BELGIAN DEBT AGENCY

Participating Primary and Recognised Dealers:
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NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

QUARTERLY PUBLICATION

No. 69 September 2015

Last update: 25 September 2015

Next issue: January 2016

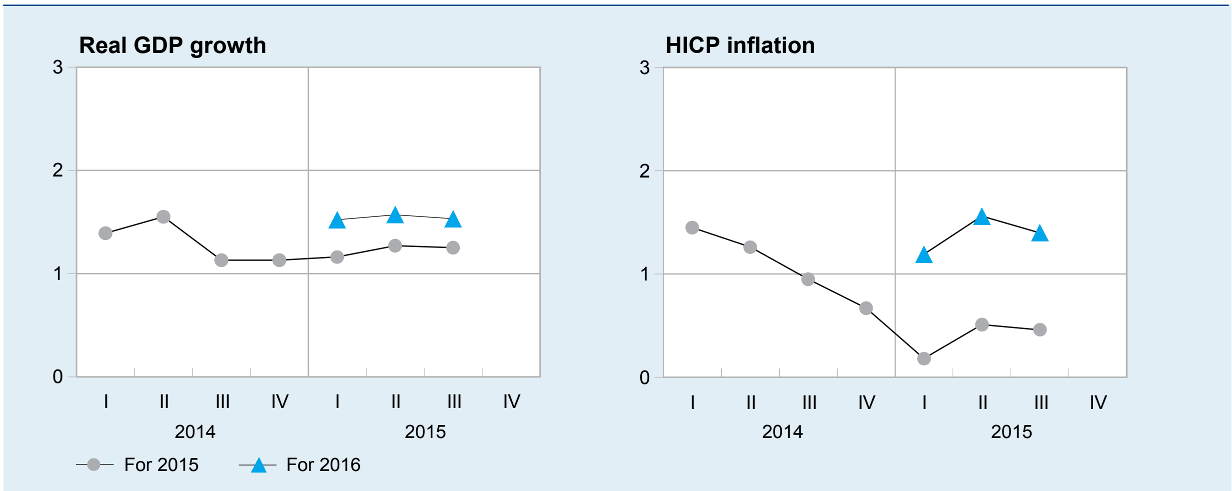
- Despite recent adverse developments in emerging market economies, the recovery is set to continue in the euro area, albeit at a somewhat weaker pace. The BPN participating institutions expect GDP growth in Belgium to reach on average 1.3 % in 2015 and 1.5 % in 2016. HICP annual inflation should remain low on average this year, at 0.5 %, before rising to 1.4 % in 2016.
- During the summer, the Belgian government has set the main lines for the budget 2016 and for a tax shift away from labour. The measures will be defined in detail during the coming weeks (see Special Topic).
- The Treasury's funding programme is proceeding smoothly, on the back of sustained investor demand for long-duration bonds (see Treasury Highlights).

Consensus: Average of participants' forecasts

	2014		2015 p				2016 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	1.1	0.8	1.3	(1.3)	1.3	(1.4)	1.5	(1.6)	1.6	(1.7)
Inflation (HICP)(1)	0.5	0.4	0.5	(0.5)	0.1	(0.3)	1.4	(1.6)	1.1	(1.4)
General government balance(2)	-3.2	-2.4	-2.7	(-2.3)	-2.1	(-2.0)	-2.3	(-2.3)	-1.8	(-1.7)
Public debt(2)	106.6	94.2	107.0	(106.9)	93.4	(94.1)	105.9	(105.9)	92.5	(93.1)

Numbers in parentheses refer to the previous consensus forecast of June 2015.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

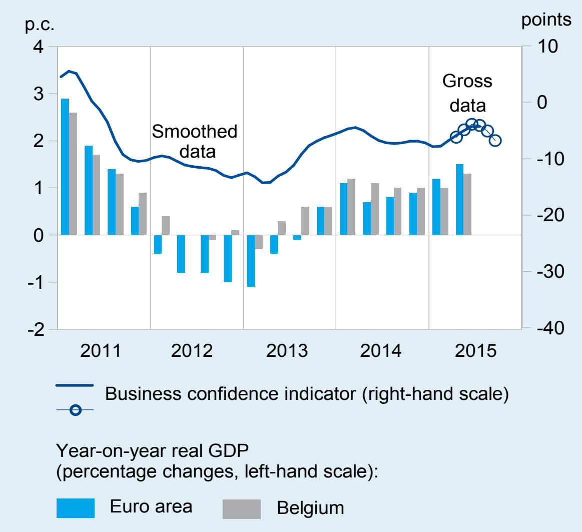
Macroeconomic developments

While growth in advanced economies remained broadly on track during the summer, emerging market economies faced adverse developments. In a context of financial fragilities combined with a structural adjustment of the economy towards a lower but more consumption-based growth regime, China's stock market rout propagated rapidly to other Asian economies. Most EME currencies depreciated strongly, and equity markets corrected and showed increased volatility worldwide. The growth outlook worsened dramatically for commodity exporters, hit not only by low prices for oil and raw materials, but also by political uncertainties and tighter external financing conditions.

So far, the consequences for the euro area have remained contained. True, foreign demand prospects have been revised downwards, since more than half of all global growth is coming from emerging economies. Also, negative spillovers related to adverse confidence and wealth effects cannot be ruled out. However, the European economy continues to benefit from an accommodative monetary policy and the recent depreciation of the euro. The fiscal stance is progressively becoming more neutral or even slightly expansionary. Finally, with at least a solution agreed for the short-term, the Greek problem is no longer a systemic issue.

In the first half of 2015, activity in Belgium has benefited from the strong boost provided by lower oil prices. Private consumption was particularly buoyant, as households' real disposable income was largely supported by the fall in energy prices. In the second quarter of 2015, Belgian GDP rose by 0.4% quarter-on-quarter – the same rate as in the first quarter –, bringing the year-on-year growth up to 1.3 %. However, business indicators and consumer confidence deteriorated somewhat over the summer, on the back of the weaker trade outlook and renewed geopolitical uncertainties. Short-term indicators consequently point to some moderation in growth in the second half of 2015.

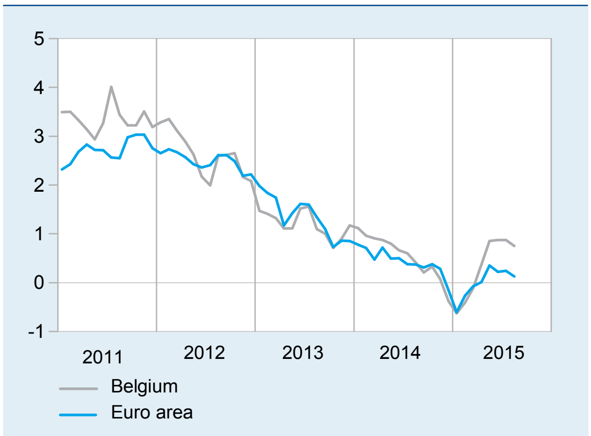
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

Against a backdrop of a less favourable external environment, the recovery in activity in the euro area looks likely to materialise at a somewhat weaker pace than previously expected. Accordingly, the participating institutions have revised their economic activity forecasts downwards: euro area GDP is expected to rise by 1.3% this year and by 1.6% in 2016, i.e. a downward revision of 0.2 pp. in both years. Forecasts for the Belgian economy are very much in line with those for the euro area: **according to the participating institutions, Belgian GDP should grow by 1.3 % in 2015 (unchanged compared to the previous Consensus forecast), and by 1.5 % in 2016 (slightly revised downwards from the previous forecast).**

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

HICP inflation bottomed out in January 2015, but started to rise thereafter; the August HICP inflation rate stood at 0.8% in Belgium. The underlying trend in inflation, measured as HICP excluding energy and food, has stabilised around 1.5 % over the last few months. The renewed decline in oil prices in recent months is likely to put additional downward pressure on inflation, especially in the near term. In this context, **the primary dealers expect Belgian HICP annual inflation to remain at 0.5 % in 2015 before rising to 1.4% in 2016 (1.6 % in the June Consensus).** Inflation in Belgium should thus clearly outpace the euro area inflation, where it is expected to decline further to 0.1% this year and to increase to only 1.1% in 2016.

According to the average of the participants' forecast, **the budget deficit is predicted to come down from 3.2% in 2014 to 2.7 % in 2015 and to 2.3 % in 2016. The debt ratio is expected to rise further from 106.6 % of GDP in 2014 to 107 % in 2015, before receding slowly to 105.9 % in 2016.** The forecasts for general government deficit imply that some additional efforts are needed to reach the targets set out in the Stability programme. Hence, as explained in the Special Topic, the measures announced in July by the federal government to close this gap and to implement a shift away from labour taxation towards other tax bases should be finalised and fully implemented in the coming weeks.

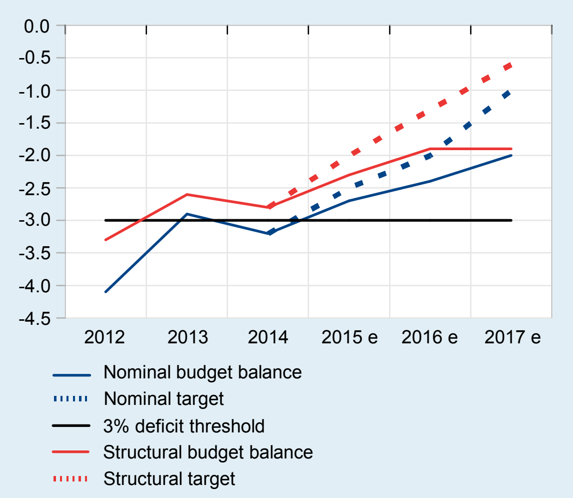
Special Topic: Combining fiscal consolidation with a tax shift away from labour income: an important balancing act for the coming years

Belgium shares with most European economies the challenge of strengthening the growth potential in a sustainable way, for the benefit of the whole population. The federal government puts job creation and improving the country's competitiveness high among its objectives, while at the same time being committed to bringing Belgium's public finances back onto a sustainable path.

Against the backdrop of a public debt ratio of 106.6% of GDP in 2014 and population ageing costs expected to expand considerably over the next decades, a reform of the pension system was decided in 2014, building further on the initial steps taken in previous years to raise the effective retirement age. Legislation has now been passed to tighten up the minimum age and career requirements for early retirement and raise the legal pension age for the coming years, and changes are also planned with respect to the more favourable pension scheme for civil servants. According to calculations by the Study Committee on Ageing, the additional budgetary cost of population ageing between 2014 and 2060 should drop to 2.1 % of GDP.

While the reform helps improve the long-term sustainability of public finances, its impact will be felt only gradually. So, it is of the upmost importance to rapidly curb the rising debt path currently observed, through a rapid structural improvement of the budget balance.

CONSOLIDATION GAP BEFORE THE 2016 BUDGET MEASURES
(in % of GDP)



Source: NBB (June 2015 projections).

In its latest stability programme, sent to the European Commission in April, the Belgian federal government committed itself to reaching by 2018 a balanced budget in structural terms, i.e. adjusted for the impact of the business cycle and non-recurring factors. To meet its commitment, the government stipulated a path to bring down its structural deficit, which amounted to 2.8% of GDP in 2014, by 0.7% of GDP each year in the period 2015-2017 and another 0.6% of GDP in 2018. This path is in line with the requirements imposed by the European budgetary framework.

According to the National Bank of Belgium's latest (June 2015) projections, covering the period 2015-2017, general government was found to be not yet fully on track with the set targets. A structural consolidation gap of some 0.3% of GDP in 2015, rising to more than 1% of GDP in 2017 had become apparent. Covering only 2015 and 2016, the report established at that time by the so-called Monitoring Committee came to a similar conclusion.

Based on this latest assessment, at the end of July, the federal government agreed on a number of additional consolidation measures to close the gap in 2015 and 2016. At the same time, it also took a medium-term perspective by already deciding a number of measures with an impact in 2017-2019. While the consolidation gap should, according to the government's figures, be closed in 2015 and 2016, it acknowledges that further consolidation measures will be necessary for the 2017-2019 period.

The federal government is primarily counting on additional expenditure savings to reduce the structural deficit during its term, mainly in the field of social security. From 2016 on, the government also expects lower interest charges and growth dividend effects from structural measures to contribute to a sounder fiscal stance. The budgetary measures will be defined in detail in the coming weeks, as the draft budgetary plan has to be submitted to the European Commission by mid-October. This process should give due consideration to the recent worsening of the macroeconomic outlook for 2016 and to some uncertainty about tax revenue developments and about the expected outcome of the measures. Indeed, when setting the macroeconomic environment for the budget, the Federal Planning Bureau revised GDP growth for 2016 down to 1.3 %, similar to the BPN Consensus.

Special Topic: Combining fiscal consolidation with a tax shift away from labour income: an important balancing act for the coming years (continued)

Together with the budgetary agreement for 2015-2019, the federal government also reached an agreement on a sizeable tax shift for the period 2015-2020, with a view to promote growth and create jobs, without jeopardizing the sustainability of public finances. It has decided to shift part of the tax burden away from labour towards consumption, capital, and other revenue.

According to the Michel government's plans so far, the tax burden on labour will be reduced by some € 5.9 billion by the year 2019, and € 7.5 billion by 2020. About half of it is aimed at reducing employers' labour costs, while the other half will shore up the net wage of employees, in particular for low- and middle-income earners. Part of the labour cost reductions had been initiated by the previous (Di Rupo) government. Consumption taxation will be increased by some € 3 billion by 2020, the lion's share of which comes from higher VAT or excise duties on environmentally harmful or unhealthy goods. Capital taxation is expected to increase by some € 2.3 billion. Finally, some other revenue measures should bring in € 1.4 billion. All in all, the measures taken should, according to the government's estimates, result in a small over-financing of the labour cost cuts up to 2019, while there would be some additional financing needed in 2020.

GOVERNMENT MEASURES FOR THE TAXSHIFT
(€ billion, federal government estimates)

	2015	2016	2017	2018	2019	2020
I: Labour taxation(1)	**-0.5**	**-3.8**	**-3.9**	**-5.5**	**-5.9**	**-7.5**
Employers	0.0	-1.8	-1.9	-2.6	-3.0	-3.7
Employees	-0.5	-2.0	-2.0	-2.8	-2.9	-3.7
II: Financing	**1.7**	**4.2**	**5.5**	**6.5**	**6.7**	**6.7**
Consumption taxation	0.5	1.9	2.2	2.8	2.9	3.0
Capital taxation	0.9	1.8	2.1	2.3	2.4	2.3
Other revenues	0.3	0.6	1.1	1.4	1.4	1.4
III: Total revenues (I)+(II)	**1.2**	**0.4**	**1.6**	**1.0**	**0.8**	**-0.7**

(1) Including social security contributions.

As for the budget, the tax shift measures decided in July 2015 still need to be worked out in detail by the competent ministers. Here, too, the expected proceeds from new tax measures should be assessed with great caution, as they are surrounded by uncertainty.

Obviously, credible fiscal consolidation efforts together with a reduction in the tax wedge on labour income require a delicate balancing act. Together with a broader set of actions to curb the cost of ageing, help reduce labour market mismatches, support innovation and promote the smooth functioning of product and labour markets, they contribute to putting the economy on a stronger footing.

Treasury highlights

As of September 10, the Treasury had issued **€ 32.58 billion** of long-term funding corresponding to 86.3 % of its annual target of € 37.75 billion.

On 9 September, the third new OLO of the year 2015 was issued through syndication. The € 4.0 billion OLO 76 falling due on 22 June 2038 pays an annual coupon of 1.9 % and was priced at an interpolated spread of +34 bps over mid-swap, implying a yield of 1.943 %. 42 % of the issue has been taken up by UK investors, 18 % by German, 10 % by US and 9 % by French investors. Belgian investors took up 4 % of the issue. In terms of investor types, fund managers took the largest share with 44 %, followed by banks (22 %).

The maturity of 23 years once again confirms the willingness of the Belgian Debt Agency to extend the duration of its debt portfolio.

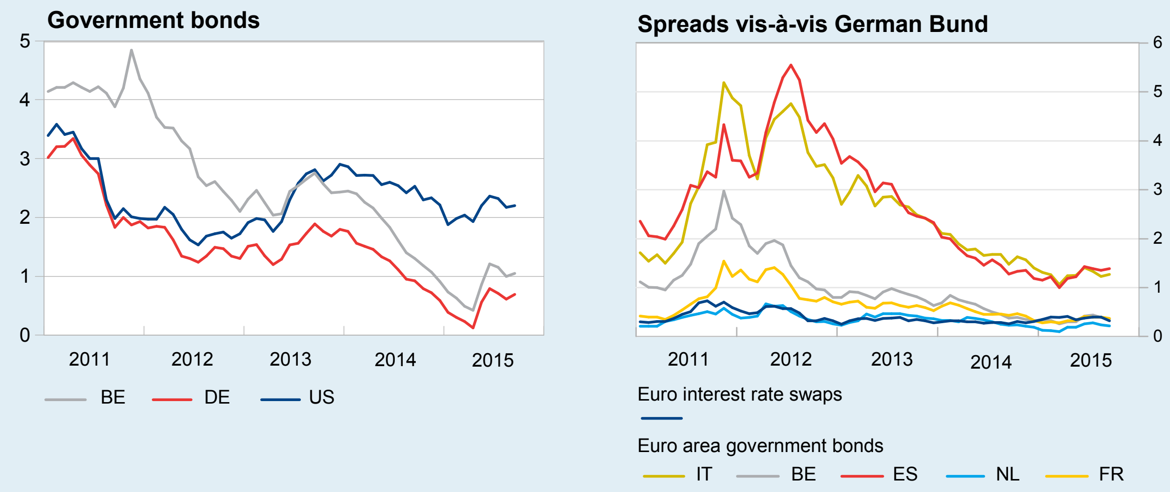
The Treasury has already launched two new OLO benchmarks in 2015 and organised five auctions, and the results of four of them were discussed in previous Prime News issues. The fifth auction was held on 13 July and provided € 3.40 billion of funding:

Date	**OLO**		**Issued (€ billion)**	**Yield**	**Bid to cover**
13/07/2015	OLO 3.00% 28/09/2019	OLO 67	0.740	0.173%	1.52
	OLO 0.80% 22/06/2025	OLO 74	1.320	1.345%	1.32
	OLO 4.25% 28/03/2041	OLO 60	0.655	2.152%	1.44
	Non-competitive tour		*0.801*		
	Total		**3.401**		

With regard to its EMTN programme, the Treasury issued a 100-year security for the first time ever. The amount issued was € 50 million and the annual coupon set at 2.50%.

Government securities market

10-YEAR INTEREST RATES
(percentage points, monthly averages[1])

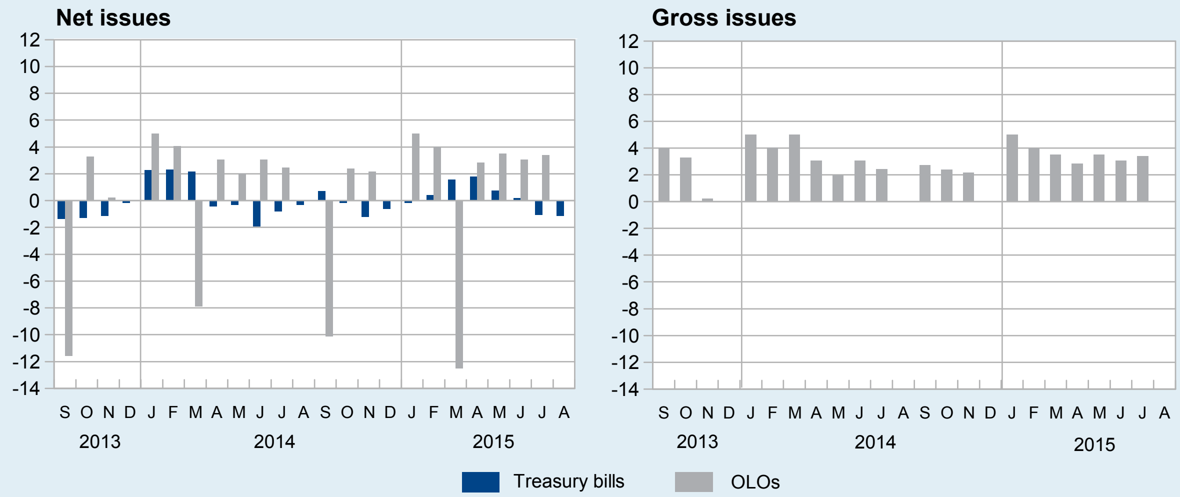


Sources: BIS, Datastream.
[1] Average over the first 18 days for September 2015.

After the upturn observed between April and June 2015, long term sovereign bond yields in the euro area fell back between June and mid September. Ten year yields fell by 10 bp for the German Bund and 16 bp for the Belgian OLO, reaching 0.69 % and 1.05 %, respectively. These contrasting movements occurred in an environment of continued uncertainty and fragility surrounding the outlook for the global economy, and low inflationary pressures as indicated by falling oil prices and declining inflation linked swap rates. Against this background, yields also declined in the US; the ten year sovereign yield dropped by 16 bp over the period under review to stand at 2.20 %. Decreasing sovereign yields in the US (as well as in the euro area to some extent) at the end of the review period also reflect the FOMC decision (on 17 September 2015) to keep the federal funds rate target range unchanged and lower market expectations of an imminent increase in monetary policy rates by the Fed.

In the euro area, long term sovereign spreads vis à vis the German Bund narrowed in most Member States over the review period. The decrease was especially noticeable in the periphery, as attested by the fall in the Italian spread by 13 bp to 196 bp, although the Spanish spread shrank by only 4 bp to 207 bp. Spreads in Belgium, France and the Netherlands decreased respectively by 5, 3 and 5 bp to 105, 106 and 90 bp. Implied bond market volatility remained overall stable; some episodes of volatility were mainly due to negotiations with Greece in June and early July and the increased global financial uncertainty following developments in China from mid August onwards.

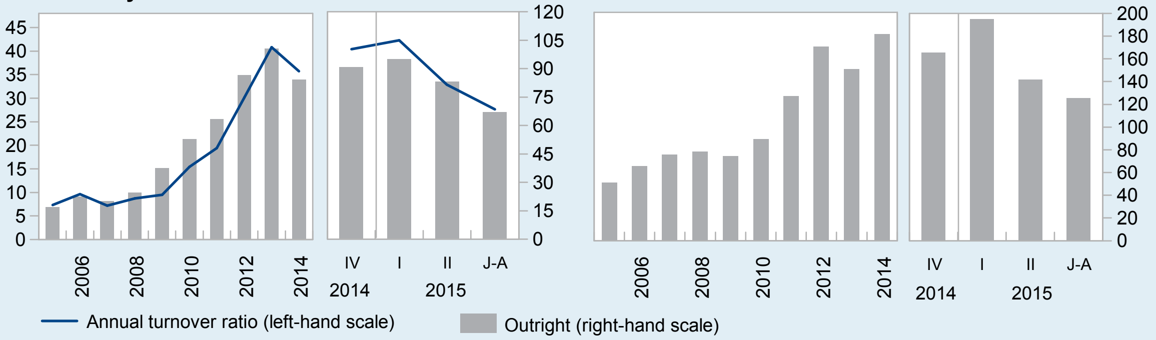
PRIMARY MARKET
(billions of euros)



SECONDARY MARKET TURNOVER

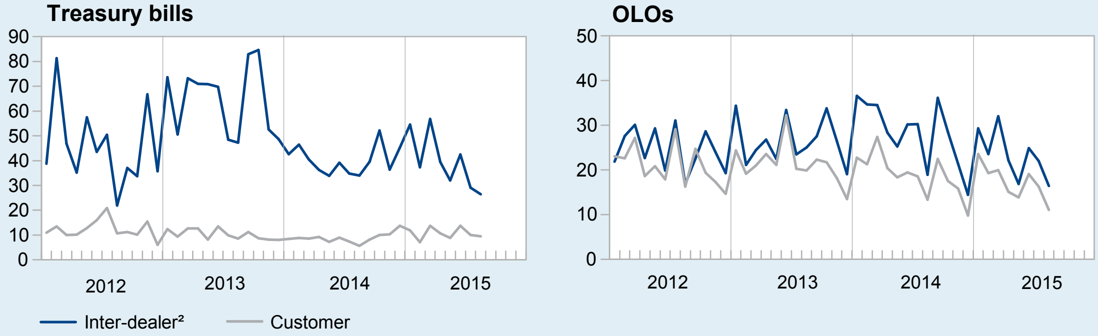
As compiled by the Securities Regulation Fund[1]
(billions of euros unless otherwise stated, monthly averages)

Treasury bills **OLOs**



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

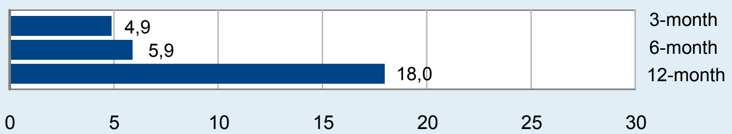
Treasury bills **OLOs**



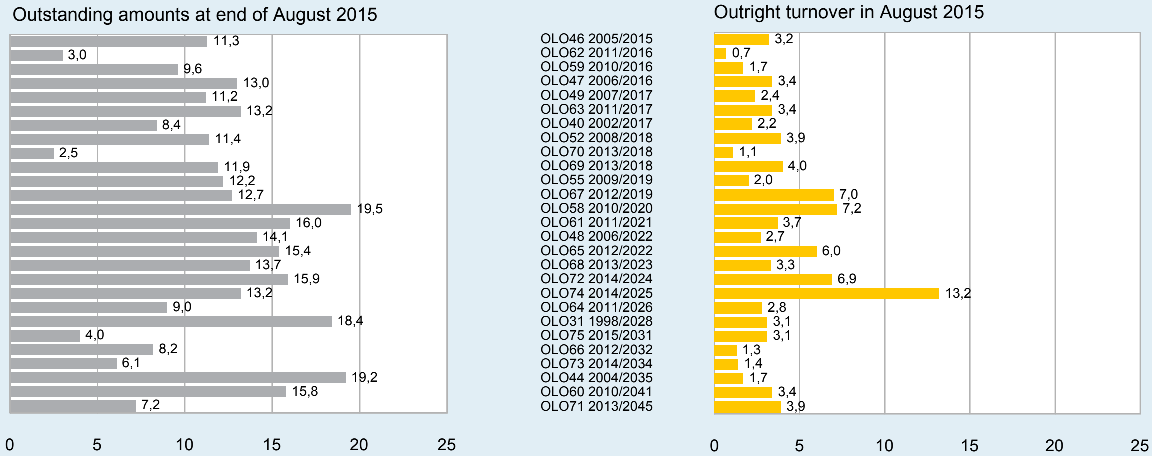
[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.
[2] Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

TREASURY BILLS
Nominal outstanding amounts at end of August 2015

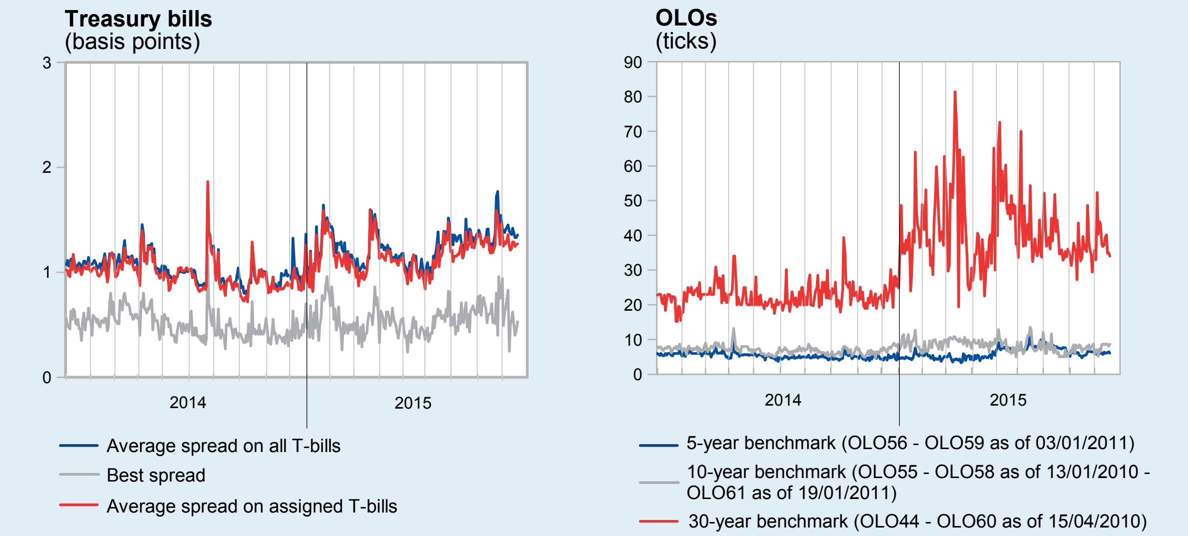


OLOs
Outstanding amounts at end of August 2015 — Outright turnover in August 2015



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).

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Published by: National Bank of Belgium (NBB).

Sources: NBB, unless otherwise stated.

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