

BELGIAN PRIME NEWS

September 2003
No. 21



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 : 24.09.2003
Next issue : December 2003
Sources : NBB, unless otherwise mentioned

Special topic :
Why is recently observed inflation substantially lower in Belgium than in the euro area

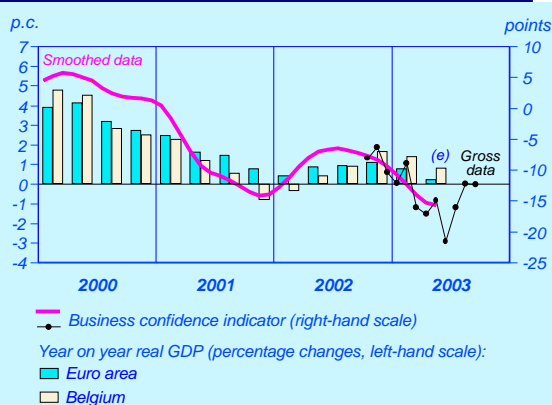
CONSENSUS FORECAST

	2002		2003 p			2004 p		
	Belgium	Euro area	Belgium		Euro area ³	Belgium		Euro area ³
			Consensus	Previous consensus		Consensus	Previous consensus	
Real GDP¹	0.7	0.8	0.8	0.9	1.0	1.7	1.7	2.3
Employment¹	-0.2	0.4	-0.3	-0.3	-0.1	0.4	0.4	0.6
Consumer prices¹	1.6	2.3	1.5	1.3	2.1	1.4	1.2	1.7
Current account²	4.7	0.8	4.5	5.0	1.0	4.5	5.1	1.0
General government balance²	0.0	-2.2	-0.5	-0.3	-2.5	-0.2	-0.1	-2.4
Primary balance²	6.1	1.4	5.3	5.7	1.1	5.2	5.7	1.1
Public debt²	105.8	69.0	102.7	102.7	69.9	99.8	99.5	69.6

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

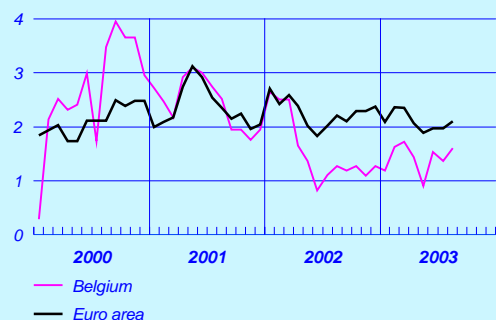
MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED CONSUMER PRICES (annual percentage changes)



Source: EC.

According to the NAI's flash estimate, real GDP in Belgium decreased by 0.1% in the second quarter of 2003. The year-on-year growth rate also decreased, dropping from 1.4% to 0.8%, so that growth continued to slow down during the first half of the year. For the euro area as a whole, real GDP grew by the same quarter-on-quarter rate as in Belgium during the second quarter, i.e. -0.1%, with Germany and Italy recording their second consecutive negative growth rate and France recording -0.3%.

While confidence had been flagging in the first half of 2003, with a particularly sharp fall in June, the latest NBB business survey's results showed the business climate making a strong recovery during the summer. At the current juncture, there is therefore considerable uncertainty, characterised by highly volatile monthly movements. The underlying trend is still oriented downwards, but could soon come to a turning point. Consumer confidence has been hovering around the level to which it reverted in the aftermath of the Iraq war for several months, before recovering markedly in September. Overall, consumer confidence remains nevertheless below the level of last year. In particular, consumers are still pessimistic about the labour market situation.

Given the combination of sluggish economic growth in the first two quarters of 2003 and the recent appearance of some positive signs in business cycle indicators, the participating primary dealers made only moderate reductions in their forecasts for 2003, from 0.9% in June to 0.8% in September. For 2004, prospects were left unchanged at 1.7%.

Regarding the expenditure components, primary dealers expect domestic demand to make a stronger contribution to growth in 2003 compared to last year. In particular, there should be moderate expansion in business investment, following the decline in 2002. However, growth will be tempered by a negative contribution from net exports.

MACROECONOMIC DEVELOPMENTS (continuation)

The HICP inflation rate in Belgium has reverted to its level of the first months of 2003, after dropping to 0.9% last May. In particular, it rose from 1.4% in July to 1.6% in August. This latest increase in headline inflation was caused by higher energy prices resulting from higher oil prices in euro and new indirect taxes, and by higher unprocessed food prices, an outcome of the heatwave in Europe. In the euro area, headline inflation has been fluctuating around 2%, increasing from 1.9% in July to 2.1% in August for the same reasons as in Belgium (the special topic of this BPN deals with a comparative analysis of recent price movements in Belgium and in the euro area). Estimates of future price movements are naturally very dependent on the expected progress of the euro exchange rate and the oil price. Nevertheless, the fact that the economy is still running below its potential continues to temper the inflation outlook.

The primary dealers increased their forecast for the average annual HICP inflation rate in 2003, from 1.3% in June to 1.5% in September. For 2004, they also raised their inflation forecast from 1.2% to 1.4%.

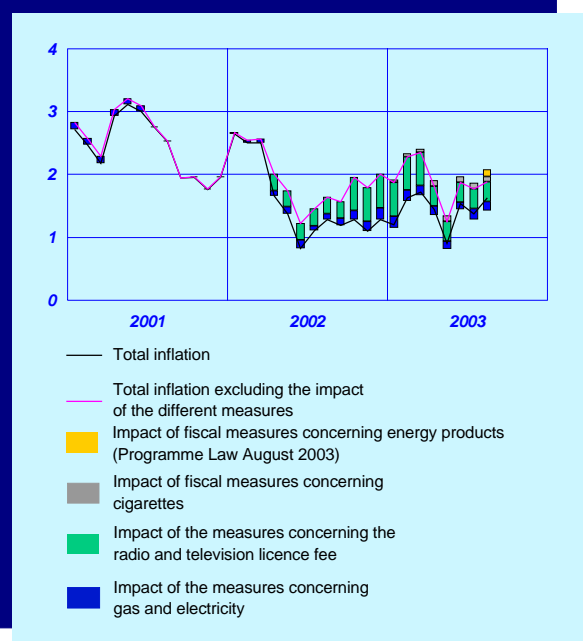
Regarding public finances, the new Liberal-Socialist coalition government laid down the broad policy guidelines for its entire term of office in the July 2003 coalition agreement. While allowing for a small deficit in 2003, the government aims to achieve a balanced budget in the two following years with the creation of a small budgetary surplus of up to 0.3% of GDP by the end of its term in 2007. More details will be available when the government presents its 2004 budget, which is scheduled for October 14th.

The primary dealers slightly revised their forecast for the general government balance in 2003, from -0.3% of GDP in June to -0.5% of GDP in September.

With respect to public debt, the Credibe mortgage portfolio has recently been sold to a Dutch private bank (reducing consolidated gross debt by around 1% of GDP).

SPECIAL TOPIC: Why is recently observed inflation substantially lower in Belgium than in the euro area

IMPACT OF INDIRECT TAXES AND ADMINISTERED PRICES ON BELGIAN INFLATION



Sources: EC, NBB.

TOTAL INFLATION

	Belgium	Euro area
1999	1.1	1.1
2000	2.7	2.1
2001	2.4	2.3
2002	1.6	2.3
2003, first 8 months	1.4	2.1

Source: EC.

The various measures concerning gas and electricity prices, decided by the CCEG (Comité de contrôle de l'électricité et du gaz) in December 2001 are another factor moderating Belgian inflation. This authority, responsible for the non-liberalised part of the market, decided to lower prices of especially electricity, in order to harmonise them with prices in neighbouring countries. The annual impact of these measures amounted to about -0.1 percentage point in 2001, 2002 and 2003.

Belgian inflation, measured by the HICP, has slowed down considerably since its peak of 2.7% in 2000, and now stands at 1.4% for the first eight months of 2003. By comparison, euro area inflation rose from 2.1% in 2000 to 2.3% in 2001 and 2002, and has now reverted to 2.1% for the first eight months of 2003. The significant negative differential between Belgian and euro area inflation in 2002 and in the first eight months of 2003 is largely attributable to temporary factors. Therefore, recent price developments do not indicate any risk of deflation in Belgium.

A first important factor in explaining Belgium's inflation differential in relation to the euro area is its typically higher oil price sensitivity. When oil prices expressed in euro are falling - as was the case for several months during 2002 and 2003 - inflation in Belgium usually remains below the rate for the euro area, while it usually exceeds it when oil prices are climbing, as in 2000. This greater sensitivity is in the first instance due to the higher weights given to fuels and heating oil in the HICP, reflecting households' consumption patterns. The influence of oil prices on inflation is further reinforced by the fact that the Belgian government imposes a relatively lower amount of excise duty on these products. The fixed character of these taxes in fact creates a buffer against large swings in oil prices.

The fact that inflation in Belgium has been considerably lower than euro area inflation since April 2002 can be largely explained by the impact of the abolition of the radio and television licence fee in Flanders and Brussels in 2002, as well as the lowering of this fee in Wallonia in 2003. As half of consumers had to pay this licence fee in April, and the other half in October, its abolition or lowering affects the HICP index for the first half in April and the second half in October of the respective years it is implemented. The impact on inflation of the abolition in Flanders and Brussels was nearly -0.3 percentage point for each half, so that from April 2002 until September 2002 Belgian inflation was moderated by -0.3 percentage point, adding up to -0.5 percentage point from October 2002 until March 2003. From April 2003 the impact decreased again to -0.3 percentage point, reflecting the relatively small downward impact of the first half of the lowering in Wallonia in 2003 and the disappearance of the impact of the first half of the abolition in 2002 from annual percentage changes. Thus, the abolition in Flanders and Brussels had an impact of -0.3 percentage points on average inflation in both 2002 and 2003. Meanwhile, the lowering of the fee in Wallonia will affect inflation in 2003 and 2004 by an annual average of -0.05 percentage point.

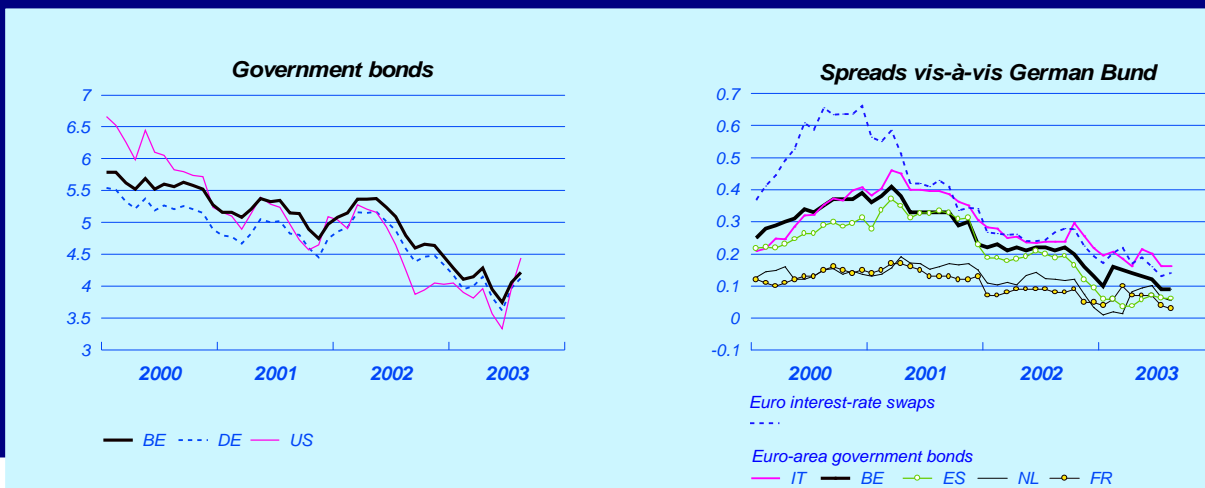
SPECIAL TOPIC (continuation)

On the other hand, an increase in indirect taxes on cigarettes in January and April 2003 had a minor upward impact on Belgian inflation, whereas an increase in indirect taxes on tobacco and energy products in 2002 and 2003 was the main factor causing extra upward pressure on inflation in the euro area. As a result, the gap between Belgian and euro area inflation actually widened.

As far as the near future is concerned, **the negative differential between Belgian and euro area inflation is expected to narrow considerably**. First, the impact of the measures concerning the radio and television licence fee and electricity and gas prices will disappear. Second, the government recently decided to increase excise duties on various energy products, particularly fuels. These tax increases will take effect gradually from August 2003 onwards.

GOVERNMENT SECURITIES MARKET

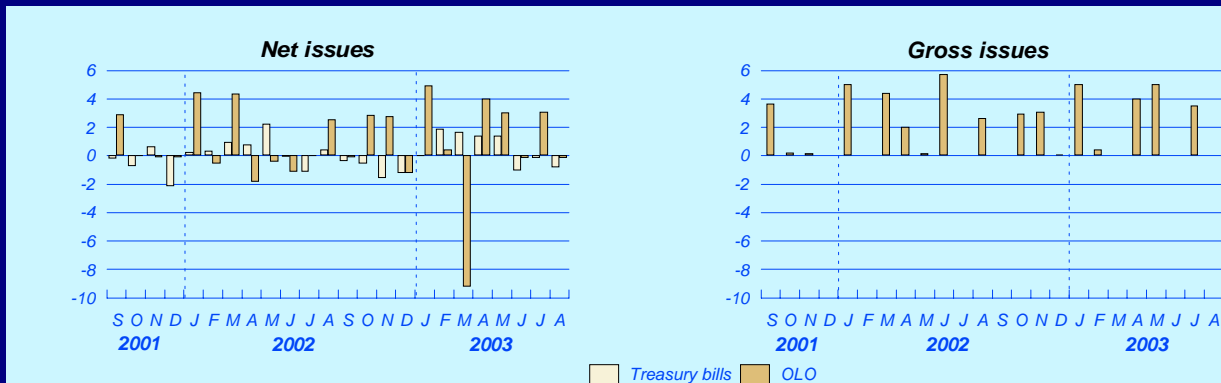
10-YEAR INTEREST RATES (percentage points, monthly averages)



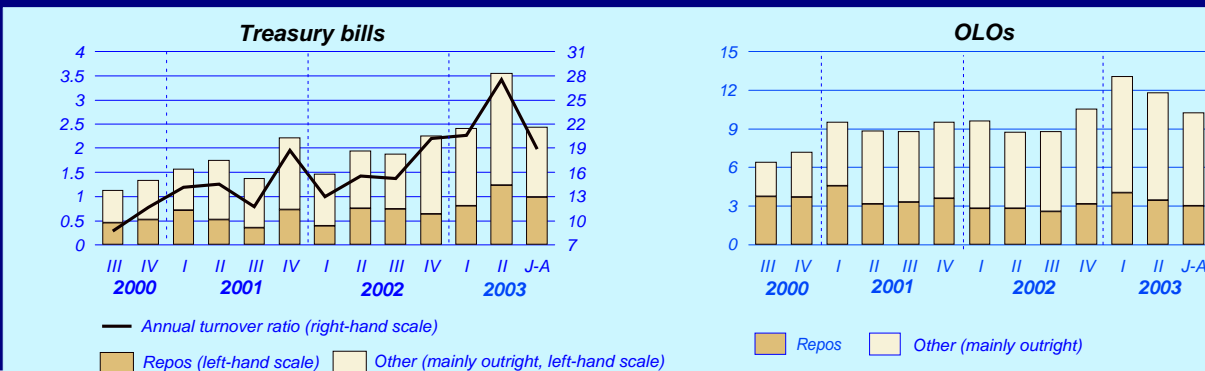
Sources: BIS, Datastream.

After dropping to historically low levels in June, long-term interest rates rose strongly both in the euro area and in the US, although the increase was twice as large on the other side of the Atlantic. Consequently, the positive interest rate differential between the former and the latter first narrowed before becoming negative in July. According to respective movements in indexed and nominal bond yields, this phenomenon resulted from higher expectations for both growth and inflation for the US economy. At the same time, euro area government bond spreads vis-à-vis the German Bund have continued to narrow or have remained at the low levels already reached during spring 2003. Furthermore, the euro interest-rate swap spread vis-à-vis the German Bund pursued its downward trend against the backdrop of Germany's persistently weak fiscal performance.

PRIMARY MARKET (billions of euros)



SECONDARY MARKET (billions of euros unless otherwise mentioned, daily averages)



OUTSTANDING AMOUNT AND TURNOVER

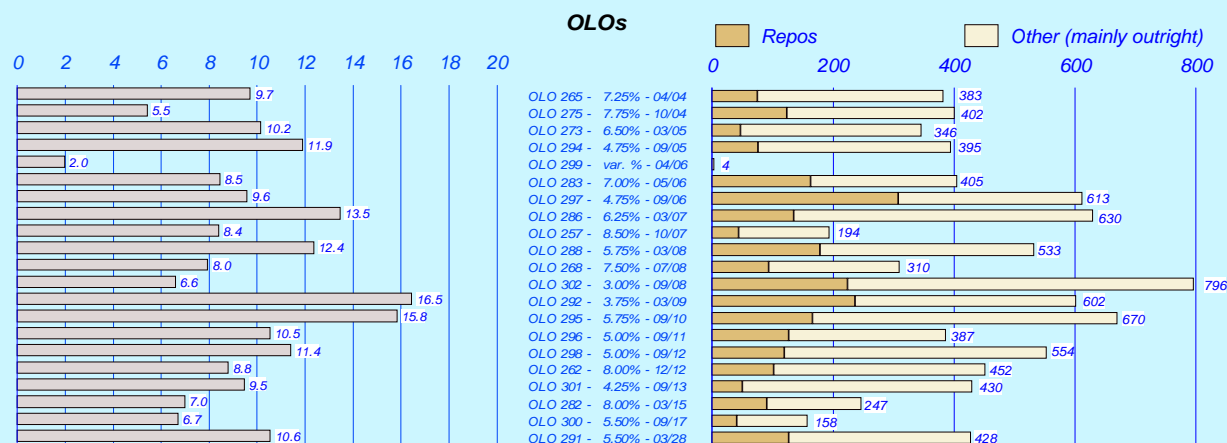
Outstanding amounts at 31 Aug. 2003

(billions of euros)



Turnover in August 2003

(millions of euros, daily averages)



TREASURY HIGHLIGHTS

The Kingdom of Belgium will open a buy back window for the OLO 12, 8% December 24 2012 and for OLO 23, 8% March 28 2015. The buy back will take place on September 29 between 10 AM and 11:30 AM Brussels time, i.e., on the same day as, but prior to, the OLO auction.

The rationale for the buy back is to enable the Kingdom to use some of the proceeds of the sale of the assets of Credibe (€ 2.6 bln) in a manner which has no impact on the 2003 OLO issuance programme (€ 24 bln). The amount bought back will thus not affect the amount of OLOs auctioned on September 29th. The rationale for the timing of the buy back is to facilitate the reinvestment by market participants of the proceeds from the sold OLOs into an on the run benchmark.

No target has been set for the amount of the buy back. However, the Kingdom will ensure that both OLO 12 and OLO 23 maintain their liquidity. The current amounts outstanding of OLO 12 and OLO 23 are € 8.044 bln and € 7.011 bln, respectively.

OLO AUCTION DATES

Month	Date	Settlement
September 2003	29	2 October
November 2003	24	27

LIST OF CONTACT PERSONS

PARTICIPATING INSTITUTIONS :

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

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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.