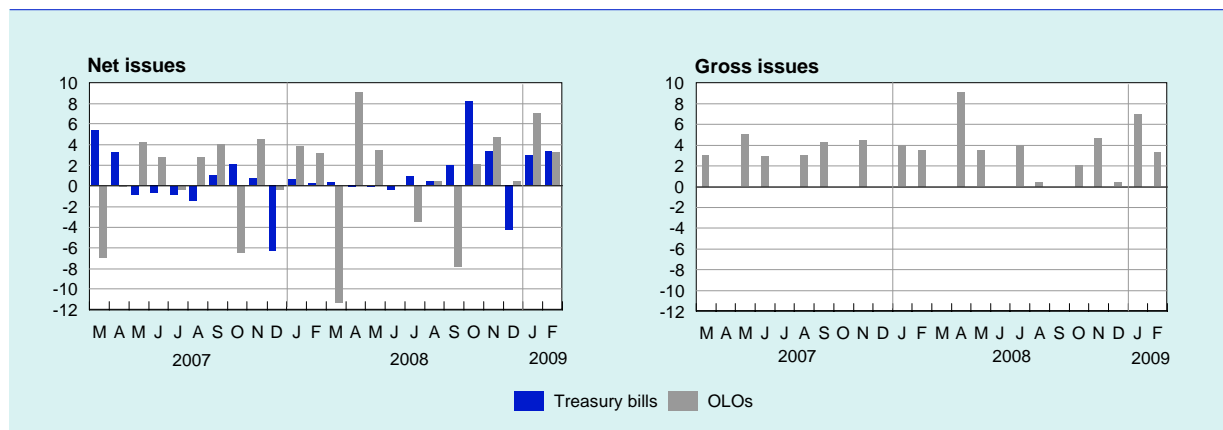
The decline in the long-term interest rates on government bonds, which started in the summer of 2008, came to an end at the beginning of this year.

The small increase since January could reflect growing concerns about the financing needs of sovereign issuers, but this evolution also revealed a slight increase in break-even inflation rates.

As investors are still worried about the sustainability of financing far-reaching public sector plans to recapitalise financial institutions and to stimulate the economy, most of the government bond spreads vis-à-vis the German Bund increased.

PRIMARY MARKET

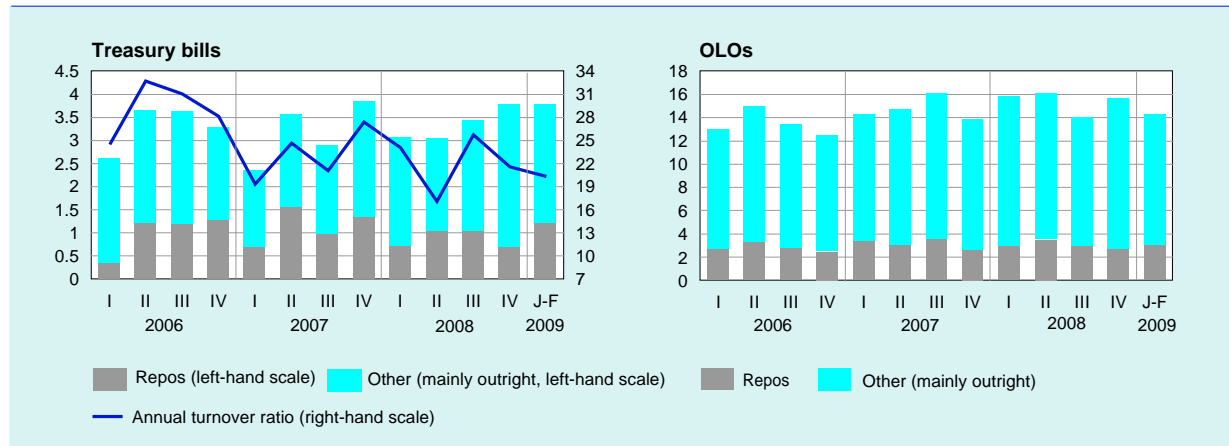
(billions of euros)



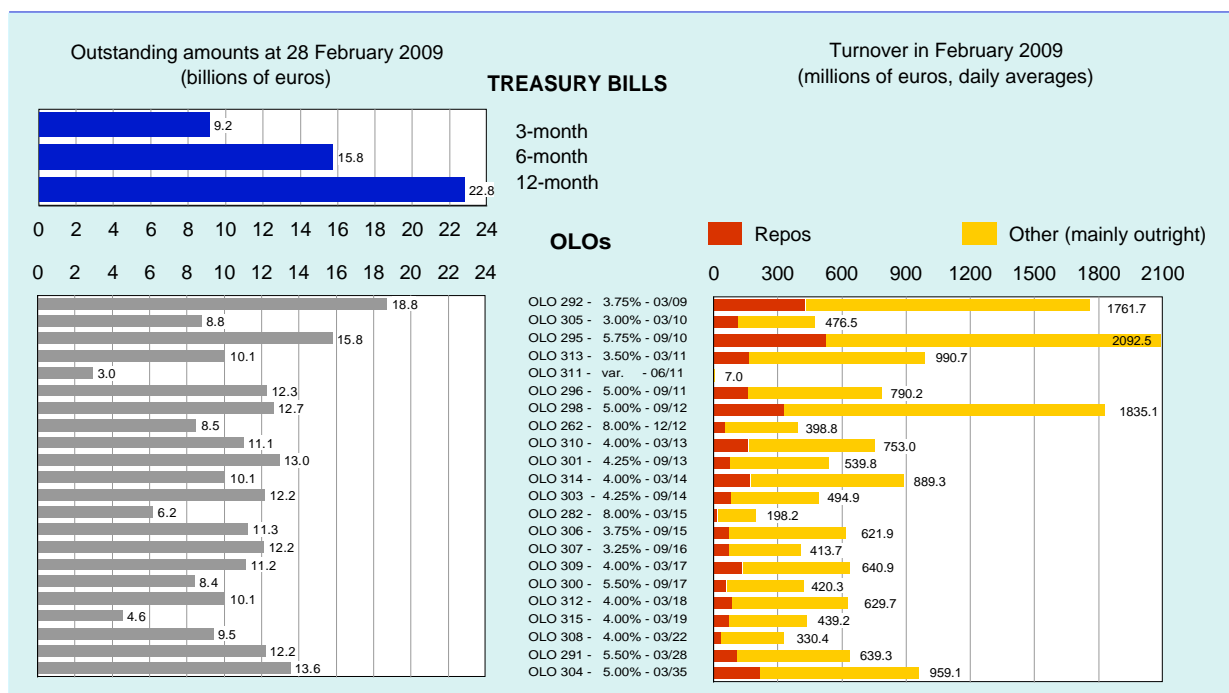
Government securities market (continued)

SECONDARY MARKET

(billions of euros unless otherwise stated, daily averages)



OUTSTANDING AMOUNTS AND TURNOVER



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PARTICIPATING INSTITUTIONS

Federal Public Service Finance
 Barclays Capital
 Citigroup
 Dexia Bank
 Dresdner Kleinwort
 Fortis Bank

 ING
 KBC Bank

 Royal Bank of Scotland
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This publication is also available on the internet site www.nbb.be.

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