BELGIAN DEBT AGENCY

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NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

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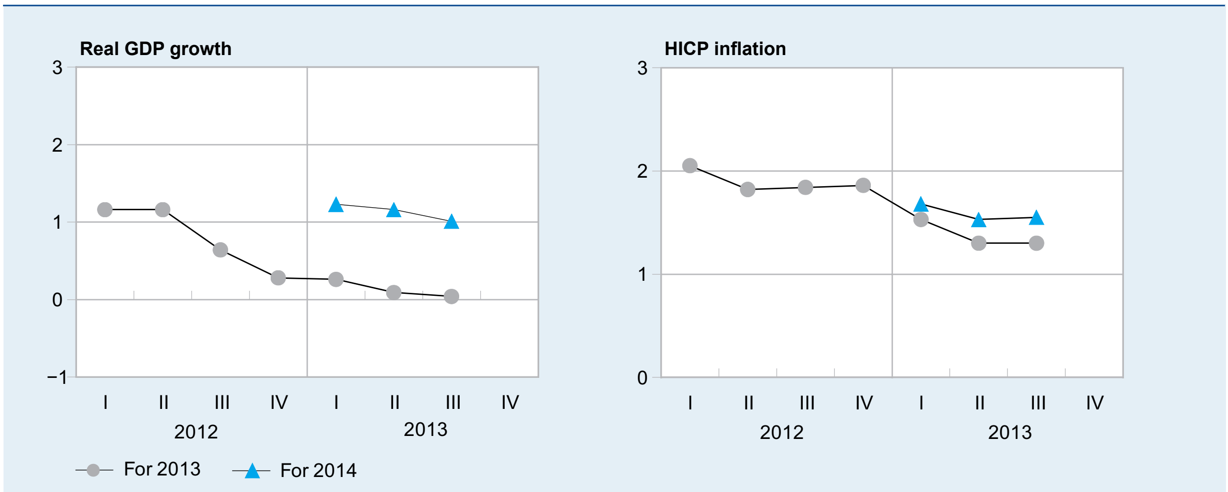
- Business and consumer confidence indicators rose significantly in Belgium during the summer. This corroborates the gradual recovery scenario in the BPN Consensus forecast. GDP is expected to grow by 1 % in 2014.
- General government deficit is estimated at 2.7 % of GDP for 2013 and 2.4 % in 2014. The authorities are in the process of finalising their budgets for 2014.
- Despite large shocks, Belgium has shown some resilience over the last five years. Additional structural reforms and fiscal consolidation will be needed to ensure long-term sustainable growth (Special Topic).
- By mid-September, the Belgian Debt Agency had completed 95 % of its overall funding for 2013 (see Treasury Highlights).

Consensus: Average of participants' forecasts

	2012		2013 p		2014 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP(1)	-0.3	-0.5	0.0 (0.1)	-0.4 (-0.6)	1.0 (1.2)	0.9 (0.9)
Inflation (HICP)(1)	2.6	2.5	1.3 (1.3)	1.5 (1.5)	1.6 (1.5)	1.4 (1.5)
General government balance(2)	-3.9	-3.7	-2.7 (-2.8)	-3.0 (-2.8)	-2.3 (-2.3)	-2.5 (-2.3)
Public debt(2)	99.8	90.7	100.7 (100.7)	95.2 (95.2)	100.6 (100.8)	96.2 (95.7)

Numbers in parentheses refer to the previous consensus forecast of June 2013.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

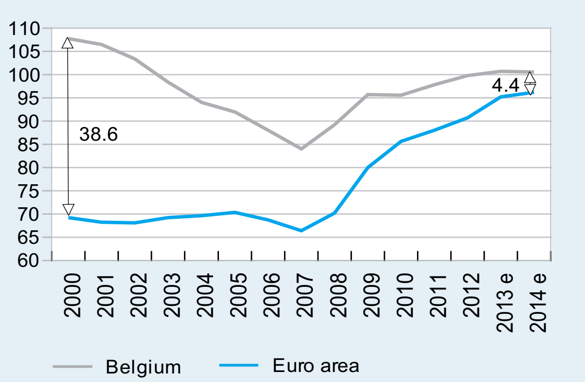
Macroeconomic developments

In Belgium, as in the euro area, recent data releases confirm the picture of improving economic conditions that had started to emerge during the spring. Business confidence increased in industry - largely on the back of stronger demand expectations and order books -, as well as in more domestically-oriented sectors, such as business services, construction and trade. Consumer confidence also showed a marked rise between March and September 2013. Although they bode well for the short-term prospects, these movements should not be overstated. The level currently reached by business indicators is still significantly lower than in 2010-11. Moreover, recent experience has shown that confidence can easily deteriorate if it is not backed by sound economic fundamentals, both domestically and among the main trading partners.

All in all, the recent improvements in confidence corroborate the scenario previously suggested of a muted recovery in the course of 2013 and in 2014. In Belgium, GDP grew by 0.2 % quarter-on-quarter, in the second quarter of 2013, after 6 quarters of stagnating or slightly decreasing output. There is still substantial slack in the economy, as witnessed by the steady increase in the unemployment rate to 8.9 % of the labour force in July 2013, against a rate of 12.1 % in the euro area. Most forecasters expect a gradual recovery to gain pace in the second part of the year and in 2014. **On average, the participating institutions expect GDP in Belgium to stagnate in 2013, and to grow by 1 % in 2014.** Belgium is thus expected to continue to slightly outperform the average GDP growth predicted for the euro area, at respectively -0.4 % in 2013 and 0.9 % in 2014.

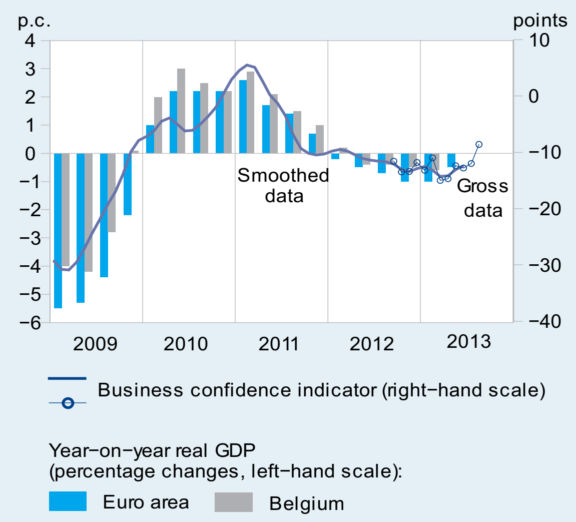
Since the beginning of 2013, HICP inflation has been running well below the 2 % mark in Belgium, while it had averaged 2.6 % in 2012. This deceleration reflects lower oil prices in general, and lower consumer prices for gas and electricity in particular. Inflation also receded for the service component, in a context of anaemic economic activity. The current low inflation context should help to contain wage developments, curbing temporarily the effect of automatic index-linking, while the government has imposed a freeze on wage increases in 2013 and 2014, except for wage indexation or pay scale increases. **The participating institutions expect Belgian HICP inflation to decelerate from 2.6 % in 2012 to 1.3 % in 2013, before reaching 1.6 % in 2014.**

GENERAL GOVERNMENT'S CONSOLIDATED DEBT
(in % of GDP)



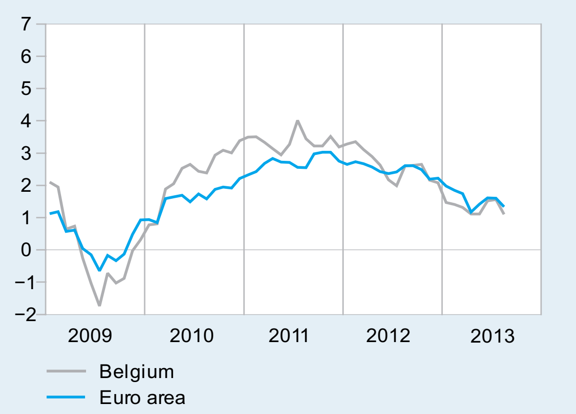
Sources: EC, Belgian Prime News.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

In July and September 2013, the federal government took additional measures to achieve an improvement in the structural balance of 1 % of GDP in 2013, in order to comply with the EU-Ecofin request accompanying its decision on 21 June to step up the excessive deficit procedure for Belgium. The main lines for next year were also decided, although the federal government and the governments of the federated entities were still in the process of finalising the 2014 budget at the cut-off of the BPN. The federal government and the governments of the Regions and Communities reached agreement on their respective fiscal targets for both 2013 and 2014. Moreover, in the context of the recently decided State reform, the new Finance Act proposal, to be voted before the end of the year, provides for a contribution by the federated entities to future consolidation efforts.

According to the average of the participating institutions' forecasts, the general government deficit in Belgium is estimated at 2.7 % of GDP in 2013, a result consistent with an improvement in the structural balance of 1 % of GDP, and at 2.3 % in 2014. The debt ratio is expected to increase from 99.8 % of GDP in 2012 to 100.7 % in 2013 and to reach 100.6 % in 2014. The government has indicated that it will take measures to limit the public debt to a maximum of 100 % of GDP.

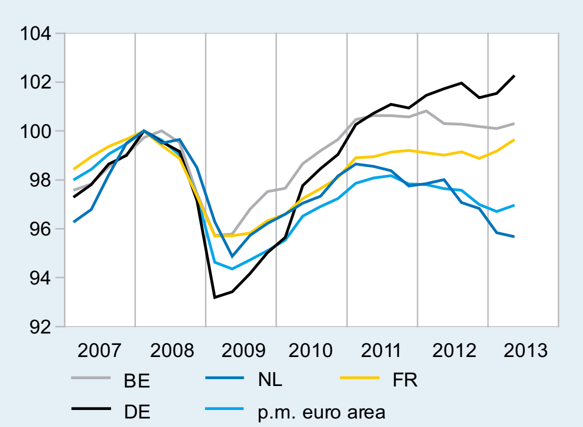
Special Topic: Five years after Lehman: Where does Belgium stand?

The bankruptcy of Lehman Brothers on 15 September 2008 will long remain a milestone in modern economic history. Although financial tensions were already mounting on specific segments of the financial markets prior to this event, it marked a brutal and dramatic deterioration in economic and financial conditions worldwide. In Europe, the Great Recession of 2008-2009 gave rise to the euro area crisis, which culminated at the end of 2011 and in the first half of 2012. Five years later, the consequences are still deeply felt by the economic agents.

Because of its large degree of openness in terms of trade and financial connections, Belgium is particularly exposed to international economic and financial developments. For decades, this proved a source of growth and prosperity for the country. For the same reason, plus specific vulnerabilities stemming from a still heavy public debt – despite the 50 percentage points reduction achieved during the 15 previous years - and the financial sector's substantial leverage, it has felt the effects of the economic recession and the financial and sovereign debt crisis. This Special Topic will describe the main consequences of the financial and economic crisis for Belgium.

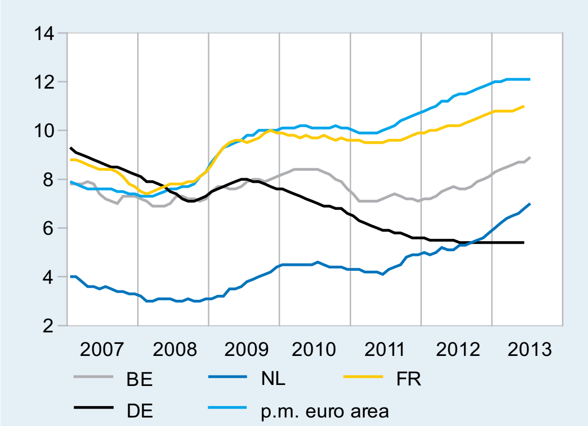
In terms of economic activity, Belgium initially weathered the recession relatively well, at least compared to most other European countries. The 4.3 % drop in GDP between the second quarter of 2008 and the first quarter of 2009 was less pronounced than the trough in the euro area (5.6 %) or in Germany (6.8 %). Benefiting from the subsequent recovery, GDP in Belgium surpassed its pre-recession peak at the beginning of 2011. Except in Germany, where the recovery was more vigorous, the level of GDP remained below the pre-recession peak in the other main neighbouring countries and in the euro area. However, the recovery proved short-lived, as it rapidly gave way to a protracted period of stagnation or even slow decline in output from mid-2011 to mid-2013. Unemployment has also increased steadily over the recent period.

GDP IN VOLUME
(indices peak in 2008 = 100)



Source: EC.

UNEMPLOYMENT RATE
(in % of labour force)

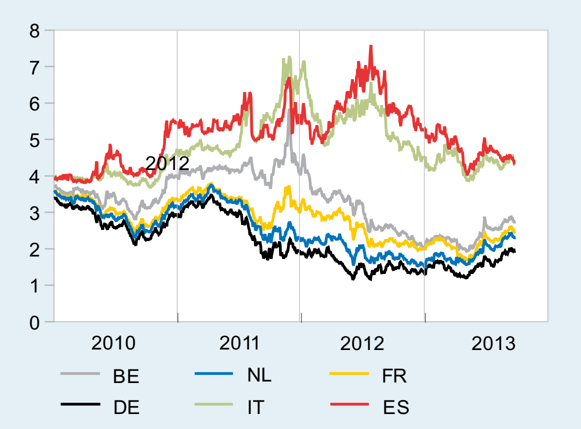


Source: EC.

In the midst of the worldwide financial crisis, the Belgian authorities' first actions were intended to safeguard the stability of the financial system, via capital injections and loans, as well as State guarantees to facilitate banks' funding. The ECB and the NBB also provided ample liquidity. In Belgium, these emergency measures where gradually rolled back as the situation improved. Indeed, the banks engaged in a profound restructuring and de-risking of their activity, an inevitable and crucial process to pave the way for building a sustainable financial system. As documented in detail in the June 2013 BPN Special Topic, their balance sheets contracted from almost € 1 600 billion in 2007 to € 1 049 billion at the end of 2012. Refocusing largely on traditional activities in their core market, the banks achieved this deleveraging without forfeiting their role as key credit providers in the Belgian economy. On the supervision side, a "twin peaks" model was introduced on 1 April 2011 in Belgium, with a view to better integrate micro- and macroprudential supervision of the financial sector. Since then, the National Bank of Belgium has been responsible for the prudential supervision of credit institutions and insurance companies, while the Financial Services and Markets Authority is mainly in charge of the surveillance of the financial markets, in the broad sense, and consumer protection and information.

While the liquidity crisis gradually abated on both sides of the Atlantic, on the back of massive intervention by central banks, the euro area sovereign debt crisis unfolded in the course of 2011. The Belgian 10-year benchmark bond yield posted a record 366 bp. spread compared to the German Bund on 25 November 2011. This very tense situation was the result of a combination of factors, some applicable to the whole euro area and others specific to Belgium. At that time, contagion effects across euro area countries and the negative feedback loop between sovereigns and the financial sector were at their height. In addition, the political uncertainty due to the record length of time taken to form a government seriously dented the country's image.

YIELDS ON 10-YEAR GOVERNMENT BOND



Source: Thomson Reuters Datastream.

Such pressures were at least partly the trigger for significant changes in the situation in Belgium at that time, and the country steadily regained market confidence in the course of 2012. After agreement had been reached on a further stage in the State reform, the government installed at the end of 2011 decided upon structural reforms in the field of pensions and unemployment. Those measures represent breakthroughs after a long period of deadlock, and they will exert their full effects in a few years. However, they are not sufficient to cope with the full magnitude of the challenges of population ageing, and additional steps will be needed in the future. At the end of 2011, the federal government also established the budget for 2012, as well as an initial trajectory for 2013-2014, making adjustments as time went by. Beyond the finalisation of the budget for 2014 (see Macroeconomic developments section), further efforts will be necessary in the medium term to bring the debt back on a sustainable trajectory.

Besides domestic factors, the reform of European governance and the new supervisory framework introduced during the last two years, together with the ECB's actions to mitigate financial fragmentation, also made a decisive contribution towards improving the operating environment for the Belgian economy. In this respect, it is of the utmost importance for Belgium to continue complying with the recommendations and objectives put forward in the context of the EDP and the medium-term fiscal strategy and, more broadly, in the European Semester.

All in all, Belgium - together with its European partners - has faced troubled times and periods of intense economic and financial tensions over the last five years. At this stage, the economy appears to have proved quite resilient, compared to other countries, helped by such factors as the sound financial position of the private sector and the total economy, a diversified business structure and a skilled and productive labour force. However, there is still a long way to go before Belgium can claim a full recovery from the economic and financial crisis, and the structural challenges ahead are daunting. Therefore, it is important not only to capitalise on the strengths of the economy, but also to continue pursuing structural efforts in the field of public finance, to increase the employment rate, especially for older people, and to improve external competitiveness and productivity. They are all essential to reinforce the basis for sustainable growth.

COMPARISON OF MACROECONOMIC AND FINANCIAL INDICATORS FOR BELGIUM
(2012, unless otherwise stated)

	Belgium	Euro area	Germany	France	Netherlands
GDP growth (average annual rate 2008-2012)	0.4	-0.3	0.7	0.0	-0.1
Inflation (average annual rate 2008-2012)	2.5	2.1	1.7	1.9	1.9
Unemployment rate (% of labour force)	7.6	11.4	5.5	10.2	5.3
Employment rate (% of 20-64 years population)	67.2	68.0	76.7	69.3	77.2
Public fiscal balance (% of GDP)	-3.9[1]	-3.7	0.2	-4.8	-4.1
Public debt (% of GDP)	99.8	90.6	81.9	90.2	71.3
Current account balance (% of GDP - NA definition)	0.9	1.8	6.4	-1.8	8.2
Net financial assets (whole economy - in % of GDP)	22.2	-14.5	30.8	-20.7	86.2
Net financial assets of households (% of GDP)	216.1	134.9	127.6	139.6	191.3

Source: EC.
[1] Including the impact of the Dexia recapitalisation (0.8 % of GDP).

Treasury highlights

During the 3rd quarter of 2013, the Kingdom organised two OLO auctions and launched one new benchmark via syndication.

- The 29 July 2013 OLO auction resulted in the issuance of € 3.159 billion concerning the following lines:

  - 1.25% 22/06/2018 (OLO 69): € 0.794 billion – average yield 1.280%; bid-to-cover 1.63
  - 3.00% 28/09/2019 (OLO 67): € 0.475 billion – average yield 1.624%; bid-to-cover 1.67
  - 2.25% 22/06/2023 (OLO 68): € 1.205 billion – average yield 2.549%; bid-to-cover 1.59
  - 4.25% 28/03/2041 (OLO 60): € 0.685 billion – average yield 2.945%; bid-to-cover 1.69

- The 27 August 2013 OLO auction resulted in the issuance of € 2.760 billion concerning the following lines:

  - 1.25% 22/06/2018 (OLO 69): € 0.965 billion – average yield 1.479%; bid-to-cover 2.14
  - 2.25% 22/06/2023 (OLO 68): € 1.025 billion – average yield 2.731%; bid-to-cover 1.73
  - 4.00% 28/03/2032 (OLO 66): € 0.770 billion – average yield 3.458%; bid-to-cover 2.25

- The new € 4.0 billion OLO 71 3.75% 22/06/2045 was priced on 10 September and issued on 17 September at a spread of 113 bp to mid-swaps. At a cost of 3.953 %, it was the lowest 30-yr yield ever achieved in a syndicated transaction. A Collective Action Clause (CAC) is applicable to this new bond.

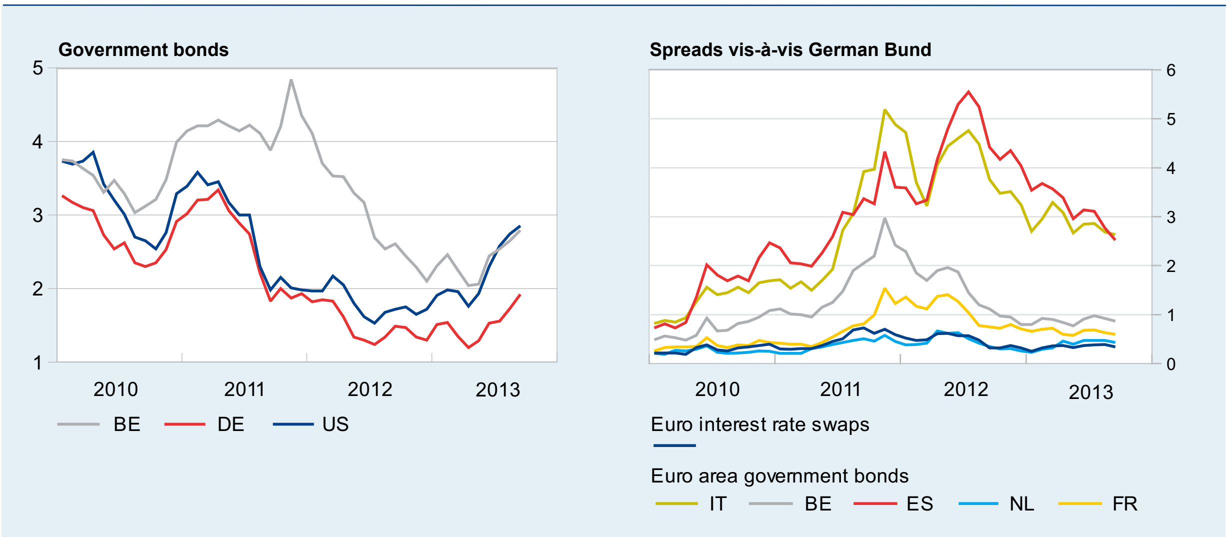
  This was the third syndicated benchmark from Belgium in 2013 (after a € 4 billion 10-year in January and a € 5 billion 5-year in February). The longer maturity establishes on-the-run status for an extended period, lengthening the Belgian curve by 4 years while adding a more recent coupon. This is Belgium's first new 30-year deal since the OLO 60 (due March 2041), executed in 2010.

In addition, six Euro Medium Term Notes and one Schuldscheine were issued for a total amount of € 665.92 million. The issuance target for these products is € 3.5 billion.

Including these transactions, on 12 September the Belgian Debt Agency had already completed 95% of its overall funding for the year, with a total target of € 40 billion of OLO issuance. Apart from this well-funded position it is also notable that Belgium will continue to increase the average life of the debt portfolio, which was already at an all-time high of 7.5 years ahead of the new OLO 71 benchmark.

Government securities market

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

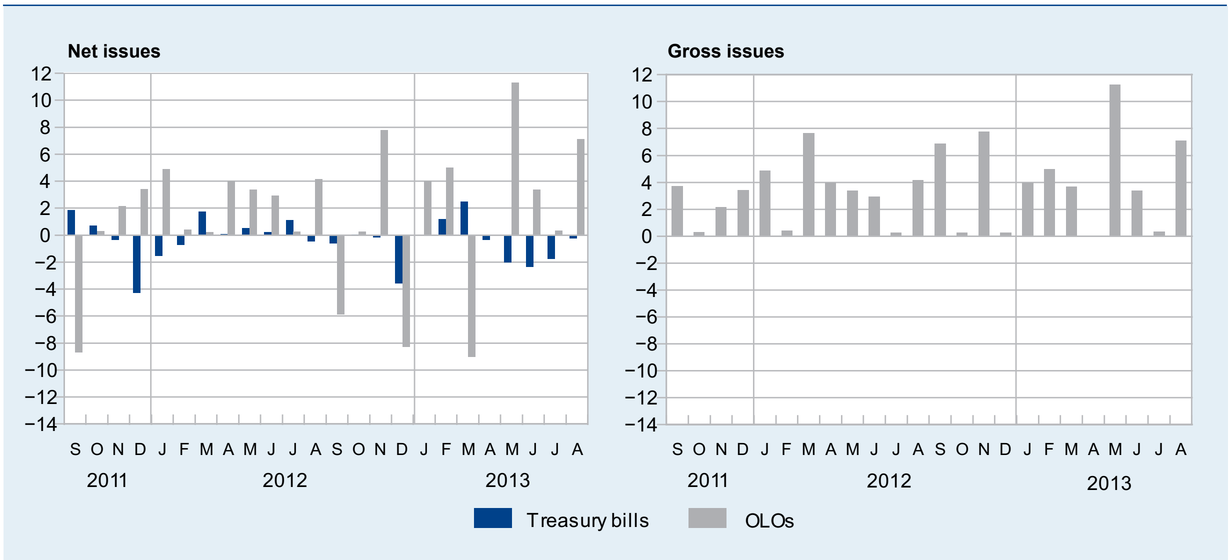


Sources: BIS, Datastream.
[1] Average over the first 24 days for September 2013.

Over the review period, the upward trend in 10-year rates in the US and core euro area countries, which had begun in May 2013, continued. Since June, US long-term yields have increased by 55 bp to reach 2.85 % in September (monthly averages). This hike occurred amid increasing expectations, fuelled by better than expected news releases, that the tapering-off of asset purchases by the FED would start soon. Similarly, partly due to spill-over effects, yields in Germany and Belgium increased by respectively 39 and 35 bp to reach 1.92 % and 2.79 %. Positive economic news releases for core euro area countries also contributed to the general increase in long-term yields and counterbalanced the downward impact of the ECB's forward guidance policy. However, following the recent announcement by the FED on 18 September, stating that it would maintain the asset purchasing policy unchanged, yields decreased slightly.

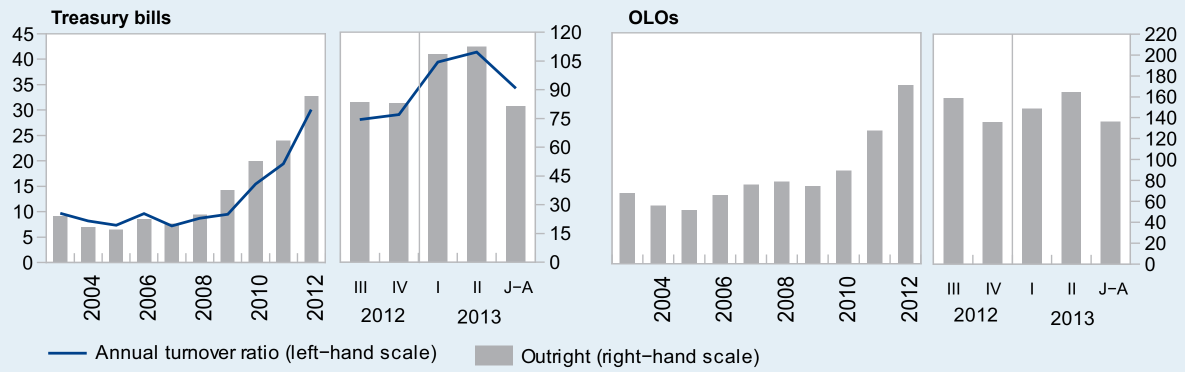
Spreads on long-term yields with respect to the Bund stabilised or decreased for euro area countries over the period under review. Most notably, Spanish and Italian spreads fell by 62 and 21 bp over the period under review to reach 252 and 263 bp, respectively. For most euro area countries, the decrease in spreads was backed by good economic data releases, limited contagion effects, and low activity in financial markets as well as the absence of issuance during the summer period. At the end of the review period, the Belgian spread on 10-year government bonds stabilised at about 90 bp, ranking Belgium close to core euro area countries such as France (60 bp). Overall, uncertainty about near-term bond market developments, as measured by the implied volatility of options, remained relatively high over the review period, especially for the US bond market.

PRIMARY MARKET
(billions of euro)

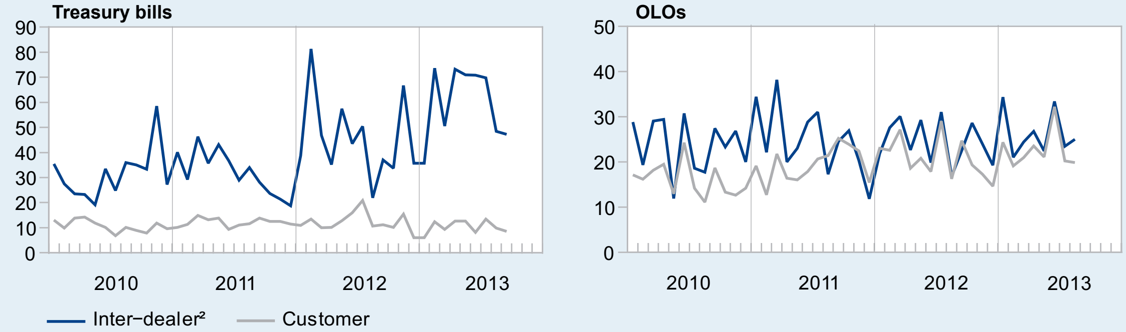


SECONDARY MARKET TURNOVER

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



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

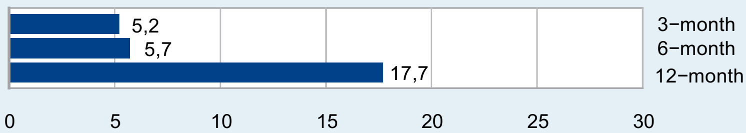


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.
[2] Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euro)

TREASURY BILLS

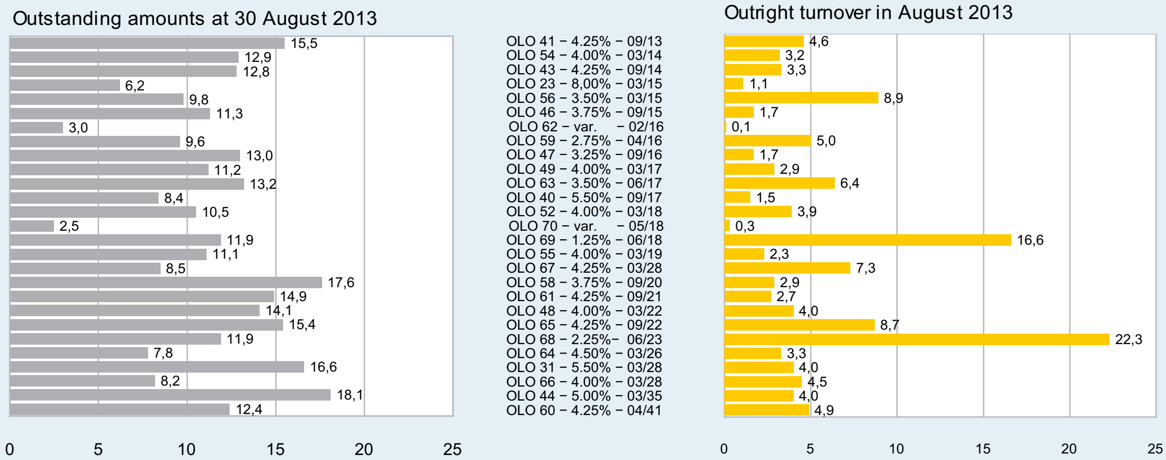
Nominal outstanding amounts at 30 August 2013



OLOs

Outstanding amounts at 30 August 2013

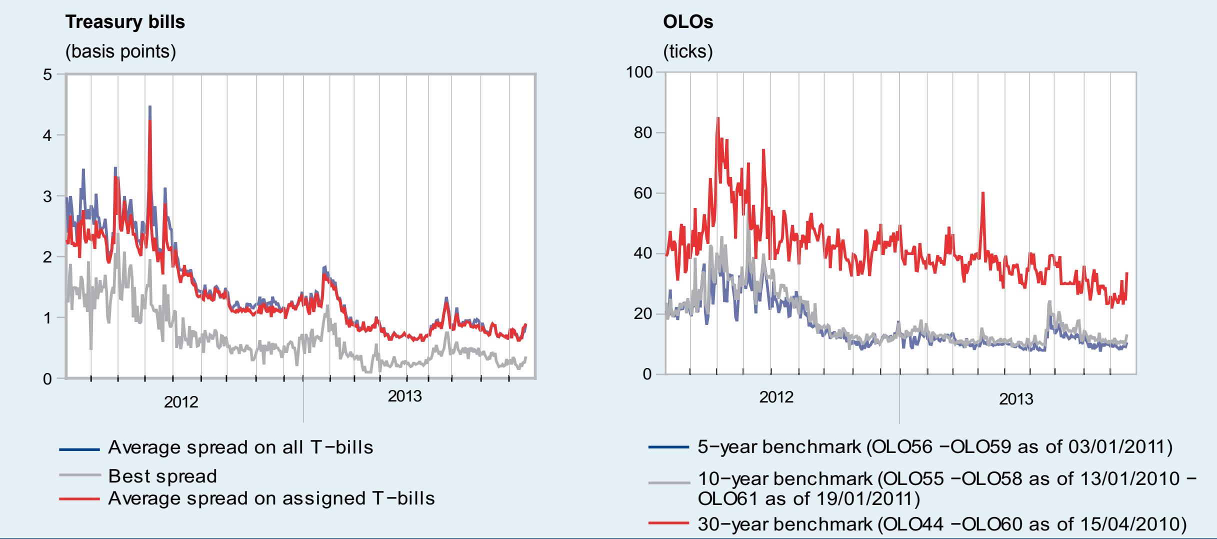
Outright turnover in August 2013



Source: Securities Regulation Fund.

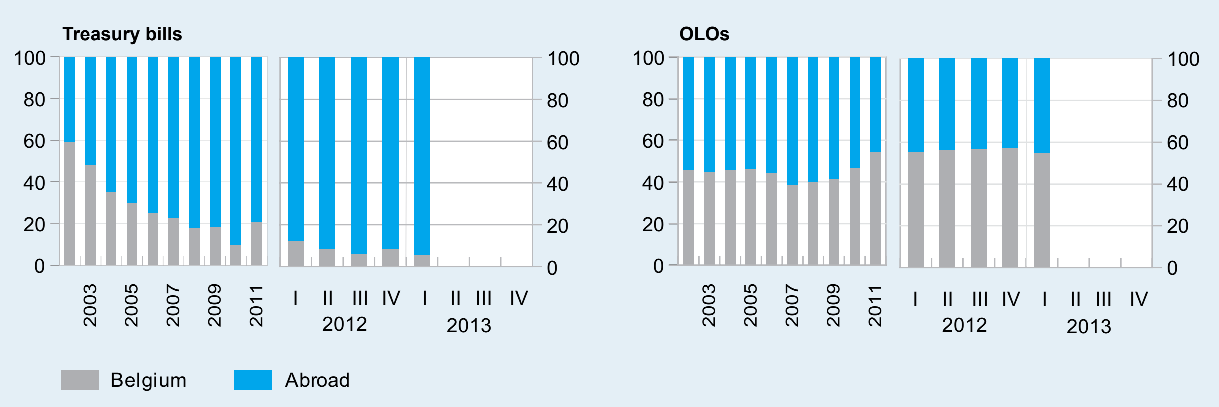
[1] The turnover figures include sell/buy-back transactions which are in fact repurchase agreements.

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.

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