Participating Primary and Recognised Dealers:
Barclays, Belfius Bank, BNP Paribas Fortis, Citigroup,
Commerzbank, ING, KBC Bank, Morgan Stanley, Nomura
Internationa Plc., Royal Bank of Scotland, Société Générale
Corporate & Investment Banking

Belgian Prime News

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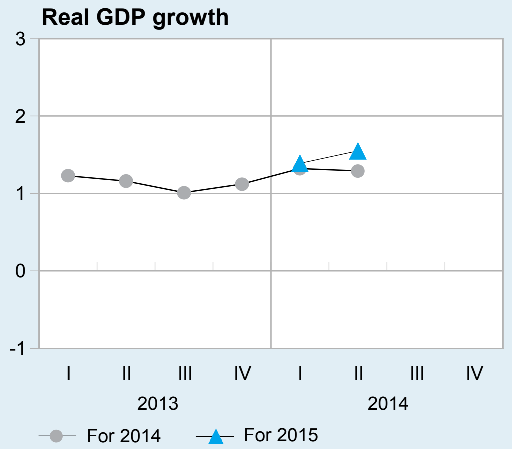
- Like in the euro area, moderate but steady GDP growth is expected to continue in 2014 (1.3 %) and 2015 (1.5 %) in Belgium. HICP annual inflation should remain subdued, at 0.8 % and 1.2 %, respectively.
- On average, the participants expect the general government deficit to decline to 2.0 % of GDP in 2015. This is because most of them include significant additional consolidation measures, which should be decided by the governments to be formed at the federal level and for the Communities and Regions. At unchanged policies, the EC expects the deficit to remain below but close to 3 % of GDP.
- The main Belgian banks completed a process of significant deleveraging between 2008 and 2012. Although the case for additional balance sheet restructuring has strongly receded under the current circumstances, the financial sector needs to further adapt business models to the protracted challenging economic environment and low nominal interest rates (see Special Topic).
- Drawing on favourable market conditions, the Debt Agency's 2014 funding programme has gone smoothly, continuing its strategy of lengthening the portfolio maturity profile (see Treasury Highlights).

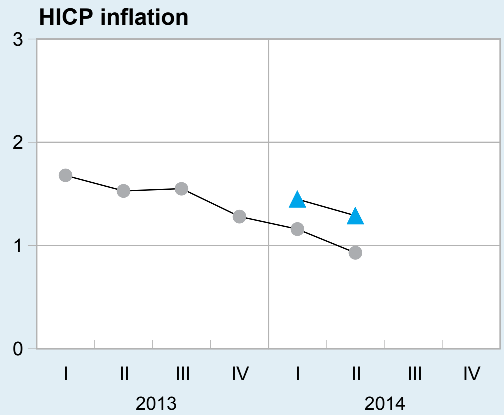
Consensus: Average of participants' forecasts

	2013		2014 p				2015 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	0.2	-0.4	1.3	(1.3)	1.1	(1.1)	1.5	(1.4)	1.5	(1.4)
Inflation (HICP)(1)	1.2	1.3	0.8	(1.2)	0.7	(0.9)	1.2	(1.5)	1.1	(1.2)
General government balance(2)	-2.6	-3.0	-2.4	(-2.5)	-2.6	(-2.6)	-2.0	(-1.8)	-2.2	(-2.3)
p.m. EC forecast at unchanged policies			*-2.6*				*-2.8*			
Public debt(2)	101.2	95.0	101.4	(100.1)	95.4	(96.3)	100.9	(99.3)	95.2	(96.0)

Numbers in parentheses refer to the previous consensus forecast of March 2014.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM





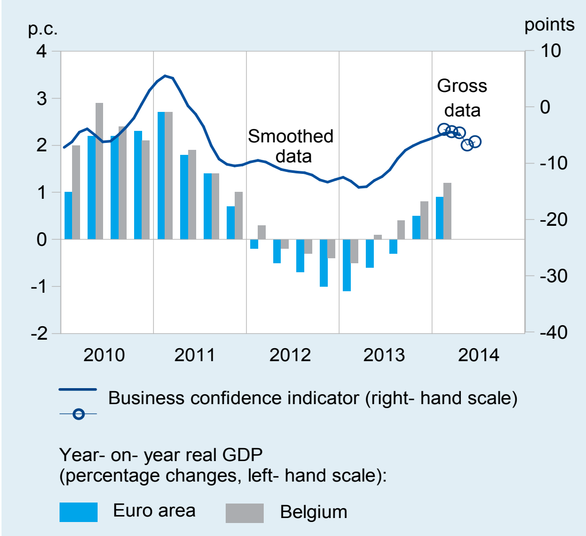
Source: Belgian Prime News.

Macroeconomic developments

As in the euro area as a whole, economic activity in Belgium grew at a moderate pace over the recent period, continuing a trend that began in the second quarter of 2013. In the first quarter of 2014, GDP growth reached 0.4 % quarter-on-quarter and 1.2 % compared to the same quarter of the previous year. The sources of growth broadened further to domestic demand, including business investment. Short-term indicators suggest that this muted growth has continued throughout the spring. Looking through short-term volatility, business indicators and consumer confidence levelled off, at levels close to their historical average. The unemployment rate has remained stable at around 8.5 % over the first four months of 2014.

Like in the euro area, this environment of moderate but steady growth is expected to continue in 2014 and 2015. **On average, the participating institutions expect GDP in Belgium to grow by 1.3 % in 2014 and 1.5 % in 2015.** Thus, as in the recent past, Belgium should continue to slightly outperform the 1.1 % growth expected for the euro area for the current year, while both growth rates should converge in 2015.

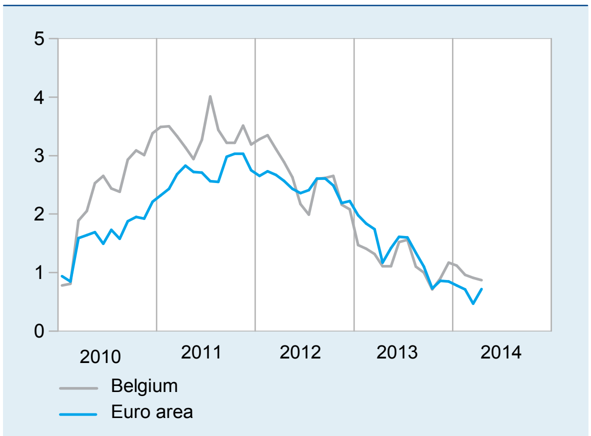
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

In a context of low imported inflationary pressures and continued sluggish economic activity domestically, HICP inflation declined from 1.2 % on average in 2013 to 0.8 % in May 2014. This has helped to contain wage developments, temporarily curbing the effect of automatic index-linking, while the government has imposed a wage freeze in 2013 and 2014, except for wage indexation or pay-scale increases. The decelerating inflation rate may be ascribed to the more volatile components: on the one hand, the contribution of unprocessed food prices shrank significantly on the back of more benign weather conditions than in the previous year, while, on the other hand, retail energy prices declined as a result of lower international prices in euros and the cut in VAT on electricity for households that came into force in April 2014. The underlying trend of inflation, measured as HICP excluding energy and food, hovered around 1.6-1.7 % since the beginning of the year. **The primary dealers expect Belgian HICP annual inflation to be close to the euro area average, reaching 0.8 % in 2014 and rising slightly to 1.2 % in 2015.**

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

In Belgium, the **general government deficit stood at 2.6 % of GDP in 2013.** According to the average of the participants' forecasts, **it is expected to decline to 2.4 % in 2014 and to 2 % in 2015.** It should be noted that these outcomes are the result of most institutions embodying significant additional consolidation measures, in line with the indicative trajectory of the Stability programme submitted a few weeks before the elections of 25 May. **According to the EC forecast based upon unchanged policies, the deficit should remain below the 3 %-of-GDP threshold.** Therefore, the Ecofin Council closed the EDP procedure for Belgium on 20 June. **However, in the absence of additional structural measures, the nominal deficit is not likely to improve further in 2014 and 2015**; additional structural consolidation is thus requested in order to comply with the Six-Pack requirements. The new governments to be formed at the federal level and in the Communities and Regions should rapidly take measures to this end.

Sticking to the stability programme target would also be instrumental in bringing the public debt back onto a sustainable downward trajectory. Under the current circumstances, **the debt ratio is expected to increase slightly from 101.2 % of GDP in 2013 to 101.4 % in 2014, before going down to 100.9 % in 2015.**

TARGETS FOR THE FINANCING REQUIREMENT (-) OR CAPACITY OF BELGIAN GENERAL GOVERNMENT
(percentages of GDP)

		2010	2011	2012	2013	2014	2015	2016	2017
Successive stability programmes									
January 2010	-5.9	**-4.8**	-4.1	-3.0	-2.0	-1.0	0.0		
April 2011		-4.1	**-3.6**	-2.8	-1.8	-0.8	0.2		
April 2012			-3.7	**-2.8**	-2.15	-1.1	0.0		
April 2013				-3.9	**-2.5**	-2.0	-0.5	0.4	
p.m. Ecofin decision June 2013					***-2.7***	*-2.1*			
April 2014						-2.1	-1.4	-0.4	0.6
p.m. Actual figures	*-5.6*	*-3.8*	*-3.8*	*-4.1*	*-2.6*	*-2.4**	*-2.0**		
p.m. EC forecast at unchanged policies						*-2.6*	*-2.8*		

Sources: EC, FPS Finance, NAI, NBB.
* BPN Consensus forecast.

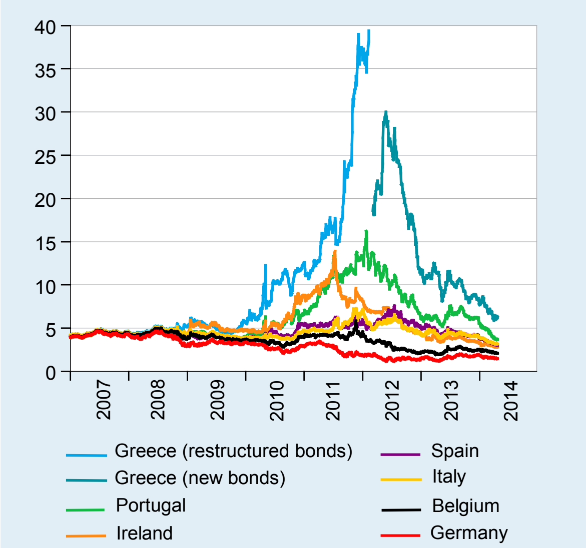
Special Topic: Monitoring vulnerabilities and enhancing regulations for a more resilient financial sector: main takeaways from the NBB 2014 Financial Stability Review

The recent crisis has shown how harmful global systemic vulnerabilities can be for the financial system and for the economy as a whole. Analysing thoroughly the resilience of the financial sector and empowering authorities to implement corrective measures, if necessary, is essential to detect and mitigate possible risks. The Financial Stability Review recently published by the NBB sums up the main developments for banks and insurance companies in Belgium in the past year.

Operating environment

Over the last 12 months, global financial markets have improved further. In the euro area, economic growth started to recover after a protracted recession lasting six quarters and important steps were taken to complete the European Monetary Union (EMU). On the banking supervision front, the single supervisory mechanism (SSM) was established, under which the European Central Bank will exercise direct supervision over the 130 or so largest banking groups in the euro area as from November 2014. Euro area banks have continued to face market scepticism over the quality of their balance sheets, amidst high and rising non-performing loan ratios in a number of countries. To restore market confidence and prepare for its upcoming supervisory function, the ECB has therefore launched a comprehensive assessment of the euro area's banking system.

TEN-YEAR GOVERNMENT BOND YIELDS IN THE EURO AREA
(daily data, in %)



Source: Thomson Reuters Datastream.

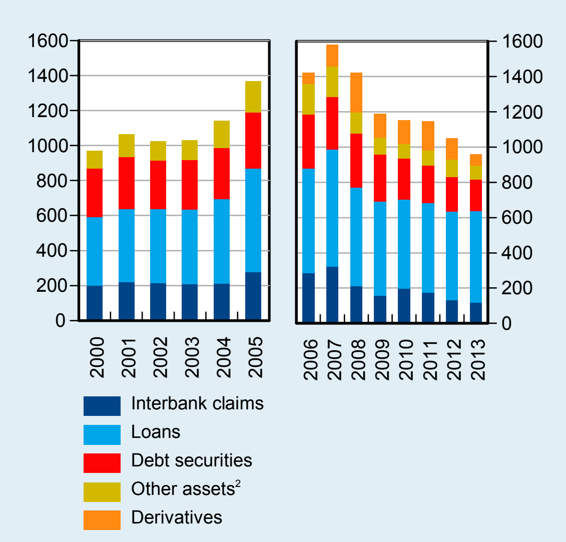
The institutional steps towards completing the EMU contributed to a further decline in sovereign bond spreads in the euro area, allowing yields in several peripheral euro area countries to catch up with bond yields in core euro area countries, which had already dropped to historically low levels during the period under review. At the same time, the ECB provided further support for the adjustment processes in the euro area countries through a continuously accommodative monetary policy stance. A long period of very low interest rates could imply risks for financial stability if it were to lay the basis for new unsustainable credit developments or asset price bubbles. Low interest rates also affect the profitability of financial institutions and weaken the incentives for debt reduction. So far, signs of excessive credit developments in response to the exceptionally low rates are not pervasive in the euro area countries, as many national banking sectors are still in deleveraging mode and lending to non-financial sectors remains moderate. The search for yield is mostly evident in rising financial asset prices and – in some countries – upward pressure on residential and/or commercial property prices.

In Belgium, the growth of bank loans to households and non-financial corporations has slowed down further in the period under review. Yet, in the case of loans to Belgian households, this follows a period of strong growth of bank lending, driven by mortgage loans, which has pushed the gross debt ratio of Belgian households up to 57.8 % of GDP. In spite of the recent tightening of some credit standards for new mortgage loan production, a sizeable group of borrowers in recent years may have stretched their mortgage maturities, loan sizes and/or debt service ratios to levels that could entail a higher risk of future credit losses for banks than in the past. In view of the relatively large share of domestic mortgage loans on Belgian credit institutions' balance sheets, the Bank considered it justified to take some prudential measures aimed at strengthening the banks' resilience and reducing the concentration risk. These measures consist mainly in an add-on of 5 percentage points to regulatory risk weights for Belgian mortgage loans for banks using an internal risk model to calculate their capital minimum capital requirements for this portfolio.

Banking sector

In spite of the still challenging operating environment, the Belgian banking sector managed to improve its profitability in 2013, with a rise in the return on equity to 5.9 %, up from 3.0 % in 2012. The main factor behind the improved profitability was the increase in non-interest income, thanks to the strong performance of financial markets. Net interest income, which is the principal source of operating income, declined for a second consecutive year. Many banks have initiated cost-saving programmes aimed at a better alignment of cost structures to their new business models and the challenging operating environment. During the period under review, the banking sector's balance sheet total contracted again, declining from € 1 049 billion at the end of 2012 to € 961 billion at the end of 2013. As in 2012, this resulted mainly from a drop in the volume of derivatives (measured at market value) on both the assets and liabilities side. Apart from this, the composition of assets or liabilities did not change significantly during the period under review. The regulatory liquidity and solvency ratios thus also remained well above minimum regulatory requirements, with a liquidity stress test ratio of 76 % and a Tier I capital ratio of 16.4 %.

BELGIAN BANKS: BREAKDOWN OF ASSETS BY PRODUCT

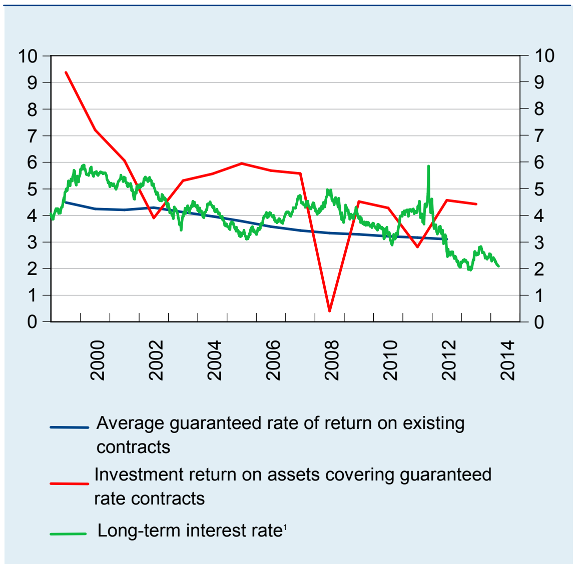


Source: NBB.
[1] Data compiled in accordance with the Belgian accounting rules until 2005 (Belgian GAAP) and IAS / IFRS from 2006.
[2] Derivatives are recorded at their market value including from 2007, income receivable and expenses payable.

Insurance sector

In 2013, the Belgian insurance sector recorded a net profit of € 1.4 billion, down from € 2.4 billion in 2013. The decline in profitability resulted from developments in life insurance and in the non-technical result. The technical result on non-life insurance rose, on the back of a further increase in non-life insurance premiums and a stabilisation of the combined ratio around 100 %. Life insurance premiums, in contrast, declined very strongly last year, as a result of the low interest rate environment and the increase, as of 1 January 2013, in the tax on new life insurance premiums from 1.1 % to 2 %. A persistence of the low interest environment could weigh structurally on new volumes of life insurance products that Belgian insurance companies will be able to sell, and eventually on their profitability if cost structures are not adapted to the reduced business volume. There is also still a large stock of life insurance policies that offer guaranteed rates of return to policy-holders, an important risk parameter when interest rates on risk-free investment fall to very low levels. At the end of 2012, the average guaranteed rate of return on life insurance contracts with a minimum guaranteed rate of return amounted to 3.12 %, down from 4.5 % at the end of 1999.

LIFE INSURANCE: RATE OF RETURN ON GUARANTEED RATE CONTRACTS



Sources: Thomson Reuters Datastream, NBB.
[1] Yield on the secondary market in ten-year Belgian government loans (OLO's).

Special Topic: continued

Further building blocks for a resilient financial sector

Building blocks for a resilient financial sector combine appropriate institutions, effective regulations and action, as well as sound behaviour by financial institutions themselves. In April 2014, the National Bank of Belgium was given a macroprudential policy mandate. As part of its wider mission of contributing to the stability of the financial system, it will from now on be responsible for the detection, monitoring and follow-up of the emergence of systemic risks, and for taking policy action when deemed appropriate. After the major restructuring effort triggered by the financial crisis, banks and insurance companies' business models should be further adjusted, in order to improve their readiness to deal with the challenges coming from the operating environment as well as the (forthcoming) stricter regulatory requirements in several important areas. In that respect, the Banking Law of 25 April 2014 ensures the transposition of the Capital Requirements Directive (CRD IV) into Belgian law. It also anticipates certain aspects of the EU Directive on the recovery and resolution of credit institutions and provides for structural reforms designed to contain risk-taking by banks through trading activities.

The Financial Stability Review is available at NBB: Financial Stability Review 2014.

Treasury highlights

After having conducted two syndicated transactions, a 10-year and a 20-year one for an amount of € 5 billion each, and an auction during the first quarter, the Treasury continued its funding programme in the second quarter and held three OLO auctions, respectively in the months of April, May and June.

The April auction saw three lines offered. The results were:

- OLO 3.00% 28/09/2019 (OLO 67): issued € 630 million - average yield 1.026% - bid-to-cover 2.380
- OLO 2.60% 22/06/2024 (OLO 72): issued € 1 090 million - average yield 2.119% - bid-to-cover ratio 1.570
- OLO 5.00% 28/03/2035 (OLO 44): issued € 745 million - average yield 2.884% - bid-to-cover ratio 1.790

In the May auction, only two lines were offered. The results were:

- OLO 3.00% 28/09/2019 (OLO 67): issued € 765 million - average yield 0.854% - bid-to-cover ratio 1.660
- OLO 2.60% 22/06/2024 (OLO 72): issued € 1 225 million - average yield 1.919% - bid-to-cover ratio 1.540

The June auction saw three lines offered. The results were:

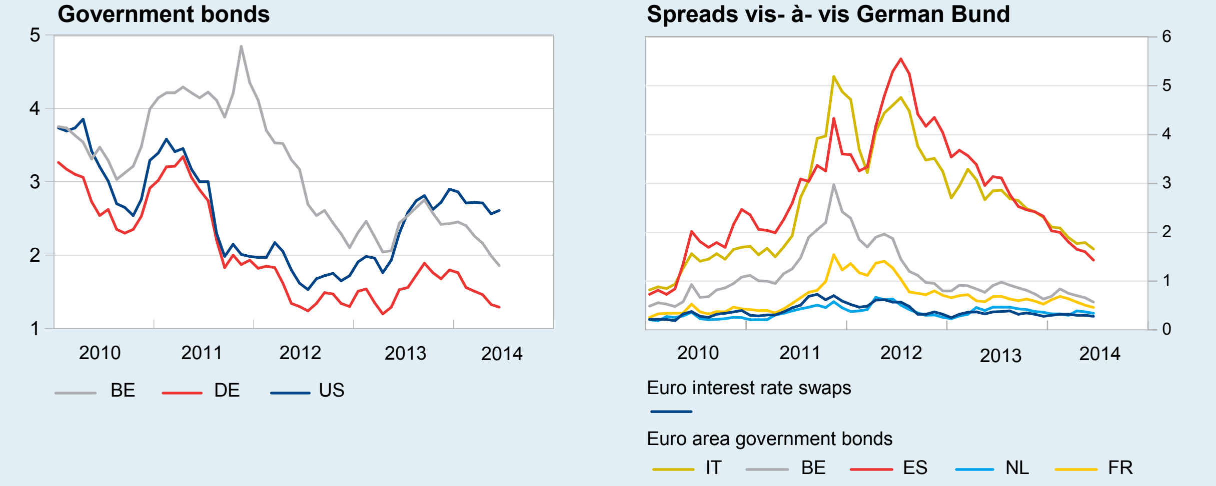
- OLO 2.60% 22/06/2024 (OLO 72): issued € 1 048 million - average yield 1.783% - bid-to-cover 1.770
- OLO 5.50% 28/03/2028 (OLO 31): issued € 547 million - average yield 2.214% - bid-to-cover ratio 2.110
- OLO 3.75% 22/06/2045 (OLO 71): issued € 715 million - average yield 2.905% - bid-to-cover ratio 2.500

Taking into account the issuance under the EMTN programme, the Treasury had issued € 22.81 billion on 23 June, i.e. 68.1 % of its € 33.5 billion market funding programme for 2014. Historically low interest rates were locked in, thus lowering the average financial cost of the debt.

As in former years, issuance was concentrated in maturities of 5 years and longer so as to continue the strategy of lengthening the maturity profile of the portfolio. The average life of the portfolio is now 7.69 years and has an implicit yield (yield at issuance) of 3.37 %. The 12-month refinancing risk stands now at 15.85%, below the lowest point reached in the mid-2000s.

Government securities market

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

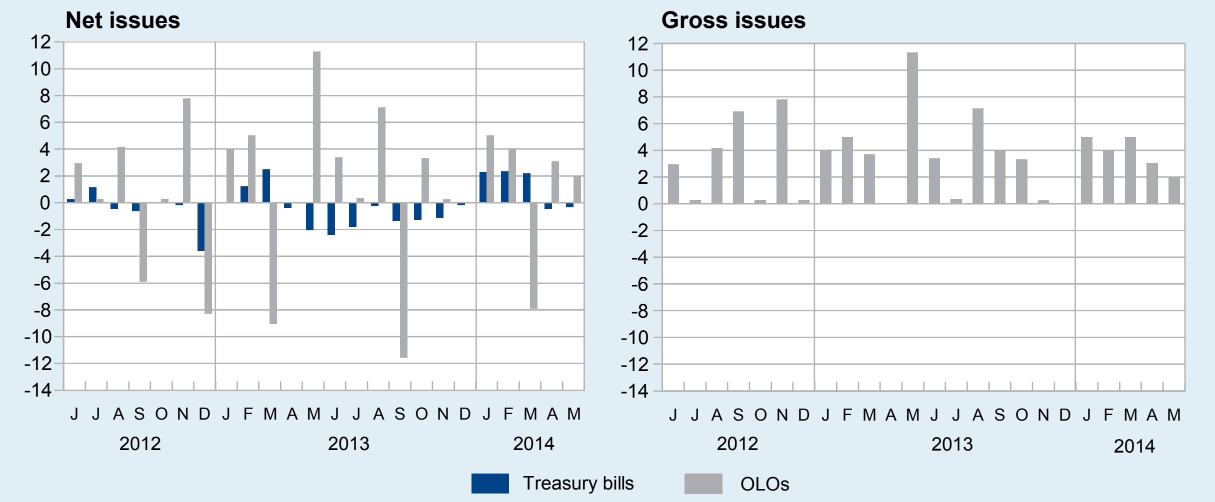


Sources: BIS, Datastream.
[1] Average over the first 19 days for June 2014.

Between March and mid-June 2014, long-term sovereign bond yields declined in the euro area and the US. The decrease has been much more pronounced in the euro area, with German yields in particular falling by 22 bp to 1.29 %, while US yields were down by 11 bp to 2.61 %. The decline in the euro area mainly reflected the ECB's monetary policy announcements and the impact of mixed economic data releases. Evolving concerns about geopolitical risks accounted for some ups and downs as well. Yields in the US were mainly driven by somewhat less negative American economic data releases and the additional tapering decided upon by the FOMC. Regarding Belgium, although yields increased slightly during the week preceding the 25 May elections, they came down by 39 bp over the review period to reach a historically low yield of 1.87 %.

Spreads on long-term yields relative to the Bund continued to contract for most euro area countries. The Italian and Spanish spreads, which reacted strongly to the ECB announcements, shrank by 23 and 37 bp respectively over the review period to reach 166 and 143 bp. The Belgian spread narrowed as well and came to 58 bp in June, only 12 bp higher than the French spread. Spreads in general declined thanks to returning confidence and stable expectations on bond markets. Implied bond market volatility, in particular, remained broadly stable in the euro area.

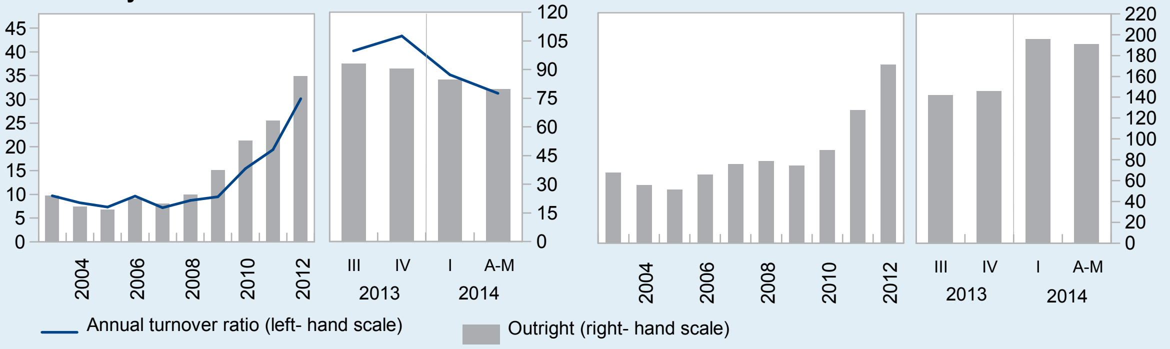
PRIMARY MARKET
(billions of euros)



SECONDARY MARKET TURNOVER

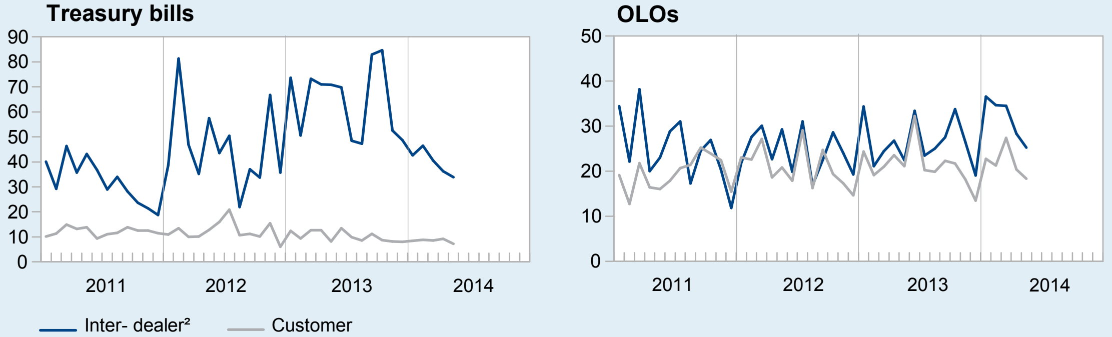
As compiled by the Securities Regulation Fund[1]

(billions of euros unless otherwise stated, monthly averages)



As reported by primary and recognised dealers to the Treasury

(billions of euros)



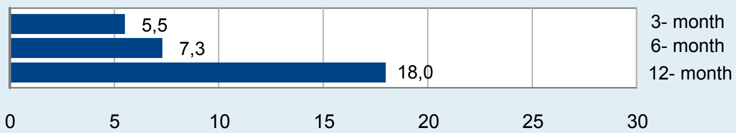
[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy- back transactions which are in fact repurchase agreements.
[2] Please note that inter- dealer turnover is double- counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euros)

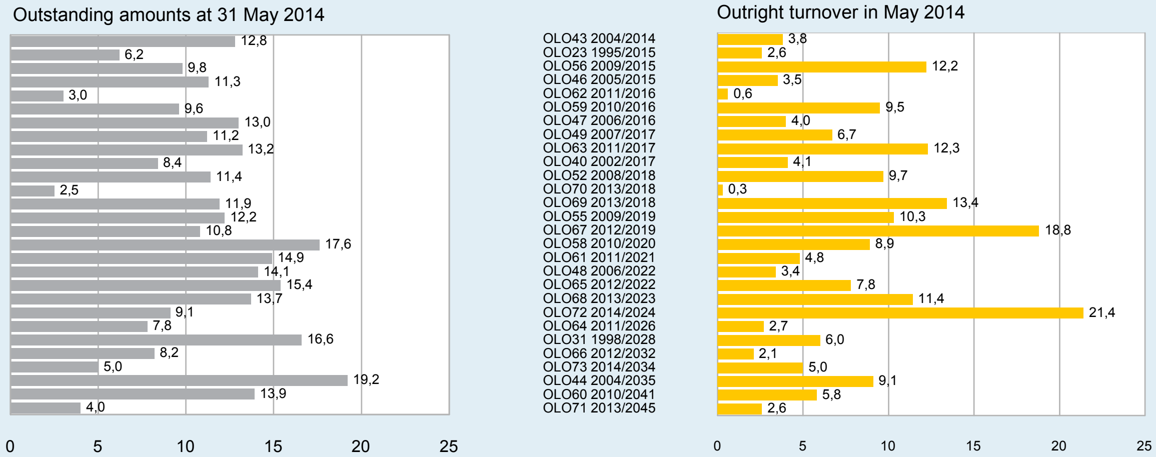
TREASURY BILLS

Nominal outstanding amounts at 31 May 2014



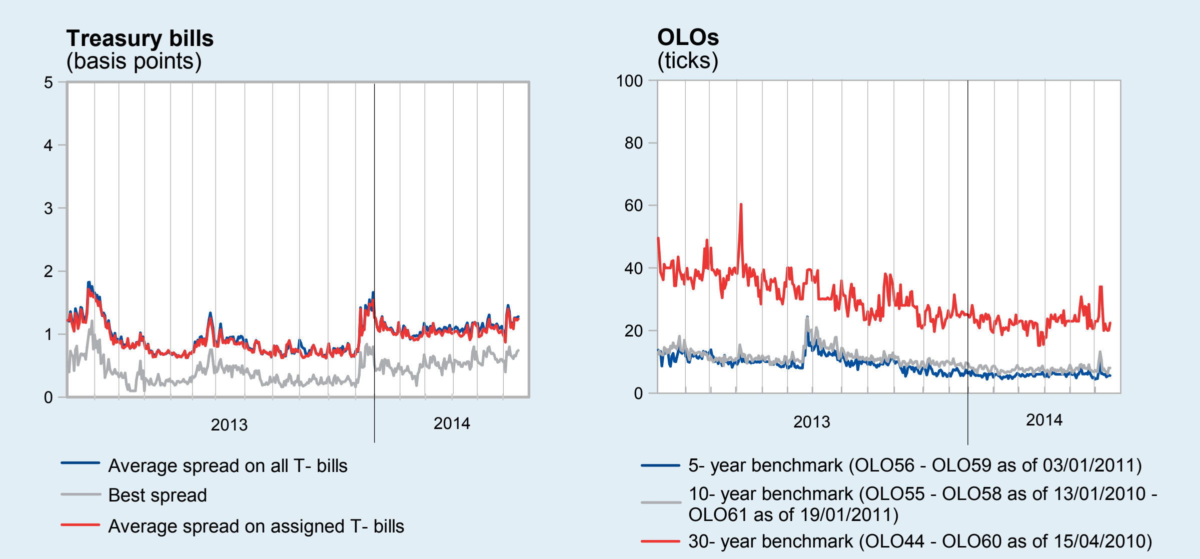
OLOs

Outstanding amounts at 31 May 2014 | Outright turnover in May 2014



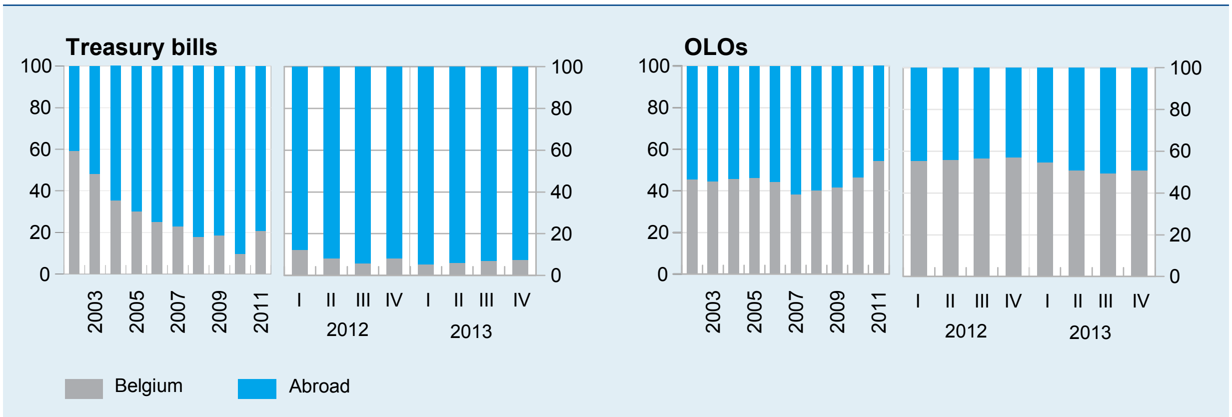
Source: Securities Regulation Fund.
[1] The turnover figures include sell/buy- back transactions which are in fact repurchase agreements.

BEST BID/OFFER SPREADS[1]



Source: Treasury.
[1] As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

LOCATION OF HOLDERS
(percentages of total)



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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.