BELGIAN PRIME NEWS

January 2002
No. 14

Published by : National Bank of Belgium (NBB)
Participating institutions : NBB, Debt Agency (Ministry of Finance), Bank Brussels Lambert, Barclays Capital, Dexia Bank, Fortis Bank, KBC Bank
Updated to : 24.01.2002
Next issue : April 2002
Sources : NBB, unless otherwise mentioned

Special topic :
Public Debt Management Strategy for 2002: An Outlook

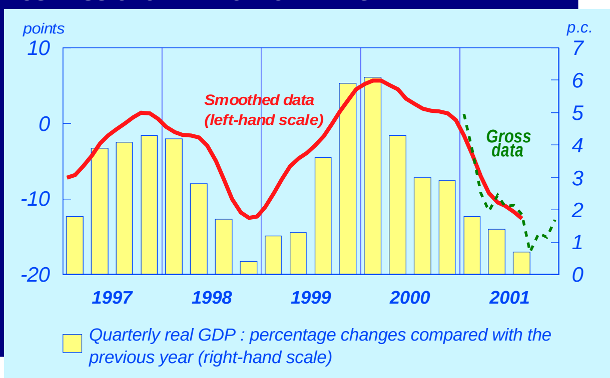
CONSENSUS FORECAST

	2000		2001 p			2002 p		
	Belgium	Euro area [3]	Belgium		Euro area [3]	Belgium		Euro area [3]
			Consensus	Previous consensus		Consensus	Previous consensus	
Real GDP [1]	4.0	3.4	1.2	1.2	1.6	1.0	1.3	1.3
Employment [1]	1.6	1.9	1.0	1.0	1.2	0.1	0.4	0.2
Consumer prices [1]	2.7	2.4	2.5	2.4	2.8	1.5	1.6	1.8
Current account [2]	4.4	-0.1	4.0	4.2	0.4	4.3	4.4	0.4
General government balance [2] *	0.1	-0.8	0.0	-0.1	-1.1	-0.3	-0.3	-1.4
Primary balance [2] *	6.8	3.2	6.5	6.5	2.7	6.0	5.8	2.4
Public debt [2]	109.3	70.2	107.0	106.7	68.8	104.1	102.8	68.4

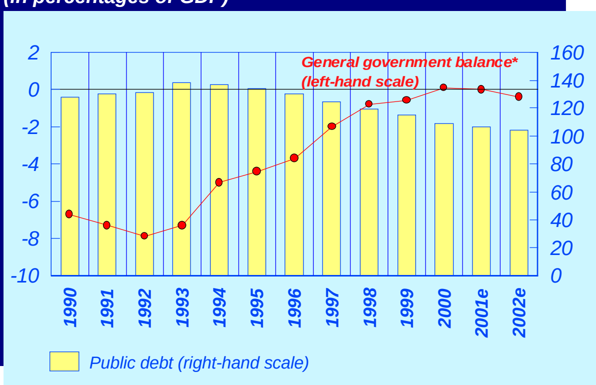
[1] P.c. change. [2] In p.c. of GDP. [3] European Commission (forecast available since November 2001; next publication in Spring 2002).
* Excluding the proceeds of the auction of UMTS licences.

MACROECONOMIC DEVELOPMENTS

BUSINESS CYCLE INDICATOR AND GDP



GENERAL GOVERNMENT BALANCE AND DEBT (in percentages of GDP)



* Excluding the proceeds of the auction of UMTS licences.

The Belgian economy experienced a sharp slowdown in 2001, mainly resulting from the deteriorating international climate. The relatively hard landing of the US economy and the much weaker growth in the euro area pushed down exports, which showed a negative quarter on quarter growth during the first three quarters. Especially the export-sensitive manufacturing industry was hit hardest by this unfavourable development, as could be seen by the steep fall in business confidence throughout the year.

Domestic demand, on the other hand, did not offset the negative trend in foreign demand. Both private consumption and business investment turned out to be very weak in the second and third quarter. Business investment slowed down as demand prospects worsened, overcapacity rose and profitability came under pressure. As the downward trend in unemployment reversed and lay-offs were announced, consumer confidence began to weaken significantly, resulting in lower consumer spending. Due to the overall weak demand, inventories in the manufacturing industry rose to a historically high level during the summer. An inventory correction followed quite rapidly, further decreasing economic growth in the second half of the year but being a favourable basis for the future.

According to our consensus forecast, real GDP grew by 1.2% in 2001 and is expected to grow by 1% in 2002, based on the assumption of a clear rebound in the US and Europe in the course of 2002. Belgium, being an open economy specialised in intermediate goods, should be able to profit more rapidly from an improving international climate than the rest of Europe. In this respect, it is certainly encouraging that the decline of confidence indicators came to a halt, and even reversed in recent months.

Despite the adverse economic evolution in 2001, Belgium has succeeded in maintaining a balanced budget. This is a favourable outcome compared to the euro area as a whole, which is likely to have closed the year with a budget deficit of 1.1% of GDP. Lower interest payments and one-off measures (such as real estate sales) helped to counter the impact of slower economic growth on fiscal revenues and social security expenditure. In its budget for 2002, the government chose to stick to the objective of a balanced budget. Given the slower than expected increase in fiscal revenues over the past months and the growth hypothesis of 1.3%, this might prove to be difficult. Therefore, the government planned a budgetary review in January, in order to safeguard the objective through additional measures.

PUBLIC DEBT MANAGEMENT STRATEGY FOR 2002 : AN OUTLOOK

By issuing the Belgian Prime News, the Ministry of Finance, through its Debt Agency, and the participating financial institutions notably aim to provide the national and international financial community regularly with information on the developments taking place in the Belgian government securities market. From that angle, this issue describes in broad outline the public debt management strategy for the year to come.

The information provided here pertains to the federal public debt, excluding the guaranteed debt, the debudgetised debt or the debt issued by other authorities, such as the communities and regions, or the local authorities. It provides a summary of the survey ported on the site of the Debt Agency (www.treasury.fgov.be/interdette). In the course of the second quarter 2002, the Ministry will also publish the Annual Report 2001 on the Public Debt.

1. BORROWING REQUIREMENTS

Based on the national budget 2002 approved by the Parliament in December 2001, gross financing requirements in 2002 are forecast to amount to EUR 24.39 billion. This amount mainly stems from two components, i.e., the actual 2002 funding needs, on the one hand, and the planned pre-funding of 2003 maturities, on the other hand.

The 2002 funding needs are expected to attain EUR 16.89 billion, which is nearly 70% of the gross financing requirements.

Net additional financing requirements only account for a small part of the funding needs as, according to the budget for the Federal State, the deficit in terms of cash outlay is forecast to amount to EUR 1.55 billion, a reduction by 0.30 billion with respect to the previous year. It should be pointed out, though, that the overall public budget for 2002, in terms of "Maastricht", is forecast to be in balance, as a result of projections including a deficit of 0.3% of GDP for the Federal State, a balanced Social Security budget and a surplus of 0.3% of GDP for the Regions and Communities and the local authorities. Moreover, the federal budget deficit will be reconsidered during the forthcoming budgetary review.

FINANCING REQUIREMENTS AND FUNDING RESOURCES (billions of euros)

	Budget 2002 (f)	Effective 2001 figures
A Gross financing requirements		
Funding needs	**16.89**	**24.57**
Budget deficit	1.55	1.85
Debt maturing during the year	15.03	22.72
Long and medium-term debt in EUR	13.98	20.75
Foreign currency debt	1.05	1.97
-long term (1)	1.05	1.97
-short term (1)	0	0
Credibe	0.31	
Pre-funding planned for the year next		
Buy-backs & exchange offers	7.5	2.37
Total A	**24.39**	**26.94**
B Funding resources		
Medium and long-term issues in EUR	**25.92**	**26.58**
OLOs	24.92	25.97
Syndications	10	10
Auctions	12.63	8.55
Exchange offers	2.29	7.42
State notes	1	1.04
Other	0	-0.43
Issues in foreign currencies	**0**	**0.37**
-long term (1)	0	0
-short term (1)	0	0.37
Total B	**25.92**	**26.95**
C Net change in short-term debt in EUR (A-B)	**-1.53**	**-0.01**

(f) budget 2002, as approved by the Parliament in December 2001.
(1) Net change.

The debt maturing in 2002 amounts to EUR 15.03 billion, that is a reduction by nearly one third with respect to the previous year. This movement will be amply offset by the projected pre-funding of debt maturing in 2003 up to EUR 7.50 billion.

In addition, the financing of Credibe, the new entity created to manage the existing balance sheet of the former OCCH-CBHK (the central mortgage lending office), will require an amount of EUR 0.31 billion.

All in all, the anticipated gross financing requirement for 2002 is EUR 2.55 billion lower than the corresponding figure for 2001 (EUR 26.94 billion).

2. FUNDING STRATEGY

For 2002, the Debt Agency aims to raise EUR 25.92 billion of funding means by medium- and long-term issues in euro (-0.66 billion). The foreign currency debt maturing in 2002 should be reimbursed or refinanced in the short term.

This funding strategy results in funding means in 2002 exceeding the gross financing requirements by EUR 1.53 billion. Thus, the outstanding amount of short-term debt in euro should decrease accordingly.

Regarding the issuance policy, the main features contemplated by the Debt Agency for 2002 include :

(i) the launch of new benchmarks by syndication. In January, EUR 5 billion of the new 10-year benchmark bond (5.00% OLO 38, due 28.09.2012) has been syndicated (see section Treasury Highlights);
(ii) the intention to offer at each auction the 10-year benchmark;
(iii) the application of the bond exchange offer program to the traditional loans PH XII & XIII – 6.5% March 2003;
(iv) the extension of the bond Over-The-Counter (OTC) buy-back program to OLO 6 - 9% March 2003, in addition to OLO 10 – 8.75% June 2002, OLO FRN April 2002 and traditional loan PH XV – 8% March 2002. These OTC buy-back operations could be complemented by reverse auctions.

SPECIAL TOPIC (continuation)

3. DEBT MANAGEMENT POLICY

Pursuing the debt management policy implemented during the previous years, the strategy in 2002 is expected to call for:

- *a stable duration of the debt at around 3.9 years;*
- *the continued reduction of foreign currency denominated debt. The share of the foreign currency debt in the total debt portfolio declined to 2.75% in 2001, and no issuance is planned for 2002;*
- *some amount of Treasury Certificates (TCs) outstanding remaining stable on average.*

MTS Belgium, the screen-based electronic trading system launched in May 2000, has proved its key role in increasing the liquidity of the secondary market in Belgian government securities. Still trying to meet that objective, the Debt Agency contemplates implementing two new projects during 2002, namely:

- *to review the current organisation of the strips market in order to improve its functioning, including the setting up of a repo facility for strips and the possible quotation of strips on MTS Belgium;*
- *to participate in the repo market on MTS Belgium.*

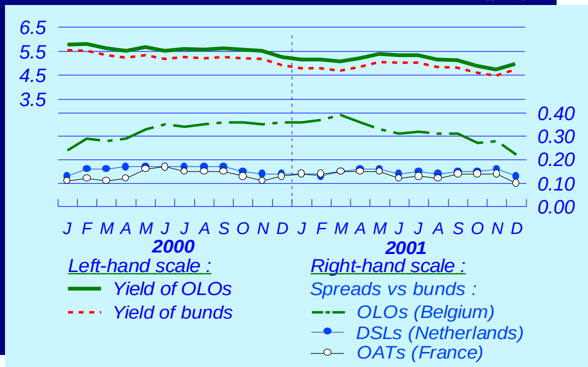
In addition, the possibility to implement the buy-back of bonds on an ad hoc and bilateral basis of bonds offered by a Primary Dealer to the Debt Agency will also be investigated. However, the amount potentially involved is not expected to be significant.

GOVERNMENT SECURITIES MARKET

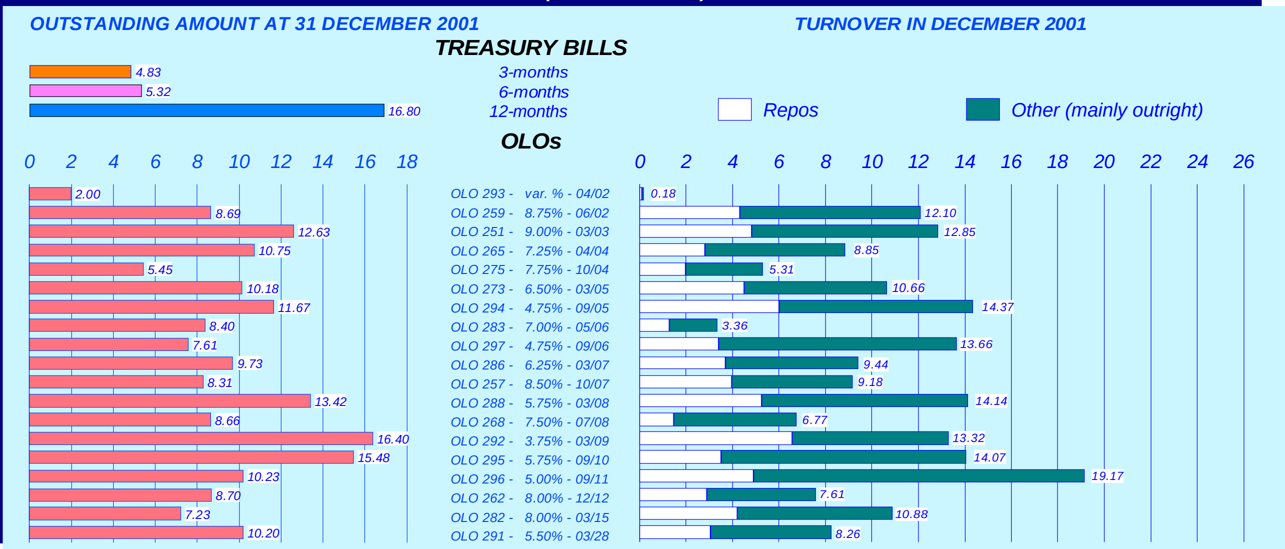
PRIMARY MARKET (billions of euros)

	OLOs Gross issues 2000	OLOs Gross issues 2001	OLOs Net issues 2000	OLOs Net issues 2001	Treasury bills Net issues 2000	Treasury bills Net issues 2001
J	4.986	5.345	4.506	5.345	1.790	-0.187
F	0.199	0.652	-0.009	0.023	0.831	1.444
M	4.752	3.577	3.884	-0.213	2.690	2.172
A	1.571	0.890	0.583	0.087	-1.368	0.182
M	0.031	2.418	0.003	0.110	-1.171	1.021
J	3.774	5.151	2.927	1.579	1.030	-0.851
J	1.185	0.862	0.137	0.742	-0.811	-0.611
A	4.925	3.119	0.349	2.224	0.262	0.635
S	3.704	3.621	3.007	2.914	-0.558	-0.197
O	0.389	0.182	0.013	-0.043	-1.502	-0.719
N	5.535	0.145	3.230	-0.110	-0.699	0.646
D	0.876	0.000	- 3.558	-0.088	-3.977	-2.151

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

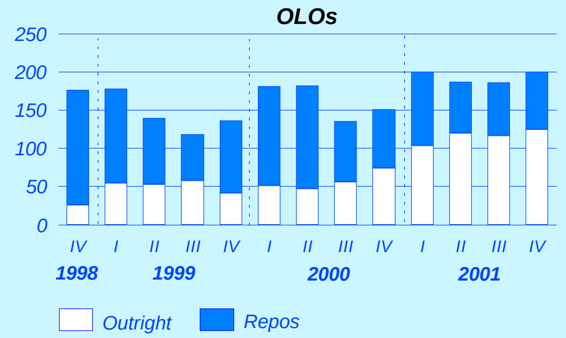


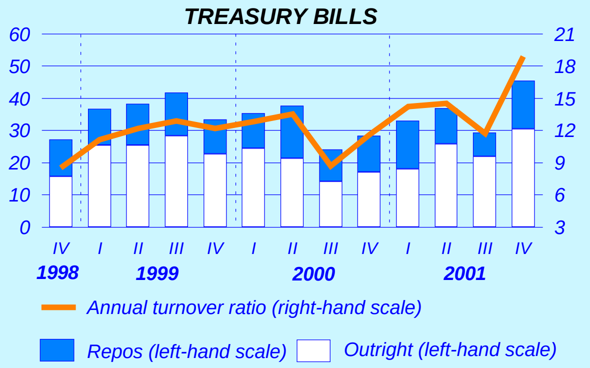
OUTSTANDING AMOUNT AND TURNOVER (billions of euros)



GOVERNMENT SECURITIES MARKET (continuation)

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





TREASURY HIGHLIGHTS

The Kingdom syndicated 5 billion euros of its new 10-year benchmark bond (5.00% OLO 38, due 28.09.2012) with a yield spread of 25 basis points vis-à-vis the Bund maturing January 2012. This pricing was attractive for the Kingdom as it came 1.5 basis point through the interpolated OLO curve.
The allocation of the bonds was the following (estimates) :

- *Belgium 23.3%;*
- *Euro non Belgium 51.3%;*
- *Europe non-Euro 17.6%;*
- *Other 7.8%*

The deal was approximately 2 times oversubscribed. The Kingdom however is committed to keep the auction size at attractive levels for investors.
The liquidity of the issue is being ensured by its initial size, its listing on electronic platforms such as MTS Belgium and Euro-MTS and by subsequent auctions.
The syndication included all primary dealers, while recognized dealers joined forces in the selling group.

OLO AUCTION AND EXCHANGE OFFER DATES

Month	Date	Settlement	Auction	Exchange Offers			
March 2002	25	28	Auction				
April 2002	29	02 May		Code 271	Philippe XII	6.5%	15 March 2003
May 2002	27	30	Auction				
June 2002	24	27		Code 271	Philippe XII	6.5%	15 March 2003
July 2002	29	01 Aug.	Auction				
August 2002	26	29		Code 271	Philippe XII	6.5%	15 March 2003
September 2002	30	03 Oct.	Auction				
October 2002	28	31		Code 271	Philippe XII	6.5%	15 March 2003
November 2002	25	28	Auction				
December 2002	02	05		Code 271	Philippe XII	6.5%	15 March 2003

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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.fgov.be.