

# Belgian Prime News



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- The low growth/low inflation context is expected to continue in 2015 in Belgium and in the euro area as a whole.
- On average, the participating institutions expect GDP growth to reach a muted 1 % in 2014 and then 1.1 % in 2015. HICP annual inflation should remain subdued, at 0.5 % and 0.7 %, respectively.
- The federal government, installed in October 2014, has announced further structural measures for enhancing potential growth, employment and competitiveness and for ensuring fiscal consolidation (see Special Topic).
- The Belgian Debt Agency completed its 2014 programme smoothly. It has now published its Funding Plan for 2015: gross borrowing requirements and funding strategy are in line with the previous year's (see Treasury Highlights).

## Consensus: Average of participants' forecasts

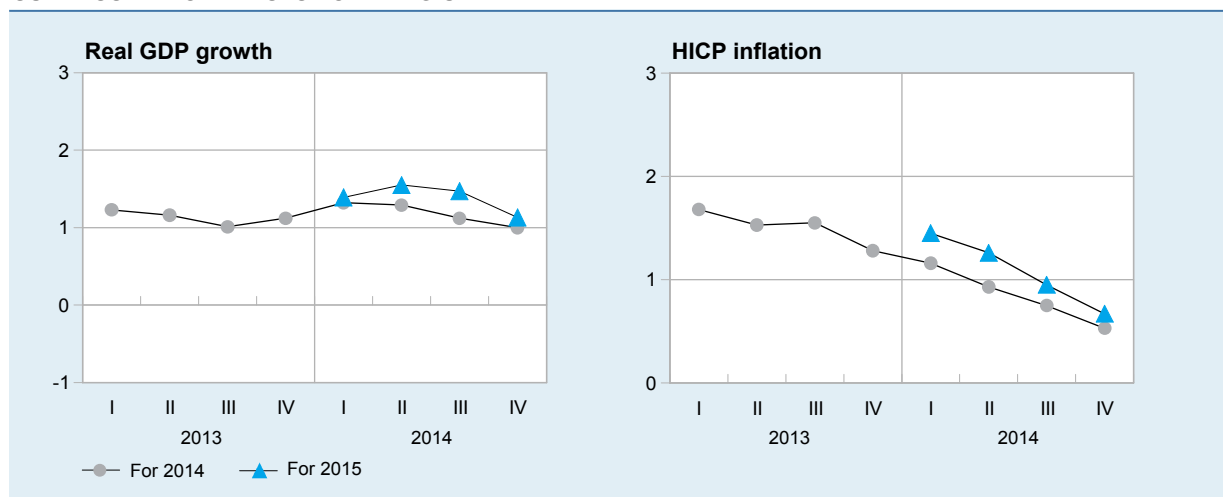
	2013		2014 p				2015 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP <sup>(1)</sup>	0.3	-0.5	1.0	(1.1)	0.8	(0.9)	1.1	(1.5)	1.1	(1.3)
Inflation (HICP) <sup>(1)</sup>	1.2	1.4	0.5	(0.8)	0.5	(0.6)	0.7	(1.2)	0.6	(1.0)
General government balance <sup>(2)</sup>	-2.9	-2.9	-2.8	(-2.5)	-2.6	(-2.6)	-2.4	(-2.3)	-2.3	(-2.2)
Public debt <sup>(2)</sup>	104.5	93.1	106.8	(101.5)	94.5	(95.4)	107.3	(101.1)	94.6	(95.5)

Numbers in parentheses refer to the previous consensus forecast of September 2014. Those forecasts were finalized before the publication of revised national accounts and public debt statistics.

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

## SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

## Macroeconomic developments

As in the euro area as a whole, the low growth and low inflation context became more and more entrenched in Belgium in the course of 2014. According to the BPN Consensus forecast, this situation is widely expected to continue in 2015.

In Belgium, GDP grew by a mere 0.1 % quarter-on-quarter in the second three months of 2014 and 0.3 % in the third quarter. Overall business confidence indicators have shown little movement in recent months, corroborating the picture of positive but limited growth at the turn of 2014 and 2015. In particular, against the backdrop of weakening demand from other euro countries, exports decelerated, while domestic demand provided some support. Business and residential investment resumed growing, albeit at a limited pace. In this context, the pick-up in consumer confidence in December will need confirmation in the coming months before signalling any true improvement, after the continuous decline observed over the year. However, it is worth noting that consumers' views about the labour market have not got any worse.

Against this muted backdrop, **the participating institutions have revised their GDP growth forecast for Belgium downwards to 1 % in 2014 and 1.1 % in 2015**, against 1.1 and 1.5 %, respectively, in the September forecast. This baseline is considered fragile, both for Belgium and for the euro area as a whole, in a context of heightened geopolitical tensions and still limited traction stemming from the significant easing of financial conditions.

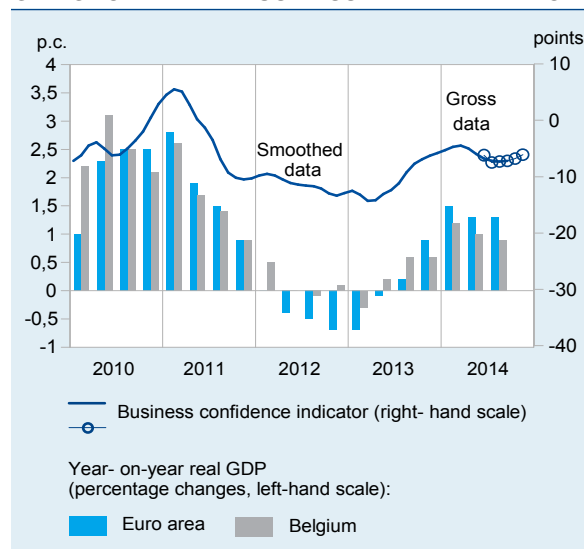
HICP inflation declined from 1.2 % on average in 2013 to 0.1 % in November 2014. The decelerating inflation rate should mainly be ascribed to its more volatile components: on the one hand, the contribution of unprocessed food fell back significantly owing to more benign weather conditions than in the previous year, while, on the other hand, retail energy prices fell as a result of lower international prices in euros and the cut in VAT on electricity for households applied since April 2014. The underlying trend in inflation, measured as HICP excluding energy and food, decelerated slightly to 1.3 % in November. **The primary dealers expect Belgian HICP annual inflation to be close to the euro area average, reaching 0.5 % in 2014 and 0.7 % in 2015.** The significant downward revision since September stems largely from the impact of plunging oil prices on international markets.

**According to the average of the participating institutions' forecasts, the general government deficit in Belgium is estimated at 2.8 % of GDP in 2014**, which is marginally lower than the 2.9 % deficit recorded in 2013. The economic context was in fact broadly neutral for the budget and the few additional structural consolidation measures had a limited impact in 2014, following an improvement of the structural balance of 1 percentage point cumulated over the two previous years, as estimated by the EC.

According to the draft budgetary plans submitted by the authorities, the structural balance should improve by 0.7 percentage point of GDP in 2015, and the nominal deficit should decline to 2.1 %. Against the background of less supportive macroeconomic assumptions, **the average of the participating institutions' forecasts points to a general government deficit of 2.4 % of GDP.**

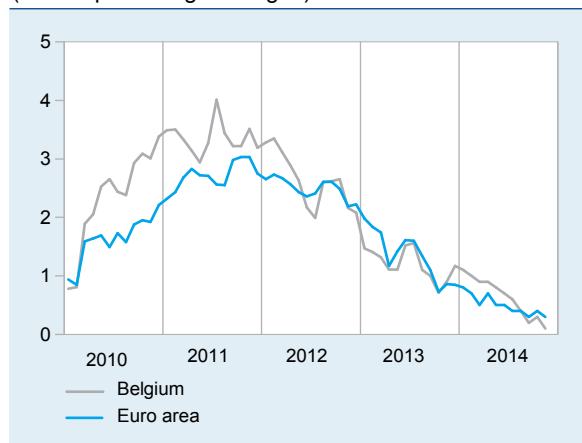
**The debt ratio is expected to rise from 104.5 % of GDP in 2013 to 106.8 % in 2014 and 107.3 % in 2015.** As indicated in the previous BPN, the public debt/GDP ratio series has been revised upwards, by some 4.5 % of GDP while the general government balance deteriorated by 0.3 % as estimated for 2013, on the back of a wider boundary of public entities taken into account under the new statistical standard ESA 2010.

### GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

### HARMONISED INDEX OF CONSUMER PRICES (annual percentage changes)



Source: EC.

## Special Topic: The new federal government announces measures for structural reforms and fiscal consolidation

Following the general election in May, the new federal government was installed on 11 October 2014. It immediately announced and has already started the process of implementing measures to tackle further structural reforms in Belgium, after initial steps were taken by the previous government during the previous three years. For example, they pertain to stricter age and career-length requirements for early retirement and for pensions, actions to improve competitiveness and increase work incentives (incl. the temporary suspension of wage indexation and a reduction of the tax wedge on labour income).

On the fiscal front, the authorities submitted the budgetary plan to the European Commission and the Eurogroup by 22 October 2014. The plan targets a headline deficit of 2.1 % of GDP in 2015, featuring an improvement of the structural balance of some 0.7 % of GDP, focusing on spending restraint. The budgets set by the federal government and the governments of the Regions and Communities were approved by the respective parliaments in December 2014. Beyond 2015, the budgetary plan targets a balance budget in structural and nominal terms for the general government in 2018.

Having assessed the plan in the context of the European fiscal governance framework, the European Commission invited the authorities to take the necessary measures to ensure that the 2015 budget will be compliant with the Stability and Growth Pact. It will examine the situation in early March, in light of the finalisation of the budget law and the expected specification of the structural reform programme announced by the authorities.

### TARGETS FOR THE FINANCING REQUIREMENT (-) OR CAPACITY OF BELGIAN GENERAL GOVERNMENT

(percentages of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018
<b>Successive stability programmes</b>								
April 2011	<b>-3.6</b>	-2.8	-1.8	-0.8	0.2			
April 2012		<b>-2.8</b>	-2.15	-1.1	0.0			
April 2013			<b>-2.5</b>	-2.0	-0.5	0.4		
April 2014				<b>-2.1</b>	-1.4	-0.4	0.6	
October 2014 (Budgetary plan)				-2.9	-2.1	-1.3	-0.4	0.0
<i>p.m. Actual figures</i>	-3.9	-4.1	-2.9	-2.8*	-2.4*			

Sources: EC, FPS Finance, NAI, NBB.

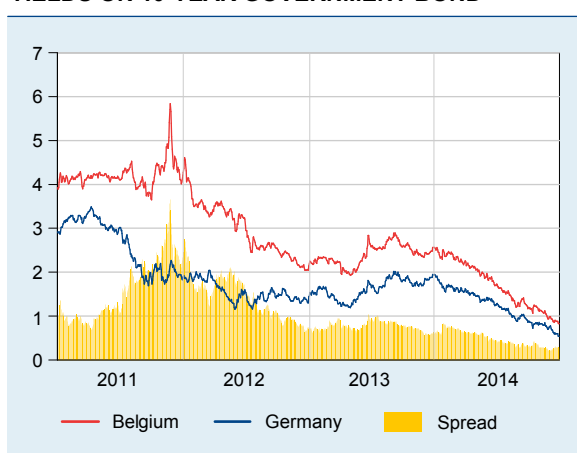
\* BPN Consensus forecast.

## Treasury highlights

In a context of low growth and low inflation, the stress in euro area sovereign bond markets continued to abate in 2014, while Belgian public debt management and funding operations benefited from favourable conditions. For the benchmark 10-year bond yields, the spread with the German Bund averaged 48 basis points, against 77 basis points in 2013, and a maximum of 366 basis points on 25 November 2011, in the midst of the euro area sovereign bond crisis. At the end of 2014, it stood at 28 basis points, as the nominal 10-year interest rate came down below 1 % from the end of November (0.83 % at the end of the year).

Foreign investors, mainly outside the euro area, continued to show an interest in Belgian bond holdings during the course of 2014. At the end of the third quarter, 50 % of the total public debt was held abroad, while Belgian financial institutions reduced their exposure slightly. With strong demand for longer maturities, the average maturity of the capital market issues came to a record figure of 14.01 years in 2014, bringing the average life of the portfolio to 7.77 years by the end of October 2014 (7.60 years at the end of 2013). At the same time, the implicit cost of the portfolio further declined to 3.0 %.

### YIELDS ON 10-YEAR GOVERNMENT BOND



Source: Thomson Reuters Datastream.

## Treasury highlights (continued)

Since September 2014, the Treasury has organised OLO auctions twice: on 20 October and on 17 November 2014.

Three OLO lines were offered in October:

- OLO 2.60% 22/06/2024 (OLO 72): € 0.985 billion – average yield 1.198% - bid-to-cover 1.76
- OLO 4.25% 28/03/2041 (OLO 60): € 0.495 billion – average yield 2.254% - bid-to-cover 3.03
- OLO 3.75% 22/06/2045 (OLO71): € 0.520 billion – average yield 2.366% - bid-to-cover 2.96

€ 380 million were added during the non-competitive tour, bringing the total amount issued to **€ 2.380 billion**.

Two OLO lines were offered in November:

- OLO 3.00% 28/09/2019 (OLO 67): € 0.870 billion – average yield 1.196% - bid-to-cover 1.43
- OLO 2.60% 22/06/2024 (OLO 72): € 1.130 billion – average yield 1.055% - bid-to-cover 1.53

€ 167 million were added during the non-competitive tour, bringing the total amount issued to **€ 2.167 billion**.

These auctions completed the OLO funding plan for the year 2014. In total, € 31.83 billion worth of OLOs were issued.

In addition, there was a 10-year \$ 1.0 billion (€ 773 million) issue on 18 September 2014. The issuance of State Notes for private retail investors of 4 December 2014 totalled € 10.3 million.

In all, Belgium issued **€ 34.11 billion**, which corresponds to 101.8 % of its € 33.50 billion funding target.

### On 9 December 2014, the Treasury published its borrowing requirements and Funding Plan 2015

The Treasury expects its 2015 gross borrowing requirement to amount to € 39.90 billion. This represents an increase of € 1.71 billion compared to the 2014 borrowing requirements (€ 38.19 billion). In establishing this estimate, the Treasury assumed that the 2015 net borrowing requirement in cash terms would amount to € 8.20 billion. Redemptions of medium- and long-term debt would amount to € 28.16 billion. The Treasury also plans to buy back bonds maturing in 2016 and in later years for an amount of € 3.54 billion.

2015 BORROWING REQUIREMENTS AND FUNDING PLAN  
(billions of euro)

	2014	2015
I. Gross financing requirements	38.19	39.90
1. Federal State budget deficit	10.51	8.20
2. Debt maturing during the year	22.36	28.16
3. Planned pre-funding (bonds maturing in subsequent years)	5.31	3.54
4. Other financing requirements <sup>(1)</sup>	0.00	0.00
II. Funding resources (Medium and long-term)	35.66	37.38
1. Long and medium-term funding	34.11	35.75
OLOs	31.83	32.50
Euro Medium Term Notes/Schuldscheine	2.24	3.00
Securities for retail investors	0.05	0.25
Other <sup>(2)</sup>	0.00	0.00
2. Treasury bonds - Silver Fund	1.55	1.63
III. Net change in short term foreign currency debt	-0.62	0.00
IV. Change in Treasury Certificates stock <sup>(3)</sup>	1.77	1.52
V. Net change in other short-term debt and financial assets <sup>(4)</sup>	1.37	1.00

Source: Belgian Debt Agency.

(1) Including buy backs of long term debt issued in foreign currencies, "put" options exercised on state notes and net redemptions of the Treasury bonds representing Belgian participation in international organisations.

(2) Including net issues of Treasury bonds representing Belgian participation in international organisations.

(3) Outstanding stock of Treasury Certificates on 01/01/2014: € 24.65 billion.

(4) This section includes residual financing instruments complementing the reference instruments mentioned in the previous section, including collateral margin changes. A positive figure represents an increase in the stock of residual financing and/or a reduction in financial assets.

## Treasury highlights (continued)

### **OLOs still the main funding instruments: three new benchmarks set to be issued, backed up by EMTN programme and other alternative instruments**

The Belgian Debt Agency plans to issue € 32.50 billion of OLOs, which is marginally higher than the € 31.83 billion issued in 2013. It is likely that three new OLO fixed-rate benchmarks will be issued. A new OLO Floating-Rate Note could also be issued. The Treasury also plans to issue € 3.00 billion via its EMTN programme or other alternative funding instruments such as Schuldscheine. In addition, € 1.63 billion worth of instruments for the Silver Fund will be issued in order to refinance the existing Treasury Bond that will come to maturity. State Note issuance for private investors is expected to result in only € 0.25 billion of funding, due to the low interest rate environment.

As for short-term funding, net short-term debt is expected to rise by € 2.52 billion in 2015. The volume of Treasury Certificates (TCs), which stood at € 26.42 billion at year end 2014, is likely to rise to around € 27.94 billion by the end of 2014. This would be beneficial for the liquidity of this instrument.

In 2015, most maximum risk limits will come down:

- The 12-month refinancing risk will be limited to 20.00%
- The 60-month refinancing risk will decrease by 5.00%, to 50.00%
- The 12-month refixing risk will decrease by 2.50%, to 20.00%
- The 60-month refixing risk will decrease by 5.00%, to 55.00%.

In 2015, the average life of the debt portfolio is required to be higher than 7.50 years during the first six months, with this minimum increasing to 7.75 years thereafter.

### **Funding strategy: predictability and flexibility**

The main feature of the 2015 issuance strategy continues to be the combination of predictability and flexibility in order to respond adequately to changing market environments.

The Treasury will 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 extent of the financing programme and the issuance size of various instruments.

Flexibility will allow size, the instruments and their maturities to be adapted to prevailing market demand at the time of issuance.

In this context, the forecast issuance strategy for 2015 will be as follows.

With regard to long-term financing:

- It is expected that new benchmarks will be launched through syndicated issues and increased in size through auctions.
- The Treasury expects to launch three new fixed-rate OLO benchmarks.
- If there is sufficient demand, off-the-runs can be reopened in regular auctions.
- The number of OLO auctions is reduced to 10 – there will be no auction in August and December – and an auction might be cancelled and replaced by a syndicated issue.
- The OLO issuance will be supplemented by alternative financing instruments. They may include: an OLO floater, hedged foreign currency issuance and/or structured products issued under the EMTN programme, possibly involving inflation-linked notes, or other funding instruments, in particular Schuldscheine.

With regard to short-term financing:

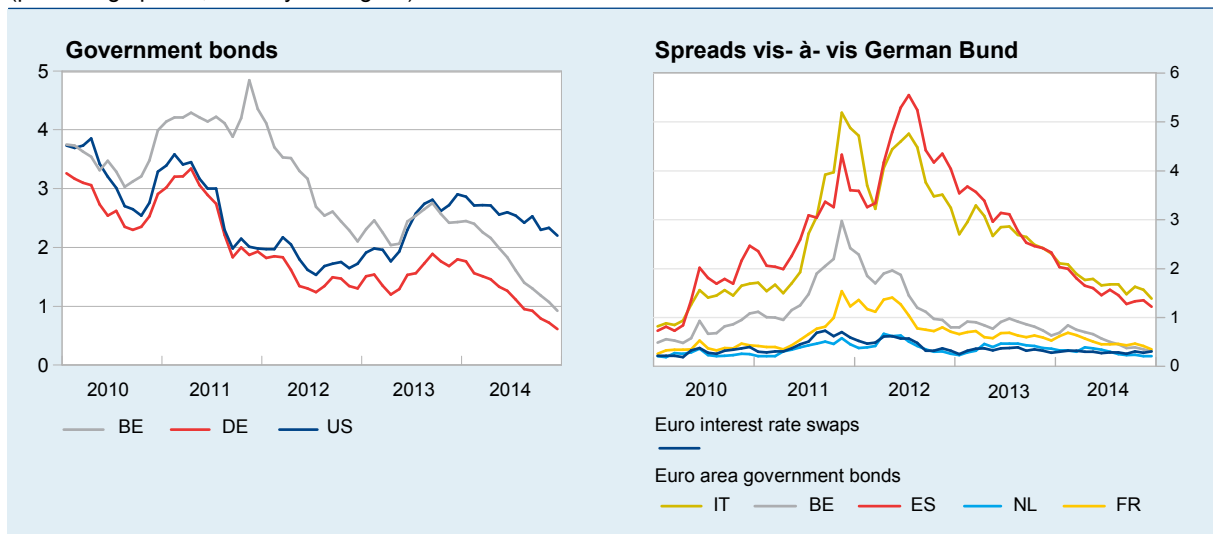
- A Treasury Certificate issuance programme consisting of 2 auctions per month at which 2 fixed lines will be offered. Occasionally, the Treasury will offer a supplementary line.
- The regular Treasury Certificate programme will be supplemented by issuance under the existing Euro-Commercial Paper Programme. This allows for on-tap issuance in various currencies but swapped into euro.

The details of the 2015 Funding Plan are available on the Belgian Debt Agency's website [www.debtagency.fgov.be](http://www.debtagency.fgov.be)

# Government securities market

## 10- YEAR INTEREST RATES

(percentage points, monthly averages<sup>1</sup>)



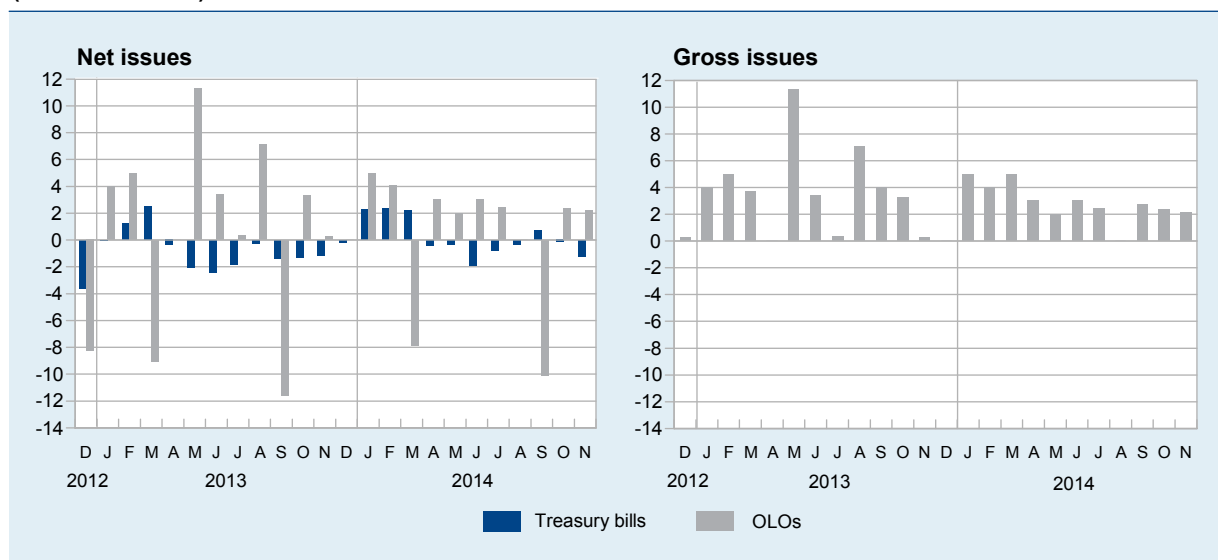
Sources: BIS, Datastream.

<sup>1</sup> Average over the first 18 days for December 2014.

Long-term sovereign bond yields in the euro area continued to decline between September and mid-December 2014. More specifically, 10-year sovereign yields in Germany and Belgium fell over the period under review to the historically low levels of 0.61 % (a decrease of 31 bp) and 0.92 % (a decrease of 38 bp), respectively. These developments in the euro area occurred against the background of weak economic data (especially regarding inflation), general market uncertainty over the outlook for global growth and continued non-conventional monetary policy measures by the ECB (TLTROs and asset purchase programmes). In the US, long-term sovereign yields declined as well, albeit at a slower average pace than in the euro area, reaching 2.20 % in December. The developments in US sovereign bond markets over the review period were mainly determined by changing expectations regarding the pace of monetary policy tightening against the backdrop of more positive economic news releases on the one hand and concerns about falling domestic inflation and low global growth on the other.

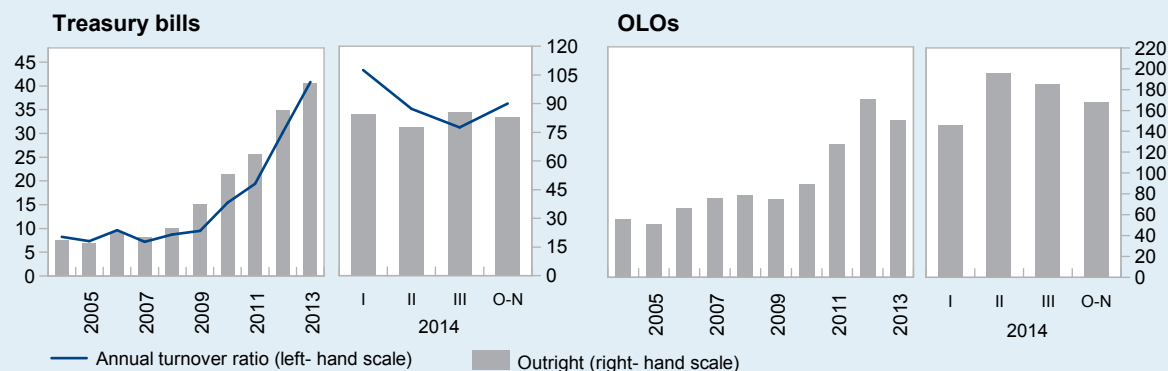
The corresponding spreads vis-à-vis the German Bund narrowed further in most euro area countries, despite some country-specific uncertainties. Over the review period, the Italian and Spanish spreads shrank by respectively 9 and 6 bp to 139 and 122 bp. The Belgian spread declined by 7 bp to 31 bp, while the French and Dutch spreads stand respectively at 35 and 21 bp. Investor uncertainty, as measured by the implied volatility extracted from bond options, was volatile – and especially in October – but its overall level remained low.

## PRIMARY MARKET (billions of euros)

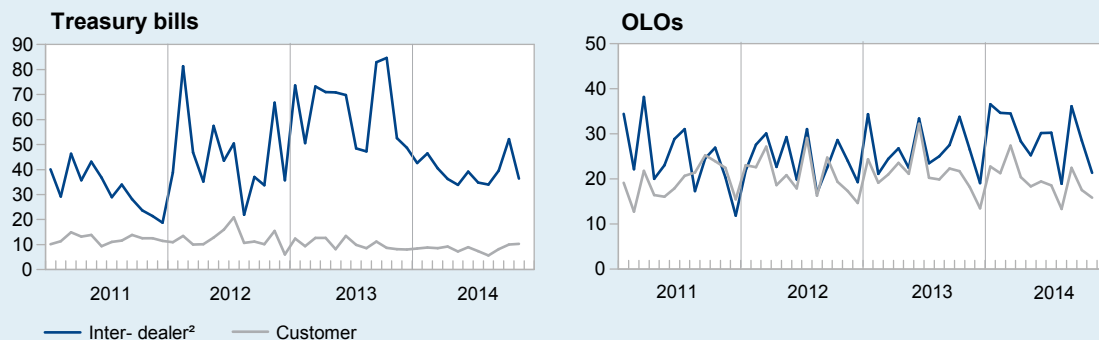


## SECONDARY MARKET TURNOVER

As compiled by the Securities Regulation Fund<sup>1</sup>  
(billions of euros unless otherwise stated, monthly averages)



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



<sup>1</sup> 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.

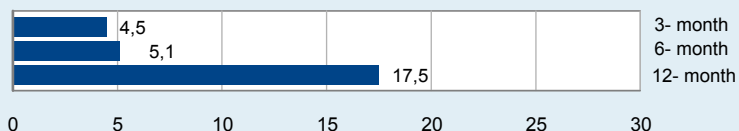
<sup>2</sup> Please note that inter- dealer turnover is double- counted in these figures.

## OUTSTANDING AMOUNTS AND TURNOVER

(billions of euros)

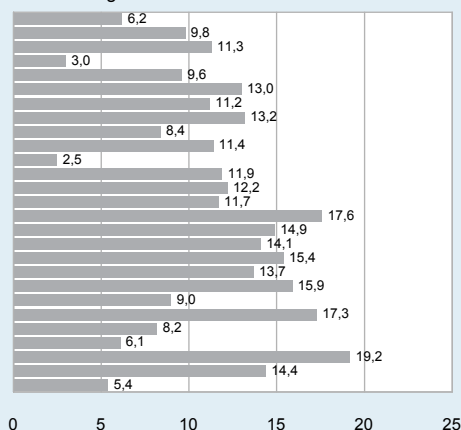
### TREASURY BILLS

Nominal outstanding amounts at 30 November 2014

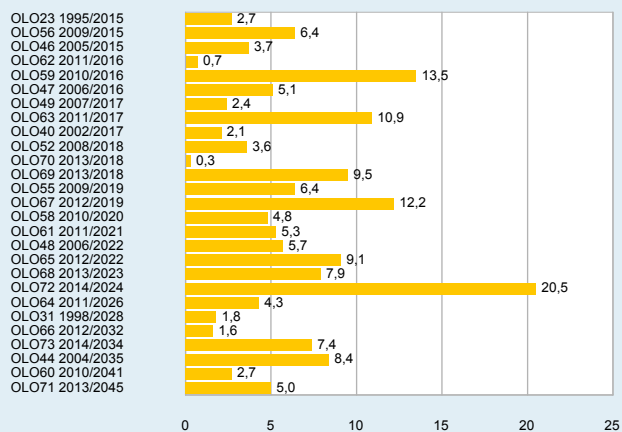


### OLOs

Outstanding amounts at 30 November 2014



Outright turnover in November 2014

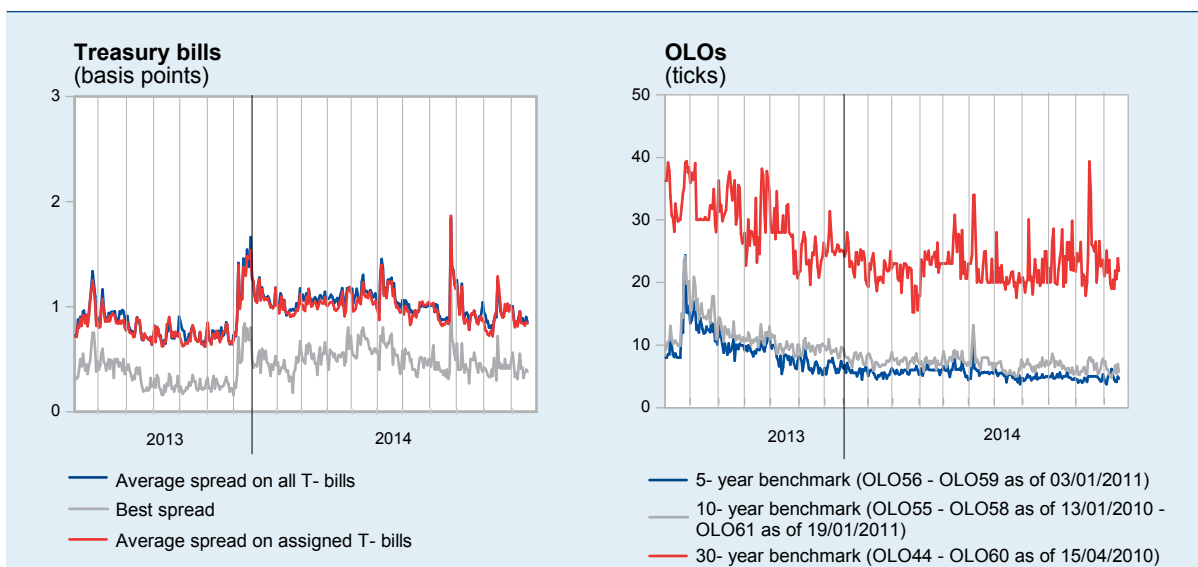


Source: Securities Regulation Fund.

<sup>1</sup> The turnover figures include sell/buy- back transactions which are in fact repurchase agreements.



## BEST BID/OFFER SPREADS<sup>1</sup>



Source: Treasury.

<sup>1</sup>As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

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