

BELGIAN PRIME NEWS

December 1999
No. 6

Published by : National Bank of Belgium (NBB)
Participating institutions : NBB, Debt Agency (Ministry of Finance), Artesia BC, Bank Brussels Lambert, Barclays Capital, Crédit Communal de Belgique, Fortis Bank, KBC Bank
Updated to : 17.12.1999
Next issue : March 2000
Sources : NBB, unless otherwise mentioned



Special topic :

The internationalisation of the OLO market.

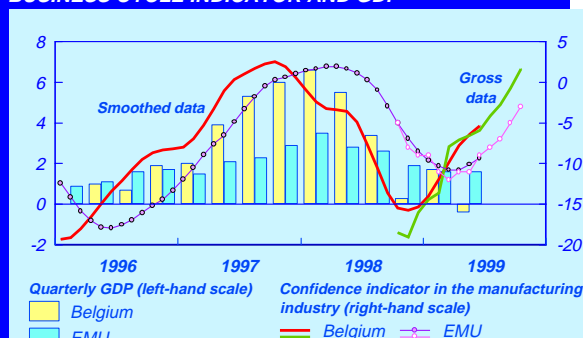
CONSENSUS FORECAST

	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	2.7	2.1	1.7	2.1	3.1	2.9	2.9
Employment¹	1.2	1.3	0.9	0.9	1.2	1.1	0.9	1.1
Consumer prices¹	0.9	1.2	1.1	1.0	1.2	1.5	1.4	1.5
Current account²	4.0	1.4	4.3	3.5	0.9	4.4	3.7	0.9
General government balance²	-1.0	-2.0	-1.0	-1.1	-1.6	-0.8	-0.9	-1.2
Primary balance²	6.7	2.2	6.1	6.1	2.8	6.0	5.9	2.9
Public debt²	116.2	73.5	114.7	114.4	73.1	111.6	110.6	71.5

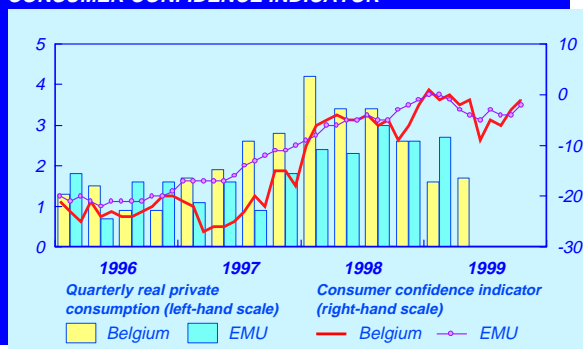
¹ P.c. change. ² In p.c. of GDP. ³ Forecast from the European Commission (available since October 1999; next publication in spring 2000)

MACROECONOMIC DEVELOPMENTS

BUSINESS CYCLE INDICATOR AND GDP



CONSUMER CONFIDENCE INDICATOR



According to the latest estimates, real GDP growth in the second quarter accelerated to 1.7 p.c. year on year, from 1.6 p.c. in January-March. On a quarter-on-quarter basis, GDP grew by 6.7 p.c. against 1.1 p.c. in the first quarter, mainly reflecting a significant surge in business investment, lower levels of destocking and the contribution of net exports. As it turned out, the decline in exports in the second quarter was offset by an even more marked decline in imports.

The outlook for the next few quarters is excellent. Both the National Bank's leading indicator and the consumer confidence indicator are strongly improving. The leading indicator for manufacturing industry climbed to +1.6 in October, from -14.4 in January, a trend corroborated by the recovery in industrial production, the capacity utilisation rate, business investment and exports.

Consumer confidence briefly dipped in June due to the dioxin crisis, dropping from -1 in May to -9. Subsequently, however, confidence bounced back, its indicator reaching -1 in October. Admittedly, consumer spending was rather weak in the second quarter, but with confidence returning, retail sales strengthening and the leading indicator for retail trade picking up, the scene is set for further improvements in the next few quarters.

In this context, the participating institutions expect an acceleration of the economic growth to 3.1 p.c. in 2000.

In October the number of unemployed, including the elderly unemployed, dropped by 2.5 p.c. yoy to 538.000, i.e. roughly its 1993 level.

Owing to rising oil prices, consumer price inflation accelerated somewhat to 1.5 p.c. in November. The health index was up only a modest 0.9 p.c. from its level a year earlier.

THE INTERNATIONALISATION OF THE OLO MARKET

Walter Van Nieuwenhove - Fortis Bank

International participation in the OLO (linear bond)-market has shown a remarkable upsurge since the introduction of the euro. In this article, we analyse the numbers and comment on some of the driving factors.

1. The facts

The National Bank of Belgium (NBB) publishes data on the location of dematerialised linear bonds on the basis of the report which institutions authorised to act as account-keepers for dematerialised public debt securities are required to draw up each month. The latest available data are for August 1999.

From a level of 25 p.c. last year, foreign participation rose to just over 46 p.c. in August, while the relative size of holdings by Luxembourg residents declined.

It should be noted however, that these figures are significantly influenced by repurchase agreements. If these transactions involve a transfer of ownership, this is only a temporary use. Moreover, repos are pure refinancing transactions and are not motivated by the economic rationale of portfolio diversification. The balance sheets of credit institutions make it possible to measure this economic ownership, as opposed to legal ownership. In those balance sheets repos must be recorded as interbank transactions, while the underlying assets (the OLOs) remain in bank portfolios even if they have been temporary transferred to a foreign institution.

OLOs HELD BY BELGIAN CREDIT INSTITUTIONS

(percentage of total)

Date	Balance sheets of credit institutions	Reports of account-keepers (after repos)
Dec. - 94	56.6 %	48.8 %
Dec. - 96	59.9%	47.6%
Dec. - 98	61.6%	45.6%
Mar. - 99	55.3%	32.9%
Jun. - 99	51.0%	31.2%

An alternative, but more correct, way to determine the economic ownership of OLOs is to add the OLOs which appear on the balance sheets of Belgian credit institutions (51 p.c. of the outstanding amount in June 1999, see table) to the portion held by other Belgian institutions (that stands at 30.1 p.c. of all OLOs). This calculation indicates that at that time 18.9 p.c. of the OLO market was in foreign hands. A similar calculation shows us that, at the end of 1998, just 8.1 p.c. of OLOs were held abroad. These numbers are less impressive than the first approach would suggest, but they still show that foreign holdings of OLOs have more than doubled in the first half of 1999.

The discrepancy between the results of the two calculations also gives an idea of the sheer size of the repo activity whereby foreign institutions are borrowing OLOs.

2. The internationalisation of the marketable debt of other EMU members

As not all EMU countries monitor foreign participation in their national debt on a monthly basis, we shall confine ourselves to those which do, and which publish their findings. Looking at the foreign-held part of the Spanish Bonos and Obligaciones debt and the French OAT, BTAN and BTF debt, we can discern trends similar to those in the OLO market:

In January 1994 an impressive 52.6 p.c. of the Spanish marketable debt was held by non-residents. This rate subsequently fell to less than half of this figure reaching 23.9 p.c. in October 1998. Since then, foreign participation has risen again to 29.5 p.c.. In France the foreign-held part of the marketable debt was 15 p.c. in December 1997. From then on this proportion rose steadily, to just below 20 p.c. at the end of 1998 and to 23.3 p.c. in August 1999. We can conclude that the introduction of the euro led to a true internationalisation of European government bond markets, and that this was particularly the case with Belgian OLOs.

3. The driving forces

Several factors have contributed to the swift internationalisation of the OLO market.

Apart from the characteristics of the OLO curve (relatively few, large lines, an efficient repo market, an international group of primary dealers), the yield spread of OLOs over other euro-government bond markets makes them attractive to international investors looking for diversification, now that the currency risk has disappeared. The relatively high yield spread of OLOs may be attributable to the stronger tendency of Belgian investors to diversify their bond holdings by buying other paper such as pfandbriefe, corporate securities and other government bonds.

New OLO lines have been launched through an international syndicate since the start of this year. This technique, which failed to internationalise the OLO market when DEM and FRF euro-fungible tranches of BEF-denominated OLOs were marketed at the end of 1997, seems to have caught on this year. The OLO 32 (3.75 p.c., March 2009), which was launched in January 1999 was genuinely placed internationally and was not sold back to Belgians immediately afterwards. A five-year bond (OLO 34) was issued in September, but its effect is not yet reflected in our figures.

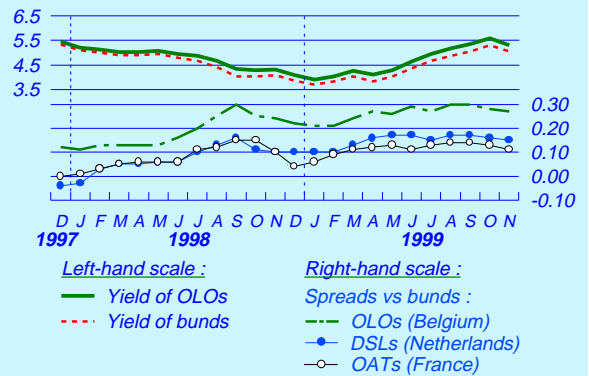
The fact that several OLOs traded above the swap level attracted domestic and foreign asset-swappers. The Belgian long-term bond, OLO 31, yielded more than swaps for most of the year, while other bonds, notably the OLOs 16, 12 and 23 showed a positive spread in relation to swaps in June. This was caused by the effect of the dioxin crisis which erupted just weeks before the general elections on June 13. The landslide election outcome scared investors away from Belgian government bonds. The quick formation of a Liberal – Socialist – Green government caused a rush back into OLOs in the following months.

GOVERNMENT SECURITIES MARKET

PRIMARY MARKET (billions of EUR)

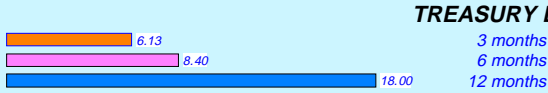
OLOs				TREASURY BILLS				
Gross issues		Net issues		Net issues				
1998	1999	1998	1999	1998	1999			
J	2.754	3.811	J	-0.498	3.035	J	2.692	3.962
F	2.065	8.154	F	1.153	6.706	F	-1.547	-1.587
M	0.786	1.147	M	-0.015	-1.722	M	1.775	-0.196
A	2.811	5.427	A	2.224	1.203	A	-3.557	-1.524
M	1.577	0.686	M	1.247	-0.043	M	2.432	0.116
J	1.765	1.879	J	-0.196	0.334	J	0.892	0.850
J	2.828	2.876	J	-0.347	2.697	J	0.488	1.466
A	0.645	0.441	A	-0.072	0.440	A	0.630	0.104
S	2.635	3.905	S	1.286	3.773	S	-2.531	-2.533
O	3.116	1.636	O	2.072	0.818	O	-3.024	-1.986
N	0.263	0.835	N	-0.027	-0.128	N	-3.101	-1.992
D	2.083		D	1.728		D	-0.978	

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

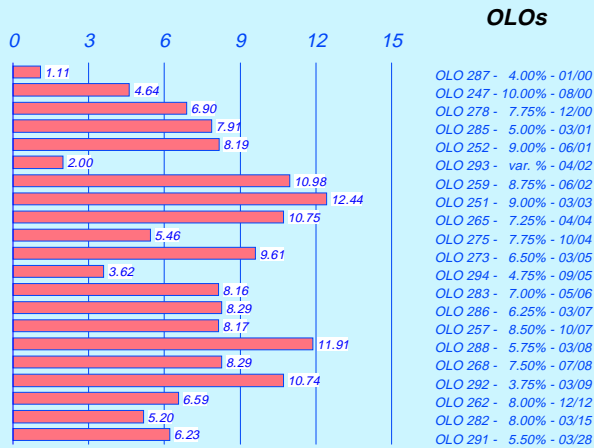


OUTSTANDING AMOUNT AND TURNOVER (billions of EUR)

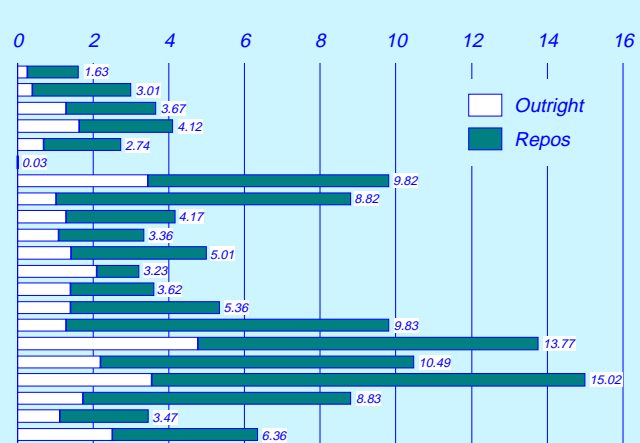
OUTSTANDING AMOUNT AT 30 NOVEMBER 1999



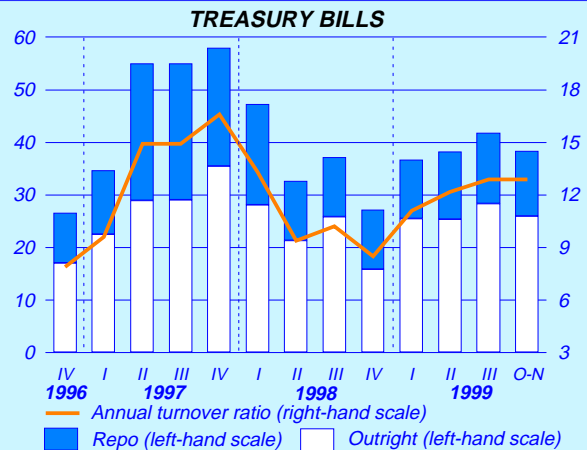
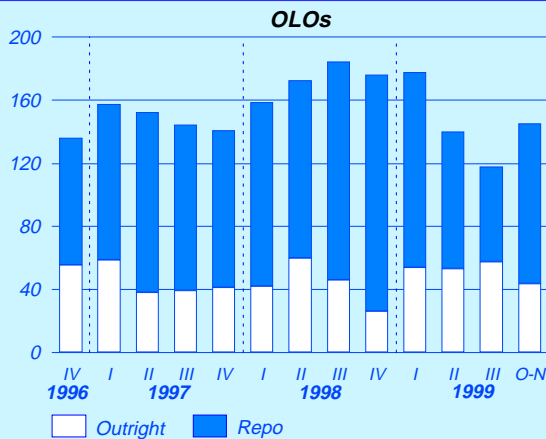
TREASURY BILLS



TURNOVER IN NOVEMBER 1999



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



TREASURY HIGHLIGHTS

The Treasury and the primary dealers agreed upon the establishment of a domestic electronic trading platform (MTS Belgium) with a view to enhancing the liquidity of the Treasury's securities. It will use the same software as Euro MTS and MTS Spa. Four working groups have been put in place (business plan, legal, market rules and technical). The Treasury will probably become shareholder and will be chairman of the board.

The main reasons for choosing MTS are :

- MTS is the only IDB electronic system which is already operational for the European bond market;
- MTS is the only system based on a price-making obligation imposed upon market makers;
- MTS is a pan-European platform : the domestic platforms can be connected both to EuroMTS and to each other - an arrangement which offers the possibility of parallel quotations.

Repos in OLOs have been traded on REPOCLEAR since early December.

At the request of its primary dealers, the Treasury decided to cancel the last OLO and Treasury certificates auction of the year.

With regard to the new auction and exchange offer calendar for OLOs, the Treasury decided to reduce not only the number of OLO lines issued at each auction but also the frequency of these auctions, in order to increase the amounts of OLOs issued at each auction. The same decision was taken with regard to the OLO exchange offers.

OLO AUCTION AND EXCHANGE OFFER DATES

Month	Date	Settlement	Auction	Exchange Offers			
January	10	13		Code 247	OLO 3	10.00%	2 Aug. 2000
	31	3 Feb.	Auction				
February	7	10		Code 278	OLO 21	7.75%	22 Dec. 2000
	28	2 March		Code 267	Phil. X	7.00%	23 June 2000
March	6	9		Code 247	OLO 3	10.00%	2 Aug. 2000
	27	30 Jan.	Auction	Code 278	OLO 21	7.75%	22 Dec. 2000
April	3	6		Code 285	OLO 25	5.00%	2 Mar. 2001
	17	20		Code 267	Phil. X	7.00%	23 June 2000

More information about this calendar can be found on the website of the Treasury : www.treasury.fgov.be/interdette

MONETARY POLICY HIGHLIGHTS

At its meeting on 4 November 1999 the Governing Council of the ECB decided to raise the ECB's three key interest rates by 50 basis points each. The interest rate on the Eurosystem's main refinancing operations, which will continue to be conducted as fixed-rate tenders, was raised to 3.0 p.c. with effect from the operation settled on 10 November 1999. The interest rate on the marginal lending facility was raised to 4.0 p.c. and that on the deposit facility to 2.0 p.c., both with effect from 5 November 1999. These decisions are expected to counter the upward trend of risks to price stability which has been observed since the beginning of the summer, thereby helping to sustain non-inflationary growth over the medium term.

At its meeting on 2 December 1999 the Governing Council decided to confirm the reference value for monetary growth, namely an annual growth rate of 4.5 p.c. for the broad aggregate M3. This decision was taken on the grounds that the components underlying the derivation of the aforementioned reference value in December 1998, namely the Eurosystem's definition of price stability and the assumptions for trend real GDP growth and the trend decline in M3 income velocity, have remained unchanged. As before, the Governing Council will assess monetary developments in relation to the reference value on the basis of a three-month moving average of annual growth rates. The Governing Council has decided henceforth to review the reference value on a regular annual basis, with the next review to take place in December 2000.

In order to contribute to a smooth transition to the year 2000, the Governing Council of the ECB has decided to raise the amount for the longer-term refinancing operations in October, November and December.

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