BELGIAN PRIME NEWS

December 2000
No. 10

Published by : National Bank of Belgium (NBB)
Participating institutions : NBB, Debt Agency (Ministry of Finance), Artesia BC, Bank Brussels Lambert, Barclays Capital, Dexia Bank, Fortis Bank, KBC Bank
Updated to : 20.12.2000
Next issue : March 2001
Sources : NBB, unless otherwise mentioned

Special topic :
Room for new policy priorities thanks to a highly successful fiscal consolidation

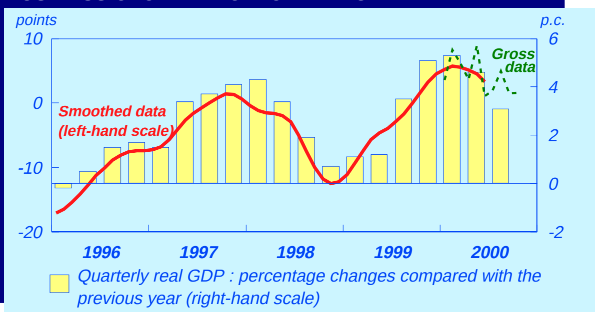
CONSENSUS FORECAST

	1999		2000 p			2001 p		
	Belgium	Euro area [3]	Belgium Consensus	Belgium Previous consensus	Euro area [3]	Belgium Consensus	Belgium Previous consensus	Euro area [3]
Real GDP [1]	2.7	2.5	**3.8**	3.9	3.5	**2.9**	3.2	3.2
Employment [1]	0.6	1.8	**1.3**	1.5	1.8	**1.2**	1.4	1.5
Consumer prices [1]	1.1	1.1	**2.6**	2.4	2.3	**2.0**	1.9	2.2
Current account [2]	3.8	0.4	**4.1**	3.7	- 0.1	**4.1**	3.7	- 0.2
General government balance [2] *	-0.7	-1.3	**0.2**	-0.1	- 0.8	**0.3**	0.3	- 0.7
Primary balance [2] *	6.5	3.0	**7.0**	6.6	3.3	**6.7**	6.6	3.2
Public debt [2] *	115.9	72.1	**109.8**	110.1	70.9	**104.8**	104.7	68.8

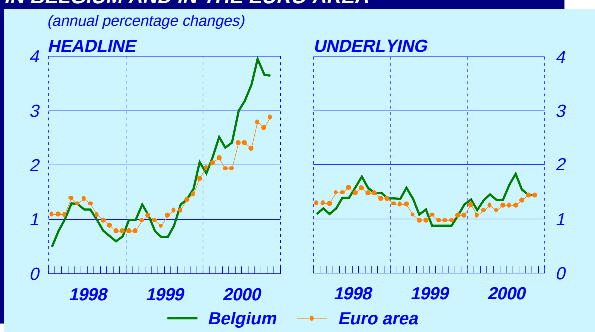
[1] P.c. change. [2] In p.c. of GDP. [3] Forecast from the European Commission (available since November 2000; next publication in March 2001).
* Excluding the proceeds of the anticipated auction of UMTS licences.

MACROECONOMIC DEVELOPMENTS

BUSINESS CYCLE INDICATOR AND GDP



HEADLINE AND UNDERLYING INFLATION TREND IN BELGIUM AND IN THE EURO AREA



Source: EC.
[1] Measured by HICP. Underlying inflation trend corresponds to headline inflation excluding energy and unprocessed food prices.

Following a fairly impressive performance in the second half of 1999 and the first quarter of 2000, economic growth slowed down to a more moderate pace. According to the latest estimates, real GDP growth decelerated from 5.3 p.c. year-on-year in the first quarter to 3.1 p.c. in the third quarter of 2000. This decline in growth rate was more or less in line with the rest of the euro-area. The NBB leading indicator reached a high level in May but deteriorated afterwards both in the manufacturing and the trade sector. The decrease in new car sales, lower foreign orders and the slower growth of industrial production are all confirming the gradual slowdown. Higher oil prices, interest rates increases, depressed equity market and signs of slower growth abroad (both in the US and in the euro-area) are the most important factors behind this downward pressure, leading to a more balanced economic growth.

According to the consensus forecast, real GDP is expected to grow by 2.9 p.c. in 2001, compared to 3.8 p.c. in 2000. The downturn is set to continue during the first months of 2001 but should be followed by a pickup in the pace of activity during the second half of the year. Private consumption remains the key component in this economic profile. Real disposable income should benefit from the improving labor market situation and from the personal tax cuts.

Consumer price inflation accelerated to 3.7 p.c. in November, especially due to rising oil prices and the weak euro. Underlying inflation remained much lower (1.4 p.c.) but was also moving upwards. As oil prices decline and the euro strengthens, headline inflation is expected to subside in the course of 2001.

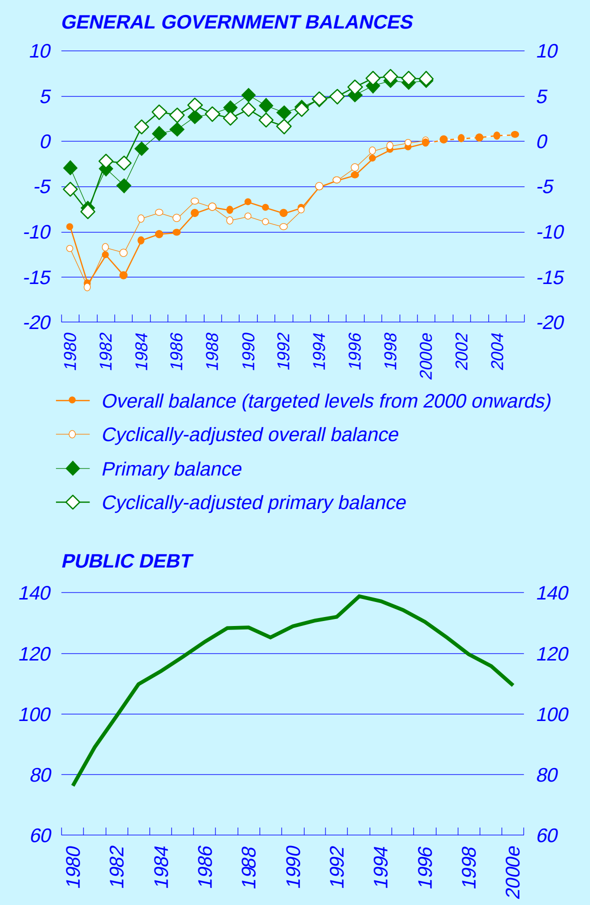
Belgium's budgetary position has strongly improved. The budget for 2001 forecasts a surplus of 0.2 p.c. of GDP, the first surplus since 1950, based on prudent macro-economic assumptions. One of the objectives of the Stability Program 2001-2005 is to use part of the budgetary surpluses for reducing the debt ratio further, from 115.9 p.c. of GDP in 1999 to 88.7 p.c. in 2005.

SPECIAL TOPIC

ROOM FOR NEW POLICY PRIORITIES THANKS TO A HIGHLY SUCCESSFUL FISCAL CONSOLIDATION

In the early 1980s Belgian public finances were in dire straits. According to the latest national accounts, the general government deficit worked out at a record 15.7 p.c. of GDP in 1981. The following year proved to be a turning point however. The fiscal stance clearly tightened as is demonstrated by the large swing in the cyclically-adjusted primary balance, from a deficit of close to 8 p.c. in 1981 to a surplus of more than 3 p.c. in 1990. Due to the snowball effect of interest charges, deficit reduction was nevertheless only very gradual and public debt kept increasing throughout the 1980s.

BELGIAN PUBLIC FINANCES
(percentages of GDP)



Budgetary discipline petered out by the early 1990s and fiscal policy was loosened significantly in the first years of the past decade. From 1993 onwards, on the eve of European Monetary Union, fiscal consolidation was resumed with renewed vigour inspired mainly by the convergence criteria regarding public finances defined in the Treaty on European Union. The cyclically-adjusted primary balance was hiked up considerably again and by 1997 the public deficit was brought down to 1.9 p.c. of GDP, well below the Maastricht deficit ceiling of 3 p.c. of GDP.

After 1997, fiscal policy has been primarily geared towards attaining a budgetary position which is close to balance or in surplus, as required by the Stability and Growth Pact. Subsequent stability programmes set out the course but were typically superseded by actual developments. Thus the December 1999 programme targeted a balanced budget by 2002 only, whereas the latest estimates reveal that the deficit would virtually disappear in the year 2000 already - i.e. two years ahead of schedule - owing to both the 1999 starting position and the macroeconomic environment in 2000 being better than anticipated. At the same time, public debt is expected to fall to less than 110 p.c. by the end of 2000, i.e. a solid 29 percentage points below the 1993 peak. Even more importantly, more than two thirds of this debt reduction was of an endogenous nature resulting from the high primary surplus. All in all, the country achieved remarkably well in terms of fiscal consolidation, a fact that is acknowledged by numerous international organisations such as the IMF, for example, in its recent annual review of Belgium.

In view of the still very high public debt and the ageing problem looming over the future budgets, it is obvious, however, that a balanced budget cannot be an endpoint for fiscal consolidation.

New budgetary norms had to be established. In this respect, the Superior Finance Council recommended that the government take advantage of the buoyant economic growth expected for 2001 to aim at a surplus of 0.5 p.c. of GDP, which would then be increased to 1 p.c. of GDP by 2005. This recommendation was accepted but the budgetary targets were reformulated on the basis of an assumed trend GDP growth in 2001 (rather than the actually expected higher one) to 0.2 p.c. of GDP for 2001 and 0.7 p.c. of GDP for 2005. It is clear, however, that if above-trend growth materialised, the surplus objective would be increased accordingly. This commitment has officially been taken by the Government on December 15th, when the updated stability program for the period 2001-2005 was approved. This new program targets a debt ratio of 88,7 p.c. of GDP by 2005, without taking into account any privatisation receipts or UMTS proceeds.

Notwithstanding these new and more ambitious targets, the main focus of the fiscal policy debate has obviously shifted to the appropriate management of growing budgetary surpluses. Indeed, it is widely held that, under normal economic circumstances and given that primary expenditure growth is strictly controlled, the budget surplus would increase faster than required by the government's new norms, due mainly to the reduction of public debt by some 4 p.c. of GDP a year pushing interest charges back continuously. Hence, growing budgetary margins would develop in the 2002-2005 period.

In the Prime Minister's presentation of the future policy guidelines to Parliament, a number of measures were announced that will have a growing impact on the budget. These measures translate the government's key policy objectives: alleviation of the tax pressure and, more specifically, a continued reduction of the tax wedge on labour; a further increase in the employment rate; a reduction of the poverty rate by half in ten years' time; increasing mobility; higher development aid; a more efficient and transparent government sector; and, finally, the creation of a special fund (with the UMTS and privatisation proceeds and additional budgetary means afterwards) to prepare for the ageing-related costs.

As far as the alleviation of tax pressure is concerned, the government has announced an ambitious plan for the reform of the personal income tax system which is to be introduced gradually from 2002 onwards. The reform should reduce personal income taxes by some 1.3 p.c. of GDP by 2006 and has two key features. First, it significantly reduces taxes weighing mainly on labour (by introducing a refundable tax credit for low labour incomes, abolishing all marginal rates above 50 p.c. and generally reshuffling the tax brackets). Second, it makes the tax system more neutral with respect to the taxpayer's social status and eradicates all existing discriminations between married and unmarried couples. Less importantly, the reformed system should provide higher tax rebates for child-raising costs and contain a limited number of environmentally-friendly provisions. Apart from this general reform, personal income taxes will also go down due to the gradual abolition of the complementary crisis contribution and the tax rebates in the Flemish region; both measures having an impact on 2001 tax revenue already. Finally, it should be mentioned that the government will also reform the corporate tax system. The system will be generally simplified by a significant downsizing of the allowances and an equivalent reduction of the nominal flat rate such that this reform would imply a zero budgetary cost.

The specific employment measures will mainly pertain to an eradication of remaining unemployment or inactivity traps and to conditional cuts in social security contributions following substantial cuts introduced in 2000 and before.

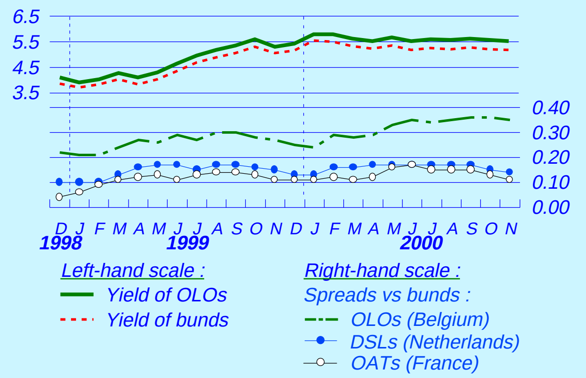
Unlike in the early 1990s, when fiscal consolidation was interrupted by an abrupt loosening of the fiscal stance, these measures should not jeopardise past achievements as they are embedded in a long-term public finance framework based on relatively cautious macroeconomic assumptions and providing for an increasing budgetary surplus. In addition, the large tax reductions could spur economic growth in the longer run by increasing labour supply and moderating wage claims.

GOVERNMENT SECURITIES MARKET

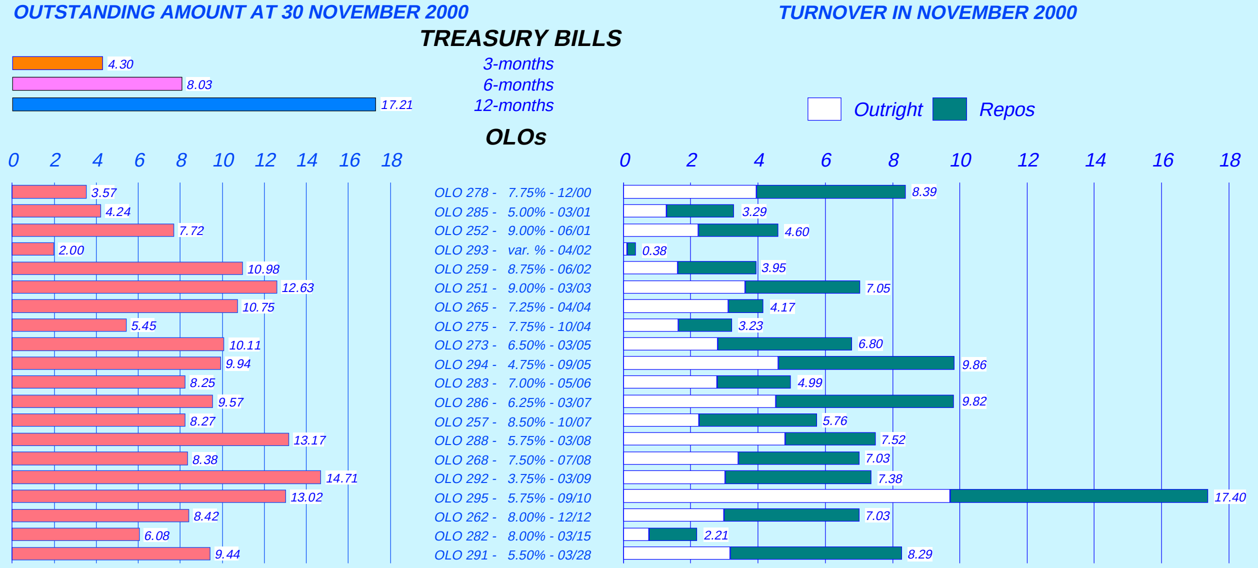
PRIMARY MARKET (billions of euros)

	OLOs Gross issues 1999	OLOs Gross issues 2000		OLOs Net issues 1999	OLOs Net issues 2000		Treasury bills Net issues 1999	Treasury bills Net issues 2000
J	3.811	4.986	J	3.035	4.506	J	3.962	1.790
F	8.154	0.199	F	6.706	-0.009	F	-1.587	0.831
M	1.147	4.752	M	-1.722	3.884	M	-0.196	2.690
A	5.427	1.571	A	1.203	0.583	A	-1.524	-1.368
M	0.686	0.031	M	-0.043	0.003	M	0.116	-1.171
J	1.879	3.774	J	0.334	2.927	J	0.850	1.030
J	2.876	1.185	J	2.697	0.137	J	1.466	-0.811
A	0.441	4.925	A	0.000	0.349	A	0.104	0.262
S	3.905	3.704	S	3.773	3.007	S	-2.533	-0.558
O	1.636	0.389	O	0.818	0.013	O	-1.986	-1.502
N	0.889	5.535	N	-0.059	3.230	N	-1.992	-0.699
D	1.449		D	0.819		D	-3.486	

BENCHMARK 10-YEAR BOND YIELDS (p.c.)

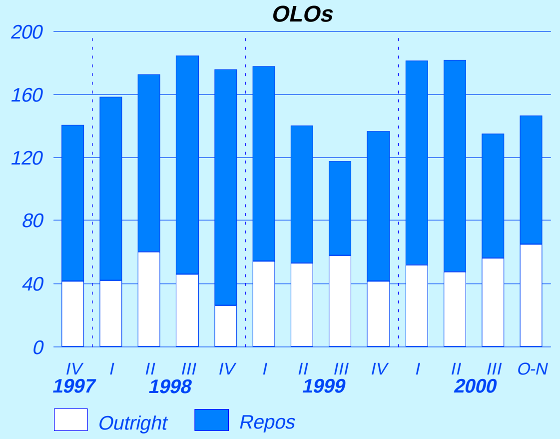


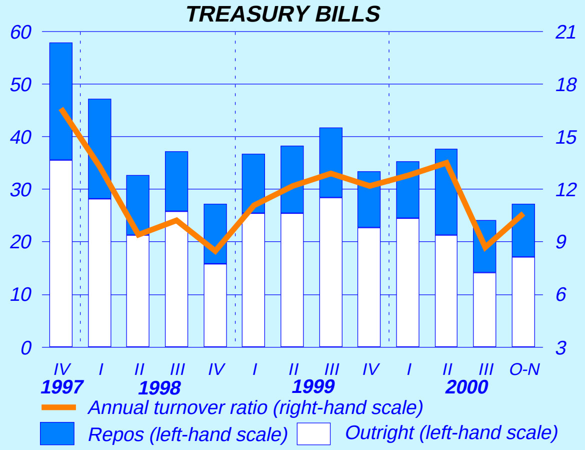
OUTSTANDING AMOUNT AND TURNOVER (billions of euros)



GOVERNMENT SECURITIES MARKET (continuation)

SECONDARY MARKET ACTIVITY (billions of euros, standardised monthly averages)





TREASURY HIGHLIGHTS

In 2001, the Treasury will stick to its weekly T-bill (Treasury certificates) auctions, but instead of issuing the three lines (3m,6m and 12 m) at the same time, the auction will only pertain to 2 lines, either 3m + 6m or 3m +12m. In principle there will be two consecutive issuances of 3 + 12 months, followed by two consecutive issuances of 3 + 6 months. There will be only one maturity per month on the Thursday nearest to the 15th of the month.

The Treasury cancelled the last three T-bill auctions in 2000.

The auction of UMTS-licences has been delayed and should take place in early 2001.

On December 1 2000 the Council of Ministers decided to set up the so-called Silver Fund as a public entity with legal personality. The Fund aims at reducing public debt in order to securing the payment of the legal pensions in the period between 2010 and 2030.

The list of Primary Dealers has recently been modified, in particular by expanding the number of large international institutions. The new members are Crédit Agricole Indosuez, Commerzbank Aktiengesellschaft and Schroder Salomon Smith Barney. The new list will take effect on 1 January 2001. Further information can be found on the Treasury's Website: www.treasury.fgov.be/interdette.

OLO AUCTION AND EXCHANGE OFFER DATES

Month	Date	Settlement	Auction	Exchange Offers			
January 2001	8	11		Code 263	Phil.IX	7.50 %	1 Feb. 2001
	29	1 Feb.	Auction				
February 2001	5	8		Code 285	OLO 25	5.00 %	28 March 2001
	26	1 March		Code 285	OLO 25	5.00 %	28 March 2001
March 2001	5	8		Code 252	OLO 7	9.00 %	27 June 2001
	26	29	Auction				
April 2001	2	5		Code 252	OLO 7	9.00 %	27 June 2001
	30	3 May		Code 280	Phil. XV	8.00 %	14 March 2001

LIST OF CONTACT PERSONS

PARTICIPATING INSTITUTIONS :	TECHNICAL EDITORS :	TELEPHONE :	FAX :
Ministry of Finance	Mr Stefan Theys	32 2 233 72 23	32 2 233 71 14
Artesia BC	Mr Peter Van Dijcke	32 2 204 40 17	32 2 204 41 61
Bank Brussels Lambert	Mr Peter Vanden Houte	32 2 547 80 09	32 2 547 80 63
Barclays Capital	Mr Jacques Delpla	33 1 44 58 32 26	33 1 44 58 32 58
Dexia Bank	Mr. Jacques de Pover	32 2 222 44 71	32 2 222 33 76
Fortis Bank	Mr Guy Verfaille	32 2 565 33 64	32 2 565 24 18
KBC Bank	Mr Edward Roosens	32 2 429 50 81	32 2 218 36 36
GENERAL INFORMATION			
National Bank of Belgium	Mr Luc Dresse	32 2 221 20 39	32 2 221 31 62

This publication is also available on the internet site www.nbb.be.
Information on the Belgian government debt can be found on the site of the Treasury: www.treasury.fgov.be/interdette
General information on the Belgian government's action can be found on the site www.fgov.be.