BELGIAN PRIME NEWS
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BELGIAN DEBT AGENCY
NationalBank OF BELGIUM
Eurosystem

Participating Primary and Recognised Dealers:
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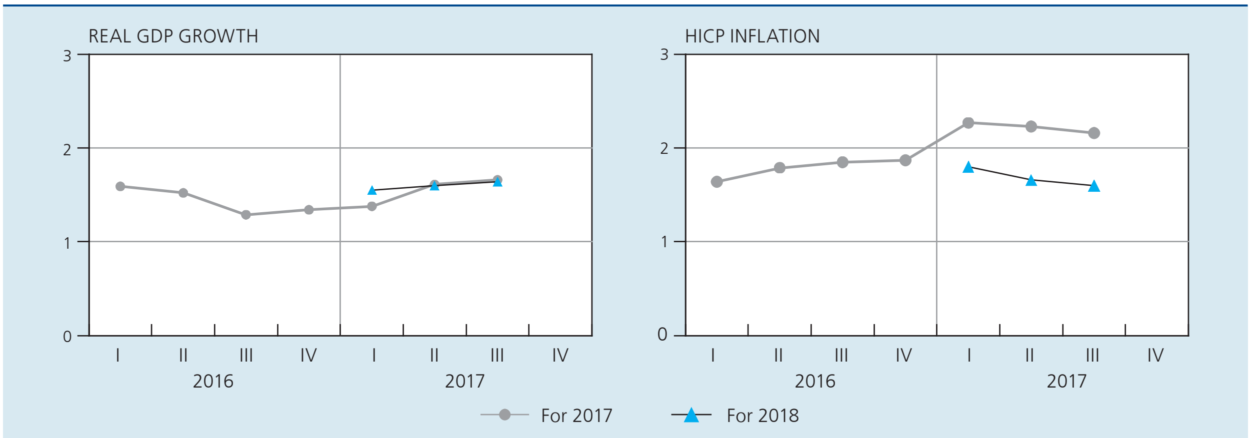
- TRESURY HIGHLIGHTS: Smooth execution of the funding programme during the summer

CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2016	2017p	2018p	2016	2017p	2018p
Real GDP[1]	1.2	1.7	1.6	1.8	2.1	1.8
Inflation (HICP)[1]	1.8	2.2	1.6	0.2	1.5	1.3
General government balance[2]	–2.6	–2.0	–2.0	–1.5	–1.4	–1.3
Public debt[2]	106.0	104.9	104.1	91.3	89.2	87.9

(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

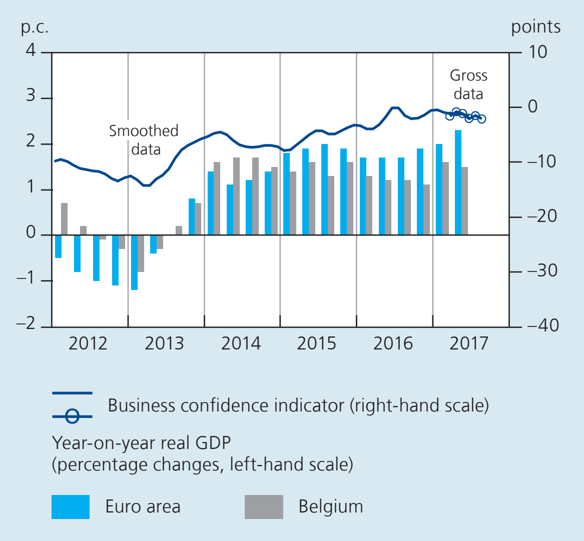
MACROECONOMIC DEVELOPMENTS

Recovery firming up in the euro area, benefiting Belgium

Against the background of an accommodative monetary policy, euro area GDP continued its solid and broad-based expansion in the second quarter of 2017, at a slightly increased rate of 0.6% quarter-on-quarter. Domestic demand made the most significant contribution to growth – in particular owing to strong labour market developments – while the contribution of net exports declined due to a more vigorous rise in imports. Inflation is still below target, however.

GDP growth in both the euro area and Belgium gained momentum in the first half of 2017, reaching respectively 2.1% and 1.5% compared to the corresponding period of the previous year. In Belgium, economic activity was driven by domestic demand, owing mainly to solid private consumption and business investment growth, while next exports continued to make a negative contribution. The labour market conditions remained favourable as the unemployment rate was below 8% while employment grew at a pace well above the average recorded over the previous four years. In addition, demand expectations in manufacturing and consumers' unemployment expectations – that are found to be among the most relevant early predictors of GDP among survey data – improved further. Against this backdrop, the consensus forecast was revised slightly upwards for 2017 (+0.1 percentage point for Belgium), but remains unchanged for 2018. **The average BPN participants' forecast for GDP growth in Belgium is 1.7% in 2017 and 1.6% in 2018. In the euro area, GDP is expected to increase by 2.1% in 2017 and 1.8% in 2018.**

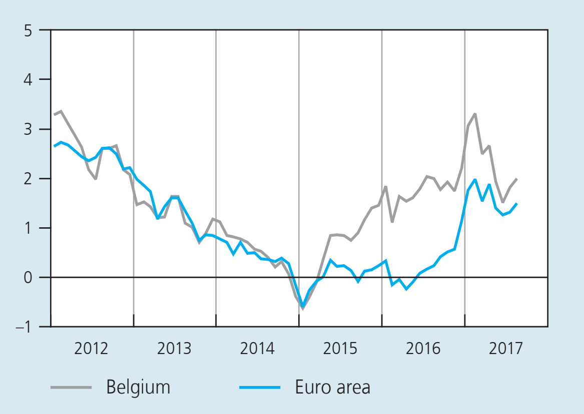
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

After having reached a low of 1.5% in June owing to weaker oil price developments, HICP inflation in Belgium was back up to the 2% mark in August 2017. In July, this upward movement stemmed mainly from a pick-up in core inflation and food prices, while the acceleration in August was driven by a revival in energy prices. Back to 0.5 percentage point, the gap with the average euro area inflation rate has declined markedly compared to 2016. Looking ahead, it is expected to narrow as inflation in Belgium should slow down more rapidly in 2018 mainly as a result of the disappearance of the tax on electricity consumption in the Flemish Region. **According to the consensus forecast, inflation should reach 2.2% in 2017 and 1.6% in 2018 in Belgium, while it should work out at 1.5% and 1.3% respectively in the euro area.**

INFLATION (HICP)
(annual percentage changes)



Source: EC.

The Belgian public sector deficit is expected to come down in 2017, from 2.6% of GDP in 2016 to 2%, before levelling off in 2018. Some additional consolidation efforts would thus be required to comply with the path set out in the budgetary plan submitted by the Belgian authorities to the European Commission in April 2017, which foresees a balanced budget (in structural terms) by 2019. In its summer agreement, the federal government set out the main lines for the 2018 budget, which will be described in more detail in the coming weeks. It entails some loosening of the budgetary targets. On the basis of their own macro and budgetary forecasts, **the BPN participants anticipate a slow reduction in the Belgian public sector debt, from 106% of GDP in 2016 to 104.1% in 2018.**

SPECIAL TOPIC **Narrowing inflation gap between Belgium and the euro area**

In general, Belgium's macroeconomic performance comes close to the euro area average. In particular, over the period 1999 and 2014, total inflation averaged 2%, a level close to the 1.9% recorded in the euro area. Temporary deviations in the inflation profile have occurred from time to time. However, a positive and increasing inflation gap appeared from 2015 onwards, which at first glance could seem more structural in nature. This differential has been widening in a context where euro area inflation has been persistently low. It reached 1.5 percentage point on average in 2016.

Three main culprits can be identified.

First, services have systematically made a positive contribution to the inflation gap. In particular, the analysis conducted by the FPS Economy (Price Observatory and Directorate General Statistics – Statistics Belgium), the National Bank of Belgium and the Federal Planning Bureau (1) found evidence of a strong contribution from regulated services to total services inflation over the recent period, with the increase in tuition fees for higher education in Flanders at the end of 2015 standing out as one of the most prominent examples. More persistently, two sectors were pointed out, namely restaurants and cafés and telecommunications, where price increases (respectively decreases) were higher (smaller) in Belgium than in the neighbouring countries (Germany, France and Netherlands).

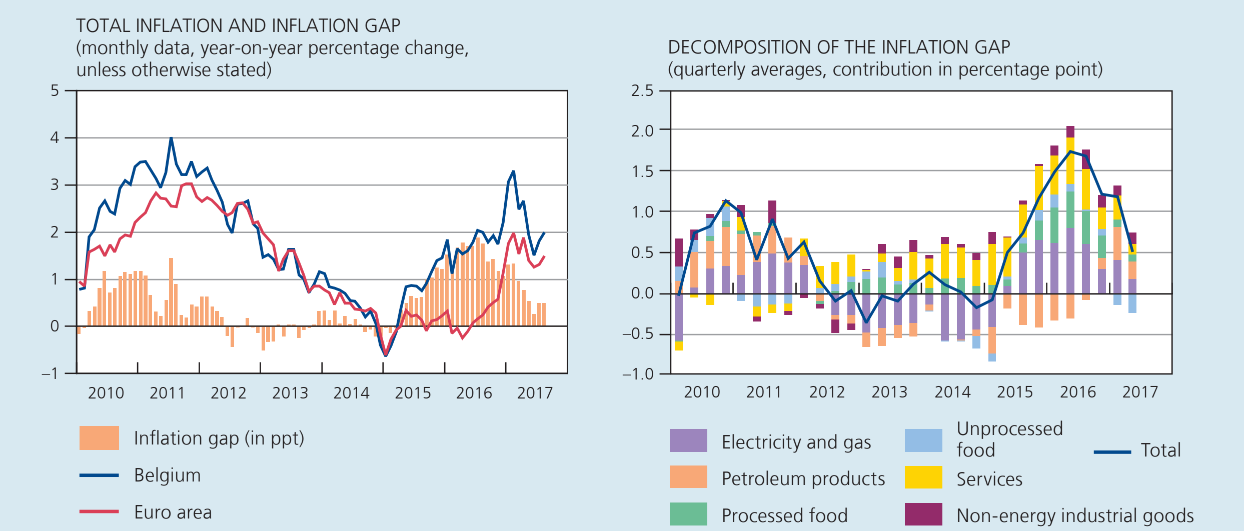
In addition, electricity also contributed to the widening inflation differential. For instance, numerous fiscal measures have been taken such as the increase in VAT from 6% to 21% in September 2015 or, at the regional level, the sharp increase in the "energy fund" contribution in Flanders in March 2016. Besides this factor, also in the energy component, inflation in Belgium shows greater sensitivity to world oil price movements, as a result of a low level of flat-rate taxation (excise duties) on heating oil and the higher weight it has in energy consumption patterns. This factor has mitigated the inflation gap in 2015 and 2016, in periods of falling oil prices, but exacerbated it at the beginning of 2017.

Finally, the rise in processed food prices has also been responsible for the higher inflation in Belgium. It was driven by decisions taken as part of the (partial) financing of the policy action to reduce the tax wedge on labour income (the so-called tax shift), through the increase of excise duties on alcohol and tobacco and fees levied on soft drinks.

After having peaked in 2016, the inflation gap between Belgium and the euro area has narrowed considerably in 2017. The effects of the above-mentioned government measures which have temporarily pushed up year-on-year inflation have now faded out. According to NBB estimates, they accounted for respectively 0.6, 1.1 and 0.4 percentage points of headline inflation from 2015 to 2017 (2). Looking ahead, another base effect will exert a downward impact in 2018, as the abolition of the energy contribution in Flanders from January 2018 will curb electricity prices. Assuming no compensating measure, this should have an estimated impact of –0.2 percentage point on total Belgian inflation in 2018.

In view of the long-lasting positive inflation gap between Belgium and the euro area, vigilance is required as the acceleration of inflation in our country tends to enhance the risk of second-round effects in the economy through automatic wage indexation. This is a major challenge for safeguarding the country's competitiveness.

INFLATION GAP BETWEEN BELGIUM AND THE EURO AREA



Source: EC.

(1) http://economie.fgov.be/fr/binaries/Rapport_annuel_2016_prix_observatoire_II_tcm326-282323.pdf
(2) Including the tax shift measures, taxes on electricity in Flanders, higher education tuition fees in Flanders, higher patient fees for medical services, higher charges for waste collection and waste water treatment.

FINANCIAL MARKETS AND INTEREST RATES

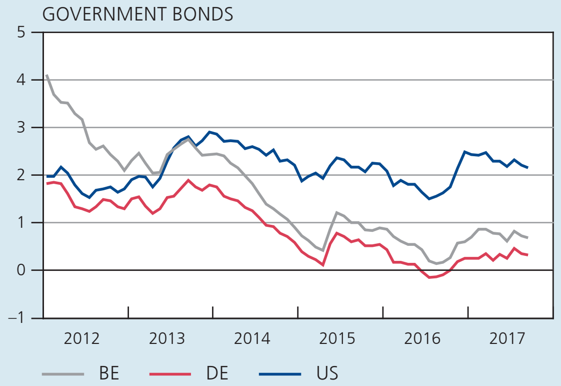
Low volatility and high asset prices on some segments

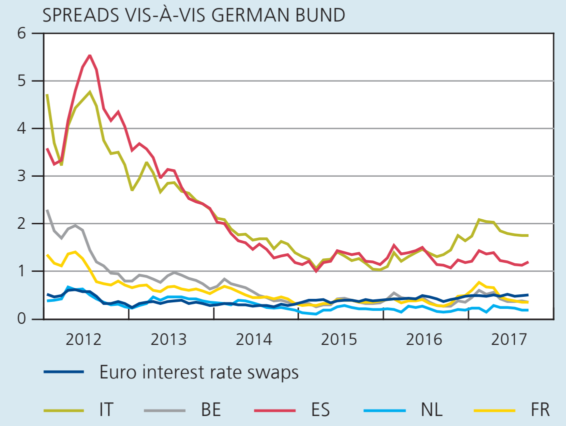
In the context of the continued improvement in the macroeconomic environment and the sustained monetary policy accommodation, financial market volatility has been declining over the last few months and is now low in general across asset types and jurisdictions. At the same time, asset prices have risen to high levels on some markets (notably stock prices in the US compared to the realised profits of listed firms).

Regarding the most recent developments – between June and mid-September 2017 – on the sovereign bond markets, long-term yields remained broadly unchanged in the euro area and the US. In Germany and Belgium, ten-year sovereign yields were up by respectively 7 and 6 bp to reach 0.32% and 0.68% in September. In the US, the ten-year sovereign yield fell back by 3 bp to 2.16%. However, these small changes over the review period as a whole mask more specific developments. In particular, market participants slightly revised their market expectations regarding the future path of monetary policy at the end of June, and yields consequently increased. Subsequently, these increases unwound in July and August, partly on account of geopolitical tensions and less positive macroeconomic news mainly from outside the euro area. Towards the end of the review period, sovereign yields rose again against the background of the ECB's Governing Council and the FED's FOMC meetings in September. The FOMC notably announced that it would initiate in October the balance sheet normalisation programme it had set out back in June.

Over the period under review, long-term euro area sovereign spreads vis-à-vis Germany tended to narrow slightly in general, which can be related to the improvement in the euro area macroeconomic outlook. In Portugal (not shown) in particular, the ten-year spread was down by 30 bp to 241 bp in September, primarily reflecting a more positive fiscal and macroeconomic outlook and more favourable credit ratings. In Belgium, France, the Netherlands and Italy, the ten-year sovereign bond spreads shrank marginally by respectively 1, 6, 5 and 5 bp to stand at 36, 36, 19 and 176 bp. In Spain, the ten-year sovereign bond spread remained unchanged overall at 120 bp, despite a slight increase at the end of the review period against the background of internal political matters.

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





Sources: BIS, Thomson Reuters.
Average over the first 21 days for September 2017.

TREASURY HIGHLIGHTS **Smooth execution of the funding programme during the summer**

Two OLO auctions were held in July and September resulting in a total of € 6.626 billion of funding.

OLO auctions

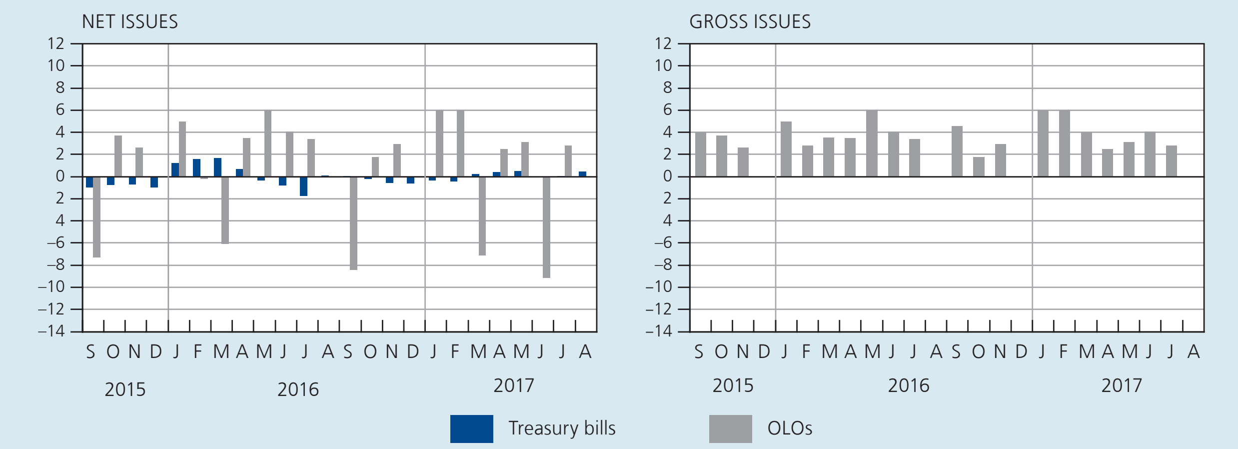
DATE	OLO	NR	ISSUED (€ BILLION)	YIELD	BID-TO-COVER
July 24	OLO 0.20% 22/10/2023	OLO79	0.995	0.126%	1.52
	OLO 0.80% 22/06/2027	OLO81	1.121	0.750%	1.60
	OLO 1.60% 22/06/2047	OLO78	0.685	1.769%	1.73
Non-competitive tour			*0.000*		
Total July			**2.801**		
September 18	OLO 0.50% 22/10/2024	OLO82	1.202	0.254%	1.47
	OLO 0.80% 22/06/2027	OLO81	1.285	0.701%	1.60
	OLO 3.00% 22/06/2034	OLO73	1.015	1.228%	2.14
Non-competitive tour			*0.323*		
Total September			**3.825**		

In total, Treasury issuance has amounted to € 32.334 billion so far, corresponding to 82.4% of its € 39.25 billion funding target for 2017. Belgium has not issued any Euro Medium Term Notes or Schuldscheine this year.

In terms of portfolio structure, the average life of the portfolio is 9.33 years (end of August). The implicit cost of the portfolio has declined further to 2.39%.

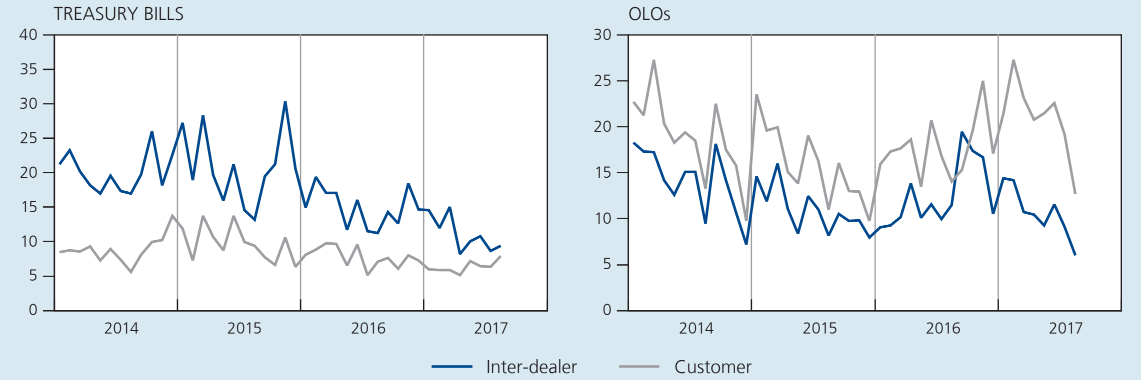
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(billions of euros)



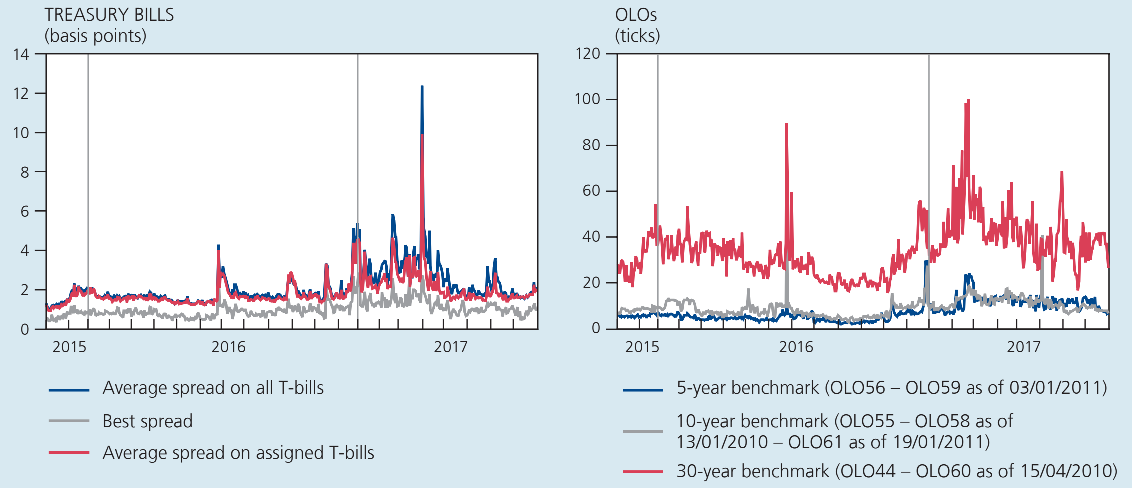
Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER
(as reported by primary and recognised dealers to the Treasury, billions of euros)



Source: Belgian Debt Agency.

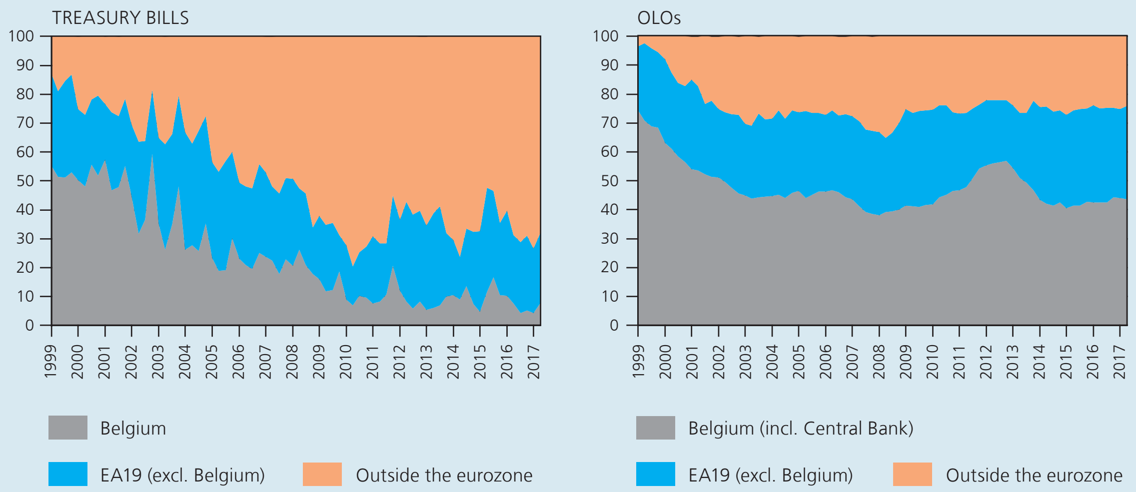
BEST BID/OFFER SPREADS (1)



Source: Belgian Debt Agency.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

HOLDERSHIP BELGIAN SECURITIES

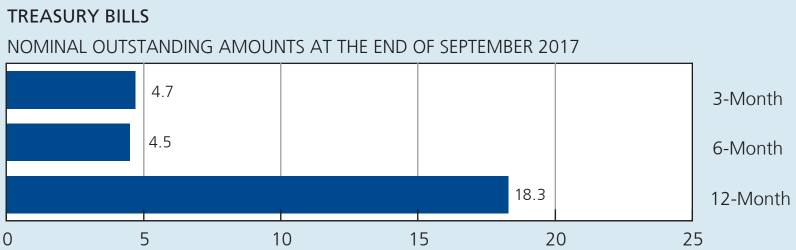
(in %)

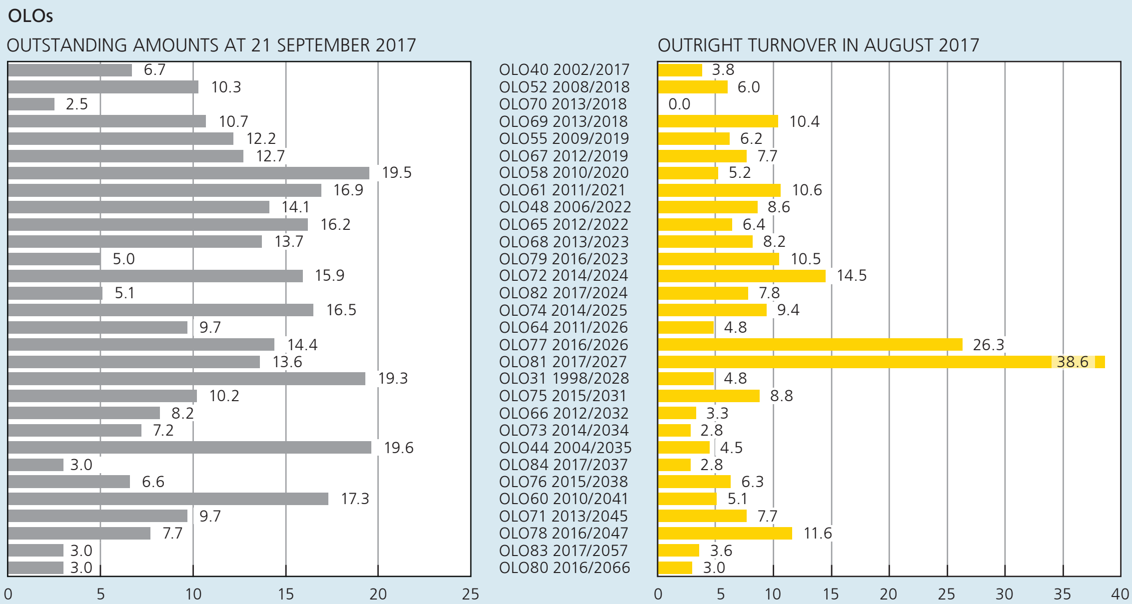


Source: NBB.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euros)





Source: Belgian Debt Agency.

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