5. Financial situation of the private sector

Belgium is one of a small number of European countries whose economy traditionally generates a positive financial position. Despite the financial turbulence, the net assets of the non-financial private sector continued to grow in 2011, expanding the overall net asset position in relation to the rest of the world. That movement was due to the formation of financial assets by households and companies, and not a reduction in their debt level, which – incidentally – is relatively modest in comparison with the euro area average. In particular, lending by the banking sector to Belgian households and businesses did not dry up, and there was only a small increase in firms' borrowing costs.

5.1 Households

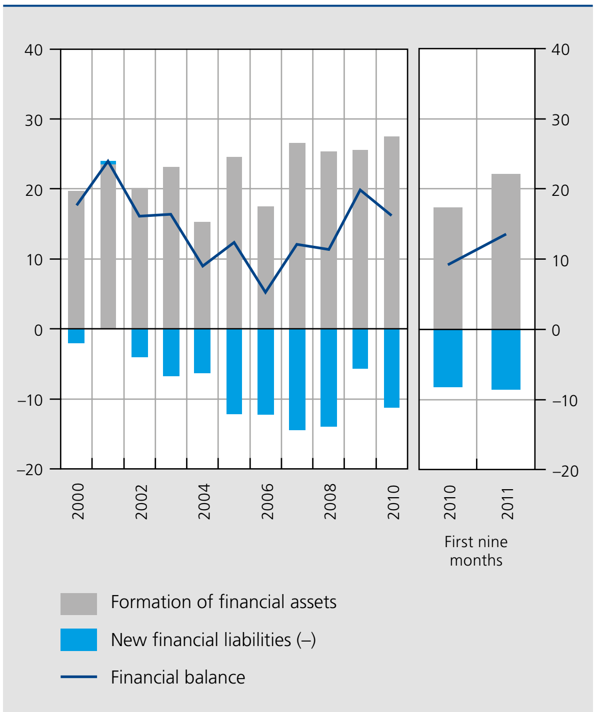
The financial turbulence had only a minor impact on the financial activity of households. During the first nine months of 2011, the losses which households incurred were slightly less than their new asset acquisitions. They continued to take out mortgage loans.

In the first nine months of the year under review, households formed financial assets totalling € 22.1 billion, outstripping the € 17.4 billion acquired during the corresponding period of 2010. At the same time, the financial liabilities of households increased by € 8.6 billion, an amount similar to the net flow of lending during the first nine months of the previous year (€ 8.2 billion).

These developments resulted in a financial surplus of € 13.6 billion, surpassing the already high figure of € 9.2 billion for the same period in 2010. Over 2011 as a whole, the financial balance of households may have been close to the 2001 record.

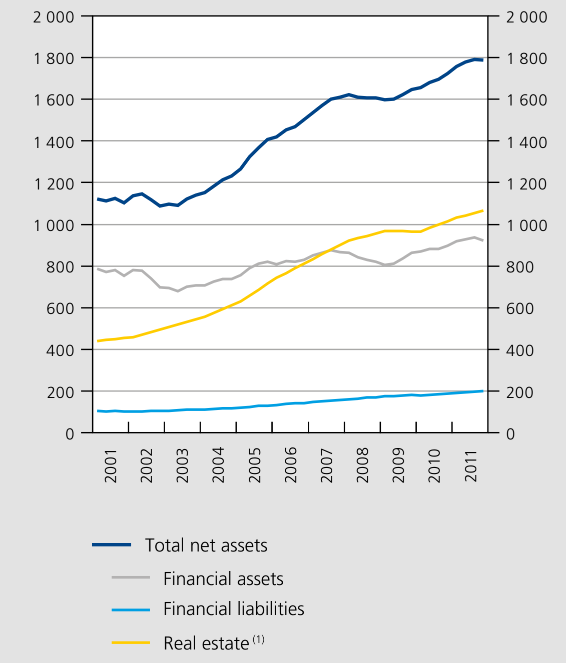
Apart from transactions, fluctuations in the prices of assets held by households also affect the outstanding amount of their financial portfolio. In the first nine months of 2010, households had thus benefited from a positive valuation effect amounting to € 12 billion. In contrast, in the first nine months of 2011, they suffered a loss of € 19.1 billion, due mainly to the movement in

CHART 48 FINANCIAL TRANSACTIONS OF HOUSEHOLDS
(in € billion)



Source : NBB.

CHART 49 HOUSEHOLD ASSETS
(in € billion, end-of-quarter outstanding amount)



Source: NBB.
(1) From 2005 to 2010, the year-end data are obtained from a new register which combines the volume data from FPS Finance (General Property Records Agency) and the data on the selling prices of property obtained from FPS Economy. The pre-2005 data were retropolated on the basis of the estimates published in the 2010 Report. The figures as at the end of March, June and September in each year are intrapolations (and estimates for 2011).

stock market prices. Over the year as a whole, this negative effect is estimated to have been much smaller than in 2008, the year which marked the peak of the subprime crisis: the more modest fall in stock market prices and the smaller share of risky assets in the household portfolio probably attenuated the scale of the losses. In the end, the amount of the financial assets of households totalled € 921 billion on 30 September 2011, against € 918 billion at the end of the previous year.

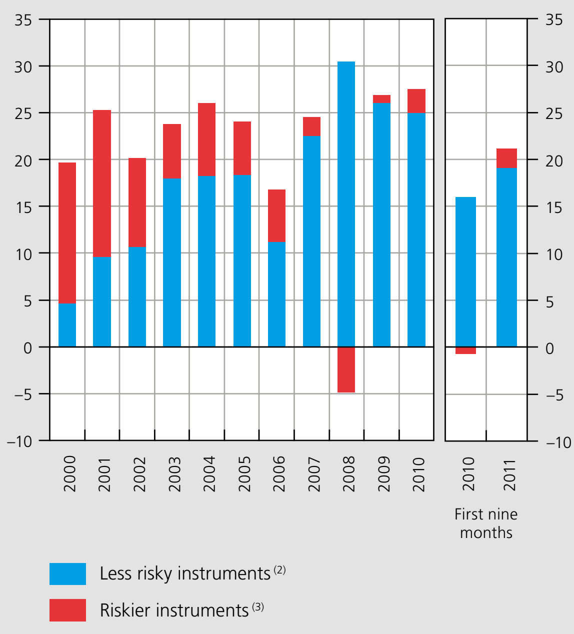
The value of the property owned by households fluctuates in line with the movement in house prices and, to a lesser extent, according to the change in the housing stock owned by households. Altogether, the value of their property was estimated at € 1 066 billion as at 30 September 2011, compared to € 1 031 billion at the end of the previous year.

Finally, the financial liabilities of households, consisting mainly of mortgage loans, continued to expand, totalling € 201 billion at the end of September 2011, against € 192 billion at the end of 2010. Taking account of these developments, the total net assets of households continued to rise in 2011, maintaining a trend which had begun in early 2009. They were up from € 1 757 billion at the end of 2010 to € 1 786 billion on 30 September in the year under review.

Formation of financial assets

The composition of the household portfolio results from the choices which households make between the various financial assets available to them, primarily according to the returns offered and their risk aversion. It may be useful to divide investment flows into two main categories of financial instruments: low-risk assets (cash and deposits, fixed-income securities and insurance products offering a guaranteed return) and riskier assets (shares and other equity, investment fund units and class 23 insurance products).

CHART 50 FORMATION OF FINANCIAL ASSETS ACCORDING TO THE RISK INCURRED (1)
(in € billion)



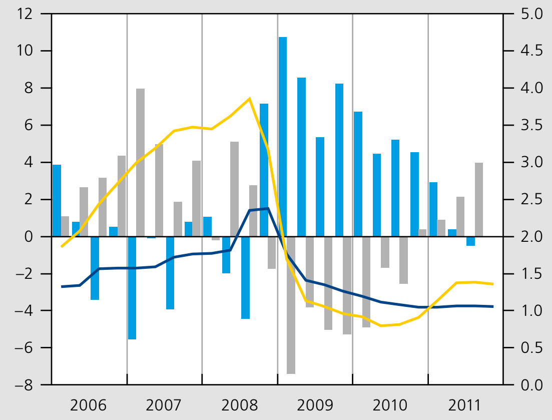
Source: NBB.
(1) Excluding the assets under the "Other" item in chart 52.
(2) This category covers banknotes, coins and deposits, fixed-income securities and insurance technical reserves other than class 23. These are therefore all the instruments which, provided they are held to maturity and the debtor honours his commitments, guarantee a positive or zero nominal return in their reference currency. This distinction is therefore arbitrary in that, owing to the absence of information, it disregards the risk inherent in the currency or counterparty of the investment.
(3) This category comprises financial instruments which do not offer the guarantee described above, namely shares and other equity, UCI units and class 23 technical insurance provisions.

Deterred by the slump in share prices during 2008, individual investors had in that year shunned investment products regarded as risky. However, by 2009, this asset category was back in favour as they hoped for a possible stock market rally, which did indeed occur, before being halted and then reversed in the year under review. In these circumstances, households significantly reduced their positions in risky instruments during the first nine months of 2011, as their modest acquisitions were much smaller than the capital losses.

Individuals' mistrust of the stock market led to a shift towards less risky assets regarded as a safe haven. Once again, households put large amounts of savings into bank deposits. Savings deposits were less popular than in the previous year, though new deposits still amounted to € 2.8 billion in the first nine months of the year under review. This slowdown was due to uncertainty over the future tax status of these deposits, and to the extremely low real interest rates offered on regulated savings. At the same time, term deposits benefited from a slight rise in interest rates, restoring positive net flows totalling € 7 billion. These funds were invested chiefly in long-term deposits, probably reflecting the efforts made by the banks to obtain more stable funding. However, in the fourth quarter, the successful issue of State notes led to a fall in the outstanding amount of deposits. The monthly balance sheet data of Belgian banks confirm the sluggishness of savings deposits, which recorded an outstanding total of € 201.4 billion at the end of 2011, compared to € 197.2 billion a year earlier.

CHART 51 SAVINGS DEPOSITS AND TERM DEPOSITS OF HOUSEHOLDS

(quarterly data ; in € billion, unless otherwise stated)



Source : NBB.
(1) Excluding loyalty bonuses.
(2) Less 15 % withholding tax. Average of the rates applied to the main term deposit categories, weighted by the amounts of the new deposits in each of these categories.

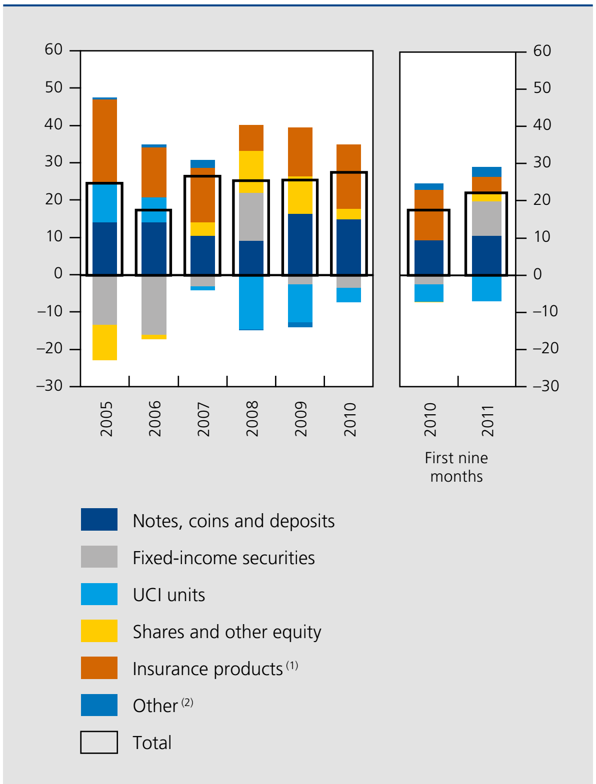
Fixed-income securities also attracted a substantial proportion of household savings. In the case of these securities, purchases and subscriptions were thus € 9.2 billion higher than the amount of sales and redemptions, whereas net sales had totalled € 2.5 billion in the first nine months of 2010. Owing to the relatively generous interest rates and the likelihood that the withholding tax would be held at 15 %, issues of State notes by the Belgian Treasury enjoyed unprecedented success at the end of the year, taking the total subscriptions in 2011 to over € 6 billion, compared to € 0.2 billion in 2010. OLO acquisitions on the secondary market by Belgian households also reached a record level, with a net total of € 0.6 billion. It therefore seems that households continued to have confidence in Belgian public debt securities, despite the volatility on the sovereign bond market. Bonds issued by Belgian firms also benefited from positive investment flows originating from households, amounting to € 0.6 billion in the first nine months of 2011, compared to € 0.1 billion in the corresponding period of 2010.

Owing to the low long-term interest rates, both the yields guaranteed by insurers on class 21 insurance products and the associated profit-sharing have tended to diminish in recent years. Yields on class 23 products suffered again from the lacklustre stock market performance during the year under review. The banks probably encouraged some of their customers to abandon these insurance products and UCI units in favour of long-term deposits and securities, in order to improve their liquidity position. Overall, household investments in these insurance instruments came to just € 4.6 billion in the first nine months, whereas they had totalled € 13.6 billion in the corresponding period of 2010.

The fall in stock market prices did not trigger a panic reaction among households owning listed shares. Overall, the net flow of investments in shares and other equity remained positive at € 2 billion in the first nine months of 2011. People who own shares, most of whom have a good grasp of financial matters, are probably aware of the risks incurred and seem to take market volatility in their stride.

Transactions in UCI units are very sensitive to fluctuations in the prices of the underlying assets. Once again,

CHART 52 FORMATION OF FINANCIAL ASSETS BY HOUSEHOLDS
(in € billion)



Source: NBB.
(1) This item essentially comprises the net claims of households on life insurance technical reserves and pension funds or occupational pension institutions.
(2) This item comprises, so far as they could be recorded, trade credit and miscellaneous assets on general government and financial institutions.

UCI unit redemptions exceeded subscriptions, the difference amounting to € 6.9 billion over the first nine months of 2011, against € 4.6 billion a year earlier.

New financial liabilities

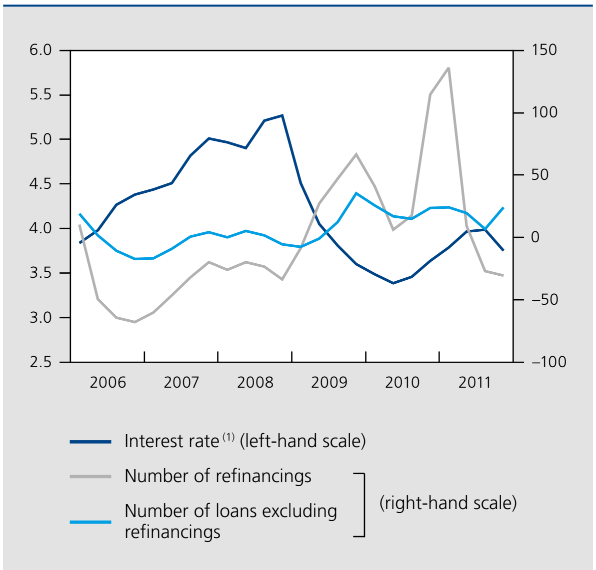
The statistics on gross flows of lending to households, supplied by the Bank's Central Credit Register, indicate buoyant activity in 2011. The amounts granted in the form of consumer loans came to € 14.8 billion in the year under review, 24 % more than in 2010. That growth is due, in particular, to the increasing success of instalment loans which enjoyed the tax advantage applicable to "green loans" contracted to fund projects which generate energy savings. Mortgage lending was stable at € 33.6 billion.

The generally low level of interest rates continued to underpin mortgage lending. However, a slight increase in the rates since mid-2010 significantly curbed the refinancing of existing loans during the year under review. Leaving aside these renegotiated borrowings, the rise in the number of loans is still considerable: a total of 306 000 housing loans were granted in 2011, or 19 % more than in the previous year.

There are various reasons for granting a mortgage loan: the construction of a new house, purchase of a building plot, or the purchase or alteration of an existing house. In the year under review, 35 000 loans were granted to fund a new building, a 2 % decline compared to 2010. Loans contracted for other purposes relating to property (mainly the purchase of a building plot) came to 14 000, or 3 % down against 2010. The growth of lending is due largely to loans contracted for purchase or renovation purposes: taken together, 257 000 such loans were granted in 2011, a 24 % rise. The abolition of certain tax concessions at the end of 2010 – including the temporary cut in the VAT rate to 6 % – does not seem to have affected demand for loans in the year under review.

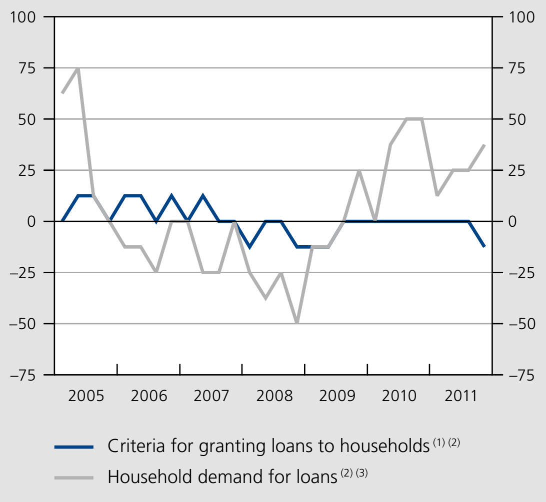
The growth of loans for renovation is due mainly to government support. Launched in 2009, the "green loan" scheme which ended on 31 December 2011 comprised a 1.5 percentage point reduction in the interest rate on

CHART 53 NEW MORTGAGE LOANS TO HOUSEHOLDS AND INTEREST RATES
(percentage changes compared to the number of loans granted in the corresponding quarter of the previous year, unless otherwise stated)



Sources: PLU, NBB.
(1) Average interest rates applied to the main mortgage loan categories, weighted by the amounts of the new loans contracted in each of those categories.

CHART 54 HOUSING LOAN SUPPLY AND DEMAND
(quarterly data)



Source : NBB.
(1) Weighted net percentages of responses by the four main credit institutions to the Eurosystem's bank lending survey, indicating the degree to which lending criteria were eased or tightened (–).
(2) The responses are weighted according to the distance from a "neutral" response: mention of a "considerable" change in the lending criteria or demand for loans is accorded double the weighting of the mention of a "slight" change.
(3) Weighted net percentages of responses by the four main credit institutions to the Eurosystem's bank lending survey indicating the degree of increase or decrease (–) in demand for credit.

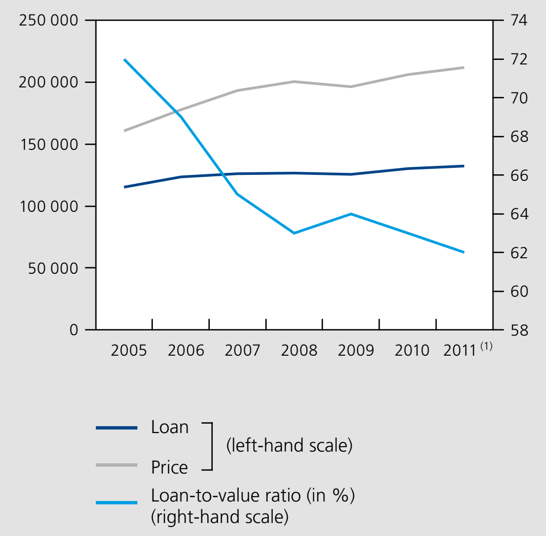
loans for the financing of investments generating energy savings in the home. The federal subsidy was granted for both mortgage loans and instalment loans contracted for that purpose. In addition, up to 40 % of the interest actually paid could be offset against tax. The PLU estimates that 79 000 mortgage loans benefited from this scheme in the year under review, for a total of € 1.4 billion.

According to the Eurosystem's bank lending survey, banks slightly tightened their lending criteria for housing loans in the fourth quarter. Nonetheless, there was no question of any scarcity of mortgage loans : interest rates continued to favour the purchase of a property, and the available volume of credit seemed to match the level of demand.

The average loan contracted for the purpose of buying a house amounted to € 132 000 in 2011. At the same time, the average price of the homes purchased by households was estimated at € 212 000. The loan-to-value ratio for the purchase of a house – i.e. the ratio between the amount of the loan and the price of the property – was thus estimated at an average of 62 %, comparable to the ratios recorded since 2008. The continuing rise in property prices since then has therefore forced households to use more of their own money to fund their investment, in order to avoid excessive debt.

It seems that, in 2011, the banks applied considerably higher margins to variable-rate loans than to fixed-rate formulas. Margins on the latter were virtually zero throughout the year under review, as banks only passed on part of the rise in long-term interest rates resulting from the sovereign debt crisis. This reduced margin on fixed-rate loans may reflect keener competition on this market segment, where product standardisation makes it easier to compare offers. The banks in fact consider the mortgage loan to be an introductory offer which can then enable them to secure deposits. The more comfortable margin initially applied to variable-rate loans may be justified on the grounds that the banks cannot pass on the whole of the subsequent increases in market rates owing to legal constraints protecting the borrower. This strategy adopted by the banks greatly reduced the differential between fixed and variable rates, which explains why households showed a marked preference for fixed-rate formulas in 2011. Loans on which the rate is fixed for more than ten years in fact accounted for 62 % of mortgage loans.

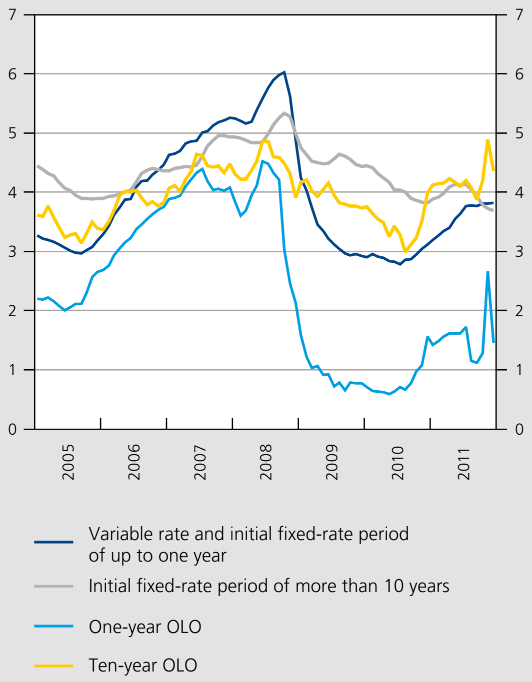
CHART 55 LOAN-TO-VALUE RATIO ON PROPERTY PURCHASES
(annual averages ; in €, unless otherwise stated)



Sources : PLU, NBB.
(1) Estimate.

CHART 56 INTEREST RATES ON MORTGAGE LOANS AND CORRESPONDING REFERENCE RATES

(monthly data)



Source : NBB.

5.2 Non-financial corporations

During the year under review, firms continued to call on the financial markets, and particularly bank credit. However, the latter was affected by the slowdown in economic activity in the second half of the year. Nonetheless, the surveys – especially those conducted among businesses – reveal some deterioration in lending conditions towards the end of the year.

Financial transactions

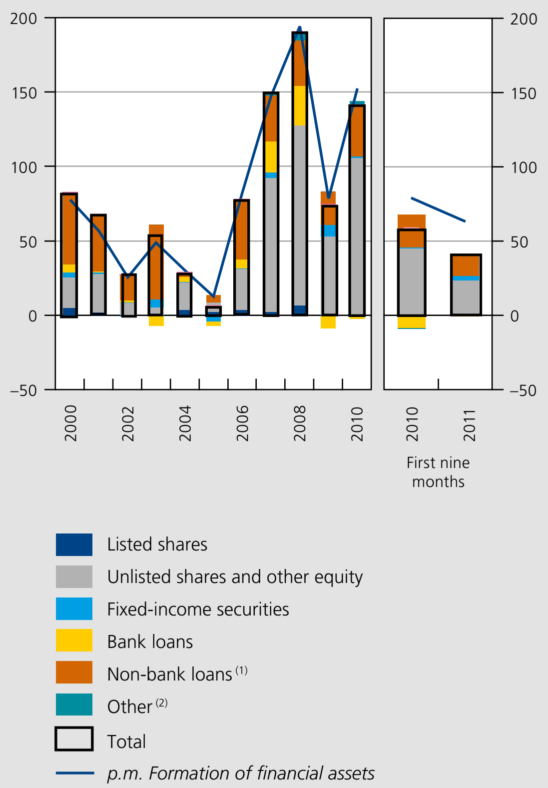
In the first nine months of 2011, non-financial corporations recorded a positive financial balance, as in the previous year, implying that their internal finance covered the whole of their fixed capital investments and the change in their inventories. Their financial asset formation exceeded their new liabilities by € 22.1 billion.

Firms formed new financial assets amounting to € 63.2 billion, down against the 2010 figure of € 79.4 billion. Liquid assets expanded by € 1.2 billion, while assets in the form of shares and other equity were up by € 16.5 billion. Loans – mainly to other firms – and the portfolio of fixed-income securities grew by € 16.7 and € 6 billion respectively.

The new financial liabilities contracted by firms in the first nine months of the year totalled € 41.1 billion, down by a third against the corresponding period in 2010, when they had reached € 58.9 billion. Share issues and other capital instruments represent the main source of finance for firms, notably on account of the activities of non-financial holding companies and the fact that multinationals centralise their treasury management in Belgium. In the first three quarters of 2011, these issues came to € 23.4 billion, half the figure of € 45.3 billion for the corresponding period of 2010. However, net issues of fixed-income securities – more modest as always – quadrupled in relation to the previous year; they totalled € 3.2 billion from January to September, compared to € 0.8 billion

CHART 57 NEW FINANCIAL LIABILITIES OF NON-FINANCIAL CORPORATIONS

(in € billion)



Source : NBB.

(1) Mainly loans granted by Belgian and foreign non-financial corporations, also referred to as inter-company loans.

(2) Includes technical reserves of non-autonomous occupational pension institutions and transitory items.

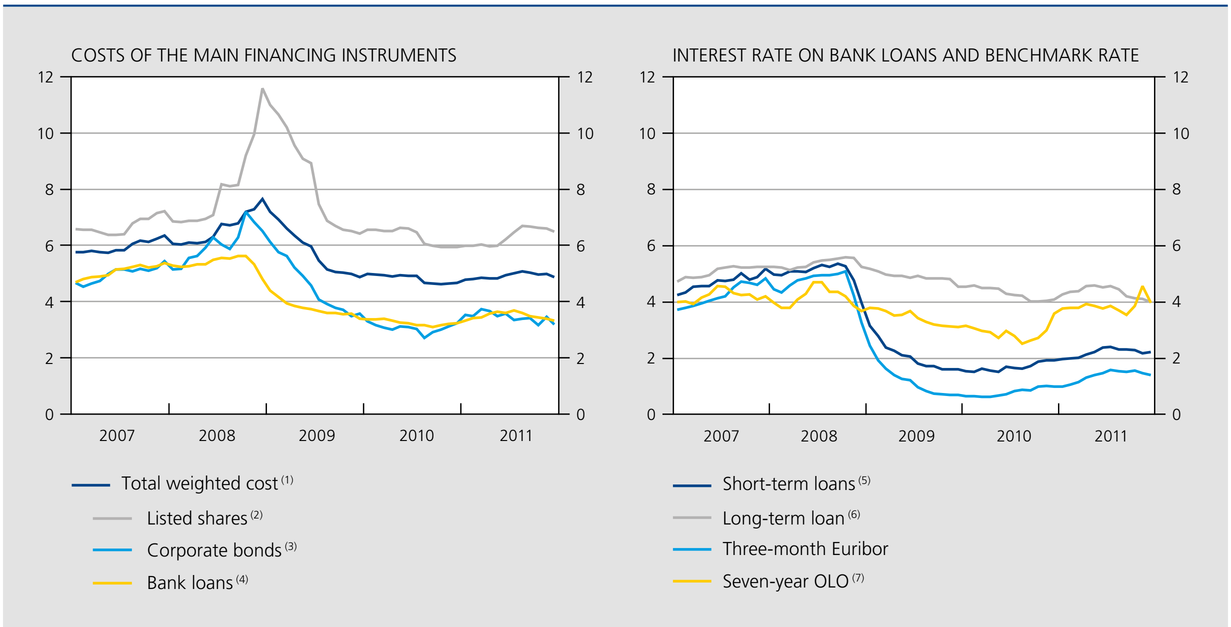
in 2010. Firms' use of credit increased by € 13.3 billion, against € 13.6 billion in the corresponding period of 2010. Lending to businesses comprises both bank loans and other loans – mainly inter-company loans. The expansion recorded in the first three quarters of the year 2011 is due entirely to inter-company loans. The net flow of non-bank lending came to € 13.9 billion, though that was considerably less than in the same period of 2010 (€ 22 billion). Net bank lending to firms was sluggish, while net repayments of € 8.3 billion had been recorded in the corresponding period of 2010. This situation is due mainly to transactions with foreign banks which, as in the previous year, gave rise to net repayments.

Financing conditions

After having declined steeply in 2009, then more slowly in 2010, the total financing costs of non-financial corporations – calculated by weighting the nominal cost of the various funding sources according to their respective shares in the total outstanding amount of the financial liabilities – increased slightly in 2011, to 4.8 % in December compared to 4.6 % a year earlier. That rise is due mainly to the movement in the cost of recourse to the equity markets.

The interest rate applicable to new bank loans – the average rate weighted on the basis of the outstanding amounts of the various categories of lending by Belgian banks to firms – edged upwards between January and July 2011, from 3.2 to 3.6 %. This was a continuation of the rise which had begun in September 2010, when a historical low point of 3 % had been recorded. In the second part of the year, the cost of loans subsided, dropping to 3.3 % in December. On the one hand, the average interest rate on short-term loans, defined here as loans for an amount of over € 1 million on which the interest rate is initially fixed for a maximum period of one year, hovered around 2 % in the first quarter of the year before rising to 2.4 % in June 2011. The movement in this interest rate was influenced by the tightening of monetary policy ; the spread in relation to the three-month Euribor remained fairly stable at a level higher than that prevailing before the crisis. In the second part of the year, the interest rate on short-term loans dipped slightly to 2.2 % in December.

CHART 58 **FINANCING COSTS OF NON-FINANCIAL CORPORATIONS**
(monthly data, in %)



Sources : Thomson Reuters Datastream, NBB.

(1) Obtained by weighting the cost of financing by listed share issues, bond issues and bank loans according to their respective shares in the total outstanding amount of these financial liabilities. At the end of September 2011, the proportions were 49.1 % for shares, 10.9 % for bonds and 40 % for loans.
(2) Estimated on the basis of a dividend discount model (cf. box 19 in the 2005 Report). According to that model, the cost of financing by share issues declines (increases) following a rise (fall) in stock market prices and increases (contracts) in response to an increase (reduction) in dividends (not only those actually paid but also those expected).
(3) Yield on an index of euro-denominated bonds issued by non-financial corporations in the euro area, taking all maturities of more than one year together ; the index is weighted according to the outstanding amounts.
(4) Weighted average rate applied by Belgian banks to business loans. The weighting is based on the respective outstanding amounts of the various types of credit.
(5) Interest rate on loans of more than € 1 million at variable rates, initially fixed for up to one year.
(6) Interest rate on loans of less than € 1 million, with a rate fixed for more than five years.
(7) Average yield on loans with seven years left to run.

On the other hand, the interest rates on long-term loans exhibited an upward trend in the first half of the year under review, before dropping from August onwards. They may have been influenced by the sovereign debt crisis, as the rates on sovereign bonds regularly serve as the benchmark for other interest rates in the economy. Moreover, the financial crisis and the contagion effects of the sovereign debt crisis on the banking sector affected the balance sheets of credit institutions and depressed their liquidity and solvency positions, potentially causing them to restrict the supply of credit or to increase their interest margins. However, the rise in OLO yields since August 2010 has so far only been passed on to a very limited extent in long-term bank lending rates, though the influence may yet be felt later. In December 2011, the interest rate on loans of under € 1 million with a fixed-rate period of more than five years stood at 4 %, close to the figure at the beginning of the year.

Enterprises – and especially the largest ones – can also raise funds directly on the financial markets by issuing listed shares or debt instruments.

In nominal terms, after rising in the first quarter of 2011, the cost of raising funds by issuing debt instruments contracted during the rest of the year. The yield on a basket of euro-denominated bonds issued by non-financial corporations in the euro area, taking all maturities together, grew from 3.2 % at the end of December 2010 to 3.7 % at the end of March 2011, before dropping to 3.1 % at the end of the year. Despite this decline, the risk premiums demanded for holding bonds of non-financial corporations, reflected in interest rate spreads in relation to the German Bund, were driven up by investors' risk aversion and their preference for safe-haven assets owing to the sovereign debt crisis in Europe. However, the levels reached by these spreads were still well below those seen at the outbreak of the financial crisis in 2008.

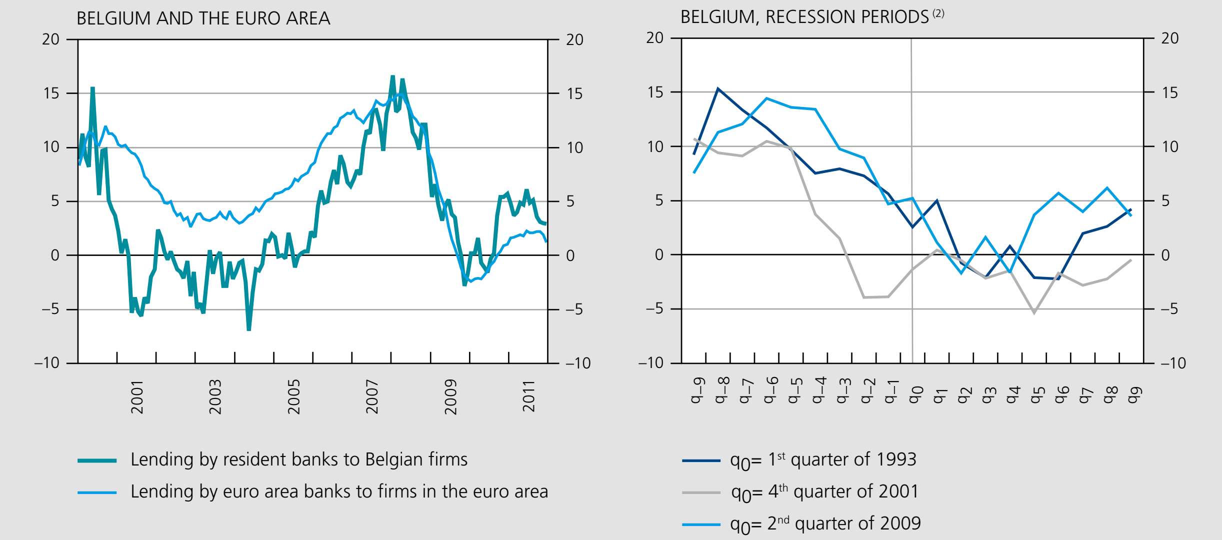
The cost of financing by listed shares, which was fairly stable in the first five months of the year under review, gradually increased from June onwards owing to the adverse movement in stock market prices. Estimated at 5.9 % in December 2010, it climbed during the second half of the year to reach 6.4 % in December 2011, thus approaching the 1996-2010 average of 6.9 %.

Bank lending

The growth of the outstanding amount of lending by resident banks to Belgian non-financial corporations remained positive throughout the year. In 2011, that amount increased by € 3.5 billion, with short- and

CHART 59 BANK LENDING TO NON-FINANCIAL CORPORATIONS [1]

(percentage changes compared to the corresponding period in the previous year, unless otherwise stated)



Sources: ECB, NBB.
(1) Including securitised loans (only from January 2010 for the euro area).
(2) The period q_0 corresponds to the quarter in which year-on-year growth of real GDP reached a low point.

long-term loans recording similar expansion. Conversely, as in 2010, net lending to Belgian non-financial corporations by foreign banks remained negative during the first three quarters of the year under review : altogether, the outstanding amount of loans of foreign origin declined by € 2.8 billion.

The financial turbulence and the necessary structural adjustments regularly give rise to the question whether, in such a climate, the banks are lending enough to businesses. An international and historical comparison shows that, up to the end of 2011, there have been no clear signs of any restriction of the credit supply in Belgium.

A comparison with the euro area reveals that lending has made a fairly strong recovery in Belgium. Since the low point reached at the end of 2009, credit expansion in Belgium has almost constantly exceeded that in the euro area, partly thanks to a better business climate. In the fourth quarter of 2011, the outstanding amount of loans in Belgium was up by 3% year-on-year, while the rise came to only 1.8 % in the euro area. The euro area average masks very significant heterogeneity, with a substantial correction taking place in some countries after generally sustained credit expansion in the past decade, as in Ireland and Spain. These developments explain why Belgium exceeds the euro area average, whereas before the financial crisis it generally recorded a weaker credit expansion.

In view of the divergent outcomes in the euro area, it may also be useful to compare the pattern of lending with that of economic activity in Belgium. Examination of the recession periods reveals that lending to non-financial corporations generally recovers later than the economy. One of the reasons for that time lag is that companies exhibit a degree of caution when the economy picks up, and initially make use of internal resources before resorting to credit. Banks are probably also hesitant in the initial phase of a recovery, owing to the continuing uncertainty over the collateral. A comparison with the recovery phases which followed the 1993 and 2001 recessions shows the recovery following a classic pattern in which lending revives several quarters later than economic activity. This comparison also shows that, in the final phase of the downturn, the decline in lending was comparable to that seen in previous recessions, despite the much larger recent contraction of GDP. Moreover, lending rebounded relatively strongly. After the 2001 recession, the revival was far more hesitant.

Thus, it seems that lending to non-financial corporations in Belgium followed a fairly favourable trend up to the year under review : a comparison with the euro area and a historical comparison with economic activity reveals few signs of any impediments or a creditless recovery. However, that does not exclude the risk of renewed weakening, which should probably be regarded as a consequence, rather than a cause, of the slowdown in economic activity.

The quantitative pattern of bank lending needs to be considered in the light of the findings of the qualitative surveys of both banks and business managers. The former survey obtains qualitative information from the banks on changes in lending conditions and demand for bank loans, and on the determinants to be taken into account to explain these developments. During 2011, the four large Belgian banks polled stated that they had kept their corporate lending conditions broadly unchanged, as has been the case since the second quarter of 2009, following the substantial tightening in the months after the eruption of the financial crisis.

In particular, owing to the tension on the sovereign debt security markets and the ensuing difficulties for the banks, their financing costs and balance sheet constraints had a negative impact on corporate lending conditions, primarily in the first and third quarters of the year, whereas those factors had tended to encourage banks to ease their lending conditions slightly in the first nine months of 2010. However, pressure of competition had the opposite effect, encouraging banks instead to ease their conditions in the first half of the year, whereas they reported that their assessment of the risks relating to the business climate had exerted hardly any influence on their decision.

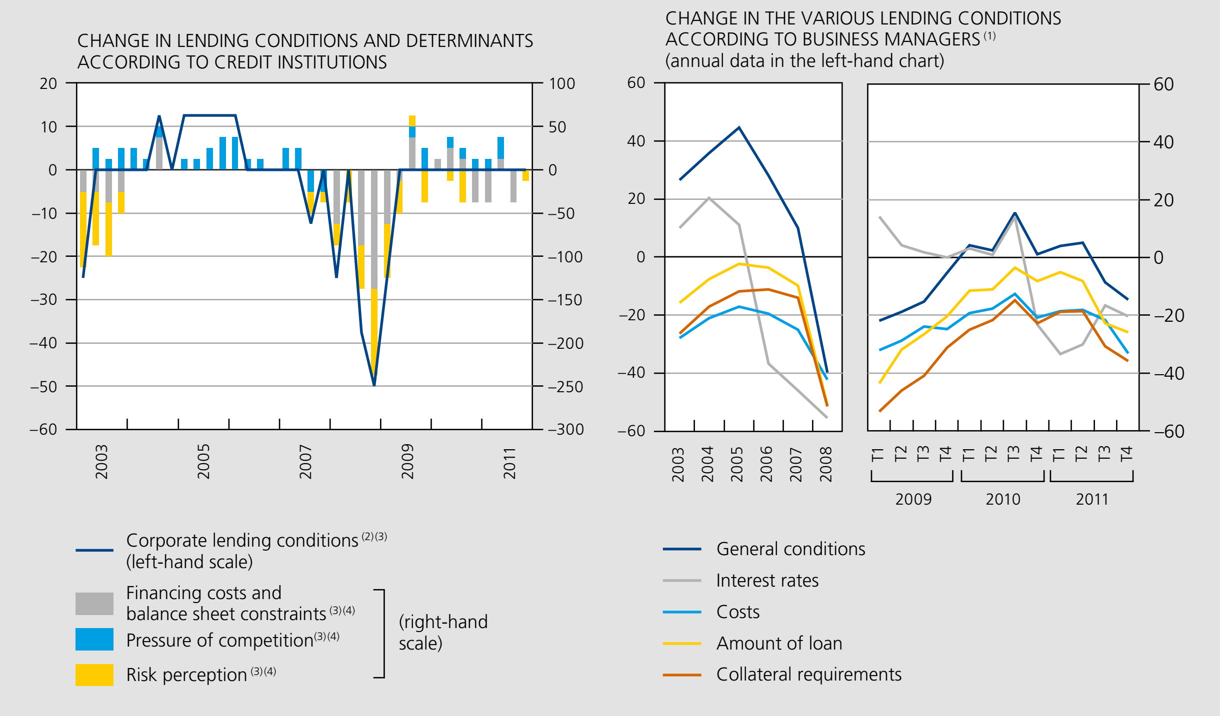
The demand for loans encountered by Belgian banks seems to have been sustained, at least in the first half of the year. A number of factors, more particularly mergers, acquisitions and corporate restructuring, as well as gross fixed capital formation, contributed towards the maintenance of demand for funding. Nevertheless, demand stabilised in the third quarter.

The statistics collected by the Central Corporate Credit Register reveal that the credit utilisation rate, which shows the degree to which firms draw on their credit lines, remained at a relatively high level in historical terms during the year under review in the case of small firms (at an average of 87 %), while increasing fairly strongly for large firms, from 54.1 % at the end of 2010 to 60.3 % at the end of 2011.

The second qualitative survey is conducted by the Bank among business managers. It aims to ascertain their opinion on the lending conditions which the banks apply to them. Firms' assessment of general lending conditions

CHART 60 RESULTS OF BANK LENDING SURVEYS AMONG BANKS AND FIRMS

(quarterly data, unless otherwise stated)



Source: NBB (Eurosystem bank lending survey and NBB survey of corporate credit conditions).

(1) Balance, in %, of the responses by the business managers polled, indicating their favourable or unfavourable (–) assessment of bank credit conditions. Available on an annual basis from 2002 to 2008 inclusive, and on a quarterly basis from 2009.

(2) Weighted net percentages of responses by credit institutions to the Eurosystem's bank lending survey indicating the degree to which lending criteria were eased or tightened (–).

(3) The responses are weighted according to the distance from a "neutral" response: mention of a "considerable" change in the lending criteria or demand for loans is accorded double the weighting of the mention of a "slight" change.

(4) Weighted net percentages of responses by the credit institutions questioned about lending criteria. A negative (positive) percentage corresponds to a criterion reflecting tightening (easing). The responses to the various sub-questions were cumulated.

remained positive overall in the first half of the year, before deteriorating from the third quarter. From then on, a larger percentage of business managers considered that lending conditions had become unfavourable. It was the limits which banks imposed on the amounts of loans and the collateral which they required that prompted this more negative assessment by business managers, whereas their opinion on the level of interest rates improved slightly.

Fixed-income securities

In Belgium, firms traditionally make little use of the bond market for their external financing. Thus, at the end of September, this form of funding accounted for only 4.8 % of the total outstanding amount of capital borrowed by Belgian non-financial corporations, a figure similar to that prevailing a year previously (4.6 %). In the first nine months of 2011, non-financial corporations raised a total of € 3.2 billion on the fixed-income securities market, whereas they had obtained € 0.8 billion by that form of funding during the corresponding period of 2010. Issuance of long-term securities was slightly more dynamic than that of short-term securities, essentially commercial paper: during the first nine months of 2011, non-financial corporations issued long-term securities totalling € 1.9 billion, compared to € 1.4 billion for short-term securities. In the second and third quarters, net issuance of fixed-income securities by firms enjoyed considerable success (€ 5.3 billion in new subscriptions) whereas in the first quarter investors had disposed of this type of instrument to the value of € 2.1 billion. The administrative simplifications introduced by the CBFA at the end of 2010 regarding issuance of debt securities for good-quality borrowers and the easier access to this type of instrument for households may have had a positive impact on bond issues by Belgian firms.

Shares

During the first nine months of 2011, net issues of unlisted shares and other equity totalled € 22.7 billion, whereas in the first three quarters of 2010 they had reached € 45 billion. As in previous years, most of the shares issued in this period were subscribed by associated non-financial corporations located abroad.

Recourse to the stock market via the issuance of listed shares was much less significant. In the first nine months of the year, an amount of € 0.7 billion was issued, though that was higher than the € 0.3 billion in the corresponding period of the previous year. This expansion is attributable to the stabilisation of the cost of financing by issuance of listed shares in the first five months of the year, facilitating a substantial capital increase by a company in the non-ferrous metals sector. Belgian investors subscribed to listed shares totalling € 2 billion, while foreign investors disposed of shares amounting to € 1.3 billion. The proportion of foreign investors in the outstanding total of listed shares was steady at 52.5 % at the end of September 2011.

5.3 Total financial assets and liabilities of the Belgian economy

Despite the turbulence, the Belgian non-financial private sector succeeded in increasing its net financial assets. Belgium was thus able to strengthen its net asset position and retained its favourable international ranking in that respect.

A country's overall financial situation is determined by the total outstanding amount of the financial assets and liabilities of the various domestic sectors, namely the household sector, the financial and non-financial corporations sector, and the general government sector. Those positions vary from one year to the next owing to the impact of new financial transactions and fluctuations in the prices at which assets and liabilities are valued.

During the first nine months of 2011, the domestic sectors increased both their financial assets and their financial liabilities. The formation of financial assets exceeded the formation of financial liabilities by € 4.5 billion. It was mainly non-financial corporations and households that acquired new net assets, totalling € 22.1 and € 13.6 billion respectively. Conversely, general government concluded new net financial liabilities amounting to € 14.4 billion.

Apart from actual financial transactions, valuation effects must also be taken into account to explain the changes in the outstanding amount of assets and liabilities. Thus, the movement in financial instrument prices exerted a negative influence of € 19.1 billion on the valuation of the outstanding net financial assets of households – due mainly to the fall in stock market prices in the third quarter – which ultimately reduced their net financial assets

TABLE 12 FINANCIAL ASSETS AND LIABILITIES BY SECTOR (1)
(data at the end of September 2011, in € billion, unless otherwise stated)

	Outstanding amount				Change in net financial assets (3)		
	Assets	Liabilities	Net financial assets		Total	Financial transactions	Valuation (4)
			December 2010	September 2011			
Individuals	921	201	726	721	–5.5	13.6	–19.1
Non-financial corporations	1 615	1 936	–382	–321	61.1	22.1	39.0
General government	114	414	–284	–300	–15.4	–14.4	–0.9
Financial corporations (2)	1 810	1 813	8	–2	–10.7	–16.7	5.9
p.m. Total of domestic sectors	*4 460*	*4 362*	*68*	*98*	*29.5*	*4.5*	*24.9*
Idem, in % of GDP	*1 203*	*1 177*	*19.3*	*26.4*	*7.9*	*1.2*	*6.7*

Source: NBB.
(1) Excluding monetary gold and special drawing rights.
(2) Financial corporations consist mainly of monetary financial institutions (the NBB, credit institutions and monetary UCIs) and institutional investors (non-monetary UCIs, insurance companies and occupational pension institutions).
(3) Change in the net financial assets between December 2010 and September 2011.
(4) Changes due mainly to price and exchange rate fluctuations. These affect both assets and liabilities. Shares are the source of many of these changes since they form part of the assets of all the sectors and also part of the corporate liabilities.

by € 5.5 billion. In contrast, this decline made a large contribution to the revaluation – amounting to € 39 billion – of the net financial assets of non-financial corporations, since shares represent a bigger proportion of their liabilities than of their assets.

The net financial assets of all domestic sectors together ultimately increased by € 29.5 billion, which corresponds to € 4.5 billion in new net assets plus a positive valuation effect of € 24.9 billion.

The net financial assets of households, which make up the only net creditor sector of the Belgian economy, contracted to € 721 billion. In comparison with the size of their assets (€ 921 billion), the financial liabilities of households are nonetheless relatively modest (€ 201 billion). At the end of September, non-financial corporations had the highest net liabilities, at € 321 billion. Both their assets (€ 1 615 billion) and their liabilities (€ 1 936 billion) were considerable. However, it should be noted that, from the point of view of financial stability, for the purpose of assessing the risk profile of non-financial corporations, the scale of their debts is more important than their total liabilities, which also include shares. At the end of September 2011, that debt level was only € 653 billion, since they obtain a major part of their financial resources from issuing listed or unlisted shares. When assessing their debt level, it is also appropriate to take account of the fact that part of this external funding comes from other resident non-financial corporations which record it as an asset, so that the consolidated debt is even lower for the sector as a whole. At the end of September 2011, it amounted to € 281 billion, or 76.5 % of GDP (see box 7). Finally, the net liabilities of general government came to € 300 billion at the end of September, while the total liabilities stood at € 414 billion.

Box 7 – Debt level of the non-financial private sector

As part of the Six-Pack laws – a set of measures designed to reinforce and improve the coordination of economic policy in the EU – the EC devised a procedure for identifying and controlling macroeconomic imbalances. For the purposes of this Excessive Imbalance Procedure (EIP), a scoreboard was developed on the basis of around ten indicators drawing attention to the risk of both internal and external imbalances.

One of these indicators concerns the (non-consolidated) gross debt level of the non-financial private sector as a percentage of GDP. However, this indicator needs to be interpreted with caution. First, in contrast to the 60 % target applicable to the public debt under the Maastricht Treaty, there is no exact benchmark in this sphere. Moreover, the method of calculating the private sector debt ratio is much less harmonised, so that the data are highly variable, depending on the concept used. Finally, debt sustainability depends not only on the debt level but also on the ability to repay – determined in particular by interest charges, income prospects and the assets formed – plus a number of structural characteristics such as the proportion of the outstanding debts held abroad.

This box analyses the method of calculating the debt of the non-financial private sector, and concentrates on the distinction between the consolidated and the non-consolidated debt ratio. Not all EU Member States publish consolidated data, so that the EC scoreboard currently only indicates the non-consolidated debt ratio. However, in its general assessment of the imbalances the Commission will also take account of the consolidated data if they are available, and of the general macroeconomic context. This box also assesses the level and pattern of the Belgian non-financial private sector debt ratio in comparison with those of the euro area.

At macroeconomic level, the non-financial private sector debt ratio is calculated on the basis of the national financial accounts. These offer a picture of the total financial assets and liabilities of each institutional sector. The gross debt generally includes funding obtained by means of loans and securities other than shares.

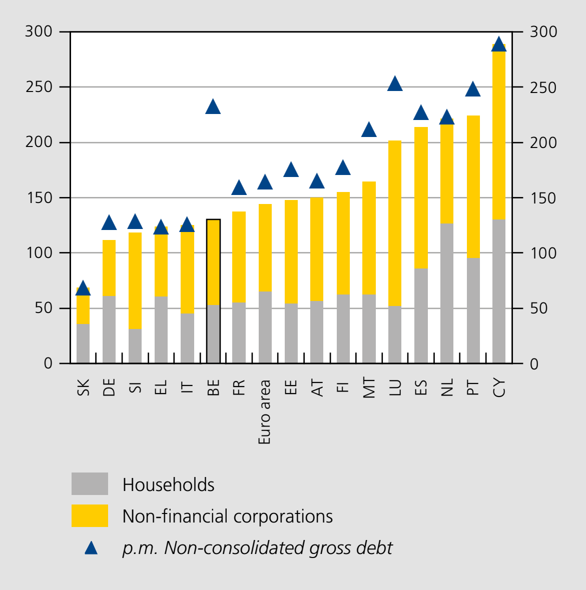
The financial accounts drawn up in accordance with the ESA 95 also record transactions carried out within a single sector. A loan concluded between non-financial corporations is thus recorded under both the assets and the liabilities of the non-financial corporations sector, so that the accounts are not consolidated. However, on the basis of the detail of the financial accounts – which supply information on the counterparties of all financial transactions – it is possible to produce consolidated accounts for Belgium and for most of the other EU Member States by deducting financial transactions made within each resident sector.

While non-consolidated data are used primarily to provide, for example, a picture of the sectoral financing structure, the consolidated data seem more appropriate for assessing the sector's financial health. In that regard, lending between firms – particularly between members of the same group – is generally more stable than bank lending and may therefore be regarded as less risky. Moreover, it is difficult to make an international comparison of the estimate of lending between non-financial corporations, notably because certain finance companies are sometimes classified in the non-financial corporations sector, and sometimes outside it. Finally, it should be noted that, in regard to the general government debt, the Maastricht Treaty also refers to a consolidated debt concept.

The size of the difference between the consolidated and non-consolidated data depends on a country's financial structure. It is generally small for most sectors; the national financial accounts are even drawn up on the assumption that there are no financial transactions between households, so that – by definition – the non-consolidated data are the same as the consolidated data for that sector. The biggest differences are generally recorded for non-financial corporations, since these may include finance companies from outside the financial sector, such as the treasury management companies of multinationals.

CONSOLIDATED GROSS DEBT OF THE NON-FINANCIAL PRIVATE SECTOR IN THE EURO AREA COUNTRIES (1)

(data at the end of 2010, in % of GDP)



Sources: EC, NBB.

(1) Households and non-financial corporations, total loans and securities excluding shares.

In view of the substantial activities of the latter in Belgium, the non-consolidated debt ratio of non-financial corporations is very high. At the end of 2010, it stood at 179.7 % of GDP, against a figure of 99.3 % in the euro area. Combined with the household debt ratio, the non-consolidated debt ratio of the non-financial private sector came to 232.8 % of GDP, compared to 164.6 % in the euro area, putting Belgium at the top of the euro area countries in this ranking. The debt level is also clearly higher than the threshold of 160 % of GDP which the EC uses, on the basis of data collected between 1994 and 2007, to identify a potential imbalance situation.

However, Belgium's situation is almost totally different on the basis of the consolidated data, as the debt ratio drops to 77.5 % of GDP for non-financial corporations at the end of 2010, against 75.9 % for the euro area. As for the non-financial private sector, which also includes households, it came to 130.7 % of GDP against 142.4 % in the euro area; in this case, Belgium is among the countries with the lowest debt levels.

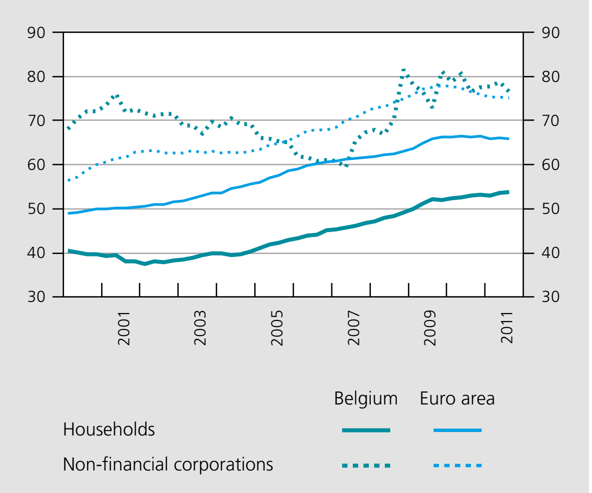
The relatively low consolidated debt ratio of the Belgian private sector is therefore mainly due to households, which have a structurally lower debt ratio than their counterparts in the euro area. Conversely, the situation of non-financial corporations is close to the euro area average.

As in the euro area, however, the debt level of Belgian households has risen steadily in the past decade, from 39.7 % of GDP at the end of 2000 to 53.7 % at the end of September 2011. That increase coincided with accelerating price rises on the property market, and was also supported by favourable tax rules applicable to mortgage loans contracted since 2005. In the euro area, after expanding continuously to reach a peak of 66.5 % of GDP in mid-2010, household debt stabilised, on account of fairly moderate mortgage lending.

The consolidated debt of Belgian non-financial corporations has hovered around 78 % of GDP since the end of 2008, while the euro area has recorded a slight debt reduction since the end of 2009, from 77.7 % to 75.1 % of GDP in September 2011. As in the case of households, these developments are due to more dynamic lending in Belgium than in the euro area.

CONSOLIDATED GROSS DEBT OF THE NON-FINANCIAL PRIVATE SECTOR (1)

(end-of-quarter data, in % of GDP)



Sources: EC, NBB.

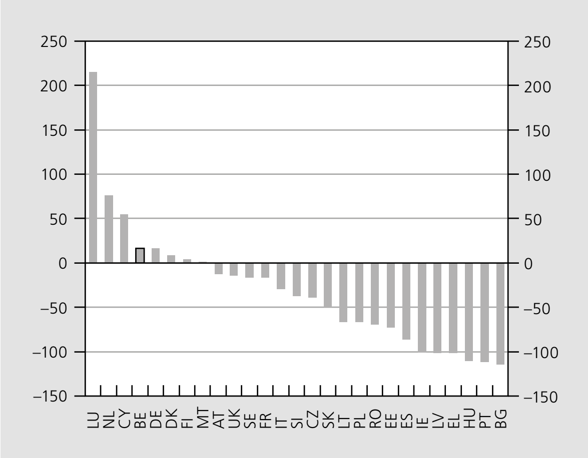
(1) Consolidated data, households and non-financial corporations. Total loans and securities excluding shares.

Overall, Belgium thus holds more financial assets than liabilities. This positive net external position, due to the accumulation of current account surpluses on the balance of payments over the years, was estimated at € 98 billion, or 26.4 % of GDP, at the end of September 2011.

In the current circumstances in which debt levels are attracting greater attention, the statistics on the net external position are among the indicators which can identify countries in a fragile financial situation. Unlike the gross debt, this concept in fact also takes account of financial assets whose proceeds and resale value can be used to finance at least part of the liabilities.

An international comparison reveals that Belgium is rather different from most of the other EU Member States: at the end of 2010, in common with Luxembourg, the Netherlands and Germany, Belgium was among the minority of European countries which were net lenders to the rest of the world. This favourable ranking is due essentially to households, which have the highest net financial assets in the EU as a percentage of GDP. Moreover, in a number of euro area countries such as Portugal, Greece, Ireland and Spain, the net financial assets of the private sector are much smaller than the net debt of general government. This illustrates the diversity of the euro area countries. Some of them have accumulated considerable claims on the rest of the world over time, by systematically recording current account surpluses. Others have a deficit: their overall funding has become structurally dependent on the rest of the world owing to the accumulation of current account deficits.

CHART 61 NET ASSET POSITION OF THE EU COUNTRIES (1)
(year-end 2010 data, in % of GDP)



Source: EC.
(1) Difference between the outstanding amount of financial assets and liabilities.