BELGIAN DEBT AGENCY

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

NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

QUARTERLY PUBLICATION

No. 65 September 2014

Last update: 30 September 2014

Next issue: January 2015

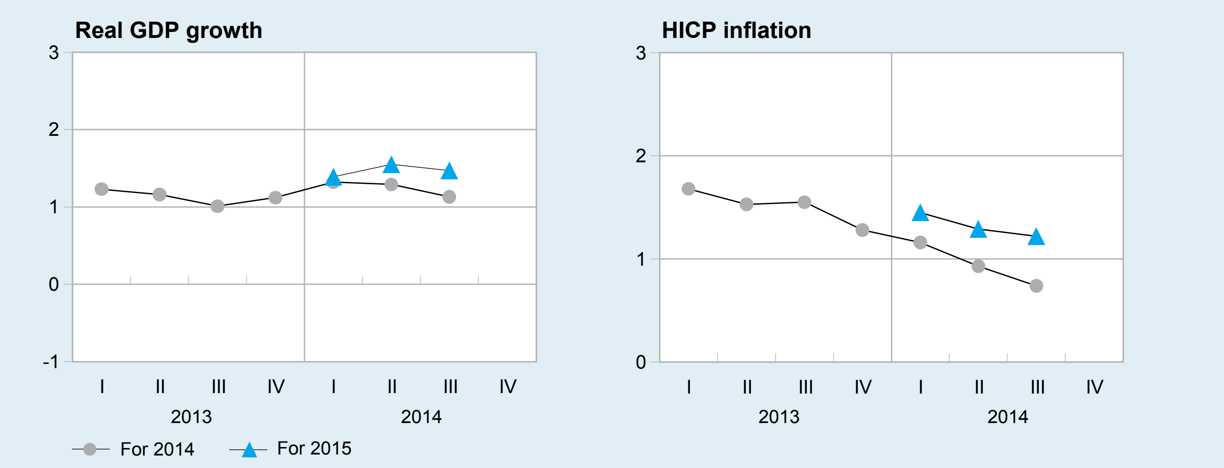
- Like in the euro area, economic activity developments and inflation in Belgium were running at decelerating to low, but still positive rates during the summer.
- On average, the participating institutions expect GDP growth to reach a muted 1.1 % in 2014 and 1.5 % in 2015 (1.5 %). HICP annual inflation should remain subdued, at 0.8 % and 1.2 %, respectively.
- On 30 September, the NAI published key statistics compiled according to new standards, including the new ESA 2010. The level of GDP has been revised upwards by some 3 % ppt. The public debt/GDP ratio is higher by some 3.3 ppt., to 104.5 % of GDP in 2013 on the back of the wider perimeter of public entities, mainly for the Regions and Communities. However, the trends for GDP and public debt were only marginally affected (see Special Topic).
- Benefiting further from favourable market conditions, the Debt Agency's 2014 funding programme has gone smoothly (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	1.1	(1.3)	0.9	(1.1)	1.5	(1.5)	1.3	(1.5)
Inflation (HICP)(1)	1.2	1.3	0.8	(0.8)	0.6	(0.7)	1.2	(1.2)	1.0	(1.1)
General government balance(2)	-2.6	-3.0	-2.5	(-2.4)	-2.6	(-2.6)	-2.3	(-2.0)	-2.2	(-2.2)
p.m. EC forecast at unchanged policies			*-2.6*				*-2.8*			
Public debt(2)	101.2	95.0	101.5	(101.4)	95.4	(95.4)	101.1	(100.9)	95.5	(95.2)

Note: The forecasts were finalized before the publication of revised national accounts statistics.
Numbers in parentheses refer to the previous consensus forecast of June 2014.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



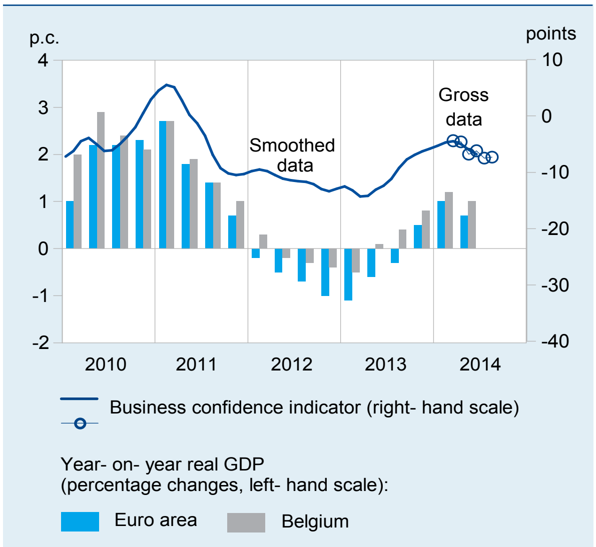
Source: Belgian Prime News.

Macroeconomic developments

In Belgium, as in the euro area, both GDP growth and inflation decelerated further during the spring and summer of 2014. Indeed, short-term indicators point to a soft patch, after one year of muted improvement in economic activity. In the second quarter of 2014, GDP growth fell to a mere 0.1 % quarter-on-quarter and to 1 % compared to the same quarter of the previous year. Although private domestic demand remained on a positive growth path, business indicators and consumer confidence deteriorated, on the back of renewed uncertainties.

Against this backdrop, **the participating institutions have revised GDP growth forecast for Belgium to by 0.2 of a percentage point to 1.1 % in 2014, while keeping it unchanged at 1.5 % in 2015**. Hence, Belgium is expected to continue to slightly outperform the euro area, by 0.2 of a percentage point each year. This baseline is considered fragile, both for Belgium and for the euro area as a whole, in a context of heightened geopolitical tensions and limited traction stemming from the significant easing of financial conditions.

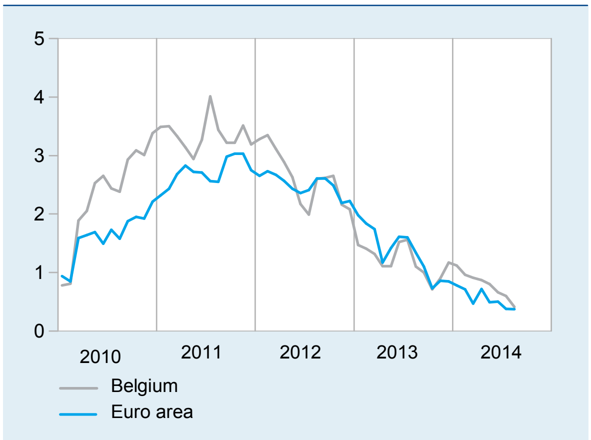
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HICP inflation declined from 1.2 % on average in 2013 to 0.4 % in August 2014. This has helped to contain wage developments, temporarily curbing the effect of automatic index-linking. 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 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 applied since April 2014. The underlying trend in inflation, measured as HICP excluding energy and food, decelerated slightly to 1.5 % over the last few months. **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.

The forecasts for general government and public debt were established before the recent release of revised accounts up to 2013 by the NAI (see Special Topic). The official figures available at the time of the forecast showed the **general government deficit at 2.6 % of GDP in 2013**. According to the average of the participants' forecast, **it is expected to decline slightly to 2.5 % in 2014 and to 2.3 % in 2015.** It should be noted that, however limited it is, this decline is already the result of most institutions taking on additional consolidation measures, based on their expectations of the efforts to be made by the next federal government as well as by the already installed governments for the Regions and Communities. Currently, with no change in policy, the rate of increase of public expenditure tends to exceed nominal GDP growth, due to the increasing burden of population ageing among other things.

Fiscal consolidation should be instrumental in bringing the public debt back onto a sustainable downward trajectory and help strengthen the buffers to cope with more adverse business developments. Based on the previous data, **the debt ratio is expected to increase slightly from 101.2 % of GDP in 2013 to 101.5 % in 2014, before going down to 101.1 % in 2015**. As explained in the next section, the public-debt-to-GDP ratio was revised upwards by some 3 % on average over the period 2010-2013 in the recently released statistics.

Special Topic: Revised reference statistics, for a sharper picture of the economy

Relevant, timely and harmonised statistics are key to guiding economic agents' decisions and policy-making. Governments and monetary authorities in particular, but also socio-economic operators and the media in general rely extensively on national accounts or balance of payments statistics. But major changes that have affected the structure and functioning of economies over the last twenty years require adjustments in the way in which macroeconomic statistics are compiled. However, their impact on the figures need to be carefully assessed to avoid misinterpretations.

On 30 September 2014, the National Accounts Institute (NAI) published detailed national accounts and public finance statistics for Belgium for the period 1995-2013. Compared to previous vintages, the revisions are significant and larger than usual. They stem from three main causes:

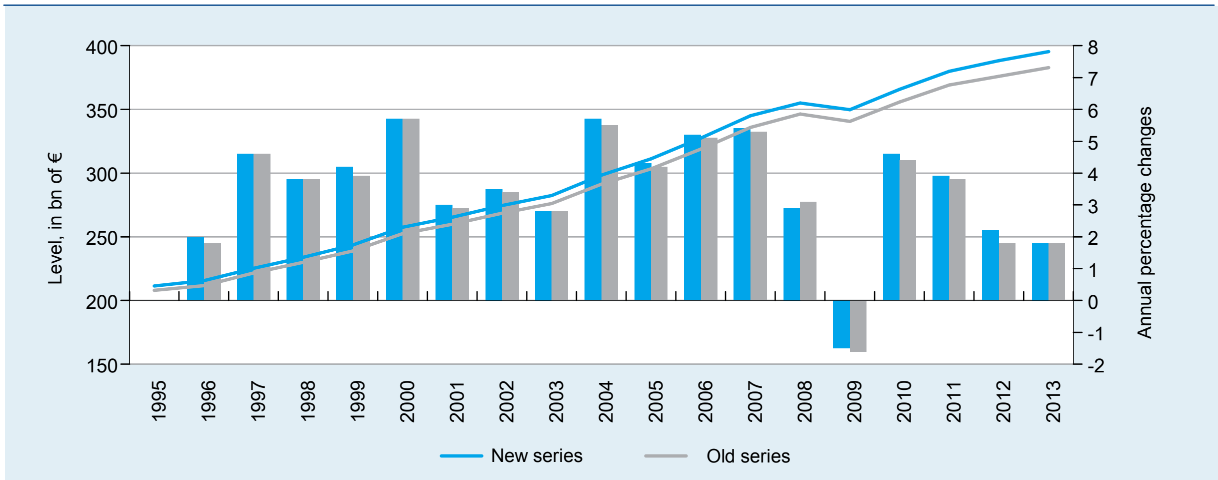
- The compilation of statistics according to new internationally-defined methodology and standards, in this case the new European System of National and Regional Accounts (ESA 2010);
- Occasional revisions, stemming from the use of new sources of data or improved methodology to measure economic variables;
- Regular revisions, as a result of more exhaustive data availability compared to previous estimates.

This Special Topic will be limited to a short discussion of the impact of these revisions on three important variables for fiscal policy assessment, especially under the EDP framework, namely GDP, on the one hand, and public sector debt and deficits, on the other hand. More detailed explanations covering the full set of affected variables is available on the NBB website.

GDP level revised upwards by about 3 %

The main reason for this upward revision lies in the new treatment for research and development expenditure under the ESA 2010 Regulation. Since intangible assets are an important factor for the production of goods and services in a knowledge-based economy, R & D inputs acquired in the market or produced in-house are now considered as investment, instead of intermediary consumption. Consequently, the level of (business) investment and firm's gross operating surplus is revised upwards.

GDP at current prices



Source: NAI.

Other changes in the ESA 2010 methodology also have an impact which, on balance, is positive but small. While there is a systematic revision in terms of level, trends and business cycle dynamics are only marginally affected.

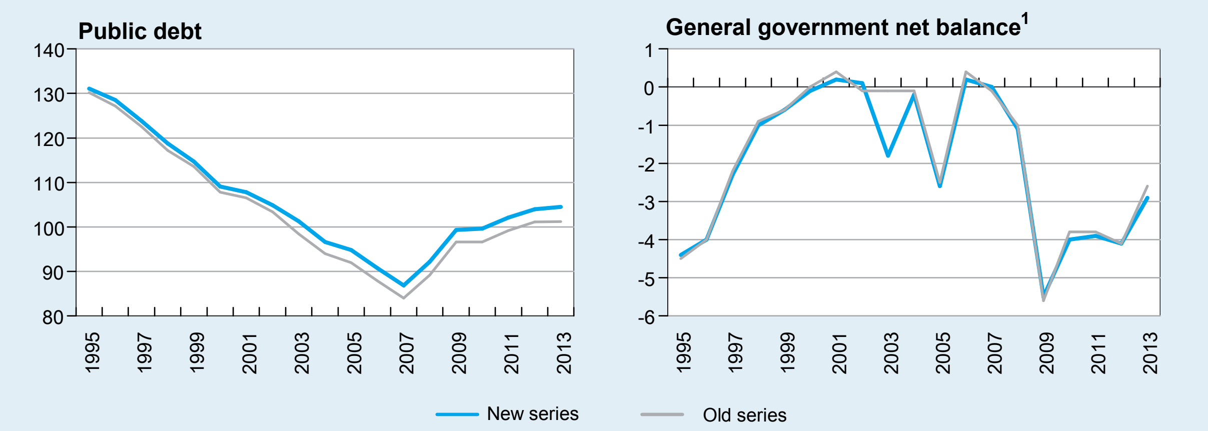
2013: Public debt higher by 3.3 % points of GDP, General government net balance lower by 0.3 % point

A higher GDP level contributed mechanically to pushing down the public-debt-to-GDP ratio. However, this effect has been more than offset by a stronger upward revision of the nominal debt figure for the general government sector as a whole, by € 26.1 billion for the year 2013. As a result, the public-debt-to-GDP ratio was revised upwards by about 3 % of GDP over the period 2010-2013.

Special Topic: continued

This upward revision stems from greater efforts to identify the entities belonging to this sector. In particular, with ESA 2010, the criteria for classification of companies or organisations which are owned or subsidised by the authorities – federal, Regions or Communities, or at the local level – depart from the purely quantitative calculation of a 50 % revenue-to-cost-coverage ratio for NFC, or the risk exposure for own account for financial institutions, to a more qualitative approach. They look at the entity's economic motivation, its independence in undertaking a profit-making activity and the ability to pay its debts without government support. For this purpose, the data were also collected on a more comprehensive and more detailed basis, with the help of the Regions and Communities. The incorporation of the entities for social housing owned by the regional and local authorities explains the largest part of the revision, while the federal Treasury debt remains virtually unchanged

PUBLIC FINANCES
(% of GDP



Source: NAI.
[1] The downwards revision in 2003 is related to the new statistical treatment of the transfer to the Belgian State of Belgacom pensions' liabilities (€ 5 billion): according to ESA 2010, its (positive) impact on the deficit has to be spread over time, reflecting the effective pension related payments, instead of being recorded at once.

The new perimeter for the general government sector also affects the calculation of the public sector balance. In addition, some accounting rules have been modified, especially for the public-private partnerships established for financing some infrastructure investment. Considered together, all these changes reduced the General government net balance by some 0.2 % on average between 2010 and 2013.

The same economic reality, measured in a slightly different way

All in all, the statistical changes introduced with the new international methodology and the use of more comprehensive data in Belgium move the level of some of the most important variables for economic analysis and policy. However, they only marginally affect the dynamic of the variables.

Based on the information available so far, it appears that the revisions for Belgium are in line with those observed in the neighbouring countries, except for the upward revision of the public debt where the change in perimeter had a more pervasive effect.

DATA REVISION IN BELGIUM AND IN THE NEIGHBOURING COUNTRIES
(2010, changes in percentage points GDP, unless otherwise stated)

	BE	DE	FR	NL
GDP level	+2.8	+3.3	+3.2	+7.6
Of which: ESA 2010	+2.5	+2.7	+2.4	+3.0
General government balance	-0.1	+0.2	-0.3	-0.1
p.m. level (% of GDP)	*-4.0*	*-4.0*	*-6.8*	*-5.0*
Public debt	+2.9	n.	-1.5	-4.4
p.m. level (% of GDP)	*99.6*	*n.*	*80.8*	*59.0*

Sources: NAI and neighbouring countries' national statistical offices.

A broader analysis of the impact of the new statistical standards will only be possible when more data are made available by the statistical offices in Europe and by Eurostat. Other changes may be expected over the coming weeks. An example is the measurement of the non-financial private sector debt – a variable included in the Scoreboard used in the EU macroeconomic imbalance procedure (MIP) – which will be affected by the typology introduced under the ESA 2010 for special purpose entities involved in financial operations for a group of related companies. At this stage, it not possible to foresee their likely impact.

Treasury highlights

In the course of the third quarter, the Treasury held two OLO auctions, one on 22 July and one on 22 September. As previously announced in the funding plan, no auction was held in August

Two OLO lines were offered in the July auction:

- OLO 2.60 % 22/06/2024 (OLO 72): € 1.082 billion – average yield 1.547 % – bid-to-cover 1.70
- OLO 4.50 % 28/03/2026 (OLO 64): € 0.923 billion – average yield 1.772 % – bid-to-cover 3.41

During the non-competitive round, a further € 433 million was added, bringing the total amount issued to € 2.438 billion.

Two OLO lines were offered in the September auction:

- OLO 2.60 % 22/06/2024 (OLO72): € 1.116 billion – average yield 1.284 % – bid-to-cover 1.54
- OLO 3.00 % 22/06/2034 (OLO73): € 0.890 billion – average yield 2.214 % – bid-to-cover 2.61

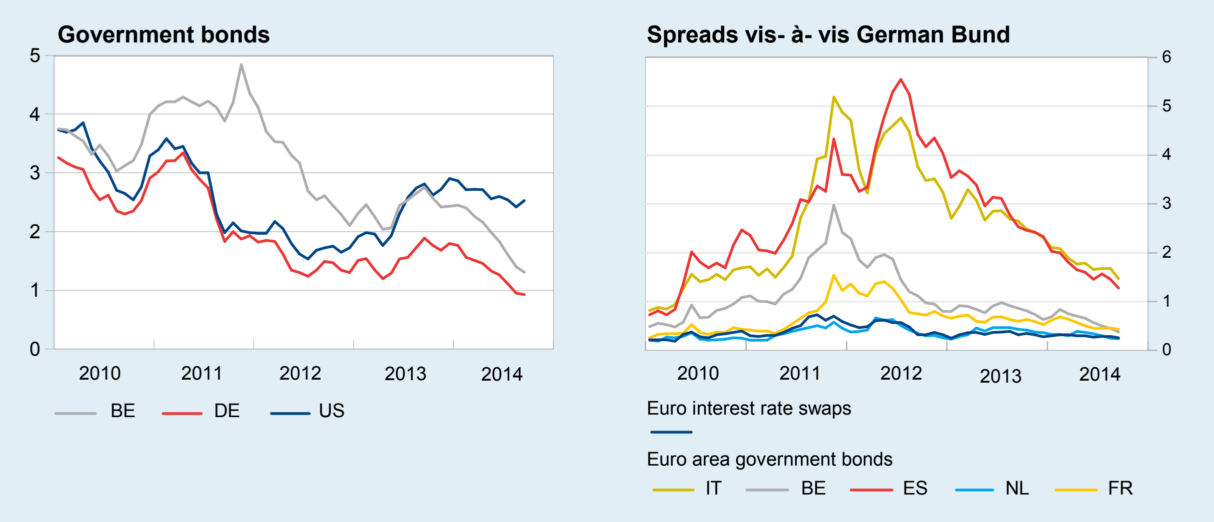
During the non-competitive round, a further € 713 million was added, bringing the total amount issued to € 2.719 billion.

In addition, three foreign currency EMTN private placements in June, July and September resulted in a total issuance of € 2.236 billion in 2014 for the EMTN/Schuldscheine programmes. However, issuance of State Notes for private retail investors has only totalled € 39.2 million so far.

Belgium has therefore already issued **€ 29.55 billion**, which corresponds to 88.2 % of its € 33.50 billion funding target. The average maturity of the capital market issues comes to a record number of 14.34 years in 2014, bringing the average life of the portfolio up to 7.71 years.

Government securities market

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

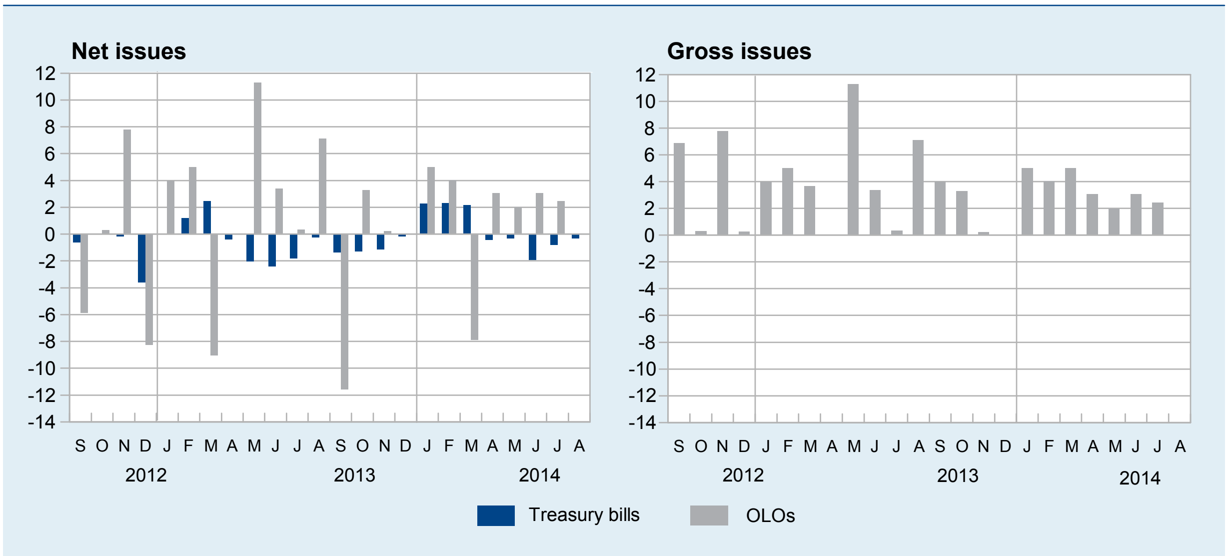


Sources: BIS, Datastream.
[1] Average over the first 19 days for September 2014.

While long-term sovereign bond yields in the US were relatively stable between June and mid-September 2014, sovereign yields continued to decline substantially in the euro area. The continued drop in sovereign yields since the end of 2013 has resulted in historical lows for the sovereign yields in many of the euro area Member States. In particular, 10-year sovereign yields in Germany and Belgium respectively reached 0.93 % (-33 bp over the period under review) and 1.31 % (-52 bp). The developments in the euro area have mainly been driven by the escalation of geopolitical tensions, the announcement of additional monetary policy measures by the ECB in early September, and somewhat mixed economic data releases (especially weak inflation figures). In the US, long-term sovereign yields came down to 2.42 % in August but bounced back to 2.53 % in September (-0.07 bp). They were driven by better economic data releases than in the euro area, as well as the outcome of the FOMC meeting in September including further tapering of securities purchases and the release of revised expectations regarding a faster hike in the federal funds rate.

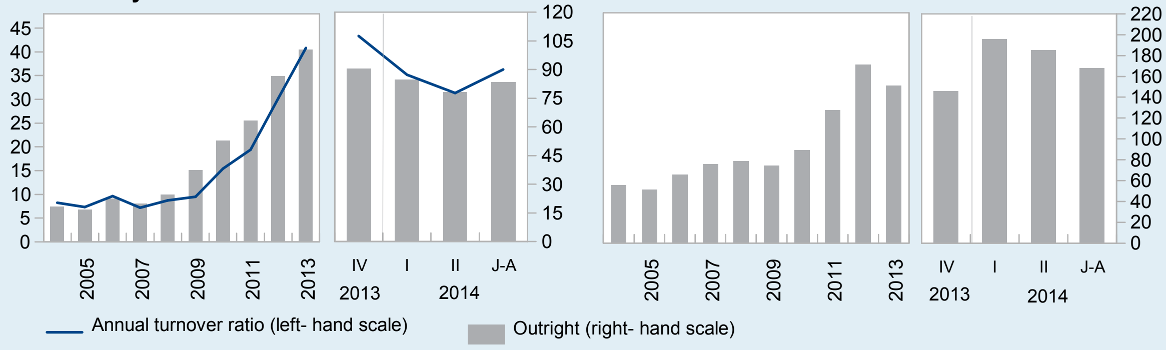
Yield spreads vis-à-vis the German Bund continued to narrow for most euro area Member States. From June to September, the Italian and Spanish spreads shrank by respectively 19 and 18 bp to reach 147 and 128 bp. The Belgian spread declined by 19 bp to 38 bp and fell just below the French spread (43 bp) for the first time since the beginning of the crisis. Spreads in the euro area fell in an environment characterised by low bond market uncertainty, as attested by the low and relatively stable level of implied volatility extracted from bond options.

PRIMARY MARKET
(billions of euros)

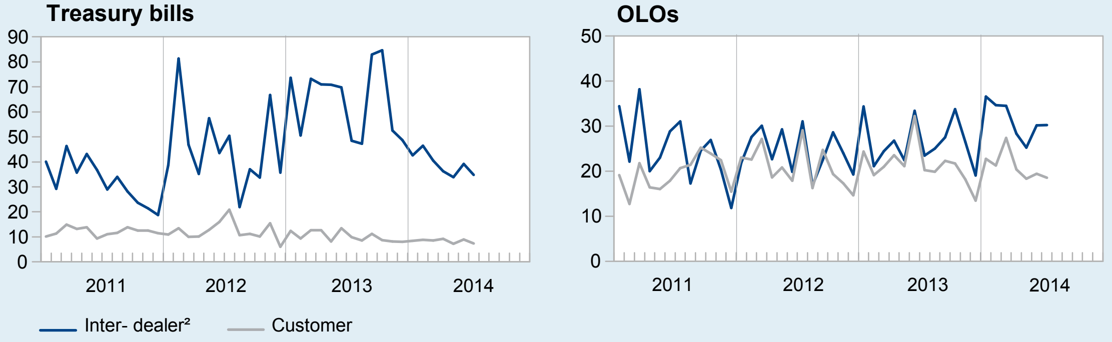


SECONDARY MARKET TURNOVER

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)

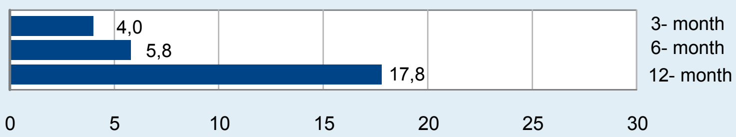


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy- back transactions which are in fact repurchase agreements.
[2] Please note that inter- dealer turnover is double- counted in these figures.

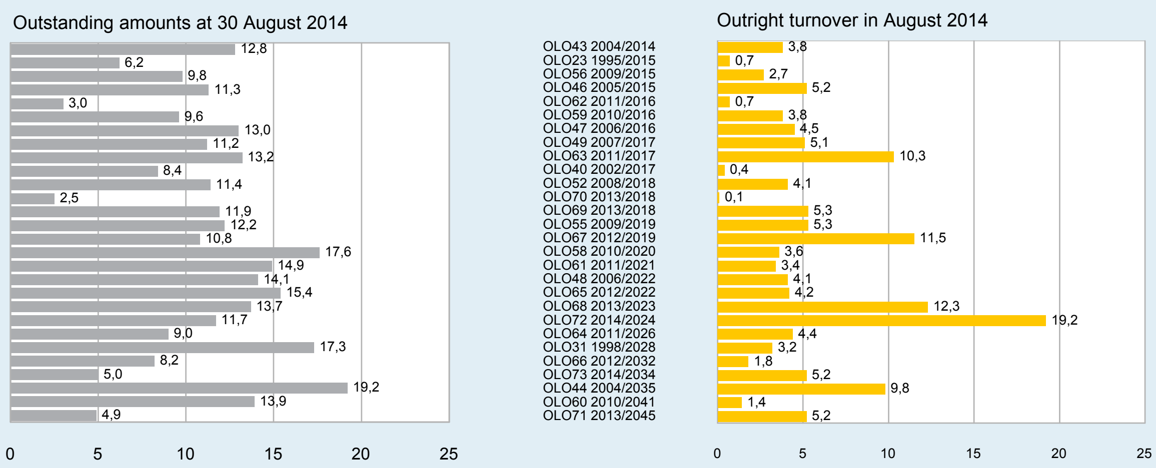
OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

TREASURY BILLS

Nominal outstanding amounts at 30 August 2014

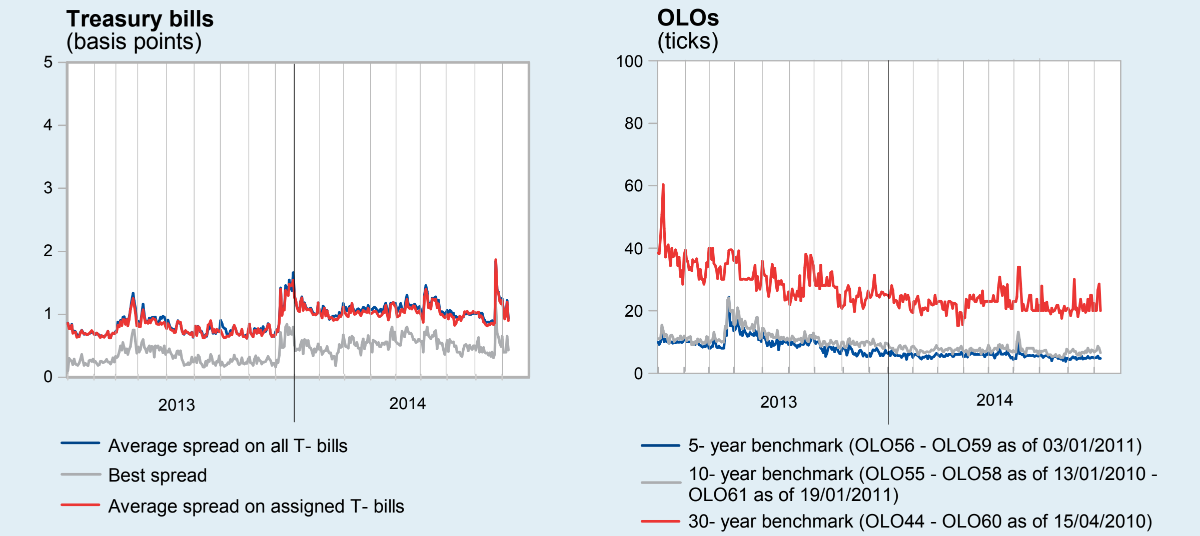


OLOs



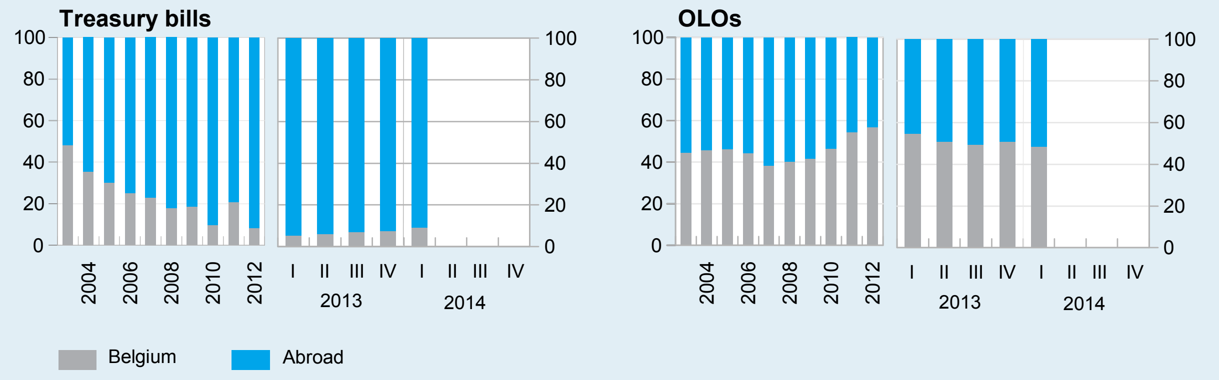
Source: Securities Regulation Fund.
[1] The turnover figures include sell/buy- back transactions which are in fact repurchase agreements.

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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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.