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Sources: NBB, unless otherwise stated

Special topic : Public Finance and Treasury Debt Issuance

Last update: On 5 January 2006, the government announced that the 2005 government account had closed with a balanced budget, thus meeting the stability programme target. The debt stands at 94,3% of GDP.

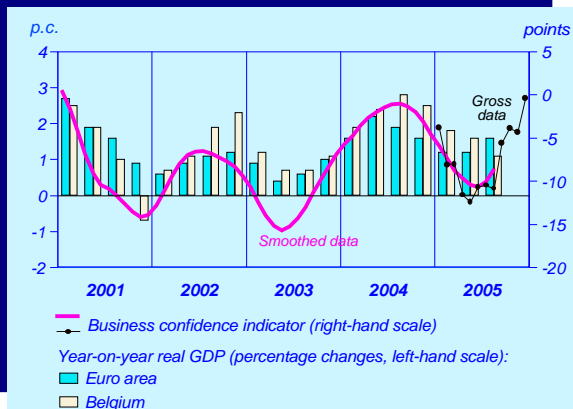
CONSENSUS: Average of participants' forecasts

	2005 p			2006 p			2007 p	
	Belgium Consensus	Previous consensus	Euro area ⁴	Belgium Consensus	Previous consensus	Euro area ⁴	Belgium Consensus	Euro area ⁴
Real GDP¹	1.4	1.4	1.3	2.1	2.0	1.9	2.0	2.1
Employment¹	0.6	0.5	1.0	0.6	0.7	1.2	0.6	1.1
Consumer prices¹	2.5	2.5	2.3	2.1	2.0	2.2	1.8	1.8
Current account²	2.0	2.6	0.0	2.9	2.8	-0.1	3.1	-0.1
General government balance^{2,3}	-0.1	-0.2	-2.9	-0.4	-0.8	-2.8	-0.3	-2.8
Primary balance²	4.4	4.3	0.3	3.8	3.4	0.2	3.7	0.2
Public debt²	94.4	95.2	71.7	91.3	92.7	71.7	88.7	71.8

¹ P.c. change. ² In p.c. of GDP. ³ EDP definition. At the time of the closing of this Belgian Prime News, the statistical treatment of some operations was still being examined by Eurostat. ⁴ European Commission (forecast available since November 2005).

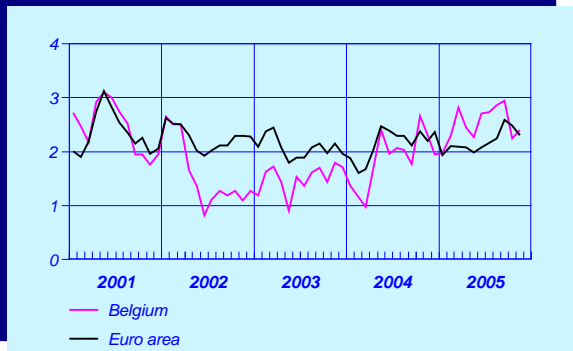
MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES (annual percentage changes)



Source: EC.

Following a deceleration at the turn of the year, stemming from a drop in exports and hence in industrial activity, economic growth gradually regained some strength in the course of 2005. According to the NAI's flash estimate, real GDP in Belgium increased by 0.4% in the third quarter, up from 0.1% and 0.2% respectively in the first two quarters.

The NBB business confidence indicator has been recovering since the summer, with a particularly marked rise in industry, at a time when oil prices were soaring. The persistently high level of oil prices is largely due to strong world demand, especially in Asia and the United States. The latter factor triggered stronger euro area growth in the third quarter of 2005. Belgian exports also increased both to euro area customers and to those outside the euro area. In Belgium, the growth momentum has been supported throughout the year by strong domestic demand, stimulated by strong business investments.

As the recovery proceeded in line with expectations, **the participating institutions forecast GDP growth averaging 1.4% in 2005, the same result as in September. The gradual strengthening is expected to continue, and the forecast for 2006 has been adjusted only slightly, from 2% to 2.1%. Growth should remain close to potential in 2007, at 2%.** Strong domestic demand, including exceptional purchases of vessels, some deterioration in the terms of trade and exports lagging behind market developments at the beginning of the year, as in most other euro area countries, brought the current account surplus down, to a forecast 2% of GDP in 2005.

Following the peak reached during the hurricane season in the United States, oil prices went down in October. Combined with the temporary rebate on the price of heating oil supplied to households in the last quarter of the year, this brought down the HICP inflation rate from 3% in September to 2.4% in November, close to the euro area figure (2.3%). **The consensus inflation forecast for 2005 has been left unchanged at 2.5%. Inflation is still expected to decelerate to 2.1% in 2006 and 1.8% in 2007.**

SPECIAL TOPIC: Public finance and Treasury debt issuance

According to the Consensus estimate, the general government budget was close to balance in 2005. The government is again aiming at a balanced budget in 2006. The 2006 budget is likely to be negatively affected by the delayed impact of the reform of the personal income tax system on the tax settlements, and the further cuts in social contributions, but this will probably be offset by increases in other taxes (e.g. the introduction of a withholding tax on certain investment funds) and expenditure restraint. The impact of temporary measures is expected to be roughly comparable to that in 2005 with further real estate sales, a new regularisation operation for unpaid taxes and a second securitisation of tax arrears all being planned for 2006. Taking into account this budget, submitted to Parliament in

October 2005, institutions participating in the Prime News have revised downwards the budget deficit since September. However, they are somewhat more pessimistic than the government, with the Consensus estimate pointing to a limited 0.4% of GDP deficit for the time being, partly because of a slightly less favourable growth outlook.

GENERAL GOVERNMENT BALANCE¹ (in p.c. of GDP)

	2002	2003	2004	2005	2006	2007	2008	2009
Stability programme targets								
December 2000	0.3	0.5	0.6	0.7				
November 2001	0.0	0.5	0.6	0.7				
November 2002	0.0	0.0	0.3	0.5				
November 2003		0.2	0.0	0.0	0.0	0.3		
December 2004			0.0	0.0	0.0	0.3	0.6	
December 2005				0.0	0.0	0.3	0.5	0.7
Outcome	0.0	0.1	0.0	0.0 ²				

Sources: Ministry of Finance, NAI.

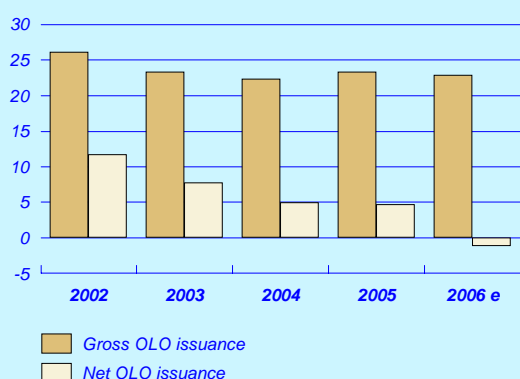
¹ EDP definition.

² The statistical treatment of the restructuring of the BNRC and of the securitisation of tax arrears is still being examined by Eurostat.

In December 2005 the government also submitted a new update of the stability programme. It confirms that continued consolidation of public finances is a key element of the strategy to deal with population ageing. In this connection, the government aims at budget surpluses increasing gradually from 0.3% of GDP in 2007 to 0.7% of GDP in 2009 and 1.3% of GDP by 2012. As indicated in the new law on the Silver Fund in which this budgetary path is anchored, these surpluses will be earmarked for the Silver Fund. The sustained decline in the public debt will thus continue, bringing the level from 133.4% in 1993 to less than 80% of GDP in 2009.

Backed by a strong track record, as actual fiscal balance outcomes have proved close to previously announced targets, the broadly shared commitment to continuing fiscal consolidation has reinforced the position of the debt paper issued by the Belgian Treasury in the government bonds market. As explained below, both professional and individual investors have access to liquid secondary markets for OLOs, the Treasury's main funding instrument.

OLO ISSUANCE (billions of euro)



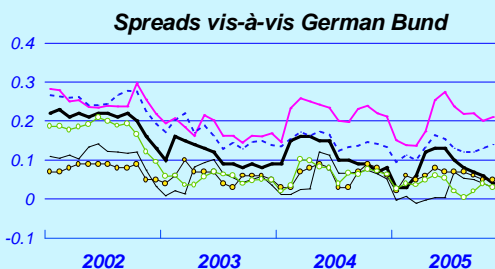
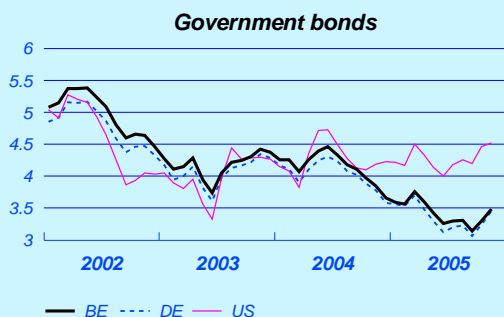
The OLO issuance pattern has been stable and predictable in recent years, features which are appreciated by the financial markets. The Treasury adopted a target issuance range of EUR 20 – 25 billion in 2003, and confirmed it in each of the following years. For 2006, OLO issuance should again be comparable, with an expected volume of EUR 22.89 billion (for more details on the 2006 funding plan, see the Treasury Highlights section).

In contrast to this stable issuance pattern, net OLO issuance has been declining as the refinancing of public bonds (other than OLOs) and private placements by OLOs have diminished rapidly. Indeed, a very large part of the medium- and long-term debt is now represented by OLOs, the remainder mainly consisting of the State Notes portfolio, and the debt of ALeSH/Fadels and NMBS/SNCB to be refinanced by the Treasury. Net OLO issuance may even be slightly negative in 2006.

Both factors – the predictable and stable issuance pattern and the declining net issuance – have helped to achieve funding at very tight levels compared to other EMU sovereign borrowers. The spreads in relation to Germany and France recently narrowed to less than 2 bp in the 10-year sector, reaching historical lows, despite a moderate widening of swap spreads.

GOVERNMENT SECURITIES MARKET

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



Sources: BIS, Datastream.

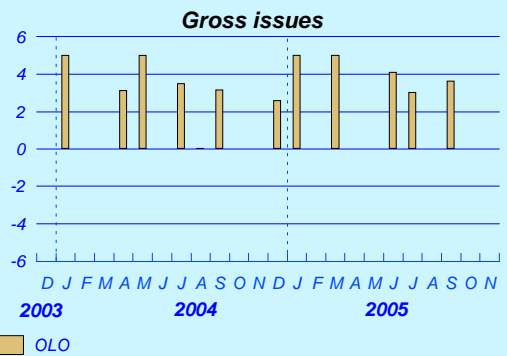
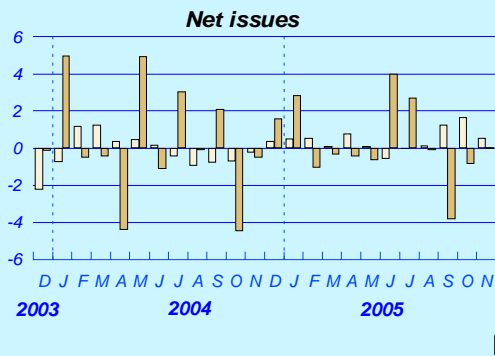
GOVERNMENT SECURITIES MARKET (continued)

After reaching historically low levels in September, Belgian and German 10-year interest rates on government bonds, increased in October and November. In the US, the 10-year interest rate continued its upward trend which started in June, except for a small drop in September. The recent increase in interest rates is due to a rise in real interest rates, since break-even inflation rates have declined somewhat in the last few months.

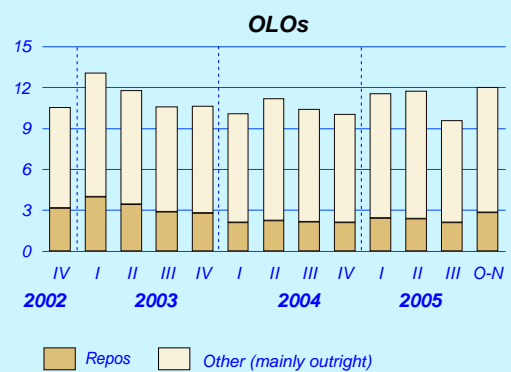
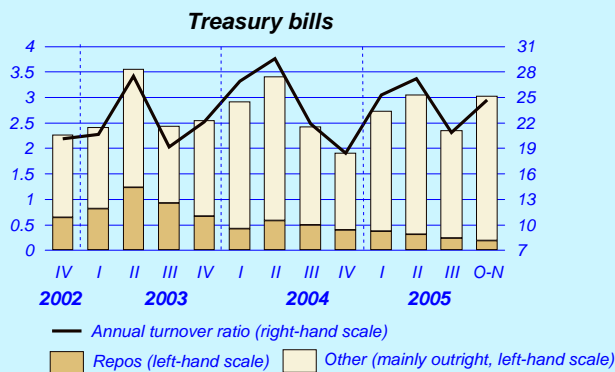
Government bond spreads vis-à-vis the German bund declined from August onwards in Belgium, France and the Netherlands. In Italy, spreads also fell, but in contrast to other European countries, a small increase was recorded in November. In Spain, a rise in the spread was observed between August and October, after which it declined slightly again in November.

The Euro interest rate on swaps showed a small increase in October and November, implying that the downward trend of the summer months was reversed.

PRIMARY MARKET (billions of euros)



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



Secondary small and medium-sized orders market for OLOs

The secondary market in OLOs is segmented between individual and professional investors. **The over-the-counter regulated market (OTC) is reserved for deals above EUR 500,000. It is a very liquid market whose liquidity is provided by the Belgian primary dealers.** Individual and mid-sized investors can only place their small and medium-sized orders on the Euronext exchange market through their bank or broker.

Until April 4, 2005, OLOs were fixed only once a day on Euronext. Since then however, **fixed-rate OLOs have been quoted on the Euronext Brussels continuous market (quotation group CA) from 9 AM to 5.25 PM CET by two designated liquidity providers: Van der Moolen Obligaties BV and Binck Securities BV. The continuous market is aimed at retail to mid-sized investors.** The two above-mentioned liquidity providers quote bid- and ask-prices for EUR 250,000 throughout the day, with a limited spread.

In the future, four Belgian PO-strips will also be quoted on the continuous market.

OLO's SPREADS ON THE EURONEXT BRUSSELS CONTINUOUS MARKET

Time to maturity (in years)	Spread (in basis points)		
	Actual	Maximum	pm MTS Belgium
$x < 3$	5-8	15	2-3
$3 \leq x \leq 5$	7-8	15	2-4
$5 < x \leq 10$	12-16	20	3-6
$x > 10$	16-30	30	4-15

OUTSTANDING AMOUNTS AND TURNOVER

Outstanding amounts at 30 November 2005

(billions of euros)

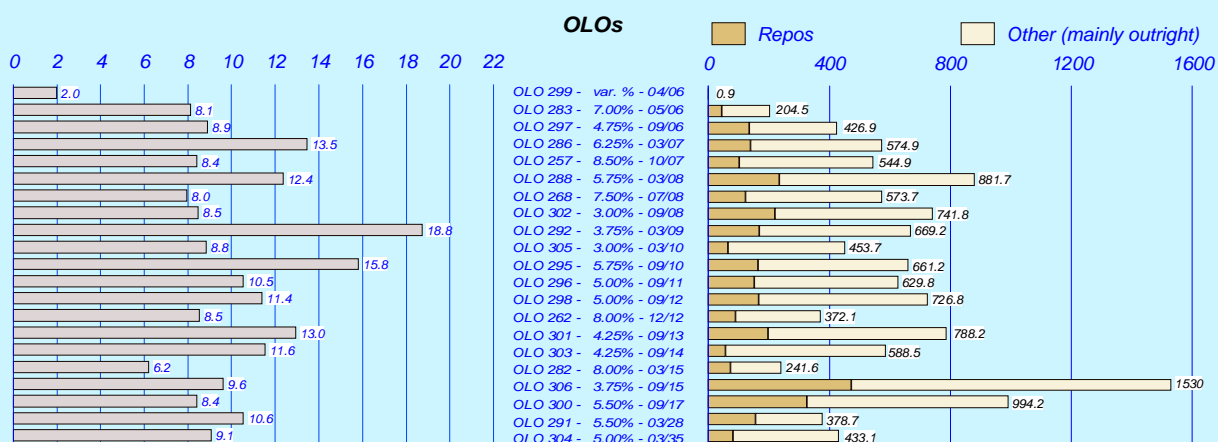


TREASURY BILLS

3-month
6-month
12-month

Turnover in November 2005

(millions of euros, daily averages)



TREASURY HIGHLIGHTS

On December 1st, the Belgian Debt Agency informed the financial markets about the Treasury's 2006 borrowing requirements and funding plan.

The Treasury expects its 2006 gross borrowing requirements to amount to **EUR 27.69 billion**, in line with previous years. Redemptions of medium- and long-term debt will amount to EUR 20.03 billion, and buy-backs of loans maturing in 2007 or later are estimated at EUR 5.00 billion. The Treasury also expects a cash deficit of EUR 2.66 billion.

As in previous years, **OLOs** will form the main funding instrument. The Treasury expects to issue an amount of **EUR 22.89 billion** (almost equivalent to the 2005 issuance of **EUR 23.32 billion**). Furthermore, the outstanding amount of **Treasury Certificates is unlikely to change** much in 2006. The rest of the funding needs will probably be covered by a decrease in the financial deposits held by the Treasury.

The details of the funding plan are available on the Belgian Debt Agency's website www.debtagency.be.

The OLO auction dates for 2006 are the following:

OLO AUCTIONS AND SYNDICATIONS

Month	Date	Settlement
January (Auction)	30	2 February
March (Auction)	27	30
May (Auction)	29	1 June
July (Auction)	31	3 August
September (Auction)	25	28
November (Auction)	27	30

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

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BNP Paribas
Dexia Bank
Fortis Bank
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KBC Bank
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This publication is also available on the internet site www.nbb.be.

Information on the Belgian government debt can be found on the Treasury website: www.debtagency.be.

General information on the Belgian government's action can be found on the website www.belgium.be.