BELGIAN DEBT AGENCY

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

NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

QUARTERLY PUBLICATION

No. 42 January 2009

Special topic: What action to restore stability and confidence in the face of the dramatic deterioration in the economic outlook?

Last update: 6 January 2009

Next issue: March 2009

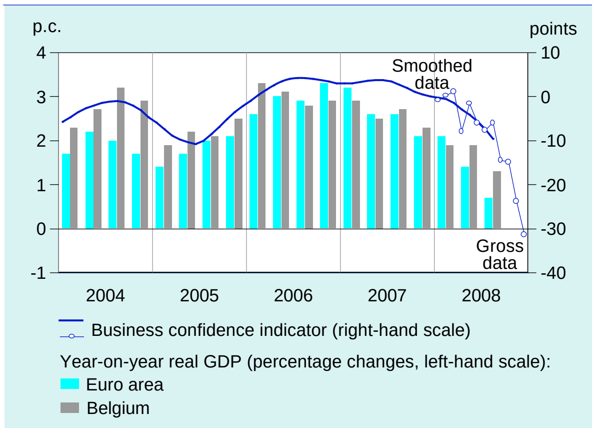
Consensus: Average of participants' forecasts

	2007		2008 p		2009 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP(1)	2.6	2.7	1.3 (1.6)	1.0 (1.2)	-0.6 (1.3)	-1.0 (0.9)
Inflation (HICP)(1)	1.8	2.1	4.5 (4.5)	3.3 (3.5)	1.5 (2.4)	1.3 (2.4)
General government balance(2)	-0.3	-0.6	-1.0 (-0.4)	n.	-1.9 (-0.7)	n.
Primary balance(2)	3.5	2.3	2.6 (3.2)	n.	2.4 (2.8)	n.
Public debt(2)	83.9	66.3	86.0 (81.6)	n.	86.1 (80.1)	n.

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

Macroeconomic developments

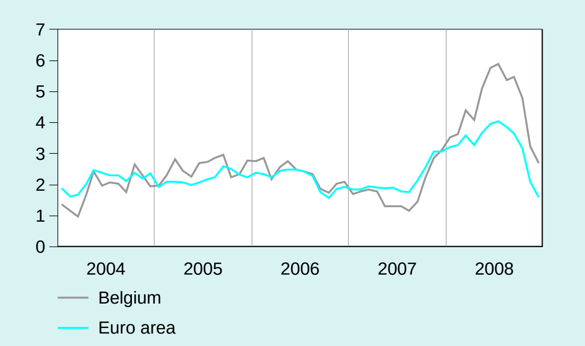
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES

(annual percentage changes)



Source: EC.

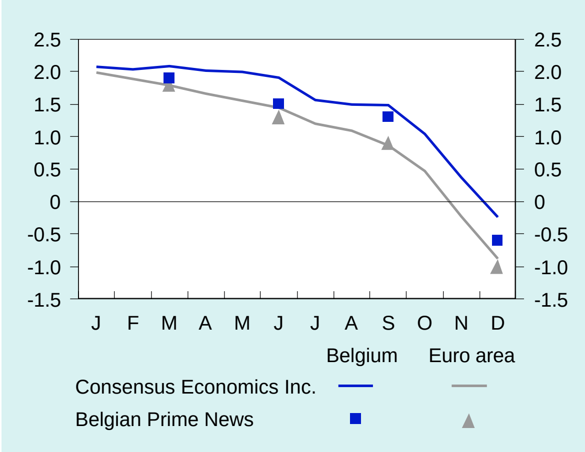
While the Belgian economy proved more resilient than the euro area to the major global shocks up to the third quarter of 2008, activity in Belgium is also expected to drop sharply in the coming quarters. Since the September issue of the Belgian Prime News, the economic outlook has deteriorated very rapidly, both at the global level and for Belgium. The financial turmoil that emerged in mid 2007 has turned into a serious financial crisis and the contagion effects on the real economy and confidence have proliferated. A more detailed analysis is provided in the Special topic. Whereas **the downward revision of GDP growth for 2008 remains limited to 0.3 percentage point, the average forecast for 2009 has fallen to -0.6% for Belgium and -1% for the euro area.** Even these new forecasts are still subject to downside risks, as the latest pieces of information have been very negative and forecasts are almost continuously being revised downwards.

Annual HICP inflation has fallen rapidly in Belgium, after peaking at 5.9% in July 2008. This has resulted in a reduction in the positive inflation differential vis-à-vis the euro area that has been observed since January 2008 on the back of the greater sensitivity to energy shocks, although euro area inflation has also declined considerably in recent months. In December, inflation stood at 2.7% in Belgium and 1.6% in the euro area, the fall reflecting the deceleration in food price rises and the drop in oil prices. These developments have also lowered expectations about future commodity prices, which in combination with a far more negative growth outlook prompted **primary dealers to lower their inflation forecast for Belgium for 2009 by a full percentage point to 1.5% on average.** For the euro area, they expect inflation to fall even further, to 1.3%.

Although the impact of the government's recovery plan is not yet included in all forecasts, **on average, the primary dealers expect the general government budget to show an increasing deficit of 1% of GDP in 2008 and of 1.9% of GDP in 2009.** This deterioration reflects the effects of the automatic stabilisers and, to a lesser extent, of the tax cuts passed by the federal government and the Flemish Region. **The downward trend in the debt ratio is expected to be interrupted in 2008, as it should rise to 86% of GDP, because of the capital injections and loans pumped into the financial system. For 2009, on average, the primary dealers expect the debt ratio to remain broadly stable.**

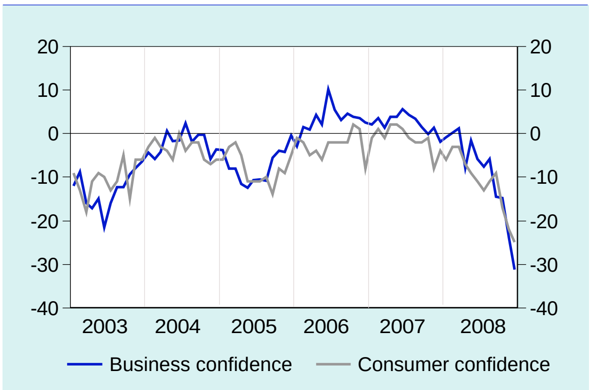
Special topic : What action to restore stability and confidence in the face of the dramatic deterioration in the economic outlook?

GROWTH FORECASTS FOR 2009



Sources: Consensus Economics Inc., NBB.

CONFIDENCE INDICATORS FOR THE BELGIAN ECONOMY



Source: NBB.

Over the past few months, the economic outlook has changed dramatically. The financial turmoil that emerged in mid 2007 has turned into a serious financial crisis and the contagion effects on the real economy and confidence have proliferated. While forecasts for Belgian and euro area GDP growth in 2009 have been revised downwards only gradually over the first three quarters of 2008, some major revisions of the outlook occurred during the last months of the year, bringing the expected growth rate into negative territory.

Following the marked deterioration in external demand, exports of goods and services are expected to weaken considerably. The negative demand outlook - reflected in the exceptionally steep fall in the NBB business confidence indicator, which in December reached the lowest level since 1980 - is also expected to lead firms to postpone or even cancel investment projects. The fact that external financing has become more costly, and in some cases also more difficult to obtain, could be an additional obstacle to business investment, particularly as lower profits also limit the possibilities of internal financing. Apart from investing less, firms are also expected to cut costs, e.g. by (temporarily) reducing employment. This adjustment is already reflected in the sharp decline in the consumer confidence indicator since September 2008, and particularly in the component on households' expectations for the labour market. This uncertainty about their future labour income will most likely weigh on households' propensity to consume. In addition, households are expected to try to recover part of their losses of net financial wealth by raising their savings ratio, which should also result in lower private consumption. Finally, investment in housing is expected to maintain the tendency to slow down which began in 2007, in line with the developments in mortgage interest rates and dwelling prices on the secondary market.

The downward revision of the growth outlook for 2009 thus relates to most GDP components, with government spending being the main exception. The negative impact that the worsened economic outlook has on the private sector is counterbalanced for the government sector by the working of the automatic stabilisers on the one hand and by specific actions to support the economy on the other hand, although the latter are not yet fully included in all forecasts.

Faced with this gloomy outlook, it became crucial to restore stability and confidence, which explains why the authorities' responses have been manifold. In the midst of the financial crisis, the first actions of the Belgian authorities were intended to safeguard the stability of the financial system. The country's federal and regional governments supplied the three main Belgian banks and one insurance company with capital injections and loans for a total amount of around € 22 billion, a measure that was combined with important changes in the governance structure of these institutions. In addition, banks were given the possibility to apply for a temporary State guarantee to facilitate their financing on the interbank market and via institutional investors. Finally, in order to prevent a run on the banks by worried depositors, the threshold for the deposit guarantee scheme was raised from € 20,000 to € 100,000.

The Belgian banks not only received support from the federal and regional governments, but also from the ECB and the NBB, which provided ample liquidity by expanding the list of eligible collateral, by fully allotting the regular tenders and by giving emergency liquidity assistance. As the gloomy outlook for activity is also expected to put downward pressure on inflation, the Governing Council of the ECB - like other central banks - also cut interest rates significantly, bringing the key rate down in two steps from 4.25% in early October to 3.25% in early November, followed by a larger cut of 75 basis points at the Brussels meeting on 4 December. These rate cuts not only reduced the cost of financing for the banks, but should also counter the rising costs of external financing for both households and non-financial corporations. In that context, it is also crucial to restore the proper functioning of the interbank market.

In addition, the Belgian authorities announced actions to restore the confidence of both producers and consumers, in the form of a recovery plan which also includes implementation of the interprofessional agreement (IPA) reached by the social partners for the period 2009-2010. All of this has been explicitly endorsed as the top priority by the new federal government, installed on 30 December 2008. The recovery plan includes a number of measures that are aimed at helping firms through the crisis without too large losses of employment, such as the federal and regional governments' commitment to pay their bills sooner and to give firms with financing problems the possibility to defer their payment of VAT and social contributions. Initiatives are also being taken to ensure that there will be enough external financing means for non-financial corporations. In addition, the allowance for temporary unemployment - a system through which firms may defer straight lay-offs when facing an economic downturn - has been increased. Measures were also announced to support the purchasing power of households, e.g. to increase unemployment and other social benefits, to lower VAT for the construction sector, to lower electricity bills, to directly pass on the indexation of the tax scales to companies' social contributions, and to increase outplacement efforts. Finally, the public sector will also increase its own investment expenditure and encourage the private sector's energy saving investments by making them eligible for a tax advantage. The text of the recovery plan (in French) can be found on the website of the Belgian government.

The federal government has also agreed to participate in the IPA implementation. This IPA strives for a balance between competitiveness, purchasing power and employment. Households' purchasing power should benefit from the indexation scheme and from the possibility for individual branches of activity to agree on a small lump sum payment in 2009 and 2010 on top of the indexation. To protect firms' competitiveness and employment, the social partners asked the government to compensate for the higher wage costs for firms by reducing their burden of charges on labour. The text of the IPA 2009-2010 (in French) can be found on the website of the Central Economic Council.

Similar actions to support the banking sector and the real economy have been taken around the globe, but there is a clear need for more cooperation on a European - and even larger - scale. Not only does a global crisis demand a global response, but it is also important to exploit synergies and avoid negative spillover effects. Another challenge, particularly for the Belgian government, is to make sure that the current fiscal stimulus does not jeopardise the medium- and long-term fiscal consolidation objective.

Treasury highlights

1. The Belgian Debt Agency published its 2009 Borrowing Requirements and Funding Plan on 25 November 2008.

   The 2009 borrowing requirements are expected to amount to € 23.11 billion. These borrowing requirements mainly include redemptions of loans maturing in 2009 (€ 17.63 billion) and planned buy-backs of loans maturing in 2010 or later (€ 2.50 billion). The net financing requirements of the Treasury would amount to € 2.98 billion.

   As in previous years, OLOs will make up the main funding source with an expected issuance of € 29.06 billion. EMTN issuance (€ 3.00 billion) and products for private investors (€ 0.75 billion) will provide for additional financing.

   The Treasury will as such reduce the amount of outstanding short-term debt instruments by € 9.70 billion in the course of 2009. Indeed, as a consequence of the participations in, and loans to, financial institutions, short-term debt increased substantially in 2008.

   More details are available on the Belgian Debt Agency's website www.debtagency.be.

2. On 29 September, the Treasury issued a total amount of € 1.400 billion in its regular OLO auction, distributed along the following lines:
   OLO 3.50% 28/03/2011 (OLO53): € 0.770 billion - Average yield: 4.048% Bid-to-cover: 1.53
   OLO 4.00% 28/03/2014 (OLO54): € 0.630 billion - Average yield: 4.433% Bid-to-cover: 2.30

3. In its last OLO auction of the year, on 24 November, the Treasury issued a total amount of € 3.815 billion, distributed along the following lines:
   OLO 3.50% 28/03/2011 (OLO53): € 0.700 billion - Average yield: 3.135% Bid-to-cover: 2.30
   OLO 4.00% 28/03/2013 (OLO50): € 0.690 billion - Average yield: 3.503% Bid-to-cover: 1.62
   OLO 4.00% 28/03/2014 (OLO54): € 0.975 billion - Average yield: 3.630% Bid-to-cover: 2.04
   OLO 4.00% 28/03/2018 (OLO52): € 1.450 billion - Average yield: 4.072% Bid-to-cover: 1.43

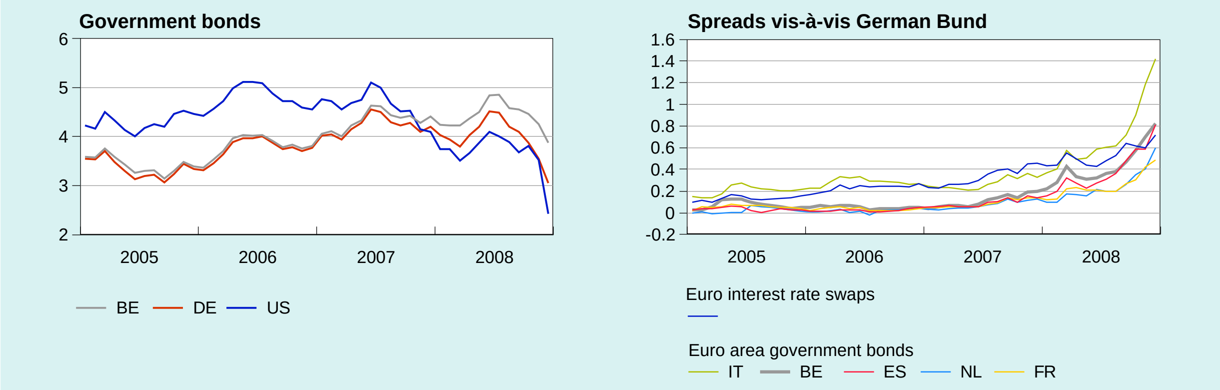
The OLO auction dates for 2009 are the following:

Issuance date	Settlement date	Issuance date	Settlement date	Issuance date	Settlement date	Issuance date	Settlement date
26 January	29 January	27 April	30 april	27 July	30 July	26 October	29 October
23 February	26 February	18 May	21 May	24 August	27 August	30 November	3 December
30 March	2 April	29 June	2 July	28 September	1 October		

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

Government securities market

10-YEAR INTEREST RATES
(percentage points, monthly averages)

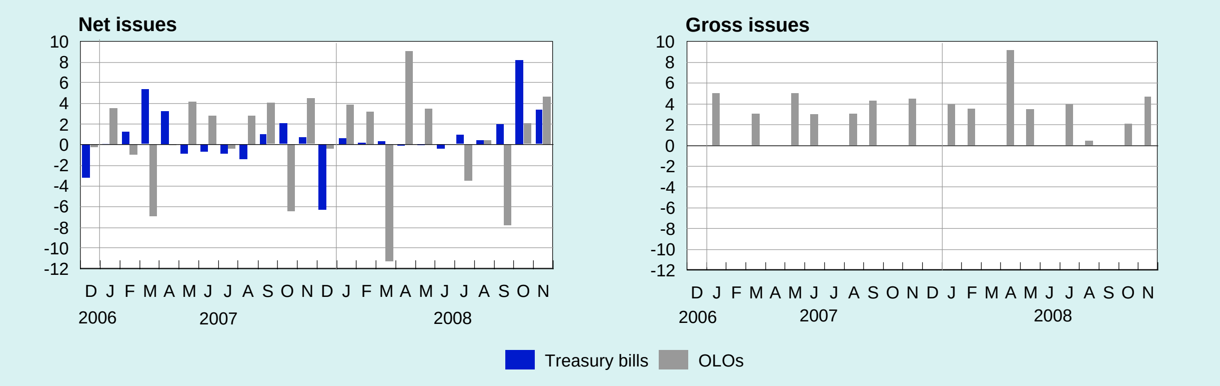


Sources: BIS, Datastream.

The decline in the long-term interest rates on government bonds, which started this summer, has continued over the last few months. Against a background of great unrest and uncertainty, investors were driven by flight-to-quality and flight-to-security behaviour, which urged them to purchase government bonds, thereby pushing yields downwards. This evolution also revealed a strong decrease in the break-even inflation rates.

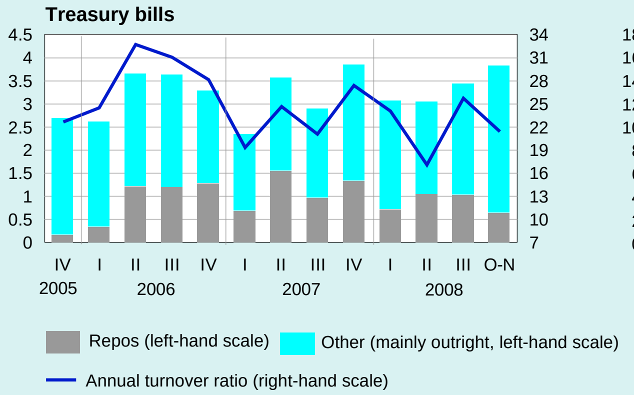
The financial turbulence also led to an increase in the government bond spreads vis-à-vis the German Bund, as investors are more and more worried about the sustainability of financing far-reaching public sector plans to recapitalise financial institutions and to stimulate the economy.

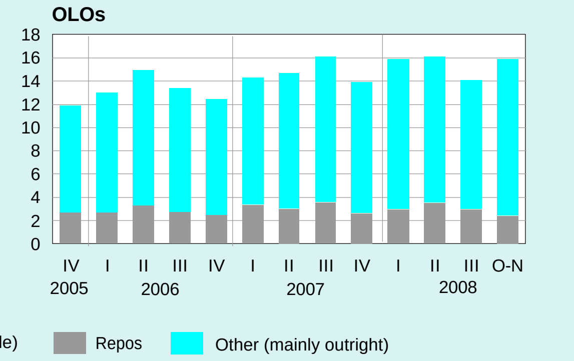
PRIMARY MARKET
(billions of euros)



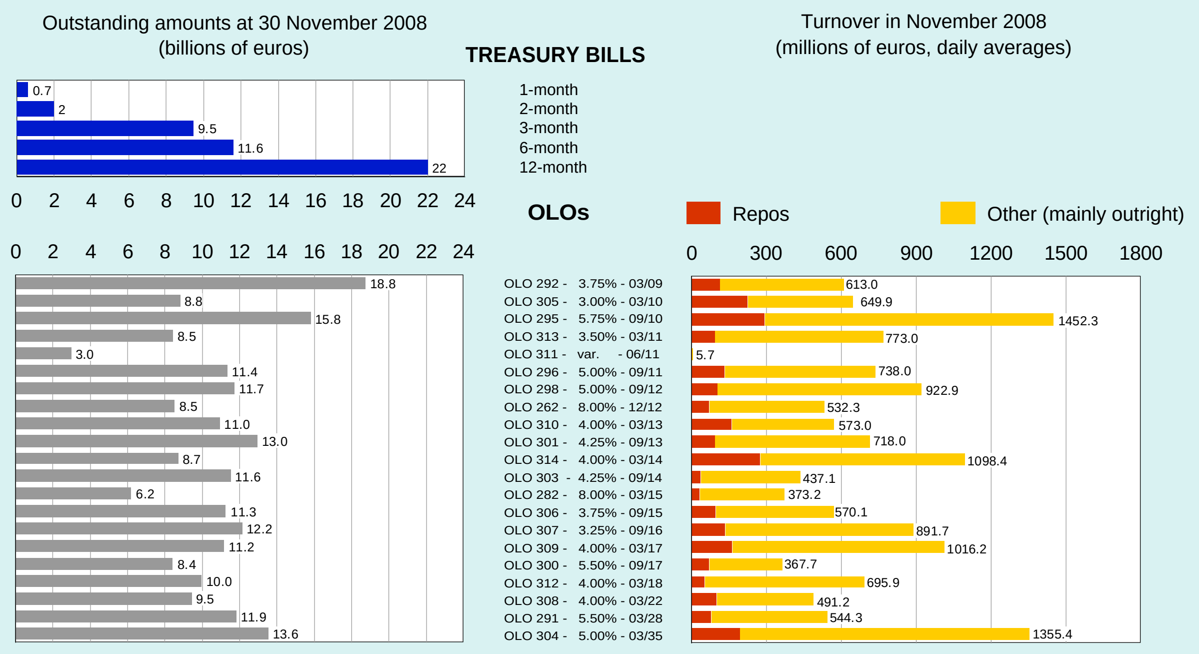
Government securities market (continued)

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





OUTSTANDING AMOUNTS AND TURNOVER



List of contact persons

PARTICIPATING INSTITUTIONS	TECHNICAL EDITORS	TELEPHONE	e-mail
Federal Public Service Finance	Mr Jean Deboutte	32 2 233 72 79	jean.deboutte@minfin.fed.
Barclays Capital	Ms Laurence Boone	33 1 44 58 32 36	laurence.boone@barclayscapital.com
Citigroup	Mr Philip Brown	44 20 7986 8950	philip.brown@citi.com
Dexia Bank	Mr Jacques de Pover	32 2 222 44 71	jacques.depover@dexia.be
Dresdner Kleinwort	Mr Peter Schaffrik	44 20 7475 3229	peter.schaffrik@dkib.com
Fortis Bank	Mr Sébastien Gilis	32 2 228 69 47	sebastien.gilis@fortis.com
	Mr Steven Vanneste	32 2 312 12 10	steven.vanneste@fortis.com
ING	Mr Peter Vanden Houte	32 2 547 80 09	peter.vandenhoute@ing.be
KBC Bank	Mr Piet Lammens	32 2 417 59 41	piet.lammens@kbc.be
	Mr Bart Van Craeynest	32 2 429 59 91	bart.vancraeynest@kbc.be
Royal Bank of Scotland	Mr Jacques Cailloux	44 20 7085 4757	jacques.cailloux@rbs.com
Société Générale Corp. & Inv. Banking	Ms Véronique Riches-Flores	33 1 42 13 84 04	veronique.riches-flores@sgcib.com
UBS Limited	Mr Stéphane Déo	33 1 48 88 30 36	stephane.deo@ubs.com
	Mr Sunil Kapadia	44 20 7567 4090	sunil.kapadia@ubs.com
GENERAL INFORMATION			
National Bank of Belgium	Mr Luc Dresse	32 2 221 20 39	luc.dresse@nbb.be

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.