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

Belgian Prime News

QUARTERLY PUBLICATION

No. 37 September 2007

Special topic: Will the financial turmoil have an impact on the Belgian economy?

Last update: 24 September 2007

Next issue: January 2008

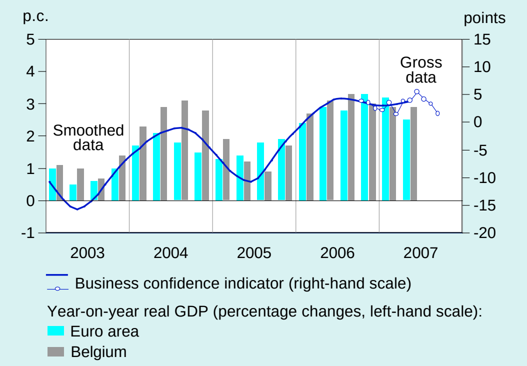
Consensus: Average of participants' forecasts

	2006		2007 p			2008 p		
	Belgium	Euro area	Belgium		Euro area[4]	Belgium		Euro area[4]
			Consensus	Previous consensus		Consensus	Previous consensus	
Real GDP[1]	3.0	2.9	2.6	2.6	2.5	2.0	2.2	2.5
Inflation (HICP)[1]	2.3	2.2	1.7	1.7	2.0	1.9	1.9	1.9
General government balance[2] [3]	0.2	-1.6	-0.1	-0.1	-1.0	-0.2	-0.1	-0.8
Primary balance[2]	4.3	1.4	3.7	3.8	1.9	3.5	3.6	2.0
Public debt[2]	88.8	68.9	85.1	85.1	66.9	82.2	82.0	65.0

(1) Percentage changes.
(2) Percentage of GDP.
(3) EDP definition. Taking account of Eurostat's decision that the Railway Infrastructure Fund is part of the general government sector.
(4) European Commission (Spring forecast published in May 2007, except real GDP and inflation for 2007: September 2007 interim forecast).

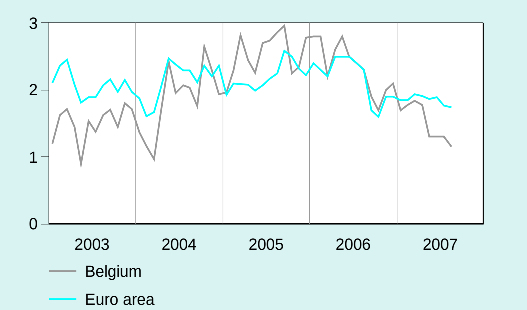
Macroeconomic developments

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

In Belgium, GDP continued to expand strongly over the first two quarters of 2007, slightly outpacing most expectations. The quarter-on-quarter growth rates reached on average 0.7%, supported mainly by vigorous business investments and by strong private consumption. The expansion over the recent period was also stronger than in the neighbouring countries and in the euro area as a whole, where it remained limited to 0.3% in the second quarter of 2007.

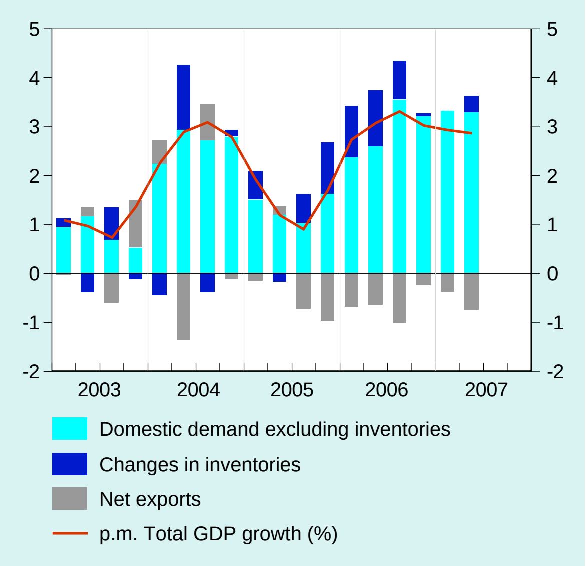
This last movement is seen as temporary and should have a limited impact on the Belgian economy, as survey indicators remained at high levels in both Belgium and the euro area. However, downward risks for the growth outlook have clearly increased since the summer, in the aftermath of the turmoil on the financial markets. The special topic examines the channels through which the crisis might affect the Belgian economy. In this context, **primary dealers have left their GDP growth forecast for 2007 unchanged at 2.6%,** the strong results in the first half compensating for possible negative spill-overs from the crisis in the second half of the year. **For 2008, primary dealers expect a slight slowdown of GDP growth to 2.0%, compared to 2.2% in June.** As such, it is expected that the drag of the crisis on the economy will remain limited, with the slowdown in 2008 largely reflecting a return to potential growth rates.

Due to lower energy prices increases, stemming partly from the liberalisation of some parts of the gas and electricity markets, HICP inflation in Belgium decreased from 2.1% in December 2006 to 1.2% in August 2007. Excluding energy and processed food prices, the underlying inflation trend remained broadly stable at a level slightly below 2%. While processed food inflation accelerated in the course of 2007, industrial goods inflation clearly decelerated due to the appreciation of the euro and strong global competition, while service-sector inflation remained benign. Within this context, **primary dealers expect inflation rates to remain contained, at 1.7% in 2007 and 1.9% in 2008.**

Following the general election on 10 June 2007, negotiations to form a new federal government coalition are still going on. Meanwhile, the previous government is staying on in a caretaker capacity. Technical preparations have started to prepare a 'provisional budget' for 2008 in the event that there may not be a new government in office in time. In view of the general support for the need for further fiscal consolidation in Belgium, **the primary dealers have kept their forecast for the general government balance to a slight deficit in 2007 and 2008. Public debt is expected to reach 82.2% of GDP in 2008, down from 88.8% of GDP in 2006.**

Special topic: Will the financial turmoil have an impact on the Belgian economy?

COMPOSITION OF GDP GROWTH IN BELGIUM
(percentage point contributions to year-on-year GDP growth, adjusted for seasonal and calendar effects)



Source: NAI.

Initially triggered by the crisis on the US sub-prime mortgage market, the turmoil during the summer led to a general reassessment of risks by financial market participants. Uncertainty about the exposure of financial institutions increased, and the possible need to reshuffle their balance sheet structure fed their appetite for liquidity. Ultimately, the question arises as to whether the financial turmoil could affect the real economy.

From a Belgian point of view, it is worth noting that the economic context has remained sustained in the recent period. GDP continued to expand strongly over the first two quarters of 2007, by 0.7 and 0.6% respectively. Moreover, since the cyclical upturn started in the third quarter of 2005, activity has been mainly supported by buoyant domestic demand. Over the first half of 2007, business investment turned out to be the main contributor to GDP growth, boosted by high capacity utilisation rates, favourable financing conditions and an overall healthy financial situation of the business sector. Furthermore, after a temporary dip in the last quarter of 2006, private consumption also expanded vigorously over the first half of 2007, supported by continued employment growth, receding unemployment and an overall high level of consumer confidence.

Although survey indicators have decreased somewhat in recent months, they are still at a high level, suggesting that the short-term perspectives for the Belgian economy are still positive. However, the financial turmoil during the summer has clearly increased the downward risks for the growth outlook.

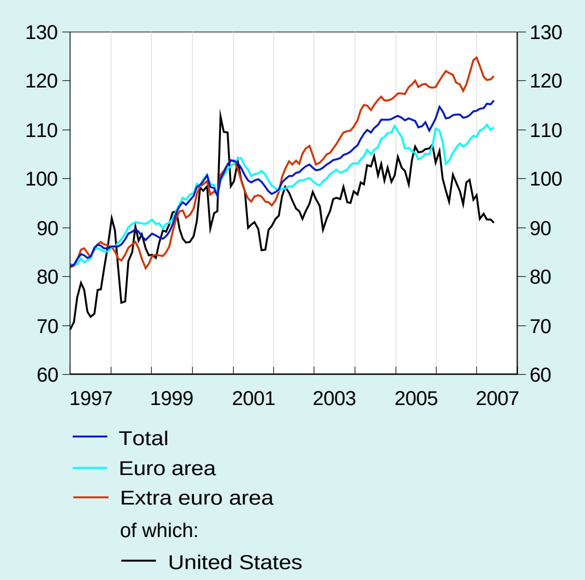
There are several indirect channels through which the crisis might affect the Belgian economy, such as the confidence channel, credit channel, trade channel and negative wealth effects. So far, both business and consumer confidence in Belgium have remained at above average levels, exhibiting an unusual protracted resilience given the mature phase of the business cycle. Furthermore, a relatively modest fall in asset prices and a traditionally limited wealth effect in Belgium suggest that negative wealth effects should not be expected to dampen economic activity strongly under the present circumstances. The corporate sector could face tighter external financial conditions, of which the impact on fixed investment should not be played down. However, the credit channel would probably first affect M&A activities, which have been an important driver for the vigorous credit growth over the recent period.

At the current juncture, the most visible effect seems to operate through the trade channel. A geographical breakdown of Belgian exports of goods shows that exports to the United States have decreased since the start of the US slowdown in early 2006. In context of appreciation of the euro vis à vis the dollar, this decrease might become even more pronounced in the next few months, following a possible intensification of the US housing market downturn and the financial turmoil, particularly if US private consumption were to become less resilient. However, the impact of this fall in exports to the United States should remain limited, given their small weight in total Belgian exports (4.5% in 2005). Furthermore, the robust growth in exports to the other economic regions largely compensates for the fall in exports to the United States. At the same time, risks might become more substantial if the US downturn were to depress world trade, and in particular euro area trade. In that case, the trade channel would exert a more substantial downward pressure on Belgian growth, given the high degree of integration of the Belgian economy in the euro area and the large weight of exports in final demand.

Finally, it should be noted that the situation and the prospects regarding the construction sector and residential investment are more balanced in Belgium than in the US. Although several indicators such as house prices, housing investment and business surveys point to some slowdown in the Belgian housing market, this should rather be seen as a return to normal after the vigorous growth in 2006 and should not have a substantial downward impact on GDP growth.

All in all, Belgium as well as the euro area can rely on sound fundamentals such as a favourable labour market situation and a healthy financial situation in the business sector. This should help both economies to absorb the negative effects coming from the external sector, at least if the spill-overs from the financial turmoil remain contained in magnitude and time.

BELGIAN EXPORT OF GOODS BY REGIONS
(indices 2000 = 100, adjusted for seasonal and calendar effects, three month moving averages)



Source: NAI.

Treasury highlights

1. On 18 June, the Treasury issued a new floating-rate note benchmark. The € 3 billion OLO51 is due on 22 June 2011 and pays a coupon of 3-month Euribor minus 15 bp.

   Lead managers were Barclays Capital and Deutsche Bank. They distributed OLO51 primarily to euro area banks.

   The Treasury issued this FRN in the context of the management of its refinancing risk.

2. On 30 July, the Treasury organised the second OLO auction of 2007, issuing € 2.855 billion, distributed among the following lines:

   OLO 4.00% 03/2013 (OLO50): € 1.510 billion - Weighted average yield: 4.425%
   OLO 4.00% 03/2017 (OLO49): € 0.900 billion - Weighted average yield: 4.475%
   OLO 4.00% 03/2022 (OLO48): € 0.445 billion - Weighted average yield: 4.575%

   The auction had a bid-to-cover ratio of 1.95.

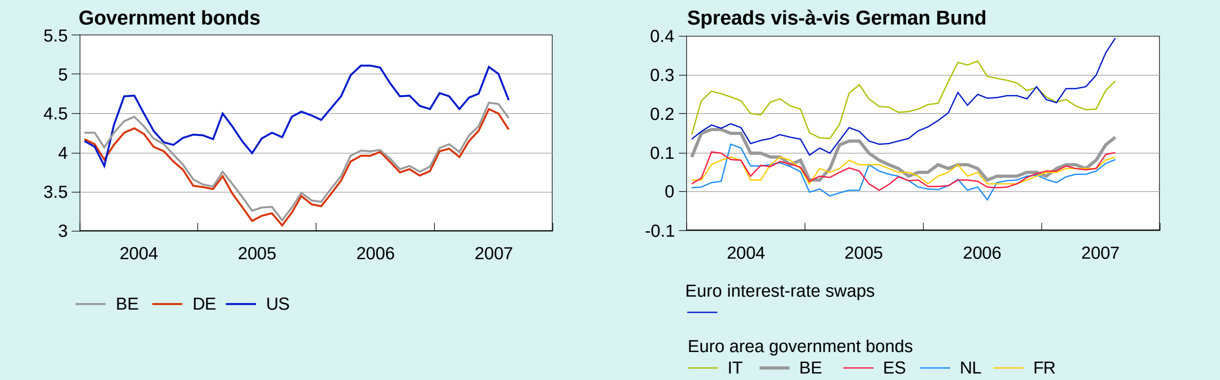
The OLO auction dates for the rest of 2007 are the following:

Issuance date	Settlement date
24 September	27 September
26 November	29 November

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)



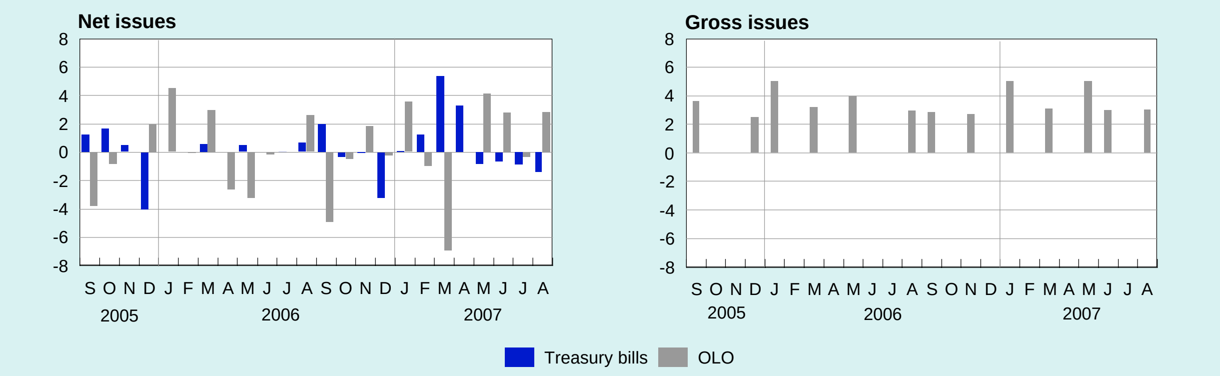
Sources: BIS, Datastream.

The recent turmoil on the financial markets has resulted in an overall decrease of the long-term interest rates on government bonds since July. This decline was due to the risk aversion of the market participants, in search of a “safe haven” for their investments.

The break-even inflation rate remained broadly unchanged in the euro area but diminished in the United States.

Meanwhile government bond spreads vis à vis the German Bund increased somewhat, while the spread on euro interest-rate swaps more clearly widened.

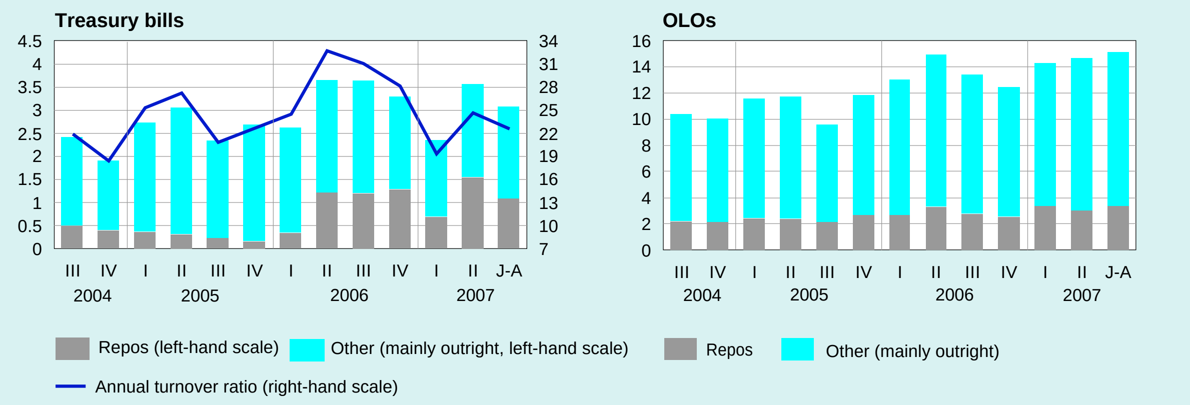
PRIMARY MARKET
(billions of euros)



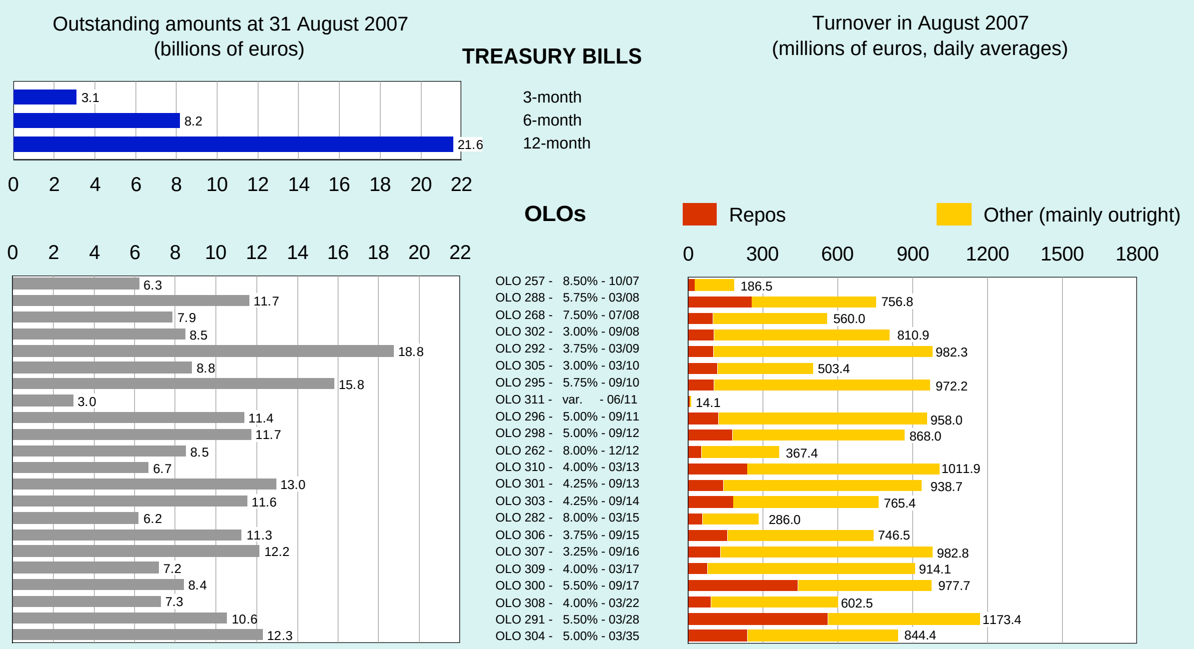
Government securities market (continued)

SECONDARY MARKET

(billions of euros unless otherwise stated, daily averages)



OUTSTANDING AMOUNTS 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.