BELGIAN DEBT AGENCY

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

NationalBank OF BELGIUM
Eurosystem

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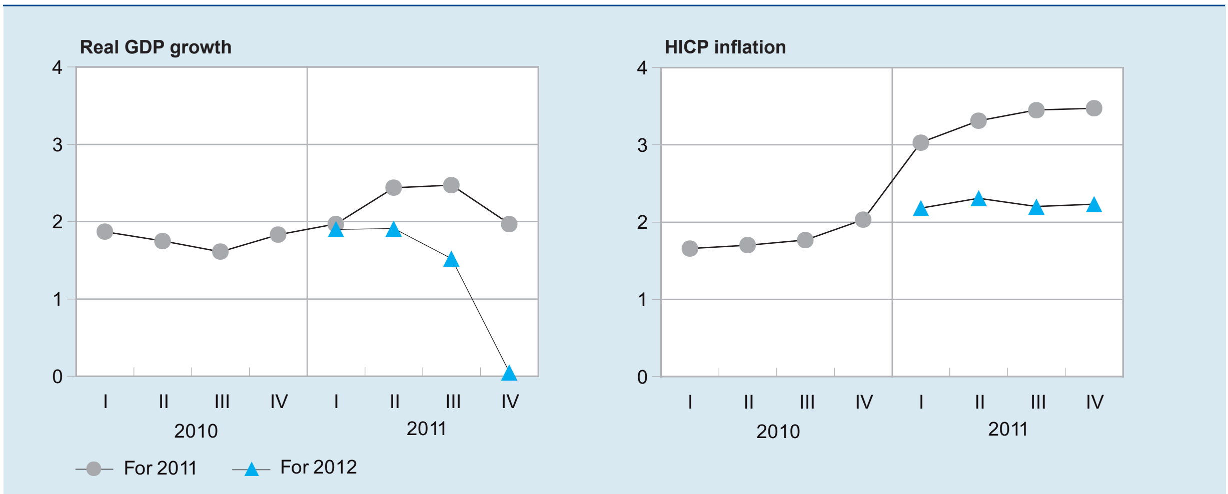
- Amidst renewed financial tensions and the worsening business climate, the economic outlook for the euro area and for Belgium has deteriorated rapidly since the summer 2011. GDP growth projections for Belgium have been downgraded to 2.0% in 2011 and to 0.1% in 2012.
- Fuelled by high energy prices, in particular during the first half of the year, inflation has reached 3.5% in 2011; it is expected to decelerate to 2.2% in 2012.
- After a record-breaking 541 days since the last election, a new fully-empowered Belgian government was sworn in on 6 December 2011. As explained in the Special Topic section, an agreement on institutional reforms of Belgium had already been concluded between the linguistic Communities in the previous months, paving the way for more political stability.
- The new government has decided detailed measures to keep the general government deficit down to 2.8% of GDP in 2012 - in accordance with the stability programme's target - and to boost the employment rate through changes to the unemployment and pension systems.

Consensus: Average of participants' forecasts

	2010		2011 p				2012 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	2.3	1.8	2.0	(2.5)	1.6	(1.7)	0.1	(1.5)	-0.2	(1.0)
Inflation (HICP)(1)	2.3	1.6	3.5	(3.5)	2.7	(2.6)	2.2	(2.2)	1.8	(1.8)
General government balance(2)	-4.1	-6.2	-3.7	(-3.6)	-4.3	(-4.3)	-3.1	(-3.4)	-3.3	(-3.4)
Primary balance(2)	-0.7	-3.4	-0.3	(-0.1)	-1.9	(-0.3)	0.5	(0.1)	-0.6	(-0.3)
Public debt(2)	96.2	85.6	96.7	(96.2)	87.8	(87.2)	97.2	(96.4)	90.1	(88.4)

Numbers in parentheses refer to the previous consensus forecast of September 2011.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM

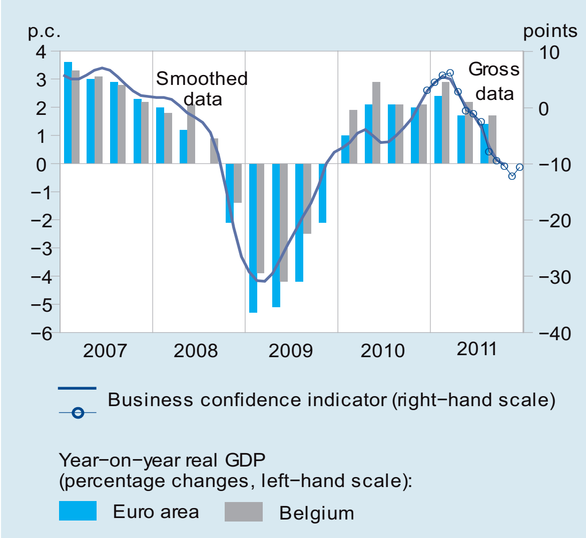


Source: Belgian Prime News.

Macroeconomic developments

In Belgium, the recovery of the economy which had begun in mid-2009 stopped at the end of the first half of 2011. Over the summer, business survey and consumer confidence indicators fell sharply, and GDP declined by 0.1% in the third quarter of 2011. In parallel, the outlook for the global economy as a whole and for euro area countries in particular has also deteriorated sharply, as shown by forecasts published over the last few weeks by the European Commission, the OECD and the ECB. **In this context, the primary dealers have downgraded their GDP growth forecast for Belgium for 2011 and to a greater extent for 2012: the average forecast by the BPN participants now stands at 2.0% for 2011 and 0.1% for 2012.** However, the Belgian economy is expected to continue to outperform the euro area in both years, with real GDP growth forecast to reach 1.6% in 2011 and -0.2% in 2012. Despite the deceleration in economic activity, employment has continued to perform well over the first three quarters of 2011.

GDP GROWTH AND BUSINESS CYCLE INDICATOR

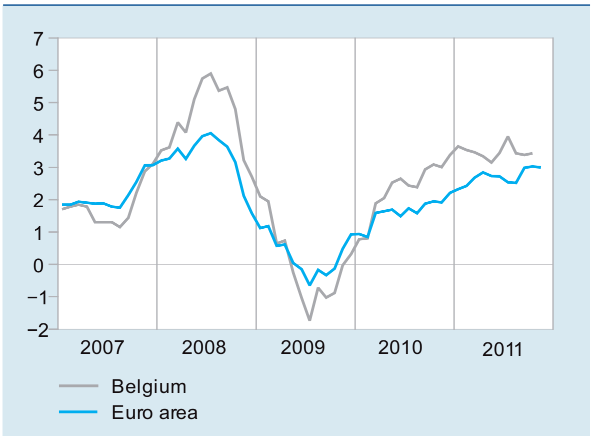


Sources: EC, NAI, NBB.

Annual HICP inflation came down during the second half of 2011 in Belgium, after peaking at 4% in July. This has resulted in a reduction in the inflation differential vis-à-vis the euro area that has been observed since March 2010, due to the country's greater sensitivity to energy price shocks. In December 2011, inflation stood at 3.2% in Belgium and 2.8% in the euro area. Considering these latest developments, **Belgian HICP inflation has reached 3.5% for the year 2011. On average, the primary dealers forecast inflation to slow down to 2.2% in 2012. For the euro area, the inflation rate stood at 2.7% in 2011 and the primary dealers expect inflation to fall to 1.8% for 2012.**

Although the government's budget 2012 measures are not yet included in all forecast, the primary dealers on average expect the general government budget deficit to shrink from -4.1% of GDP in 2010 to -3.7% in 2011 and -3.1% in 2012. Alongside the impact of the new measures, this probably also reflects the strong commitment of the new government to reducing the deficit to 2.8% of GDP in 2012 and to reaching budget equilibrium in 2015, as planned in the stability programme. According to the primary dealers' forecast, the debt ratio should increase from 96.2% in 2010 to 96.7% in 2011 and 97.2% in 2012. Although this level is still significantly higher than the euro area average, the gap is expected to narrow, as the euro area public debt ratio is projected to rise from 85.6% in 2010 to 87.8% in 2011 and 90.1% in 2012.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



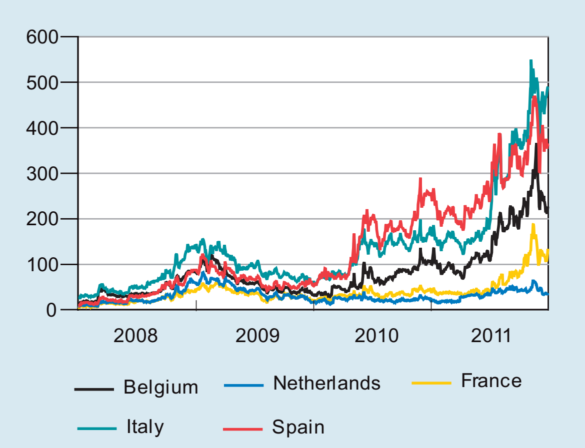
Source: EC.

Special Topic: Belgium and the euro area crisis - The political breakthrough clears the way for the necessary economic and fiscal reforms

The dramatic intensification of the sovereign debt crisis in the euro area has hit Belgium badly during the recent months. The spreads between Belgian and German long-term government bond have increased sharply, up to an all-time high of 366 basis points on 25 November. As the measures taken at the European level weren't convincing enough to contain contagion effects across euro area countries and between financial institutions, and against the backdrop of another sharp economic downturn, the sheer size of the public debt and the state of the financial institutions' balance sheets in Belgium were considered as specific weak points at that time.

The perceived exposure to the euro area crisis was compounded by the political uncertainty in Belgium, as months of discussions after the general election in June 2011 failed to make any headway in forming a new government. The previous government had remained in office in a caretaker capacity, and took action whenever needed, including providing rescue aid to Dexia in October 2011 in order to maintain financial stability. However, the political uncertainty prevented any decisions on and or implementation of structural reforms aimed at reinforcing the economy's long-term growth potential.

SPREAD ON TEN-YEAR GOVERNMENT BONDS W.R.T. GERMANY
(basis points)



Source: NBB.

The situation has eased somewhat in recent weeks, as major steps have been taken both at the European level and in Belgium, and the spread narrowed down to around 220 basis points. On 8 December, the ECB reinforced its measures to provide liquidity to financial institutions. Moreover, the "fiscal compact" agreed on by 26 Member States at the EU summit on 8 and 9 December drew the lines for a more consistent fiscal framework. At the same time, the protracted political deadlock came to an end in Belgium.

The main obstacles to the formation of a new Belgian government were successively lifted over the autumn. On 14 September, the parties involved in the negotiations reached an agreement on splitting up the electoral constituency of Brussels-Halle-Vilvoorde (BHV). Albeit mostly symbolic, this issue has been a point of great dissension among the French- and Flemish-speaking parties for many years. One month later, an agreement was also found on broader issues related to the State reform. This institutional reform which will usher in a new equilibrium for Belgium transfers a whole range of competences and financial resources from the federal government to the Regions and Communities.

Shortly after the institutional reform deal was reached, a new government was formed on 6 December 2011, under the leadership of Elio Di Rupo, the newly appointed Prime Minister. The detailed government programme was backed by a vote of confidence in Parliament four days later; it now needs to be implemented consistently over the next two and a half years. The programme includes budget measures for 2012 and the next two years, as well as structural reforms in the unemployment and pension regimes, aiming at increasing the employment rate.

With its budget plan, the new Belgian government has confirmed its commitment to meeting the targets set out in the most recent stability programme (covering the period 2011-2014). In particular, the government has confirmed its intention to reduce the public deficit to 2.8% of GDP in 2012 and to return to a balanced budget in 2015.

TARGETS FOR THE FINANCING REQUIREMENT (-) OR CAPACITY OF BELGIAN GENERAL GOVERNMENT
(percentages of GDP)

	2008	2009	2010	2011	2012	2015
Successive stability programmes						
April 2009	-1.2	-3.4	-4.0	-3.4	-2.6	0.0
September 2009 (complement)		-5.9	-6.0	-5.5	-4.4	0.0
January 2010		-5.9	-4.8	-4.1	-3.0	0.0
April 2011			-4.1	-3.6	-2.8	0.2*
Actual figures	**-1.3**	**-5.8**	**-4.1**	**-3.7****	**-3.1****	**-**

Sources: Budget documents, NAI, FPS Finance, NBB.
* Structural balance. ** Consensus forecast.

To reach the target of 2.8% of GDP in 2012 and thus save €11.3 billion, the government plans to cut public spending and boost revenue growth. Measures on the expenditure side include, inter alia, reductions in public administrations' expenditures and transfers to public companies, such as the national railways company, the abolition of subsidies for environmentally-friendly cars, a freeze of development cooperation expenditures and a reduction of health care expenditures and other social transfers. Consolidation efforts on the revenue side consist mainly of a limitation of the notional interest deduction to a tariff of 3%, increases in the taxes on movable property incomes, on company cars, on private housing partnerships and on excises duties on tobacco and alcohol. Also, VAT on pay television goes up from 12% to 21% and the services of a notary and bailiffs will become subject to VAT. In addition, a number of particular measures are also foreseen to step up the fight against tax and social security fraud.

In addition to these fiscal measures, a radical reform of the labour market has been decided in order to achieve a sustainable increase in the employment rate in the medium term. This includes: (i) reforming the specific young employment regime, (ii) cutting long-term unemployment benefits, (iii) speeding up the process of getting the newly unemployed back to work, (iv) raising the age limit for the so-called activation and sanction policies for the unemployed from 50 to 58, (v) raising the minimum age under the specific early retirement scheme for unemployed workers to 60. In addition to the reform of the labour market, the government has also approved a global reform of the pension system. In that context, the early retirement age will be raised from 60 to 62 (in both the private and the public sectors). The differences between public and private sector pension regimes will be reduced. Fiscal incentives will be implemented to encourage longer careers. Together with favourable budget effects, these measures should also provide sustainable support for the potential growth of the Belgian economy

Although the new government has adopted radical measures to reduce the public deficit, the chances of actually reaching this objective remain uncertain in the context of a world economic slowdown and tension in the euro area sovereign debt markets. Even if the assumption of a 0.8% GDP growth rate in 2012 was viewed as cautious at the time the budget talks took place, recent publications by the OECD, the NBB and private forecasters - including the current BPN consensus - show lower estimates. In this context, the Belgian government has recently announced that the budget developments will be continuously monitored and additional actions would be taken to counteract any derailment of the fiscal trajectory, should the economic outlook deteriorate any further.

Despite these risks and the market turbulence, it is worth noting that the Treasury managed to fund its borrowing requirement without too much difficulty in 2011. By tapping the large Belgian private sector financial surplus, the last State note issue in December 2011 was a success as more than €5.7 billion was raised among retail investors. As indicated in its recently released Funding Plan, the Treasury expects its gross borrowing requirement to amount to **€38.57 billion** in 2012 against €46 billion in 2011 (for more details, see the Treasury Highlights section below).

Treasury highlights

Fewer OLO issues in 2012

Borrowing requirements

The Treasury expects its 2012 gross borrowing requirements to amount to **€38.57 billion**. This represents a decrease of €7.40 billion compared to the estimated 2011 borrowing requirements (€45.97 billion), which were heavily influenced by the purchase of Dexia Bank Belgium. The Treasury further assumed that its **2012 budget deficit** would amount to **€7.04 billion**. Redemptions of medium- and long-term debt would amount to €27.67 billion. The Treasury also plans to buy back bonds maturing in 2012 for an amount of €3.36 billion.

Funding Plan

The Belgian Debt Agency plans to issue **€26 billion** worth of **OLOs**, significantly less than the amount of €40.93 billion issued in 2011 and in line with previous issuance levels recorded before 2008. It is likely that three new OLO benchmarks will be issued in 2012. In addition, €1.85 billion of instruments for the Silver Fund will be issued. The Treasury also plans to issue **€2 billion** via its EMTN programme or other alternative funding instruments, *Schuldscheine* in particular.

Yet the principal reason for the lower volume of OLO issues is the increase in the issuance of **State notes** for private investors which is expected to amount to **€6.03 billion**, i.e. the amount raised in 2011.

As for **short-term funding**, the outstanding amount of **Treasury Certificates**, which is estimated to have fallen by €5.63 billion in 2011, is expected to increase slightly again by **€2.0 billion**.

Funding Strategy

The main feature of the 2012 issuance strategy continues to be the combination of **predictability** and **flexibility** in order to respond adequately to changing market environments. This subtle combination can be obtained by enhanced communication.

The Treasury intends to remain **predictable** with regard to the number of OLO syndications and auctions for its main financing instruments, both OLOs and TCs. Predictability will also prevail as to the size of the financing programme and the issue volume of various instruments. **Flexibility** will make it possible to adapt the size, instruments and the maturities to prevailing **market demand** at the moment of issue.

The Treasury provides for more flexibility by adding two new issuance techniques :

- **Syndicated Taps** on longer term OLO benchmarks
- **Optional Reverse Inquiry Auctions** of off-the-run OLOs at predetermined dates.

Debt Management Strategy

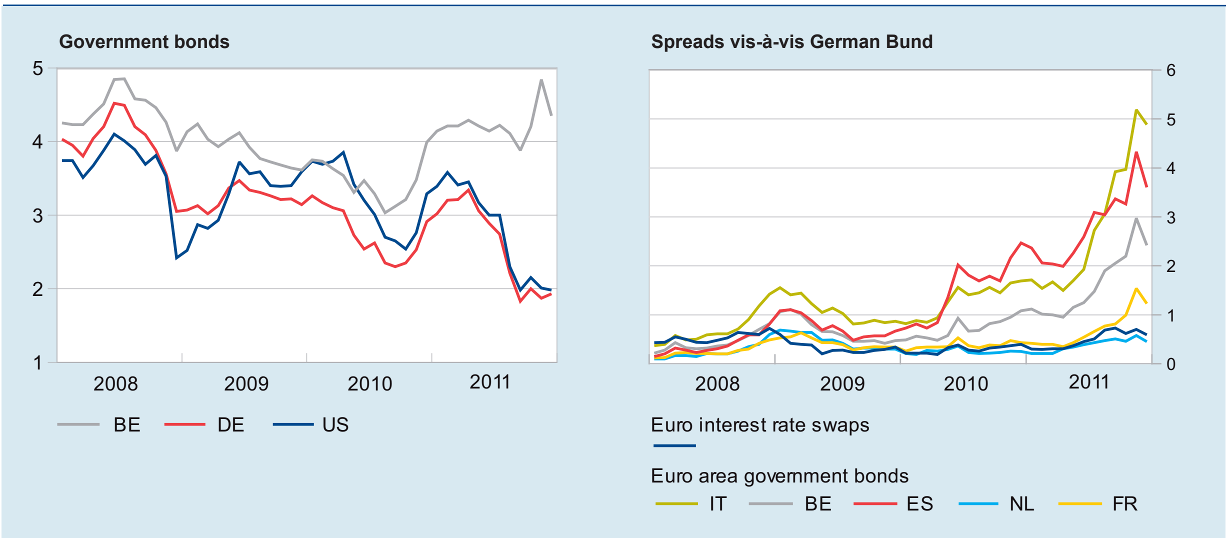
During the course of 2011, the 12-month refinancing and refixing risks were both limited to 25.00%. In 2012, the maximum limit for the **12-month refinancing risk** will be further reduced to **22.50%**. The maximum for the **12-month refixing risk** will remain at **25.00%**.

Turning to medium-term risks, both the 60-month refinancing risk and the 60-month refixing risk remained well below their respective maxima of 60% and 65.00% in 2011. In 2012, these limits will not change.

The details of the 2012 Funding Plan are available on the Belgian Debt Agency's website www.debtagency.be

Government securities market

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

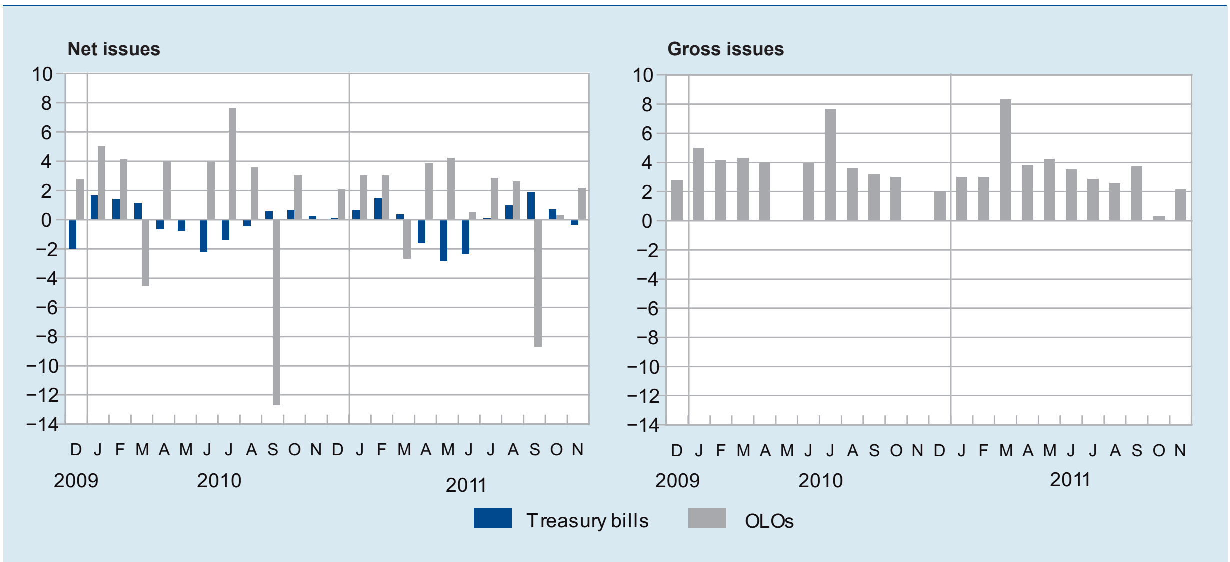


Sources: BIS, Datastream.

After a sharp fall in August, the decrease of the long-term interest rates on government bonds in Germany and the United States almost came to a standstill during the fourth quarter of 2011. This sharp deceleration of the drop in interest rates was due to uncertainty about the global economic outlook. Ahead of the meeting of the euro area Heads of State or Government on 26 October, improved market conditions were anticipated. Some better than expected economic data for the United States also eased investors' fears of a global economic slowdown and contributed to upward pressure in long term government bond yields on both sides of the Atlantic. However market sentiment deteriorated sharply after the surprise announcement of a possible Greek referendum and parts of the increases in long term yields were reversed. Market-based indicators of long-term inflation expectations suggest that market participants' inflation expectations remain fully consistent with price stability.

Euro area sovereign yields spreads vis-à-vis the German bond widened appreciably, especially in November. Most countries were affected: a number of euro area countries were downgraded by rating agencies and the euro area sovereign debt crisis affected even AAA-rated countries especially after a German Bund auction did not raise the intended amount.

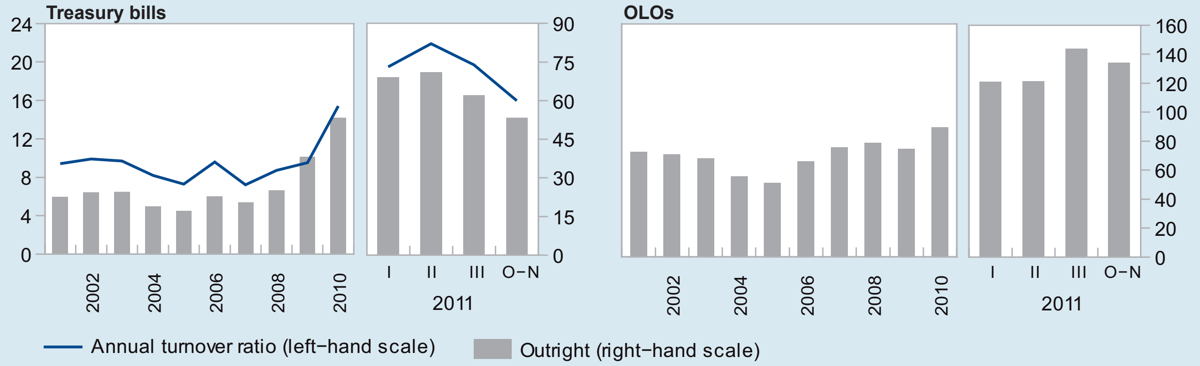
PRIMARY MARKET
(billions of euro)



SECONDARY MARKET TURNOVER

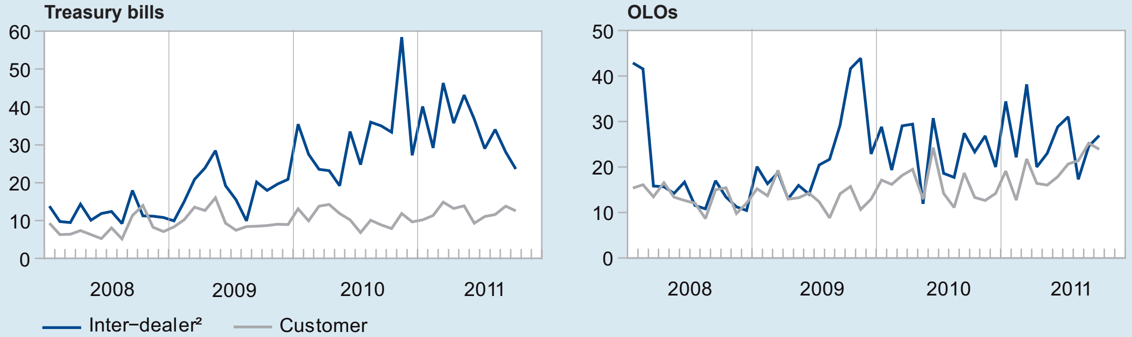
As compiled by the Securities Regulation Fund[1]

(billions of euro unless otherwise stated, monthly averages)



As reported by primary and recognised dealers to the Treasury

(billions of euro)

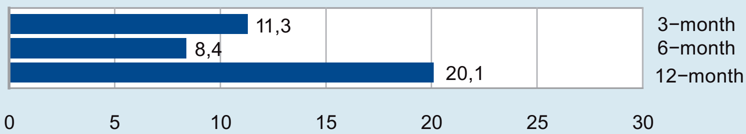


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy−back transactions which are in fact repurchase agreements.
[2] Please note that inter−dealer turnover is double−counted in these figures.

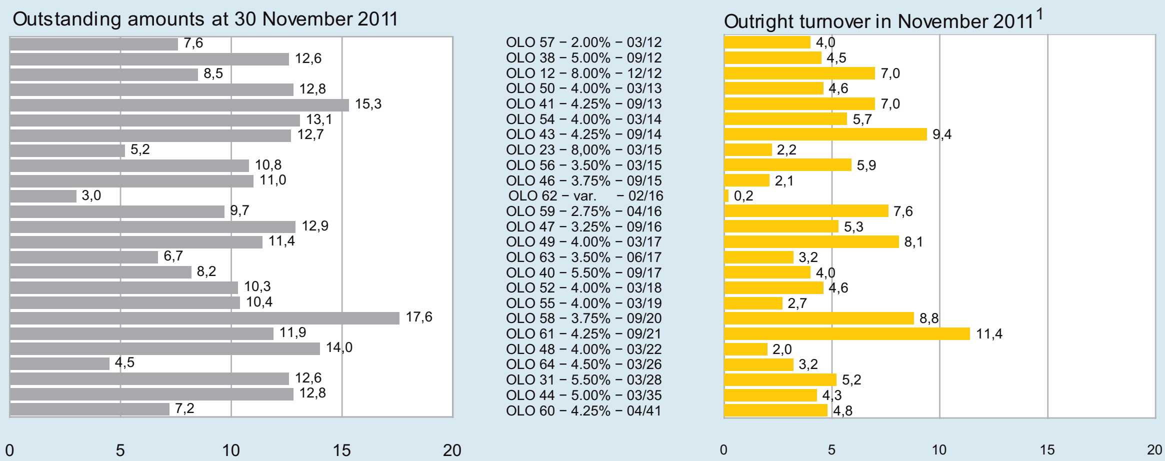
OUTSTANDING AMOUNTS AND TURNOVER

(billions of euro)

TREASURY BILLS



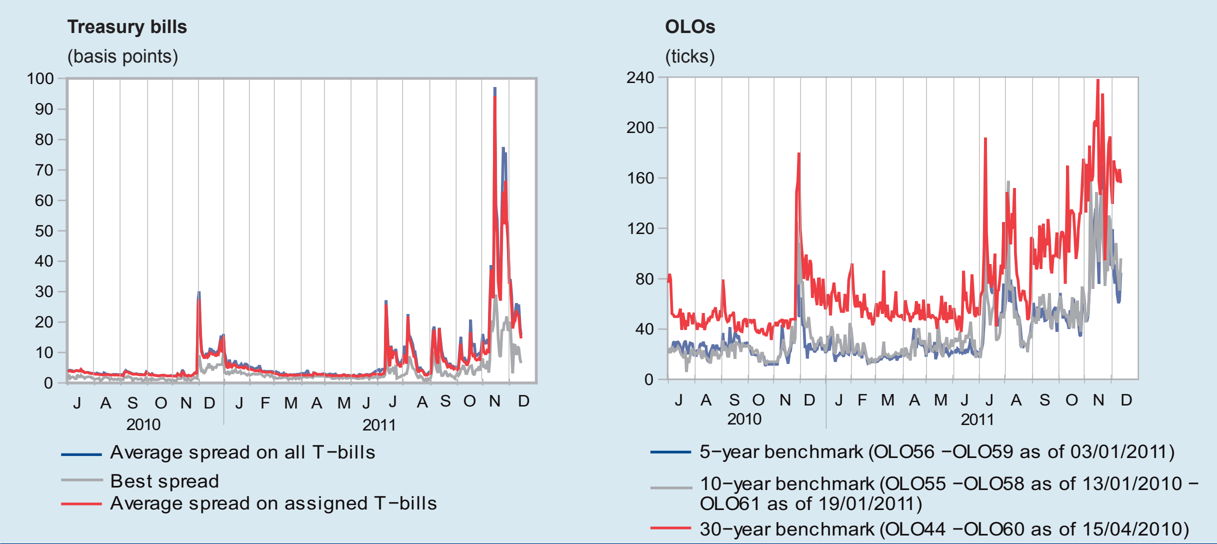
OLOs



Source: Securities Regulation Fund.

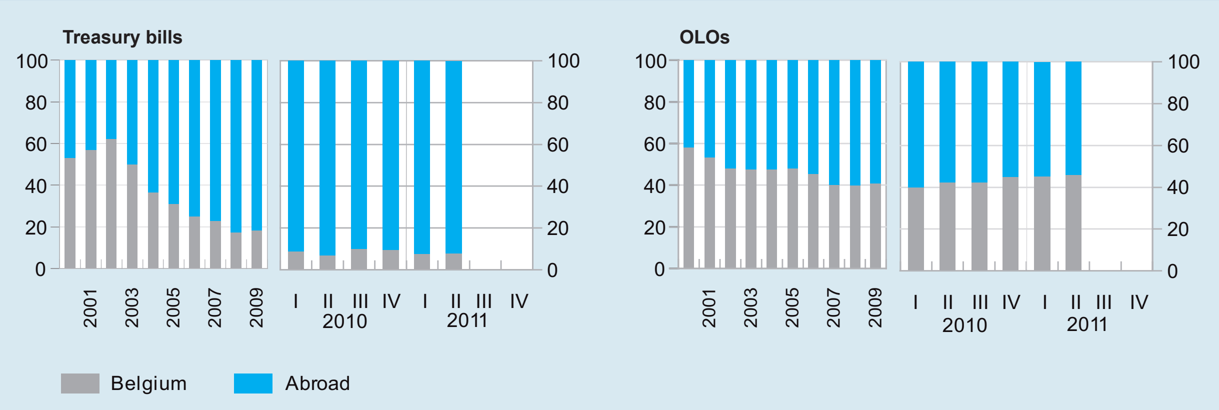
[1] The turnover figures include sell/buy−back transactions which are in fact repurchase agreements.

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.