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Sources: *NBB, unless stated*

Special topic : ***Public Finances in Belgium***
Last update: *on 6 January 2004, the government has announced a surplus of 0.3% of GDP on its 2003 public finances. The debt stands at 100.4% of GDP.*

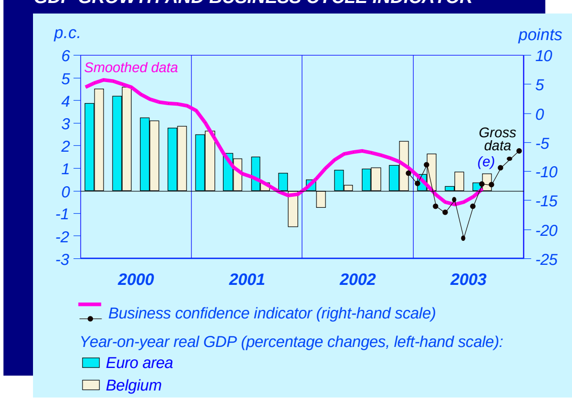
CONSENSUS FORECAST

	2002		2003 e			2004 p		
	Belgium	Euro area	Belgium: Consensus	Belgium: Previous consensus	Euro area [3]	Belgium: Consensus	Belgium: Previous consensus	Euro area [3]
Real GDP [1]	0.7	0.9	1.0	0.8	0.4	2.0	1.7	1.8
Employment [1]	-0.3	0.5	-0.3	-0.3	-0.2	0.4	0.4	0.3
Consumer prices [1]	1.6	2.3	1.6	1.5	2.1	1.5	1.4	2.0
Current account [2]	4.6	1.0	4.5	4.5	1.0	4.6	4.5	1.2
General government balance [2]	0.1	-2.2	0.2	-0.5	-2.8	0.0	-0.2	-2.7
Primary balance [2]	6.1	1.4	5.8	5.3	0.7	5.4	5.2	0.7
Public debt [2]	106.1	69.0	100.5	102.7	70.4	97.2	99.8	70.7

[1] P.c. change. [2] In p.c. of GDP. [3] European Commission (forecast available since November 2003; next publication in April 2004).

MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

The strengthening of the global economy seems to have triggered a gradual but broadly based upturn in continental Europe, notwithstanding the appreciation of the euro. As in the neighbouring countries, activity in Belgium recovered during the third quarter of 2003. According to the latest flash estimate of the National Accounts Institute, real GDP increased by 0.5% quarter-on-quarter, following a decline of 0.1% in the second quarter. Overall, the Belgian economy has proved a little more resilient during the previous period of sluggishness; this resulted in year-on-year growth of 0.7% in the third quarter of 2003, higher than the 0.3% growth rate recorded in the euro area as a whole.

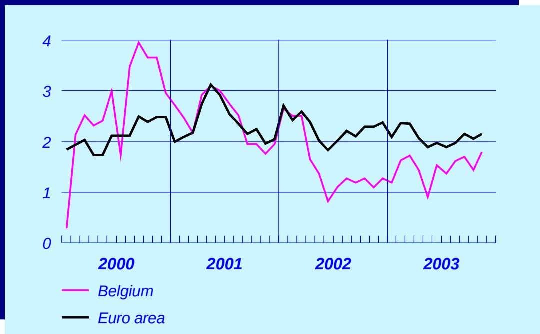
Meanwhile, confidence has been rising sharply from June 2003 onwards. The latest NBB business survey shows that the business climate continued to improve in December. As a result, confidence has returned to an above-average level, from the 10-year low recorded a few months ago. The improvement in confidence resulted in a reversal of the underlying trend from July onwards, after 12 months of declining confidence. To date, the recovery in consumer confidence has failed to keep pace with the rise in business confidence. However, the recent fall in consumer confidence, resulting from a number of reported job losses, which hit consumer sentiment particularly with regard to the outlook for the labour market, has been reversed. Although consumer confidence remains below average, it has returned to a level close to its high of the year.

Given the relatively high growth rate recorded in the third quarter and the marked improvement in business confidence, primary dealers increased their forecast for real GDP growth for the year 2003 to 1.0% from 0.8% in September. In addition, growth forecasts for 2004 were revised upwards to 2.0% from 1.7% in September.

The primary dealers expect the contribution of both net exports and domestic demand to be higher in 2004 than in 2003. Despite the slowing effect resulting from the appreciation of the euro, exports were set to benefit from the global recovery in trade. In turn, domestic demand, and in particular business investment, should gain momentum in the course of 2004.

MACROECONOMIC DEVELOPMENTS (continued)

HARMONISED CONSUMER PRICES
(annual percentage changes)



Source: EC.

In November 2003 HICP inflation rose in Belgium from 1.4% to 1.8%, to reach its highest level of the year. This acceleration was mainly caused by the basis effect of lower energy prices last year. However, inflation has increased recently due to higher energy and commodity prices in euros and higher prices of unprocessed food. The euro area HICP rate of inflation increased as well, albeit to a lesser extent, from 2.0% in October to 2.2% in November. In fact, the greater sensitivity of the Belgian HICP index to oil prices and the gradual disappearance of the downward effect resulting from the abolition of the radio and television licence fee, moved the Belgian inflation rate closer to the euro-area average in the last few months[1].

The primary dealers slightly increased, by 0.1 percentage point, their inflation forecasts for 2003 and 2004, to 1.6% and 1.5% respectively. Inflation was expected to remain moderate due to negligible price pressures both from the external side and from the domestic side.

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[1] *The special topic in issue No. 21 of the Belgian Prime News deals with the recent differential between inflation in Belgium and in the euro area.*

SPECIAL TOPIC: Public Finances in Belgium

GENERAL GOVERNMENT BALANCE
(in p.c. of GDP)

	2001	2002	2003	2004	2005	2006	2007
Stability programme targets							
December 2000	0.2	0.3	0.5	0.6	0.7		
November 2001	0.0	0.0	0.5	0.6	0.7		
November 2002		0.0	0.0	0.3	0.5		
November 2003			0.2	0.0	0.0	0.0	0.3
Outcome	0.5	0.0	0.2e				
p.m. Public debt*	108.7	106.1	102.3	97.6	93.6	90.1	87.0

Sources: Ministry of Finance, NAI, NBB and Prime News Consensus estimates.
**Beyond 2002: projections of the November 2003 stability programme.*

According to the Consensus estimate, the public account is estimated to exhibit a surplus of 0.2% of GDP in 2003, *thus comfortably meeting the balanced-budget target set in the November 2002 stability programme. However, this estimate takes into account a major capital transfer amounting to 5 billion euro (or close to 1.9% of GDP) received from Belgacom in exchange for the government taking over the company's outstanding pension liabilities. In principle, this operation has no impact whatsoever on the long-term sustainability of public finances as the amount received is roughly equal to the estimated actuarial value of the outstanding liabilities. The beneficial impact of the Belgacom payment on the 2003 budget, was partly offset by the fact that the government has brought forward, to 2003, some 1 billion euro in funding for the national railway company. When the 2004 budget was drawn up in autumn, it was planned that the Belgacom payment would be spread over 2003 and 2004; the shift in funding for the national railway company should roughly neutralise the fact that, in the end, the total amount was already paid in 2003.*

The new federal budget aims for a balanced budget for general government in 2004*. One of the key features is an important regularisation scheme for past tax fraud that will be implemented in the beginning of 2004. It will apply to both capital held on accounts abroad and bearer securities. A one-off levy of 6 or 9% on the capital declared under this scheme is estimated to net around 0.3% of GDP. In addition, social-security contributions will be further reduced over the 2004-2005 period to boost employment. By 2005 the additional revenue shortfalls are set to be close to 0.4% of GDP. Finally, health care spending will show buoyant growth of 4.5% at constant prices and the further reform of the personal income tax system will proceed as planned with further tax cuts of 3 billion euro over the 2004-2007 period.*

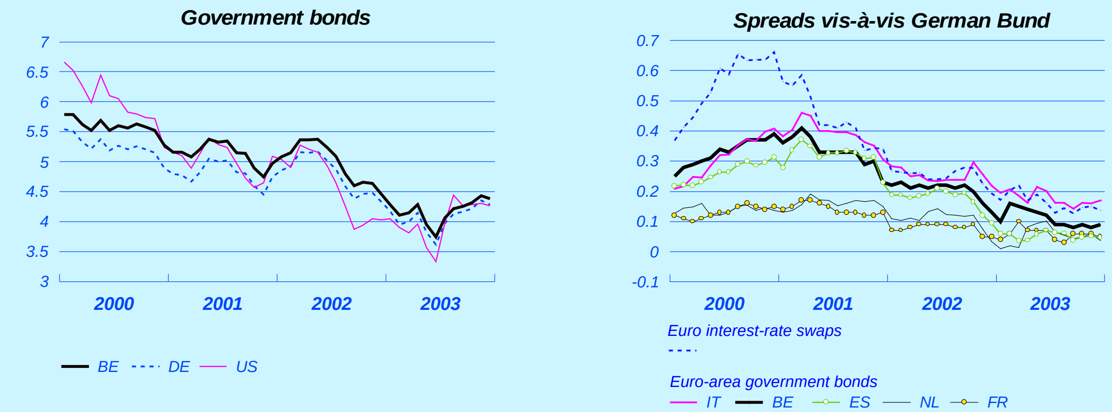
In November 2003 the federal government submitted an updated stability programme covering the years up to 2007 to the European Commission. It confirmed its commitment of gradually building up a small budgetary surplus in the medium term *(with a view to speeding up debt reduction and preparing Belgium's public finances for the growing impact of population ageing). Due to the unusually protracted slump in activity growth that weighed on the budgetary outcomes from 2001 to 2003, the consolidation effort would however be slightly back-loaded with a balanced budget aimed for in the 2004-2006 period and a small surplus of 0.3% of GDP in 2007. In view of the importance of the non-recurring elements favourably affecting the 2003 and 2004 accounts on the one hand and the planned further tax cuts on the other, meeting the targets set in the stability programme will require significant spending restraint.*

Largely owing to the substantial Belgacom payment and two additional financial operations in the course of the year (the sale of the Credibe mortgage portfolio and the consolidation of ALESH/FADELS social housing debt), the public debt ratio is estimated to have approached 100% of GDP at the end of 2003 already.

Taking into account the available information, primary dealers expect the general government account to show a small surplus of 0.2% of GDP in 2003 and a balanced result in 2004. The public debt is expected to decrease to 100.5% of GDP in 2003 and further to 97.2% of GDP in 2004.

GOVERNMENT SECURITIES MARKET

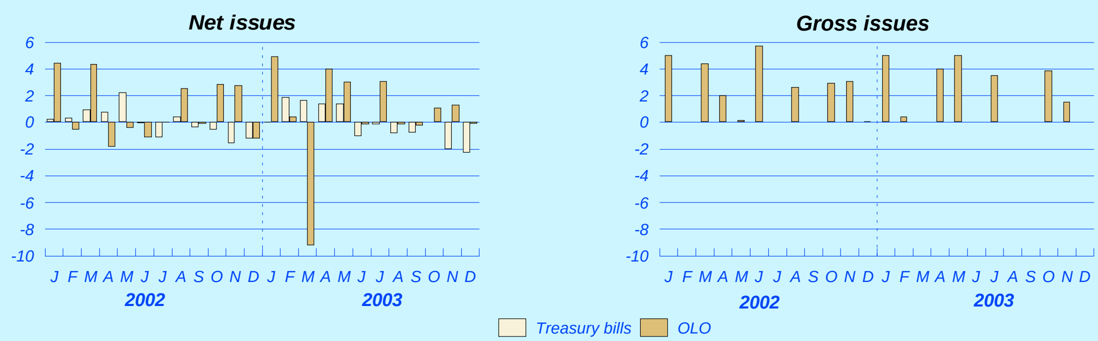
10-YEAR INTEREST RATES (percentage points, monthly averages)



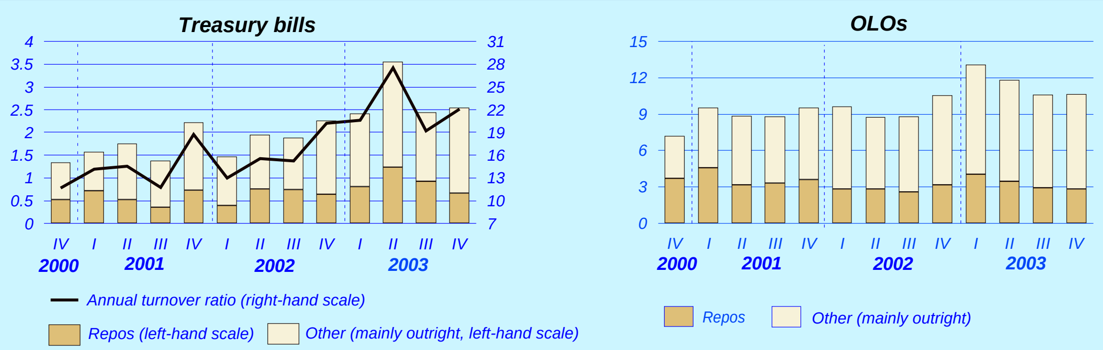
Sources: BIS, Datastream.

After the strong increases in July and August, euro-area long-term government-bond yields continued to rise from September onwards, although at a slower pace. In the US, ten-year interest rates declined somewhat in September and remained, on average, virtually unchanged thereafter. As a result, the negative yield differential between the euro area and the US first narrowed and then turned marginally positive in November. According to the respective movements in inflation-indexed and fixed-income bonds, the divergence in interest-rate developments since August has resulted predominantly from lower growth expectations in the US, while inflation expectations have increased both in the US and in the euro area. At the same time, euro-area government-bond spreads vis-à-vis the German Bund have remained at levels comparable to those reached during the third quarter of 2003. Finally, the downward trend in the euro-area interest-rate swap spread vis-à-vis the German Bund seems to have bottomed out in the autumn of 2003.

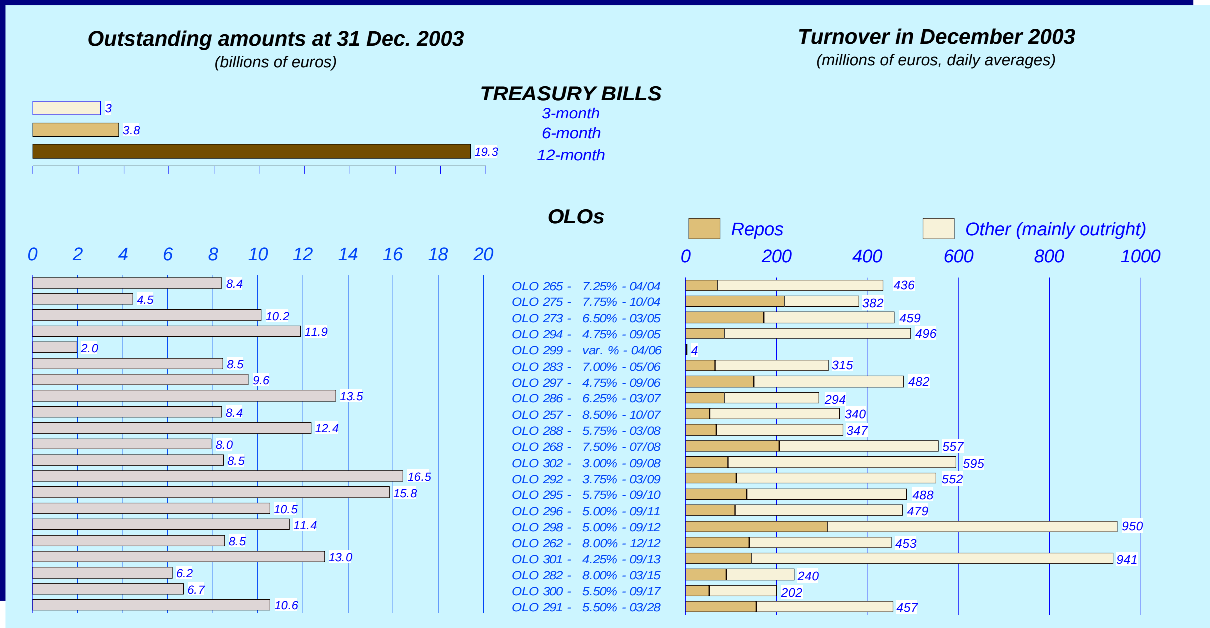
PRIMARY MARKET (billions of euros)



SECONDARY MARKET (billions of euros unless stated, daily averages)



OUTSTANDING AMOUNTS AND TURNOVER



TREASURY HIGHLIGHTS

*On December 10th, the Treasury published its **2004 borrowing requirements and funding plan** details of which are available on its website www.treasury.fgov.be/interdette.*

The Treasury plans to meet its financing requirements (estimated at EUR 32.13 billion) mainly, but not entirely, by issuing in the medium and long term. Hence the outstanding amount of short-term debt is expected to increase.

*The Treasury plans to issue **OLOs** for an amount of EUR 27.90 billion, i.e. EUR 4.63 billion more than the 2003 OLO issuance. This is mainly due to higher redemptions and a higher federal deficit.*

The amount of OLO issuance could be reduced if the budgetary results turn out to be better than expected, e.g. as a consequence of privatisations or the sale of assets.

***Short-term debt** is planned to increase by EUR 3.23 billion. With regard to **Treasury Certificates**, the number of auctions will be reduced to two per month in order to increase the issuance size and to develop a large outstanding of the 12-month line.*

OLO AUCTIONS AND SYNDICATIONS

Month	Date	Settlement
January 2004: Syndication		
March 2004: Auction	29	1 April
May 2004: Auction	24	27

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This publication is also available on the internet site www.nbb.be.
Information on the Belgian government debt can be found on the site of the Treasury: www.treasury.fgov.be/interdette.
General information on the Belgian government's action can be found on the site www.belgium.be.