

# Belgian Prime News

QUARTERLY PUBLICATION

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- The BPN Consensus forecast for Belgium shows a slightly negative GDP growth in 2012 and a limited recovery in 2013, on the back of elevated uncertainty and weakening activity and demand in the euro area.
- Fiscal development are still considered on track with the target for 2012 put forward in the stability programme, but additional efforts are needed to meet the commitment for 2013.
- While the financial crisis has now lasted for five years, credit remains available to both Belgian households and the corporate sector. However, the demand for loans is decelerating and conditions are strengthened, mainly in view of higher business cycle risks (see Special Topic).
- For its part, benefiting from dramatically improved market conditions compared to the end of 2011, the Treasury has already completed its Funding Plan for 2012, at favourable cost level (see Treasury Highlights).

## Consensus: Average of participants' forecasts

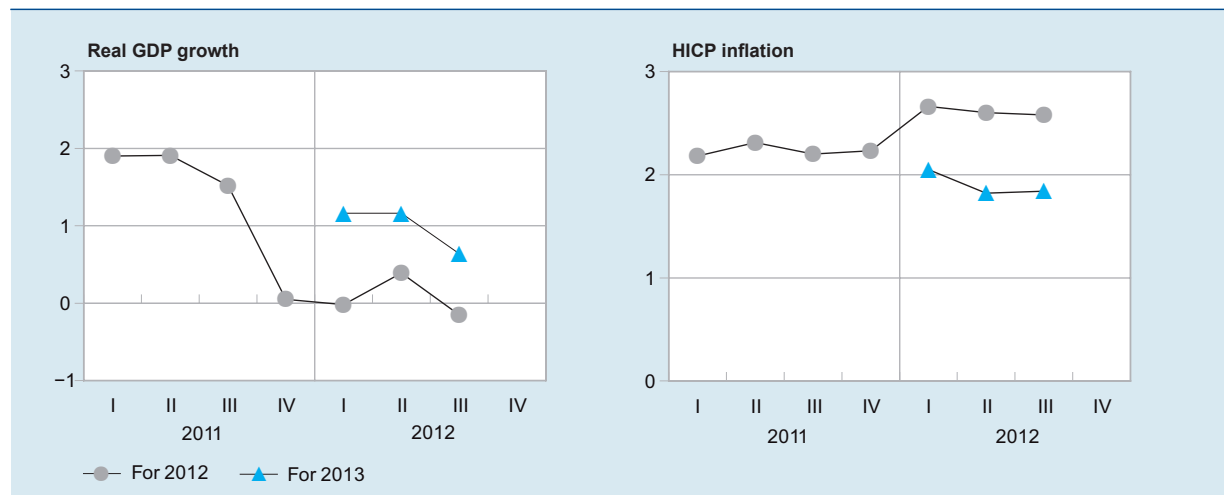
	2011		2012 p				2013 p			
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP <sup>(1)</sup>	1.8	1.5	-0.2	(0.4)	-0.5	(-0.2)	0.6	(1.2)	0.1	(0.9)
Inflation (HICP) <sup>(1)</sup>	3.5	2.7	2.6	(2.6)	2.5	(2.4)	1.8	(1.8)	2.0	(1.8)
General government balance <sup>(2)</sup>	-3.7	-4.1	-2.9	(-2.8)	-3.2	(-3.2)	-2.3	(-2.4)	-2.4	(-2.5)
Public debt <sup>(2)</sup>	97.8	87.1	99.1	(98.6)	90.8	(89.9)	99.0	(98.5)	91.5	(90.2)

Numbers in parentheses refer to the previous consensus forecast of June 2012.

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

### SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

## Macroeconomic developments

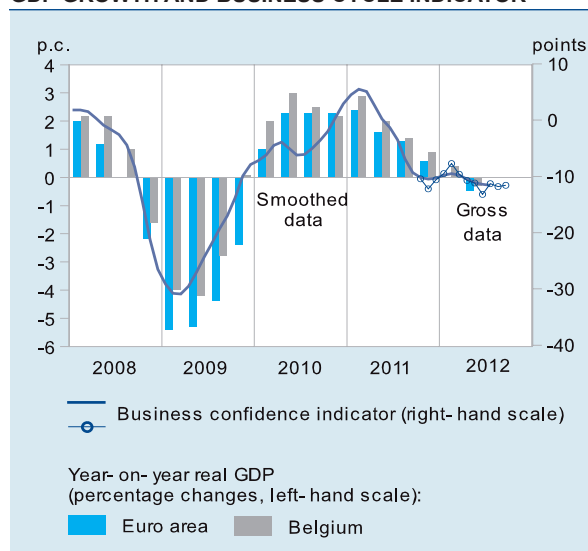
As investors, business and households were waiting for decisive policy actions to fight the euro area crisis, extreme uncertainty dominated the scene for most of the summer in Europe. Compounded with fiscal consolidation in most countries and elevated oil prices, this weighed on domestic demand, while foreign demand also lost steam. Thus, the already weak recovery in the euro area observed during the two previous years suffered significant setbacks during the recent months, and the economic prospects remain muted for the next year. Actually, while they constitute decisive steps, among other measures, the Outright Monetary Transactions programme decided by the ECB on 6 September and the EC proposal for a banking union presented the week after will need forceful implementation to work out.

In this context, notwithstanding a steady improvement in the sovereign bond markets - as witnessed by the decrease of the spreads of 10-year OLOs compared to the Bunds from a maximum of 366 bp. in November 2011 to 110 bp. in September - the Belgian economy was directly affected. GDP declined by a surprisingly strong -0.5 % quarter-on-quarter in the second quarter of 2012, on the back of adverse households' demand and export developments, and activity is expected to stagnate in the near future. Therefore, **the average of the participating institutions' forecast for GDP growth in Belgium is revised downwards, to -0.2 % for 2012 (compared to +0.4 % in the June BPN) and 0.6 % for 2013 (1.2 % in June).** As such, Belgium continue to outperform by some 0.3 to 0.5 percentage point the average GDP growth expected for the euro area. Also, the labour market continues to show resilience, with the unemployment rate still close to its 10-year low, at 7.2 %.

**The participating institutions expect Belgian HICP inflation to decelerate from 3.5 % in 2011 to 2.6 % in 2012 and go down further to 1.8 % in 2013.** Euro area inflation is expected to be slightly lower in 2012, attaining 2.5 %. Forecast at 2 % in 2013, according to the BPN consensus, the yearly average inflation in the euro area would be higher than in Belgium, for the first time since 2009. This reversal stems mainly from the unwinding of larger base effects related increases in oil prices one year earlier. However, besides these movements, underlying inflation - measured as HICP excluding food and energy - remains higher in Belgium than in the euro area, at respectively 1.9 % and 1.6 % over the eight first months of 2012.

**The general government deficit in Belgium is expected to improve from -3.7 % in 2011 to -2.9 % in 2012 (-2.8 % in the June 2012 consensus forecast) and to -2.3 % in 2013.** Thus according to the participants' consensus forecast, government deficit would be close to the stability programme's target put forward by the government for 2012. Indeed, the worsening of the economic conditions observed recently has so far not dented fiscal revenues significantly, although this would need to be closely monitored in the course of the coming months. Additional consolidation efforts will be required to reach the target of -2.15 % set for 2013, beyond those already implicitly taken into account in the forecast of some of the participating institutions. **The debt ratio is expected to increase slightly, from 97.8 % of GDP in 2011 to 99.1 % in 2012, and to remain stable at around that last level in 2013.**

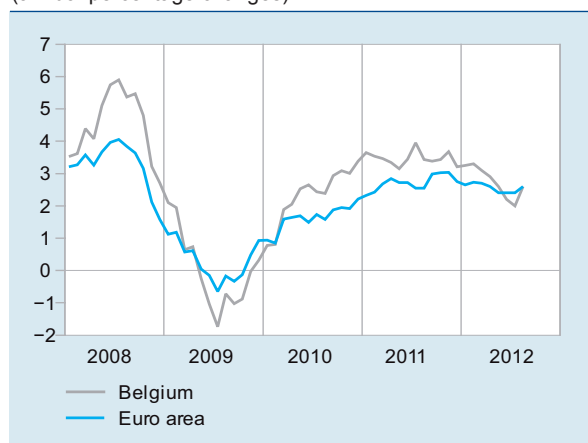
### GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

### HARMONISED INDEX OF CONSUMER PRICES

(annual percentage changes)



Source: EC.

## Special Topic: Financial crisis in Europe and financing of the Belgian non-financial domestic sectors: A Tale of two Stories?

For more than five years following the onset of the tensions in the US subprime mortgage market in the summer of 2007, the financial crisis spread and intensified. Sovereign bond markets and financial institutions in Europe are in the eye of the storm, and a negative loop has developed as worries about the unsustainable path of public debts caused losses on financial institutions' portfolios, which in turn fed concerns that costly government interventions would increase the public debt.

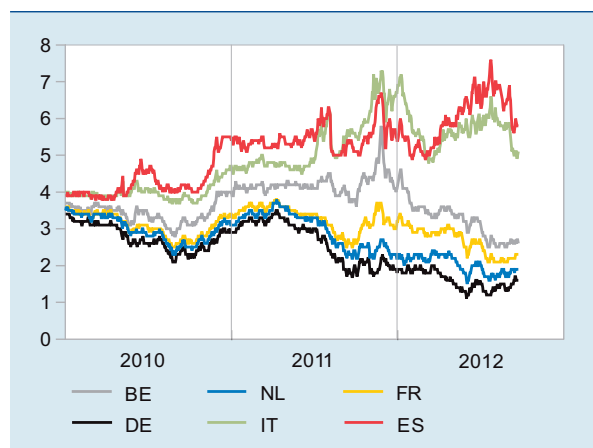
In Belgium, the bond markets and credit provided by financial institutions are precisely the main sources of external financing for the domestic sectors. Against that background, this Special Topic sheds some light on the financing conditions faced by the Treasury on the one hand, and by households and the non-financial corporate sector on the other.

For more than 20 years, the Belgian Treasury covered its financing needs predominantly through syndicated issuance and auctions of bonds (the so-called OLOs), for which there is a deep and liquid secondary market. It took advantage of the interest shown by investors both inside and outside the country to obtain competitive prices. However, in the autumn of 2011, the dramatic intensification of the sovereign debt crisis in the euro area had a severe impact on Belgium. The spreads between Belgian and German 10-year government bonds reached an all-time high of 366 bp. on 25 November, as the negative euro area context was compounded by specific political uncertainty in Belgium and by negative rating events. At that time, the Treasury directly tapped the large Belgian private sector financial surplus to compensate for the market mistrust, and raised more than €5.7 billion from retail investors. Since then, the Belgian Treasury has benefited from a steady revival of investors' appetite for OLOs, on the back of sound macroeconomic fundamentals and the government measures to bring the deficit to less than 3 % of GDP in 2012. At the end of September 2012, the long-term bond yield spread was reduced to some 110 bp. As explained in the Treasury Highlights section, at mid-September the long term funding needs for 2012 were covered, and the proceeds of additional issuances will be used to pre-fund 2013 and to decrease short-term debt.

While the tensions faced by the Treasury in the bond market lasted for a few months at the turn of 2011 and 2012, the Belgian financial sector - which is key for the financing of households and non-financial corporations - is engaged in protracted deleveraging and restructuring of its business model. However, Belgian banks have been focussing their activities more on their core markets, while reducing loan and debt security exposures to non-core - in most cases foreign - counterparties. Consequently, the supply of lending to the domestic non-financial private sector has been largely maintained.

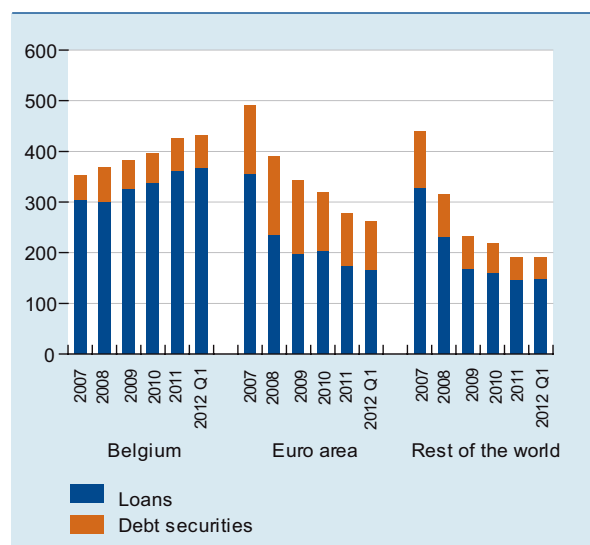
Similar developments were observed in other euro area countries, although with significant differences. This cross-country heterogeneity is also evident in bank interest rates on lending to the non-financial private sector. These differences can be linked to the heterogeneity in euro area government bond markets, and illustrate the risk of spillover effects between sovereign markets and bank funding conditions, and likewise also the threat to the smooth transmission of monetary policy in the euro area.

### YIELDS ON 10-YEAR GOVERNMENT BONDS



Source: Thompson Reuters Datastream.

### BELGIAN CREDIT INSTITUTIONS: GEOGRAPHICAL BREAKDOWN OF THE MAIN ASSETS<sup>1</sup>

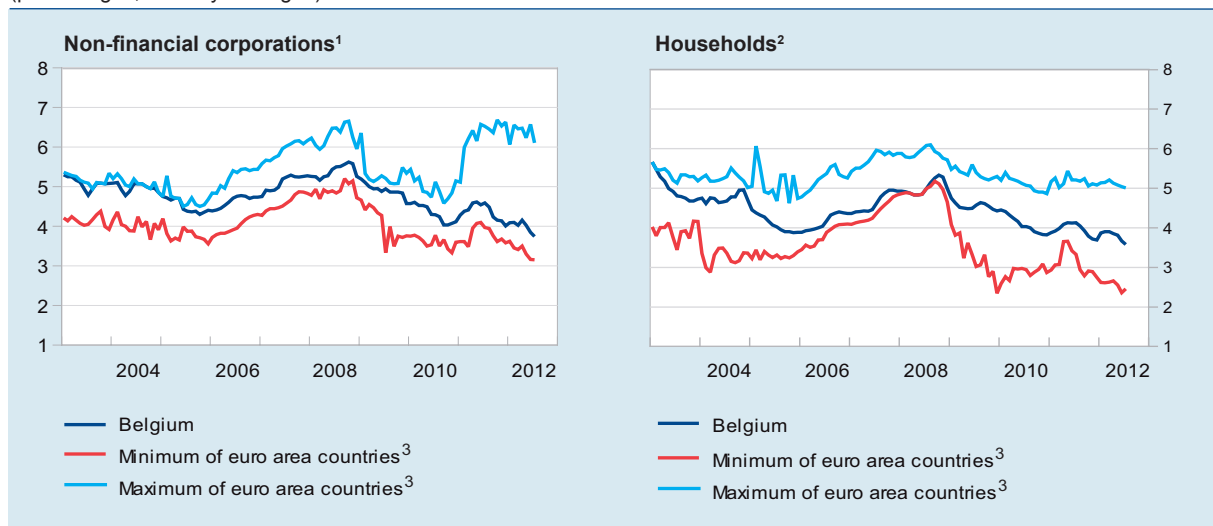


Source: NBB.

<sup>1</sup> Data obtained from the consolidated reporting of Belgian credit institutions.

## BANK LENDING INTEREST RATES TO THE NON-FINANCIAL PRIVATE SECTOR

(percentages, monthly averages)



Sources: NBB, Thomson Reuters Datastream.

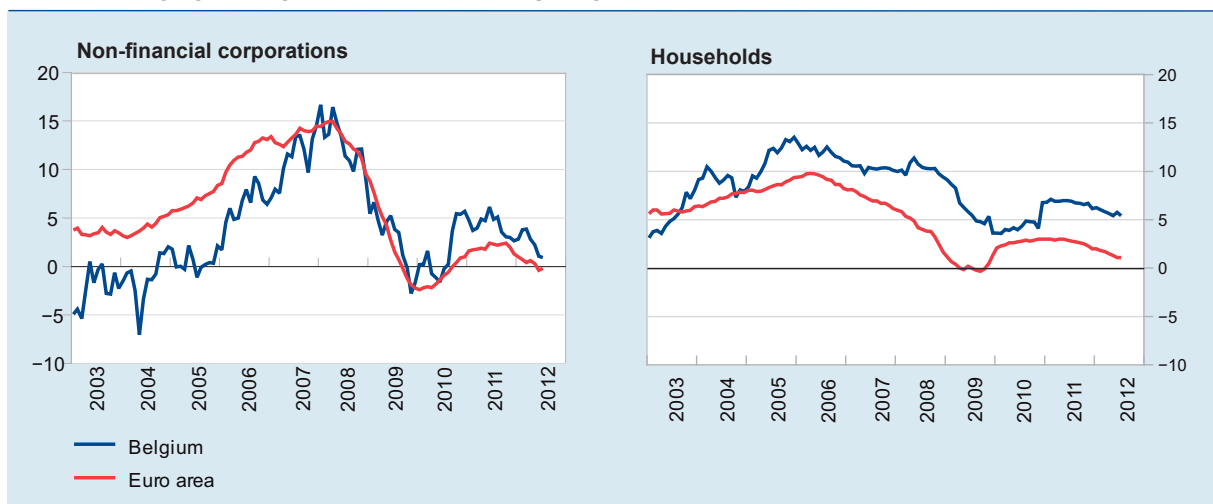
<sup>1</sup> MFI interest rates on new loans to non-financial corporations, up to an amount of €1 million, over 5 years initial rate fixation.

<sup>2</sup> MFI interest rates on new loans to households, for house purchases, over 10 years initial rate fixation.

<sup>3</sup> Data over the full sample available for: Austria, Belgium, Germany, Spain, Finland, France, Italy and Netherlands.

Reflecting the pass-through of past cuts in key ECB interest rates, as well as improved funding conditions brought about by the ECB's non-standard policy measures, bank lending rates declined recently in the euro area and even reached a historical low point in Belgium. However, in some countries financing conditions for the non-financial private sector deteriorated, and the differential between the maximum and minimum lending rates across countries widened.

## BANK LENDING TO THE NON-FINANCIAL PRIVATE SECTOR<sup>1</sup>



Sources: NBB, ECB.

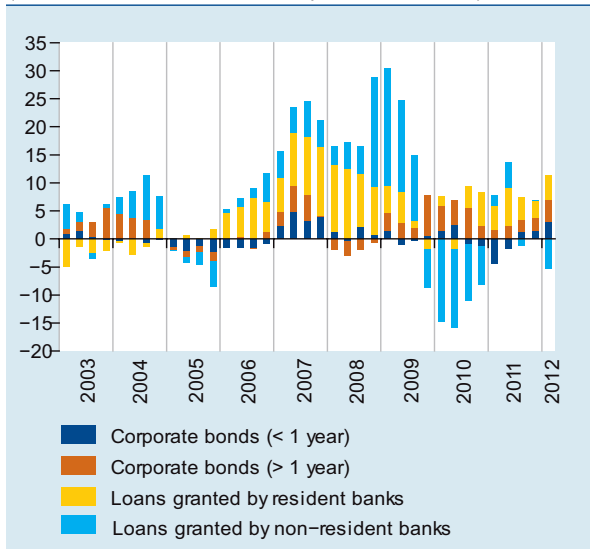
<sup>1</sup> Resident banks to residents. Data including securitised loans: for Belgium over the entire period, for the euro area from January 2010 onwards.

While the level of interest rates is relatively favourable in the euro area and in Belgium, bank lending lost momentum in the course of 2012, mainly against the background of weaker economic activity and credit demand. In the euro area, the annual growth rate of MFI loans stood at -0.2 and 1.1% in July 2012 for non-financial corporations and households respectively. Bank lending in Belgium showed a similar profile, although annual growth rates continued to surpass those of the euro area, especially for lending to households. Note that the euro area average is again influenced by some countries with strongly adverse developments in their credit markets.

Cross-country differences might be partly related to the build-up of fiscal, macroeconomic and financial imbalances prior to the crisis, fuelled in particular by favourable financing conditions and a loose credit supply. Likewise, the resilience of loan growth in Belgium might be attributable to a relatively conservative credit market in Belgium before the crisis, characterised by relatively modest credit growth. This is also reflected in the debt ratios of both households and non-financial corporations, which were lower in Belgium than in the euro area before the start of the financial crisis.

## FUNDING SOURCES OF BELGIAN NON-FINANCIAL CORPORATIONS

(cumulative net flows over four quarters, € billions)



Source: NBB.

Notwithstanding the resilience of bank lending and the relatively favourable financing conditions in Belgium, some shifts can be observed in the lending practices of the non-financial private sector, especially in the case of non-financial corporations. First, some substitution between bank and non-bank lending has taken place. Non-financial corporations increased the net issuance of market debt securities against even more favourable financing conditions on the corporate bond market. Second, as a result of the structural adjustments in euro area banks, loans are increasingly effected through resident banks.

All in all, in terms of funding, the Belgian Treasury and the non-financial private sector have weathered the financial crisis well so far. There was no credit crunch, although lenders did become more selective and imposed stricter conditions. Indeed, recent experience has also shown that conditions may change rapidly, and that maintaining sound fundamentals is of the essence here, in regard to both borrowers and the economy as a whole. Close monitoring is warranted, as a future recovery in demand could in practice be hampered at the side of banks' credit provision by the stricter regulations.

## Treasury highlights

The Kingdom has nearly completed its funding plan for 2012 as it has issued **EUR 34.05 billion** in medium- and long- term securities, corresponding to **98.7%** of its annual target of EUR 34.50 billion.

- The 25 June 2012 OLO auction resulted in the issuance of €2.81billion concerning the following lines:
  - OLO 3.50% 28/06/2017 (OLO63): EUR 0.835 billion - average yield: 2.125%; bid-to-cover: 1.80
  - OLO 4.25% 28/09/2022 (OLO65): EUR 1.275 billion - average yield: 3.217%; bid-to-cover: 2.64
  - OLO 4.00% 28/03/2032 (OLO66): EUR 0.700 billion - average yield: 3.766%; bid-to-cover: 1.80
- The 30 July 2012 OLO auction resulted in the issuance of €3.445 billion concerning the following lines:
  - OLO 3.50% 28/06/2017 (OLO63): EUR 1.140 billion - average yield: 1.339%; bid-to-cover: 1.76
  - OLO 4.25% 28/09/2022 (OLO65): EUR 1.330 billion - average yield: 2.624%; bid-to-cover: 1.68
  - OLO 4.50% 28/03/2026 (OLO64): EUR 0.975 billion - average yield: 3.056%; bid-to-cover: 1.63
- The 3 September 2012 OLO auction resulted in the issuance of €3.195 billion concerning the following lines:
  - OLO 3.00% 28/06/2019 (OLO67): EUR 1.410 billion - average yield: 2.004%; bid-to-cover: 1.48
  - OLO 4.25% 28/09/2022 (OLO65): EUR 1.080 billion - average yield: 2.584%; bid-to-cover: 1.88
  - OLO 4.25% 28/03/2041 (OLO60): EUR 0.705 billion - average yield : 3.455%; bid-to-cover: 1.89
- In addition, the Kingdom issued 3 Euro Medium - Term Notes for an amount of EUR 290 million, and 2 Schuldscheine for an amount of EUR 138 million.
- In July and August 2012, Belgian government bond yields reached historically low levels. The 10-year benchmark rate even fell below 2.50% for several days. Moreover, on 17 July 2012, the Kingdom held a Treasury Certificate auction resulting in negative yields for the 3-month Certificate. The subsequent auctions also resulted in negative yields for the 3-month paper.

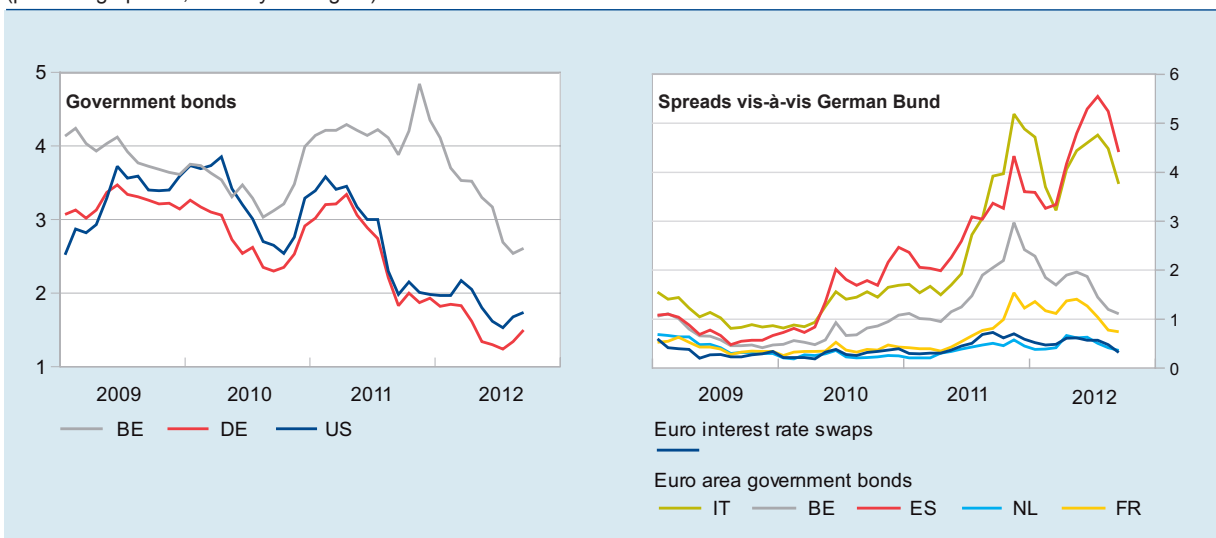
- These very low yields coincided with renewed interest from non-euro and non-European countries. Since June 2012, investors from both the US and Asia have again been buying BGBs.
- On 13 September 2012, the Treasury published a 2nd update of its borrowing requirements and funding plan. The issuance target for long-term funding was increased to EUR 43.80 billion, the proceeds of which will be used for pre-funding 2013 and for decreasing short term debt.

The details of the 2012 Funding Plan are available on the Belgian Debt Agency's website [www.debtagency.be](http://www.debtagency.be)

## Government securities market

### 10-YEAR INTEREST RATES

(percentage points, monthly averages<sup>1</sup>)



Sources: BIS, Datastream.

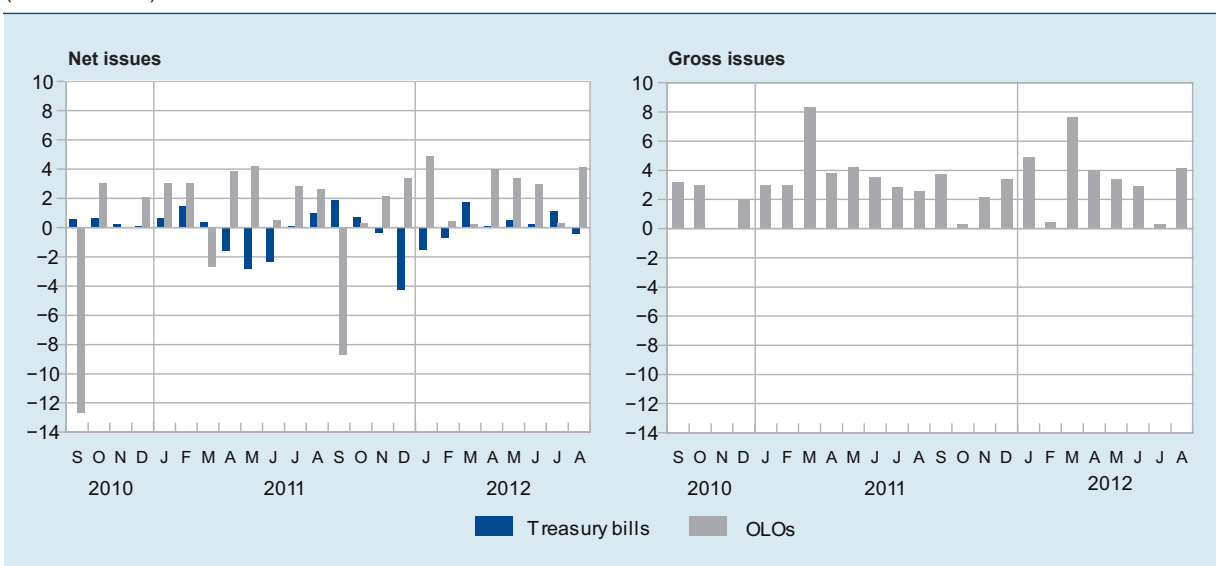
<sup>1</sup> Average over the first 26 days for September 2012.

Since the publication of the previous Belgian Prime News in June, yields on long-term government bonds moved broadly sideways in Germany and the United States. However, bond yields in most euro area countries showed a marked decline, initially driven by a more morose economic outlook, and later on, in September, also as a reaction on the decision of the Eurosystem to engage in Outright Monetary Transactions.

As a consequence, long-term bond yield differentials vis-à-vis Germany fell for most countries in the euro area. The Belgian-German spread reached in September its lowest level since April 2011, while the Italian and Spanish sovereign spreads recorded in September a sharp narrowing versus German bonds. Uncertainty about future bond market developments in the euro area, as measured by implied bond market volatility, remained however broadly unchanged from June.

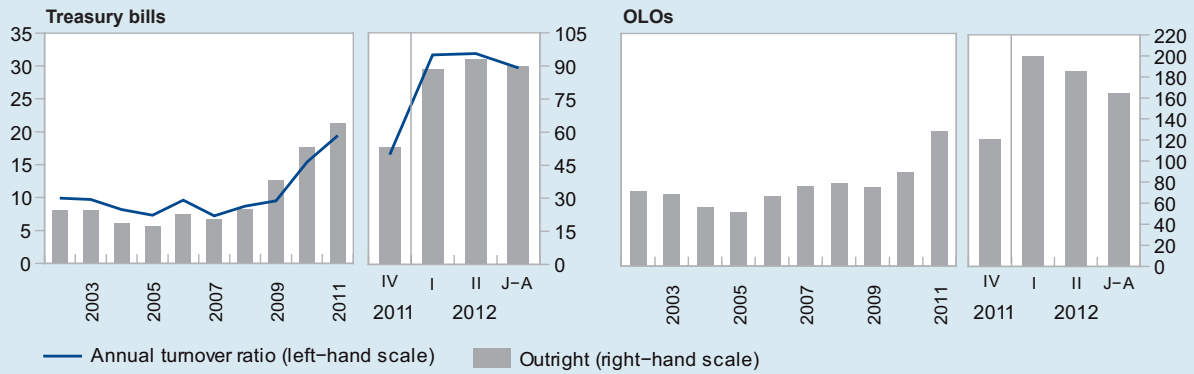
### PRIMARY MARKET

(billions of euro)

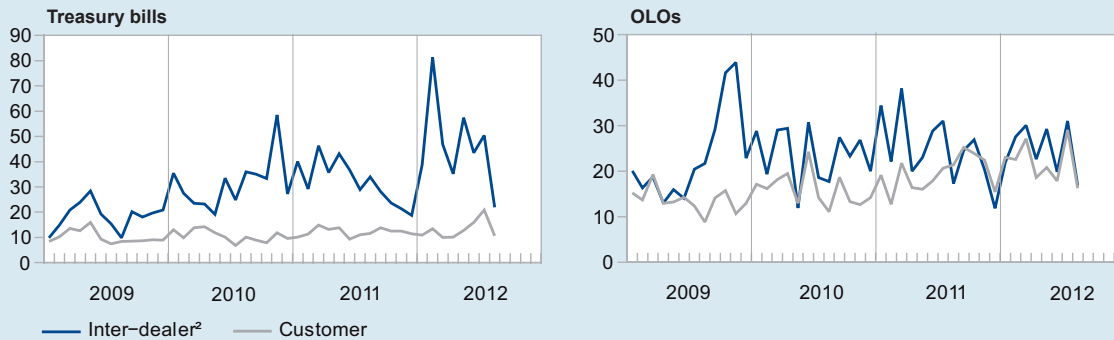


## SECONDARY MARKET TURNOVER

As compiled by the Securities Regulation Fund<sup>1</sup>  
(billions of euro unless otherwise stated, monthly averages)



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



<sup>1</sup> As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.

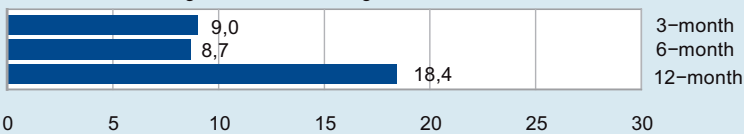
<sup>2</sup> Please note that inter-dealer turnover is double-counted in these figures.

## OUTSTANDING AMOUNTS AND TURNOVER

(billions of euro)

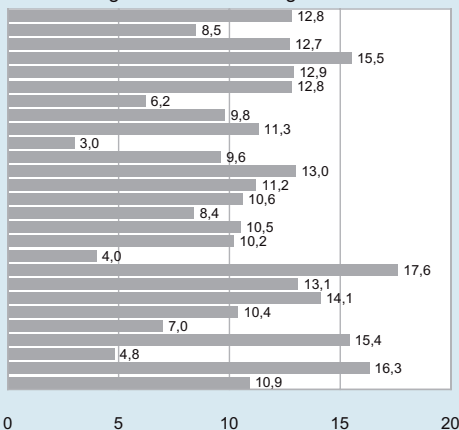
### TREASURY BILLS

Nominal outstanding amounts at 31 August 2012



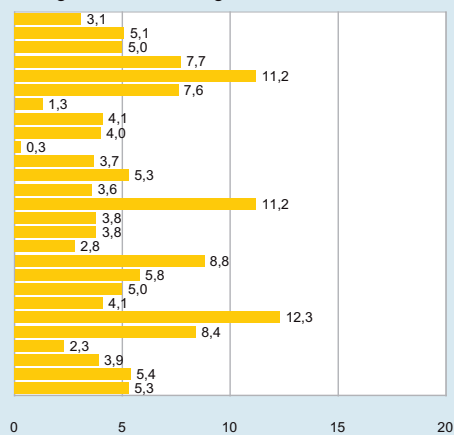
### OLOs

Outstanding amounts at 31 August 2012



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 62 - var. - 02/16  
OLO 59 - 2.75% - 04/16  
OLO 47 - 3.25% - 09/16  
OLO 49 - 4.00% - 03/17  
OLO 63 - 3.50% - 06/17  
OLO 40 - 5.50% - 09/17  
OLO 52 - 4.00% - 03/18  
OLO 55 - 4.00% - 03/19  
OLO 67 - 4.25% - 03/28  
OLO 58 - 3.75% - 09/20  
OLO 61 - 4.25% - 09/21  
OLO 48 - 4.00% - 03/22  
OLO 65 - 4.25% - 09/22  
OLO 64 - 4.50% - 03/26  
OLO 31 - 5.50% - 03/28  
OLO 66 - 4.00% - 03/28  
OLO 44 - 5.00% - 03/35  
OLO 60 - 4.25% - 04/41

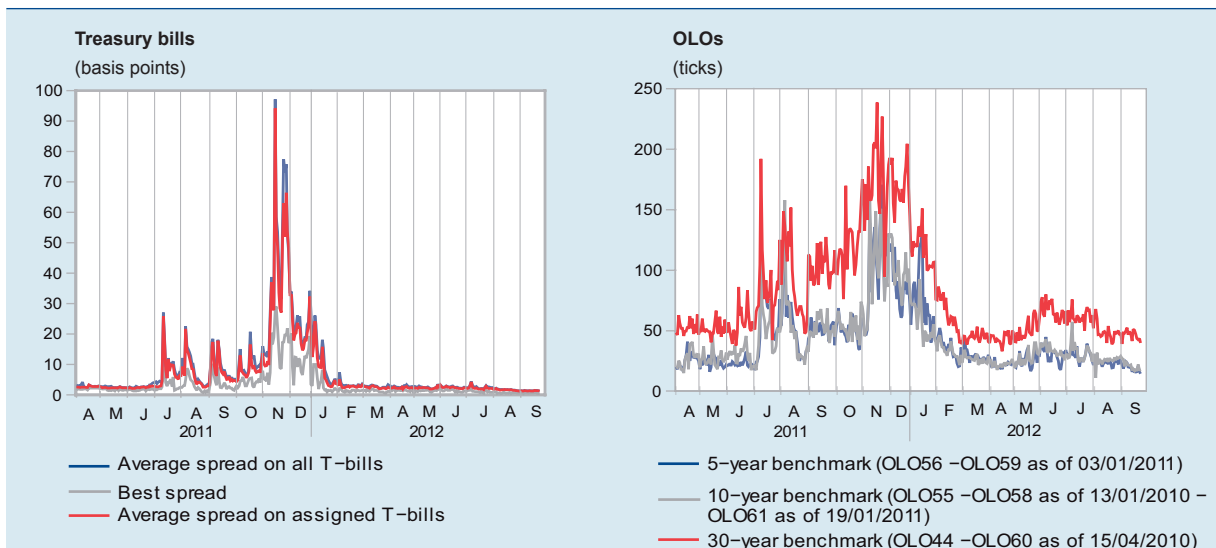
Outright turnover in August 2012



Source: Securities Regulation Fund.

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

## BEST BID/OFFER SPREADS<sup>1</sup>

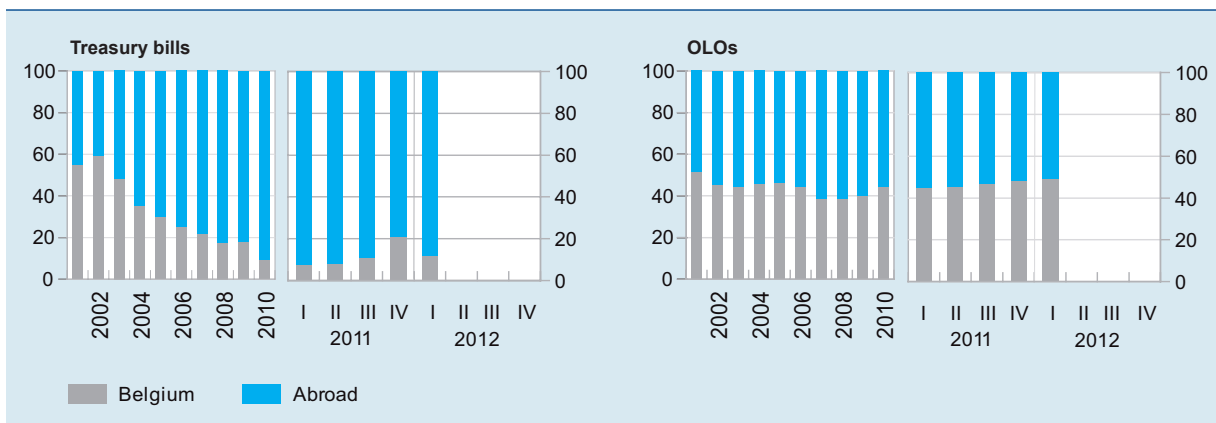


Source: Treasury.

<sup>1</sup> 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)



## List of contact persons

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Citigroup  
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Sources: NBB, unless otherwise stated.

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

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