

# BELGIAN PRIME NEWS

June 2001  
No. 12



**Published by :** National Bank of Belgium (NBB)  
**Participating institutions :** NBB, Debt Agency (Ministry of Finance), Artesia BC, Bank Brussels Lambert, Barclays Capital, Dexia Bank, Fortis Bank, KBC Bank  
**Updated to :** 22.06.2001  
**Next issue :** September 2001  
**Sources :** NBB, unless otherwise mentioned

## Special topic :

One year of trading activity on MTS Belgium

## CONSENSUS FORECAST

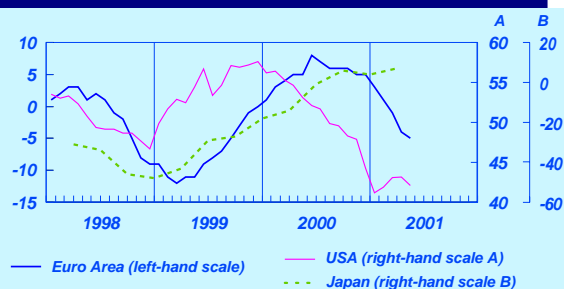
	2000		2001 p			2002 p	
	Belgium	Euro area <sup>3</sup>	Belgium Consensus	Belgium Previous consensus	Euro area <sup>3</sup>	Belgium	Euro area <sup>3</sup>
<b>Real GDP<sup>1</sup></b>	4.0	3.4	2.2	2.9	2.8	2.6	2.9
<b>Employment<sup>1</sup></b>	1.8	1.9	1.1	1.2	1.3	0.7	1.3
<b>Consumer prices<sup>1</sup></b>	2.7	2.3	2.3	1.7	2.2	1.8	1.8
<b>Current account<sup>2</sup></b>	4.6	0.1	4.3	4.2	-0.1	4.1	-0.1
<b>General government balance<sup>2*</sup></b>	0.1	-0.7	0.1	0.3	-0.8	0.2	-0.4
<b>Primary balance<sup>2*</sup></b>	7.0	3.3	6.7	6.8	3.1	6.4	3.3
<b>Public debt<sup>2</sup></b>	110.9	69.7	106.0	106.2	67.7	101.7	65.6

<sup>1</sup> P.c. change. <sup>2</sup> In p.c. of GDP. <sup>3</sup> European Commission (forecast available since April 2001; next publication in Autumn 2001).

\* Excluding the proceeds of the auction of UMTS licences.

## MACROECONOMIC DEVELOPMENTS

### BUSINESS CONFIDENCE INDICATORS



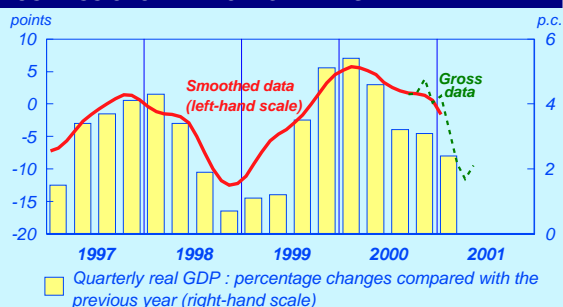
Following a very buoyant growth in activity at the end of 1999 and at the beginning of 2000, economic growth slowed down gradually throughout the rest of the year. Owing to the worsening of the international environment, industrial confidence in Belgium has decreased sharply since February 2001. Consumer confidence has also been declining since February, mainly because households are more pessimistic about the economic environment. According to the consensus forecast, as a result of the reduction in export growth, but also of some weakening of domestic demand, growth of Belgian real GDP is expected to decelerate from 4 % in 2000 to 2.2 % in 2001, i.e. a revision by 0.7 % with respect to the previous consensus. In 2002, the economic upswing should reach 2.6 %.

As a consequence, employment growth should also decline, from 1.8 % to 1.2 % in 2001. However, real disposable income growth should remain robust in 2001 and 2002, supported by tax cuts and by a slowing down of inflation.

Despite temporary shocks for some food prices, annual headline inflation should decelerate to 2.3% in 2001, compared to 2.7 % in 2000, reflecting the easing of external pressures. However, the underlying inflation trend, measured as headline inflation excluding price developments for unprocessed food and energy, is expected to accelerate during the coming months, reflecting the pass-through of higher import prices, before the cooling off of activity will reduce internal price pressures. As a consequence, inflation will slow down to 1.8 % in 2002.

The government balance is expected to reach a surplus of 0.1 % in 2001 (excluding the proceeds from the UMTS auction) and of 0.2 % in 2002, and public debt should drop by 9.2 percentage points over two years, amounting to 101.7 % of GDP in 2002. The government, however, is committed to reach a surplus of 0.2 % in 2001.

### BUSINESS CYCLE INDICATOR AND GDP



## SPECIAL TOPIC

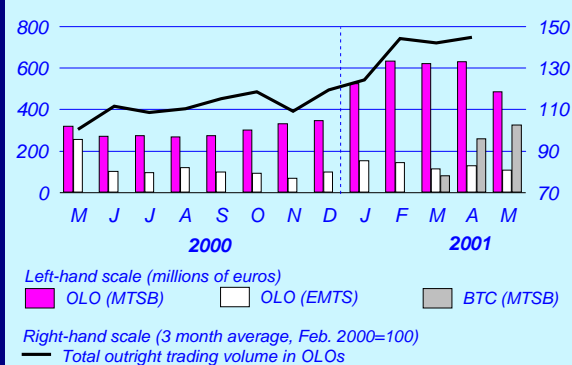
### ONE YEAR OF TRADING ACTIVITY ON MTS BELGIUM

On 5 May 2000, MTS Belgium - a screen-based electronic trading system in Belgian government securities - was launched, a few months after the introduction of several OLOs on the corresponding pan-European market EuroMTS. After one year of trading activity, the purpose of this special topic is not to extensively describe the characteristics of MTS Belgium, as this has already been dealt with in a previous special topic of the Belgian Prime News, but to gauge its success, describe the important evolutions and look into the prospects for the future. We can thus confine ourselves to reiterating that the purpose of such a platform is to increase the transparency of the market and hence its liquidity.

From the very start, MTS Belgium has been trading all outstanding fixed-rate OLO lines with a remaining maturity of over 1.25 year. The latter were 16 in number in May 2000, and 18 since the new 10- and 5-year benchmarks, issued respectively in January and May 2001, have joined the list; their total outstanding amount accounts for some 97 % of all OLO lines. Six of the OLO lines traded on MTS Belgium are also quoted on EuroMTS, i.e. three more than at the time of the first introduction of OLOs on this market in September 1999.

The number of market participants has also increased, from 16 to 21. These 21 participants include the 17 primary dealers, who form the largest shareholding body of MTS Belgium and act as market-makers, 3 other market-makers and one market-taker.

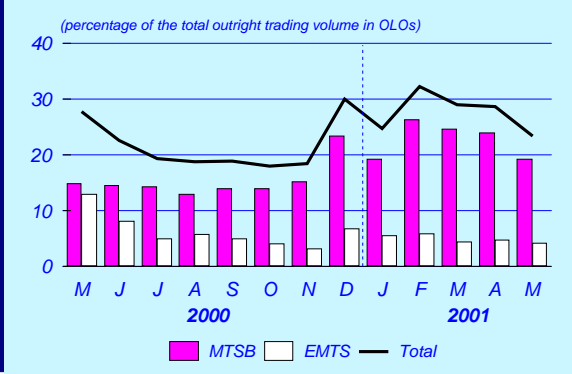
#### AVERAGE DAILY TRADING VOLUMES ON MTS BELGIUM AND EUROMTS



As far as the trading volume is concerned, MTS Belgium can be considered to be a success. After an average daily turnover of EUR 318 million in May 2000, the volume maintained itself at a very satisfactory level of around EUR 270 million in the subsequent months. During the last three months of 2000, it followed an upward trend, reaching EUR 345 million in December. But it is in 2001 that MTS Belgium registered its strongest expansion, the average daily turnover staying at a level of EUR 620-630 million from February to April. In May it went down to EUR 487 million.

At first, the growth of MTS Belgium may have been partly achieved at the expense of trading on EuroMTS, but the total volume of activity in OLOs on both electronic trading systems taken together is nevertheless showing an upward trend. Both systems have their peculiarities: MTS Belgium aims to offer the major operators maximum liquidity for virtually all linear bonds, EuroMTS plays a leading role in enhancing the visibility of the main Belgian securities abroad. They may be one of the reasons behind the strong increase in the total outright turnover on the off-exchange market in OLOs, which is, according to a study by Schroder Salomon Smith Barney, the most pronounced across the European government securities market since EMU began.

#### RELATIVE IMPORTANCE OF MTS BELGIUM AND EUROMTS



Another indicator of the performance of MTS Belgium on the liquidity side is the spread between bid- and ask-quotes. These are very low, often at 1 or 2 basis points, which is lower than the ceiling fixed by market obligations.

The strong growth of MTS Belgium, experienced by all MTS markets across Europe, can be partly attributed to the climate of extreme volatility in financial markets that prevailed during the first months of 2001. However, it is also due to the momentum of a developing market, adding new instruments and features, thus attracting new participants. In 2001 MTS Belgium accounted for a growing share of the total turnover in OLOs, making it a very successful MTS market. Although the absolute figure of this share is not readily available, it can be estimated at a level slightly under 25 % in the last few months, the share of EuroMTS being a mere 4-5 %. Whatever the exact level of the share of MTS Belgium, it is no doubt higher in 2001 than in 2000, when it was probably slightly under 15 %.

Trading activity tends to be highly concentrated: during the first five months of 2001, turnover on the three most traded OLOs accounted for 48.7 % of overall activity on MTS Belgium (it was 48.9 % over the year 2000). Those three lines are the most recent, if we do not take the new 5-year benchmark into account, but not the largest as they only represent a little less than 20 % of the outstanding amount of all OLO lines traded on MTS Belgium. During the same period, 66.4 % of the activity on MTS Belgium concerned the OLO lines quoted on EuroMTS. On this last market, concentration of trading activity tends to be higher in 2001 than in 2000: over the first five months of the year, the most traded OLO accounted for 32.5 % of overall activity in 2001, against 26.2 % in 2000, even though one more OLO was listed in 2001.

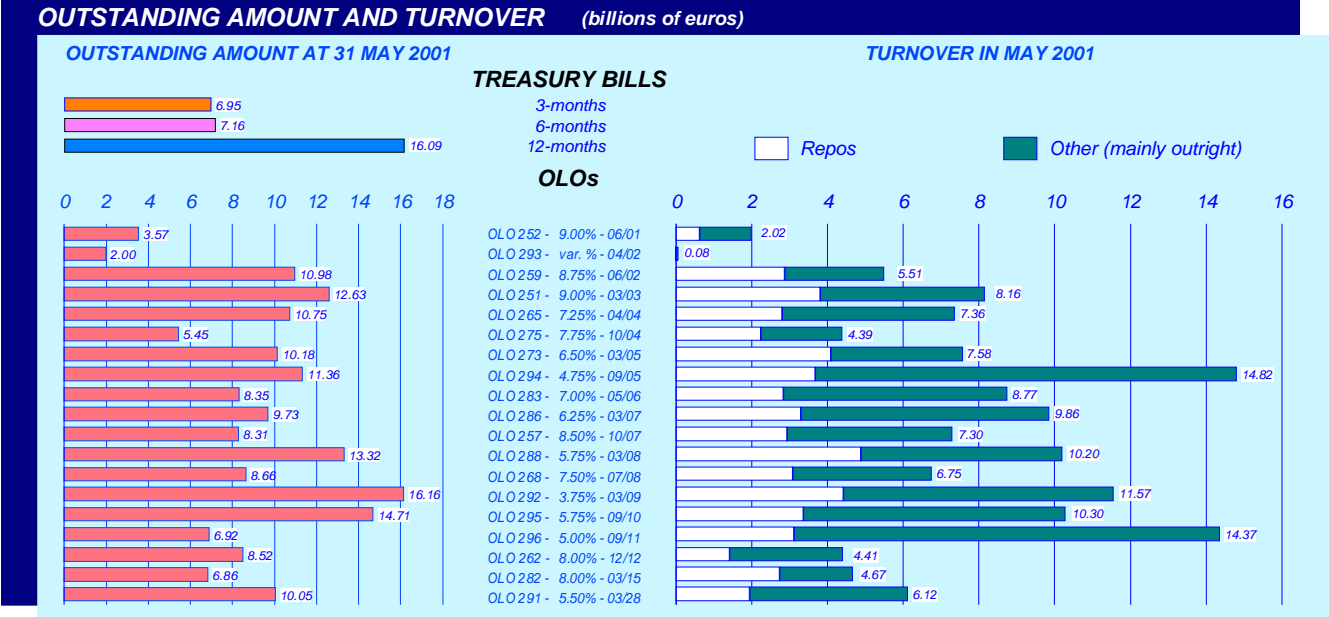
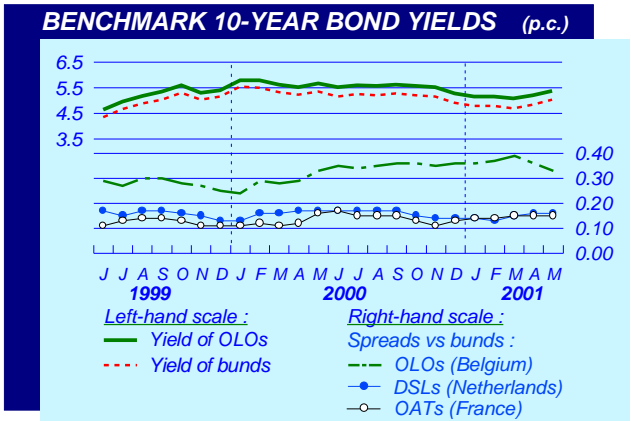
During the past year, the range of operations available and products traded on these electronic platforms has been extended. First, repos on OLOs were launched on EuroMTS Repo Trading Facility on 28 August 2000. The bulk of these transactions are netted through the London Clearing House on an anonymous basis, even though bilateral repos between members of the securities clearing system of the NBB have been made available on 26 October 2000. Since the launch of this repo facility, the average daily volume of repos has remained subdued, between EUR 13 and 175 million, and showed no clear trend in its evolution.

By contrast, the admission of Belgian Treasury Certificates (BTC) on MTS Belgium as from 19 March 2001 has been a great success. All zero coupon BTCs, issued from this date onwards, with maturities ranging from 3 to 12 months, are listed. After a successful start with an average daily turnover of EUR 82 million in March, the trading activity gained momentum with the beginning of market-making obligations on 2 April; in May the average daily turnover amounted to EUR 324 million.

After a successful first year of functioning, MTS Belgium plans to pursue its development by offering other products and facilities and by admitting new participants. Among the prospects for the future is the use of MTS Belgium by the Debt Agency, as it starts buying back the debt. As far as new instruments are concerned, a spread (OLO vis-à-vis German Bund) trading facility is scheduled to be launched by the end of 2001; it could play the important role of a futures market for OLOs as their market is too limited to build a true futures market. Finally trading in strips is also considered.

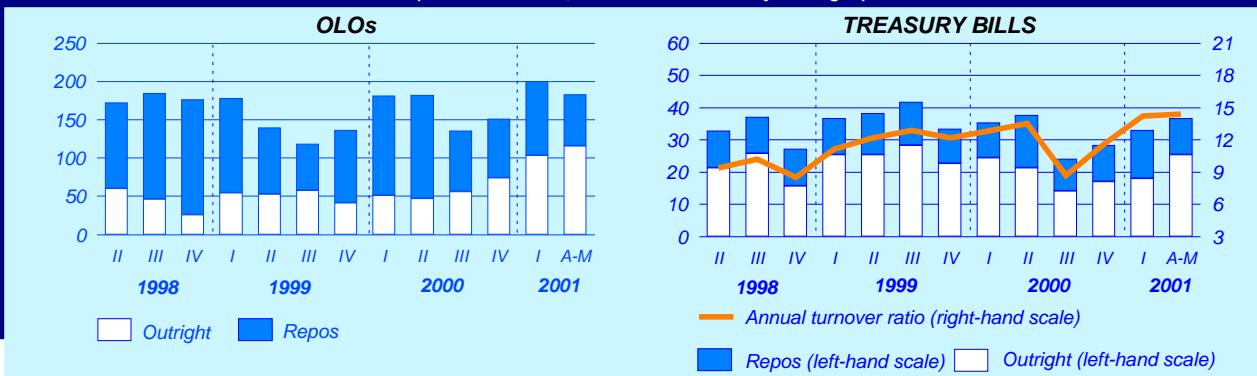
## GOVERNMENT SECURITIES

PRIMARY MARKET (billions of euros)								
OLOs				TREASURY BILLS				
Gross issues		Net issues		Net issues				
2000	2001	2000	2001	2000	2001	2000	2001	
J	4.986	5.345	J	4.506	5.345	J	1.790	-0.187
F	0.199	0.652	F	-0.009	0.023	F	0.831	1.444
M	4.752	3.577	M	3.884	-0.213	M	2.690	2.172
A	1.571	0.890	A	0.583	0.087	A	-1.368	0.182
M	0.031	2.418	M	0.003	0.110	M	-1.171	1.021
J	3.774		J	2.927		J	1.030	
J	1.185		J	0.137		J	-0.811	
A	4.925		A	0.349		A	0.262	
S	3.704		S	3.007		S	-0.558	
O	0.389		O	0.013		O	-1.502	
N	5.535		N	3.230		N	-0.699	
D	0.876		D	-3.558		D	-3.977	



# GOVERNMENT SECURITIES MARKET (continuation)

## SECONDARY MARKET ACTIVITY (billions of euros, standardised monthly averages)



## TREASURY HIGHLIGHTS

### 1. New 5 y benchmark

The Kingdom syndicated 5 billion euros of its new 5-year benchmark bond (4.75 p.c. OLO 37, due 28.09.2006) with a yield spread of 27 basis points vis-à-vis the OBL 137, 17 bp vis-à-vis the BTAN 7/2006. This pricing was attractive for the Kingdom as it came 2 basis points through the interpolated OLO curve.

The allocation of the bonds was the following :

- Belgium 13 %;
- Euro non Belgium 55 %;
- Europe non-Euro 21 %;
- Other 11 %

The deal was more than 2 times oversubscribed at reoffer price. The Kingdom however issued only 5 billion euros in order not to affect the size of the auctions scheduled to take place during the remainder of 2001. The liquidity of the issue is being ensured by its initial size, its listing on electronic platforms such as MTS Belgium and EuroMTS and by subsequent auctions.

The syndication included all primary dealers, while recognised dealers joined forces in the selling group.

### 2. Repo-facility

Until recently, the delivery of paper in case of short positions could only be assured via, at the one hand, bilateral transactions such as repos, bondlending and bondswaps, and, on the other hand, at a penalisation rate via the automatic lending facility set up in the clearing system of the National Bank of Belgium for direct participants. It has been decided that, for OLOs and Treasury Certificates subject to a market making obligation on MTS Belgium, a repo-facility will be offered to primary and recognised dealers acting as market makers on the system, up to a maximum amount of 100 million euros per dealer.

### OLO AUCTION AND EXCHANGE OFFER DATES

Month	Date	Settlement	Auction	Exchange Offers			
July 2001	2	5		Code 276	Phil. XIV	8.00 %	5 December 2001
	30	2-Aug	Auction				
August 2001	6	9		Code 276	Phil. XIV	8.00 %	5 December 2001
September 2001	3	6		Code 276	Phil. XIV	8.00 %	5 December 2001
	24	27	Auction				
October 2001	1	4		Code 276	Phil. XIV	8.00 %	5 December 2001
November 2001	5	8		Code 276	Phil. XIV	8.00 %	5 December 2001
	26	29	Auction				

## LIST OF CONTACT PERSONS

### PARTICIPATING INSTITUTIONS :

Ministry of Finance  
 Artesia BC  
 Bank Brussels Lambert  
 Barclays Capital  
 Dexia Bank  
 Fortis Bank  
 KBC Bank

### TECHNICAL EDITORS :

Mr Stefan Theys  
 Mr Peter Van Dijcke  
 Mr Peter Vanden Houte  
 Mr Jacques Delpla  
 Mr Jacques de Pover  
 Mr Guy Verfaillie  
 Mr Edward Roosens

### TELEPHONE :

32 2 233 72 23  
 32 2 204 40 17  
 32 2 547 80 09  
 33 1 44 58 32 26  
 32 2 222 44 71  
 32 2 565 33 64  
 32 2 429 50 81

### FAX :

32 2 233 71 14  
 32 2 204 41 61  
 32 2 547 80 63  
 33 1 44 58 32 58  
 32 2 222 33 76  
 32 2 565 24 18  
 32 2 218 36 36

### 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.treasury.fgov.be/interdette](http://www.treasury.fgov.be/interdette)

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