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Special topic :

The Federal Government Agreement

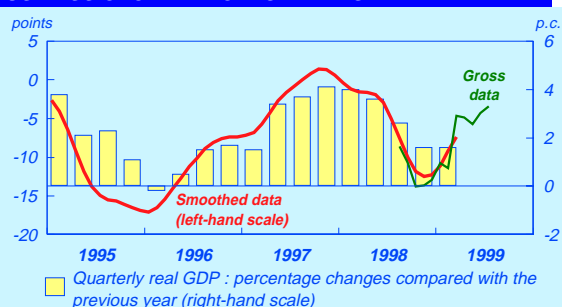
CONSENSUS FORECAST

	1998		1999 p			2000 p		
	Belgium	Eur 11 ³	Belgium		Eur 11 ³	Belgium		Eur 11 ³
			Consensus	Previous consensus		Consensus	Previous consensus	
Real GDP¹	2.9	3.0	1.7	1.9	2.2	2.9	2.8	2.7
Employment¹	1.1	1.1	0.9	1.0	0.9	0.9	0.9	0.9
Consumer prices¹	0.9	1.3	1.0	1.2	1.1	1.4	1.5	1.4
Current account²	4.0	1.9	3.5	4.1	1.5	3.7	4.1	1.4
General government balance¹	-1.0	-2.3	-1.1	-1.1	-1.9	-0.9	-0.8	-1.7
Primary balance²	6.7	2.4	6.1	6.0	2.3	5.9	5.9	2.4
Public debt²	116.2	73.8	114.4	113.0	72.6	110.6	108.6	71.2

¹ P.c. change. ² In p.c. of GDP. ³ Forecast from the European Commission (available since March 1999; next publication in autumn 1999).

MACROECONOMIC DEVELOPMENTS

BUSINESS CYCLE INDICATOR AND GDP



As in other European countries, activity was more sustained during the first half of 1999 than initially forecast. The deceleration of real GDP growth came to an end during the first quarter: GDP grew by 1.6 p.c. year-on-year, a rate comparable to that recorded for the last quarter of 1998. Qualitative data tend to indicate that the economic improvement continued in the second quarter and in subsequent months, despite the outbreak of the dioxin crisis and its adverse impact on the value added of the food processing industry.

The National Bank's overall composite indicator shows that the recovery observed since December 1998 continued during the second quarter and in July. The degree of utilisation of production capacities likewise increased in the second quarter of 1999 (81.6 p.c. against 80.9 p.c. in the first quarter), although its level was still lower than a year earlier.

Some temporary adverse effects are nevertheless to be expected as a result of the dioxin crisis. Net exports are most likely to be affected by the temporary closure of export markets for some food products. According to the provisional foreign trade data (customs statistics) for June, the direct cost of the dioxin crisis in terms of net exports of the agricultural and food processing sectors is thought to be at least EUR 250 million during that month.

The consensus forecast for economic growth in 1999 was revised downwards from 1.9 p.c. to 1.7 p.c. The negative impact of the dioxin crisis is partially compensated for by the upswing in economic activity, more buoyant than initially foreseen.

RECENT DEVELOPMENTS IN NOMINAL EXPORTS

	Agricultural and food processing sectors ¹	Other sectors	Total
Weight in 1998	10.2 %	89.8 %	100 %
Average % change over the first five months	- 8.0 %	- 3.1 %	- 3.6 %
% change between June 1998 and June 1999 ²	- 26.2 %	- 0.3 %	- 2.8 %

¹ Products from agriculture, forestry and fishery; meat, meat products and tinned food; milk and milk products; other food products.

² Provisional data.

The Federal Government Agreement

The new majority resulting from the elections of 13 June 1999, consisting of the Liberal, Socialist and Green parties, has worked out a government agreement, incorporated in the official statement of 14 July 1999. With regard to economic and social policy, the main lines of this agreement are presented below¹.

The development of an active social state constitutes one of the central objectives of the new government. Concretely, the government wishes to pursue an active policy aimed at increasing the participation rate, which is considerably lower in Belgium than in most other countries. Such a policy will augment the economy's resources, in that a larger number of employed persons provides a broader financial base, enabling social security to be better ensured and making it possible to meet the costs connected with the ageing of the population.

The government plans several measures aimed at bringing about a significant increase in the participation rate:

- the creation of a "first job" system for young people, designed to enable every young person to get a job within six months of leaving school;
- since the high level of fiscal and parafiscal levies on labour is an obstacle to employment, the government wishes to introduce, in the second quarter of the year 2000, a substantial reduction in the burdens on labour. The flat-rate nature of the reduction will chiefly favour low-skilled workers. This reduction in the burdens on labour will take place in accordance with the European Stability and Growth Pact, while safeguarding the financial balance of the social security system;
- in order to eliminate the employment poverty traps, the disposable earned income of persons with low incomes will be increased by fiscal or parafiscal means;
- other instruments which will be used to stimulate the participation rate are the raising of the participation rate of persons aged 50 and above, the incorporation in the labour market of the long-term unemployed and of persons receiving the social minimum subsistence benefit and the encouragement of self-employed persons and SMEs, particularly by the simplification of administrative procedures.

The government wishes to increase the financial incentives in favour of a reduction in working hours and the four-day week, while remaining within the limits set by the competitiveness of enterprises, without adding to labour costs and while safeguarding the income of workers. The voluntary four-day-week system will also be supported by the introduction of a general system for the interruption of careers by one fifth, which is in principle allowed for any worker who so requests. Other formulas for the rearrangement or redistribution of working hours will also be examined.

In order to increase employee motivation, a legal framework will be created so as to allow various worker-participation formulas. Similarly, the government will encourage Second Pillar pension funds.

The fiscal structure will be made more employment-friendly by reduction of the fiscal and parafiscal pressure on labour, and will be made more environment-friendly.

In the near future the complementary crisis tax will be abolished, starting with the lowest incomes and pensions. Furthermore, during its term of office, the government will prepare a general reform of personal income taxes. This should include a limitation of the number of scales, increasing of the minimum taxable income, regrouping of the deduction possibilities into a limited number of flat-rate categories, neutrality of the tax system as regards the chosen form of cohabitation and simplification of the tax return. With regard to corporation tax, the government will follow the international trend towards a lowering of the nominal rates combined with a reduction in the number of deduction possibilities.

All the measures and initiatives adopted in the various fields will comply with the following four conditions:

- compliance with Belgium's Stability Programme, which means that the budget must be balanced in the year 2002;
- maintenance of a balanced budget once balance has been achieved, in accordance with the European Stability and Growth Pact;
- observance of the financial balance of a quality social security system, for which the necessary financial resources are freed in order to meet the needs connected with the ageing of the population, without jeopardising the existing forms of protection;
- gradual reduction of the fiscal and parafiscal pressure.

One of the government's major concerns is to provide effective social protection for the whole population. In the case of pensions, taking account of the demographic trend, the government intends to give priority to ensuring the viability of the statutory pension system; in addition, it will gradually increase the smaller pensions, with special attention to those of self-employed persons. In health care policy the stress is laid on the quality of the services rendered and the greater accessibility of care. In this connection the norm for the real growth in expenditure will be raised from 1.5 to 2.5 p.c. First-line care and prevention will be stimulated, with general practitioners playing a central role in the system. Incorporation in the labour market will also be the government's priority in the fight against poverty.

The government will pursue an active policy to support sustained development and will devise an integrated mobility policy into which both the fiscal and the structural levers, such as flexible working hours, will be introduced. In order to solve the problem of traffic congestion in Brussels, a start will be made on the construction of a Regional Express Railway. The liberalisation of the electricity sector will also be speeded up in order to enable all consumers to have the benefit of lower scales of charges and better service. Furthermore, emphasis will be laid on the development of alternative energy sources.

All the above-mentioned provisions should be incorporated in the budget for the year 2000, which will be presented in October.

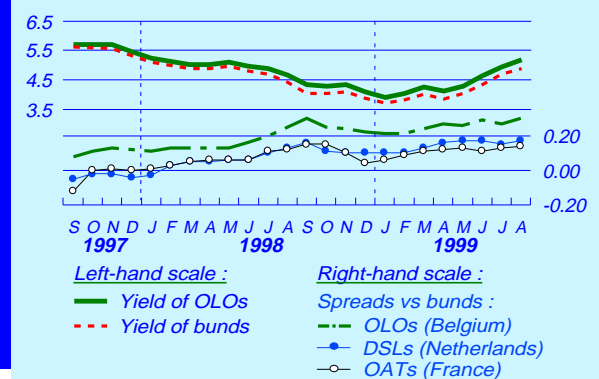
¹ The government agreement also contains a number of institutional provisions aimed at increasing the efficiency of the state, which are not mentioned here.

GOVERNMENT SECURITIES MARKET

PRIMARY MARKET (billions of EUR)

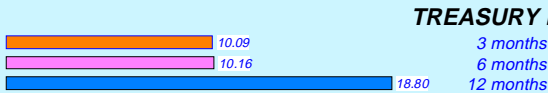
OLOs				TREASURY BILLS	
Gross issues		Net issues		Net issues	
1998	1999	1998	1999	1998	1999
J	2.754	J	-0.498	J	2.692
F	2.065	F	1.153	F	-1.547
M	0.786	M	-0.015	M	1.775
A	2.811	A	2.224	A	-3.557
M	1.577	M	1.247	M	2.432
J	1.765	J	-0.196	J	0.892
J	2.828	J	-0.347	J	0.488
A	0.645	A	-0.072	A	0.630
S	2.635	S	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.)

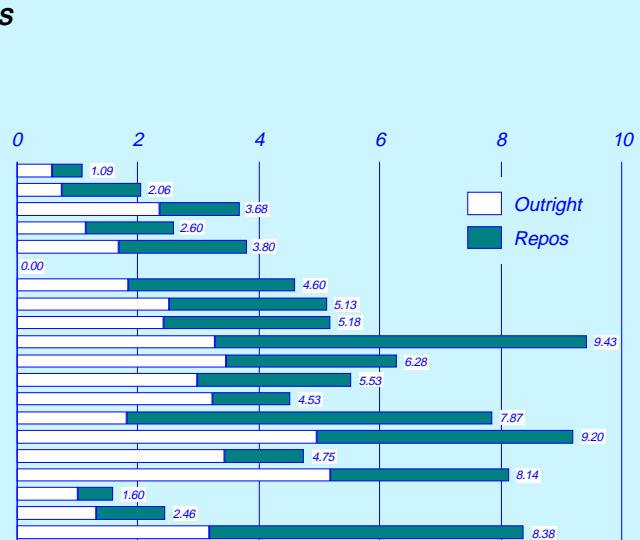


OUTSTANDING AMOUNT AND TURNOVER (billions of EUR)

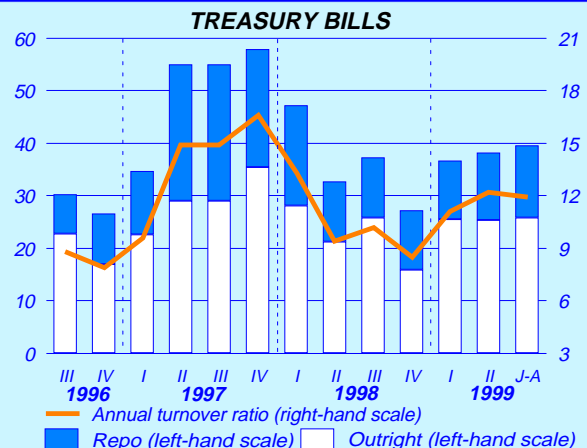
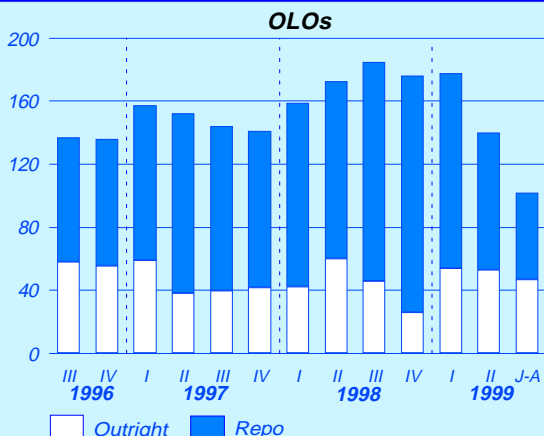
OUTSTANDING AMOUNT AT 31 AUGUST 1999



TURNOVER IN AUGUST 1999



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



TREASURY HIGHLIGHTS

- *With regard to the money market, the Treasury has recently adapted the issuance calendar for Treasury Certificates (TCs) particularly with a view to increasing the liquidity of the 3-month lines. New 3-month lines will no longer be issued weekly, but only every two weeks. In order to improve liquidity, however, every new line will be re-auctioned the week after its launch. From September onwards, the Treasury is also announcing a target issuance range before each TC auction, as is already the case for OLOs. By doing so the Treasury is again demonstrating its desire to adapt one of the most liquid T-bill markets in Euroland to investors' needs.*
- *As regards the capital market, the State syndicated 3 billion euros of its new 5-year benchmark bond (4.75 p.c. OLO 34, due 28.09.2005) with a yield spread of 16.5 basis points vis-à-vis the Bund maturing 14 October 2005 and of 34 basis points over the OAT interpolated curve. The State has taken advantage of investor demand in this spot on the curve. The State used the syndication method rather than the auction issuance technique with the aim of achieving greater initial liquidity, diversifying its investor base and maintaining greater control over the initial pricing. The issue will be tapped via regular auctions. The syndication included all primary dealers, while recognized dealers joined forces in the selling group.*