BELGIAN DEBT AGENCY

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Royal Bank of Canada Capital Markets, Royal Bank of Scotland,
Société Générale Corporate & Investment Banking, UBS Limited

NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

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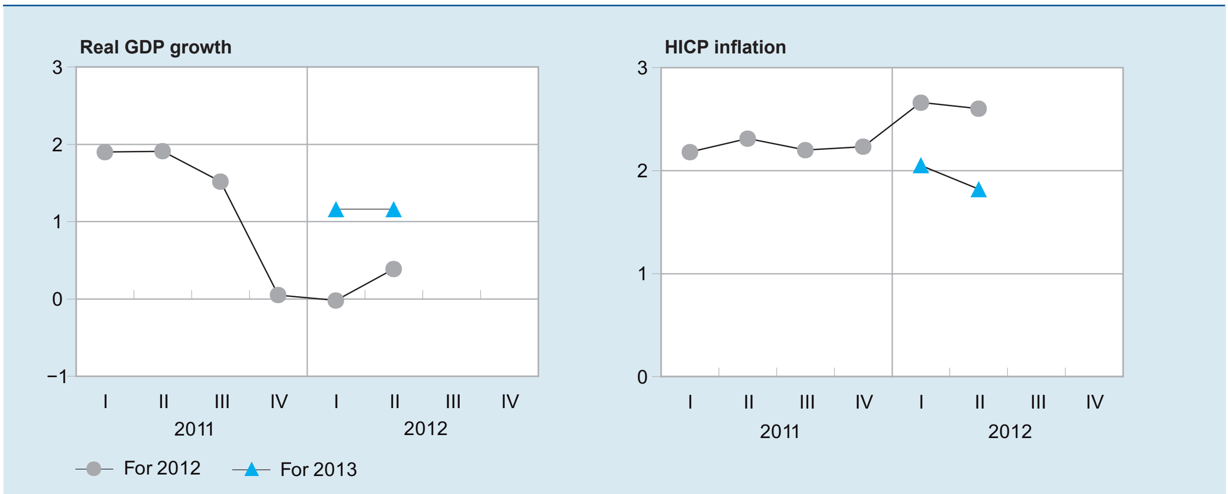
- As a result of better than expected recent growth data, GDP forecasts have been upgraded a little to 0.4% in 2012, then remained unchanged at 1.2% for 2013. In both years, Belgian GDP developments should outperform the euro area as a whole. However, since March, tensions increased again in the euro area.
- HICP inflation continued its deceleration in line with lower tension on the oil markets. As this situation is expected to persist, the outlook has been revised downwards. Belgian HICP inflation is now expected to reach 2.6% in 2012 and 1.8% in 2013, and the gap with the euro area should disappear altogether in 2013. The deceleration of global inflation, however, has not gone hand in hand with a similar trend in the underlying inflation rate.
- The stability programme's target of a general government deficit of -2.8% in 2012 is expected to be reached. Important consolidation efforts, already to some extent incorporated in the forecasts of some participants, will be required to meet the target for next year and to keep the budget on a sustainable path.

Consensus: Average of participants' forecasts

	2011		**2012 p**				**2013 p**			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	2.0	1.5	0.4	(0.0)	-0.2	(-0.4)	1.2	(1.2)	0.9	(0.8)
Inflation (HICP)(1)	3.5	2.7	2.6	(2.7)	2.4	(2.1)	1.8	(2.1)	1.8	(1.7)
General government balance(2)	-3.7	-4.1	-2.8	(-3.3)	-3.2	(-3.3)	-2.4	(-2.6)	-2.5	(-2.5)
Primary balance(2)	-0.4	-1.1	0.5	(0.6)	-0.2	(-0.6)	0.7	(1.4)	0.4	(0.2)
Public debt(2)	98.2	88.0	98.6	(100.0)	89.9	(90.1)	98.5	(100.0)	90.2	(90.1)

Numbers in parentheses refer to the previous consensus forecast of March 2012.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM

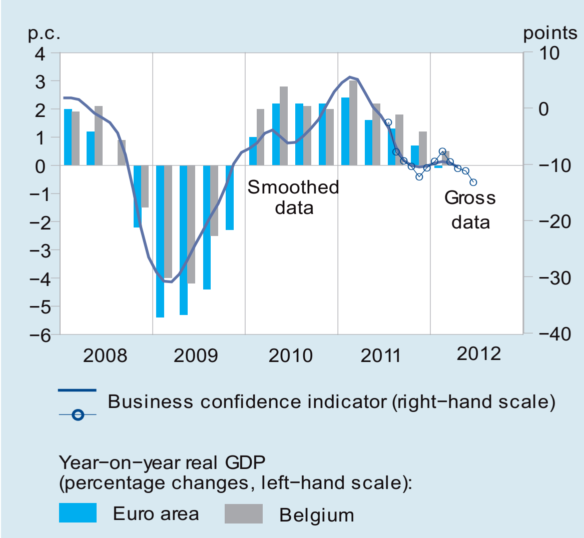


Source: Belgian Prime News.

Macroeconomic developments

Since the publication of the previous consensus forecast, growth data for Belgium were better than expected. While the decline of GDP remained limited to -0.1% on a quarterly basis at the end of 2011, it increased by 0.3% in the first quarter of 2012, mostly because of the recovery of exports, since there was only a weak improvement in domestic demand and imports. The business confidence indicator, however, decreased slightly in May and June, for the fourth consecutive month, amid mounting uncertainty in the euro area. As for the latter, GDP stabilised in the first quarter of this year. In this context, and in line with the forecasts published recently by the NBB and the ECB, **the primary dealers have upgraded their 2012 forecast for Belgium and the euro area slightly, while leaving it virtually unchanged for 2013. Real GDP growth in Belgium is expected to slow down from 2% in 2011 to 0.4% in 2012 and to recover to 1.2% in 2013.**

GDP GROWTH AND BUSINESS CYCLE INDICATOR



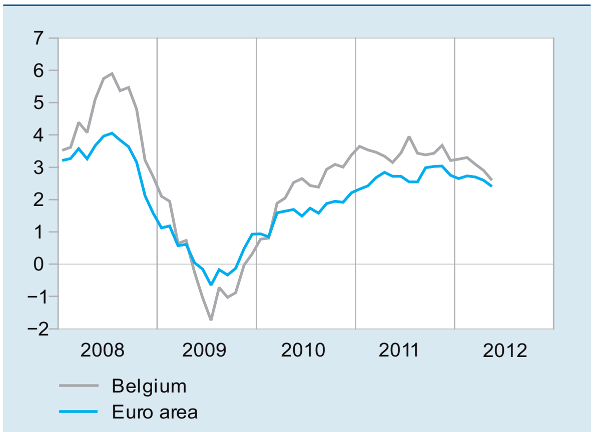
Sources: EC, NAI, NBB.

The primary dealers are more pessimistic with respect to euro area growth; GDP is likely to decline by -0.2% in 2012 and then recover to 0.9% in 2013. These projections are slightly below the Eurosystem staff macroeconomic projections of -0.1% in 2012 and 1% in 2013. However, since March, tensions increased again in the euro area. Employment growth stabilised in Belgium in the first quarter of 2012 and is expected to stand at 0.3 and 0.4% on average in the years 2012 and 2013 respectively. The recovery of economic activity would at first bring to a halt the under-utilisation of the available workforce and then lead to the creation of additional employment later on.

HICP inflation continued its deceleration from March 2012 onwards, in line with lower tension on the oil markets. As this situation is expected to persist in the future, **the primary dealers have revised downwards their inflation outlook for Belgium in 2012 and 2013. They expect HICP inflation to decelerate from 3.5% in 2011 to 2.6% in 2012 and to fall further to 1.8% in 2013.** Easing tensions on energy markets should also result in a smaller differential with the euro area, where inflation is forecast tor reach 2.4% in 2012, and the gap is likely to disappear completely in 2013. Decreasing overall inflationary pressures, however, have not gone hand in hand with a similar evolution of the underlying inflation rate, measured by the HICP excluding food and energy products, which has stabilised at 2% in Belgium in recent months. This was 0.4 percentage points above the euro area average and reflected larger second-round effects in Belgium and the impact of indirect tax increases.

At the end of April 2012, the new stability programme for Belgium was submitted to the EC, setting the fiscal policy objectives for the period 2012 - 2015. The target for general government deficit is -2.8% of GDP in 2012, -2.15% in 2013, -1.1% in 2014 and a balanced budget in 2015, unless growth prospects deteriorate considerably. The primary dealers expect the general government deficit to reach -2.8% in 2012 and -2.4% in 2013. Hence, the average of the primary dealers' forecasts is in line with the target for 2012 and a further improvement is expected for 2013 because some participants have already included consolidation efforts in their forecasts. In any case, important consolidation efforts will be required to reach the stability programme's target for next year. The debt ratio is expected to increase from 98.2% of GDP in 2011 to 98.6% in 2012 and to broadly stabilise in 2013. As such, the gap with the euro area average should narrow from slightly above 10 to 8.3 percentage points because the euro area debt ratio is expected to rise from 88% in 2011 to 90.2% in 2013.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)

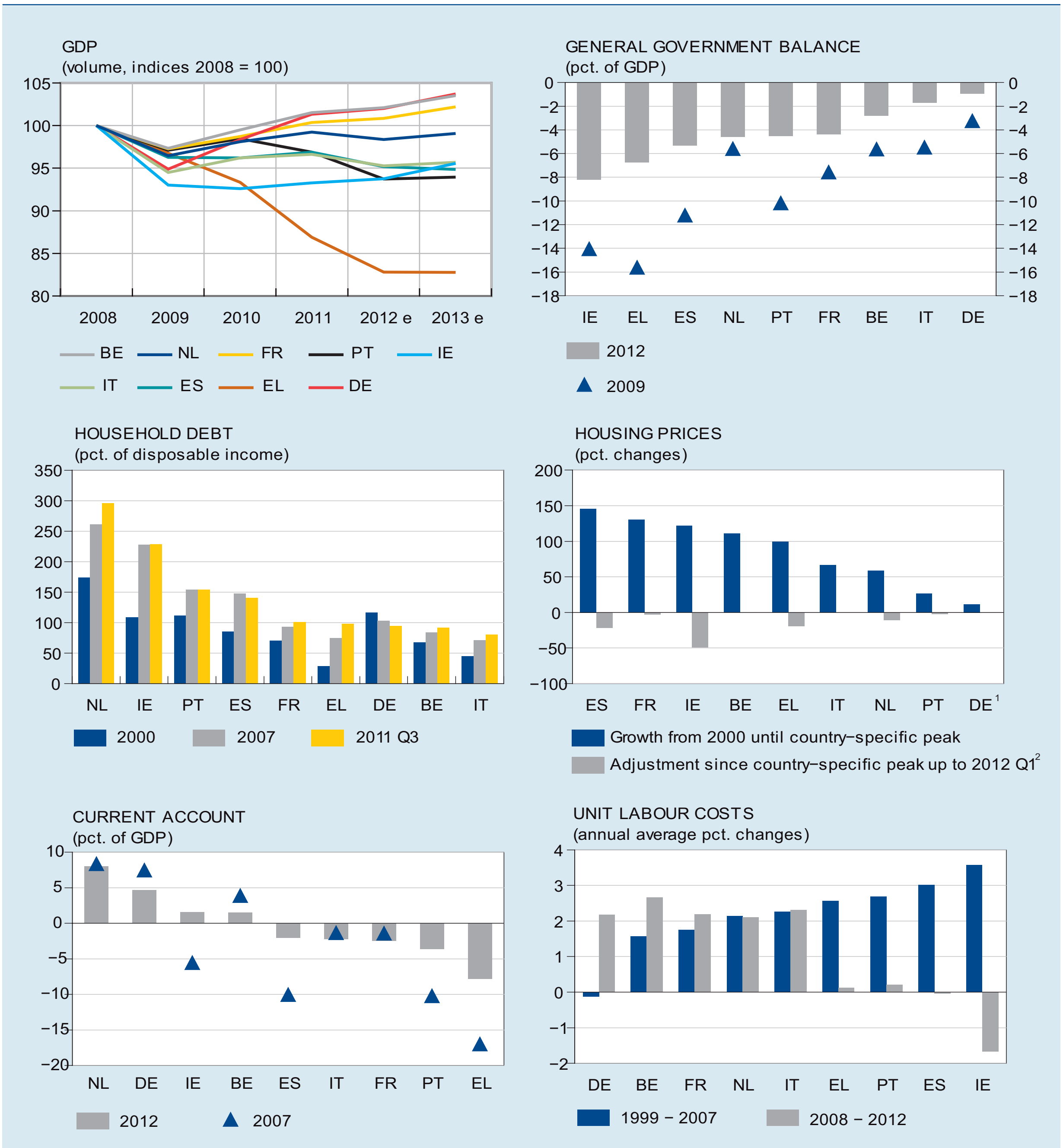


Source: EC.

Special Topic: Belgium in the current uncertain times

Since March 2012, the government bond crisis has flared up again in the euro area, mainly because of concern about the Spanish economic and budgetary situation and a possible banking crisis as well as the political uncertainty after the Greek elections. Contrary to the previous period of heightened uncertainty in the autumn of 2011, Belgium has remained sheltered this time around, as revealed by lower 10-year interest rates and spreads vis-à-vis the German Bund. While the former declined from a 4.8% peak in November 2011 to 3.2% in June 2012, the spreads have stabilised at around 2% after having reached almost 3% in November 2011 (see chart in the "government securities markets" section of this publication). In these more quiet times, Belgium has benefited from lower interest rates and updated its Funding Plan on 11 June 2012. The Kingdom's borrowing requirements are somewhat lower than in the original plan and long-term funding has increased marginally. The more favourable conditions will help compensate for the loss of interest in State notes (the Treasury's product for private investors) by increasing the issuance of OLOs, as well as the target for EMTN and Schuldscheine. At the end of June, around two-thirds of the Funding Plan for 2012 had been executed, at a lower-than-expected cost.

CORRECTION OF IMBALANCES



Sources: EC, ECB, OECD, NBB.
[1] From 2003 onwards.
[2] Except for Belgium, Germany, Italy and Spain, data up to 2011 Q4.

The current perception by financial markets is related to several factors that have emerged since the end of last year and other, more fundamental indicators of the soundness of the Belgian economy. First, while growth prospects were already relatively good, recent figures reveal that Belgium is showing greater resilience than the euro area on average. Since the trough of the Great Recession, widening divergences in economic activity have been observed in the euro area and Belgium belongs to the core group of countries where GDP attained or exceeded its pre-crisis level in 2011. In particular, with just one quarter of very limited negative growth (-0.1% in the last quarter of 2011), Belgium escaped from recession at the end of 2011 and the beginning of 2012.

As for the general government balance, almost all euro area countries are adjusting their budgets, the largest efforts being made in those countries with the biggest deficits in 2009. In Belgium, the deficit almost halved between 2009 and 2011 and the measures taken since the swearing in of the new government with full powers on 6 December 2011 should make it possible, given the current expectations about the macroeconomic environment, to reduce the deficit from -3.7% in 2011 to -2.8% in 2012, in line with the stability programme target. However, additional consolidation efforts will be required to reach the target of -2.15% set for next year. The government has also taken some first steps towards enhancing the structural functioning of the economy by reforming the pension system and stimulating the activation of the unemployed.

The relatively sheltered position of Belgium can also be explained by several more fundamental internal factors, such as the soundness of the private sector indebtedness position. Even though there have been some small increases since the start of the crisis, Belgian household debt has remained low compared to, e.g., the Netherlands, Ireland, Portugal or Spain - countries that faced a house price boom. Important corrections in housing prices have taken place since the crisis in some of these countries, while the peak has not been reached yet in Belgium.

However, several challenges remain. As far as the external competitiveness position is concerned, Belgium has faced a deterioration of its current account balance since the onset of the crisis, just like Germany and the Netherlands, while improvements have been observed in those countries that had large deficits before the Great Recession. The latter were the result of subdued consumption and investment, but also because of improved competitiveness. Indeed, unit labour costs decreased or stabilised in Ireland, Spain, Greece and Portugal. In Belgium, however, they increased further at the highest pace of the countries considered, in part reflecting wage indexation due to the rapid acceleration of inflation in the recent past.

BORROWING REQUIREMENTS AND FUNDING PLAN
(billions of euro)

	2012 Update 11 June	**2012 Original**
Financing requirements	**37.93**	**38.57**
Federal budget deficit	8.23	7.04
Redemptions of MT/LT debt	25.56	27.67
Pre-funding (buy backs)	3.64	3.36
Other financing requirements	0.50	0.50
Funding Means	**36.35**	**35.89**
OLO issuance	31.50	26.00
EMTN issuance/Schuldscheine	2.50	2.00
State Notes	0.50	6.03
Treasury Bonds - Silver Fund	1.85	1.85
Other	0.00	0.00
Change in Treasury Cert. Stock	2.00	2.00
Change ST-foreign currency debt	0.00	0.00
Change other ST debt and assets	-0.42	0.68

Source: Belgian Debt Agency.

As explained in the most recent issue of the Belgian Financial Stability Review (published by the NBB on 22 June 2012), the major Belgian banks made further progress in the execution of their restructuring plans in 2011, while having to cope with the consequences of the intensifying euro area public debt crisis. Given its still vulnerable funding liquidity position and comparatively large exposures to certain euro area countries, Dexia SA was particularly badly affected by the adverse developments in financial markets, leading to the adoption of a new restructuring plan that included the acquisition by the Belgian State of all shares held by Dexia SA in Dexia Bank Belgium; the sale of several other subsidiaries; and the establishment of a new funding guarantee mechanism by the Belgian, French and Luxembourg States for Dexia SA and its subsidiary, Dexia Crédit Local.

The Belgian banking sector's net profits dropped from € 5.6 billion in 2010 to € 0.4 billion in 2011, as impairments of financial assets (in particular of Greek government bonds) and, to a lesser extent, non-interest income and restructuring costs weighed on the bottom line. Key features of the ongoing business model restructuring are withdrawals from non-core business and preservation of key intermediation activities in core markets such as Belgium. While exposures to the public sectors of peripheral countries were further reduced in 2011 (to € 16 billion, from € 31 billion at the end of 2010), holdings of Belgian government bonds were stepped up again (to € 61 billion, from € 56 billion).

Together with sound fundamentals, the budgetary measures and the steps in the field of structural reforms decided by the government, as well as the progress made in the restructuring of the banking sector have contributed to reduce the tensions faced by the Belgian bonds in the financial markets. This path should be continued and the announced measures should be forcefully implemented to consolidate this favourable development in the context of heightened uncertainty.

Treasury highlights

As of June 8, 2012, the Kingdom has already issued **EUR 21.98 billion** in medium and long term securities, corresponding to almost **65%** of its annual target of EUR 34.04 billion.

- Two new benchmarks were launched via syndication, the €4.0 billion OLO 66 4.00% 28/03/2032 on March 14, and the €4.0 billion OLO 67 3.00% 28/09/2019. Each of these transactions involved a large number of foreign investors, who took up 77.0% of the 20-year OLO and 93.3% of the 7-year OLO.

- The 21 May 2012 OLO auction resulted in an issuance of €2.65 billion around the following lines:

  - OLO 3.50% 28/06/2017 (OLO63): EUR 0.510 billion - average yield: 2.379% bid-to-cover: 2.60

  - OLO 4.25% 28/09/2022 (OLO65): EUR 1.015 billion - average yield : 3.453% bid-to-cover: 1.86

  - OLO 4.50% 28/03/2026 (OLO64): EUR 1.025 billion - average yield : 3.641 % bid-to-cover: 1.29

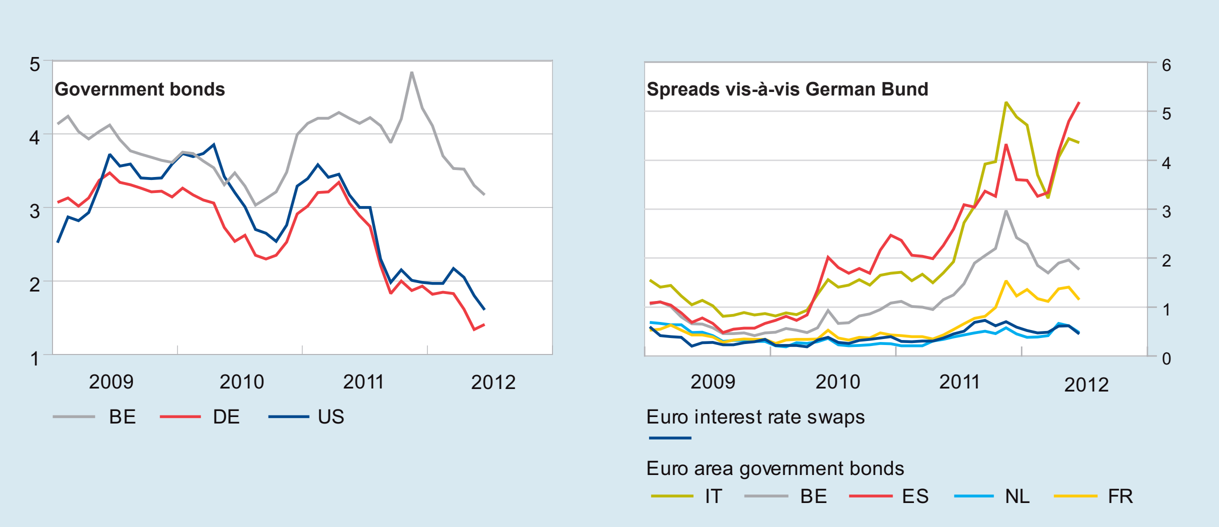
- No Optional Reverse Inquiry auctions were held any more.

- In addition, the Kingdom issued 1 Euro Medium Term Note for an amount of EUR 0.200 billion, and 3 Schuldscheine for an amount of 0.181 billion. The latter were callables, meaning that the Kingdom has the option to redeem the loan before maturity.

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[1])



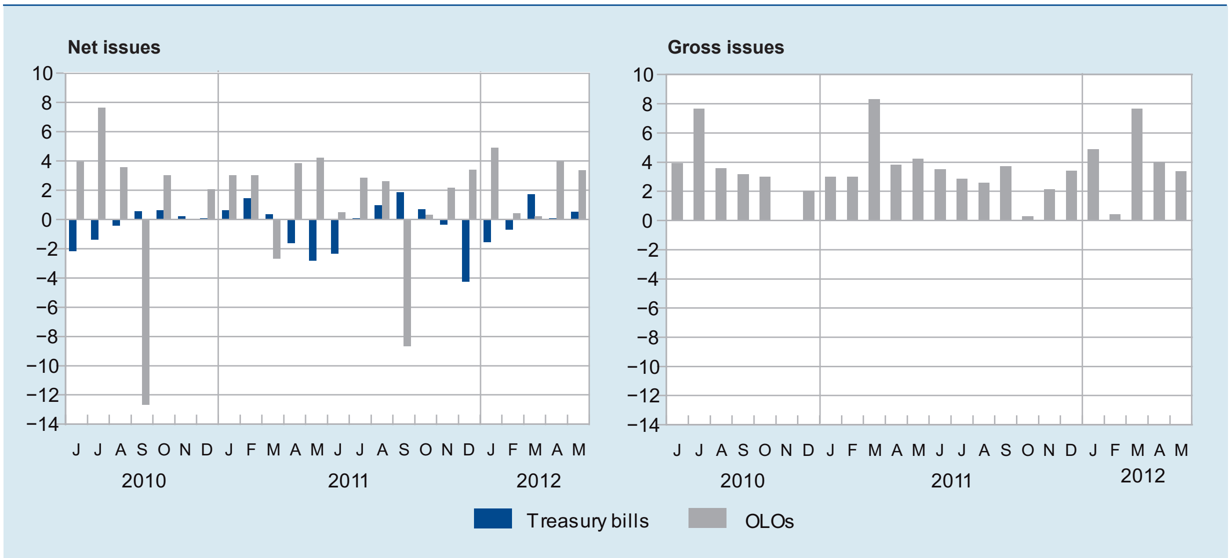
Sources: BIS, Datastream.
[1] Average over the first 25 days for June 2012.

Over the review period (March - June) long-term yields on German and US government bonds declined substantially to reach historically low levels.

While yields on government bonds had initially displayed an upward tendency, especially in the US, they entered a new phase around mid-March 2012. Indeed, the re-assessment of the economic growth prospects in advanced economies, fuelled by mixed economic releases and, more especially, the increasing tensions in the euro area triggered a prolonged phase of declining rates for safe-haven bonds in particular; increasing political tensions surrounding the Greek elections and renewed concerns about the viability of the Spanish banking system significantly reinforced the flight-to-safety demands for German and US government bonds.

Against the background of these tensions, euro area spreads widened significantly, especially for those countries affected most directly or indirectly by the crisis. While over the review period, the spreads vis-à-vis Germany increased overall, Italian and Spanish sovereign spreads returned to levels prevailing at the height of the sovereign debt crisis at the end of 2011. Bond market volatility as measured by option implied volatility remains at historically high levels in the euro area. Amidst the turmoil on the sovereign debt markets in the euro area, the 10-year benchmark yield on Belgian debt continued its downward trend. Notwithstanding the substantial decrease in the Belgian yield, the spread with the German Bund almost stabilised.

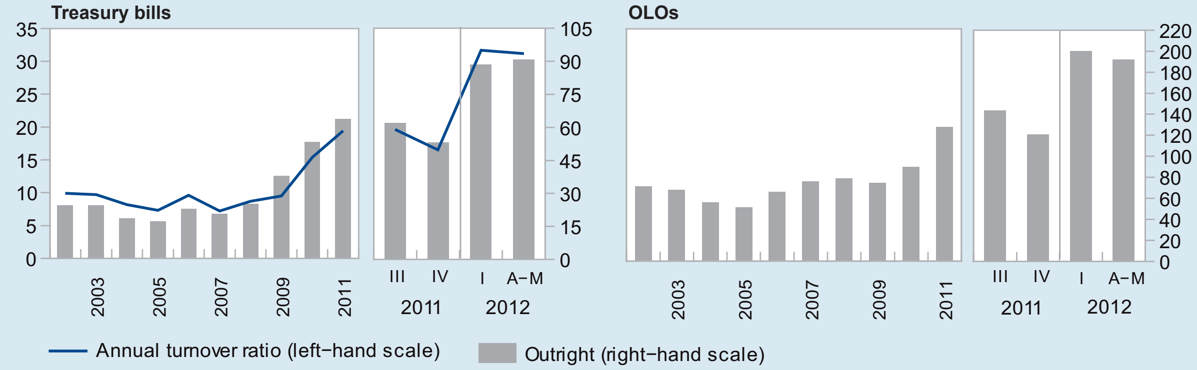
PRIMARY MARKET
(billions of euro)



SECONDARY MARKET TURNOVER

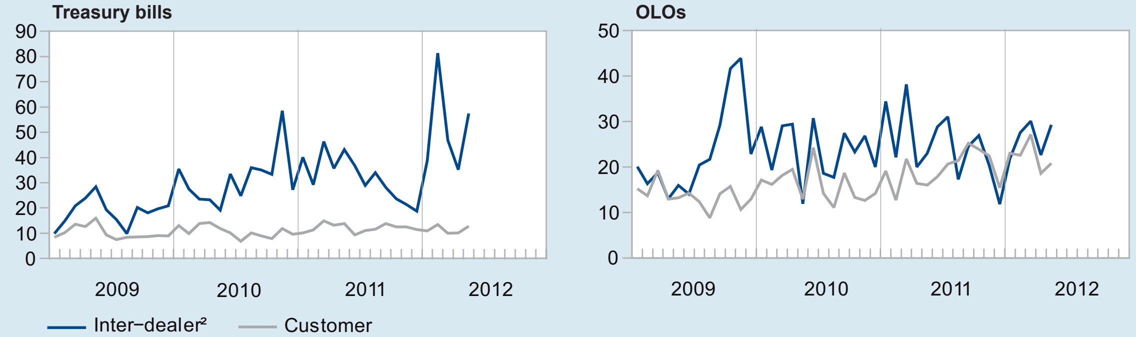
As compiled by the Securities Regulation Fund[1]

(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.

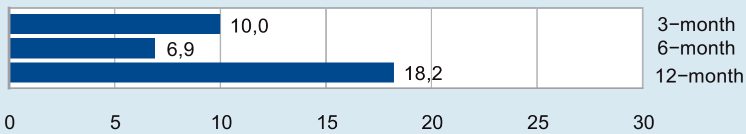
[2] Please note that inter−dealer turnover is double−counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euro)

TREASURY BILLS

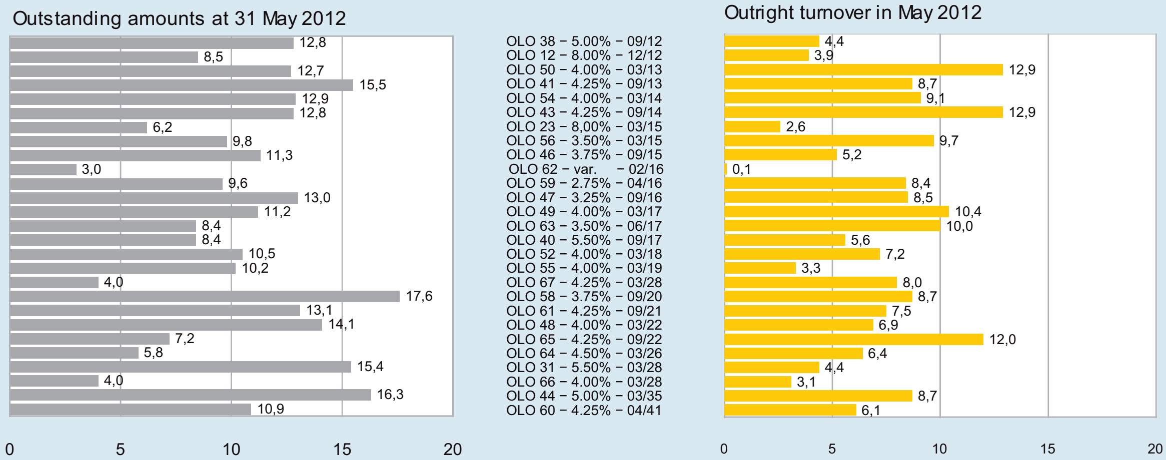
Nominal outstanding amounts at 31 May 2012



OLOs

Outstanding amounts at 31 May 2012

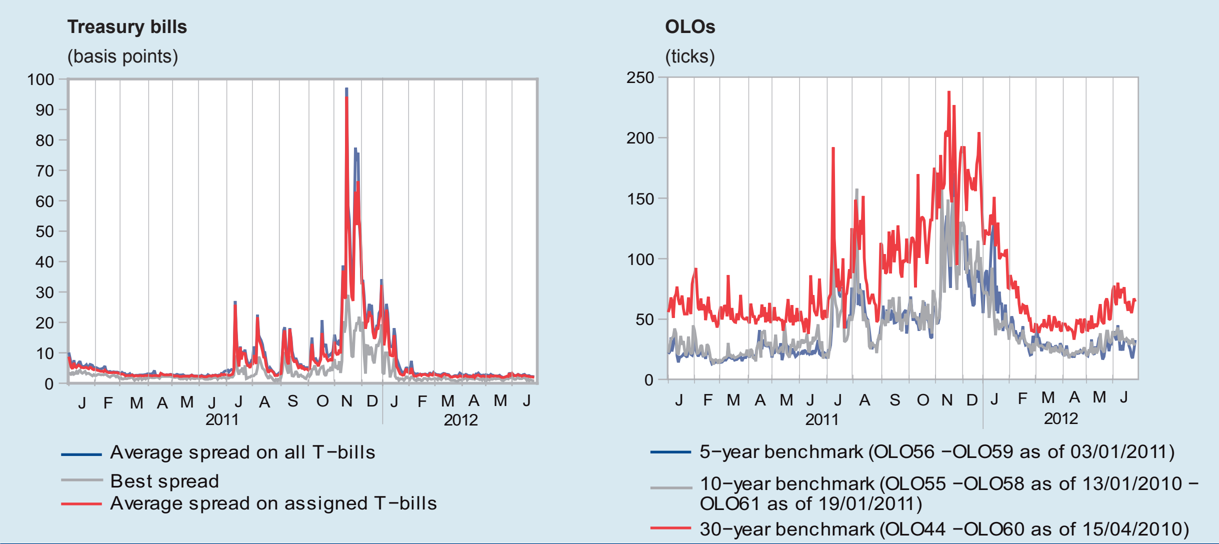
Outright turnover in May 2012



Source: Securities Regulation Fund.

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

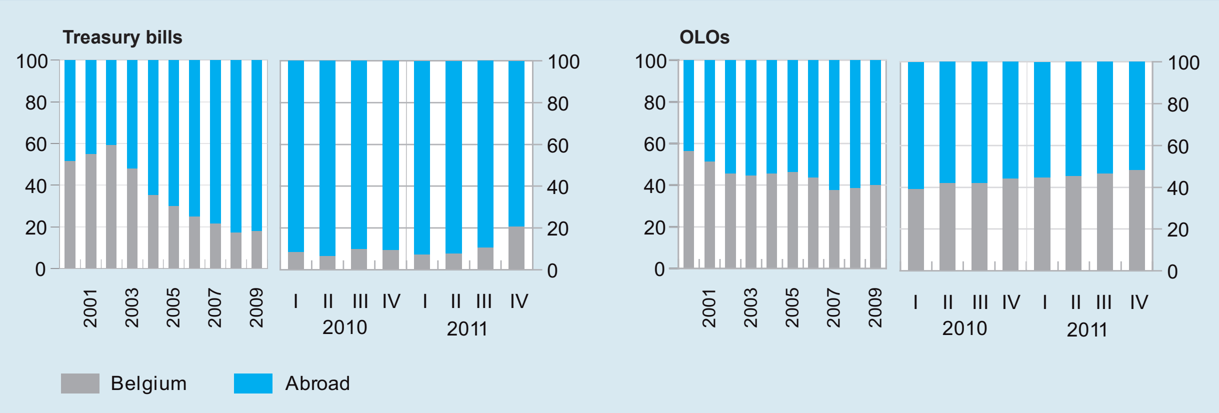
BEST BID/OFFER SPREADS[1]



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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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.