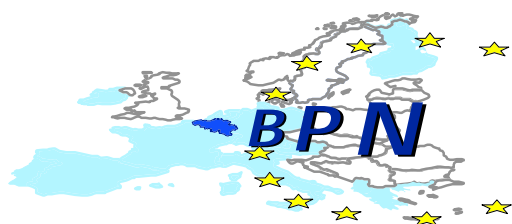


# BELGIAN PRIME NEWS

March 2004  
No. 23



**Published by:** National Bank of Belgium (NBB)  
**Participating institutions:** NBB, Debt Agency (Federal Public Service Finance), Barclays Capital, BNP Paribas, Dexia Bank, Fortis Bank, Indosuez, ING, KBC Bank, UBS Warburg  
**Updated to:** 23.03.2004  
**Next issue:** June 2004  
**Sources:** NBB, unless stated

**Special topic :** **Structural Features of the Belgian Economy**

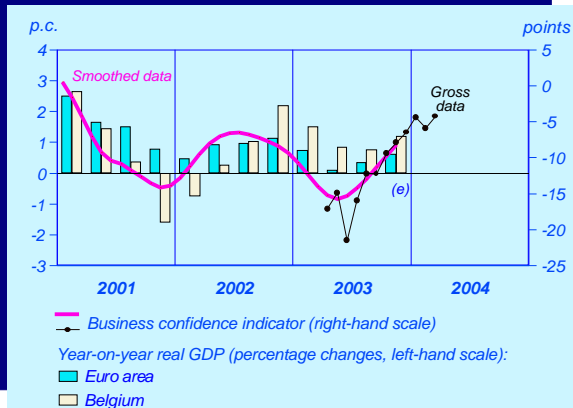
## CONSENSUS FORECAST

	2003 e		2004 p			2005 p	
	Belgium	Euro area	Belgium Consensus	Belgium Previous consensus	Euro area <sup>3</sup>	Belgium Consensus	Euro area <sup>3</sup>
<b>Real GDP<sup>1</sup></b>	1.1	0.4	2.1	2.0	1.8	2.3	2.3
<b>Employment<sup>1</sup></b>	-0.4	-0.2	0.4	0.4	0.3	0.8	0.8
<b>Consumer prices<sup>1</sup></b>	1.5	2.1	1.5	1.5	2.0	1.6	1.7
<b>Current account<sup>2</sup></b>	3.5	1.0	4.0	4.6	1.2	4.7	1.3
<b>General government balance<sup>2</sup></b>	0.2	-2.7	-0.2	0.0	-2.7	-0.2	-2.7
<b>Primary balance<sup>2</sup></b>	5.8	0.8	5.2	5.4	0.7	4.9	0.8
<b>Public debt<sup>2</sup></b>	100.5	70.4	97.6	97.2	70.7	95.1	70.7

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

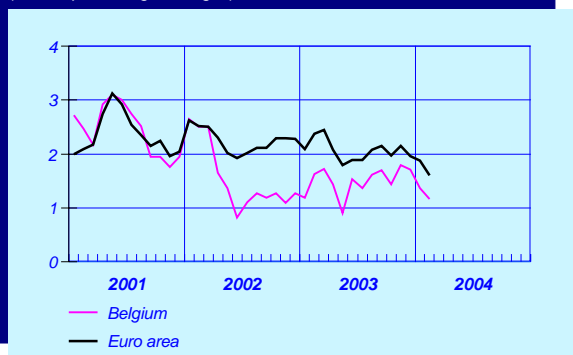
## MACROECONOMIC DEVELOPMENTS

### GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

### HARMONISED CONSUMER PRICES (annual percentage changes)



Source: EC.

**Primary dealers forecast the general government to exhibit a small deficit of 0.2% of GDP in 2004 and 2005, and public debt to decrease to 97.6% of GDP in 2004 and to 95.1% of GDP in 2005.** Public finances in 2004 and 2005 will benefit from the improving macroeconomic environment while the impact of non-recurring operations is estimated to decrease compared to 2003. Some primary dealers expect the government to tighten fiscal policy, however, in order to stay close to the balanced budget targets defined in the November 2003 stability programme.

According to the National Accounts Institute's flash estimate, GDP grew by 0.6% q-o-q in the last quarter of 2003, following a 0.5% increase in the third quarter. For the year as a whole, GDP growth reached 1.1%, well above the 0.4% growth for the euro area. After a 10-year low reached in June 2003, the recovery in activity in the second half of 2003 led to a clear upward trend in business confidence from July. In addition, though initially hesitant, the improvement in consumer confidence has become more firmly established in recent months.

The primary dealers slightly upgraded their forecast for real GDP growth for 2004, from 2.0% in January to 2.1%. Growth is expected to consolidate further at 2.3% in 2005. The acceleration with respect to 2003 stems mainly from a higher contribution by net exports, but also from domestic demand, particularly investment. However, the forecast is highly dependent on the strengthening of activity in the euro area, particularly in view of the uncertainty regarding developments in the euro exchange rate.

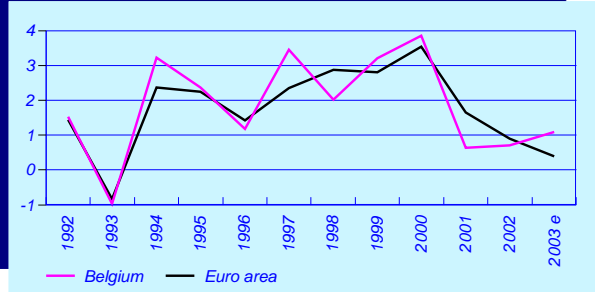
HICP inflation in Belgium decreased from 1.8% in November 2003 to 1.2% in February 2004, mainly because of movements in energy prices reflecting the euro appreciation and a substantial base effect due to high oil prices 12 months ago. The euro area HICP inflation rate receded as well, from 2.2% in November to 1.6% in February. In view of the weakness of both external and domestic pressure on prices, the primary dealers expect inflation to stay moderate, at 1.5% in 2004 (unchanged since January) and 1.6% in 2005.

Regarding public finances, Eurostat has approved the recording of the Belgacom payment as government revenue in 2003 (see BPN 22). All in all, a surplus of 0.2% of GDP was recently notified to the European Commission while public debt was estimated at 100.5% of GDP as at the end of last year.

# SPECIAL TOPIC: Structural Features of the Belgian Economy

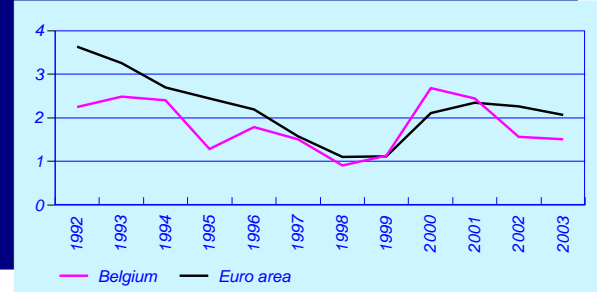
Located at the heart of the euro area, the Belgian economy performed close to the average for the Monetary Union in terms of fundamentals over the last ten years. GDP growth and inflation followed broadly the same pattern, despite some short-term deviations. For instance, Belgium's business cycle is usually characterised by more pronounced peaks and troughs, largely cancelling each other out over the cycle. Regarding inflation, Belgium exhibited a lower rate than the average of euro area countries prior to the launch of EMU. Since then, only short-term deviations have occurred, especially in 2002 and 2003, due to specific temporary factors (see Special topic of BPN 21).

## GDP GROWTH



Sources: EC, NAI.

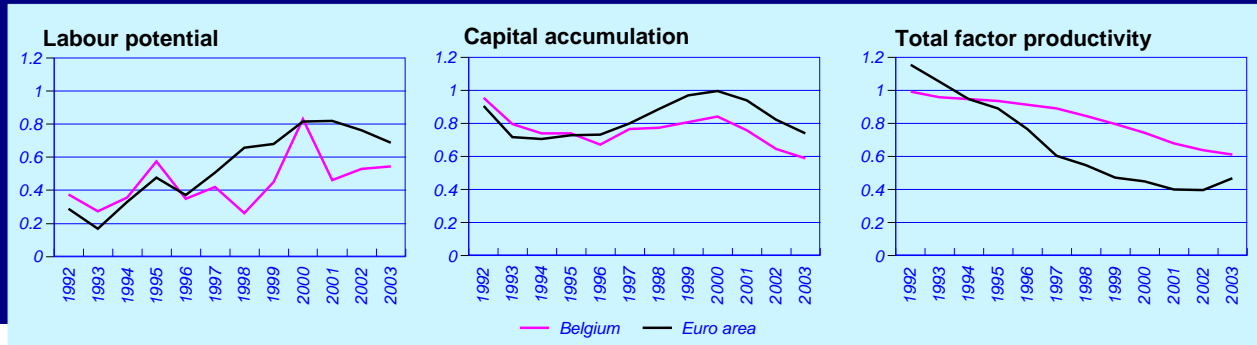
## HICP INFLATION



Source: EC.

However, a similar pattern of potential output growth hides differences in the contributions of the various determinants. Indeed, since the mid-1990s, the contribution of total factor productivity to growth was larger in Belgium. It has offset contributions below the level for the euro area from both labour and capital accumulation, the weakness of public investments explaining at least part of the latter.

## CONTRIBUTIONS TO POTENTIAL OUTPUT GROWTH



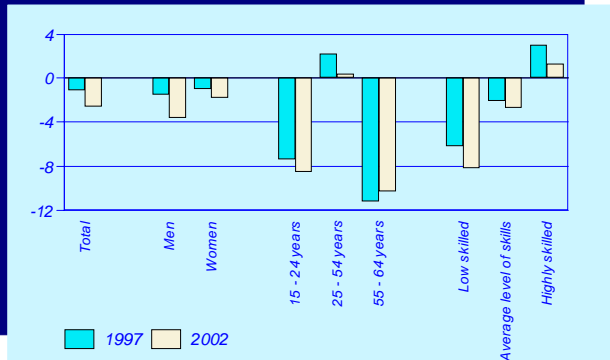
Source: EC.

The lower contribution of labour to potential growth in Belgium is due mainly to the relatively low employment rate. Indeed, at 59.7% of the working age population in 2002, the overall employment rate in Belgium is lower than the 62.3% rate in the euro area, and far below the EU objective of 70% set for 2010. The gap between the two economies actually widened in 2001 and 2002. In particular, employment rates in Belgium are lower for younger workers, partly because of a longer schooling, as well as for older workers and the low skilled. Increasing the employment rate, particularly of workers over 55 years old, will become a major challenge for Belgian economic policy in view of the impending ageing of the population which will start to weight heavily on public finances in the next decade.

Although not yet sufficient, the reduction in the public debt-to-GDP ratio is certainly needed to alleviate the burden on the Belgian economy. The debt has decreased from a peak of 137.9% of GDP in 1993 to 100.5 at the end of 2003, and the differential in relation to the average for the euro area has been reduced to some 30% of GDP.

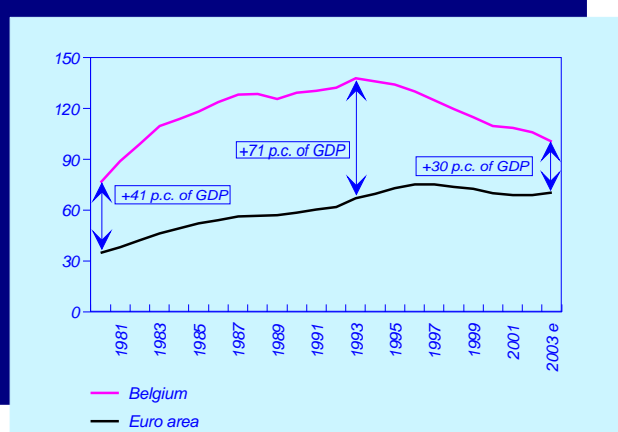
## HARMONISED EMPLOYMENT RATES IN BELGIUM AND THE EURO AREA

(difference in percentage points between employment rates expressed as a percentage of the corresponding population of working age in Belgium and the euro area)



Source: EC (second quarter of corresponding year).

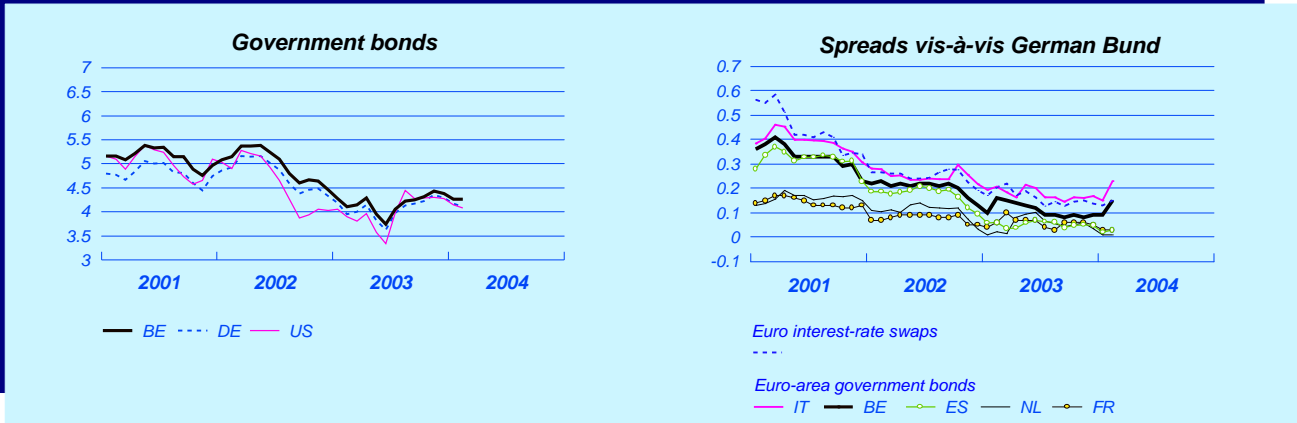
## PUBLIC DEBT (percentages of GDP)



Sources: EC, NBB.

# GOVERNMENT SECURITIES MARKET

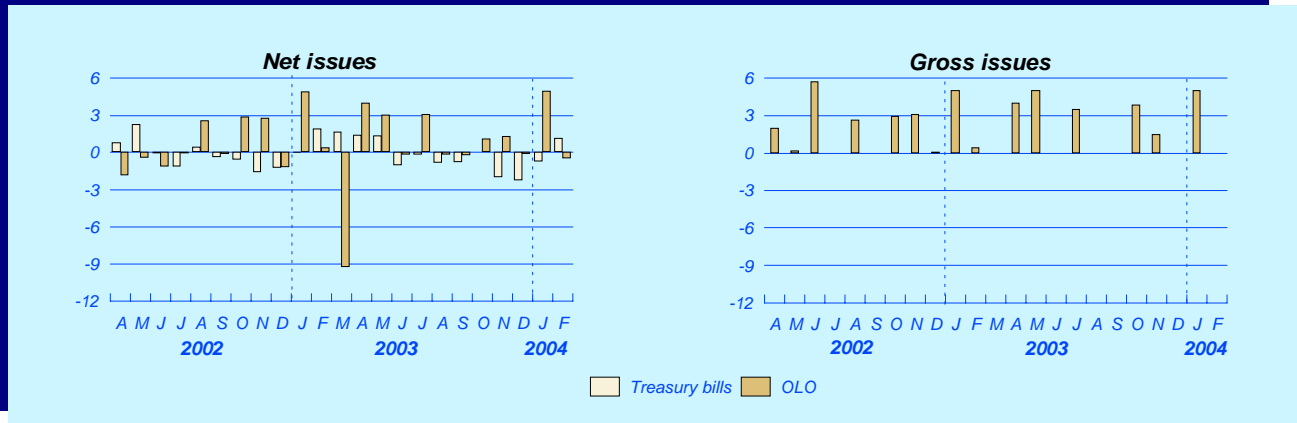
## 10-YEAR INTEREST RATES (percentage points, monthly averages)



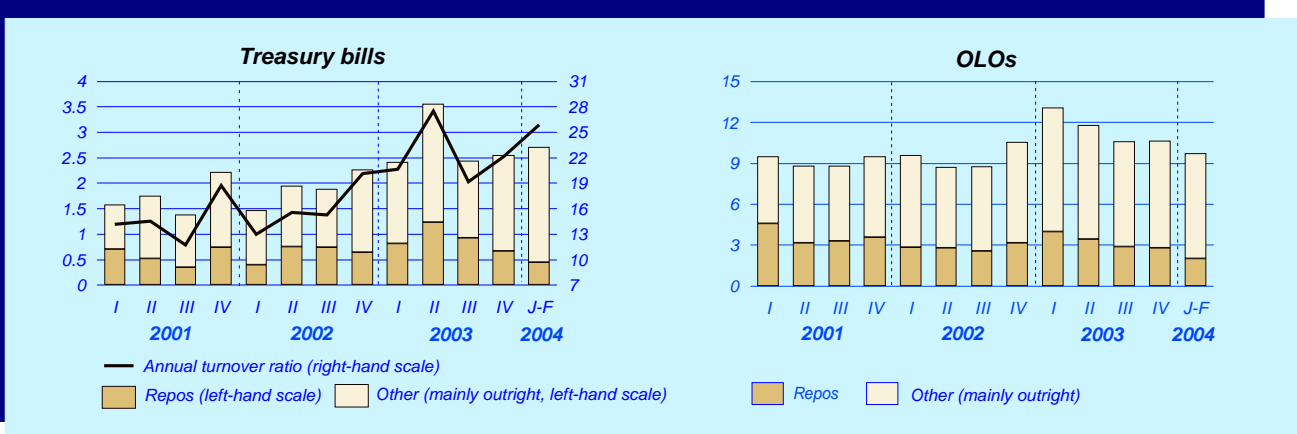
Sources: BIS, Datastream.

Having followed an upward trend from July 2003, long-term interest rates started to decline in December. Long-term government bond yields in both the US and the euro area decreased to the same extent; consequently, the positive yield differential between the European and American interest rates remained marginal. A comparison of the respective movements in inflation-indexed and fixed-income bonds reveals that this recent decline in long-term interest rates resulted predominantly from lower real interest rates in both economic areas. Euro area government bond spreads vis-à-vis the German Bund tended to narrow further. However, the introduction of a new benchmark bond in January caused the Belgian spread to widen. Finally, the euro area interest-rate swap spread vis-à-vis the German Bund oscillated around the low levels already attained during the second half year of 2003.

## PRIMARY MARKET (billions of euros)



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

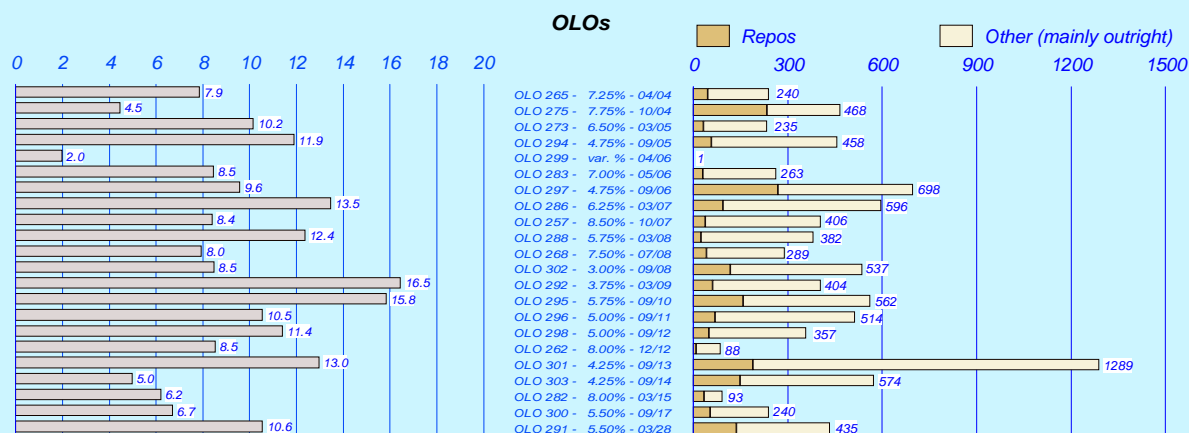


## OUTSTANDING AMOUNTS AND TURNOVER

**Outstanding amounts at 29 Feb. 2004**  
(billions of euros)



**Turnover in February 2004**  
(millions of euros, daily averages)



## TREASURY HIGHLIGHTS

I. The Kingdom syndicated 5 billion euros of its **new 10-year benchmark bond** (4.25 p.c. OLO 43, due 28.09.2014) with a yield spread of 13 basis points vis-à-vis the Bund maturing January 2014 and 4.5 basis points over the interpolated OAT curve, achieving a 1 basis point benchmark premium.

The allocation of the bonds was as follows:

- Belgium	23.1%	- US & Canada	3.4%
- Other Euro	51.5%	- Asia	2.8%
- Europe non-Euro	18.5%	- Other	0.7%

The deal was more than 2 times oversubscribed. However, the Kingdom is committed to keeping the auction size at attractive levels for investors.

### II. Changes in the 2004 borrowing requirements: lower issuance of OLOs.

First of all, the estimated federal budget deficit for 2004 has been revised from €4.15 billion to €2.05 billion, taking into account the proceeds from an operation involving ALeSH / FADELS and the regional social housing companies. An agreement was reached at the end of 2003 by which the regional social housing companies would repay their debt to ALeSH / FADELS, a federal entity centralizing historical liabilities relating to social housing. At the beginning of 2004, ALeSH / FADELS transferred the amounts received to the Treasury. In return, the federal government committed itself to financing ALeSH / FADELS with the amounts needed for servicing its remaining debt. The net cash result of this operation is positive for 2004.

A second material change in the financing requirements was needed as regards the debt maturing in 2004. In December 2003, buy-backs exceeded earlier estimates, taking the total amount of debt bought back to €7.86 billion. This has an impact on the debt maturing in 2004, which now stands at €21.18 billion instead of €22.20 billion.

The lower borrowing requirements result in changes to our funding plan. The Treasury now expects to issue €26.00 billion of OLOs instead of €27.90 billion, and the increase in short-term euro debt has been revised to €1.72 billion from €3.23 billion.

### OLO AUCTIONS AND SYNDICATIONS

Month	Date	Settlement
March 2004:	Auction	29
May:	Auction	24
July:	Auction	26
September:	Auction	27

## LIST OF CONTACT PERSONS

### PARTICIPATING INSTITUTIONS:

Federal Public Service Finance  
Barclays Capital  
BNP Paribas  
Dexia Bank  
Fortis Bank  
Indosuez  
ING  
KBC Bank  
UBS Warburg

### TECHNICAL EDITORS:

Mr Stefan Theys  
Mr Jacques Delpla  
Mr Dominique Barbet  
Mr Jacques de Pover  
Ms Carine Brasseur  
Mr Frederic Pretet  
Mr Peter Vanden Houte  
Ms Elke Vermeulen  
Ms Monique Wong

### TELEPHONE:

32 2 233 72 23  
33 1 44 58 32 26  
33 1 42 98 15 67  
32 2 222 44 71  
32 2 565 86 49  
33 1 41 89 64 37  
32 2 547 80 09  
32 2 429 55 51  
44 20 7568 3435

### FAX:

32 2 233 71 14  
33 1 44 58 32 58  
33 1 42 98 34 77  
32 2 222 33 76  
32 2 565 62 36  
33 1 41 89 40 08  
32 2 547 80 63  
32 2 429 01 35  
44 20 7567 3906

### GENERAL INFORMATION

National Bank of Belgium

Mr Luc Dresse

32 2 221 20 39

32 2 221 31 62

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

Information on the Belgian government debt can be found on the site of the Treasury: [www.debtagency.be](http://www.debtagency.be).

General information on the Belgian government's action can be found on the site [www.belgium.be](http://www.belgium.be).