

Belgian Prime News

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- The economic recovery, which started in the third quarter of last year, is expected to continue at a moderate pace. In Belgium, real GDP growth should reach 1.5% in 2010 and 1.9% in 2011.
- In line with the still negative outlook for employment and wages, inflation is expected to remain well under control at 1.5% in 2010 and 1.7% in 2011.
- Thanks to the relatively low indebtedness of the private sector, the Belgian economy proved to be more resilient than the euro area in 2009 and this is also expected to be the case in 2010 and 2011. Nevertheless, the crisis has negatively affected our structural starting position, which will make it even more difficult to face the real long-term challenges of globalisation, ageing and climate change.

Consensus : Average of participants' forecasts

	2009		2010 p		2011 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP ⁽¹⁾	-3.0	-4.1	1.5 (1.5)	1.2 (1.4)	1.9	1.6
Inflation (HICP) ⁽¹⁾	0.0	0.3	1.5 (1.3)	1.3 (1.2)	1.7	1.4
General government balance ⁽²⁾	-6.0	-6.4	-5.4 (-5.4)	n.	-4.7	n.
Primary balance ⁽²⁾	-2.3	-3.4	-1.2 (-1.5)	n.	-0.3	n.
Public debt ⁽²⁾	97.8	78.2	100.8 (100.3)	n.	102.5	n.

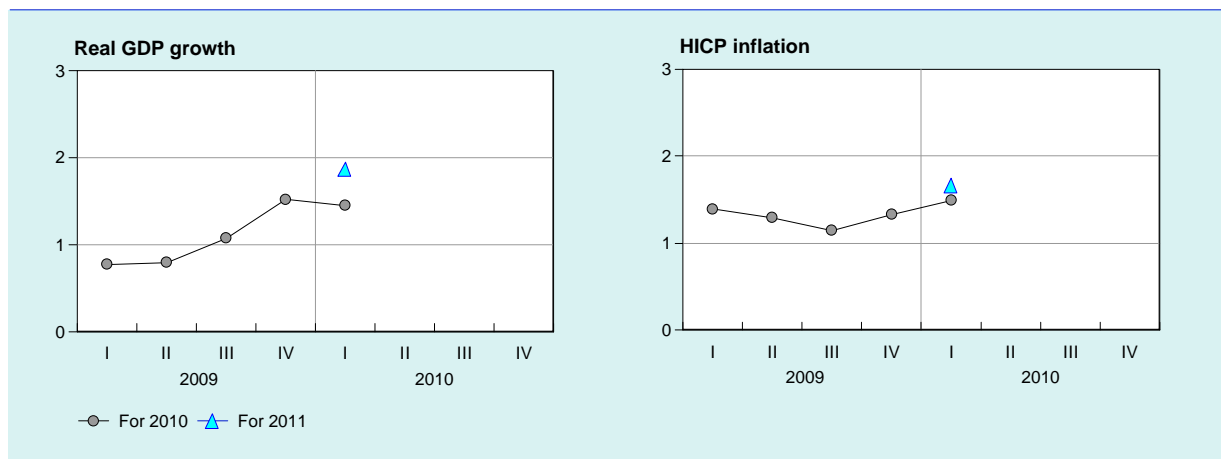
Numbers in parentheses refer to the previous consensus forecast of January 2010.

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

n. Not available.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

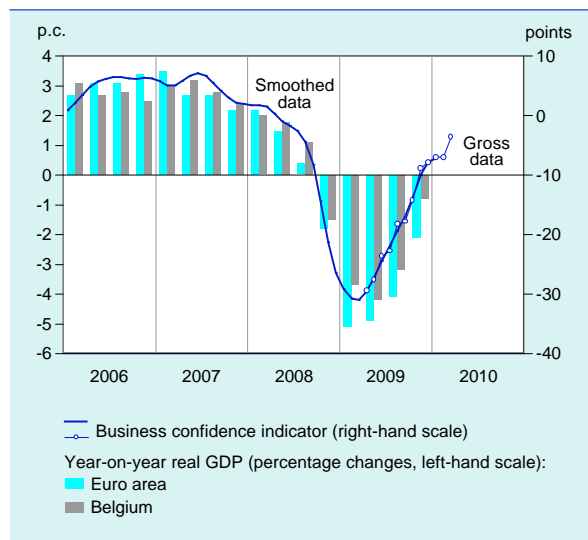
Macroeconomic developments

Recent data for the second half of 2009 confirm that the most severe recession in Belgium of the last sixty years has come to an end. While real GDP increased by 0.7% in the third quarter, the increase was more moderate during the last quarter, at 0.3%. The recovery has up to now been mainly driven by an improvement in the external environment and by the rebuilding of inventories. Private consumption and investment have remained weak, however. As regards the short-term outlook, both business and consumer confidence seem to have levelled off during the winter, which partly explains the downward revision of the outlook for domestic demand in 2010. At the same time, the outlook for the contribution of net exports has generally been revised upwards. In total, the forecast for GDP growth in 2010 was revised downwards only marginally and still points to a moderate recovery. **The primary and recognised dealers expect Belgian real GDP growth to increase from -3% in 2009 to 1.5% in 2010 and 1.9% in 2011.** The euro area economy should also recover from the 4.1% fall in real GDP in 2009, but the average projection for 2010 has been revised downwards by 0.3 percentage point and now stands at 1.2%. For 2011, euro area growth is expected to accelerate to 1.6%, implying that the euro area would be outperformed by Belgium for the fourth consecutive year. This relative resilience is discussed in the special topic. At the same time, it should be borne in mind that the uncertainty surrounding the current growth forecasts is still quite large.

Whereas activity fell by 4.2% year-on-year at the height of the recession, in the second quarter of 2009, the decline in total employment has up to now been confined to 1.4% in the last quarter of 2009. This resilience of employment to a large extent reflects the extensive use of methods such as part-time work and temporary lay-offs. The total number of hours worked has declined more sharply than total employment, resulting in a significant fall in the number of hours worked per person. On the one hand, it cannot be ruled out that firms are now more reluctant to lay off staff than during previous recessions, in the face of the ageing problem and the resulting expected decline in the working age population. This would suggest that the further adjustment of employment could remain more limited than what could be expected on the basis of past experience. On the other hand, as the recovery is expected to remain moderate, it is unlikely that firms will be able to extend the process of labour hoarding indefinitely. Therefore, **the primary and recognised dealers expect employment to continue to adjust by on average -0.8% in 2010 and only recover by 0.4% in 2011.** In contrast to the steep fall in activity, the unemployment rate has increased only gradually from a low of 6.6% in May 2008 to about 8% over the six months up to January 2010. This was in part due to the resilience of employment, but also the less dynamic expansion of the labour force contributed to curb the rise in unemployment. For 2010 and 2011, however, the unemployment rate is expected to rise further to 8.6 and 8.7% respectively.

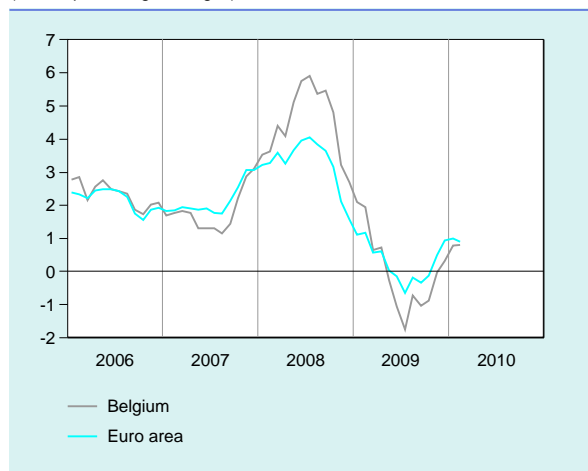
Annual HICP inflation in Belgium has returned to positive territory since December last year, standing at 0.8% in both January and February 2010. At the same time, the underlying trend in inflation continued to decline from its peak of 3.1% in October 2008, and reached 1.1% in February. **On average, the primary and recognised dealers forecast Belgian headline inflation to be 1.5% in 2010 and 1.7% in 2011.** The slight upward revision compared to three months ago mainly reflects their expectations for a weaker euro and higher oil prices. As the participants have not become more optimistic about the growth outlook, inflation is still expected to be contained by the weak outlook for employment and wages, suggesting that inflationary pressures remain low. For the euro area, the inflation rates are expected to be about 0.2 percentage point lower than in Belgium, namely 1.3% in 2010 and 1.4% in 2011. The somewhat higher inflation forecasts for Belgium mainly reflect the fact that Belgian inflation is more sensitive to changes in energy prices.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

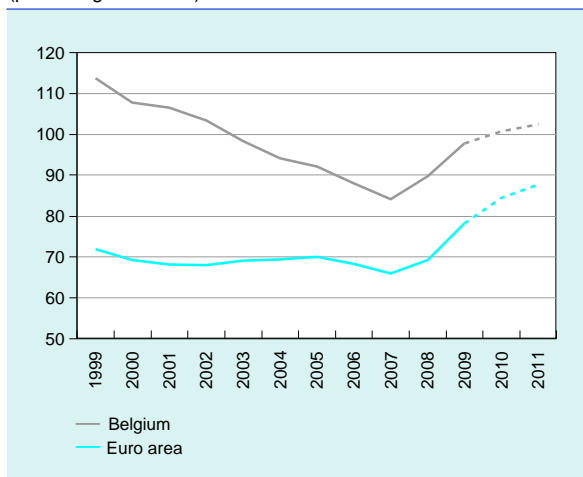
HARMONISED INDEX OF CONSUMER PRICES (annual percentage changes)



Source: EC.

Finally, as regards public finances, **the primary and recognised dealers on average expect the deficit of the Belgian general government to ease from 6% of GDP in 2009 to 5.4% in 2010, as they also did three months ago. For 2011, a further improvement of the deficit to 4.7% of GDP is projected.** At the same time, these forecasts suggest that further policy initiatives are needed in order to reach the targets that are included in the government's stability programme for the period 2009-2012 that was submitted at the end of January. In line with these large deficits, **the government debt ratio is projected to increase from 97.8% of GDP in 2009, to 100.8% in 2010 and 102.5% in 2011.** Although the economic recovery is still quite modest, it is important to return to fiscal consolidation as soon as possible so as not to hamper the longer-term growth outlook. For the euro area, the primary and recognised dealers expect an even larger deterioration of public finances. The general government deficit is expected to widen further from 6.4% of GDP in 2009 to 6.8% in 2010, and only decline in 2011 to 5.8% of GDP. Although the euro area government debt ratio is currently 19.6 percentage points of GDP lower than the Belgian debt ratio, this difference is expected to shrink to 14.8 percentage points of GDP by 2011. While these negative developments in public finances should be seen against the backdrop of the unprecedented fall in economic activity, the additional measures that are needed to restore the sustainability of public finances are quite significant and could curb the expected path of the recovery.

CONSOLIDATED GROSS DEBT OF GENERAL GOVERNMENT
(percentages of GDP)



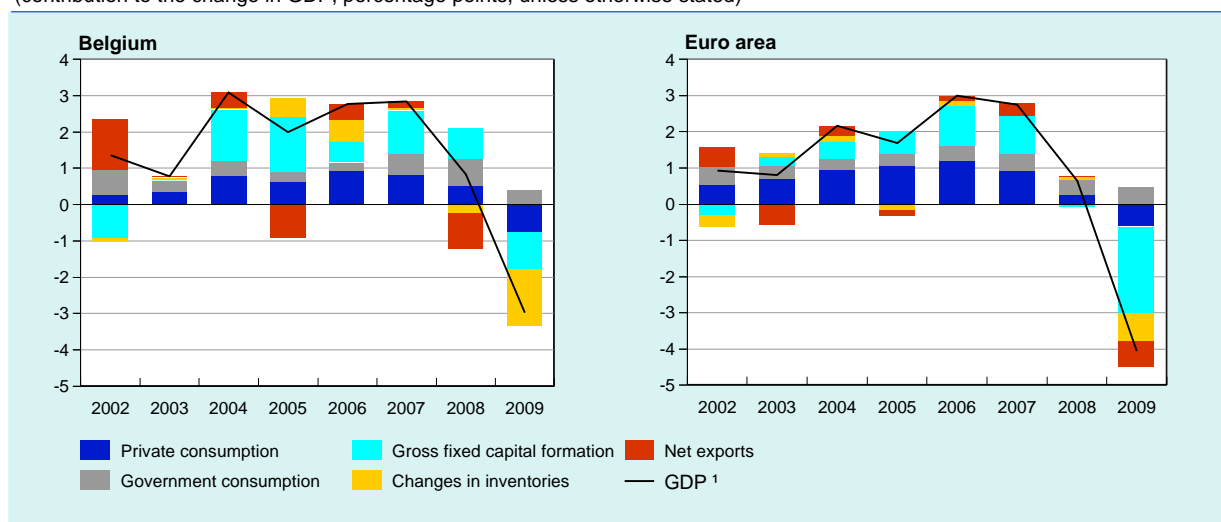
Sources: EC, NBB, Belgian Prime News.

Special topic: The Belgian economy's resilience fails to prevent a deterioration in the structural position in the face of real long-term challenges

As a consequence of the financial crisis and the collapse in international trade and industrial production, real GDP contracted sharply in the last quarter of 2008 and the first quarter of 2009. Although a modest recovery emerged in the second half of 2009, the growth figures for the year as a whole are clearly negative, with global economic activity down by almost 1%. In the advanced economies, the downturn was much sharper: 2.4% in the United States, 4.1% in the euro area, 5% in the United Kingdom and 5.2% in Japan. In Belgium, real GDP declined by 3%. Although this was the most severe contraction since the Second World War, the Belgian economy thus proved more resilient than that of the euro area as a whole. In addition, the consensus forecast of the primary and recognised dealers suggests that this would also be the case in 2010 and 2011, as they expect economic activity to expand more strongly in Belgium than in the euro area.

GDP AND MAIN EXPENDITURE CATEGORIES

(contribution to the change in GDP, percentage points, unless otherwise stated)



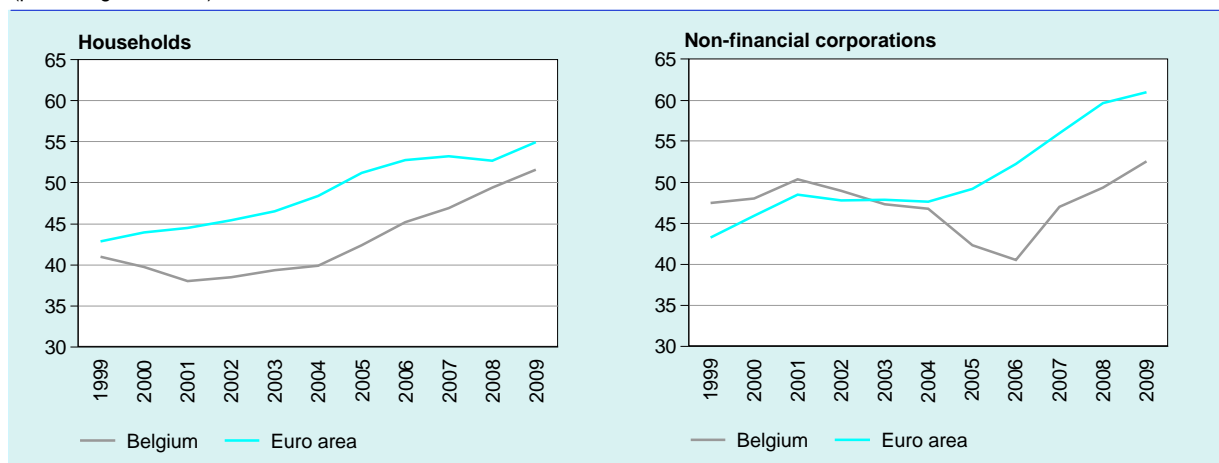
Sources: ECB, NBB.

¹ Annual percentage changes.

An analysis of the main expenditure categories shows that the decline in gross fixed capital formation especially was less pronounced in Belgium than in the euro area, which could be related to the sounder financial position of both households and non-financial corporations. In 2007, before the outbreak of the crisis, financial debts of Belgian households represented 46.9% of GDP, whereas in the euro area this debt ratio stood at 53.2%. The associated lower debt service burden of Belgian households could be one of the reasons behind the less pronounced downward adjustment of their housing investment. In addition, residential property prices declined only moderately in Belgium, unlike in some other euro area countries where house prices fell sharply. In general, the volatility of housing market developments in Belgium is limited, as the banking sector's lending practices are rather conservative. This has contributed to avoid the kind of boom-bust scenario that occurred in Ireland and Spain. Finally, housing investment in Belgium should also have been stimulated by the support measures for the construction industry that were introduced by the government under the recovery plan.

Like households, Belgian firms were also in a sounder financial position at the start of the crisis. In fact, they have used the very strong increases in their gross operating surplus during the period 2004 to 2007 to reduce their debt ratio. The introduction of the notional interest mechanism also encouraged Belgian firms to build up their equity from 2005. The sum of the total outstanding debts of Belgian non-financial corporations with credit institutions in the euro area and of their liabilities in the form of fixed-income securities dropped from 46.8% of GDP in 2004 to 40.6% in 2006, whereas for euro area non-financial corporations that ratio increased from 47.6% of GDP to 52.3% over the same period. Since then, both debt ratios have increased, but Belgian firms are still less indebted than their euro area counterparts, which could explain why the cuts in their investment were less sharp.

DEBT RATIO
(percentages of GDP)



Sources: EC, ECB, NBB.

While the Belgian economy has shown some resilience to the global financial and economic crisis in 2009, the 3% fall in economic activity has been the deepest in the past sixty years. Moreover, the impact of the recession on the structural position of the economy should not be overlooked, as public finances deteriorated significantly and the current crisis may have caused a reduction in the economy's productive capacity. Although the worst of the recession seems to have passed and a negative spiral has been averted, policy-makers should thus not become complacent, as the economic and financial crisis has significantly deteriorated our starting position in view of the real long-term challenges of globalisation, population ageing and climate change.

First, as regards public finances, the increase in unemployment-related expenditure, the decline in fiscal and parafiscal revenues and the costs of the recovery plans all contributed to the rise in the general government deficit, which jumped from 1.2% of GDP in 2008 to 6% in 2009. Although the capital injections that were needed to rescue the financial sector do not have an impact on the deficit, they do tend to push up the government debt. Whereas the consolidated gross debt ratio of general government had been on a clear downward trend from 133.5% of GDP in 1993 to 84.2% in 2007, it has since then increased to an estimated 97.8% of GDP in 2009. This rise in the public debt ratio has not only revived the "snowball effect" - an endogenous increase in the debt fuelled by interest charges - in 2009, but it also risks weighing on future economic growth via at least two channels. Doubts about the sustainability of public finances could undermine the confidence of investors and in that way drive up interest rates, which in turn would hamper both public and private investment. Such fears could also affect the confidence of households, who would expect to have to pay higher taxes or receive lower social benefits in the future, which would induce them to start saving more and consuming less. Finally, the sustainability of public finances is further endangered by the rapidly rising budgetary costs of population ageing, which makes the need for a credible fiscal consolidation strategy all the more pressing.

It is thus of utmost importance for the sustainability of Belgian public finances that corrective measures are taken once the economic climate is ripe. At the same time, it will be difficult to strike the right balance between starting the fiscal consolidation process and not hampering the economic recovery. In addition, there should be an intergovernmental burden-sharing agreement, so that all levels of government share the responsibility for a return to sustainable public finances. In the current setting, it is the federal government that bears most of the burden, in terms of higher interest payments and higher ageing costs for pensions and health care.

Second, as regards potential output growth, the current crisis - owing to its scale and duration - may have caused a reduction in the productive capacity of the economy, which would imply that the recession will have a longer-lasting impact on economic activity. Any estimate of potential output growth is surrounded by great uncertainty, especially in real time, and should thus be used with due caution. It now seems that previous estimates of potential output growth during the recent economic boom were probably over-optimistic. In addition, the current crisis is likely to have an important negative effect on potential output growth for some years to come. As the example of past financial crises suggests, the level of potential output lost as a result of this crisis will not be completely made up for, although that does not necessarily apply to the potential growth rate itself.

In order to try and assess the impact of the crisis on the potential growth rate of the Belgian economy, it is essential to understand the mechanisms which influence the latter. In theory, the current crisis could have reduced potential output growth via three channels. First, the low capacity utilisation rate - particularly in the manufacturing industry - and the rise in the cost of capital are expected to be a drag on investment and thus slow down the capital stock accumulation rate. Second, the crisis may also reduce the labour force, either due to the fact that part of the cyclical rise in unemployment may become structural (the so-called hysteresis effect), or because potential newcomers, such as young people and immigrants, may be discouraged from entering the labour market. This effect comes on top of the impact of population ageing which reduces the population of working age. Third, the crisis may affect total factor productivity, which corresponds to the efficiency with which the production factors capital and labour are used, but the direction that influence may take is uncertain. Recent estimates by various national and international institutions of the potential growth rate for Belgium for the period from 2010 to 2013 lie in the range between 0.7 and 1.5%, compared to an average of 1.8% in the years before the crisis.

In order to counter these negative effects and foster the growth potential of the Belgian economy, the governments will have to take ambitious policy initiatives. To increase the labour force participation rate, an active employment policy is needed, especially in relation to vulnerable groups. In addition, efforts should be put into developing new activities to allow for a shift in resources from more traditional activities towards the branches of the future. The transition to a more innovative economy also entails boosting investment in education and in R&D, with a view to raising productivity and launching new products and services.

In sum, the generally appropriate reaction of both monetary and fiscal policy to the most serious financial and economic crisis since the Second World War has avoided the worst-case scenario of a global depression. In addition, the Belgian economy has shown some resilience compared to the euro area, in the absence of any major imbalances which require substantial corrections in the aftermath of the economic downturn. However, policy-makers still have to take forceful action as the crisis has significantly weakened our structural position, by placing a burden on public finances and by curbing potential output growth for a number of years. This is all the more serious as it comes at the time that real long-term challenges of globalisation, population ageing and climate change have to be faced. In that respect, there is an urgent need for a long-term strategy based on fiscal consolidation and policies on innovation, employment and competitiveness.

Treasury highlights

1. Of the planned total issuance amount of €32.75 billion in OLOs for 2010, the Treasury has already issued €13.445 billion through both syndications and auctions.

In January, it issued its new 10-year benchmark OLO 58 maturing on 28 September 2020 and offering a coupon of 3.25% for €5 billion at 30 bps over mid-swap. The total order book stood at €8 billion. The bond was mainly placed with accounts in France, the United Kingdom, Germany and Belgium, and predominantly with funds, insurance and pension funds, and banks.

In the auction of 22 February, the Treasury accepted bids for a total amount of €3.495 billion (out of €7.635 billion offered), and also accepted non-competitive bids for an amount of €950 million, bringing the overall issued amount of the auction to €4.445 billion.

In March, the Treasury issued a new long 5-year benchmark OLO 59 through syndication, maturing on 28 March 2016 and offering a coupon of 2.75% yielding mid-swap + 8 bps for an amount of €4 billion. The total order book stood at €5.1 billion. The 2016 maturity better fits the Kingdom's redemption profile.

2. Moreover, the Treasury issued a public USD benchmark bond, maturing on 5 March 2015 paying a coupon of 2.75% and priced at a spread of 22 bps over mid-swap under its EMTN programme for an amount of \$1 billion, reaching a level of 8 bps below the OLO curve. The final order book was in excess of \$1.2 billion. The bond was mainly placed with Asian and North American investors and was particularly welcomed by central banks, taking more than 50%. The deal was recently increased by \$500 million at the same spread.

The OLO auction dates for the remainder of 2010 are the following:

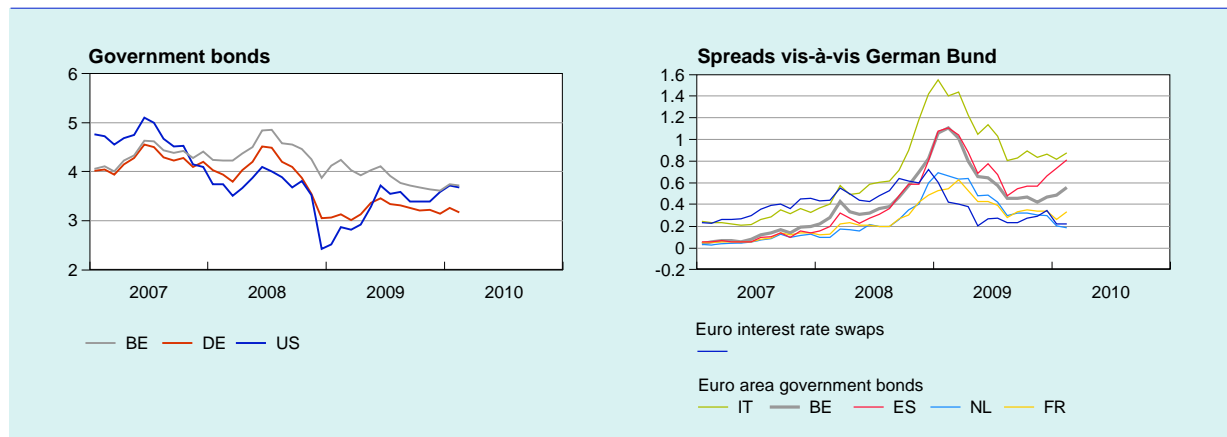
Issuance date	Settlement date	Issuance date	Settlement date	Issuance date	Settlement date
26 April	29 April	26 July	29 July	25 October	28 October
7 June	10 June	23 August	26 August	29 November	2 December
28 June	1 July	27 September	30 September		

Please note that this schedule may be modified and that a new syndicated issue may replace an auction.

Government securities market

10-YEAR INTEREST RATES

(percentage points, monthly averages)



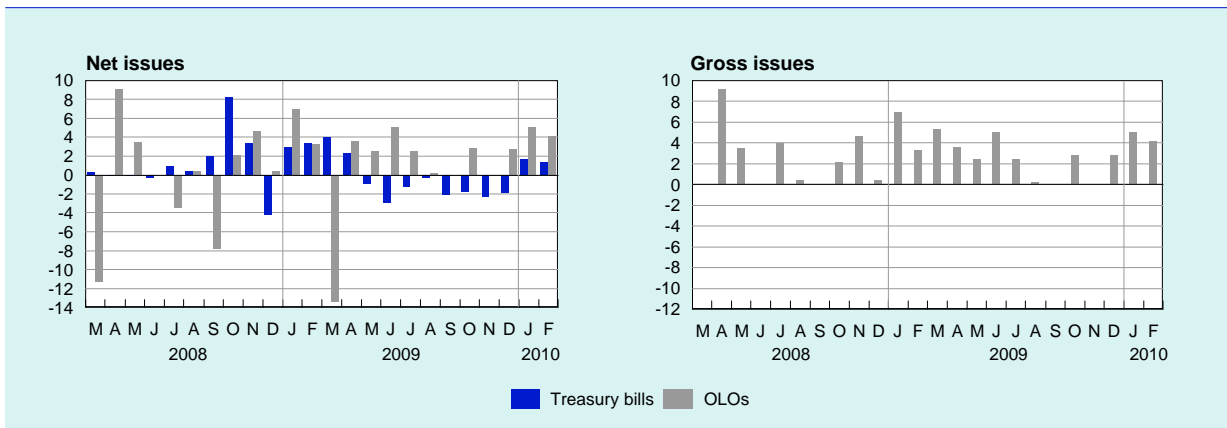
Sources: BIS, Datastream.

Since the end of 2009, long-term interest rates have followed a divergent pattern. In the United States, bond yields increased, mainly on account of positive macroeconomic news; long-term euro area government bond yields have fluctuated within a significantly tighter range as market expectations for economic growth in the euro area remained broadly stable.

However, growing market concerns about the sustainability of fiscal positions in some euro area countries and related market pressures have induced a widening of the spreads between some government bonds and the German Bund.

PRIMARY MARKET

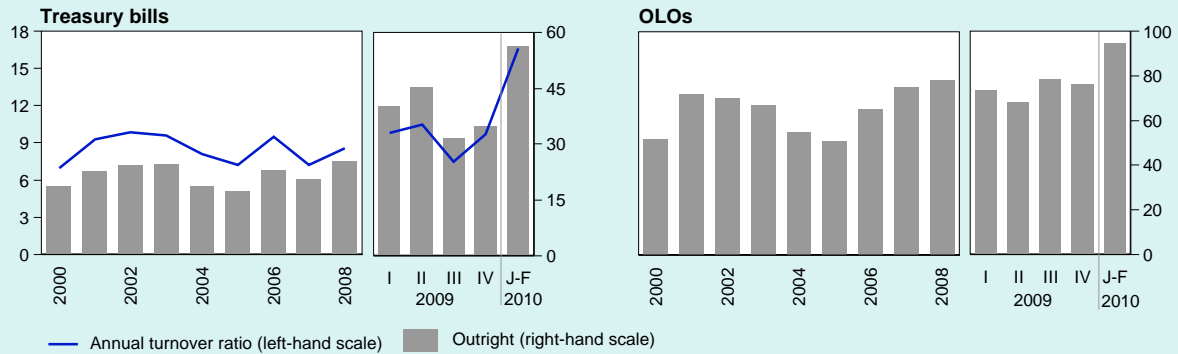
(billions of euros)



SECONDARY MARKET TURNOVER

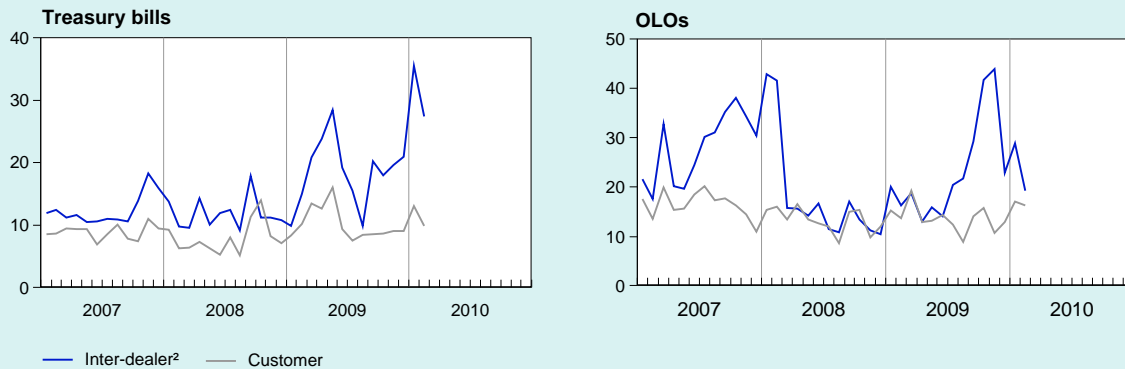
As compiled by the Securities Regulation Fund¹

(billions of euros unless otherwise stated, monthly averages)



As reported to the Treasury by primary dealers and recognised dealers

(billions of euros)



¹ As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include sell/buy-back transactions which are in fact repurchase agreements.

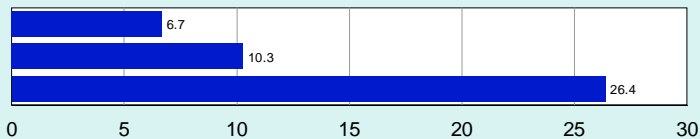
² Please note that inter-dealer turnover is double counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euros)

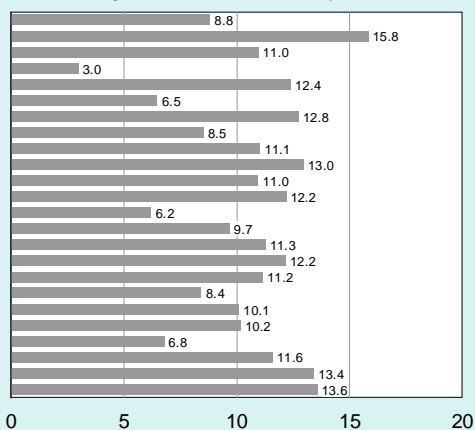
TREASURY BILLS

Nominal outstanding amounts at 26 February 2010



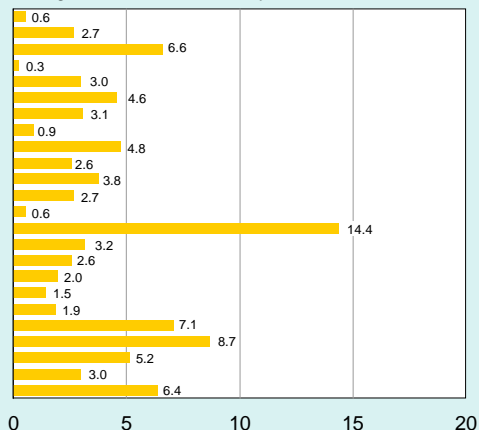
OLOs

Outstanding amounts at 26 February 2010



OLO 305	3.00%	- 03/10
OLO 295	5.75%	- 09/10
OLO 313	3.50%	- 03/11
OLO 311	var.	- 06/11
OLO 296	5.00%	- 09/11
OLO 317	2.00%	- 03/12
OLO 298	5.00%	- 09/12
OLO 262	8.00%	- 12/12
OLO 310	4.00%	- 03/13
OLO 301	4.25%	- 09/13
OLO 314	4.00%	- 03/14
OLO 303	4.25%	- 09/14
OLO 282	8.00%	- 03/15
OLO 316	3.50%	- 03/15
OLO 306	3.75%	- 09/15
OLO 307	3.25%	- 09/16
OLO 309	4.00%	- 03/17
OLO 300	5.50%	- 09/17
OLO 312	4.00%	- 03/18
OLO 315	4.00%	- 03/19
OLO 318	3.75%	- 10/20
OLO 308	4.00%	- 03/22
OLO 291	5.50%	- 03/28
OLO 304	5.00%	- 03/35

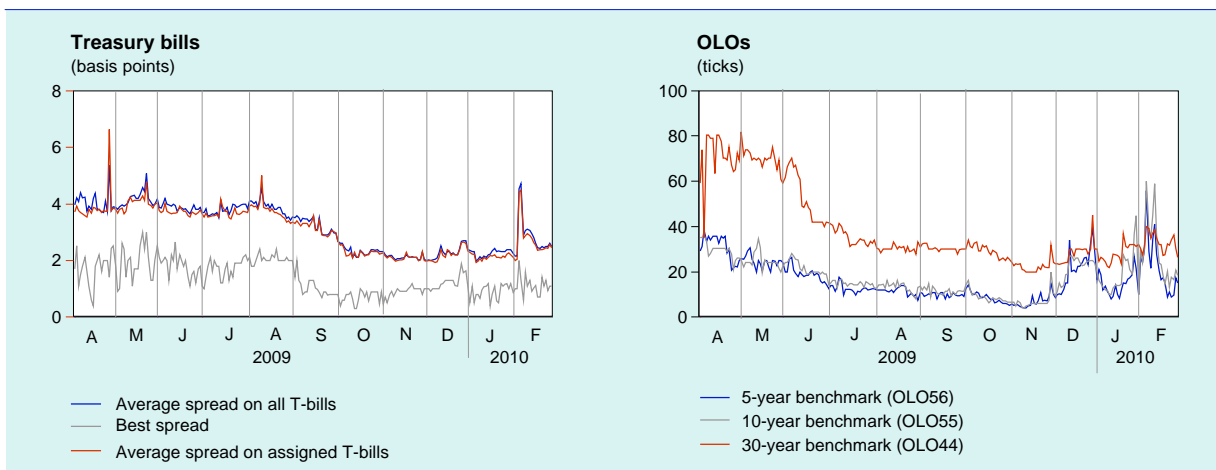
Outright turnover in February 2010¹



Source: Securities Regulation Fund.

¹ The turnover figures include sell/buy-back transactions which are in fact repurchase agreements.

BEST BID/OFFER SPREADS¹

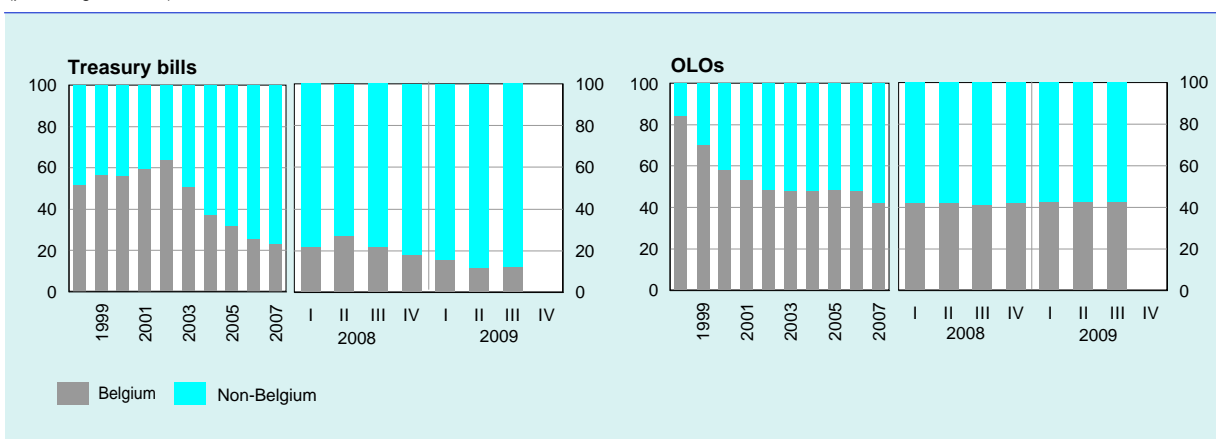


Source: Treasury.

¹ As reported by three electronic platforms (MTS, BrokerTec and BGC eSpeed). For the period October-December 2009, this is the best average over 6 hours; since January 2010, it is the best average over 5 hours.

LOCALISATION OF HOLDERS

(percentages of total)



List of contact persons

PARTICIPATING INSTITUTIONS

Federal Public Service Finance
Barclays Capital

BNP Paribas Fortis

Citigroup
Commerzbank

Dexia Bank
ING

KBC Bank

Royal Bank of Scotland

Société Générale Corp. & Inv. Banking
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