BELGIAN DEBT AGENCY

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

National Bank OF BELGIUM
Eurosystem

Belgian Prime News

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Special topic: Will inflation and demand in Belgium withstand the current cloudy economic conditions?

Last update: 23 June 2008

Next issue: September 2008

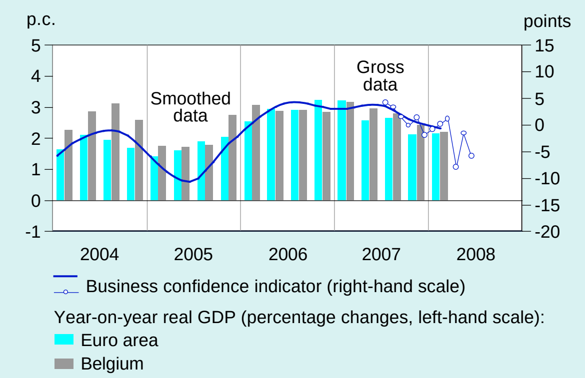
Consensus: Average of participants' forecasts

	2007		2008 p		2009 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP(1)	2.8	2.7	1.6 (1.7)	1.6 (1.5)	1.5 (1.9)	1.3 (1.8)
Inflation (HICP)(1)	1.8	2.1	4.1 (3.0)	3.4 (2.8)	2.4 (2.0)	2.3 (2.1)
General government balance(2) (3)	-0.2	-0.6	-0.3 (-0.3)	n.	-0.6 (-0.2)	n.
Primary balance(2) (3)	3.7	2.3	3.2 (3.3)	n.	3.0 (3.2)	n.
Public debt(2) (3)	84.8	66.4	80.9 (82.5)	n.	78.9 (80.6)	n.

Numbers in parentheses refer to the previous consensus forecast of March 2008.
(1) Percentage changes.
(2) Percentages of GDP.
(3) EDP definition.
n. Not available.

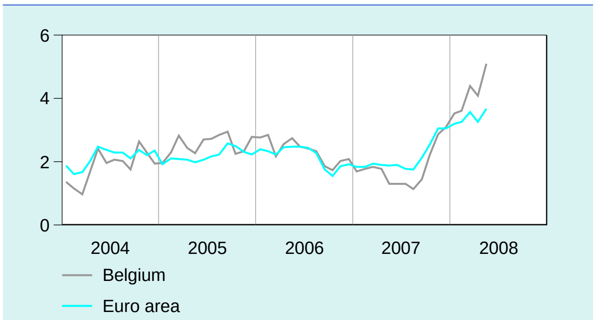
Macroeconomic developments

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

Despite a deterioration in the external environment in the second half of 2007, GDP maintained solid growth up to the first quarter of 2008, both in Belgium (0.5% on a quarterly basis) and in the euro area (0.8%) However, the resilience observed at the beginning of this year stemmed partly from temporary factors, such as mild weather conditions, favourable for construction activity.

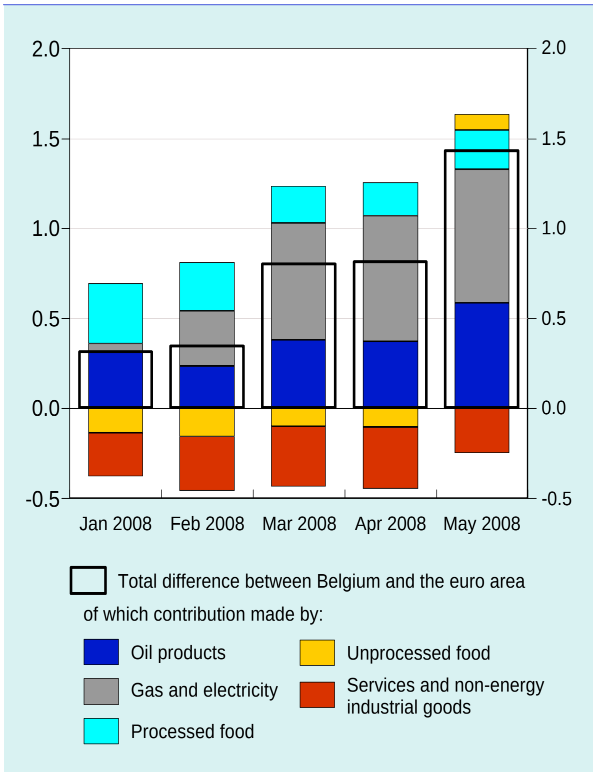
For the remainder of 2008, it is expected that the world slowdown - due to the marked deceleration in growth not only in the US but also in other developed countries, facing continued tensions on the financial markets and a housing market correction - and the increasing global commodity price pressures will significantly curb GDP growth. This would weaken households' consumption and investment growth, as real disposable income growth is dampened by the sharp acceleration in consumer price inflation and less robust employment prospects. On the other hand, the sustained strong growth of the emerging economies should continue to support real export growth. However, in nominal terms, the further hike in oil prices is likely to cause a worsening of the trade balance. All in all, **compared to March, the average of the primary dealers' GDP growth forecasts for Belgium has been revised downwards by 0.1 percentage point for 2008 and by 0.4 percentage point for 2009. At 1.6% and 1.5%, respectively, the expected growth is close to the euro area figure.**

Annual HICP inflation in Belgium continued the sharp upward trend which had started in September 2007, reaching 5.1% in May 2008, well above the euro area's 3.7% inflation. As explained in the Special Topic, the recent acceleration, and the gap compared to the euro area, has so far been entirely due to the larger sensitivity of the energy component to oil prices in Belgium, some administered tariff increases for electricity and gas and the somewhat larger impact of the food price shocks. **Primary dealers significantly increased the average of the expected inflation rate for 2008 by 1.1 percentage point to 4.1% in 2008 and, to a lesser extent, by 0.4 percentage point to 2.4% in 2009.**

Within this less supportive economic environment, **primary dealers expect the general government budget deficit to deteriorate towards -0.3% of GDP in 2008 and -0.6% in 2009.** These forecasts are well below the targets announced by the government in the April 2008 update of the stability programme, which aimed at a balanced budget for this year and a surplus of 0.3% of GDP in 2009, and thus call for considerable additional budgetary measures. Notwithstanding an increasing deficit, primary dealers expect the debt ratio to decline further to 80.9% of GDP in 2008 and 78.9% in 2009.

Special topic: Will inflation and demand in Belgium withstand the current cloudy economic conditions?

INFLATION DIFFERENTIAL BETWEEN BELGIUM AND THE EURO AREA
(contribution of the main components to the differential in percentage points)



Sources: EC, NBB.

At the current juncture, the outlook for economic growth and inflation in Belgium, as in other developed economies, remains subject to a number of adverse risks. From August 2007 onwards, most of the attention focused on the financial turmoil, although some signs of easing have appeared since mid March 2008. Nevertheless, the role of financial tensions should not be written off, as the effects on household or corporate lending could be protracted, and the tensions could easily regain momentum in a context of uncertain prospects for property and other asset prices and a broad-based economic slowdown. However, in the latter months the focus of concern has shifted somewhat to the rising inflation rates worldwide, in the wake of sharp commodity price increases. This was one factor fuelling a rebound in long-term interest rates.

In Belgium, too, inflation has accelerated sharply over the past few months, reaching 5.1% in May 2008, well above the 3.7% rate recorded for the euro area. While inflation in Belgium was on average slightly below the euro area figure during the period 1999-2007, the current gap has raised concerns regarding the role of the wage indexation mechanism in Belgium.

A recent NBB study[1] shows that the positive inflation differential with respect to the euro area is entirely explained by price developments for food and energy. Regarding the latter, the weight of oil products in the HICP is higher in Belgium than in the euro area, and the sensitivity to world market prices is greater, due to the relatively low level of excise duties. Furthermore, the gap is currently accentuated by a temporary upward effect stemming from increases in distribution and transport tariffs for electricity and gas. Finally, for the latter product, the transmission of international energy price developments to Belgian consumer prices has considerably speeded up recently. As those shocks will eventually start to abate, inflation should decelerate and the differential between Belgium and the euro area should wane.

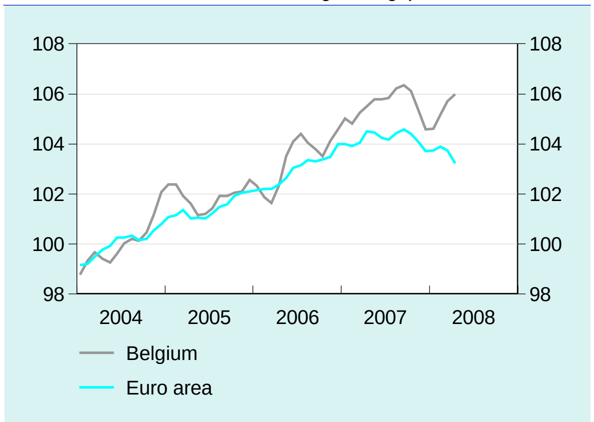
Up to now, the indexation mechanism has not been responsible for the stronger acceleration in inflation in Belgium, as inflation in non-energy industrial goods and services, i.e. the HICP components with a larger labour cost content, has remained moderate. However, this favourable outcome cannot be taken for granted, and second-round effects need to be avoided.

Although dampened by the use of the "Health" index of consumer prices - which excludes petrol, diesel, alcoholic beverages and tobacco - as the reference for indexation, the higher inflation did to some extent result in higher wage increases. However, the second element of the broad framework governing private sector wage settlements requires the social partners to reconcile overall nominal wage increases with the level of pay rises in the three main trading partners. In that respect, the cycle of pay negotiations relating to 2009 and 2010, scheduled for the autumn, offers them the opportunity to help prevent the triggering of a price-wage spiral in Belgium.

The burden of the severe terms of trade shock faced by the economy should be borne by both enterprises and the household sector. In the short run, this will depress households' purchasing power, and thus consumption and housing investment. Short-term indicators such as consumer confidence and retail sales confirm the outlook of lower consumption growth embodied in the primary dealers' forecast. However, this will be mitigated by a decline in the saving ratio, provided long-term income prospects can be preserved.

In that context, avoiding potential second-round effects which would lead to a protracted period of high inflation is essential to maintain international competitiveness and to lay the basis for employment creation and growth over the long term.

RETAIL TRADE
(volume indices 2004 = 100, data adjusted for seasonal and calendar effects, three-month moving average)



Source: EC.

[1] NBB (2008) *Inflation and indexation in Belgium: causes and possible effects of the current acceleration in inflation,* NBB Economic Review, 2008-I.

Treasury highlights

The Treasury's funding programme made good progress during the second quarter of 2008. After having launched two new OLO benchmarks in January and in February, the Treasury organised two regular OLO auctions in March and in May, and issued a third new OLO benchmark via syndication in April. On the other hand, no EMTN issuance took place since the programme documentation had not been finalised.

1. On 31 March, the Treasury issued a total amount of 3.379 billion, distributed as follows:

   OLO 4.00% 28/03/2013 (OLO50): €0.882 billion – average yield: 3.960%
   OLO 4.00% 28/03/2018 (OLO52): €1.497 billion – average yield: 4.307%
   OLO 5.00% 28/03/2035 (OLO44): €1.000 billion – average yield: 4.816%

   The bid-to-cover ratio ranged from 1.72 for OLO52 to 2.38 for OLO44.

Treasury highlights (continued)

2. For its third new OLO benchmark of the year, the Treasury chose a 5-year tenor. OLO 4.00% 28/03/2014 (OLO54) was issued on 17 April as a €5 billion long 5-year syndicated bond. Lead managers were Barclays Capital, Deutsche Bank, ING and SGCIB.

   The orders came in rapidly once the books were opened on Wednesday morning, 16 April, and totalled €12 billion at the end of the day. In the course of the day, the initial guide price of 32-35 bp over the 4.25% January 2014 Bund had been revised and tightened, and finished at the tight end of the range at 32bp in the afternoon. The order book contained 162 accounts.

   Placement was largely concentrated in the Eurozone, with significant interest from the UK at 24%, Belgium at 12%, France at 16%, Italy at 9% and the Netherlands at 8%. Asian investors also played a considerable part in the transaction with 13% of the allocations.

   Real Money accounts amounted to 72% of the deal and were mainly represented by Asset Managers (36%), Bank ALMs (9%), Central Banks (13%) and Insurance and Pension Funds (13%). The balance of the bonds was allocated to hedge funds, banks and trading accounts. This 72%/ 28% split reflects the distribution strategy objectives, and it ensures both investor diversification and immediate liquidity.

3. On 27 May, the Treasury issued a total amount of 3.405 billion, distributed as follows: OLO 3.50% 28/03/2011 (OLO53): €1.250 billion – average yield: 4.372%; OLO 4.00% 28/03/2018 (OLO52): €1.100 billion – average yield: 4.594%; OLO 4.00% 28/03/2022 (OLO48): €1.055 billion – average yield: 4.756%

   The bid-to-cover ratio ranged from 1.58 for OLO53 to 1.94 for OLO52.

Liquidity in the OLO markets recovered to some extent in April and May. During May, bid/offer spreads on the electronic Inter-Dealer markets decreased in general by 5 ticks.

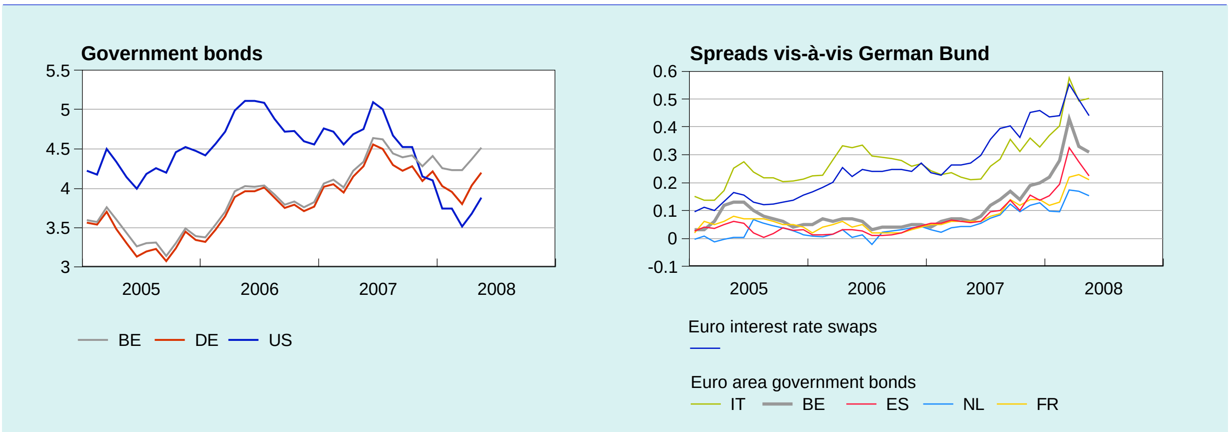
The OLO auction dates for the remaining of 2008 are the following:

Issuance date	Settlement date
28 July	13 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)

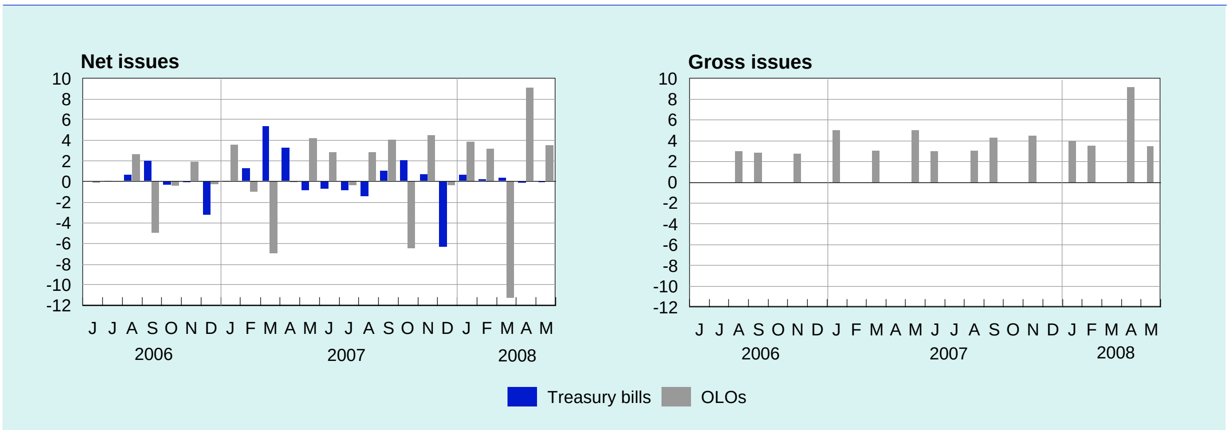


Sources: BIS, Datastream.

The decline in long-term interest rates on government bonds, which started in July 2007 and was triggered by distress in the subprime segment of the United States mortgage markets, came to a halt in March. Apart from a higher break-even inflation rate, the main reasons for the subsequent rise were the moderation of risk aversion and, especially in the euro area, an increase in real long-term interest rates as a consequence of market participants' less gloomy perception of the economic outlook.

The government bond spreads and the spread on euro interest-rate swaps vis-à-vis the German Bund peaked in March and declined thereafter.

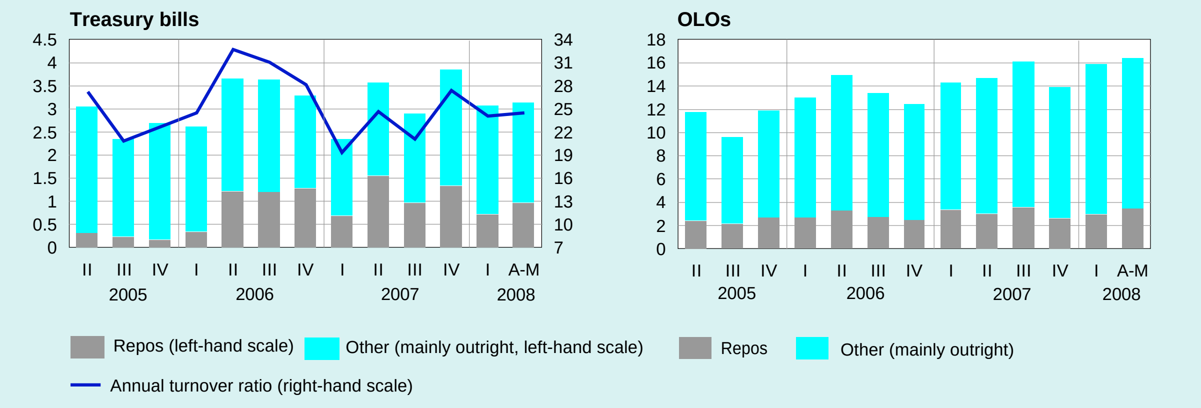
PRIMARY MARKET
(billions of euros)



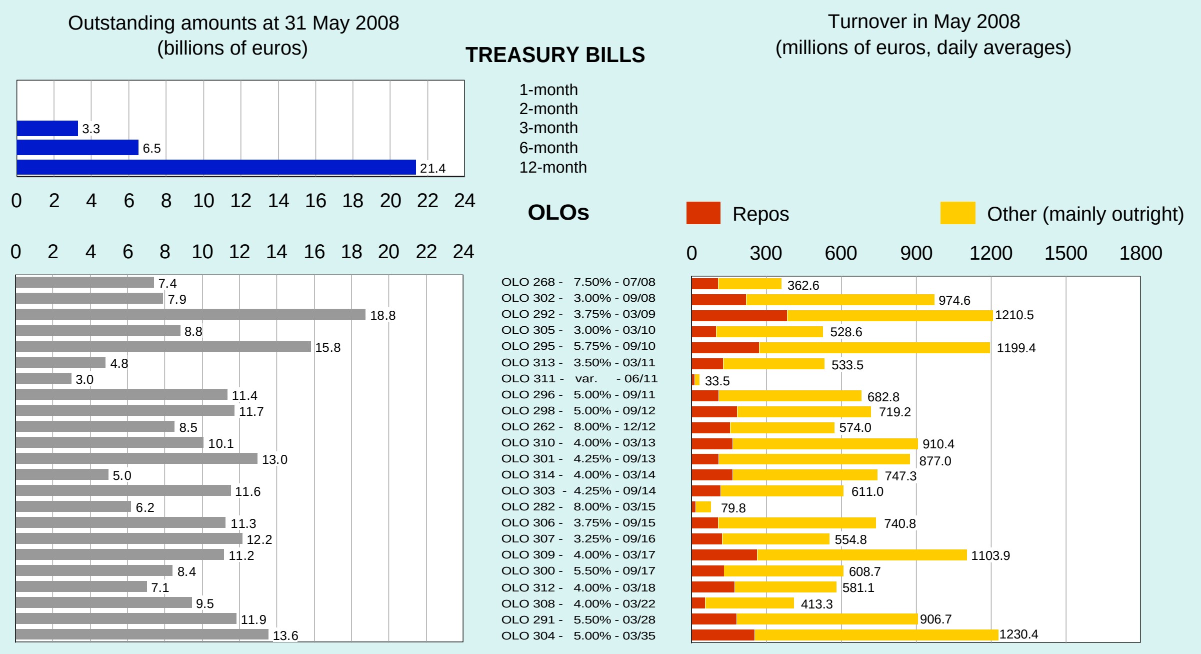
Government securities market (continued)

SECONDARY MARKET

(billions of euros unless otherwise stated, daily averages)



OUTSTANDING AMOUNTS AND TURNOVER



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Sources: NBB, unless otherwise stated.

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