BELGIAN DEBT AGENCY

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

NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

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- Better-than-expected data releases resulted in an upward revision of the growth outlook for 2011. Real GDP growth in Belgium is now expected to rise to 2.4% in 2011 and reach 1.9% in 2012, outperforming the euro area as a whole.

- The sharp acceleration in oil prices in recent months has affected the outlook for HICP inflation, which in Belgium is expected to increase to 3.3% in 2011 before decelerating to 2.3% in 2012.

- In line with an improved growth outlook and the updated Stability Programme, the outlook for public finances in Belgium has improved. The general government deficit is expected to fall to 3.6% of GDP in 2011 and 3.2% in 2012, while the debt ratio would moderate to 96.1% of GDP in 2012.

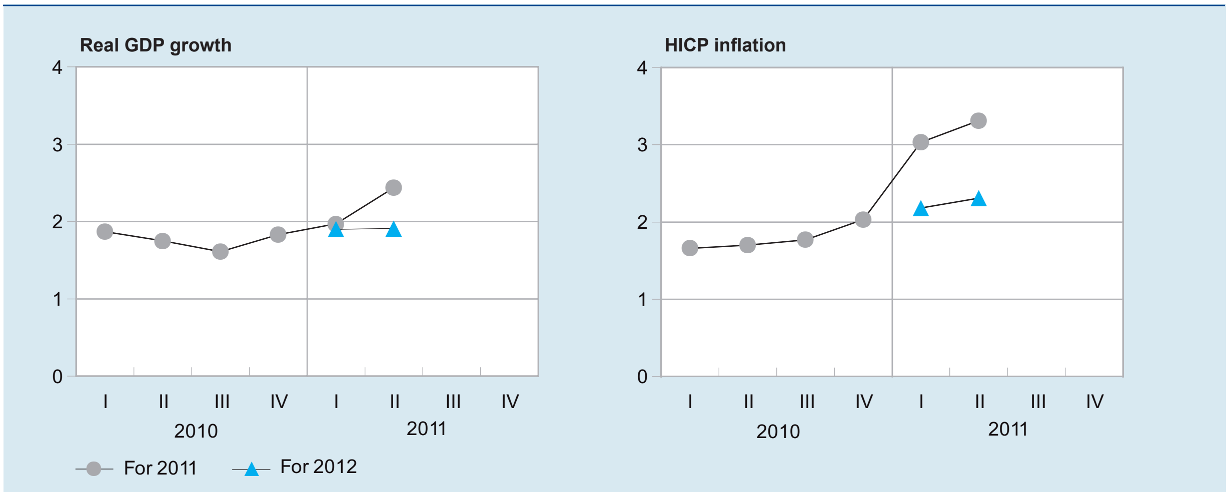
- While the Belgian economy has stood up relatively well to the crisis, structural measures are needed to keep up the current good performance and guarantee sound long-term growth prospects. These should be aimed at ensuring medium-term debt sustainability, raising the employment rate, boosting competitiveness and addressing financial sector vulnerabilities.

Consensus: Average of participants' forecasts

	2010		2011 p				2012 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	2.1	1.8	2.4	(2.0)	1.9	(1.7)	1.9	(1.9)	1.6	(1.7)
Inflation (HICP)(1)	2.3	1.6	3.3	(3.0)	2.7	(2.4)	2.3	(2.2)	1.9	(1.8)
General government balance(2)	-4.1	-6.0	-3.6	(-4.4)	-4.5	(-4.6)	-3.2	(-3.8)	-3.7	(-3.7)
Primary balance(2)	-0.7	-3.2	-0.2	(-0.6)	n.		0.1	(0.1)	n.	
Public debt(2)	96.6	85.1	96.4	(99.6)	87.2	(85.2)	96.1	(99.7)	88.2	(86.4)

Numbers in parentheses refer to the previous consensus forecast of March 2011.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.
n. Not available.

SUCCESSIVE FORECASTS FOR BELGIUM

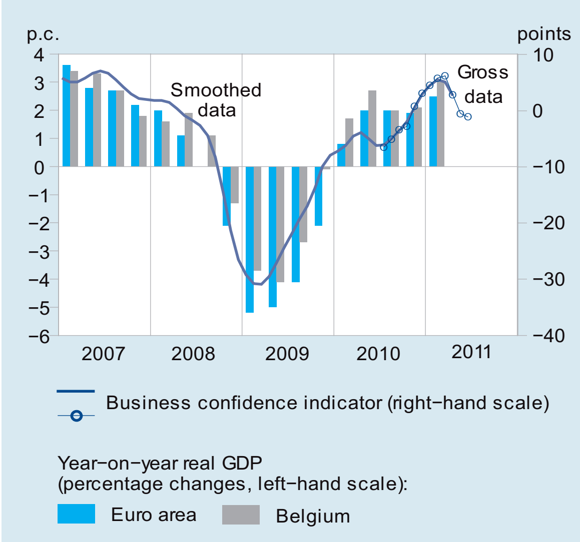


Source: Belgian Prime News.

Macroeconomic developments

The outlook for activity in Belgium has improved over recent months, as data for the first quarter of 2011 came in as a positive surprise. In the slipstream of Germany, Belgium recorded quite strong quarter-on-quarter GDP growth of 1.1%. As a consequence, the loss in activity due to the crisis has now been fully recovered. Whereas the recovery was initially mainly supported by exports, it is gradually becoming more broad-based as private spending has also gathered strength. Private consumption is supported by the relatively good performance of the labour market. This is also reflected in the clear recovery in the consumer confidence indicator up to early 2011 when it reached a level last seen in 2007, a trend that was driven mainly by the component which polls individuals' expectations regarding unemployment over the coming twelve months. In recent quarters, private investment also has started to contribute positively to GDP growth, supported by a clear improvement of demand and profitability prospects, the steep increase in the capacity utilisation rate (which has again reached its long-term average since 1990), and the very low level of interest rates.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



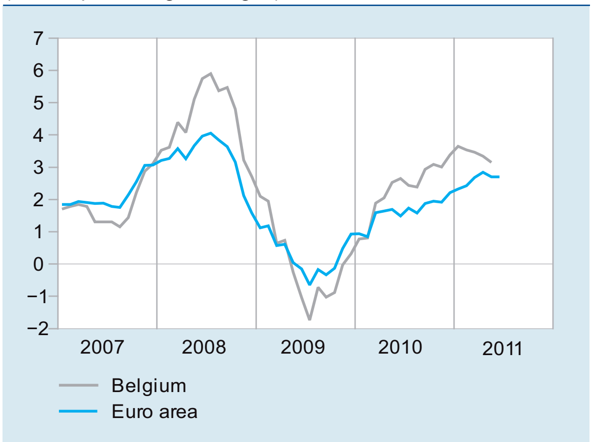
Sources: EC, NAI, NBB.

For the next few quarters, some moderation in growth is expected, in line with the decline in short-term indicators. The participating institutions consider this moderation to be a soft patch, however, rather than the start of a new recession, as the fundamental drivers of economic growth remain in place for the world economy. Even though the positive surprise for first quarter real GDP growth in Belgium is not expected to affect the remaining quarters of the year, it does have an important impact on the growth performance for 2011 as a whole, resulting in an upward revision of about half a percentage point compared to the March consensus. **The participating institutions now on average expect Belgian real GDP growth to increase from 2.1% in 2010 to 2.4% in 2011 and then moderate to 1.9% in 2012.** For both years, the projected growth rates remain well above the euro area average and above the Belgian economy's growth potential.

As regards developments in the labour market, Belgium was not only characterised by resilience during the crisis - thanks to the intensive recourse to temporary unemployment schemes and labour hoarding by firms facing difficulties recruiting skilled workers - but also by a relatively quick and strong consolidation afterwards. After having already increased in 2010, by 0.7%, total employment is expected to continue growing at around that pace both in 2011 and in 2012. By way of comparison, in the euro area, employment declined by 0.5% in 2010, and is forecast to increase by only 0.4% in 2011 and by 0.8% in 2012. **The decline in the Belgian unemployment rate which had begun in early 2010 is expected to continue steadily, reducing the unemployment rate from 8.3% in 2010 to 7.9% in 2011 and 7.7% in 2012.** Whereas the fall in activity that occurred during the 2008-2009 recession has been fully wiped out since the first quarter of 2011, the impact of the crisis on unemployment is thus still important, compared to a trough of 6.8% in the second quarter of 2008.

According to the latest data, Belgian public finances ended the year 2010 with a deficit of 4.1% of GDP, which is half a percentage point better than previously expected. In line with this good performance, the caretaker federal government has also shown more ambition when drawing up the Stability Programme that was submitted to the EC in April. Following these two pieces of new information, **the participating institutions have lowered their forecasts for the general government budget deficit, which is now expected to moderate to 3.6% of GDP in 2011 and 3.2% in 2012.** It should be mentioned that some of the forecasts included in this consensus average implicitly assume that further consolidation measures will be taken in 2012. This more optimistic view on the deficit is also reflected in the outlook for the consolidated gross debt ratio of general government. **Public debt is now expected to slow from 96.6% of GDP in 2010 to 96.4% in 2011 and 96.1% in 2012.** Although the level is still significantly higher than the euro area average, the gap is expected to narrow further, as the euro area public debt ratio is projected to rise from 85.1% of GDP in 2010 to 87.2% in 2011 and 88.2% in 2012.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

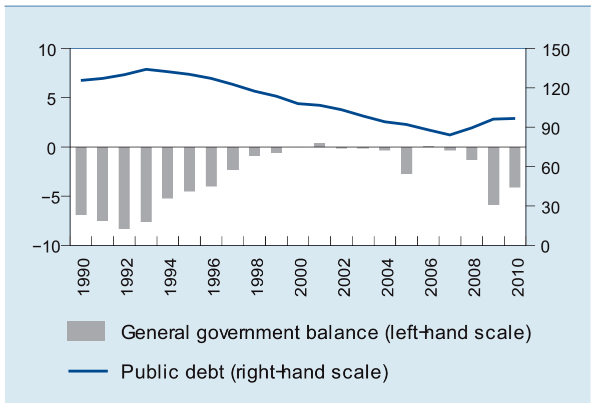
In parallel with the strong recovery of global activity and demand, commodity prices rose considerably, resulting in high inflation rates worldwide. In Belgium, HICP inflation has been hovering at above 3% since October 2010. Against this background, **the participating institutions have further raised their inflation forecast. They now expect Belgian HICP inflation to rise from 2.3% in 2010 to 3.3% in 2011 to come back down to 2.3% in 2012.** For the euro area as a whole, the inflation projections have been revised upwards to a similar extent. The higher projected inflation for Belgium compared to the euro area average reflects the impact of higher commodity prices – oil in particular – to which the Belgian consumer price inflation is more sensitive. As explained in the NBB Annual Report 2010, this divergence is largely due to a higher household consumption of energy, a lower level of excise duty, on average, and a quicker and more pronounced transmission of energy commodity prices to gas and electricity tariffs, as well as the response of certain food prices to commodity price hikes. These developments need to be monitored closely, however, especially in Belgium, as the higher inflation rates could trigger second-round effects.

Special Topic: Belgium's current robust economic performance should not be taken for granted

The Belgian economy has stood up relatively well to the crisis and, in terms of the subsequent recovery, Belgium has up to now outperformed most of the other euro area countries. However, the economic and financial crisis has left its mark on public finances, potential output and the banking sector. Policy-makers should therefore not be complacent. Instead, they should decide sooner rather than later on far-reaching structural measures to keep up the current good performance and guarantee sound long-term growth prospects, especially in view of the long-term challenges of globalisation, population ageing and climate change. Within Europe as well, actions are being taken to frontload growth-enhancing measures under the Europe 2020 strategy. In this context, the first European Semester of *ex-ante* economic policy coordination, based on Member States' national budgets and national reform programmes, has just been concluded.

Belgian public finances were thrown off course by the recent economic and financial crisis. Whereas the consolidated gross debt ratio of general government had been on a clear downward trend from 134.1% of GDP in 1993 to 84.2% in 2007, it has since increased to 96.2% in 2009 and further to 96.6% in 2010 reflecting important loans and capital injections to support certain ailing financial institutions as well as large budget deficits.

PUBLIC FINANCES IN BELGIUM
(in % of GDP)



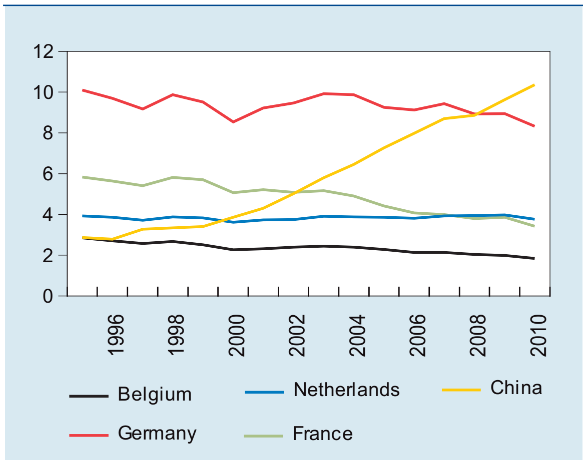
Source: NAI.

In March 2011, the caretaker federal government drew up a budget for 2011 which foresees bringing the deficit down this year to 3.6% of GDP, from 4.1% in 2010. In addition, in April, the Belgian government submitted an updated Stability Programme for the period 2011-2014, according to which the budget deficit should fall below 3% in 2012 and turn into a small surplus by 2015. In the absence of any major shocks, this programme would imply a decline in the public debt ratio as from 2012 onwards. To reach the targets for the period after 2011, however, important additional consolidation measures will be required, preferably based mainly on selective spending cuts. In addition, there should be an intergovernmental burden-sharing agreement, so that all levels of government share the responsibility for a return to sustainable public finances.

The need for further fiscal consolidation is all the more urgent, as the sovereign crisis in some of the euro area peripheral countries presents a serious contagion risk, particularly for those countries with a high public debt ratio and no credible plan to bring it down progressively. In addition, there is the imminent surge in the budgetary costs of ageing, related mainly to pensions and health care, which will weigh on public finances.

The ageing of the population will also put some pressure on the labour market and on economic growth, as the population of working age will decline. To counter this effect, the governments will have to take ambitious policy initiatives to mobilise all potential labour forces to maintain the current standard of prosperity. On the basis of the results of the labour force surveys, the employment rate in Belgium fluctuated around 65% of the population aged from 20 to 64 years during the period 1999-2004, before rising to 68% in 2008. This upward trend reflected mainly an increase in the employment rate of women and older workers, who participated far less in the labour market than the other population groups. The decline in employment caused by the recession reversed the global trend temporarily, especially for men (who are more strongly represented in the branches of activity which are more sensitive to the business cycle), for younger persons and for lower-skilled workers. Although the employment rate has been on an upward trend over the past ten years, over the period 2007-2010, it was still about 3 percentage points lower than in the EU15. Given the generally low employment rate, it is thus essential to step up the efforts to get more people to work, giving special attention to vulnerable groups, such as (mainly low-skilled) young people and immigrants and older workers. Besides the quantity of labour, quality also plays an important role. In a continuously changing economy, it is crucial for people to be able to efficiently use new technologies. In that regard, investment in education and lifelong learning is an important tool.

SHARE IN WORLD EXPORTS OF GOODS
(in %)



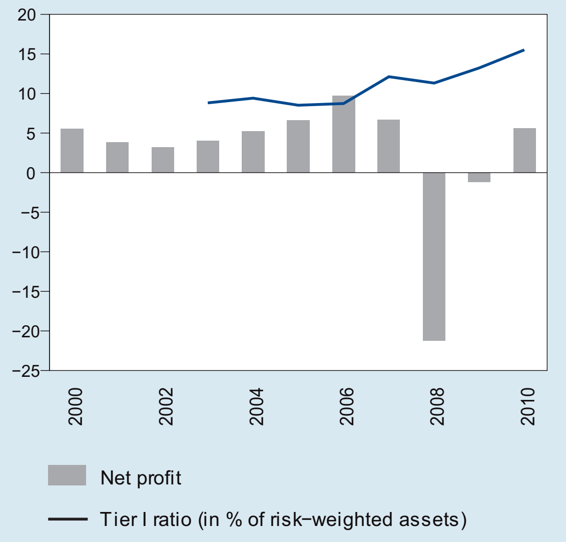
Sources: UNCTAD, NAI.

Another structural challenge is the emergence of new players on the global economic scene and the associated international fragmentation of the production chain. In this context, the prosperity of a small, open economy such as Belgium is fundamentally dependent on its competitiveness in the broad sense. In that regard, the tendency for Belgium's share in world exports of goods to decline more strongly than that of some other euro area countries indicates a need for vigilance. In the same vein, the balance of current transactions with the rest of the world followed a gradual but steady downward trend during the 2000s, although it did remain positive.

One often-cited factor driving our competitiveness is the development of production costs, and unit labour costs in particular. Since 1996, unit labour costs in the business sector have risen faster in Belgium than in the three main neighbouring countries, resulting in a cumulated handicap of around 11% in 2010. This handicap relates mainly to a less favourable trend in labour productivity, although since 2007 higher increases in hourly labour costs also play a role. The inflation forecast for 2011 and 2012 being higher in Belgium, compared to the euro area, the indexation mechanisms will most likely induce this wage handicap to increase further. In addition, the costs of intermediate inputs - such as energy and other commodities - are also relatively important in Belgium. Trying to realise savings on energy consumption could therefore also be seen as a strategy to improve the competitiveness of Belgian firms. Not only cost factors, but also the quality of institutions, production factors and product range play an important role. Measures that stimulate innovation and creativity would help to move towards a more knowledge-intensive economy that will allow firms to develop new products and explore new markets. More flexible product and labour markets would also contribute to raising the economy's productivity.

A final point of attention is the Belgian banking sector, which is engaged in an extensive restructuring process, aimed at addressing the vulnerabilities that were uncovered by the financial crisis after the failure of Lehman Brothers. As explained in the NBB's Financial Stability Review 2011 - which was published on 16 June - the Belgian banks have changed the focus of their activities away from trading activities and from expansion into non-core markets and have refocused their business models on more traditional banking activities with their domestic and certain foreign core clients. The strong deleveraging process reduced the total balance sheet of the Belgian banks to €1151 billion at the end of 2010, down from almost €1600 billion at the end of 2007. It resulted also in a reduction of the banks' risk profile, a lower reliance on short-term wholesale funding and strengthened capital buffers. In 2010, after two years of losses, the Belgian banks succeeded in restoring their profitability and in increasing their solvency. However, this restructuring process is not yet over. In addition, the economic and financial operating environment remains challenging for financial institutions. The interplay between sovereign risk and bank funding conditions, for instance, is identified as a serious potential vulnerability for European banks.

PROFITABILITY AND SOLVENCY
(consolidated data, in € billion, unless otherwise stated)



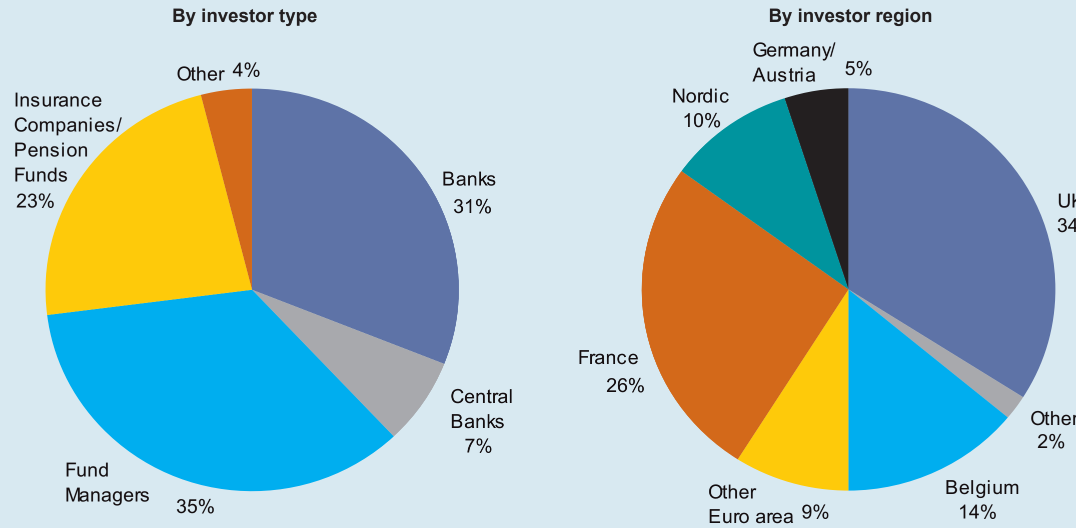
Source: NBB.

Although the economic recovery has clearly become more broad-based and thus self-sustaining, securing the transition from recovery to expansion requires an important effort at addressing several challenges, such as ensuring medium-term debt sustainability, raising the employment rate, boosting competitiveness and addressing financial sector vulnerabilities. These are also the main elements that are at the basis of the EC's recommendations published on 7 June and subsequently endorsed by the European Council on 23-24 June as the final stage of the first European Semester. There seems to be a broad agreement about the main challenges to address, but this now has to be translated into concrete measures that should deliver the desired results.

Treasury highlights

In June, the Kingdom of Belgium syndicated a new 15-year fixed-rate benchmark, the €3.5 billion 4.5% OLO 64 due 28 March 2026 with a yield spread of mid-swaps + 83 bps at the tight end of the price guidance. The new OLO 64 is the fourth syndicated benchmark from Belgium in 2011, after two fixed-rate and one FRN benchmarks. As a result, 68% of planned issuance has already been issued as well as around 75% of OLO issuance.

DISTRIBUTION



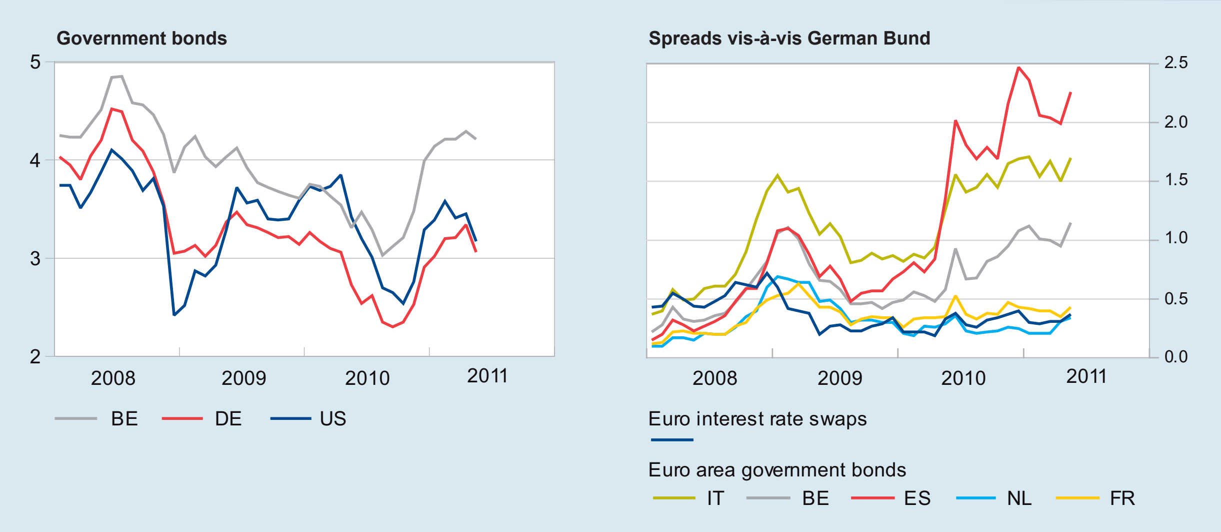
The OLO auction dates for the remainder of 2011 are the following:

Issuance date	Settlement date	Issuance date	Settlement date
25 July	28 July	31 October	3 November
22 August	25 August	28 November	1 December
26 September	29 September		

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

Government securities market

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

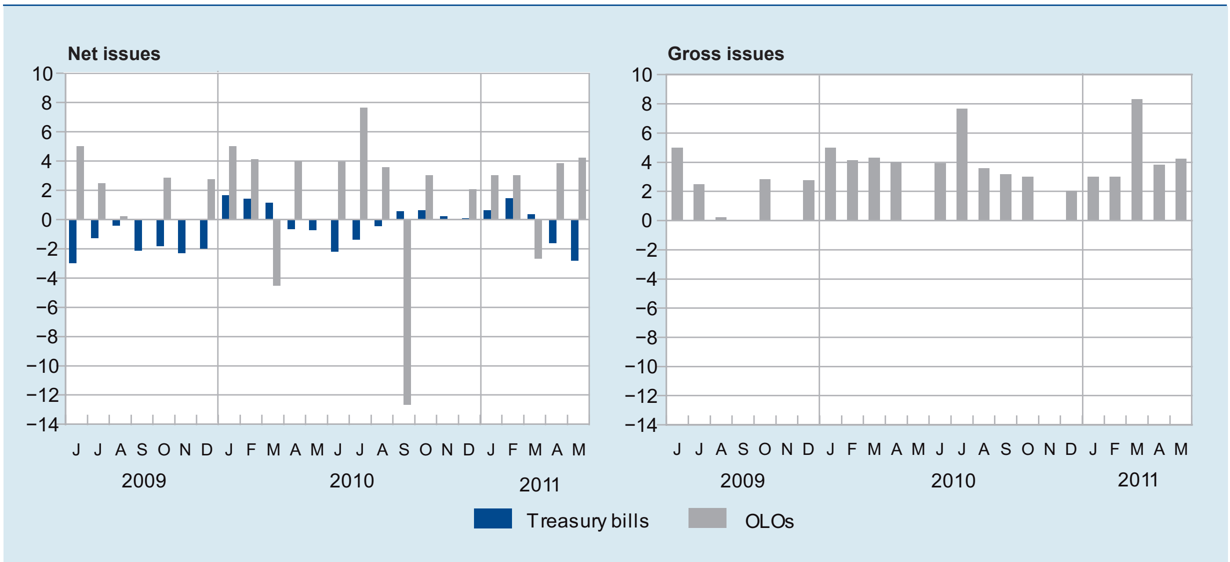


Sources: BIS, Datastream.

The rise of the long-term interest rates on government bonds in Germany and the United States, which started in November last year, came to an end early this year. The decline in yields observed since February was primarily a reflection of mounting market concerns about the strength of the world economy. Ongoing political tensions in northern Africa and the Middle East, and the devastating earthquake in Japan in early March triggered flight-to-safety investment flows that also induced downward pressure on government bond yields. Financial market measures of euro area long-term inflation expectations have remained broadly unchanged and continue to suggest that inflation expectations remain firmly anchored.

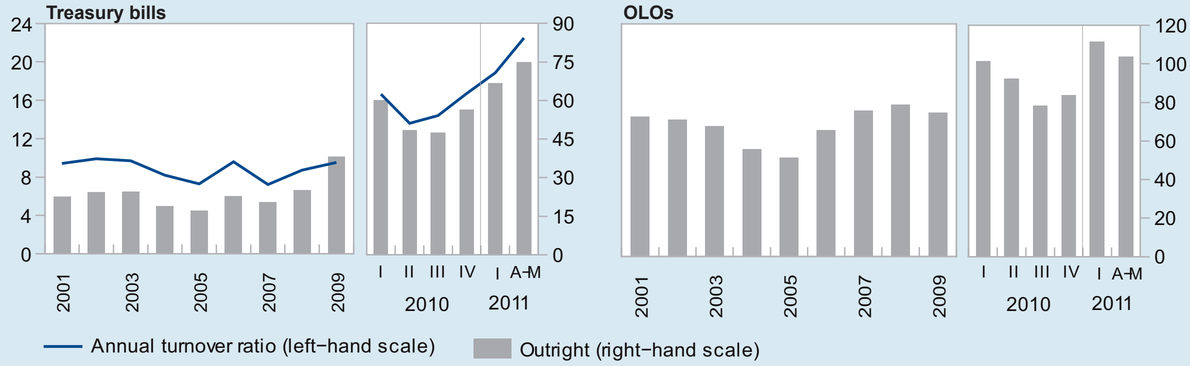
Spreads of most issuers vis-à-vis the German Bund increased somewhat as the sovereign debt markets were exacerbated by downgradings by rating agencies and by market participants' uncertainty about the size and scope of the European Financial Stability Facility (EFSF).

PRIMARY MARKET
(billions of euro)

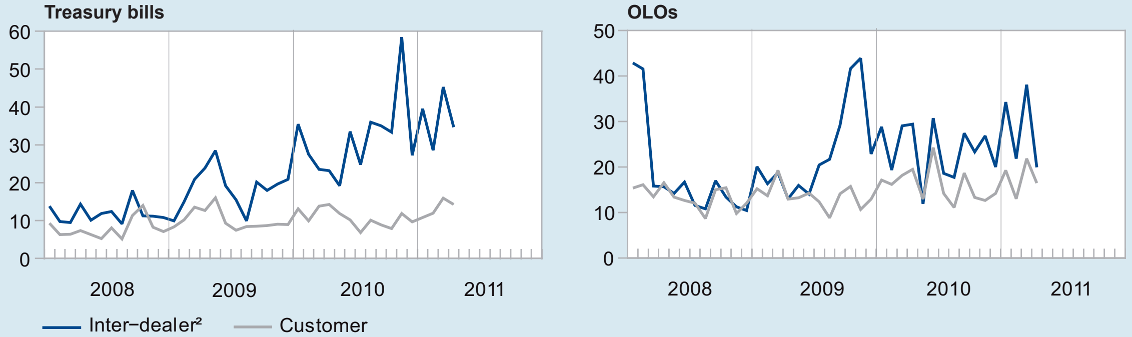


SECONDARY MARKET TURNOVER

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



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



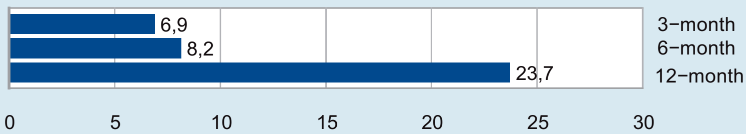
[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.
[2] Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euro)

TREASURY BILLS

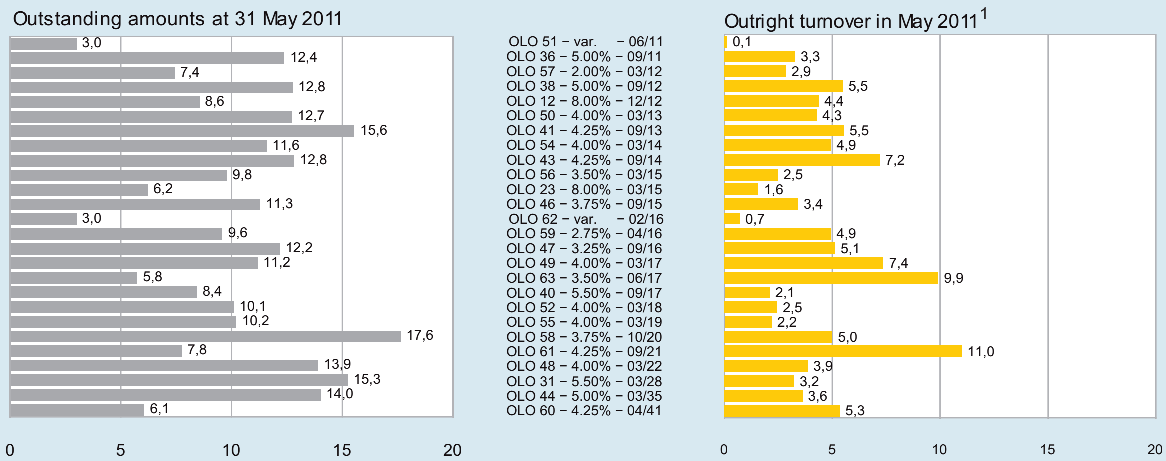
Nominal outstanding amounts at 31 May 2011



OLOs

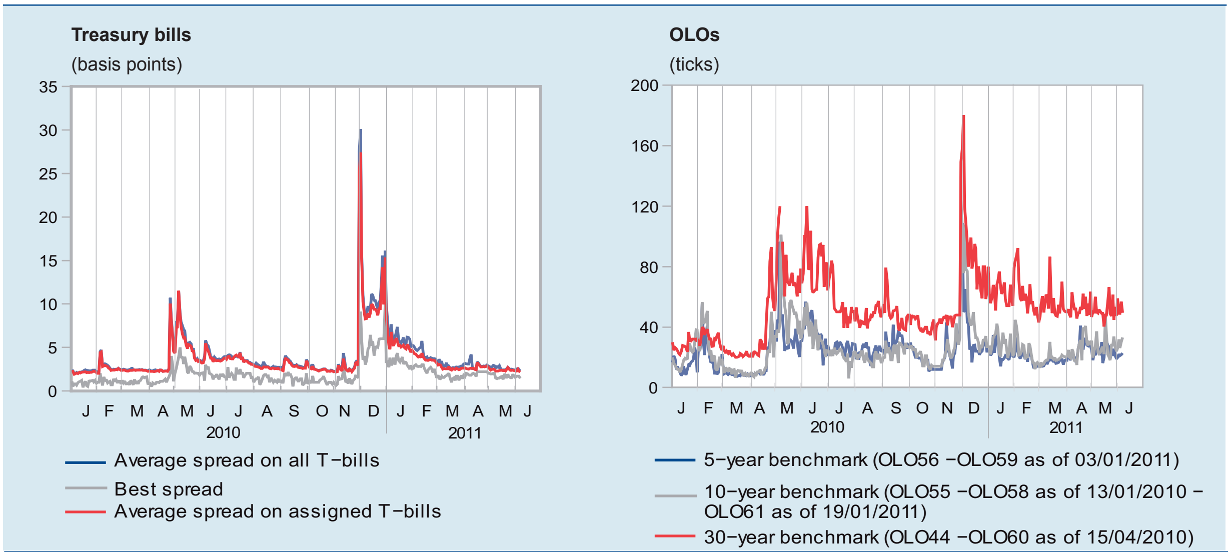
Outstanding amounts at 31 May 2011

Outright turnover in May 2011[1]



Source: Securities Regulation Fund.
[1] The turnover figures include sell/buy-back transactions which are in fact repurchase agreements.

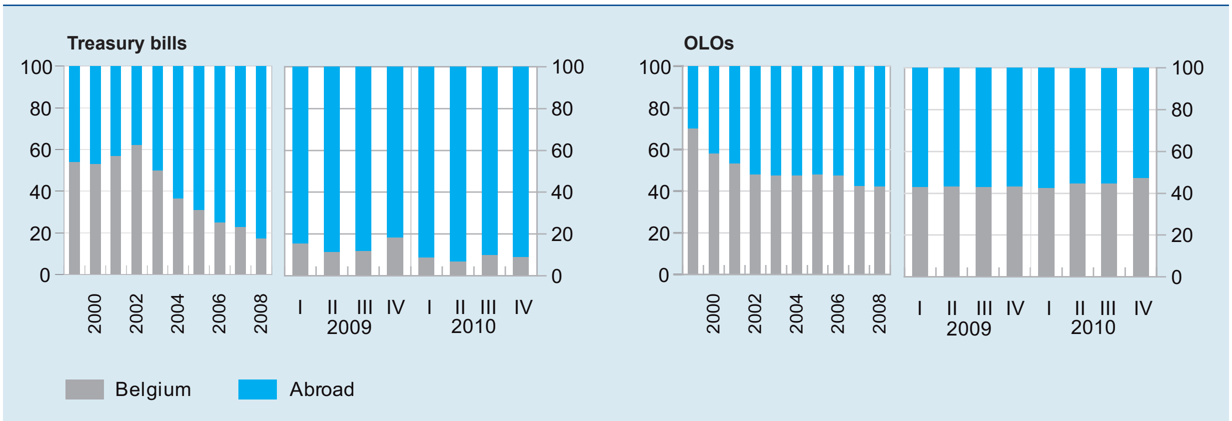
BEST BID/OFFER SPREADS[1]



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.

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