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Sources: NBB, unless stated

Special topic : Public Finances in Belgium

Last update: On 6 January 2005, the government has announced that the 2004 government account has closed with a balanced budget, thus meeting the target of the stability programme. The debt stands at 95.9% of GDP.

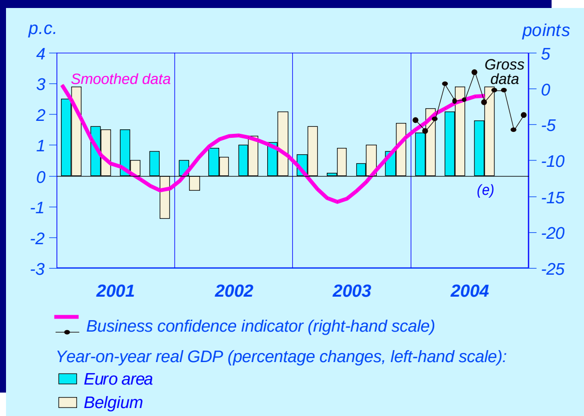
CONSENSUS: Average of participants' forecasts

	2004 p			2005 p			2006 p	
	Belgium Consensus	Belgium Previous consensus	Euro area [3]	Belgium Consensus	Belgium Previous consensus	Euro area [3]	Belgium Consensus	Euro area [3]
Real GDP [1]	2.7	2.5	2.1	2.3	2.5	2.0	2.4	2.2
Employment [1]	0.6	0.4	0.5	0.7	0.8	0.9	0.8	0.9
Consumer prices [1]	2.0	1.9	2.1	1.8	1.8	1.9	1.7	1.7
Current account [2]	3.5	3.7	0.8	3.5	4.0	0.8	3.4	0.8
General government balance [2]	-0.1	-0.1	-2.9	-0.3	-0.4	-2.5	-0.2	-2.5
Primary balance [2]	5.1	5.0	0.5	4.7	4.6	0.8	4.8	0.8
Public debt [2]	96.3	97.5	71.1	95.2	95.8	71.1	92.2	70.9

[1] P.c. change. [2] In p.c. of GDP. [3] European Commission (forecast available since November, 2004).

MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

Relying on sound fundamentals and supportive domestic consumption, the Belgian economy benefited from the foreign demand momentum since mid-2003, despite the persistent high oil price level. However, the external environment impetus may slow down in the near future. In particular, as the sustainability of the global imbalances causes growing concern among market participants, a possible further depreciation of the US currency might be harmful to the European economy if mainly only supported by the euro.

According to the latest national accounts statistics, GDP growth slightly slowed down in the third quarter of 2004, both in the euro area and in Belgium. GDP growth remains more robust in Belgium with a 2.9% year-on-year growth rate in the third quarter compared to 1.8% in the euro area.

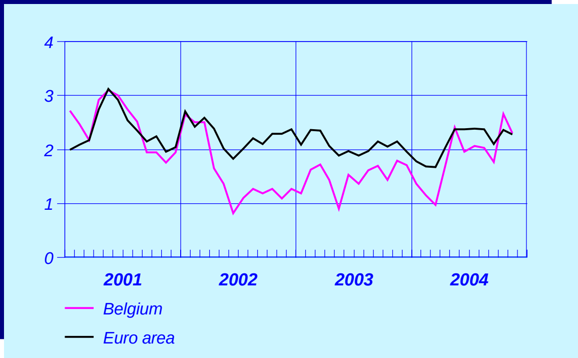
Growth still relies largely on exports, which grew at a considerable stronger pace during the third quarter in Belgium compared to the euro area. Furthermore, domestic demand is still contributing to the higher growth pace of Belgium, mainly through solid private consumption outlays.

Having stabilised at a top during the summer, the NBB business survey indicator fell to a lower level during the past two months of 2004. The improvement of the underlying trend is starting to loose momentum, which may lead to a turning point in the near future.

*Taking into account the better than expected outcome in the first three quarters of 2004, the average forecast of the participating institutions for **GDP growth over 2004 has been revised from 2.5% in September to 2.7% currently**. However, **growth for 2005 has been revised downwards from 2.5% in September to 2.3%** due to the disappointing signals provided by the surveys and the possibility of a less supportive external environment. **In 2006, growth is expected to reach 2.4%.***

MACROECONOMIC DEVELOPMENTS (continued)

HARMONISED CONSUMER PRICES
(annual percentage changes)



Source: EC.

Traditionally, short-term movements in Belgium's inflation show a higher sensitivity to oil prices than the euro area (on this issue, see BPN No 21). In October 2004, HICP inflation temporarily peaked at 2.8%, when oil prices reached record levels on the international markets. In November HICP inflation receded to 2.4%, the same level as in the euro area.

***The recent oil price developments have induced a 0.1% upward revision in the average forecast of the participants for 2004. HICP inflation in Belgium is expected to attain 2.0%, while it should be slightly beneath this level during the coming years, at 1.8% in 2005 and 1.7% in 2006** in line with the Eurosystem's objectives. Although upward risks to this forecast continue to be caused by the still uncertain outlook of oil prices, inflation pressures should be eased by moderate wage increases in view of a modest improvement of the labour market and the tempering effect from the ongoing euro exchange rate appreciation.*

SPECIAL TOPIC: Public Finances in Belgium

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

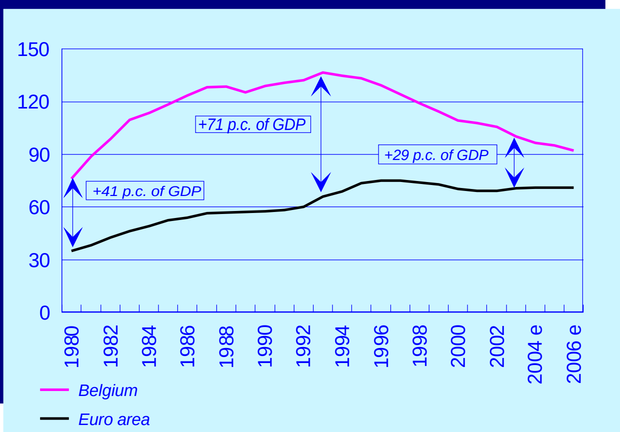
	2001	2002	2003	2004	2005	2006	2007	2008
Stability programme targets								
December 2000	0.2	0.3	0.5	0.6	0.7			
November 2001	0.0	0.0	0.5	0.6	0.7			
November 2002		0.0	0.0	0.3	0.5			
November 2003			0.2	0.0	0.0	0.0	0.3	
December 2004				0.0	0.0	0.0	0.3	0.6
Outcome	0.6	0.1	0.3	-0.1e	-0.3e	-0.2e		
p.m. Public debt*	108.0	105.4	100.0	96.3e	95.2e	92.2e		

Sources: Ministry of Finance, NAI, NBB and Prime News Consensus estimates for 2004 to 2006.

***For the first time since reliable statistics are available, the Belgian government account exhibited a surplus in the year 2000. Despite the protracted slump in activity growth in the 2001-2003 period the reappearance of a deficit was avoided**. As the government wanted to pursue its policy of significantly reducing the tax burden on labour (with the gradual phasing-out of the complementary crisis contribution and the general overhaul of the personal income tax system), it was however deemed neccesary to resort to non-recurring measures in order to counterbalance the unfavourable impact of the business cycle.*

***According to the Consensus estimate, i.e. the average forecast of the participating institutions in December 2004, the balanced-budget target defined for 2004 would have nearly been reached.** Activity growth has clearly picked up, but the favourable impact on the budget is relatively limited as both private consumption and earned income, the two variables that are most revenue-intensive, have been lagging behind GDP, a common feature at the beginning of an upturn. In addition, the budget suffered from a substantial reduction in the favourable impact of non-recurring measures.*

PUBLIC DEBT
(percentages of GDP)



Sources: EC, NBB, Prime News Consensus estimates.

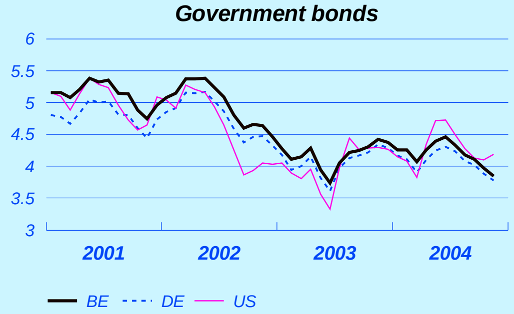
***For 2005 the government aims at balancing the budget, whereas the Consensus estimate points to a 0.3% deficit**. Personal income taxes would be further reduced by the impact on tax settlements of measures taken in previous years, while new cuts would affect social security contributions. Spending growth would be tightly controlled at the federal government level and new measures are taken to compensate for the overrun in health care spending in 2004. The favourable impact of non-recurring measures would drop to 0.3% of GDP; apart from further real estate sales, the budget would also be improved by the securitisation and the sale of tax arrears.*

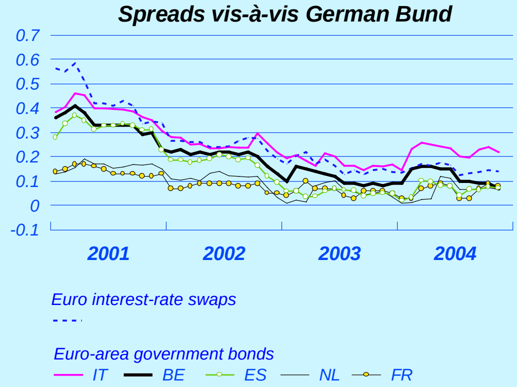
***In the new stability programme, covering the 2005-2008 period, the government confirms the budgetary path defined in the November 2003 vintage. A balanced budget would be maintained in 2006, while 2007 and 2008 would see small surpluses of 0.3% and 0.6% of GDP respectively.** It is explicitly stated in the programme that the surplus will be further increased after 2008 in order to prepare Belgian public finances for the impact of the ageing of the population. The recommendations by the High Finance Council, calling for a surplus of some 1.5% of GDP by 2011, are referred to in this respect.*

***The public debt ratio is decreasing steadily since 1993 and was already marginally below 100% in 2003. This downward trend is expected to continue over the period 2004-2006.** However, debt reduction would temporarily slow down in 2005 due to the restructuring of the national railway company on 1 January 2005 as the new entity managing the assets and historical liabilities of this company will come under the statistical boundaries of the general government sector and this will raise gross consolidated debt by some 2.5% of GDP.*

GOVERNMENT SECURITIES MARKET

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



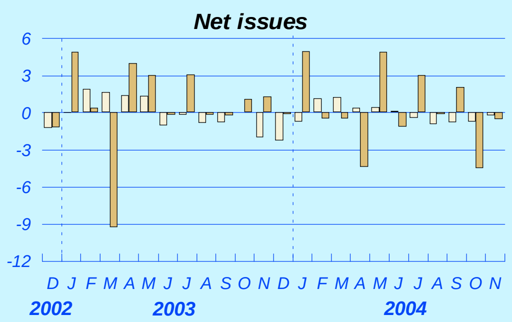


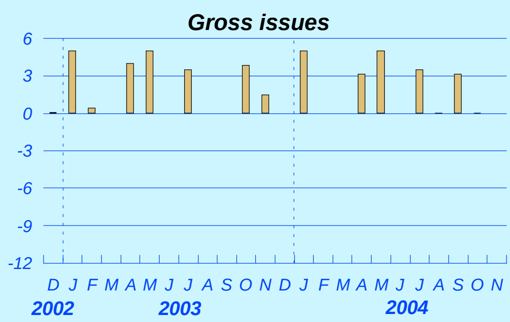
Sources: BIS, Datastream.

Following the peaks reached in June, long-term bond yields in Belgium and Germany continued to decline during the fourth quarter of 2004, approaching in November the record levels registered in mid-2003. According to the respective movements in inflation-indexed and fixed-income bonds, reductions in the euro long-term interest rate resulted primarily from decreasing real interest rates, whereas inflation expectations remained broadly unchanged. On the other hand, interest rates on US 10-year government bonds stabilised in the autumn.

After having registered various movements in September, euro area government bond spreads vis-à-vis the German Bund, as well as the spread for euro area interest rate swaps, remained broadly stable in October. In November, they declined very slightly, following the introduction of a new German benchmark at the end of the month.

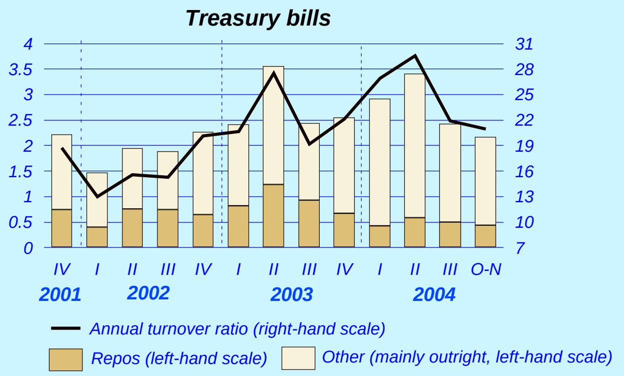
PRIMARY MARKET (billions of euros)

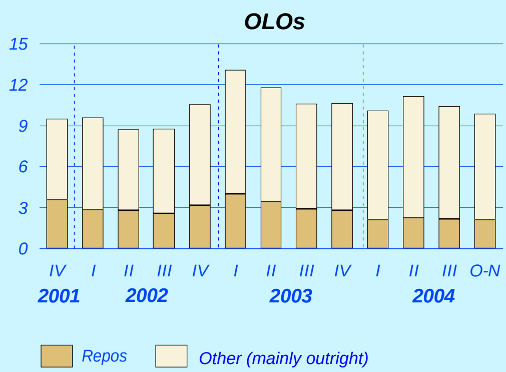




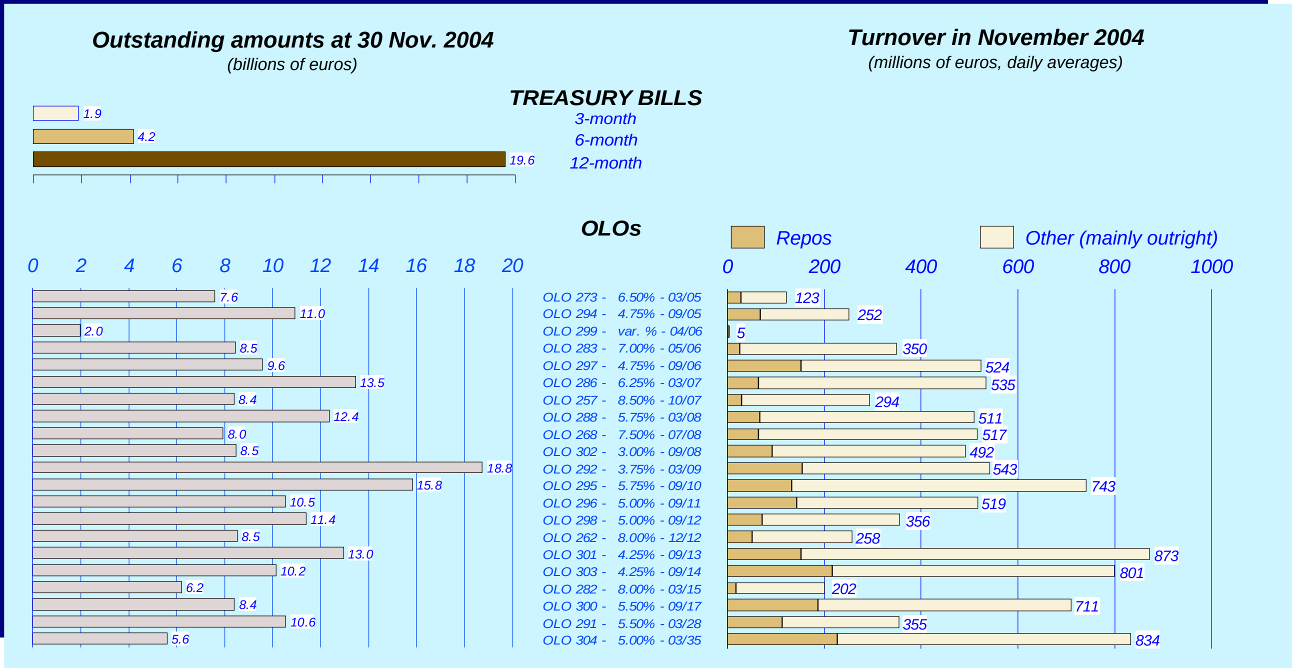
Treasury bills   OLO

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





OUTSTANDING AMOUNTS AND TURNOVER



TREASURY HIGHLIGHTS

*On December 9th, the Belgian Debt Agency informed the financial markets about the **Treasury's 2005 borrowing requirements and funding plan**.*

*Gross borrowing requirements are expected to amount to **EUR 29.53 billion**, including a transfer of EUR 1.13 billion to the Silver Fund and EUR 2.06 billion of financing for the Fund for Railway Infrastructure, the new entity that is taking over the National Railway Company's historical debt.*

***OLOs** will represent the main funding instrument, with a planned issuance amounting to **EUR 23.77 billion**. In addition to the issuance of Treasury Bonds – Silver Fund (EUR 1.13 billion), the stock of **Treasury Certificates** would **increase** by **EUR 1.13 billion.** Finally, the increase in other short-term debt and/or decrease in financial assets would result in another EUR 2.50 billion of funding.*

The details of the 2005 funding plan are available on the Belgian Debt Agency's website www.debtagency.be.

The following auction dates are foreseen for 2005. The Treasury may however modify this calendar at any time.

OLO AUCTIONS AND SYNDICATIONS

Month	Date	Settlement
January 2005 (Syndication 5-y)	31	3 February
March 2005 (Auction)	21	24
May 2005 (Auction)	30	2 June

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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.debtagency.be.
General information on the Belgian government's action can be found on the site www.belgium.be.