BELGIAN DEBT AGENCY

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

National Bank OF BELGIUM
Eurosystem

Belgian Prime News

QUARTERLY PUBLICATION

No. 45 September 2009

Special topic: Updated budgetary plans in Belgium

Last update: 23 September 2009

Next issue: January 2010

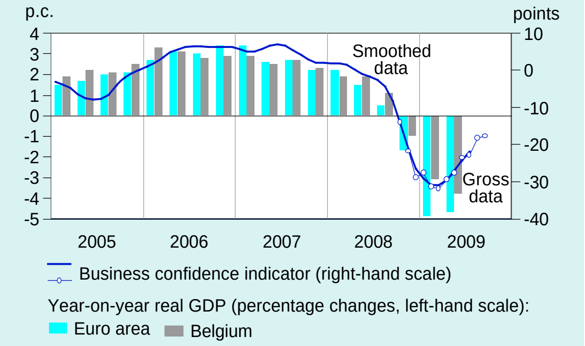
Consensus: Average of participants' forecasts

	2008		2009 p				2010 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	1.0	0.7	-3.0	(-3.2)	-3.8	(-4.3)	1.1	(0.8)	1.2	(0.6)
Inflation (HICP)(1)	4.5	3.3	0.1	(0.3)	0.3	(0.4)	1.1	(1.3)	1.1	(1.2)
General government balance(2)	-1.2	-1.9	-4.7	(-4.4)	n.		-5.4	(-5.1)	n.	
Primary balance(2)	2.5	1.1	-1.4	(-0.4)	n.		-1.8	(-1.1)	n.	
Public debt(2)	89.7	69.3	95.7	(95.4)	n.		99.3	(99.0)	n.	

Numbers in parentheses refer to the previous consensus forecast of June 2009.
(1) Percentage changes. (2) EDP definition; percentages of GDP. n. Not available.

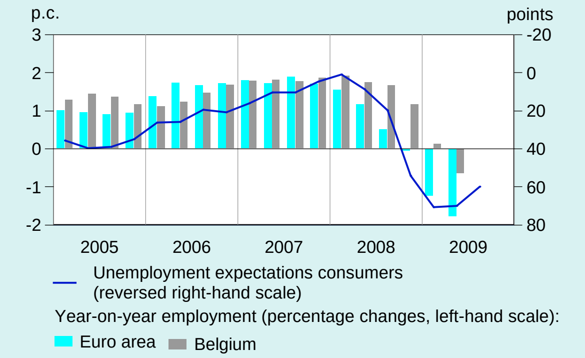
Macroeconomic developments

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

EMPLOYMENT AND CONSUMER CONFIDENCE



Sources: EC, NAI, NBB.

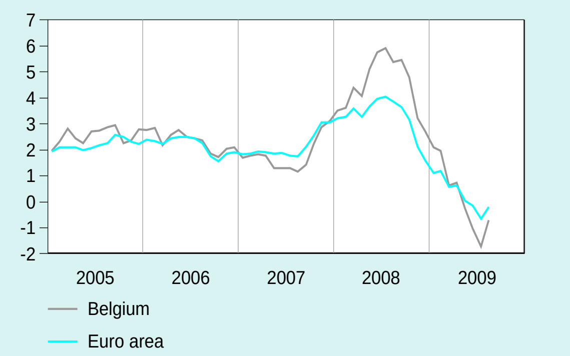
After the dramatic intensification of the financial crisis and the economic recession in late 2008 and early 2009, the positive news about the world economy has dominated the negative readings in recent months. This has given rise to an upgrade of the shorter-term economic outlook, both at the global level and for Belgium. Over the summer, business and consumer confidence continued to improve, and increasing risk appetite positively affected most financial indicators. These positive signals nevertheless need to be confirmed by hard data, such as world trade and industrial production indices, whose steep fall came to an end, but which still remain far below their pre-recession levels. Moreover, part of the positive surprise reflects temporary government measures, such as the fiscal stimulus for car purchases, and the expected turn in the inventory cycle could also prove to be rather short-lived. Most primary dealers therefore expect the recovery to be sluggish and they remain cautious about the longer-term outlook, once governments and central banks withdraw their unprecedented stimulus measures.

Although Belgian real GDP growth was still negative in the second quarter of 2009, at -0.3%, the contraction was far less pronounced than during the previous two quarters, when GDP fell by 1.7%, and also smaller than anticipated three months ago. The progressive recovery of business and consumer confidence indicators suggests that the remainder of 2009 should see some moderate positive quarterly growth rates. **The primary dealers have thus on average upgraded their growth outlook for 2009 by 0.2 percentage point to -3%**, reflecting a pick-up of exports in the second half of the year. In the course of 2010, activity should also be supported by domestic demand, which explains why **they have revised their growth outlook upwards by slightly more for that year, to 1.1%**. The outlook for the euro area has been revised even further upwards: euro area real GDP growth is projected to be -3.8% in 2009 and 1.2% in 2010. In general, the forecasts of the primary dealers show stronger GDP growth than the recent NAI Economic Budget for Belgium and the ECB staff macroeconomic projections for the euro area.

Notwithstanding these upward revisions to the growth outlook, there is still a lot of uncertainty about the strength and the sustainability of the recovery. First, although employment declined by 0.5% in the first and the second quarter of 2009 in Belgium, there was also an important rise in the number of temporary lay-offs. As these temporary schemes cannot be extended unlimitedly, part of the rise in unemployment is most likely still to come. This should weigh on households' disposable income - via higher unemployment and lower wage growth - and thus on their consumption spending. Second, the exceptionally low level of capacity utilisation and weak demand prospects suggest that the outlook for business investment is still quite bleak too. Third, it also remains to be seen whether banks - against a backdrop of still strained capital positions - will be able and willing to increase their credit supply if the recovery were to gain sufficient strength to fuel investment demand by both firms and households.

Macroeconomic developments (continued)

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



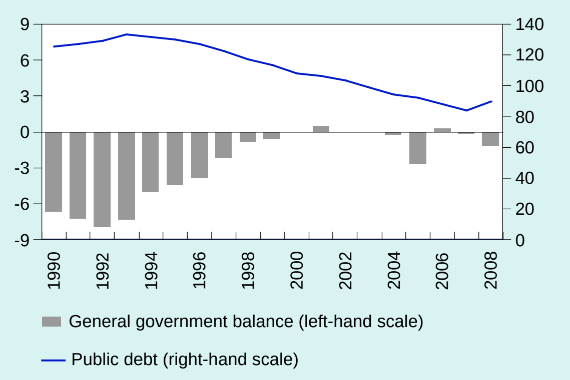
Source: EC.

The outlook for inflation has been revised downwards by about 0.1 percentage point. In Belgium, annual HICP inflation was negative in August, for the fourth month in a row, reflecting important base effects from past hikes in energy prices. Towards the end of the year, inflation is expected to revert into positive territory, as the base effects die out. At the same time, the underlying trend in inflation is expected to decelerate, given the negative outlook for growth and unemployment, suggesting that there are no inflationary pressures. **On average, the primary dealers forecast inflation to be only 0.1% in 2009, before recovering to 1.1% in 2010.** For the euro area, broadly similar inflation rates are projected: 0.3% in 2009 and 1.1% in 2010.

Notwithstanding the somewhat better growth outlook, the primary dealers, on the whole, expect a larger general government deficit than they did three months ago. **For Belgium, they now expect the general government deficit to increase, rising from 1.2% of GDP in 2008 to 4.7% in 2009 and 5.4% in 2010**. The sharp deterioration in 2009 mainly reflects the impact of the automatic stabilisers, with the economic crisis resulting in lower fiscal revenue and higher unemployment benefits. This in turn leads to **a similar upward revision of the government debt ratio, which is expected to rise from 89.7% of GDP in 2008, to 95.7% in 2009 and 99.3% in 2010.** The current consensus forecast is less negative than the budgetary path that the government has traced out in the recent complement to the stability programme for 2009-2013, which is discussed in the special topic. This partly reflects a more optimistic growth outlook, but it is also due to the fact that some primary dealers have implicitly already included some consolidation effort in their forecast. There is general agreement that it is crucial to return to fiscal consolidation as soon as the economic conditions allow.

Special topic : Updated budgetary plans in Belgium

PUBLIC FINANCES IN BELGIUM
(percentages of GDP)



Source: NAI.

As in most other European countries, public finances were thrown off course in Belgium by the recent economic and financial crisis. After the budget had been close to balance since 2000 - with the exception of 2005 due to a very important one-off debt assumption in the context of the restructuring of the national railway company -, a deficit of 1.2% of GDP was recorded in 2008. In that year, the public debt ratio increased for the first time since 1993 owing to massive lending and equity investment to support certain ailing financial institutions. The budget deficit is estimated to widen to close to 6% of GDP in 2009, while public debt should continue to rise.

Against this background, the Belgian government has put forward a complement to the latest stability programme submitted in April 2009, as requested by the Ecofin Council, and has taken the opportunity to update its budgetary objectives on the basis of the most recent macroeconomic and budgetary information. In this new budgetary strategy, the government has confirmed its intention to return to a balanced budget by 2015. As growth in economic activity is projected to continue to remain subdued in 2010, fiscal consolidation will be limited next year so as not to jeopardise the economic recovery. The government will aim for a roughly constant deficit of 6% of GDP, which, according to its own estimates, would require consolidation measures of some 0.5% of GDP. In the following years - when growth returns to normal levels - annual consolidation efforts will be stepped up to 1% of GDP in 2011 and to 1.3% of GDP in 2012-2015. The deficit would fall back below the ceiling of 3% of GDP as of 2013. This budgetary path is fully in line with that recommended by the High Council of Finance in September 2009.

This consolidation strategy will prevent the public debt ratio from spiralling out of control. While the latter is likely to exceed 100% as of 2010 and continue to increase slowly until 2012, the steady downward trend should resume after that and the public debt should fall back below GDP as of 2015.

The federal government has already reached an agreement with the regions and communities with respect to the distribution of the consolidation efforts in the 2010-2012 period: roughly two-thirds will be accounted for by the federal government and the social security system with the regions and communities, as well as the local authorities, being responsible for the remaining third.

MEDIUM-TERM BUDGETARY OBJECTIVES IN BELGIUM[1]
(percentages of GDP)

	2009	2010	2011	2012	2013	2014	2015
Budget balance	-5.9	-6.0	-5.5	-4.4	-2.8	-1.3	0.0
Federal government	-3.9	-4.0	-4.1	-3.7			
Social security	-1.0	-0.5	-0.3	0.0			
Regions and communities	-0.5	-1.1	-0.9	-0.5			
Local government	-0.5	-0.4	-0.2	-0.2			
Public debt	97.5	101.9	103.9	104.3	103.4	101.0	97.4

[1] As defined in the complement to the 2009-2013 stability programme released in September 2009

In accordance with the national budgetary framework, the consolidation measures that are required to reach the aforementioned objectives will be specified in the annual budgets. In this connection, the government has announced that, with a view to clearly anchoring the consolidation strategy and taking into account the fact that federal elections will in principle be held in 2011, it will draw up the budgets for the next two years, rather than just for 2010, in the coming weeks.

Treasury highlights

1. In view of the advanced stage of its funding plan, the Treasury organised a limited OLO auction on 27 July 2009, taking up only €2.085 billion, and distributed along the following lines:

   OLO 2.00% 28/03/2012 (OLO57): €0.565 billion – Average yield: 1.943% – Bid-to-cover: 3.33
   OLO 3.50% 28/03/2015 (OLO56): €0.669 billion – Average yield: 3.107% – Bid-to-cover: 2.38
   OLO 4.00% 28/03/2019 (OLO55): €0.851 billion – Average yield: 3.933% – Bid-to-cover: 1.80

   As such, the Treasury issued OLOs for €29.38 billion, corresponding to 96.3% of planned issuance (€30.50 billion).

2. Moreover, as the financing conditions in USD improved, the Treasury was able to issue both a USD 2.0 billion note under the EMTN-format on 6 August, and a USD 1.0 billion note on 8 September. Both notes were fully subscribed by one dealer and were subsequently sold to other investors. The proceeds were swapped into EUR, with an overall saving in funding costs towards the OLO yield curve.

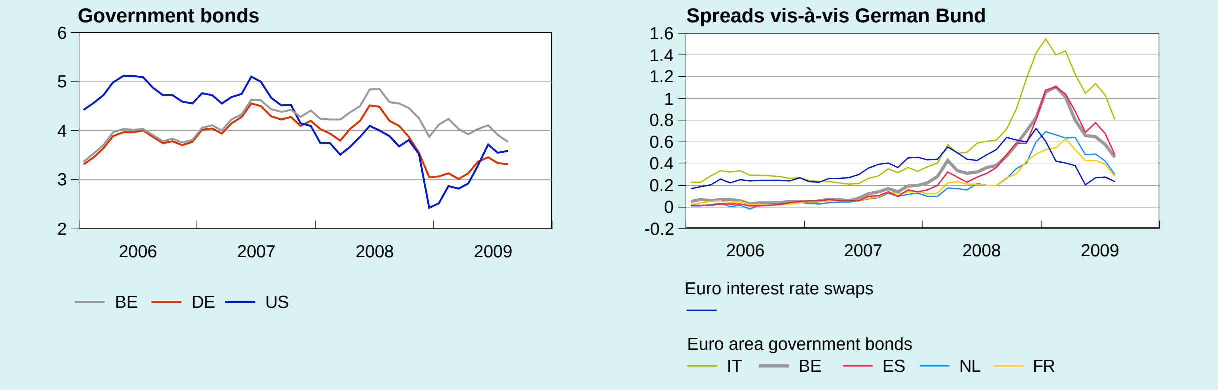
The OLO auction dates for the remainder of 2009 are the following:

Issuance date	Settlement date
28 September	1 October
30 November	3 December

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)



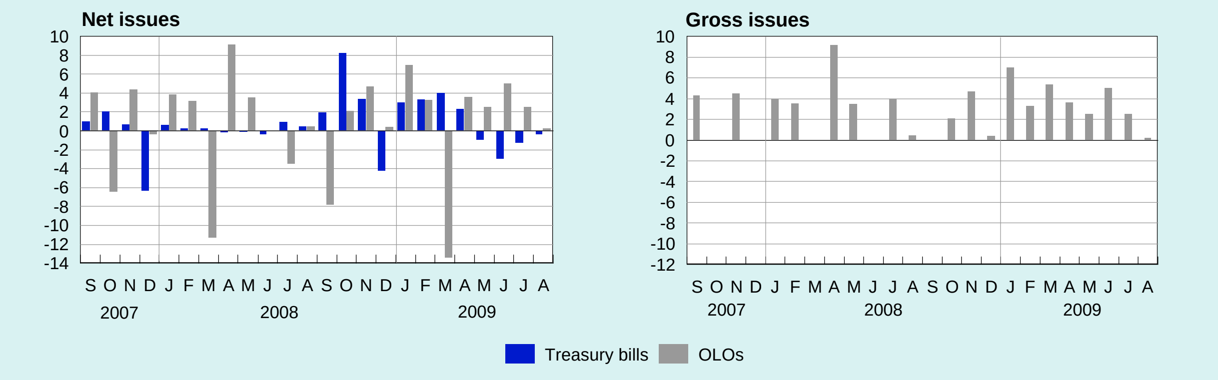
Sources: BIS, Datastream.

The increase in the long-term interest rates on government bonds which started at the beginning of the year in the United States and Germany came to an end in July. In Belgium, these rates showed also a decline, which was even more pronounced.

The conditions on the bond markets reflected improvements in market sentiment, resulting in strong demand from the banking sector and institutional investors.

The spreads on government bonds and on interest rate swaps vis-à-vis the German Bund continued to shrink, a sign that investors are returning to riskier assets amid a general reduction of flight-to-safety flows.

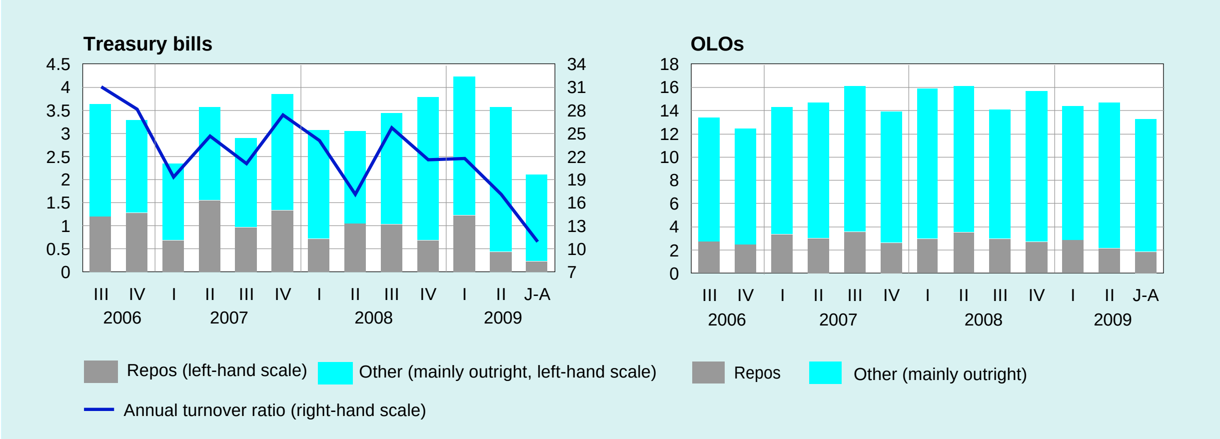
PRIMARY MARKET
(billions of euros)



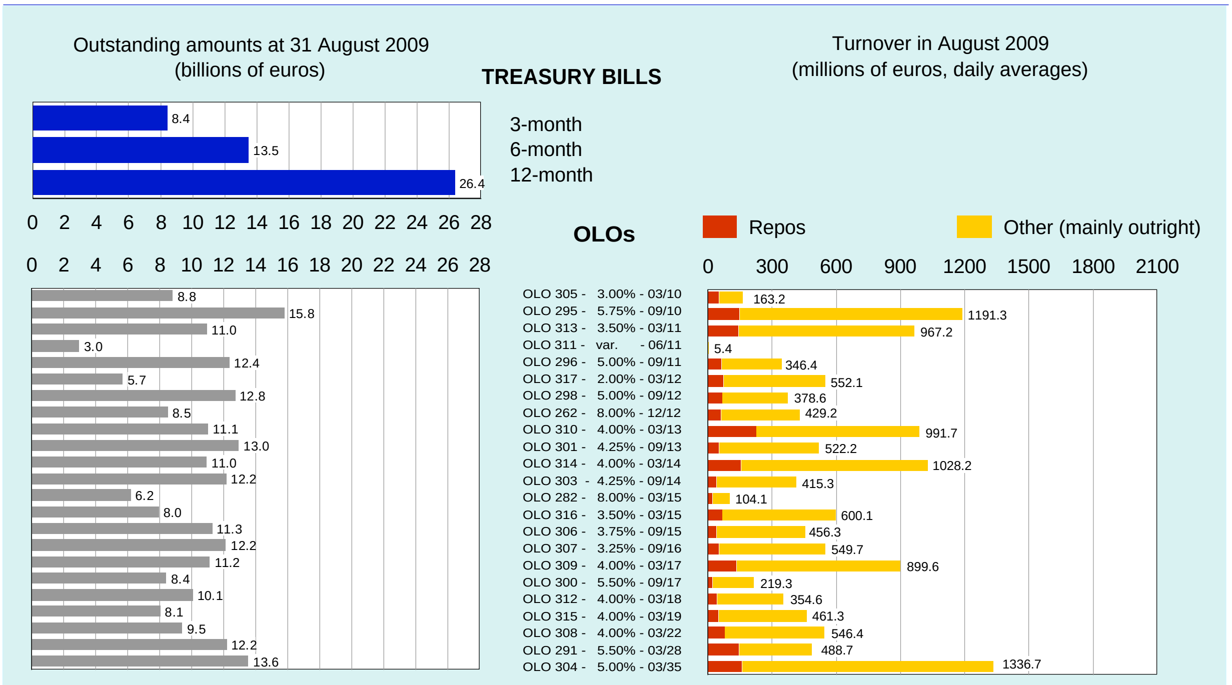
Government securities market (continued)

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.be
Barclays Capital	Ms Laurence Boone	33 1 44 58 32 36	laurence.boone@barclayscapital.com
BNP Paribas Fortis	Mr Steven Vanneste	32 2 312 12 10	steven.vanneste@fortis.com
Citigroup	Mr Philip Brown	44 20 7986 8950	philip.brown@citi.com
Commerzbank	Mr Rainer Guntermann	49 69 7 13 1 20 52	rainer.guntermann@commerzbank.com
Dexia Bank	Mr Jacques de Pover	32 2 222 44 71	jacques.depover@dexia.be
ING	Mr Peter Vanden Houte	32 2 547 80 09	peter.vandenhoute@ing.be
	Mr Philippe Ledent	32 2 547 31 61	philippe.ledent@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.