

Belgian Prime News

QUARTERLY PUBLICATION

No. 33 September 2006

Special topic: Belgian economy strengthening in 2006

Last update: 27 September 2006

Next issue: December 2006

New data published by the NAI on 29 September are not taken into account.

Consensus: Average of participants' forecasts

	2005		2006 p			2007 p		
	Belgium	Euro area	Belgium		Euro area ⁽⁴⁾	Belgium		Euro area ⁽⁴⁾
			Consensus	Previous consensus		Consensus	Previous consensus	
Real GDP ⁽¹⁾	1.5	1.3	2.7	2.5	2.1	2.0	2.1	1.8
Inflation (HICP) ⁽¹⁾	2.5	2.2	2.3	2.2	2.2	2.0	1.9	2.2
General government balance ^{(2) (3)}	0.1	-2.4	-0.1	-0.2	-2.4	-0.6	-0.8	-2.3
Primary balance ⁽²⁾	4.5	0.6	4.0	3.9	0.6	3.3	3.3	0.6
Public debt ⁽²⁾	93.3	70.8	89.5	90.1	70.5	87.0	87.5	70.1

(1) P.c. change.

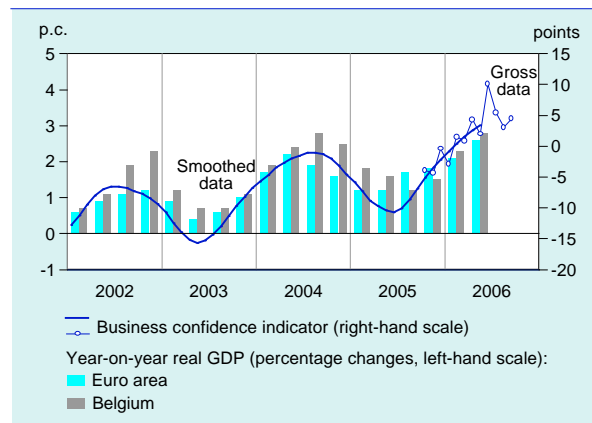
(2) In p.c. of GDP.

(3) EDP definition. Eurostat has to undertake further examination of some operations.

(4) European Commission (forecast available since May 2006).

Macroeconomic developments

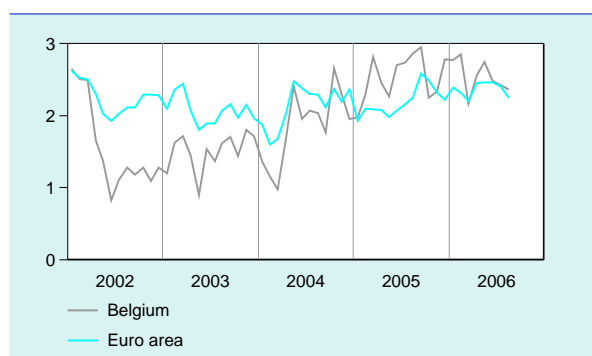
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES

(annual percentage changes)



Source: EC.

In Belgium, the upswing of economic activity that started in mid-2005 has remained on track in the first half of 2006. According to the NAI estimate, quarter-on-quarter GDP growth amounted to 0.8% in the second quarter of 2006. As set out in the Special Topic section, all branches and demand components are contributing to this strong performance. Despite some decline after the historical peak reached in June, the NBB business survey indicator is still pointing to a continuing sustained growth rate for the third quarter.

The outcomes for the first two quarters being stronger than previously expected led the primary dealers to upgrade their growth forecast for 2006. **On average, they now expect GDP growth forecast to reach 2.7% in 2006, whereas the average was 2.5% in June.** Due to the expected deceleration in Germany and, hence, in the euro area as a whole, a deceleration to a 2% growth is expected for 2007, close to the economy's potential.

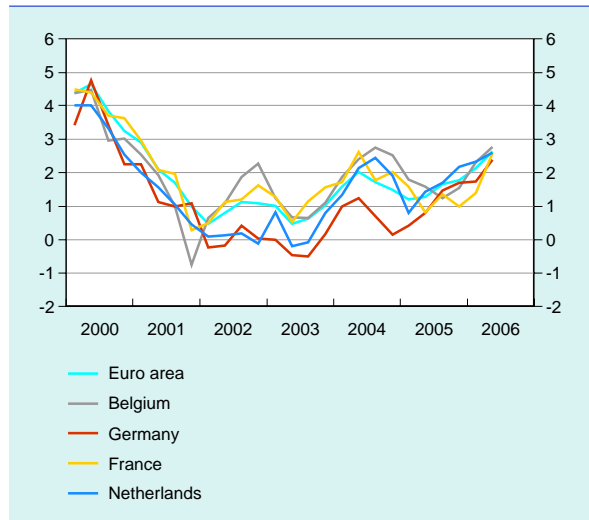
Since 2004 the trend in energy prices has been the main factor determining overall inflation movements. As expected, inflation slowed down somewhat in Belgium in the summer of 2006, especially in June, because of the base effect associated with the hike in oil prices during the summer of 2005. But as the oil prices reached a new high in August as a result of geopolitical tensions, the deceleration of inflation has been more limited than forecast. **Primary dealers revised their inflation forecast slightly upwards from 2.2% in June to 2.3% for 2006 and from 1.9% to 2% for 2007.**

Taking into account the higher expectations as to economic growth, **the primary dealers revised their forecast regarding the public deficit from 0.2 to 0.1% of GDP. For the year 2007, the deficit should deteriorate somewhat, reaching 0.6% of GDP.** It should be stressed that only some of the participants' forecasts include the effect of additional measures which may be taken by the government in drawing up the budget for 2007. **The debt ratio should continue to decline over the period, to 89.5% of GDP at the end of 2006 and 87% in 2007.**

Special topic: Belgian economy strengthening in 2006

REAL GDP GROWTH

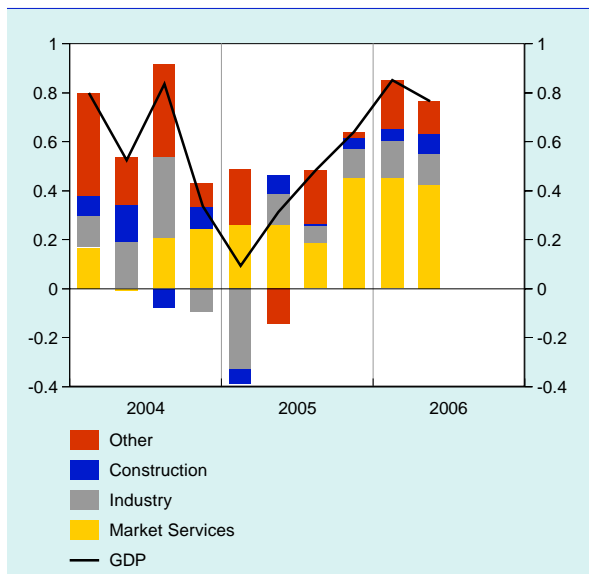
(annual percentage changes, adjusted for seasonal and calendar effects)



Sources: EC, NAI.

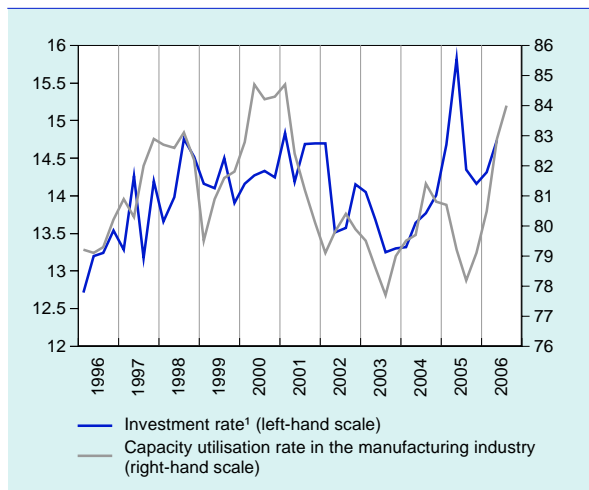
CONTRIBUTION OF THE MAIN BRANCHES TO REAL GDP GROWTH IN BELGIUM

(with respect to the previous quarter, adjusted for seasonal and calendar effects)



Source: NAI.

BUSINESS INVESTMENTS AND CAPACITY UTILISATION RATE



Sources: NAI, NBB.

¹ Quarterly business investments/GDP (constant prices, adjusted for seasonal and calendar effects).

Data available for the first half of 2006 confirm a significant improvement in the euro area economic activity. In Belgium as well, the GDP growth rate was stronger than previously expected, amounting to 0.9% quarter-on-quarter in the first quarter and to 0.8% in the second quarter, when the year-on-year growth reached 2.8%. This was slightly more than in the whole euro area (2.6%) and in the neighbouring countries.

The acceleration phase that started in mid-2005 is the strongest since 2001, although short-lived strengthening periods have been observed in-between. It is also largely spread across the main branches of the economy and is supported by all demand components.

Benefiting from the euro-area-wide cyclical revival of production, as the Belgian industrial sector is closely integrated with that of neighbouring countries, value added in that sector has been growing progressively for three quarters in a row. The activity of the market services sector, which account for 45% of Belgium's GDP, was even more outspoken, making a substantial contribution to GDP growth. The construction sector is currently the most dynamic sector with an annual growth rate of 4.3% in the second quarter 2006.

Looking at the various demand drivers, it appears that GDP growth became more balanced in the beginning of 2006. Supported by the conjunctural upturn in the neighbouring countries, exports gained momentum. At the same time, domestic demand reinforced significantly after a prolonged slump in the beginning of the 2000s. Sustained by favourable employment developments and improved consumer confidence, private consumption growth gradually accelerated. In the first half of 2006 it stabilised around 2.2% year-on-year. Business investment already showed a vivid upsurge at the end of 2004 and at the beginning of 2005, partly due to exceptional operations. Albeit less buoyant now, it is still evolving at a sustained pace and the business investment rate remains well above the levels of 2002-2004. Moreover, whereas the business investment was mainly supported by the services sector in 2005, dynamism recently pertained to industry.

Short-term perspectives still look positive. Disregarding a temporary hike in June, when the confidence level temporarily outpaced the actual underlying dynamism of activity, the NBB's business synthetic indicator levelled off at a high level during the third quarter, well above the historical averages. The information at hand thus suggests that GDP growth will remain firm in the second part of 2006.

In the medium term, however, conditions might prove less supportive of the European economies, in a context of a protracted strong currency and increasing short-term interest rates. In particular, whereas commodity prices are still extremely sensitive to possible supply disruptions, there is great uncertainty over the economic performance of the USA in the near future and the impact of the VAT rise in Germany. These risks could negatively affect the pace of activity growth in Belgium, should they materialise.

Belgium, like the euro area, is benefiting from a favourable conjunctural position in 2006. However, together with a further consolidation of public finances and controlled cost developments, structural improvements are needed in the fields of productivity, innovation and labour participation, in order to enhance the economy's resilience to bleaker business cycle circumstances and to cope with the ageing population and globalisation challenges.

Treasury highlights

The Treasury held its second OLO auction of the year on the 31st of July, accepting bids amounting to 2,955 billion euro. Two bonds were offered: the OLO 3.25% 09/2016 (OLO 47) and the OLO 4.00% 03/2022. The bid-to-cover ratio was 1.44.

The remaining OLO auction dates for 2006 are the following:

OLO AUCTIONS AND SYNDICATIONS

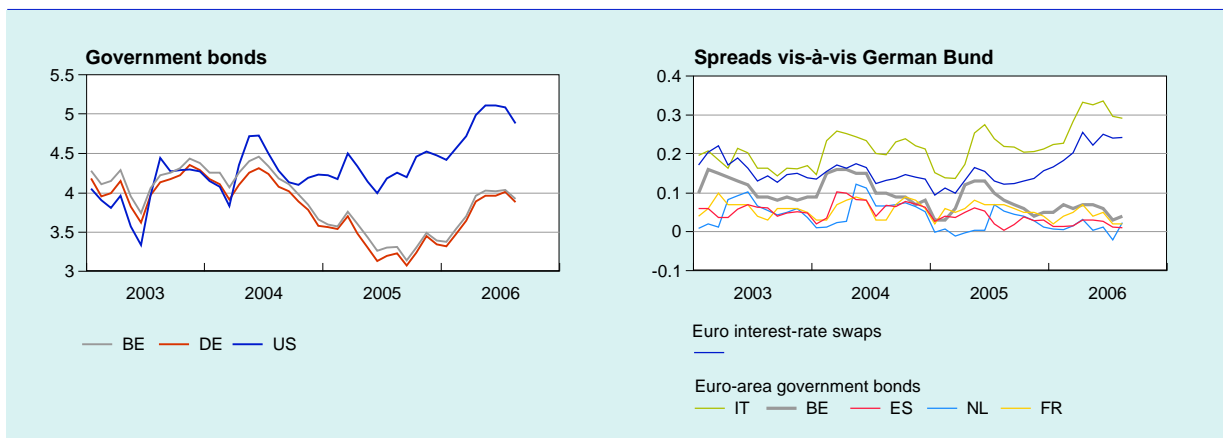
Month	Date	Settlement
September (Auction)	25	28
November (Auction)	27	30

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

Government securities market

10-YEAR INTEREST RATES

(percentage points, monthly averages)



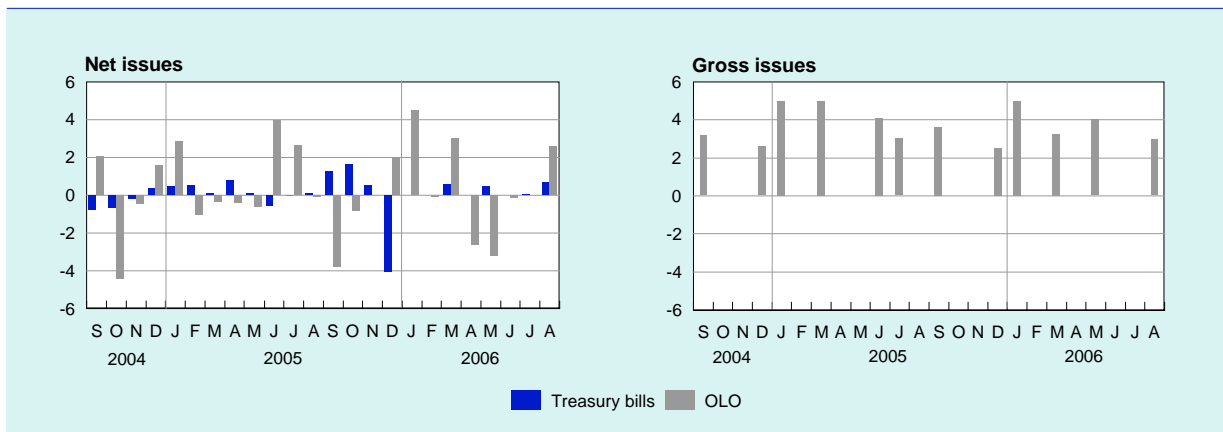
Sources: BIS, Datastream.

The upward trend in 10-year interest rates on government bonds, which started around mid-2005, was interrupted during the summer. Over the past months, government bond yields declined somewhat, mainly on account of lower real yields. Long-term break-even inflation rates remained broadly unchanged in the euro-area, but were slightly lower in the United States.

Except for the Netherlands, government bond spreads vis-à-vis the German bund narrowed somewhat during the past months. This move was more noticeable in Italy, thus partly undoing the increase early this year in that country. The spread on euro interest-rate swaps stabilized at a high level.

PRIMARY MARKET

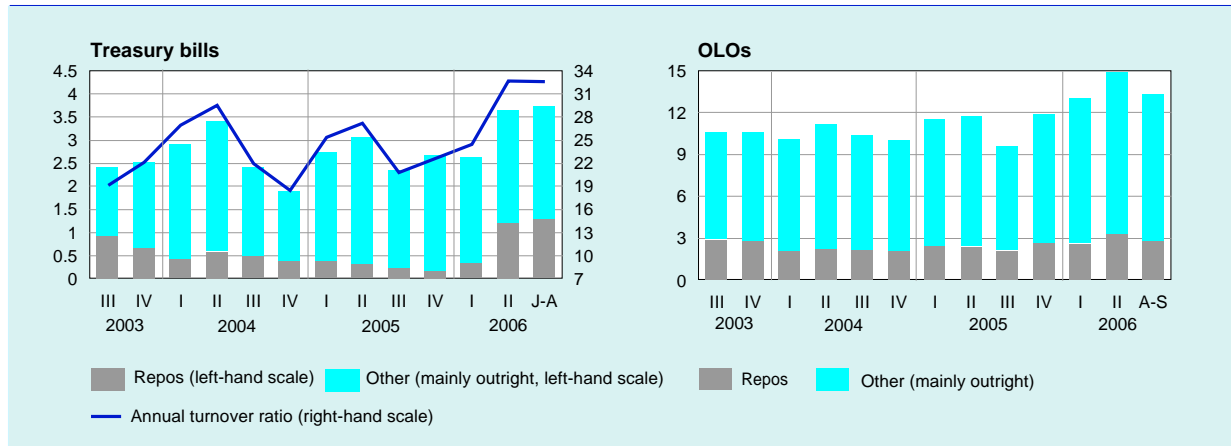
(billions of euros)



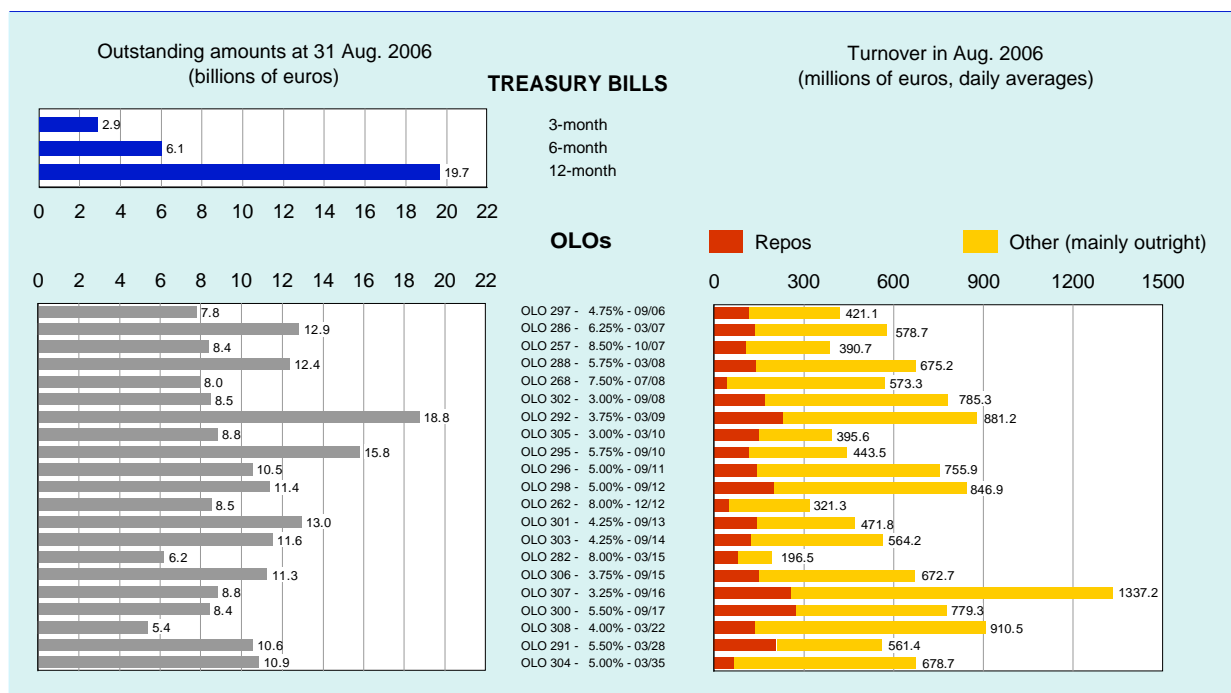
Government securities market (continued)

SECONDARY MARKET

(billions of euros unless otherwise mentioned, daily averages)



OUTSTANDING AMOUNT AND TURNOVER



List of contact persons

PARTICIPATING INSTITUTIONS

Federal Public Service Finance
Barclays Capital
Citigroup
Dexia Bank
Fortis Bank

ING

KBC Bank
Société Générale Corporate & Investment Banking
UBS Limited

GENERAL INFORMATION

National Bank of Belgium

TECHNICAL EDITORS

Mr Jean Deboutte
Ms Laurence Boone
Mr Jean Mercier
Mr Jacques de Pover
Ms Carine Brasseur
Mr Wim Bosman
Mr Peter Vanden Houte
Mr Ivan Van de Cloot
Mr Bart Van Craeynest

Ms Véronique Riches-Flores
Mr Stephane Deo

Mr Luc Dresse

TELEPHONE

+ 32 2 233 72 79
+ 44 20 7773 7032
+ 44 20 7986 3292
+ 32 2 222 44 71
+ 32 2 565 86 49
+ 32 2 565 31 84
+ 32 2 547 80 09
+ 32 2 547 31 61
+ 32 2 429 59 91

+ 33 1 42 13 84 04
+ 33 1 48 88 30 36

+ 32 2 221 20 39

FAX

+ 32 2 233 71 48
+ 44 20 7516 9987
+ 44 20 7986 3280
+ 32 2 222 33 76
+ 32 2 565 62 36
+ 32 2 565 24 18
+ 32 2 547 80 63
+ 32 2 547 31 63
+ 32 2 429 42 57

+ 33 1 42 13 71 33
+ 33 1 47 63 48 08

+ 32 2 221 31 62

Published by: National Bank of Belgium (NBB)

Sources: NBB, unless otherwise stated.

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.