BELGIAN PRIME NEWS

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Next issue: *June 2005*
Sources: *NBB, unless stated*

Special topic :

Trend in the interest rate on the public debt

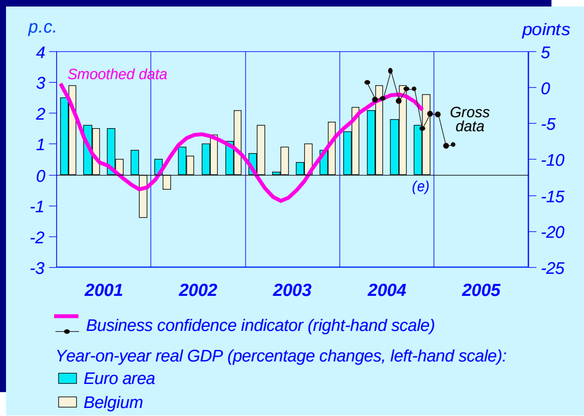
CONSENSUS: Average of participants' forecasts

	2004 e		2005 p			2006 p		
	Belgium	Euro area [4]	Belgium Consensus	Belgium Previous consensus	Euro area [4]	Belgium Consensus	Belgium Previous consensus	Euro area [4]
Real GDP [1]	2.7	1.8	2.2	2.3	2.0	2.4	2.4	2.2
Employment [1]	0.7	0.5	0.7	0.7	0.9	0.8	0.8	0.9
Consumer prices [1]	1.9	2.1	1.9	1.8	1.9	1.7	1.7	1.7
Current account [2]	3.4	0.8	3.6	3.5	0.8	3.8	3.4	0.8
General government balance [2 3]	0.0	-2.9	-0.2	-0.3	-2.5	-0.1	-0.2	-2.5
Primary balance [2]	4.8	0.5	4.5	4.7	0.8	4.5	4.8	0.8
Public debt [2]	95.6	71.1	95.0	95.2	71.1	92.0	92.2	70.9

[1] P.c. change. [2] In p.c. of GDP. [3] ESA 1995 definition. [4] European Commission.

MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

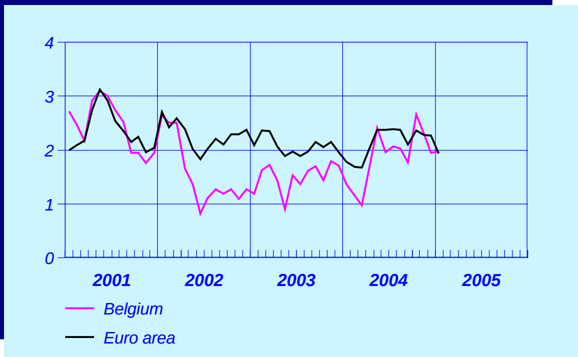
In 2004, the Belgian economy expanded by 2.7%, while growth in the euro area only amounted to 1.8%. Since mid-2003 the Belgian economy has been benefiting from the worldwide recovery, through higher exports. Compared to the rest of the euro area, it has also benefited from strong private consumption outlays which supported domestic demand.

However, GDP growth slowed down in the last quarter of 2004. The speed of quarter-on-quarter GDP growth reduced to 0.4%, whereas in the seven previous quarters it had reached rates of 0.7-0.8%. Growth decelerated also in the euro area, as the world economy slightly lost momentum and the euro appreciated.

In line with this slowdown, the NBB business survey indicator fell to a lower level at the end of 2004 and in the first months of 2005. Confidence deteriorated mainly because of less favourable assessments and perspectives for the export orders, induced by the appreciation of the euro and the persistent high oil price.

*As a result of the recent weak activity, the **average forecast of the participating institutions for GDP growth in 2005 has been revised slightly downward, from 2.3% in January to 2.2%**. The **growth forecast for 2006 remained unchanged at 2.4%**. The GDP growth rate is nevertheless expected to remain at a sound level supported by the fundamentals the economy built up in 2004. Compared to the previous year, it is expected to become more broadly based in 2005. In particular investment is projected to pick up while consumption would continue to grow robustly.*

HARMONISED CONSUMER PRICES
(annual percentage changes)



Source: EC.

Average headline inflation increased from 1.5% in 2003 to 1.9% in 2004, primarly as a result of higher energy prices. The underlying trend in inflation actually decelerated, tempered by the gradual pass-through of the appreciation of the euro and the moderate level of wage cost increases.

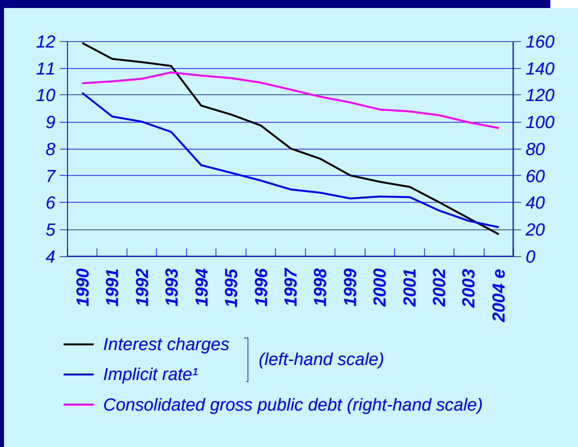
Despite the current high level of the energy prices, the outlook seems to rely on a continuing sound, inflation-neutral economic growth. Primary dealers ***slightly increased their inflation forecasts for 2005 from 1.8% to 1.9%****.* ***For 2006, the inflation rate stabilised at 1.7%****.*

For the fifth year in a row, the Belgian government succeeded in 2004 in having a balanced budget or a small surplus. Updated estimates for the 2004 Belgian general government accounts point to a balanced budget according to the ESA 1995 definition and to a small surplus of 0.1% of GDP according to the definition used within the scope of the excessive deficit procedure (EDP).

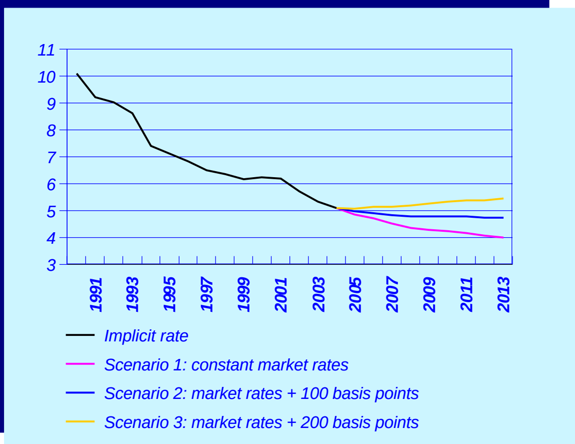
In view of this result and the still sound outlook for the economy, primary dealers ***raised their forecasts for the 2005 balance from a 0.3% to a 0.2% of GDP deficit****. For 2006, they also improved their forecasts to a 0.1% of GDP deficit. The considerable reduction of the government debt in 2004 is expected to continue, although its pace might temporarily slow down in 2005, due to the restructuring of the national railway company on 1 January, as the new entity managing the assets and historical liabilities (2.5% of GDP) of this company will come under the statistical boundaries of the general government sector. Primary dealers* ***expect the debt ratio to drop to 95.0% and to 92.0% of GDP in 2005 and 2006,*** *compared to estimates of 95.2% and 92.2% of GDP in January.*

SPECIAL TOPIC: Trend in the interest rate on the public debt

INTEREST CHARGES, DEBT RATIO AND IMPLICIT INTEREST RATE
(percentages of GDP, unless otherwise stated)



IMPLICIT INTEREST RATE ON THE PUBLIC DEBT[1] [2]
(percentages)



Sources: NAI, FPS Finance, NBB.
[1] Ratio between interest charges in the current year and the debt at the end of the previous year.
[2] On the technical assumption that the level of debt remains constant and the debt structure remains unchanged.

Owing to a protracted fiscal consolidation effort, lasting for more than ten years, the Belgian government debt declined from a record high of about 137% of GDP in 1993 to 95.6% in 2004. This downward trend has been initiated by high primary surpluses, largely offsetting the negative effect from the high interest burden. However, the decline in interest charges also contributed to improving the Belgian fiscal position.

Between 1993 and 2004 interest charges dropped from 11.1 to 4.8% of GDP. This reduction was brought about by the contraction of the debt ratio, averaging 3.7% of GDP per annum, and by the steady reduction in the implicit rate on the public debt, averaging 0.3 percentage point per annum. Of the average annual decline in interest charges, amouting to 0.6% of GDP, 0.4 percentage point is attributable to the reduction in the implicit rate on the public debt. The possibility of refinancing at lower market rates loans which matured or where repaid early, thus permitted the creation of a substantial budget margin during the past decade for an amount equal to the fall in interest charges.

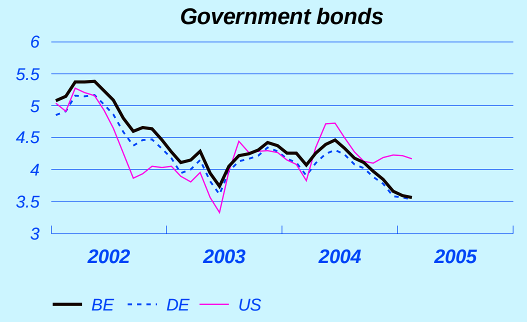
Since nominal market interest rates reached historically low levels, any continuing future reduction in the implicit interest rate is therefore likely to proceed more slowly than in the past. There is also a possibility that a rise in market interest rates could stabilise or increase the implicit rate on the public debt.

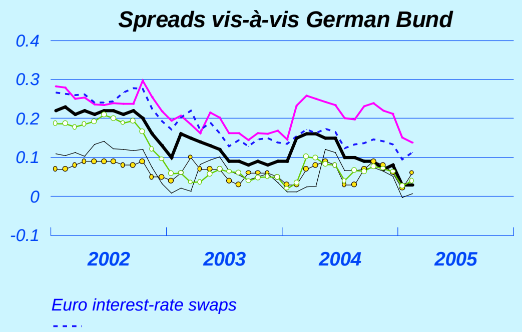
By way of illustration, three scenarios were examined: in the first, short and long-term market interest rates remain constant at the average level of 2004, in the second, market interest rates increase by 100 basis points at the beginning of 2005, then remain steady, and finally, in the third scenario, this increase is put at 200 basis points. In the first scenario, the implicit interest on the public debt continue to decline, but more slowly than in the past. In the second scenario, the decline in the implicit rate is halted just after a few years, so that the reduction in interest charges via the interest channel would disappear entirely. A 200 basis point rise in the market interest rates leads to an almost immediate increase in the implicit interest rate, so that - in contrast to what has happened in the past - that would exert upward pressure on the interest charges.

As the government is committed to achieve a balanced budget in 2005 and 2006 and to realise a budget surplus the following years, the debt ratio should continue its rapid decline. This further debt reduction will continue to have a downward effect on the interest charges on the public debt.

GOVERNMENT SECURITIES MARKET

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



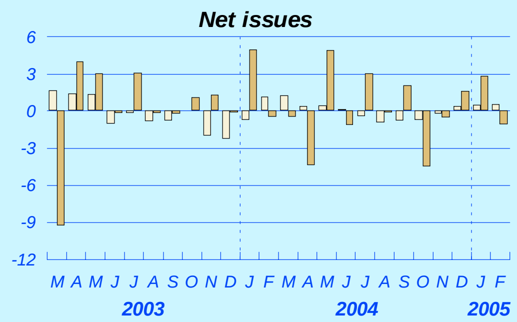


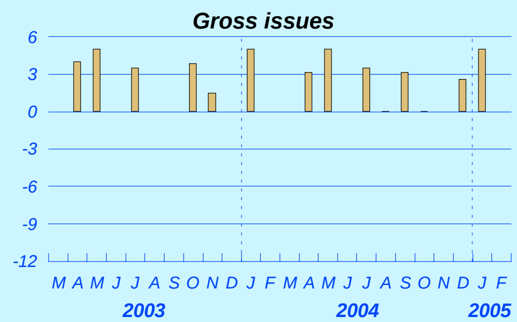
Sources: BIS, Datastream.

The decrease of the long-term bond yields in Belgium and Germany, which started in the second half of 2004, continued at the beginning of 2005 and attained a level below the mid-2003 record. This development resulted mainly from decreasing real interest rates, whereas inflation expectations remained broadly unchanged. In contrast, interest rates on US 10-year government bonds stabilised at the same level as in the autumn of 2004.

After a period of stabilisation in the autumn of 2004, euro area countries' government bond spreads vis-à-vis the German Bund declined in December and January. In February, however, a small rebound was observed in most countries. The spread for euro area interest-rate swaps showed a similar pattern, declining somewhat at the end of 2004 and the beginning of 2005, and slightly rising again in February.

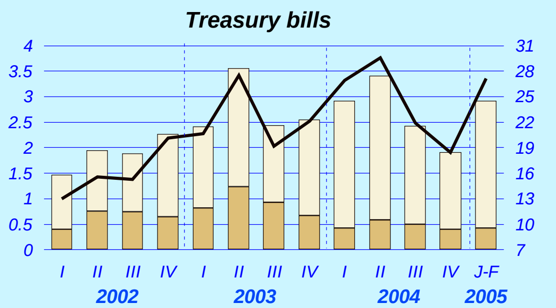
PRIMARY MARKET (billions of euros)

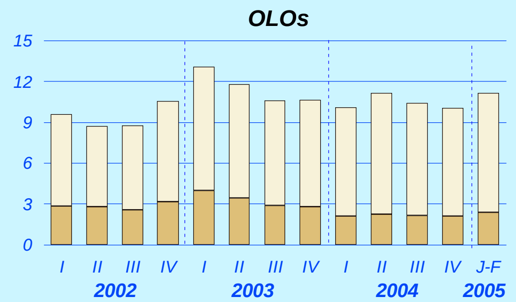




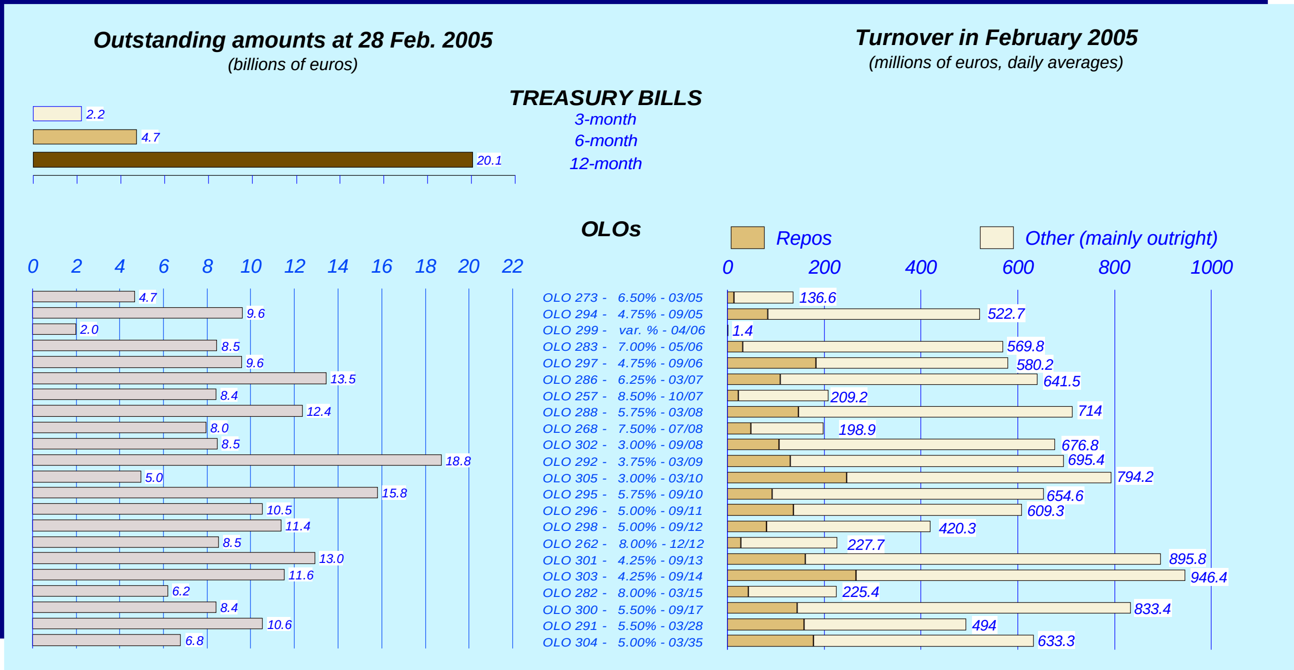
Treasury bills OLO

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





OUTSTANDING AMOUNTS AND TURNOVER



TREASURY HIGHLIGHTS

During the first quarter of 2005, the Kingdom issued two new benchmarks:

*On January 12th, the Kingdom priced its new **5-year EUR 5 bln benchmark bond** (3% **OLO 45**, due 28.03.2010) with a yield spread of 9 basis points vis-à-vis the OBL maturing October 2009 and 5.6 basis points over the January 2010 BTAN.*

The geographical allocation of the bonds was as follows :

- *Belgium 22%*
- *Other Euro 29%*
- *Europe non-Euro 27%*
- *US & Canada 1%*
- *Asia 21%*

The bonds were mainly placed with customer banks (46%), central banks & public entities (27%) and asset managers & other funds (20%).

*On March 9th, the Kingdom priced its new **10-year EUR 5 bln benchmark bond** (3.75% **OLO 46**, due 28.09.2015) with a yield spread of 8 basis points vis-à-vis the 3.75% Bund 01/2015 and 4.8 basis points over the 3.5% OAT 04/2015.*

The geographical allocation of the bonds was as follows :

- *Belgium 20%*
- *Other Euro 44%*
- *Europe non-Euro 26%*
- *US & Canada 3%*
- *Asia 4%*
- *Other 3%*

The bonds were mainly placed with customer banks (54%) and asset managers & other funds (29%).

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

OLO AUCTIONS AND SYNDICATIONS

Month	Date	Settlement
May (Auction)	30	2 June
July (Auction)	25	28
September (Auction)	26	29
November (Auction)	28	2 December

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Information on the Belgian government debt can be found on the site of the Treasury: www.debtagency.be.
General information on the Belgian government's action can be found on the site www.belgium.be.