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

BELGIAN DEBT AGENCY

National Bank OF BELGIUM
Eurosystem

Belgian Prime News

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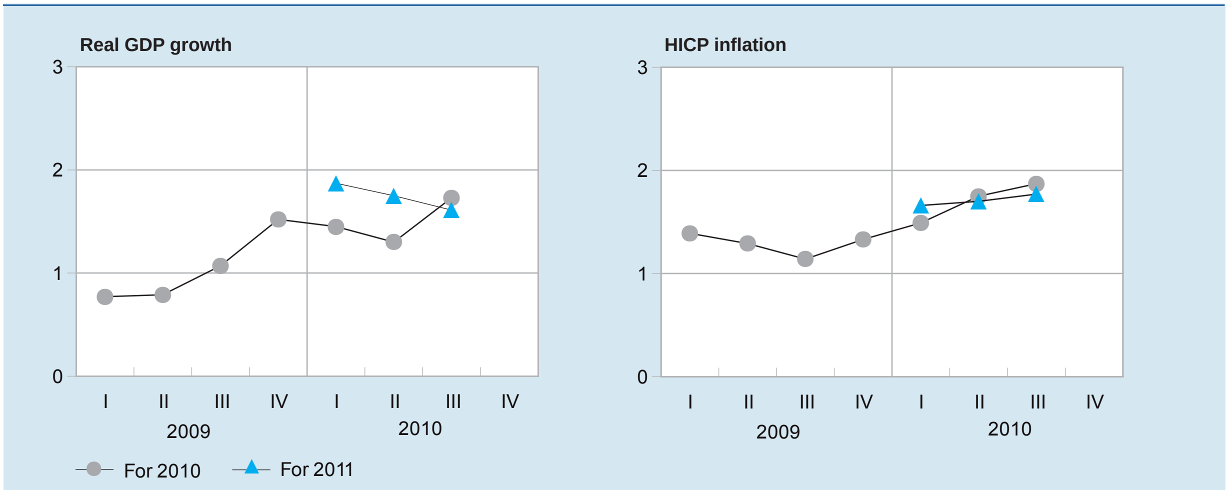
- As a result of better than expected performances in the second quarter of 2010, the forecasts for the Belgian GDP growth have been revised upwards, to reach 1.7% in 2010; in 2011, the economic recovery will continue at a moderate pace, and the real GDP growth should remain at 1.6%.
- Fuelled by high energy and unprocessed food prices, inflation is expected to rise to 1.9% in 2010 and 1.8% in 2011. Still weak labour markets would keep wage growth subdued, which would help contain inflationary pressures.
- So far, the Belgian housing market has proved to be resilient, in comparison with strong adverse developments in many other countries. In general, developments in the housing market and in the construction sector in Belgium are weakly linked to business and financial cycles. The probability of a sharp correction in house prices seems low in the short run.

Consensus: Average of participants' forecasts

	2009		2010 p				2011 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	-2.7	-4.1	1.7	(1.3)	1.6	(1.2)	1.6	(1.8)	1.3	(1.5)
Inflation (HICP)(1)	0.0	0.3	1.9	(1.8)	1.5	(1.5)	1.8	(1.7)	1.7	(1.5)
General government balance(2)	-6.0	-6.2	-4.9	(-5.0)	-6.2	(-6.4)	-4.5	(-4.6)	-5.0	(-5.2)
Primary balance(2)	-2.3	-3.5	-1.1	(-1.0)	n.		-0.8	(-0.6)	n.	
Public debt(2)	96.3	78.7	99.5	(100.4)	83.7	(84.2)	101.0	(101.2)	86.7	(87.1)

Numbers in parentheses refer to the previous consensus forecast of June 2010.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.
n. Not available.

SUCCESSIVE FORECASTS FOR BELGIUM

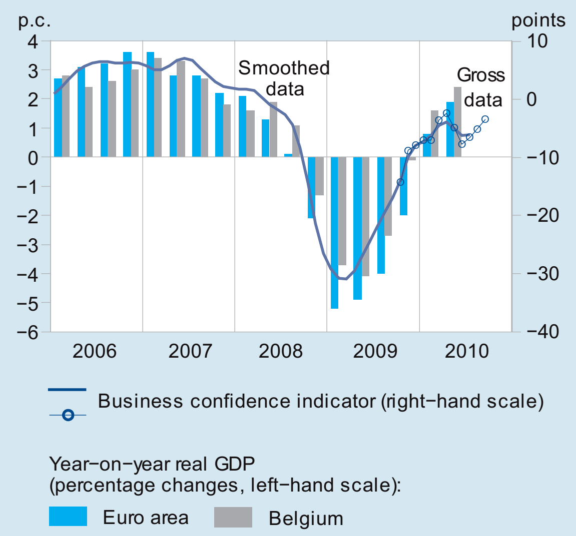


Source: Belgian Prime News.

Macroeconomic developments

The economic recovery in Belgium, while still fragile, is progressing at a faster pace than previously envisaged. In particular, real GDP growth surprised on the upside in the second quarter of 2010, reaching 0.9 %, after a zero growth was recorded in the first quarter of this year. The strong performance was partly due to a technical rebound in construction activity after bad weather conditions negatively affected this sector in the first quarter. Real activity also benefited from an upsurge in exports, in line with the peak in the momentum for trade, and some revival in domestic demand. However, as regards the short-term outlook, a moderation of GDP growth is foreseen in the second half of this year. In the euro area, some deceleration in growth is also expected to take place in the second part of the year, as long as the support from inventory building is becoming weaker and stimulus measures are phased out, in line with the urgent need for fiscal consolidation. Moreover, weaker than expected growth in the global economy, and especially in the US, can have negative spillovers for euro area countries, and vulnerabilities in the financial sector may hamper the recovery. Against this background, **the primary and recognised dealers expect Belgian GDP growth to stand at 1.7% in 2010 and 1.6% in 2011**, which implies an upward revision of 0.4 percentage points for 2010 and a broadly unchanged figure for 2011, compared to last quarter. For the euro area as a whole, the economy is now expected to grow by 1.6% in 2010 and 1.3% in 2011.

GDP GROWTH AND BUSINESS CYCLE INDICATOR

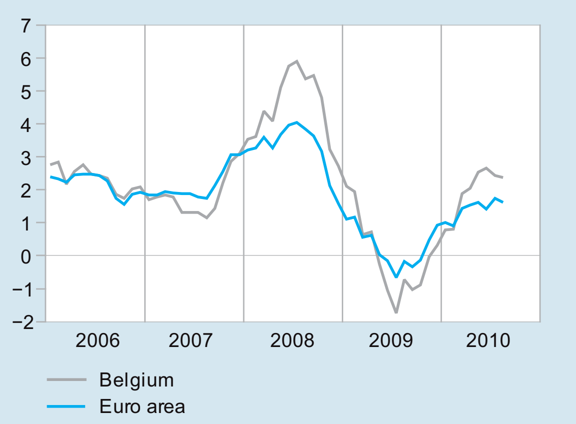


Sources: EC, NAI, NBB.

The impact of the crisis on the labour market had so far been relatively moderated in Belgium, like in Germany, compared to the fall in output or to the developments in other euro area countries. This relative resilience on the labour front was due to the extensive use by Belgian firms of methods to reduce working hours. In recent months, some stabilisation seems to have occurred in labour markets, relatively widespread across sectors, which has contributed to support consumer confidence further. As for prospects, it thus seems that the labour market may hold up somewhat better this year than previously expected. However, given the expected moderate recovery and the ongoing structural adjustment across sectors and firms, firms would remain cautious about their hiring plans. After having decreased by 0.4% in 2009, **total employment in Belgium is now expected to remain stable (growth of 0%) in 2010 and to increase slightly, by 0.4%, in 2011**. In view of demographic developments, the unemployment rate is expected to rise further, from 7.9% in 2009 to 8.6% in 2010 and 8.7% in 2011.

After having accelerated sharply to peak at 2.7% in June 2010, the HICP inflation rate in Belgium stabilised somewhat during the summer. This was due to some halt in the rapid progression of energy prices, combined with the euro appreciation, while the unprocessed food component continued to accelerate. Still weak labour markets dampen wage growth, which continues to keep the core inflation at relatively low levels. **On average, the participating dealers forecast Belgian headline inflation to be 1.9% in 2010 and 1.8% in 2011.** For the euro area, the inflation is expected to reach 1.5% in 2010 and 1.7% in 2011.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

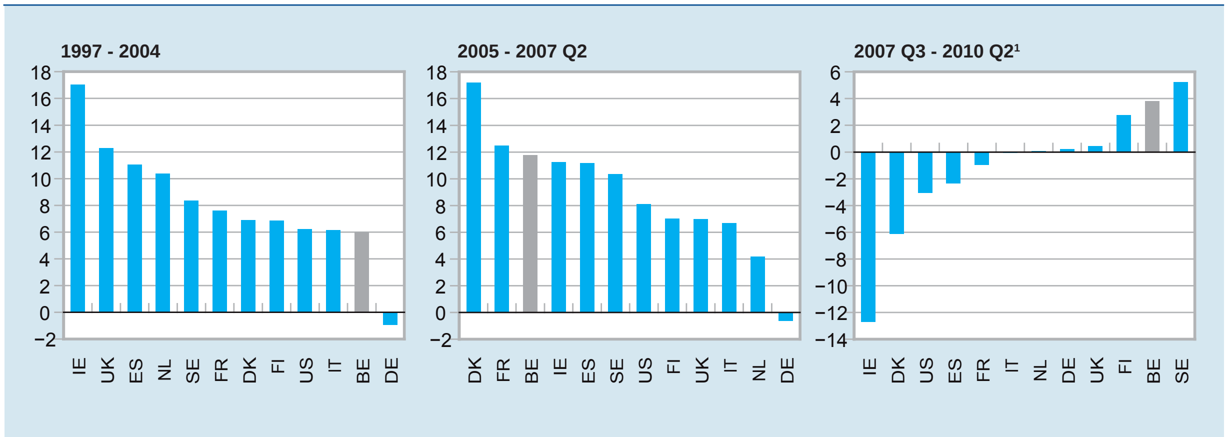
Following the general election in June 2010, negotiations to form a new federal government are still going on. Meanwhile, the previous government remains in office in a caretaker capacity and technical preparations have started to prepare a 'provisional budget' for 2011. Although the economic recovery is still quite modest, Belgian policymakers are fully aware of the need to return to fiscal consolidation as soon as possible, in order not to hamper the longer-term growth outlook. **The participating institutions on average expect the deficit of the Belgian government to ease from 6 % in 2009 to 4.9% in 2010 and 4.5% in 2011.** This means a slight positive revision compared to three months ago, since the better than expected growth in the second quarter of 2010 should help improve the budgetary position in the current year. In line with these still large deficits, **the government debt ratio is projected to increase from 96.3% in 2009 to 99.5% in 2010 and 101% in 2011.** As for the euro area's public finances, the general government deficit is expected to stand at 6.2% of GDP in 2010 and 5% in 2011.

Special topic: The Belgian housing market

The collapse of the US housing market was one of the triggering factors of the financial crisis which has led to the most severe contraction since the Second World War. In several countries, household sector deleveraging and the process of reallocating resources from the construction sector, in a context of slowing down or reverting house prices, have exacerbated the economic downturn and are likely to act as a drag on economic recovery. Up to now, the effects on Belgian housing markets have been relatively muted. It is interesting to assess whether this reflects a structural characteristic of the Belgian economy or whether an adjustment process is yet to come. First, the house price evolution is considered from the perspective of its fundamentals, in order to identify a possible overvaluation and the risk of a further price correction. Second, the vulnerability of the Belgian economy to a slowdown or a reversal in housing prices will be appreciated in the light of several factors, and notably the weight of the construction sector in overall activity, the feedback loop between housing wealth and consumption, the functioning of housing and mortgage markets (including bank lending practices), the financial position of the household sector and institutional characteristics (such as taxation and transaction costs).

As in other industrialized countries, residential real estate in Belgium has experienced a long-lasting period of rising prices, from the second half of the nineties onwards. The main driver of price changes has been the dramatic drop in interest rates. Looking precisely to Belgian developments, the pre-crisis period may be divided into two parts: from 1997 to 2004, house prices rose on average by 6% annually, in nominal terms. This rate is close to the one recorded in France (7.6%) and the US (6.2%), but appears quite low in comparison with the house price dynamics in Ireland (17%), the UK (12.3%), Spain (11%) or the Netherlands (10.4%). From 2005 onwards, however, house prices in Belgium accelerated further, reaching 11.8% on a yearly basis, and the country finally experienced stronger price increases than most of other European countries and the US.

HOUSE PRICES
(in nominal terms, averaged annual growth rate over the period)



Source: OECD.
[1] Latest data available is 2009 Q4 for DE and IE; latest data available is 2010 Q1 for DK, FR, IT and US.

This long and pronounced increase in real estate prices could not entirely be attributed to the evolution of fundamentals (the growth in disposable income, interest rates, the population growth, credit growth and changes in equity prices are commonly considered as fundamentals of house price developments). According to the housing affordability ratio used by the NBB, i.e. the ratio between the disposable income and the monthly cost of mortgage repayments, the Belgian housing market was overvalued by 19% in mid-2007. This is consistent with an IMF estimate made in early 2008, which indicated that at the end of 2007 Belgian house prices were about 15% higher than justified by fundamentals.

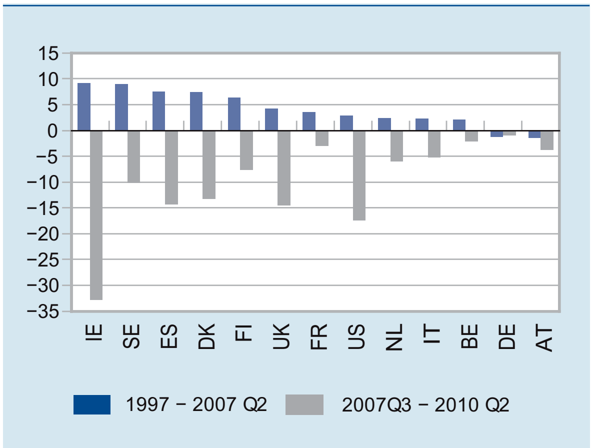
House prices started to decelerate at the outset of the financial turbulence in the third quarter of 2007. However, the price correction was very limited in Belgium - only three successive quarters of negative growth on a quarter-on-quarter basis were recorded - and prices have started to increase again from the third quarter of 2009 onwards. All in all, price developments in Belgium have been positive since the third quarter of 2007, with an averaged increase of 3.8% in nominal terms and 2.1% in real terms. This contrasts sharply with developments in many other countries, like Ireland, Denmark, the US and Spain, where the price adjustment has been much more pronounced until now - housing prices have contracted by respectively 12.7%, 6.1%, 3.1% and 2.3% annually, in nominal terms - and is still going on in a number of cases.

As the price correction has so far only been limited in Belgium, should we hold a further reversal of house prices is yet to come? Several elements should be considered to gauge the sustainability of past house price developments. The run-up in prices over the period 2004-2007 might have been fuelled by several tax and regulatory changes. Many examples may be referred to: registration fees - the most important transaction cost - were reduced in the three regions in 2002 and 2003. The tax amnesty of 2004 provided an incentive to households to repatriate capital, part of which was probably reinvested in real estate. The new fiscal regime for mortgage-related expenses, introduced in 2005, has eased the access to property for first-time home buyers, by lowering the debt burden in the first years of the loan, and may have resulted in higher loan-to-value ratios. Thus, the sustained house price inflation during the period 2004-2007 might be seen as a transition towards a new equilibrium rather than as a sharp deviation from the (former) equilibrium.

In addition, the Belgian housing market shows some structural characteristics that make large price deviations from their equilibrium less likely. Despite some decrease in the early 2000s, transaction costs are very high compared to other countries, and speculation does not seem to be a major concern. Generally speaking, speculation is less likely in a country where most property is owner-occupied, as is the case in Belgium, where the owner occupancy rate is close to 70%.

Should any correction in house prices nevertheless occur in the years to come, the impact on the real economy would be relatively limited, since the functioning of the mortgage market and some institutional features tend to mitigate this impact. First, Belgian households have a relatively low level of indebtedness: at the end of 2009, the household debt-to-GDP ratio amounted to 53%, against 66% in the euro area. Second, Belgian banks have conservative lending practices: mortgages tend to be at fixed rate and have moderate loan-to-value ratios, reducing the risk of foreclosures. Third, refinancing products (mortgage equity withdrawal) are uncommon, making a significant adverse impact on consumption less likely.

RESIDENTIAL INVESTMENT
(in volume, averaged annual growth rate over the period)



Source: OECD.

In addition, the spillovers from the house price developments to the construction sector have proved to be weak. Indeed, despite high house price increases over the period 1997-2007, residential investment grew only moderately in Belgium, by 2.1% annually. All in all, developments in the construction sector were in line with the pattern of general activity, so that the sector's share in total value added has remained stable, around 5 percent. On the other hand, in some other European countries, rising house prices entailed an activity upsurge in the construction sector: residential investment was particularly buoyant in Ireland, in Spain and in the Nordic countries, with annual growth rates ranging between 6.5% and 9.2% over the period 1997-2007, parallel to sustained price growth. In Spain and Ireland, the construction sector grew disproportionately in relation to other sectors and became the engine of growth: the share of construction in total value added reached 9.6 % and 7.8 % respectively by the end of 2006.

In these countries, the bust in the housing market eventually led to a strong contraction in the construction sector, both in terms of output and employment. Residential investment plummeted in Ireland, the US, Spain and Denmark in the aftermath of the crisis and has remained weak since. In Belgium, residential investment slowed down, in line with the overall recession, but this movement was very limited compared to other countries. Residential investment was supported by the decision to lower the VAT rate temporarily, as was the case in other countries.

In conclusion, developments in the housing market and in the construction sector in Belgium are but slightly connected with business and financial cycles. In this context, the probability of a sharp correction in house prices seems low in the short run. Would that be the case, the feedback effect on the real economy - via consumption and housing investment - would be weak. In the longer run, however, other factors related to demography (ageing, immigration, etc.) or to the availability of building land may affect the housing price dynamics.

Treasury highlights

1. In the June 28th, July 26th and August 23rd auctions, the Treasury has taken advantage of market demand to accept bids for a total amount of EUR 3.681 billion, 2.316 billion and 2.750 billion respectively at decent bid-to-cover ratios, bringing total OLO issuance this year to EUR 32.61 billion compared to a target of EUR 33.75 billion.

2. Given the higher redemptions in 2011, the Treasury decided to increase its prefunding for 2011 by bringing the 2010 target for OLO issuance to 37 billion, an increase by 3.25 billion and the targeted amount for buybacks on the 2011 maturity to 4.83 billion. In addition, the envisaged increase of the Treasury Certificate stock by 1.49 billion has been revised downwards in order to keep the outstanding amount at the same level as in 2009.

3. The updated borrowing requirements and financing plan can be consulted on www.debtagency.be.

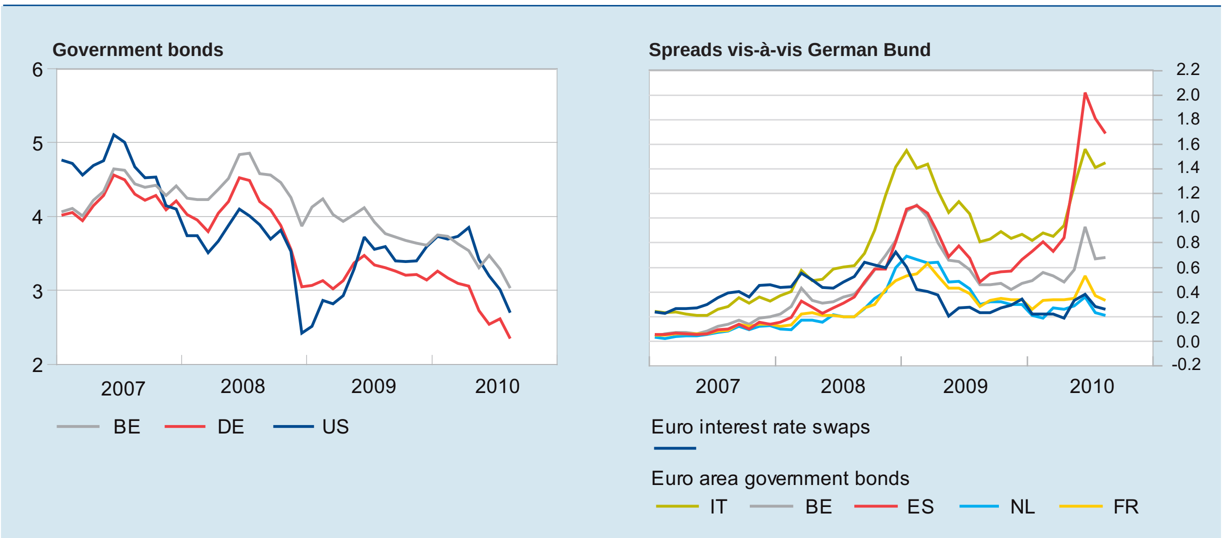
The OLO auction dates for the remainder of 2010 are the following:

Issuance date	Settlement date
27 September	30 September
25 October	28 October
29 November	2 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)

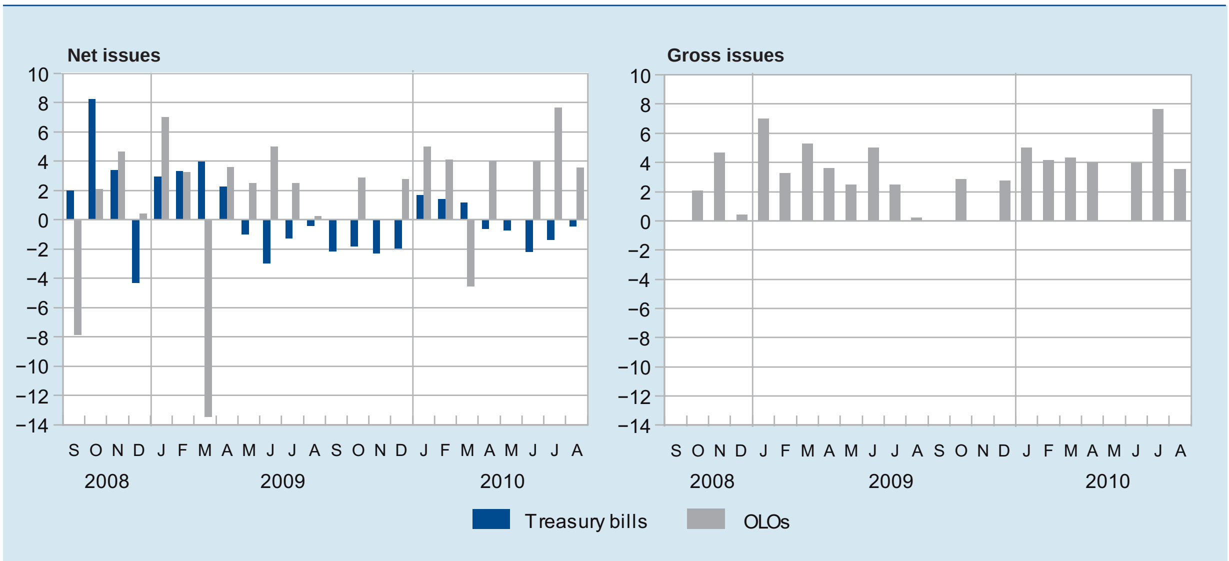


Sources: BIS, Datastream.

During the last months, a number of macroeconomic data releases, especially for the US, took their toll on market sentiment by increasing concerns about the sustainability of the recovery in economic activity. They triggered strong flows into government bonds which resulted in a decline of their yield. These market moves also revealed a lowering of the break-even inflation rates.

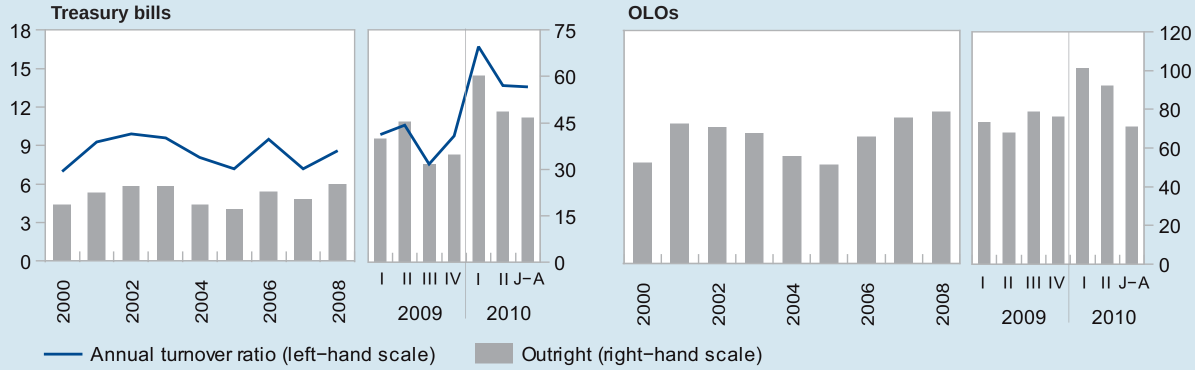
The introduction of the European Financial Stabilisation Mechanism in early May contributed to ease somewhat market concerns about sovereign risk in the euro area. The ECB's Securities Markets Programme also had a positive effect on these concerns. As a result, the spreads of euro area government bonds vis-à-vis the German Bund declined somewhat.

PRIMARY MARKET
(billions of euros)

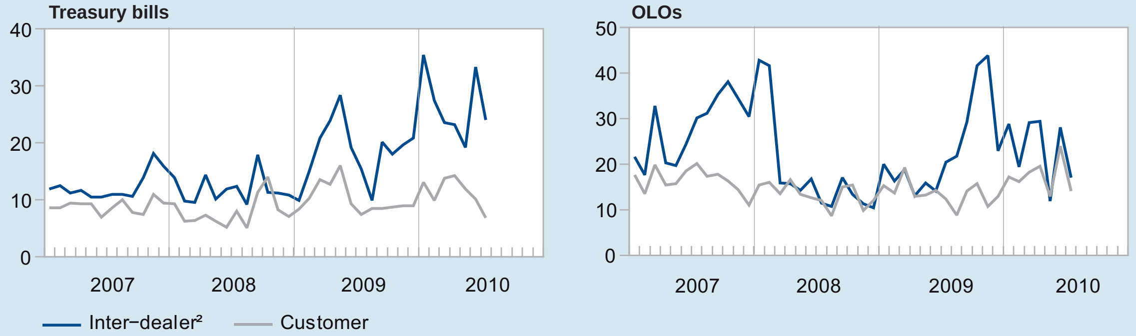


SECONDARY MARKET TURNOVER

As compiled by the Securities Regulation Fund[1]
(billions of euros unless otherwise stated, monthly averages)



As reported by primary and recognised dealers to the Treasury
(billions of euros)

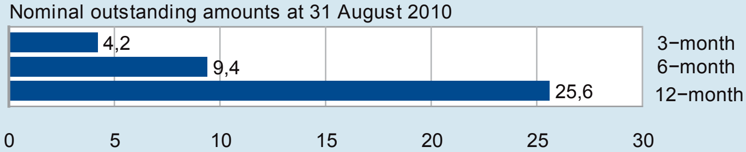


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include sell/buy–back transactions which are in fact repurchase agreements.
[2] Please note that inter–dealer turnover is double–counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euro)

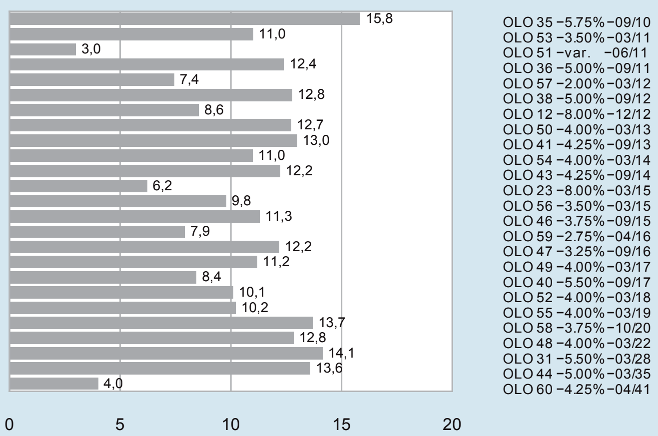
TREASURY BILLS

Nominal outstanding amounts at 31 August 2010

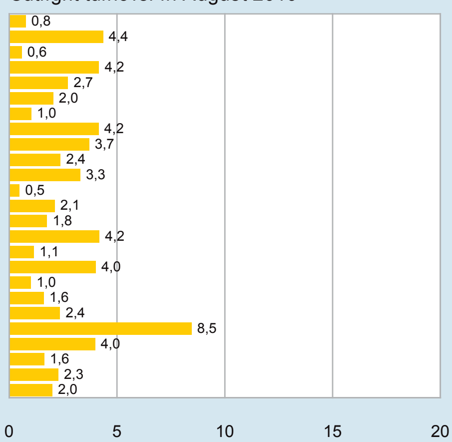


OLOs

Outstanding amounts at 31 August 2010



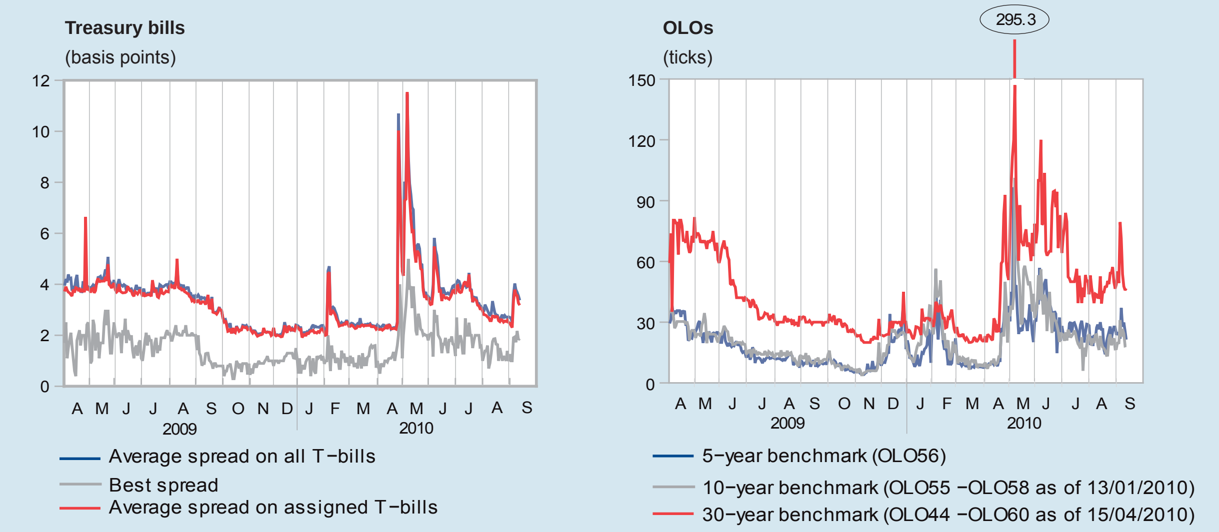
Outright turnover in August 2010[1]



Source: Securities Regulation Fund.

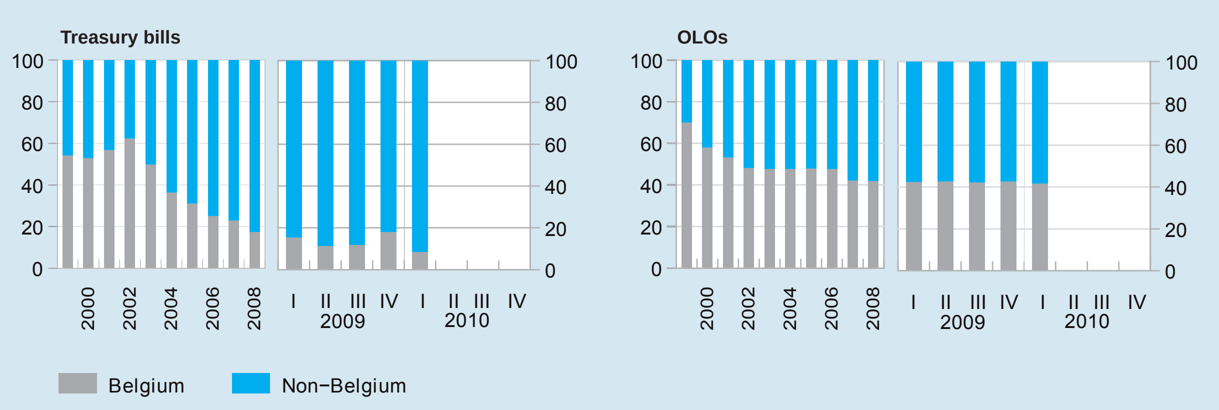
[1] The turnover figures include sell/buy–back transactions which are in fact repurchase agreements.

BEST BID/OFFER SPREADS[1]



Source: Treasury.
[1] As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed). For the period October−December 2009, this is the best average over 6 hours; since January 2010, it is the best average over 5 hours.

LOCATION OF HOLDERS
(percentages of total)



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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.