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NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

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Special topic: The Belgian Treasury's 2008 Financing Plan

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Next issue: March 2008

On 4 January 2008, the government announced that the 2007 government account had closed with a deficit of 0.3% of GDP and that the debt stood at 83.5% of GDP (without the debt of the Railway Infrastructure Fund which according to the National Accounts Institute has to be classified outside the government sector).

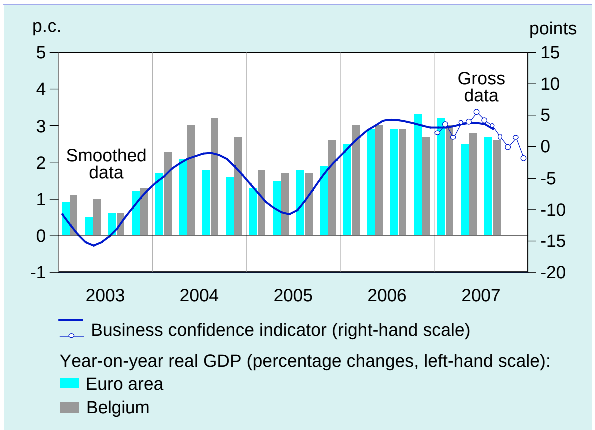
Consensus: Average of participants' forecasts

	2006		2007 p			2008 p		
	Belgium	Euro area	Belgium		Euro area	Belgium		Euro area
			Consensus	Previous consensus	Consensus	Consensus	Previous consensus	Consensus
Real GDP(1)	2.9	2.8	2.6	2.6	2.6	1.8	2.0	1.9
Inflation (HICP)(1)	2.3	2.2	1.8	1.7	2.2	2.4	1.9	2.2
General government balance(2) (3)	0.4	-1.5	-0.1	-0.1	n.	-0.3	-0.2	n.
Primary balance(2)	4.3	1.3	3.6	3.7	n.	3.3	3.5	n.
Public debt(2) (3)	88.2	68.6	83.7	85.1	n.	80.8	82.2	n.

(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.
n. Not available.

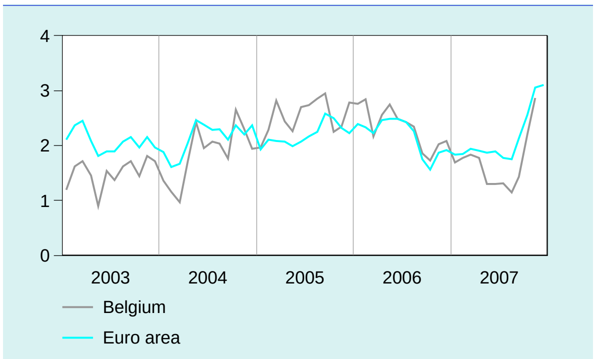
Macroeconomic developments

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

Although annual GDP growth has been easing in Belgium since the peak of 3% in the first quarter of 2007, it was still strong in the third quarter of 2007 at 2.6%. With an average quarter-on-quarter growth rate of 0.6% in 2007, Belgium's economic expansion was similar to the euro area situation, but the quarterly growth profile was very different. Up to now, the economy has remained resilient with respect to the major global shocks, such as the appreciation of the euro, rising commodity prices and financial market turmoil. This is mainly related to the fact that domestic demand was supported by strong employment growth and rising profitability of firms. At the same time, the moderation of economic growth is expected to continue over the next few quarters, as domestic demand is likely to be hit by higher inflation and lower employment creation. This is also reflected in the downward trend in both the consumer and the business confidence indicators. **The primary dealers have left their GDP growth forecasts for 2007 broadly unchanged at 2.6%, while downgrading their growth forecast for 2008 from 2% to 1.8%.** This growth outlook for Belgium is similar to that for the euro area as a whole. There are, however, downside risks to these growth prospects, as the impact of the slowdown in the US economy and the financial turmoil could become larger than currently expected. Disorderly exchange rate developments could also weigh on growth.

Annual HICP inflation in Belgium picked up sharply in October and November, to reach 2.9%, compared to 1.4% in September 2007. This sharp rise is mainly related to higher energy and processed food prices. In reaction to the strong inflation figures for October and November, **the primary dealers' inflation forecasts for 2007 were revised upwards to an average of 1.8%. The expected inflation rate for 2008 was revised even further upwards, from 1.9% to 2.4%**, as a result of anticipated higher oil and food prices. In view of recent developments in the oil markets and some specific shocks, such as the increase in distribution tariffs for gas and electricity, which may not have been accounted for by all primary dealers, the risk to this inflation outlook is on the upside. At the same time, the primary dealers do not expect any second-round effects to show up, as wage increases should remain contained. The expectations for euro area inflation have also been revised upwards and now stand at 2.2% for both 2007 and 2008.

Macroeconomic developments (continued)

While negotiations to form a new federal government dragged on until late December, the previous government stayed on in a caretaker capacity, which meant that it could not take any additional measures to reduce the expected budget deficit. **Therefore, on average, the primary dealers still expect the general government budget to show a slight deficit of 0.1% of GDP in 2007. They further expect this deficit to widen to 0.3% of GDP in 2008**, as the economic outlook is likely to become less supportive. **The debt ratio should continue to decline gradually and is expected to reach 83.7% of GDP at the end of 2007 and 80.8% at the end of 2008.**

On 21 December, an interim federal government was installed. One of its main objectives is to draw up a balanced budget for 2008, but it also intends to support the purchasing power of the population, reduce labour costs for specific categories of workers and increase the labour market participation rate. It is foreseen that this interim government will be replaced by a new federal government by 23 March 2008 at the latest.

Special topic: The Belgian Treasury's 2008 Financing Plan

2008 will be a challenging year for the Belgian Debt Agency, the specific entity responsible for debt management and funding operations within the Belgian Treasury. The volume of medium- and long-term debt coming to maturity will exceed its traditional range, resulting in higher refinancing needs. These higher borrowing requirements coincide with a liquidity crisis which will probably not be resolved in early 2008. At the same time, the spread of Belgian government debt securities vis-à-vis the corresponding debt securities of other euro area countries has widened, partly as a result of the protracted negotiations for a new federal government.

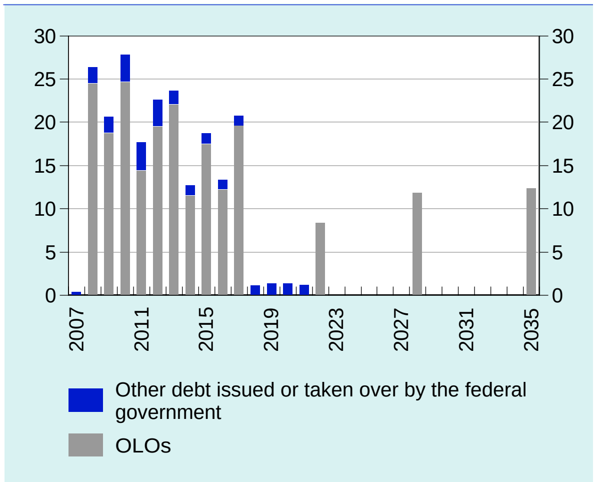
The Treasury is nevertheless confident that it will be able to meet these borrowing requirements, as it has prepared the important funding operations of 2008 in a number of different ways. First of all, it has boosted its so-called buy-back operations, by which the Treasury offers to redeem debt instruments coming to maturity in the following year. The resulting pre-funding for 2008 is expected to amount to € 4.80 billion. Secondly, issuance of medium- and long-term debt in 2007 has been higher than originally planned. This, together with an increased issuance of Treasury Certificates, provided for a net cash position which will be used in the course of 2008. And thirdly, the Treasury plans to complement the OLO issuance by issuing alternative products. These could take the form of long-term foreign currency issues (to be swapped to euros) or of structured products. To this extent, an EMTN (Euro Medium Term Note) programme will be set up.

More specifically, the Treasury expects its 2008 gross borrowing requirements to come to € 32.99 billion, including a 2008 federal cash budget deficit of € 3.00 billion and pre-funding for 2009 in the order of € 3.50 billion.

The Treasury plans to issue € 29.60 billion worth of medium- and long-term instruments, € 27.00 billion of which will be in OLOs (slightly less than the amount issued in 2007). It is likely that three new OLO benchmarks will be issued, and that only one auction will be replaced by a new issue. Instruments for retail investors (State notes) are expected to provide for € 0.60 billion of funding. And as already mentioned, the Treasury also plans to issue up to € 2.00 billion in foreign currencies or in the form of structured products.

As for short-term funding, the outstanding amount of Treasury Certificates is expected to be in line with the 2007 issuance. Finally, the Treasury should reduce its financial deposits built up during 2007 by € 3.50 billion.

MATURITY SCHEDULE OF EURO-DENOMINATED LONG-TERM DEBT AS AT END OF NOVEMBER 2007[1]
(billions of euros)



Source: Belgian Debt Agency.
[1] Excluding OLOs bought back and held in portfolio.

2008 BORROWING REQUIREMENTS AND FINANCING PLAN
(billions of euros)

	2008 Plan		2007 Forecast	
I. Gross borrowing requirements		**32.99**		**29.62**
1. Federal State budget deficit		3.00		3.72
Budget deficit (stricto sensu)	3.00		3.22	
Transfers to the Silver Fund	0.00		0.18	
Reimbursement of ALeSH/Fadels debt	0.00		0.32	
2. Debt maturing		26.49		20.92
Long- and medium-term debt in euro	26.00		20.92	
Long- and medium-term debt in foreign currencies	0.49		0.00	
3. Planned pre-funding (bonds maturing in subsequent years)		3.50		4.80
Buy backs	3.50		4.80	
4. Other borrowing requirements[1]		0.00		0.18
II. Funding resources (long- and medium-term)		**29.60**		**29.66**
1. Non-structured issues in euro		27.60		28.66
OLOs	27.00		27.88	
Treasury bonds - Silver Fund	0.00		0.18	
Products for retail investors	0.60		0.60	
2. Issues in foreign currencies, and/or structured products		2.00		1.00
III. Net change in short-term foreign currency debt		**0.00**		**0.01**
IV. Change in Treasury Certificates stock[2]		**-0.11**		**3.34**
V. Net change in other short-term debt and financial assets[3]		**3.50**		**-3.39**

Source: Belgian Debt Agency.
[1] Including buy backs of long-term debt issued in foreign currencies, "put" options exercised on State notes and net redemptions of the Treasury bonds representing Belgian participation in international organisations.
[2] Outstanding stock of Treasury Certificates on 01/01/2007: 26.97 billion euro.
[3] This section includes residual financing instruments complementing the reference instruments mentioned in the previous section, including collateral margin changes. A positive figure represents an increase in the stock of residual financing and/or a reduction in financial assets.

Treasury highlights

1. The Treasury issued a total amount of € 3.335 billion in the auction of 24 September. The lines used were:

   OLO 4.00% 28/03/2013 (OLO50): € 1.015 billion - Average yield: 4.317%
   OLO 4.00% 28/03/2017 (OLO49): € 1.345 billion - Average yield: 4.510%
   OLO 5.50% 28/03/2028 (OLO31): € 0.975 billion - Average yield: 4.754%

2. On 2 October, the Treasury issued a structured product called "LOBO" (Lender's Option Borrower's Option) in the form of notes and for an amount of € 1 billion. JP Morgan acted as arranger and placed the notes with institutional investors.

3. On 26 November, the Treasury held the last auction of 2007. A total amount of € 3.425 billion was issued, distributed along the following lines:

   OLO 4.00% 28/03/2013 (OLO50): € 0.865 billion - Average yield: 3.999%
   OLO 4.00% 28/03/2017 (OLO49): € 1.725 billion - Average yield: 4.248%
   OLO 4.00% 28/03/2022 (OLO48): € 0.835 billion - Average yield: 4.477%

The following OLO auction dates are foreseen for 2008:

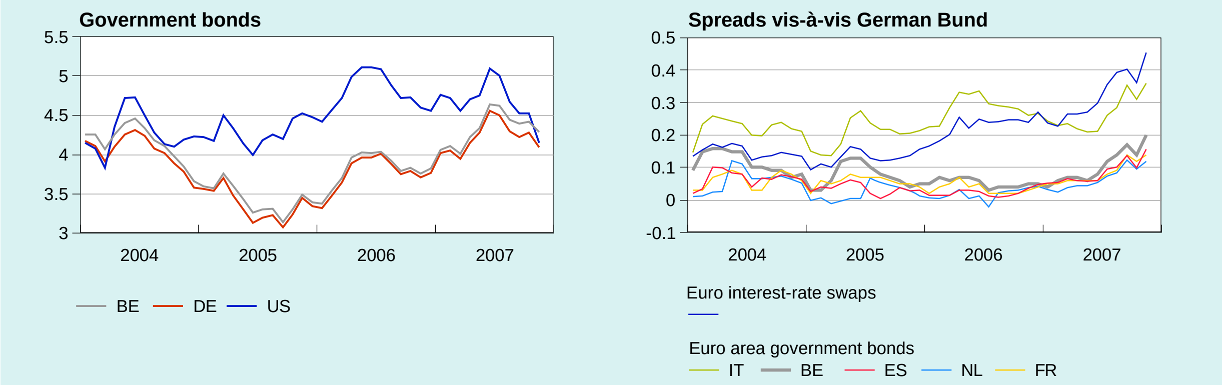
Issuance date	Settlement date
28 January	31 January
31 March	3 April
26 May	29 May

Issuance date	Settlement date
28 July	31 July
29 September	2 October
24 November	27 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)



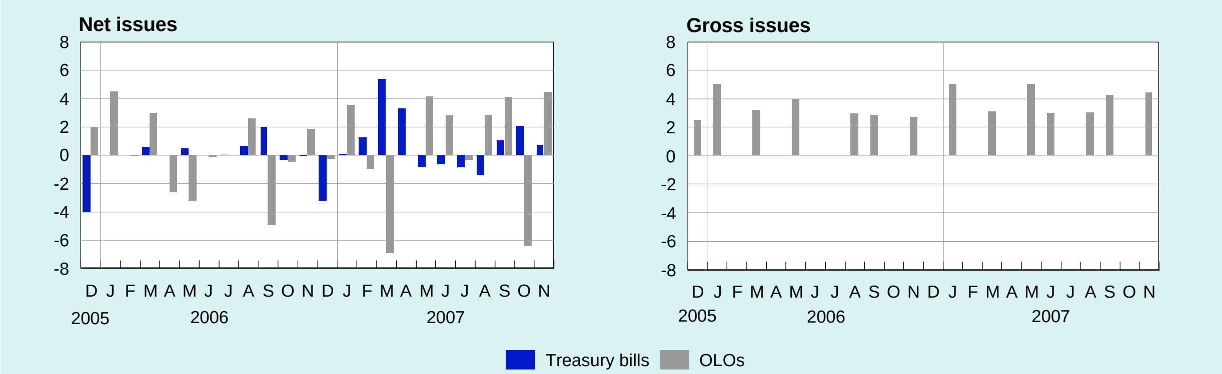
Sources: BIS, Datastream.

The recent turmoil on the financial markets, triggered by distress in the subprime segment of the US mortgage market, has resulted since July in an overall decrease in the long term interest rates on government bonds, which was more pronounced in the United States. This decline was due to the risk aversion of market participants, searching for a safe haven for their investments.

Both in the euro area and in the United States, real long-term interest rates declined, while there was a smaller increase in the break even inflation rates.

The financial turbulence also led to an increase in government bond spreads vis à vis the German Bund, while the spread on euro interest rate swaps widened more clearly. For the Belgian benchmark, a small part of the higher spread may be due to the political uncertainty.

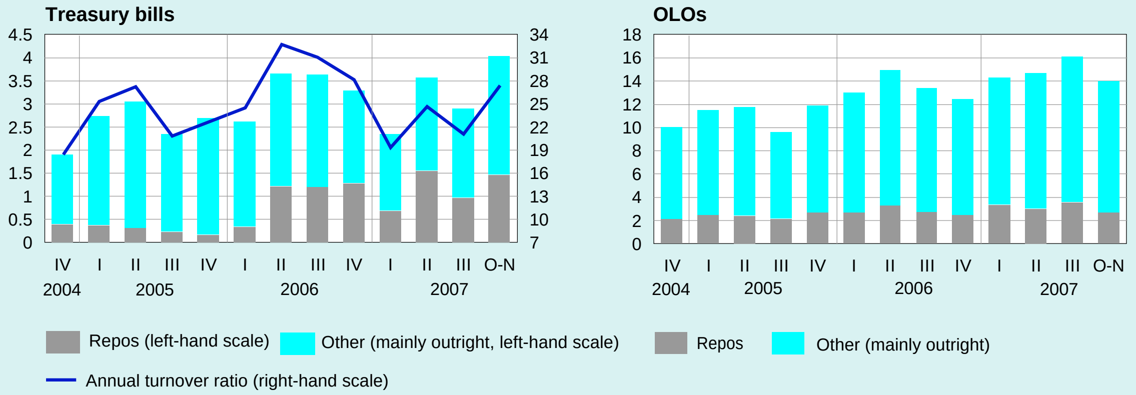
PRIMARY MARKET
(billions of euros)



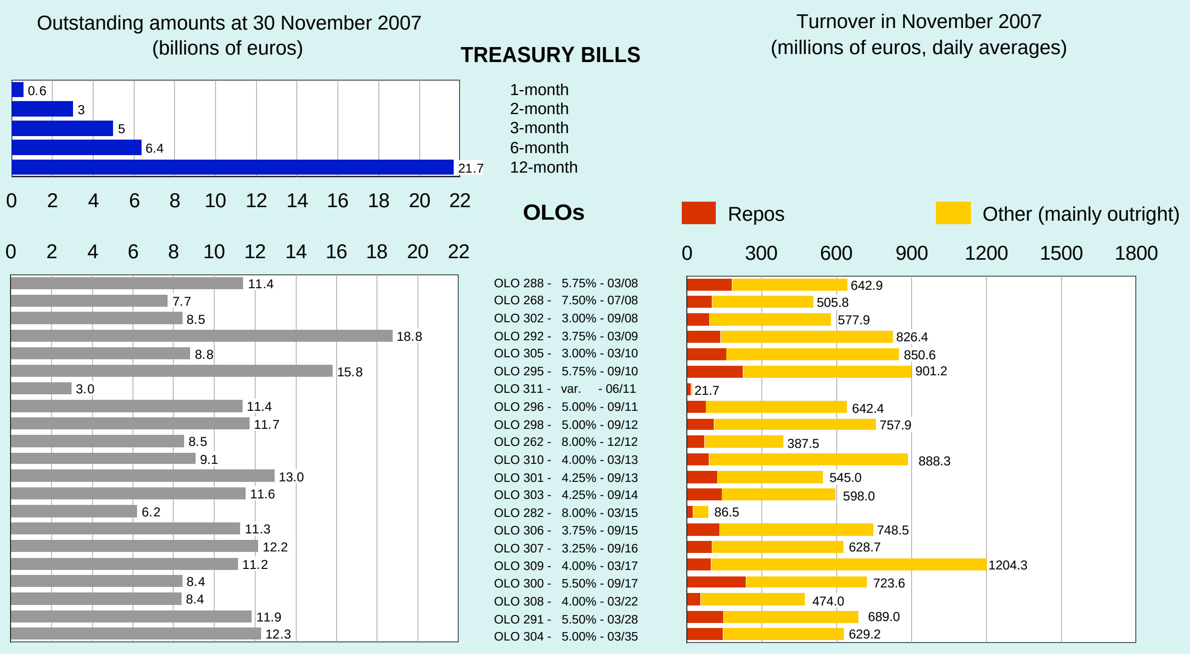
Government securities market (continued)

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.