BELGIAN DEBT AGENCY

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National Bank OF BELGIUM
Eurosystem

# Belgian Prime News

QUARTERLY PUBLICATION

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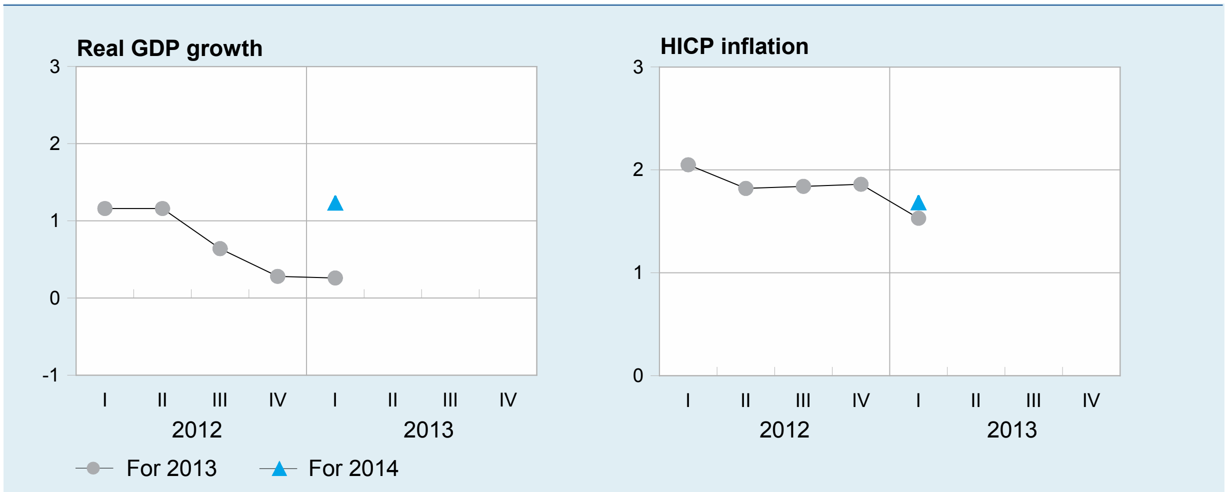
- In a context of weak euro area environment, business and consumer confidence were still lagging behind the calm financial environment in the first quarter of 2013.
- GDP growth expected to reach 0.3 % in 2013 and 1.2 % in 2014 in Belgium, slightly outpacing the euro area average.
- Belgium has notified the European Commission a public deficit of 3.9 % of GDP and a debt ratio of 99.6 % of GDP for the year 2012. These figures take the Dexia recapitalisation into account, amounting to 0.8 % of GDP.
- On 30 March 2013, the federal government announced additional measures for the 2013 budget, aiming at a 1 % improvement of the structural balance. (see Special Topic)

## **Consensus:** Average of participants' forecasts

| | 2012 | | 2013 p | | 2014 p | |
|---|---|---|---|---|---|---|
| | Belgium | Euro area | Belgium | Euro area | Belgium | Euro area |
| Real GDP[(1)] | -0.2 | -0.6 | 0.3 (0.3) | -0.2 (-0.2) | 1.2 | 0.9 |
| Inflation (HICP)[(1)] | 2.6 | 2.5 | 1.5 (1.9) | 1.8 (1.9) | 1.7 | 1.6 |
| General government balance[(2)] | -3.9 | -3.5 | -2.4 (-2.3) | -2.6 (-2.6) | -1.8 | -2.2 |
| Public debt[(2)] | 99.6 | 93.1 | 99.8 (99.9) | 94.7 (94.9) | 98.8 | 94.7 |

Numbers in parentheses refer to the previous consensus forecast of January 2013.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

**SUCCESSIVE FORECASTS FOR BELGIUM**




Source: Belgian Prime News.

# Macroeconomic developments

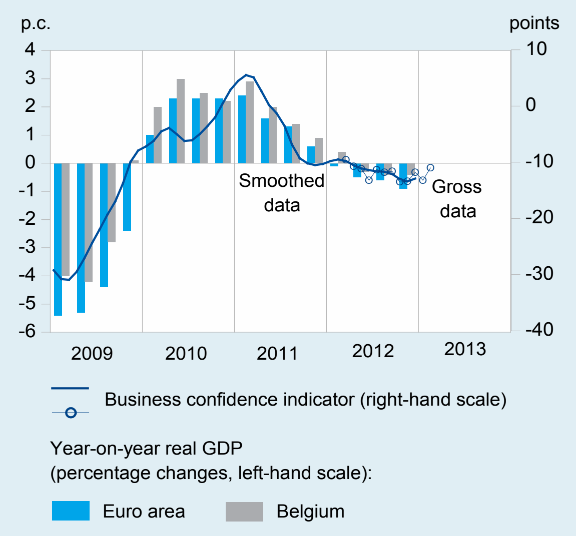
Despite serious political tensions and major financial disruptions in some euro area countries, contagion effects remained limited during the first three months of 2013. Besides short-lived spikes of tensions, these events overall did not jeopardise the calm conditions prevailing in the financial markets since mid-2012. However, sliding eastwards at a low level, business and consumer confidence are still lagging behind the improved financial conditions. Indeed, while important structural adjustments are still needed to restore sound economic fundamentals in most euro area countries, the uncertainty surrounding labour market or demand prospects is still high. This climate acts as a major brake both on consumption and on investment.

In Belgium, GDP stagnated in the third quarter of 2012, and declined by 0.1 % in the fourth quarter. This period of stalling or slightly negative growth is likely to continue in the beginning of 2013. Most forecasters expect a gradual recovery to gain momentum in the second part of the year and in 2014. However, some expect the stagnation to last longer, on the back of a protracted weak demand in the euro area. **On average, the participating institutions' forecast for GDP growth in Belgium is at 0.3 % for 2013, unchanged compared with the January 2013 result. It is expected to reach 1.2 % in 2014.** As such, Belgium is expected to continue to slightly outperform the average GDP growth predicted for the euro area, at respectively -0.2 % in 2013 and 0.9 % in 2014.

The negative activity development in the course of 2012 went together with an increase of the unemployment rate, from 7.2 % in first quarter of 2012, to 8.2 % in January 2013 and 8.1 % in February. This movement is similar to the evolution in the euro area, although the level of unemployment remains lower by some 4 percentage points. Important restructuration and lay-off projects have recently been announced by large companies and, according to surveys, employment prospects are at a low level in the business sector.

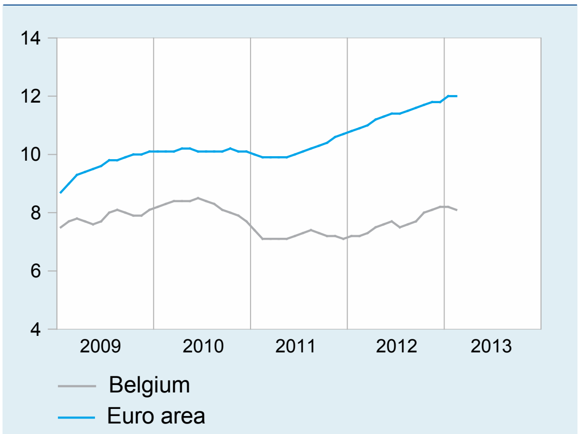
HICP inflation in Belgium has decelerated from 2.7 % in October 2012 to 1.4 % in February 2013, on the back of declining energy price and dropping services inflation. The former effect results from the muted developments in the international crude oil prices, as well as from a boost in the competition on the consumer energy market, as witnessed by the increase of provider switches recently. **The participating institutions expect Belgian HICP inflation to decelerate from 2.6 % in 2012 to 1.5 % in 2013 (1.9 % in the January forecast), before reaching 1.7 % in 2014.** Inflation in Belgium is expected to be close to the average of the euro area over the period from 2012 to 2014.

**GDP GROWTH AND BUSINESS CYCLE INDICATOR**



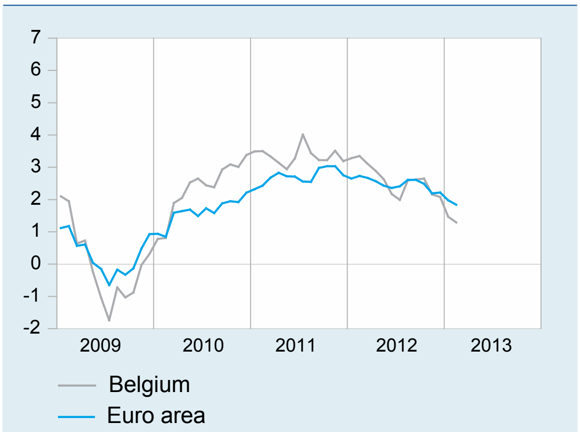

Sources: EC, NAI, NBB.

**UNEMPLOYMENT RATE**
(percentage of the labour force)




Source: EC.

**HARMONISED INDEX OF CONSUMER PRICES**
(annual percentage changes)




Source: EC.

The public finance projections presented in the BPN Consensus were finalised before the 25th of March. Therefore, they do not encompass explicitly the results for 2012 notified on the 28th of March by the National Accounts Institute to the European Commission nor the adjustment to the 2013 budget agreed on the following day by the federal government (see Special Topic). However, both pieces of information have a limited impact on the projections. Indeed, the larger than expected deficit in 2012 – 3.9 % of GDP, instead of an expected 3.0 % - is largely the result of the one-off capital injection in Dexia in December 2012 being registered as a capital transfer. In addition, when making their forecasts, most participants anticipate, at least partially, consolidation measures when the spontaneous results at "unchanged policy" would fall short of the target. As such, the measures decided by the governement replace and concretise the forecasters' assumptions. **According to the average of the forecast of the participating institutions, the general government deficit in Belgium is estimated to be 2.4 % of GDP in 2013 and 1.8 % in 2014. The debt ratio is expected to increase only slightly from 99.6 % of GDP in 2012 to 99.8 % in 2013, before receding to 98.8 % in 2014.**

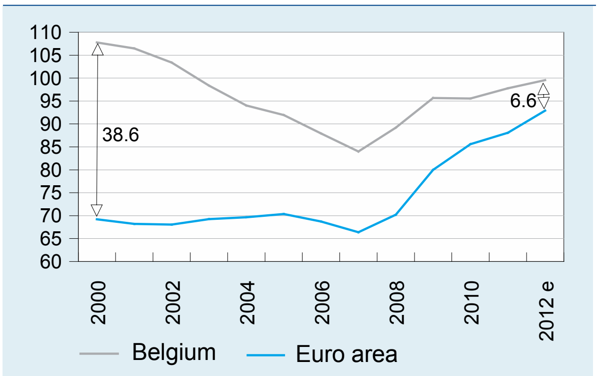
## Special Topic: The recent budgetary actions taken by the federal government in Belgium, in the context of the most needed structural fiscal consolidation path.

In the current context of protracted weak growth, elevated debt and large structural challenges in the euro area, achieving the right balance in the fiscal consolidation efforts is a much debated item. The issue at stake is largely country-dependent, as the starting point differs across economies in terms of economic performance, fiscal and public debt position and financing conditions on the financial markets.

In the case of Belgium, activity developments were indeed severely hit by the great recession and by the subsequent sluggish environment in the euro area. However, GDP growth consistently outpaced the euro area average over the period 2008-2012 and, according to the most recent EC projections, it should continue to do so in 2013 and 2014. At the same time, public debt remains elevated and increased again during the period 2008-2012 to a level close to 100 % of GDP. This rise can be attributed to the actions taken to support the financial sector, to the adverse economic climate, and to Belgium's contribution to the European rescue mechanisms.

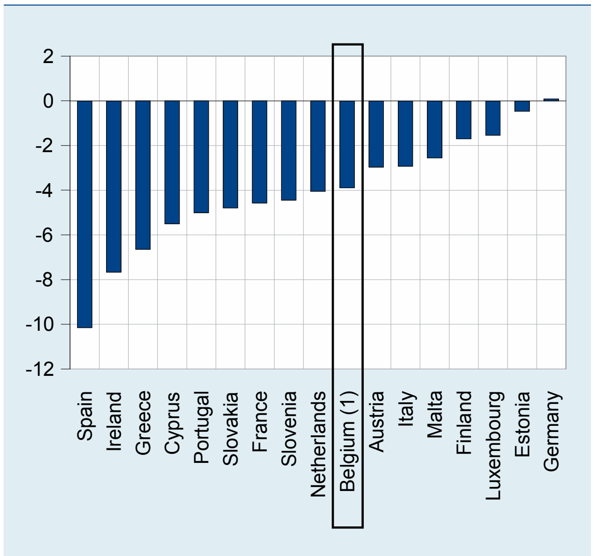
At the end of March 2013, the National Accounts Institute notified the European Commission that the debt ratio amounted to 99.6 % of GDP for the year 2012 and that the deficit came to 3.9 % of GDP, an outcome at the mid-range of the euro area countries. Whereas this outcome fell short by just over 1 % of GDP of the initial nominal target put forward by the authorities in the April 2012 stability programme, some 0.8 % of GDP of the difference resulted from the incorporation in the deficit of the capital injection in Dexia realised in December 2012. Indeed, according to a ruling by Eurostat, it should be considered to be a capital transfer. As indicated in the previous edition of the Belgian Prime News, the capital injection is part of the orderly resolution plan for Dexia approved by the European Commission. Besides this one-off factor, the fiscal outcome for 2012 was also affected by economic conditions which turned out to be worse than initially expected.

**GENERAL GOVERNMENT'S CONSOLIDATED DEBT**
(in % of GDP)




Sources : EC, NAI, NBB.

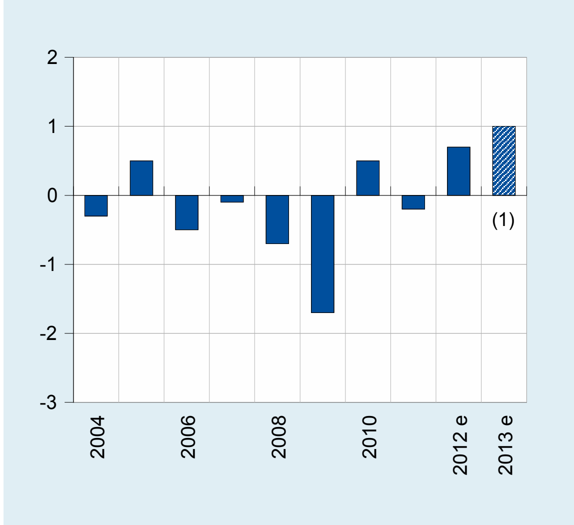
**PUBLIC BALANCE**
(2012, in % of GDP)




Sources : EC, NAI.
(1) As notified by the NAI on 28 March 2013

On the other hand, significant fiscal consolidation progress has been made in 2012. Indeed, thanks to the efforts of the Communities and Regions, and especially the federal government, the structural primary balance improved by 0.9 % of GDP in 2012 according to the EC estimate. Taking into account a 0.2 % of GDP increase of the interest charges, this movement translated into a 0.7 % improvement of the structural balance, which contrasts with the evolution in previous years. Among other factors, it was instrumental for the improved perception of Belgium by investors on the bond market and, as a result, for the steep decline in spread against the German Bund in the course of 2012.

**CHANGE IN THE STRUCTURAL BALANCE**
(change compared to the previous year, percentage points of GDP)




Sources : National authorities, EC.
(1) As announced by the government on 30 March 2013.

Also in view of the looming ageing issue and taking into account the large interaction with the financial sector, additional steps are however needed to secure a sustainable debt trajectory. In its concluding statement of the 2013 Article IV Mission, released on March 27, 2013, the IMF mission *"encourages the [Belgian] authorities to use the window of opportunity that exists before the next elections to advance the structural reform agenda and lock in some durable growth-enhancing fiscal adjustment".* In an advise released on March 28, the Belgian High Council of Finance - a independent advisory body for fiscal policy - also recommends the authorities to pursue a structural improvement of 1 % of GDP in 2013, i.e. another improvement of 0.6 % during the budget review, in addition to the measures already taken in the initial 2013 budget. It recommends an effort of 0.6 % at least in 2014. The trajectory aims at achieving a structural balance again in 2015 and at attaining a structural surplus of 0.75 % from 2016, in accordance with the Medium-Term Objective set by the EC in the context of the new European governance framework.

On March 30, 2013, the federal government took a package of additional fiscal measures to complement the initial budget, the objective being to improve the structural primary balance by 1 % of GDP in 2013. According to the government, the structural balance is expected to achieve a deficit of 1.8 % of GDP. Taking into account the underlying macroeconomic projections, this corresponds to a nominal deficit of some 2.5 % of GDP. Considered together with the decisions taken in the initial budget, measures on the expenditure side include reductions in public administration's spending, transfers to public companies and health care expenditure. On the revenue side, some excise duties and taxes on movable property will be raised and the rate for the notional interest deduction will be reduced. In addition, a fiscal regularisation operation is provided and the fight against tax and social security fraud will be stepped up. The subnational authorities are also expected to make a contribution of some 0.2 % of GDP to the consolidation efforts. In addition, one-off measures, including possibly measures not affecting the budget balance, should be taken to hold the public debt below 100 % of GDP.

Focussing on structural targets, the updated fiscal policy anchors the necessary medium-term improvements needed to restore the budgetary position. Close monitoring will be warranted for the implementation, and the forthcoming updated stability programme should pave the way for a credible path of consolidation in the medium term. In view of the federal structure of the State and the further devolution of powers to the regions and communities resulting from the institutional reform decided upon last year, it should be supported by a strong commitment of all levels of authorities. In addition, structural reforms to enhance the competitiveness of the corporate sector and to reinforce the growth potential of the economy are a prerequisite to guarantee financial stability and to ensure the sustainability of public finances.

Links to the IMF's Concluding Statement of the 2013 Article IV Mission in Belgium and to the High Finance Council's advice on the budgetary trajectory in preparation of the 2013-2016 stability programme (French or Dutch).

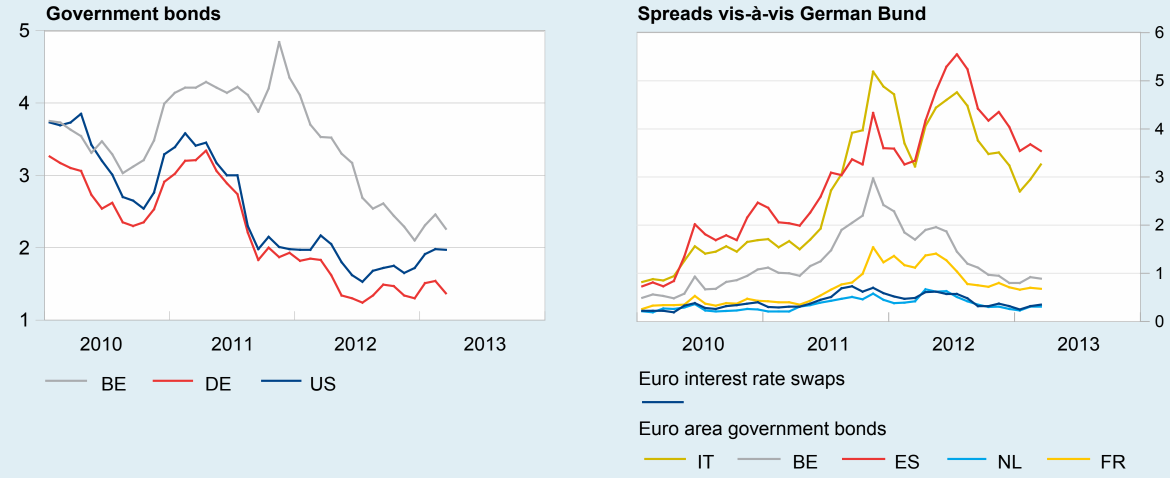
## Treasury highlights

During the first three months of 2013, the Kingdom launched two new benchmarks via syndication and organized one OLO auction:

- The EUR 4.0 billion OLO 68 2.25% 22/06/2023 was priced on January 9 and issued on January 16 at a spread of 62 bp to mid-swaps. At a cost of 2.359%, it was the lowest 10-year yield ever achieved in a syndicated transaction.
- The EUR 5.0 billion OLO 69 1.25% 22/06/2018 was priced on February 19 and issued on February 26 at a spread of 16 bp to mid-swaps. The coupon of 1.25% was the lowest ever for an OLO benchmark.
- Collective Action Clauses (CACs) are applicable to these new bonds.
- The 25 March 2013 OLO auction resulted in the issuance of EUR 3.682 billion concerning the following lines:
  - 1.25% 22/06/2018 (OLO 69): EUR 1.185 billion – average yield 1.007%; bid-to-cover 1.78
  - 2.25% 22/06/2023 (OLO 68): EUR 1.292 billion – average yield 2.213%; bid-to-cover 1.72
  - 4.00% 28/03/2032 (OLO 66): EUR 1.205 billion – average yield 2.945%; bid-to-cover 1.69
- The average yield of 2.213% was the lowest ever at the auction of a 10 year OLO benchmark.
- With the above-mentioned operations, the Treasury already reached almost 34.3% of its annual OLO target of EUR 37.0 billion.
- In addition, three Euro Medium Term Notes and four Schuldscheine were issued for a total amount of EUR 441 million. The targeted amount of issuance for these products is EUR 3.0 billion.

## Government securities market

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

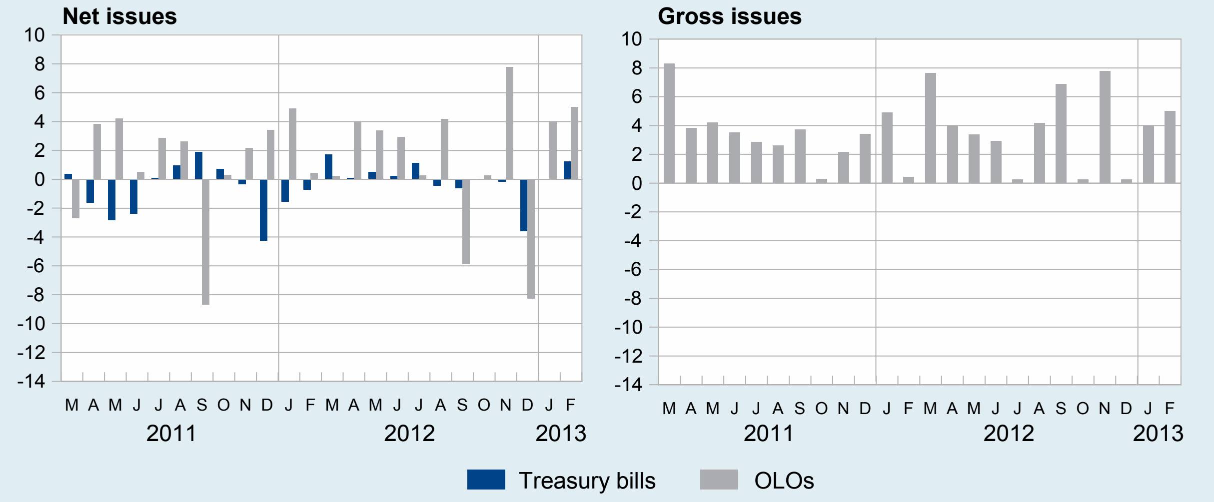



Sources: BIS, Datastream.
Average over the first 26 days for March 2013.

Over the period under review (December 2012 - March 2013), yields on German long-term government debt remained broadly unchanged, whereas a more marked increase in yields on long-term government bonds was observed in the US. Changes in German yields over the period under review partially reflect revisions in market risk perceptions (affecting flight-to-safety flows), which initially eased following the approval of the aid disbursement programme for Greece and the perceived decrease in tensions in the banking sector (related to significant early repayments of LTRO funding). Towards the end of the period under review, however, low growth forecasts as well as increased uncertainty related to tensions in specific countries countered some of the initially observed increase in yields.

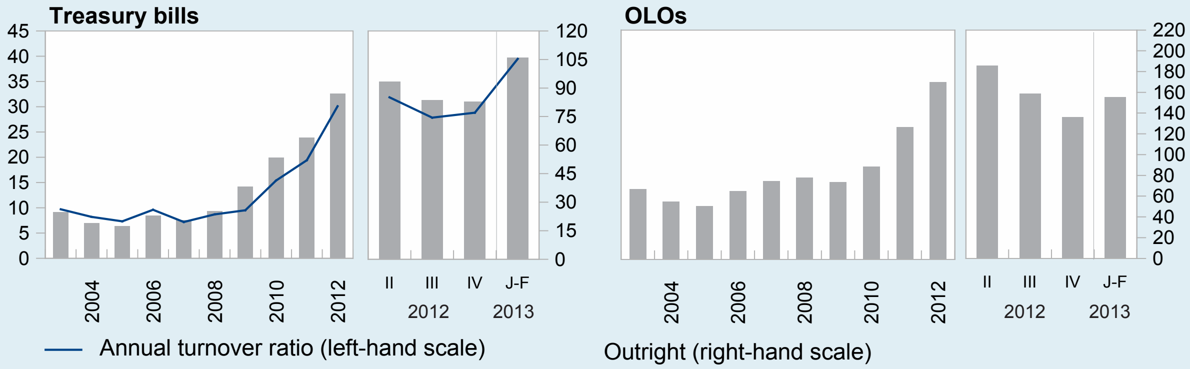
Spreads of long-term bonds vis-à-vis the German Bund have decreased in most euro area countries. However, there remains a significant degree of dispersion across the euro area countries. The Belgian-German spread displayed a slight increase, but remained significantly below 100 basis points, corroborating the status of Belgium as a "core" country. While the Spanish spread decreased further, the Italian spread increased markedly following the emergence of some degree of uncertainty related to domestic political factors. Overall, uncertainty about near-term bond market developments, as measured by the implied volatility of options remains at a low level, although it increased during the first quarter of 2013.

## PRIMARY MARKET
(billions of euros)

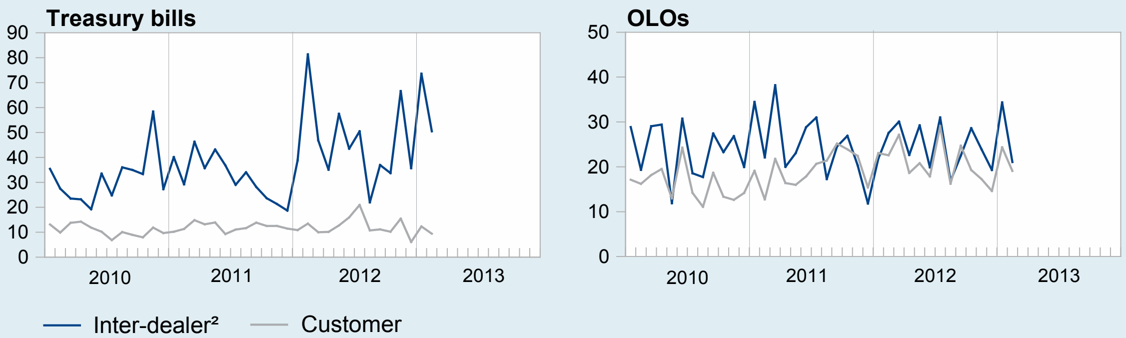



## SECONDARY MARKET TURNOVER

### As compiled by the Securities Regulation Fund[1]
(billions of euros unless otherwise stated, monthly averages)




### As reported by primary and recognised dealers to the Treasury
(billions of euros)

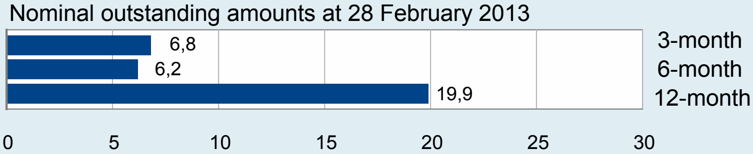



[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.
[2] Please note that inter-dealer turnover is double-counted in these figures.

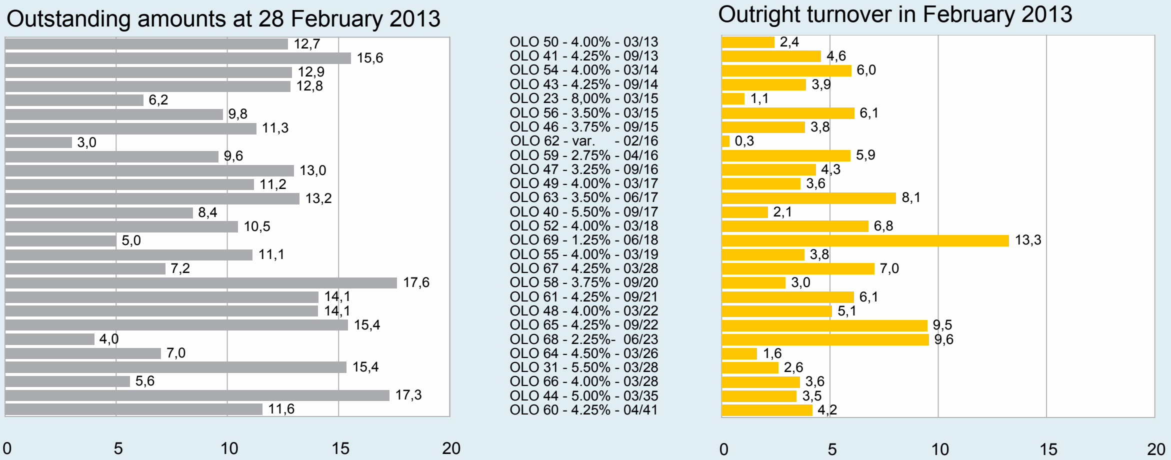
## OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

### TREASURY BILLS

Nominal outstanding amounts at 28 February 2013

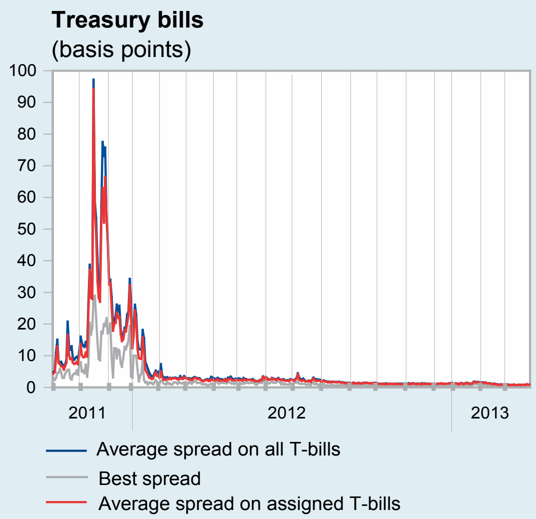


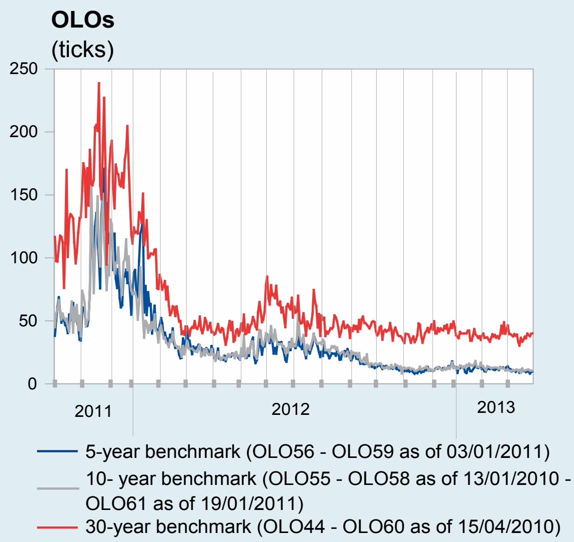

### OLOs




Source: Securities Regulation Fund.
[1] The turnover figures include sell/buy- back transactions which are in fact repurchase agreements.

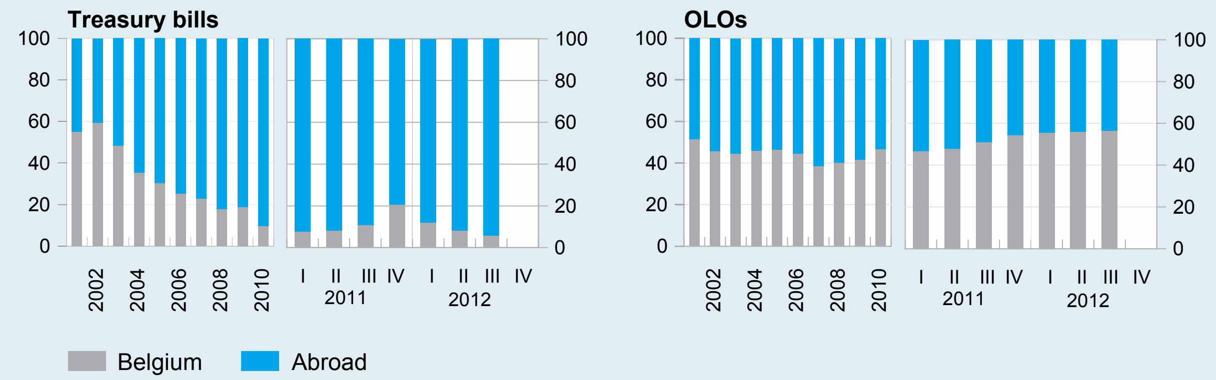
## BEST BID/OFFER SPREADS [1]




Source: Treasury.
1 As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

**LOCATION OF HOLDERS**
(percentages of total)

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**Published by:** National Bank of Belgium (NBB).

**Sources:** NBB, unless otherwise stated.

This publication is also available on the internet site www.nbb.be.
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General information on the Belgian government's action can be found on the website www.belgium.be.