

BELGIAN PRIME NEWS

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Sources: NBB, unless stated

Special topic :
Belgium's recent growth performance

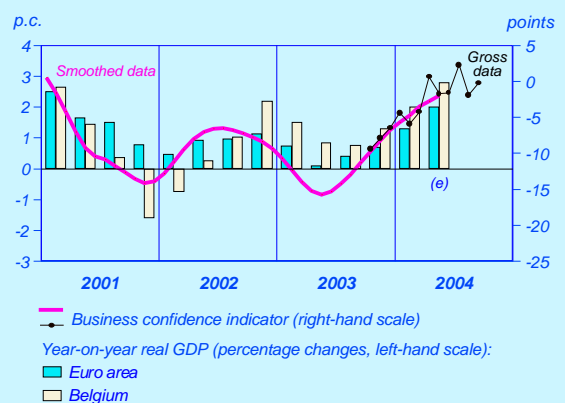
CONSENSUS: Average of participants' forecasts

	2003 e		2004 p			2005 p		
	Belgium	Euro area	Belgium Consensus	Belgium Previous consensus	Euro area ³	Belgium Consensus	Belgium Previous consensus	Euro area ³
Real GDP¹	1.1	0.5	2.5	2.3	1.7	2.5	2.4	2.3
Employment¹	-0.4	0.1	0.4	0.4	0.3	0.8	0.8	0.9
Consumer prices¹	1.5	2.1	1.9	1.8	1.8	1.8	1.7	1.6
Current account²	3.8	0.3	3.7	3.6	0.7	4.0	3.9	0.6
General government balance²	0.3	-2.7	-0.1	-0.2	-2.7	-0.4	-0.4	-2.6
Primary balance²	5.8	0.8	5.0	5.1	0.7	4.6	4.7	0.8
Public debt²	100.7	70.6	97.5	97.5	70.9	95.8	95.4	70.9

¹ P.c. change. ² In p.c. of GDP. ³ European Commission (forecast available since April 2004).

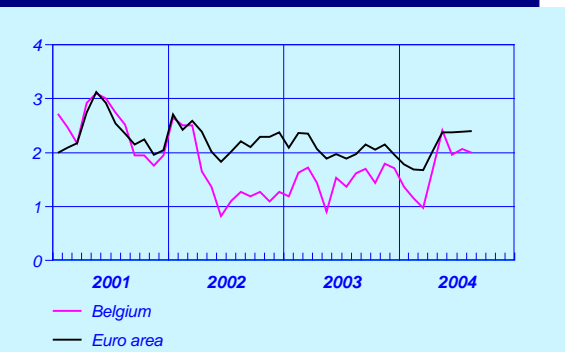
MACROECONOMIC DEVELOPMENTS

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED CONSUMER PRICES (annual percentage changes)



Source: EC.

The upswing of economic activity continued in the euro area, where the year-on-year growth accelerated to 2% in the second quarter of 2004. It was even stronger in Belgium, reaching 2.7%, with quarterly growth rates close to 0.7% for the last four quarters. The NBB's business survey indicator stabilised at a high level over recent months, indicating that the Belgian economy is likely to grow at a comparable pace in the near future.

To a large extent, the strengthening is still accounted for by exports, stimulated by stronger foreign demand and the stabilisation of the euro exchange rate. Private consumption remained relatively firm in Belgium, but business investment still lags behind at the current juncture.

In view of the vigorous output growth figures released by the National Accounts Institute for the first half of 2004, the average forecast of the participating institutions for GDP growth for 2004 has been revised from 2.3% in June up to 2.5% in September. The same growth rate is expected for 2005. While domestic demand is assumed to consolidate in 2005, the international environment could prove slightly less supportive, owing to a gradual return to a more neutral policy stance, a.o. in the US, and to limited adverse effects stemming from persistent high oil prices.

After a temporary peak of 2.4% in May caused by unfavourable base effects and oil price increases, HICP inflation hovered around 2% in Belgium, while euro area inflation stabilised at 2.4%.

Belgian inflation is expected to stabilise slightly under 2% in line with the Eurosystem's objective. This favourable inflation outlook is supported by moderate wage increases, in a context of a slow pick-up in employment and still abundant spare capacity. Nonetheless, the recent oil price movements have caused a slight upward revision of the average inflation forecast up to 1.9% in 2004 and 1.8% in 2005, from 1.8% and 1.7% in June.

PUBLIC FINANCE

GENERAL GOVERNMENT BALANCE (in p.c. of GDP)

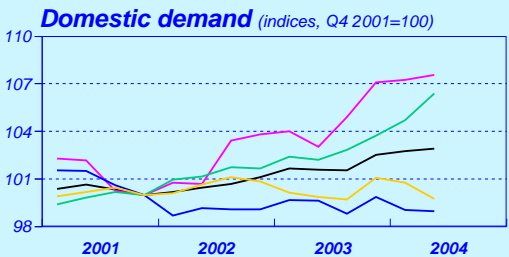
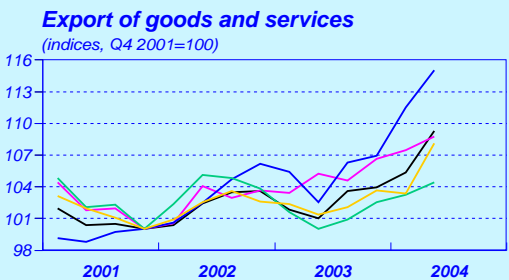
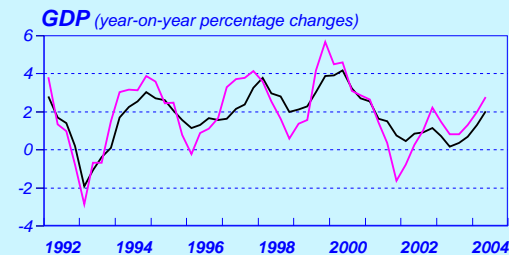
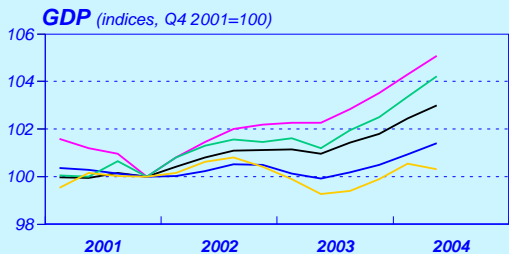
	2001	2002	2003	2004	2005	2006	2007
Stability programme targets							
December 2000	0.2	0.3	0.5	0.6	0.7		
November 2001	0.0	0.0	0.5	0.6	0.7		
November 2002		0.0	0.0	0.3	0.5		
November 2003			0.2	0.0	0.0	0.0	0.3
Outcome	0.6	0.1	0.3	-0.1e	-0.4e		

Sources: Ministry of Finance, NAI, NBB and Prime News Consensus estimates.
*Beyond 2002: projections of the November 2003 stability programme.

In line with the growth forecasts, the average of primary dealers' forecasts for Belgian public finances was slightly revised. **General government is expected to show a small deficit of 0.1% in 2004 and 0.4% in 2005. Public debt should decrease to 97.5% of GDP in 2004 and to 95.8% in 2005.**

It should be stressed that some of the participants' forecasts include the effect of additional measures which may be taken by the government in drawing up the budget for 2005. **Excluding this anticipated effect, the deficit forecast would have been higher.**

SPECIAL TOPIC: Belgium's recent growth performance



— Euro area — Belgium
— Germany — France — Netherlands

Sources: EC, NAI.

While the Belgian economy usually evolves at a similar growth pace as the euro area, it has shown greater dynamism in the recent period. In particular, GDP quarterly growth has exceeded that of the euro area for 10 consecutive quarters since the end of 2001. The current protracted outperformance of the Belgian economy is noteworthy, as it can not be ascribed to a structural catching-up process with the Belgian economy situated in the core of the euro area.

Differences in cyclical position may amount for a temporary growth differential, but such an effect tends to disappear quickly. Actually, the Belgian business cycle has closely followed that of the euro area during the last decade, albeit with a higher amplitude (higher peaks and deeper troughs, see Special topic in BPN 23). After the considerable low in 2001, the initial recovery has been, as usual, more pronounced in Belgium than in the euro area. However, contrary to the usual pattern, the subsequent slackening from mid-2002 to mid-2003 was milder in Belgium than in the euro area and the higher growth pace continued during the current upturn.

Looking at the various demand drivers for growth, it appears that foreign trade cannot explain the outperformance. As in neighbouring countries, exports of Belgium were hit by the weakness of foreign demand and by the appreciation of the euro until mid 2003. In particular, it suffered from the sluggishness of demand in the neighbouring countries, which on average represents 60% of Belgian exports.

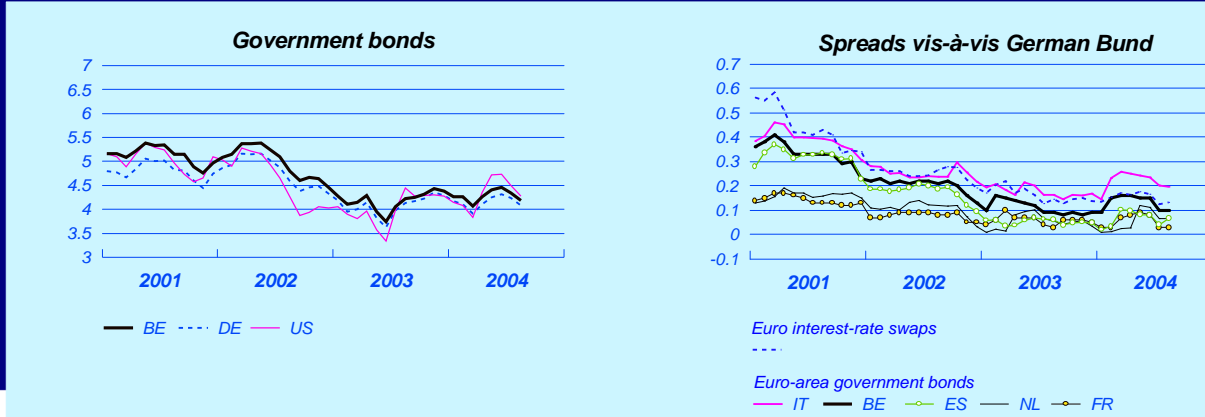
Atypically, it seems that domestic demand fuelled the Belgian economy over the past two years. While domestic demand was lacklustre in the euro area, it proved to be relatively resilient in Belgium. In particular, private consumption made a substantial contribution to growth. Furthermore, business investment stabilised in Belgium, whereas it continued to decrease in the euro area.

Being country-specific by nature, the recent strength of domestic demand in Belgium with respect to the neighbouring countries seems to have been at least partly supported by the relative recent fiscal performances. In contrast with the neighbouring countries and despite the latest cyclical downturn, the public debt ratio has been showing a downward trend for the last ten years. Furthermore, a balanced or positive budget has been achieved each year since 2000, partly helped by non-recurring operations in 2003. This may have supported households' confidence regarding the sustainability of the public debt burden, thus, together with the gradual implementation of income tax cuts, sustaining consumption spending.

According to recent forecasts, it seems that growth in Belgium might again exceed the figure for the euro area as a whole in 2005. However, the effect of the national factors should gradually fade away. Therefore, a sustained and substantial divergence is not very likely in the medium term, owing to the high degree of integration of Belgium with its neighbouring economies and the relatively comparable situation in terms of trends in labour force and productivity.

GOVERNMENT SECURITIES MARKET

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

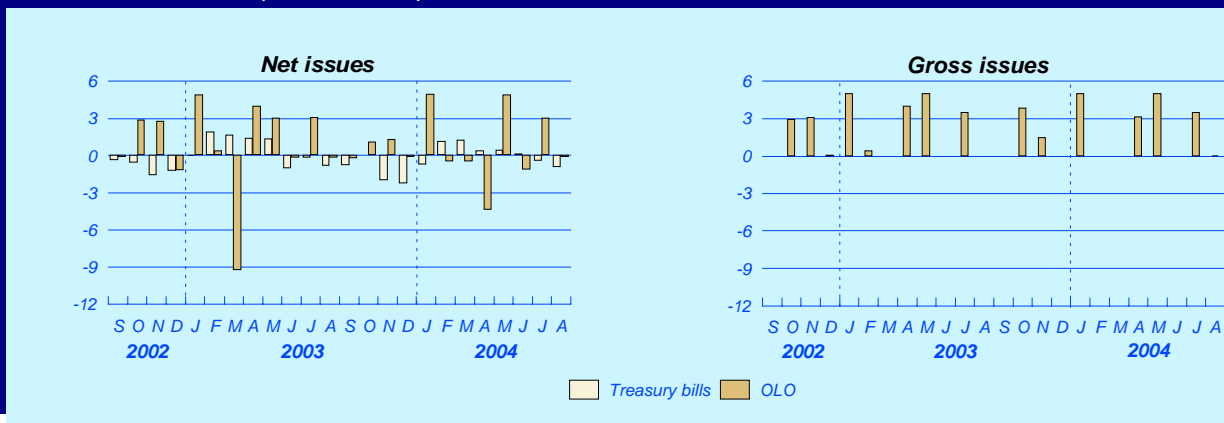


Sources: BIS, Datastream.

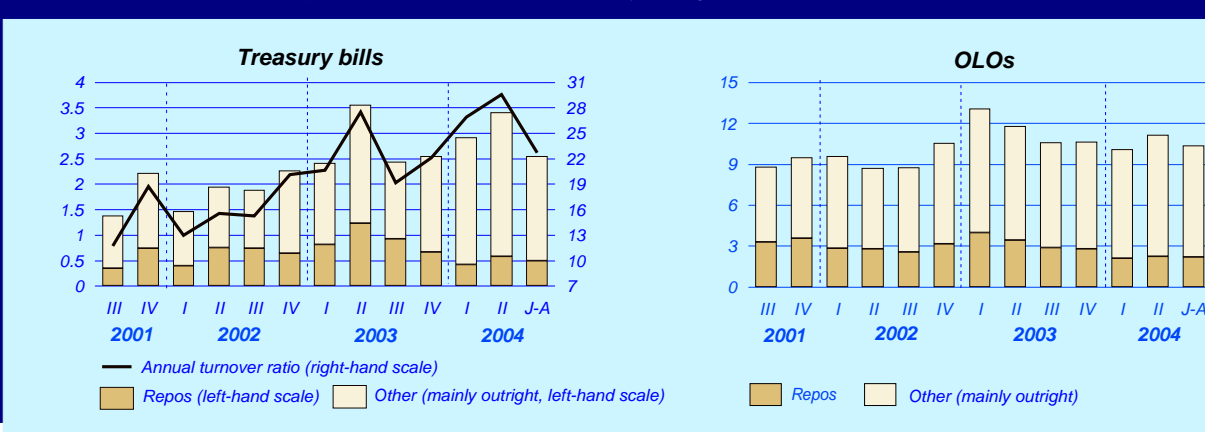
The recovery of the long-term interest rates which started in April, came to an end in June. From then onwards, decreases of various magnitudes resulted in 10-year bond yields in Belgium, Germany and the United States returning to the levels recorded in the beginning of the second quarter. According to the respective movements in inflation-indexed and fixed-income bonds, these reductions were primarily due to from improving inflation prospects in July, whereas a decrease in real interest rates occurred in August.

Following the introduction of a new German benchmark, euro area government bond spreads vis-à-vis the German Bund declined somewhat in July, and remained stable in August. Concomitantly, the euro area interest-rate swap spread vis-à-vis the German Bund narrowed further, setting a record at 12 basis points in July.

PRIMARY MARKET (billions of euros)

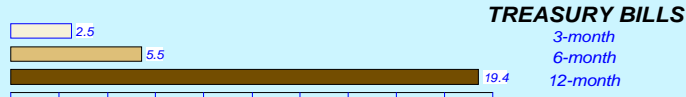


SECONDARY MARKET (billions of euros unless stated, daily averages)

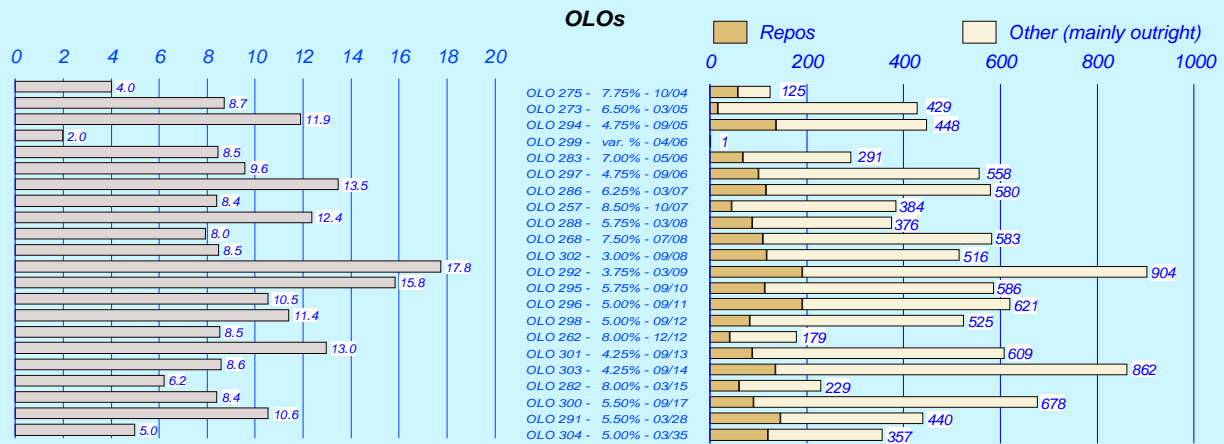


OUTSTANDING AMOUNTS AND TURNOVER

Outstanding amounts at 31 Aug. 2004
(billions of euros)



Turnover in August 2004
(millions of euros, daily averages)



TREASURY HIGHLIGHTS

1. According to NBB data provided to the EC, the Maastricht debt-to-GDP ratio is expected to fall from to 100.7 % of GDP in 2003 to 97.4 % in 2004.
2. Pursuant to European directives, the national railway company (NMBS / SNCB) will be restructured during the second half of the year. A Royal Decree has paved the way for the debt transfer from the national railway company to the Fund for Railway Infrastructure (Fonds voor Spoorweginfrastructuur / Fonds de l'Infrastructure Ferroviaire), a public institution yet to be set up. A maximum of euro 7.4 billion will be transferred on January 1st 2005.

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This publication is also available on the internet site www.nbb.be.

Information on the Belgian government debt can be found on the site of the Treasury: www.debtagency.be.

General information on the Belgian government's action can be found on the site www.belgium.be.