BELGIAN DEBT AGENCY

Participating Primary Dealers: Barclays Capital, Citigroup, Dexia Bank, Fortis Bank, ING, KBC Bank, Société Générale, UBS Limited

National Bank OF BELGIUM
Eurosystem

Belgian Prime News

QUARTERLY PUBLICATION

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Special topic: Public Finance

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Last update: ***On 5 January 2007, the government announced that the 2006 government account had closed with a 0.1%-of-GDP surplus and that the debt stood at 87.1%-of-GDP (without the debt of the Railway Infrastructure Fund which according to the National Account Institute view has to be classified outside the government sector).***

Consensus: Average of participants' forecasts

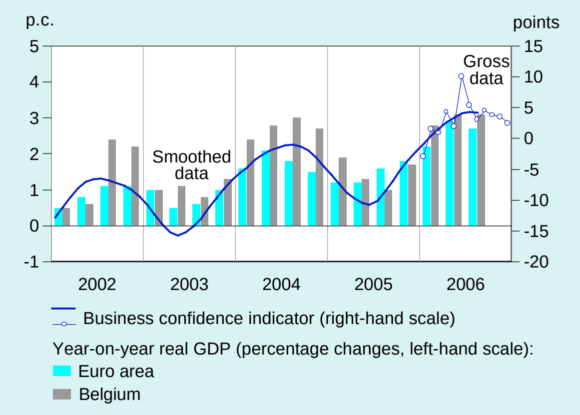
	2005		2006 p			2007 p		
			Belgium			Belgium		
	Belgium	Euro area	Consen-sus	Previous consen-sus	Euro area[4]	Consen-sus	Previous consen-sus	Euro area[4]
Real GDP[1]	1.5	1.4	2.9	2.7	2.6	2.1	2.0	2.1
Inflation (HICP)[1]	2.5	2.2	2.3	2.3	2.2	1.9	2.0	2.1
General government balance[2] [3]	-2.3	-2.4	-0.1	-0.1	-2.0	-0.1	-0.6	-1.5
Primary balance[2] [3]	2.0	0.5	4.1	4.0	0.9	3.7	3.3	1.4
Public debt[2] [3]	93.2	70.6	89.6	89.5	69.4	86.7	87.0	68.0

(1) P.c. change.
(2) In p.c. of GDP.
(3) EDP definition. According to the Eurostat view (for more explanation, see footnote 2 in the table of the Special Topic section).
(4) European Commission (forecast available since November 2006).

Macroeconomic developments

The Belgian economy has been evolving in a favourable environment especially since the turn of the year 2006. The growth of activity in the euro area in the first half of 2006 has proved to be stronger than previously predicted and oil prices, after rising further during the summer, have fallen to a level hovering around 60 dollars since October, below previous market expectations.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



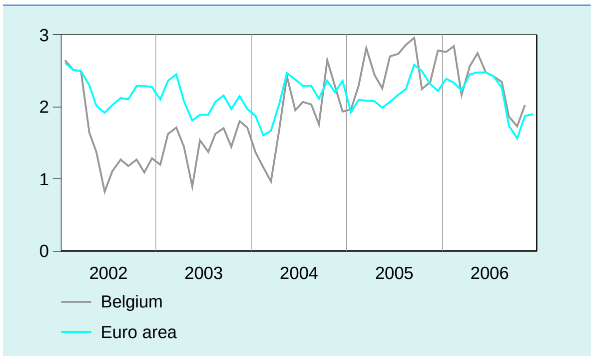
Sources: EC, NAI, NBB.

In this context, economic activity showed a considerable increase in vitality in Belgium in early 2006, with quarter-on-quarter GDP growth reaching 0.9% in the first three months of the year and 0.7% in the second quarter. This prompted primary dealers to further **upgrade their GDP growth forecast for 2006 from 2.7% in September to 2.9%.** Apart from the robust growth in foreign demand, the improvement in 2006 had its origins largely within the economy, in household consumption, housing and business investment. Value-added growth is also broadly-based across branches.

After the historical peak reached in June, the NBB business survey indicator fell back somewhat, suggesting a slight slowdown in the third quarter, confirmed by the 0.6% GDP growth flash-estimate, and then stabilisation still at a fairly strong rate at the end of 2006. Economic growth is therefore expected to maintain a sound course more in line with the potential growth for next year. **The participating institutions forecast on average a deceleration to a GDP growth rate of 2.1% for 2007.**

Macroeconomic developments: (continued)

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

Since 2004, the trend in energy prices has been the main factor determining overall inflation movements. HICP inflation slowed down markedly in September 2006 as the oil prices fell sharply after the historical peak reached in August. While the HICP remained above 2.3% in Belgium (and in the euro area) until August, it has stayed below 2% from September onwards. Primary dealers left their **inflation forecast unchanged at 2.3% for 2006 and revised their inflation forecast for 2007 downwards, from 2% to 1.9%.** This downward revision stems from both the fall in oil prices and the appreciation of the euro in the recent period.

Special topic: Public finance in Belgium

According to the Consensus estimate finalised in December 2006, general government should have posted a close-to-balance budget in 2006. This is broadly in line with the objective included in the December 2005 stability programme. For 2007, the government is aiming for a 0.3%-of-GDP surplus. The 2007 budget outcome will be negatively affected, albeit less than in 2006, by several reductions in personal income tax both at the federal level - such as the further raising of the standard amount for tax-deductible expenditure - and in certain regions. However, this would be more than offset by the increase in excise duties on tobacco and the proceeds of a new tax on packaging, even though the latter would only be introduced in July 2007. On the basis of current information, the net impact of temporary measures on the budget balance is likely to be somewhat lower than in 2006. These measures include additional real estate sales, the introduction of a temporary tax regime for the use of specific reserve funds on corporate bal ances, the bringing forward of certain social contributions and a new securitisation of tax arrears. **The Consensus estimate points to a minor government deficit for 2007.** This could be due to the fact that participating institutions have deemedthat certain measures announced by the government have not yet been specified in sufficient detail and, hence, have not included them in the budgetary projections or that the Consensus estimate for the macroeconomic outlook is slightly less favourable for public finances than the one used for drawing up the budget.

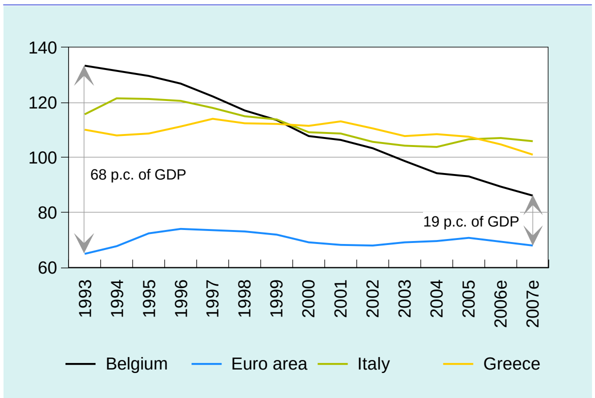
GENERAL GOVERNMENT BALANCE[1]
(in p.c. of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010
Stability programme targets								
November 2001	0.5	0.6	0.7					
November 2002	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	
December 2006				0.0	0.3	0.5	0.7	0.9
Outcome	0.0	0.0	-2.3[2]					

Sources: Ministry of Finance, NAI.
[1] EDP definition.
[2] According to the Eurostat view. However, contrary to Eurostat, the Belgian National Accounts Institute argues that the Railway Infrastructure Fund has to be classified outside the government sector and, hence, that, the transfer of most the debts of the national railway company to this Fund, following the restructuring of that company on 1 January 2005, should not affect public expenditure. In that case the 2005 budget would show a 0.1% of GDP surplus.

In December 2006, the government submitted the new stability programme covering the 2007-2010 period. The new programme broadly confirms the objectives defined in the previous update. Continued consolidation of public finances remains a key element of the government's strategy to deal with the budgetary impact of population ageing. In this connection, the budget surplus would be further increased after 2007 by 0.2% of GDP a year to 0.9% of GDP by 2010. Taking into account the projected further fall in interest charges, this would imply that the primary surplus remains virtually unchanged at 4.1 to 4.2% of GDP throughout the 2007-2010 period. So-called Entity I - consisting of the federal government and social security - would account for most of the budgetary improvement as its surplus would increase from 0.1% of GDP in 2006 to 0.7% of GDP in 2010. The budget balance of Entity II consisting of the regions, communities and local government would improve to a lesser extent, from a deficit of 0.1% of GDP in 2006 to a surplus of 0.2% of GDP in 2010. The programme explicitly indicates that the general government surplus will rise further to 1.3% of GDP by 2012. These medium-term budgetary targets are also set out in the modified law guaranteeing a continuous reduction in public debt and establishing an Ageing Fund.

PUBLIC DEBT IN BELGIUM AND IN THE EURO AREA
(in p.c. of GDP)



Sources: EC, NBB.

The gradual formation of a structural surplus will allow public debt to continue its decline at a rapid pace which will in turn further reduce interest charges. The interest savings can then be used to finance the bulk of the population ageing costs after 2010.

According to the new stability programme, the public debt ratio will have dropped to less than 73% by 2010. Hence, Belgium will move closer to the reference value of 60% of GDP set out in the Treaty establishing the European Community and the gap between the Belgian ratio and the euro area average that was as high as 68 percentage points in 1993 but should fall to less than 20 percentage points this year can be expected to narrow even further.

Treasury highlights

The Belgian Debt Agency published its 2007 Borrowing Requirements and Funding Plan on 11 December 2006.
The 2007 borrowing requirements are expected to amount to EUR 29.39 billion. These borrowing requirements mainly include redemptions of loans maturing in 2007 (EUR 20.72 billion) and planned buy-backs of loans maturing in 2008 and later (EUR 5.56 billion). The net financing requirements of the Treasury would amount to EUR 1.71 billion. Moreover, the planned transfers to the Silver Fund and the redemptions of debts contracted by the FADELS will result in borrowing requirements of respectively EUR 0.90 billion and EUR 0.50 billion.
As in previous years, OLOs will make up the main funding source with an expected issue of EUR 23.80 billion. Treasury bonds - Silver Fund (EUR 0.90 billion) and products for private investors (EUR 0.70 billion) will provide for additional financing. The debt in foreign currencies will be further reduced, by EUR 0.58 billion, provided market conditions are favourable. The outstanding amount of Treasury certificates will nevertheless increase by EUR 2.58 billion. As a result, the financial assets of the Treasury will be reduced by EUR 1.99 billion over the year.
More details are available on the Belgian Debt Agency's website www.debtagency.be.

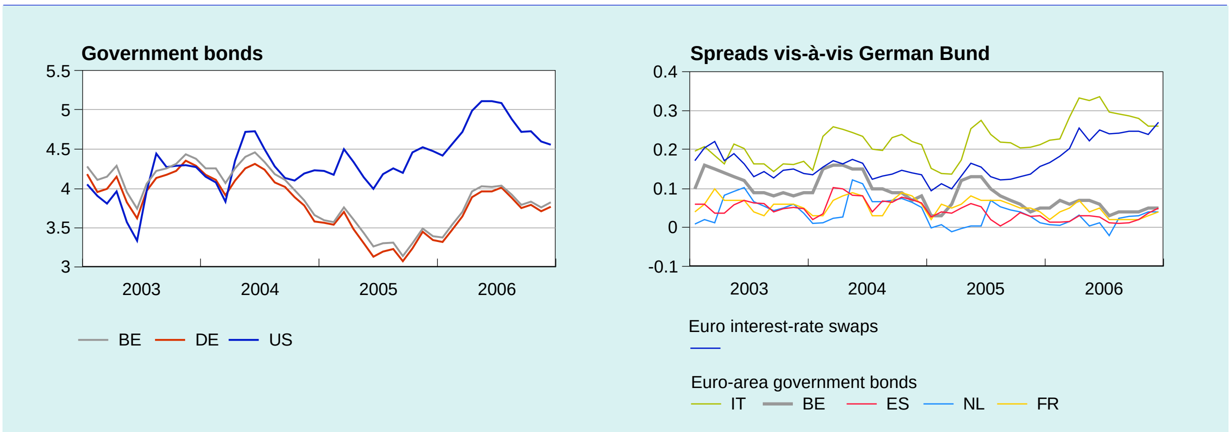
In 2007, OLOs will be auctioned on the following dates:

Issuance date	Settlement date
29 January 07	*01 February 07*
26 March 07	*29 March 07*
21 May 07	*24 May 07*
30 July 07	*02 August 07*
24 September 07	*27 September 07*
26 November 07	*29 November 07*

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)

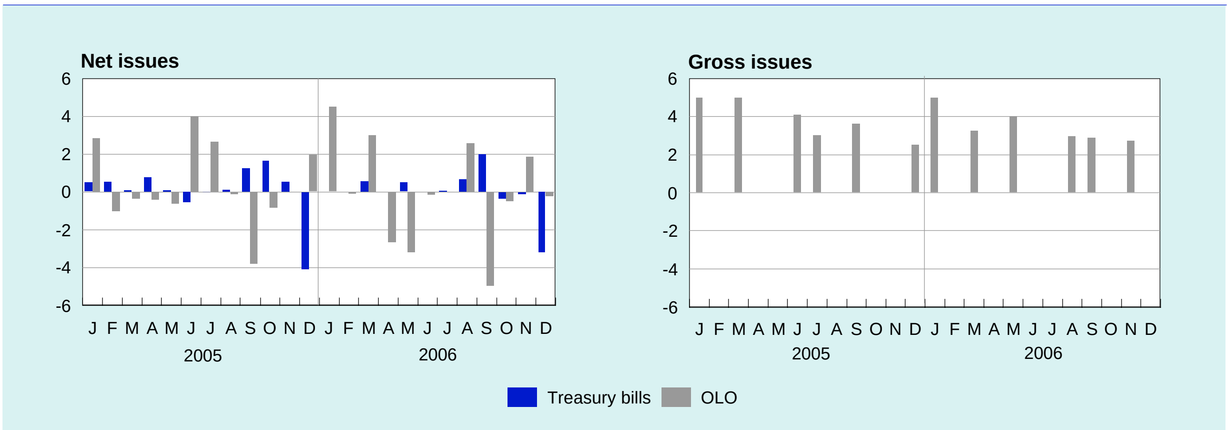


Sources: BIS, Datastream.

The decline in the 10 year interest rates on government bonds, which started this summer, continued afterwards. While in the euro area this evolution was mainly due to lower real yields, the more pronounced nominal decline in the United States was principally caused by a receding break even inflation rate.

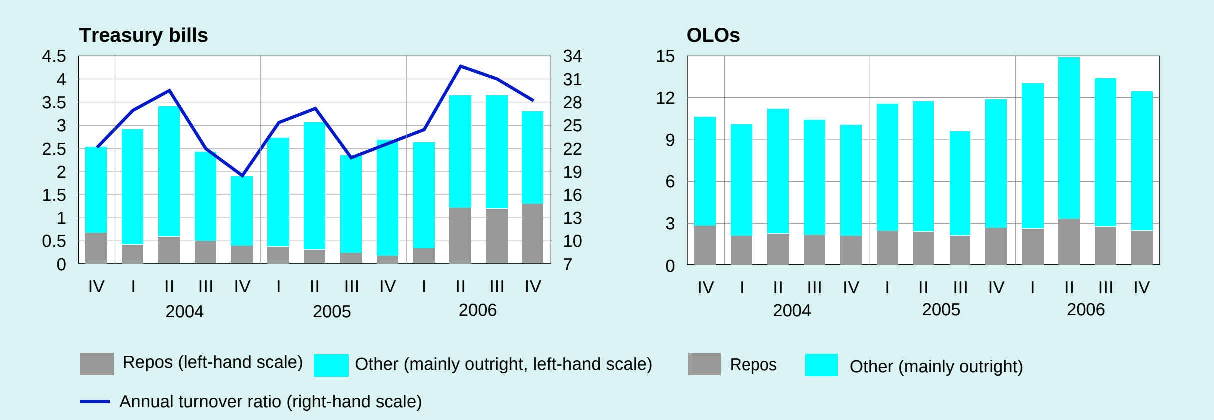
Most government bond spreads vis à vis the German Bund and the spread on euro interest rate swaps increased somewhat at the end of the year. However, the Italian government bond spread narrowed further.

PRIMARY MARKET
(billions of euros)

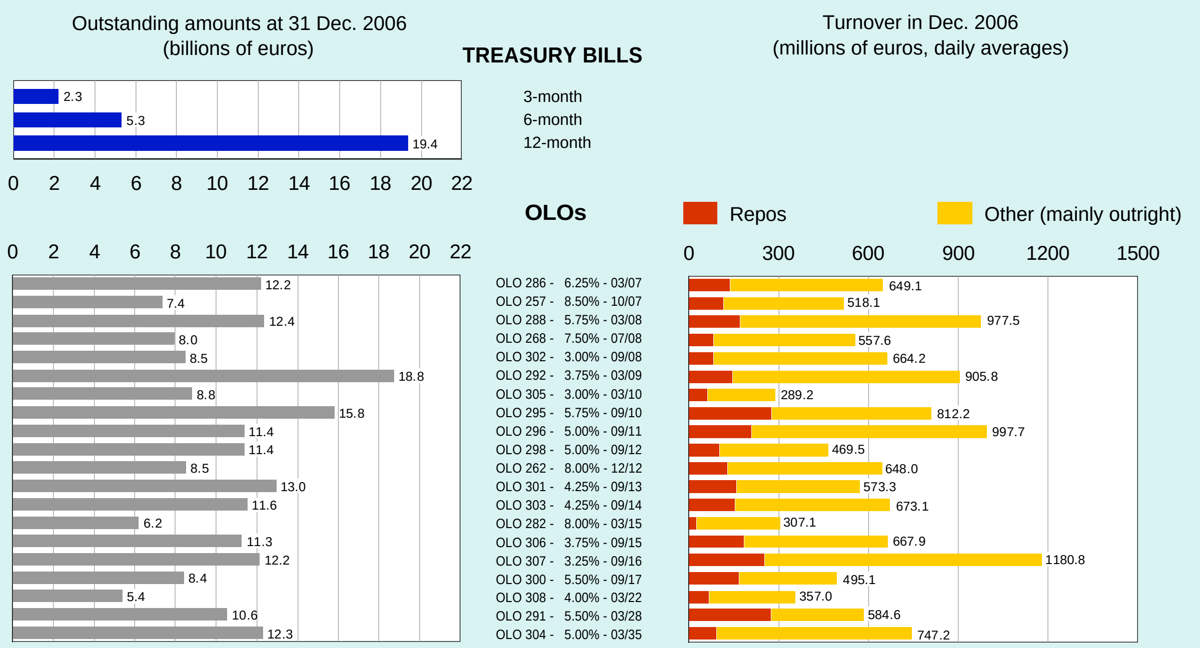


Government securities market (continued)

SECONDARY MARKET
(billions of euros unless otherwise mentioned, daily averages)



OUTSTANDING AMOUNT AND TURNOVER



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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.