

Belgian Prime News



QUARTERLY PUBLICATION

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- Belgian Prime News (BPN) GDP growth Consensus upgraded to 2.1% in 2010 and 1.8% in 2011, on the back of improved economic conditions. Belgian economy expected to continue outperforming the euro area as a whole.
- However, the international economic outlook remains uncertain. Risks are still considered to be high, both outside the euro area and for euro area partners.
- Fuelled by higher energy prices, inflation in Belgium is expected to reach 2.3% in 2010 and 2.0% in 2011.
- Belgian Treasury has published the 2011 Funding Plan, building further on its strategy of predictability of issuance and flexibility to adapt to market demand. The OLO issuance should be lower than in 2010, thanks to buy-backs conducted under favorable market conditions.
- Clear issuance strategy is favorable in a context of high volatility of cross-country interest rate spreads. It should be backed by a credible fiscal consolidation plan as soon as possible.

Consensus: Average of participants' forecasts

	2009		2010 p		2011 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP ⁽¹⁾	-2.7	-4.1	2.1 (1.7)	1.6 (1.6)	1.8 (1.6)	1.4 (1.3)
Inflation (HICP) ⁽¹⁾	0.0	0.3	2.3 (1.9)	1.6 (1.5)	2.0 (1.8)	1.7 (1.7)
General government balance ⁽²⁾	-6.0	-6.3	-4.6 (-4.9)	-6.2 (-6.2)	-4.3 (-4.5)	-4.8 (-5.0)
Primary balance ⁽²⁾	-2.4	-3.4	-0.8 (-1.1)	n.	-0.8 (-0.8)	n.
Public debt ⁽²⁾	96.2	79.1	97.7 (99.5)	83.7 (83.7)	99.3 (101.0)	86.7 (86.7)

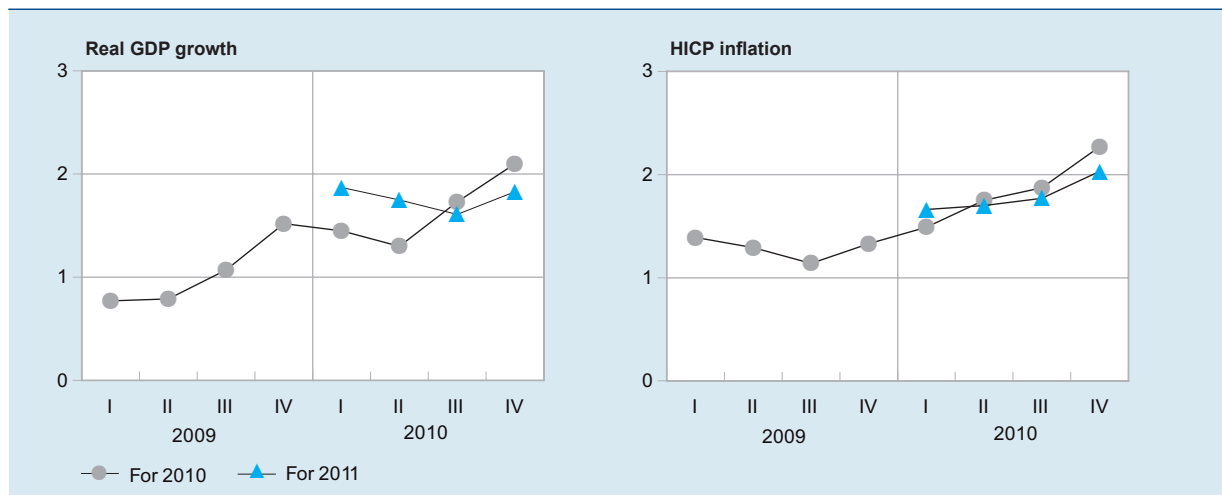
Numbers in parentheses refer to the previous consensus forecast of September 2010.

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

n. Not available.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Macroeconomic developments

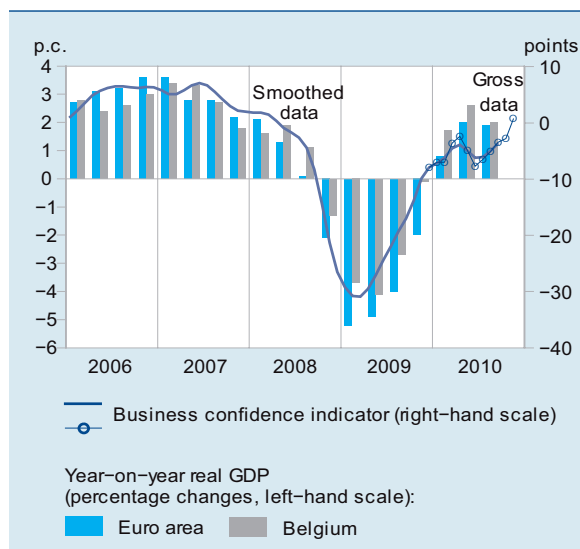
Supported by the global economic recovery and by a gradual strengthening of domestic demand, activity in Belgium since mid-2009 has kept up a slightly stronger pace of expansion than previously envisaged. **On average, primary and recognised dealers now expect Belgian real GDP growth to reach 2.1% in 2010 and 1.8% in 2011**, which is an upward revision by 0.4 and 0.2 of a percentage point from the previous BPN Consensus.

Hence, the Belgian economy is forecast to continue outperforming the euro area as a whole: for the euro area, participants have revised their growth outlook upwards very slightly to 1.6% for 2010 and 1.4% for 2011. The absence of large domestic imbalances, both in terms of domestic sectors' indebtedness and in terms of competitiveness, has helped the economy to weather out the recession - GDP dropped only by 2.7% in 2009, compared to 4.1% for the euro area - and to benefit from the recovery worldwide and with the main European trading partners.

In particular, employment has shown remarkable resilience in Belgium. **Employment in Belgium is now expected to increase by 0.6% both in 2010 and 2011, following a limited 0.4% decline in 2009.** This resilience is due partly to the recourse to temporary unemployment schemes and to other measures taken during the crisis to facilitate the reduction of working time. In a context of a strong financial position at the onset of the recession, companies also engaged widely in labour hoarding, in view of the structural difficulties they face in recruiting skilled manpower. The increase in total employment since the beginning of the year has been largely supported by the services sector. Employment remained stable in the construction sector while losses have levelled off in the industry. **Taking into account a further increase of both the working age population and the participation rate, the unemployment rate is expected to rise from 7.9% in 2009 to 8.5% in 2010 and 2011.**

Thus, in line with the vast majority of international institutions' or private forecasters' projections, the Consensus baseline shows protracted, albeit moderate, GDP growth in the course of 2011 in Belgium and in the euro area. While this is the most plausible scenario, it is nevertheless still surrounded by large uncertainties. According to BPN participating institutions, risks are mainly stemming from the international environment, and emerging countries in particular. Although they played a leading role in the world economic recovery, their growth could recede in the future. At the same time, the US economy faces difficulties embarking on a self-sustaining growth path on the back of gloomy housing and labour markets. Moreover, in many European countries, a period of GDP growth moderation is expected against a backdrop of phasing out stimulus measures or fiscal consolidation. This could be exacerbated by tensions in sovereign bond markets for some European countries.

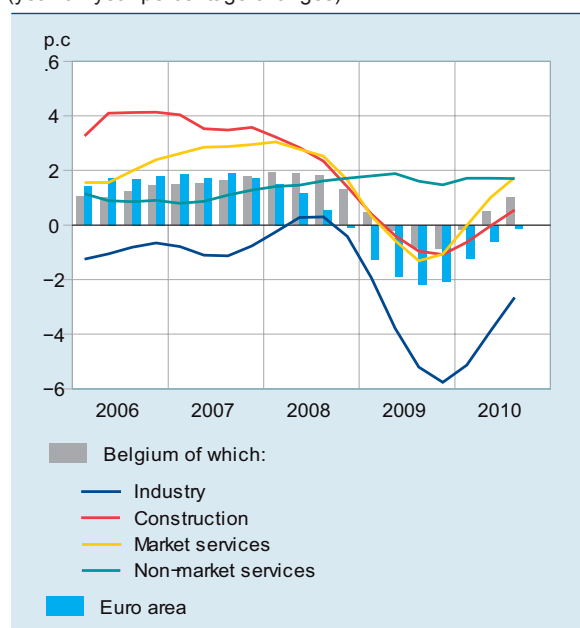
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

EMPLOYMENT IN PERSONS

(year-on-year percentage changes)

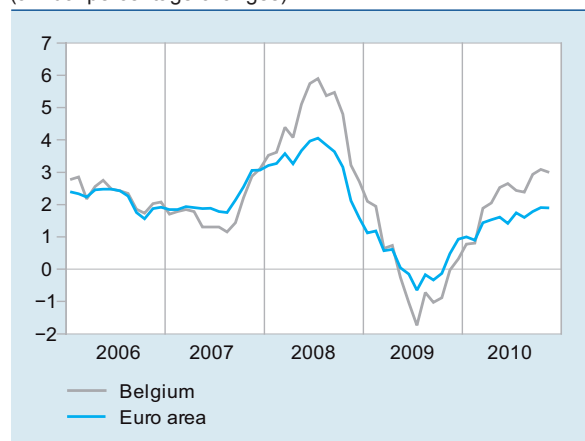


Sources: EC, NAI and NBB.

The renewed increase in oil prices on the international markets, compounded by the recent depreciation of the euro, pushed inflation in Belgium up during the course of 2010, to around 3% over the October-December period. **On average, the primary dealers forecast inflation to reach 2.3% in 2010, and to slow down to 2.0% in 2011.** Inflation in Belgium is more sensitive to international oil price movements than in the euro area, due to the greater weight of energy in the household consumption basket, a lower level of excise duty on energy products and the swifter adjustment of gas and electricity prices. This largely explains both the upward revision since the previous Consensus and the higher results than the 1.6% inflation forecast for the euro area in 2010 and 1.7% in 2011.

HARMONISED INDEX OF CONSUMER PRICES

(annual percentage changes)



Source: EC.

Inflation excluding energy is expected to remain significantly below 2% in Belgium, close to the euro area average. The outcome of the inter-professional wage agreement in the private sector to be concluded by the social partners for the period 2011-2012 will be widely scrutinised, as it is key to muted inflation and favourable employment and competitiveness developments in the medium term.

Following general elections last June, negotiations are continuing with a view to striking a new balance in the devolution of responsibilities and financial means between the federal level and the federated entities: the Regions and Communities. However, even though a new federal government still needs to be formed, the previous government remains in office in a caretaker capacity. It is closely monitoring developments for the federal and the social security budgets, while governments are functioning at full capacity for the Regions and Communities. They are in charge of some 30% of the general government primary expenditure.

All in all, the general government budget deficit should reach 4.6% of GDP in 2010, according to the average of the participating institutions. This result is fully in line with the target set by the Stability Programme in January 2010. It is better than the 4.9% of GDP deficit expected three months ago, in the previous BPN Consensus, thanks to more favourable economic conditions. The deficit in Belgium is also lower than the euro area average, standing at 6.2% of GDP. **A limited decline is expected for 2011, to 4.3% of GDP. The Belgian public debt is projected to reach 97.7% in 2010 and 99.3% in 2011.** In order to implement a structural debt reduction programme in the years ahead, it is essential that a newly established stable federal government quickly embarks on a clear fiscal consolidation path, in coordination with the other federated entities, and puts in place structural reforms to foster potential growth.

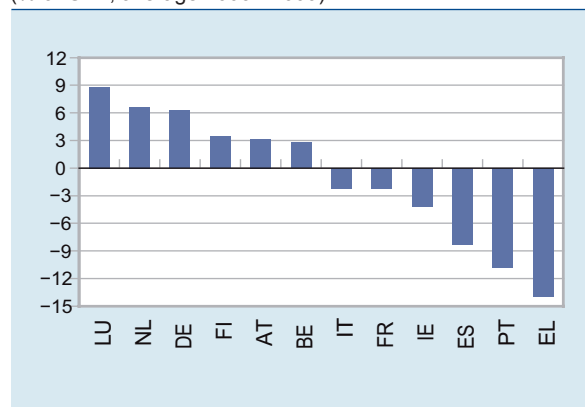
Special topic: The Belgian Treasury's 2011 Funding Plan published, in a context of renewed strains in the bond market

Despite sound economic performances, as emphasised by the IMF in its recent [Article IV Consultation Concluding Statement](#), Belgian bonds have increasingly been affected by the renewed tensions on the European sovereign bond markets in recent months. Compared to the German Bund, spreads for 10-year bonds have increased from, on average, 52 bp. during the first seven months of 2010, to 80 bp. at the end of October and a maximum of 136 bp. on 30 November. Since then, the spread has levelled out at around 100 bp.

Obviously, the Belgian spread is still markedly lower than in some peripheral euro area countries, as warranted by a significantly better macroeconomic position. As explained in the previous section, GDP growth in Belgium was stronger than in the euro area over the last five years, and is expected to remain higher in 2011. Moreover, this performance was not built on excessive private sector leverage: the ratio of MFI loans to GDP is lower than the euro average both for households and for the non-financial corporation sector. Considering the economy as a whole, the current account position has remained positive since the mid-1980s and, as a consequence, the net financial asset position has regularly improved, reaching 32% of GDP at the end of 2009.

CURRENT ACCOUNT BALANCE

(% of GDP, average 2005 - 2009)



Source: EC.

However, in a context of heightened tensions, investors are also discriminating more and more between debt issuers according to their perception of risk in the medium and long term. Given the large size of the public debt, approaching 100% of GDP, they need to be reassured as to the sustainability of the fiscal position and the stability of the public authorities in the medium term. A credible plan for structural consolidation needs to be spelled out, to at least reach the target established by the Stability Programme in January 2010 of a 3% deficit in 2012 and a balanced budget in 2015. Actually, there is a broad consensus among political parties that such consolidation is indispensable in view of the ageing population issue. A quick and resolute implementation of this plan would indeed make it possible to benefit from the still favourable starting position, compared with most other countries, and thus avoid imposing too much of a burden for the coming years.

Building on its strategy of predictability and flexibility, the Belgian Debt Agency - the entity responsible for debt management and funding operations within the Belgian Treasury - announced its Funding Plan for 2011 on 13 December 2010.

In the current situation, issuers that are able to keep bond issuance at a reasonable level should be in a favorable position, as the markets are affected by the deterioration in public finances worldwide, while the pace of reforms implemented to ensure the sustainability of public finances in the long run is uneven across countries. This could lead to significant rises in interest rates, while volatility in cross-country interest rate spreads will remain high.

Anticipating higher sovereign funding requirements in 2011, the Belgian Debt Agency funded more than needed in 2010, conducting buy-back operations amounting to €6.5 billion. As a consequence, Belgium's gross borrowing requirements will fall in 2011 in comparison to 2010: gross borrowing requirements are expected to amount to €41.12 billion. This includes a net cash deficit of €14.94 billion for the federal government, redemptions of medium- and long-term debt amounting to €23.98 billion, and also an amount of €2.19 billion of buy-backs involving 2012 maturities.

2011 BORROWING REQUIREMENTS AND FUNDING PLAN
(billions of euro)

	2010	2011
I. Gross financing requirements	44.86	41.12
1. Federal State budget deficit	12.46	14.94
Budget deficit (sensu stricto)	11.98	13.72
Participation in financial institutions	0.48	1.23
Transfers to the Silver Fund	0.00	0.00
2. Debt maturing during the year	25.90	23.98
Medium- and long-term debt in euro	25.29	23.98
Medium- and long-term debt in foreign currencies	0.61	0.00
3. Planned pre-funding (bonds maturing in subsequent years)	6.50	2.19
Buy-backs	6.50	2.19
4. Other financing requirements	0.01	0.00
II. Funding resources (Medium and long-term)	45.30	39.73
1. Non-structured issues in euro	42.65	39.73
OLOs	40.85	34.00
Treasury bonds - Silver Fund	1.57	1.53
Securities for retail investors	0.22	0.20
Other	0.00	0.00
2. Issues in foreign currencies and/or structured products (EMTN)	2.66	4.00
III. Net change in short term foreign currency debt	0.00	0.00
IV. Change in Treasury Certificates stock	0.00	0.00
V. Net change in other short term debt and financial assets	-0.44	1.39

Source: Belgian Debt Agency.

The funding strategy in 2011 will continue to focus on liquidity and transparency. Medium- and long-term issuance will fall slightly to €39.73 billion. OLOs will remain the principal funding instrument: the 2011 planned OLO issuance amounts of €34.00 billion compared to the €40.85 billion in 2010. Issuance of EMTN-paper (Euro Medium Term Notes) is set to rise, with a target of €4.00 billion. The remaining part of the funding will consist of €1.53 billion securities issued to the Silver Fund and €0.20 billion of State Notes aimed at private clients.

More details on the Belgian Debt Agency's review for 2010 and outlook for 2011 can be found on the Agency's website: www.debtagency.be.

■ Treasury highlights

1. The Treasury held OLO auctions in September, October and November, adding in total €8.248 billion to its long-term funding. In December, no OLOS will be issued and the total issuance in 2010 amounts to €40.853 billion. This is €8.103 billion more than the original target for 2010 (€32.75 billion).
2. The supplementary funding has partly been used to buy back OLO lines maturing in 2011. In total, buybacks are expected to amount to €6.50 billion in 2010.
3. On the other hand, the target for EMTN-issuance (€4.50 billion) will not be reached. So far, €2.62 billion has been issued. The last deal was a €220 million private placement with a redemption date in 2052.
4. In the course of 2010, the average life of the debt portfolio increased. It amounted to 6.46 years as of end November 2010. At the same date, the average time to next fixing was 5.76 years.
5. Spreads with Germany increased in September and in early December, reaching temporarily 134 bp in the 10-year sector. The high public debt and political situation caused some concern, despite the favourable trend in Belgium's fundamentals.
6. Information on the financing strategy for 2011 and on the auction calendars is available on the website: [Belgian Federal Public Debt | Products | OLOs | Auctions | Calendar](#).

The OLO auction dates for 2011 are the following:

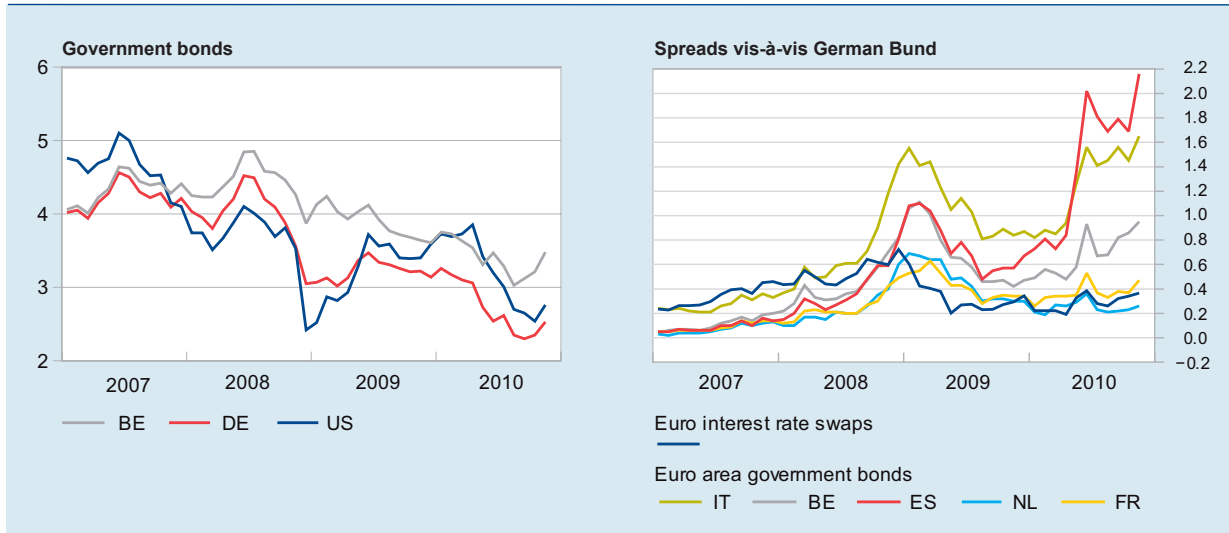
Issuance date	Settlement date
31 January	3 February
28 February	3 March
28 March	31 March
18 April	21 April
23 May	26 May
27 June	30 June
25 July	28 July
22 August	25 August
26 September	29 September
31 October	3 November
28 November	1 December

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)



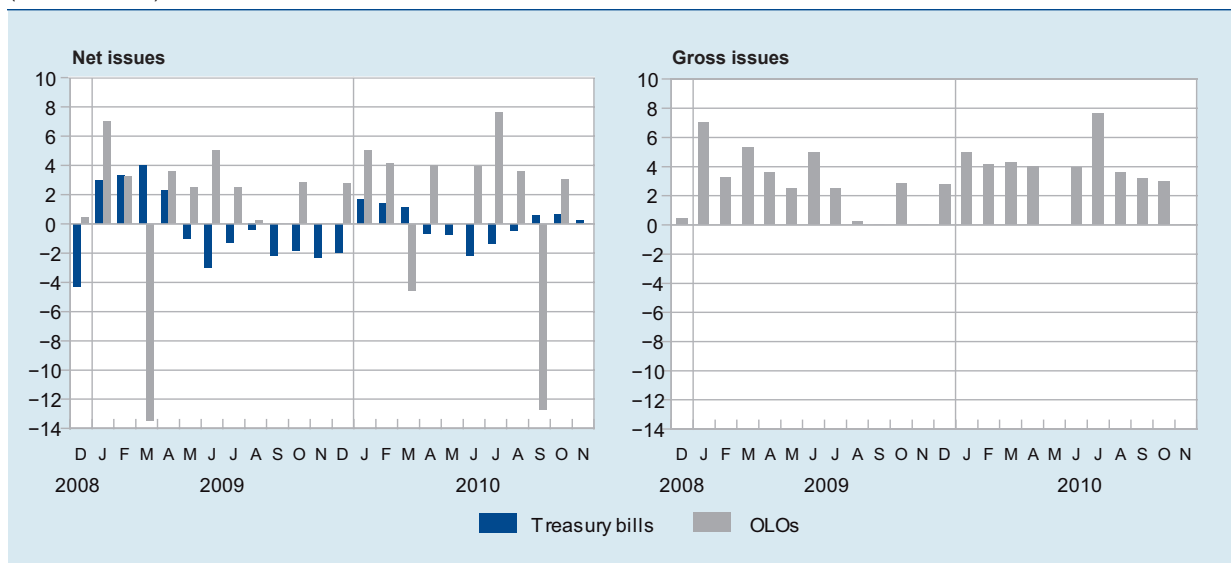
Sources: BIS, Datastream.

After reaching low levels by historical standards, the long-term interest rates on government bonds in Germany and the United States started to rise again in November. In the United States this move was due to uncertainties about the effectiveness of the additional purchase programme of longer-term US Treasury securities decided by the Federal Open Market Committee on 3 November. The increase on the long-term yields of the German government bonds appears to reflect the positive underlying momentum of the economic recovery.

At the same time, heightened tensions in euro area sovereign debt markets contributed to the rise in the spreads of some issuers to new highs.

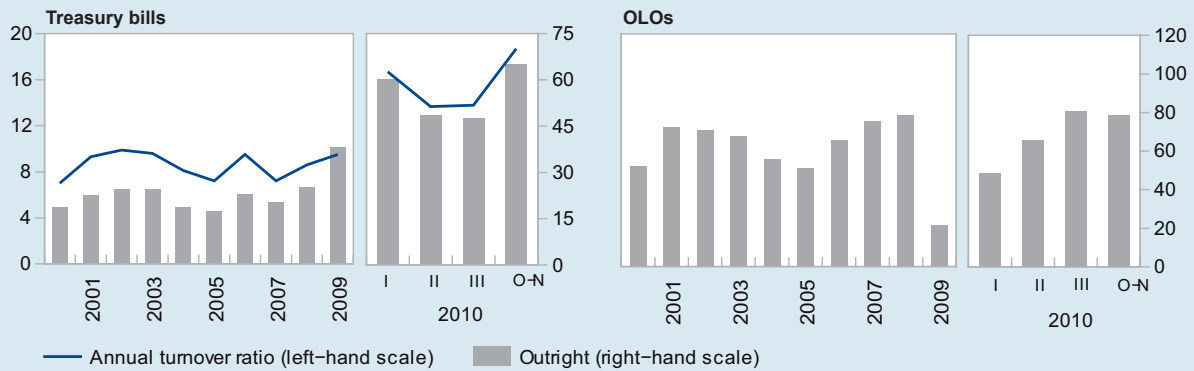
PRIMARY MARKET

(billions of euro)

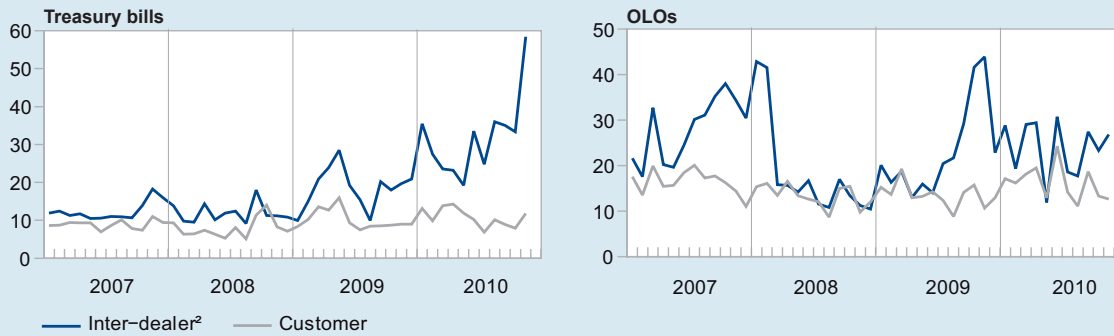


SECONDARY MARKET TURNOVER

As compiled by the Securities Regulation Fund¹
(billions of euros unless otherwise stated, monthly averages)



As reported by primary and recognised dealers to the Treasury
(billions of euros)



¹ As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures

² include sell/buy-back transactions which are in fact repurchase agreements.

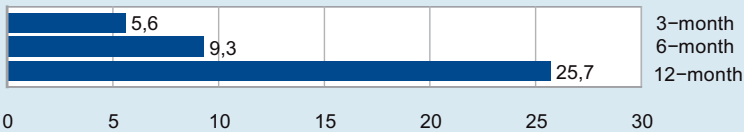
Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euro)

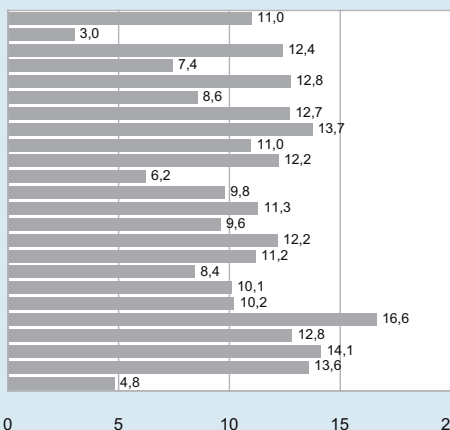
TREASURY BILLS

Nominal outstanding amounts at 30 November 2010



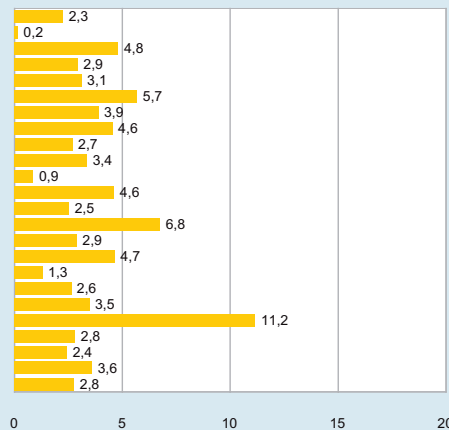
OLOs

Outstanding amounts at 30 November 2010



OLO 53 - 3.50% - 03/11
OLO 51 - var. - 06/11
OLO 36 - 5.00% - 09/11
OLO 57 - 2.00% - 03/12
OLO 38 - 5.00% - 09/12
OLO 12 - 8.00% - 12/12
OLO 50 - 4.00% - 03/13
OLO 41 - 4.25% - 09/13
OLO 54 - 4.00% - 03/14
OLO 43 - 4.25% - 09/14
OLO 23 - 8.00% - 03/15
OLO 56 - 3.50% - 03/15
OLO 46 - 3.75% - 09/15
OLO 59 - 2.75% - 04/16
OLO 47 - 3.25% - 09/16
OLO 49 - 4.00% - 03/17
OLO 40 - 5.50% - 09/17
OLO 52 - 4.00% - 03/18
OLO 55 - 4.00% - 03/19
OLO 58 - 3.75% - 10/20
OLO 48 - 4.00% - 03/22
OLO 31 - 5.50% - 03/28
OLO 44 - 5.00% - 03/35
OLO 60 - 4.25% - 04/41

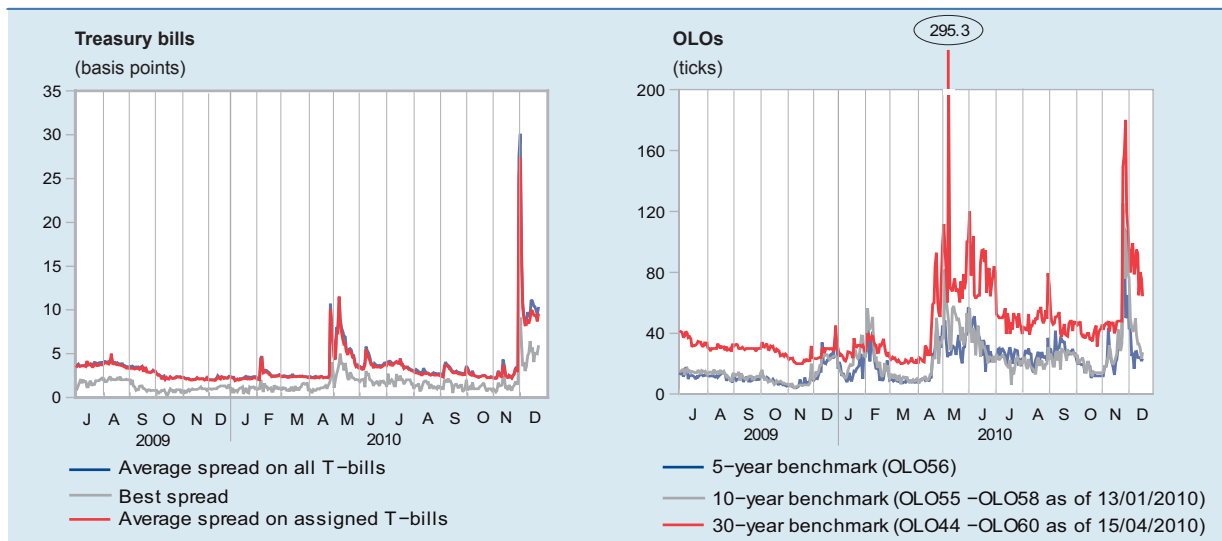
Outright turnover in November 2010¹



Source: Securities Regulation Fund.

¹ The turnover figures include sell/buy-back transactions which are in fact repurchase agreements.

BEST BID/OFFER SPREADS¹

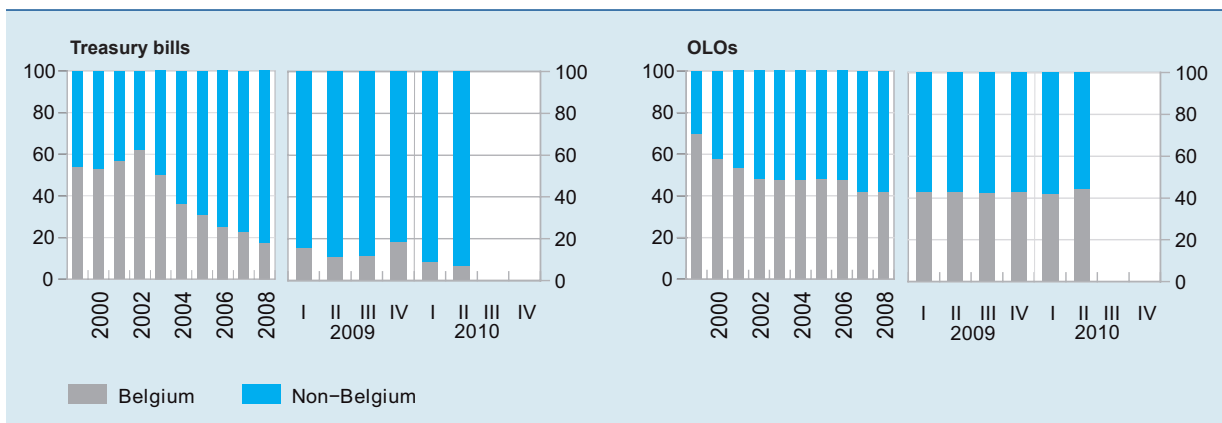


Source: Treasury

¹ As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed). For the period October–December 2009, this is the best average over 6 hours; since January 2010, it is the best average over 5 hours.

LOCATION OF HOLDERS

(percentages of total)



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Commerzbank
Dexia Bank
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Information on the Belgian government debt can be found on the Treasury website: www.debtagency.be.

General information on the Belgian government's action can be found on the website www.belgium.be.