BELGIAN DEBT AGENCY

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NationalBank OF BELGIUM
Eurosystem

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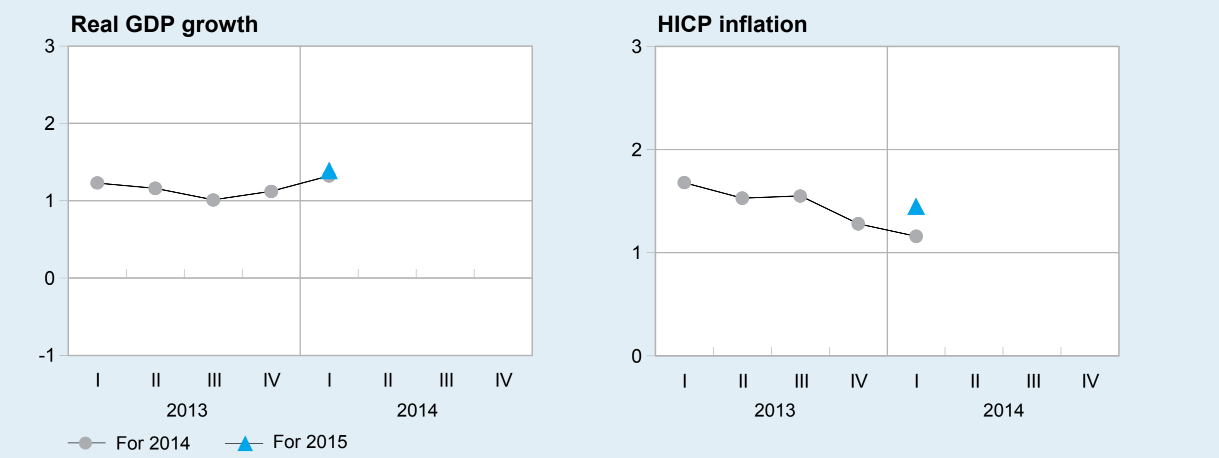
- Like in the euro area, moderate but steady growth is expected to continue in 2014 (1.3 %) and 2015 (1.4 %). Over this period, HICP annual inflation should remain at 1.2 % and 1.5 %, respectively.
- On average, the participants expect the general government deficit to decline to 1.8 % of GDP in 2015. Some of them include, in line with the stability programme, significant additional measures to be taken by the governments to be formed at the federal level and at the level of the Communities and Regions, following the general election of 25 May 2014.
- This would also be instrumental in putting the public debt back on a sustainable downward trajectory. Under this assumption, the main rating agencies have revised the outlook for Belgium's rating from negative to stable over the recent months.
- The sixth State reform and the new Special Finance Act will come into force on 1 July 2014, transferring more responsibilities and resources to the federated entities. In this context, specific arrangements have been set in place for sharing the burden of fiscal consolidation and to ensure that budgetary targets are binding at both federal and sub-federal levels (see Special Topic).
- By end-March, Belgium had already issued 44.9% of its € 33.50 billion funding target for 2014. The Debt Agency issued the traditional new 10-year benchmark, as well as a new 20-year OLO line (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	(1.1)	1.1	(1.0)	1.4	1.4
Inflation (HICP)(1)	1.2	1.4	1.2	(1.3)	0.9	(1.0)	1.5	1.2
General government balance(2)	-2.7	-3.1	-2.5	(-2.5)	-2.6	(-2.6)	-1.8	-2.3
Public debt(2)	99.7	95.5	100.1	(100.4)	96.3	(96.6)	99.3	96.0

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

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Macroeconomic developments

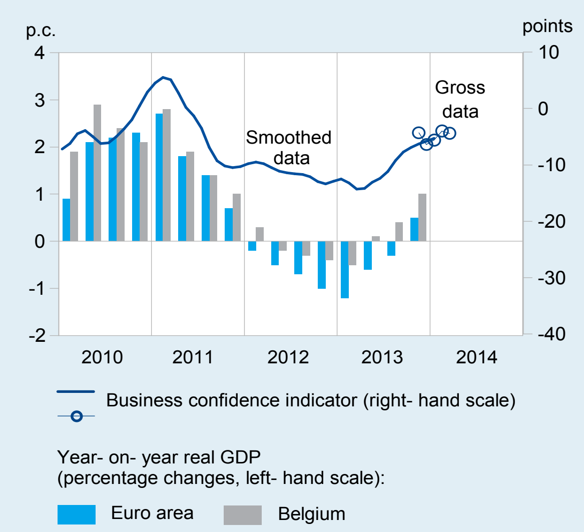
Activity in Belgium started growing again in the second quarter of 2013, after 18 months of stagnating or slightly declining output. GDP growth strengthened gradually, from 0.2 % quarter-on-quarter in the second three-month period of 2013 to 0.5 % in the final quarter. Following a swift improvement since the spring of 2013, business and consumer confidence has tended to level off recently, though still close to the historical average. The unemployment rate has remained broadly stable at around 8.5 % over the period April 2013 to January 2014, according to the latest data available.

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 (a 0.1 percentage point upward revision on January) and 1.4 % 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 would converge in 2015.

In a context of low imported inflationary pressures and still muted economic activity domestically, HICP inflation in Belgium has hovered at around 1 % since August 2013. 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 primary dealers expect Belgian HICP annual inflation to remain at 1.2 % in 2014, similar to the observed inflation rate in 2013, and to rise slightly in 2015, to 1.5 %.** Euro area inflation should be lower by some 0.2-0.3 ppt. in both years.

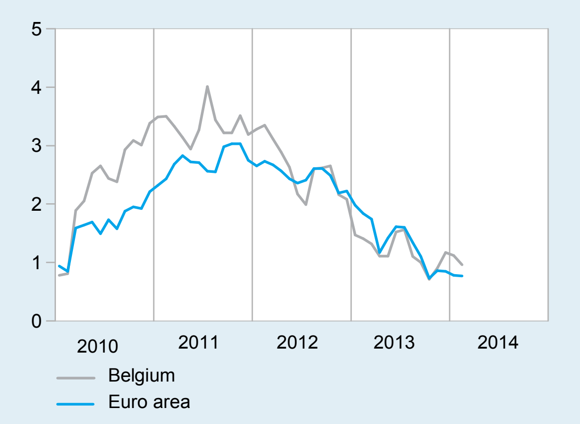
In January 2014, the Belgian authorities announced a general government deficit of 2.7 % of GDP for 2013, a result similar to the NBB estimate published on 13 February in the Annual Report. The first official statistical release will be published and notified to Eurostat by the end of March. **The general government deficit in Belgium is expected to decline to 2.5 % in 2014 and to 1.8 % in 2015.** Thus, the public deficit would remain below the 3 % of GDP threshold. If the European Commission arrives to similar results in its spring economic forecasts, Belgium could be expected to exit the EDP procedure. The average forecast for 2015 is the result of some institutions embodying significant fiscal consolidation, in line with the trajectory of the stability programme. This would require additional measures to be taken by the governments to be formed at the federal level and in the Communities and Regions, following the general election of 25 May 2014.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

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 99.7 % of GDP in 2013 to 100.1 % in 2014, before going down to 99.3 % in 2015.**

During the course of March 2014, the rating outlook for Belgium has been revised from negative to stable both by Standard & Poor's (rating AA), Moody's (Aa3), as well as DBRS (AA), as Fitch Ratings (AA) had already done a year ago. These changes mainly stem from the perspective of a downward-trending public debt in the medium term and from lower risk related to the financial sector.

Special Topic: State reforms and economic reforms should go hand in hand to ensure sustainability of welfare in Belgium

Since 1970, Belgium has evolved from a centralised State into a federal structure, through successive reforms. After long discussions, an agreement on the sixth reform of the Belgian State was concluded on 10 October 2011, and transposed into national legislation by the Special laws of 6 January 2014. It will take effect on 1 July 2014.

The redistribution of power has taken place along two lines. The first line concerns person-related matters. The result was the creation of three Communities: the Flemish Community, the French Community and the German-speaking Community. They enjoy powers over various policy areas, such as education, culture and what are referred to as 'social support'.

The second line of State reform is inspired by territory-related competences and economic interests. The establishment of the three Regions was the result: the Flemish Region[1], the Brussels-Capital Region and the Walloon Region. Their powers extend primarily to land-use planning, housing, the environment, public works, supervision over local authorities and their general funding, and certain aspects of policy on agriculture, energy, transport, employment and the economy.

The Federal State nevertheless retains major powers, for example in the area of foreign affairs, national defence, justice, finance, social security, as well as important parts of national health and domestic affairs.

The sixth State reform transfers important economic responsibilities

From an economic and budgetary point of view, the two most important aspects of that reform are the transfers of new powers from the federal level to the Communities and Regions, and the revision of the Special Finance Act for the Communities and Regions.

Calculated on a full-year basis for 2015, the transfers will come to around 4.7 % of GDP. The biggest transfers concern all family allowances and various aspects of health care and social support, including accommodation facilities for the elderly, which will go to the Communities. The Regions will acquire additional powers mainly relating to tax expenditure and employment.

TRANSFER OF POWERS TO THE COMMUNITIES AND REGIONS
(in % of GDP, estimated on the basis of needs at unchanged policy in 2015)

Communities	2.8
of which:	
Family allowances	1.5
Aspects of health care and social support	1.2
Regions	1.8
of which:	
Employment policy	1.0
Miscellaneous tax expenditure[1]	0.7
Total	4.7

Sources: Federal government, NBB

[1] Mortgage loans (single home), use of service vouchers and energy-saving investment.

Regarding this last domain, the Regions have been responsible for helping jobless people find employment since 1980. New transfers mainly involve policies in favour of target groups, notably via specific reductions in social security contributions, measures for activating unemployment benefits and the service voucher scheme, competences in the field of training (paid educational leave, apprenticeship), as well as checking both passive and active availability of job-seekers, as well as imposing sanctions. However, labour legislation in general, and regulations defining suitable employment, active search for work, administrative checks and sanctions in particular, remain federal competences.

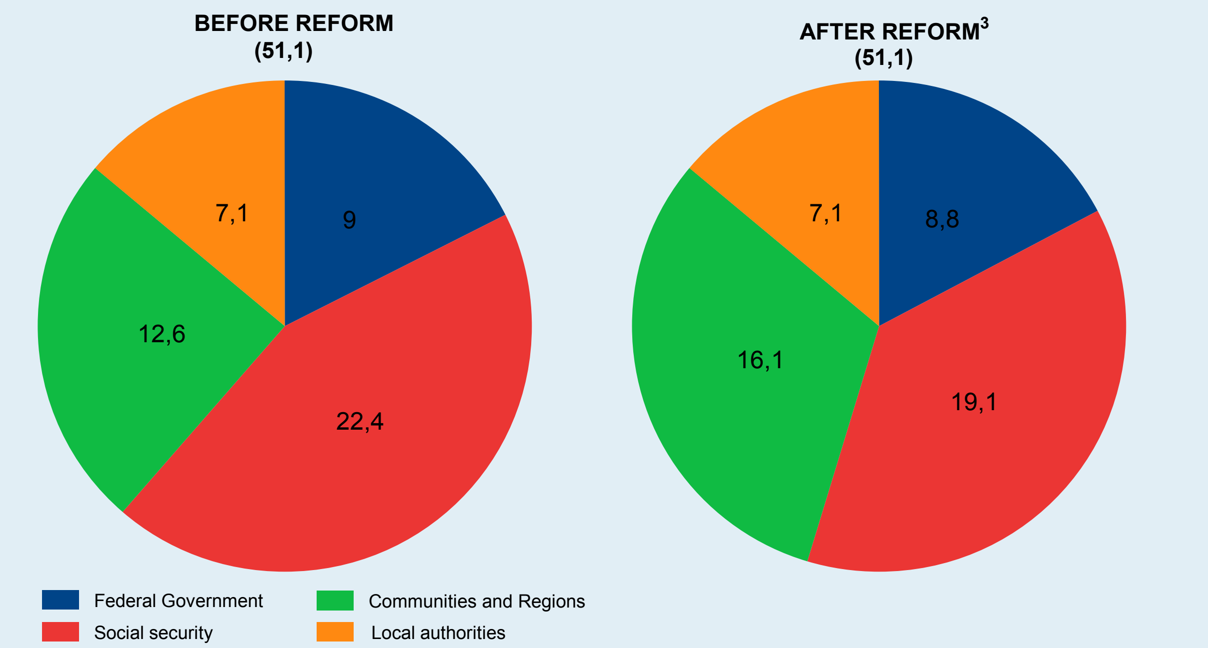
The new Finance Act for the Communities and Regions

With the sixth State Reform and the new Finance Act, the share of the Communities and Regions in the revenue and expenditure of general government will thus increase considerably. Currently, these entities are mainly financed through lump-sum transfers of federal resources, distributed on the basis of a mix of economic and demographic distribution keys. From 2015 onwards, transfers to the Regions will, for a large part, be re-oriented towards so-called enlarged regional surcharges on the federal personal income tax (amounting to around ¼ of overall PIT revenues).

[1] In Flanders, the community and regional institutions have been merged.

Regions will be responsible for setting the rates and tax brackets of these regional surcharges, within certain limits, e.g. with respect to the progressivity of the tax system. Regions will also become responsible for a number of tax reductions that are linked to their own policy competences (e.g. for housing, energy-saving investment, service vouchers). The determination of the tax base and tax collection will remain a federal competence. The Communities will continue to be financed through transfers from federal tax revenues or grants.

Final primary expenditure of the general government sub-sectors[1]
(in % of GDP, estimates based on 2013 figures[2])



Sources: Federal Government, NAI, NBB.
[1] Transfers between government sub-sectors are excluded so that only final expenditure is considered.
[2] 2015 for the transfer of powers.
[3] Excluding powers transferred on the revenue side (mainly tax expenditure and reductions in social security contributions).

The solidarity mechanism in favour of the Regions where personal income tax revenues are below the national average will be retained, with a view to correcting 80% of the discrepancy between the population share and personal income tax revenue share. A transitional mechanism will be implemented to smooth the switch from the old law to the new one. The Brussels entities will receive additional resources based on commuters' income and to compensate for specific expenditure and income losses related to its status of capital of Belgium and as host to numerous international organisations.

The recent reshuffle includes various mechanisms to balance the contribution of the federal and federated entities towards the consolidation of public finances. Cuts in the grants for the Regions and Communities will be applied from 2014 onwards, increasing up to € 2.5 billion in 2016 (0.6 % of GDP). Moreover, from 2017 onwards, those entities are required to make an additional effort tending towards 0.23 % of GDP in 2030, by weakening the link of various grants to GDP growth.

Making institutions and economic reforms support the high standard of living and high degree of social protection

The State reform must be seized as an opportunity for tailoring the policy more closely to the specific needs of the various Communities and Regions. That could create new levers for increasing efficiency and providing stronger support for the economy's growth potential. At the same time, it is necessary to ensure that the policy initiatives taken at the various levels are mutually consistent and do not result in more complex legislation and additional administrative burdens, because those two factors impede entrepreneurship and job creation.

There will be a need for closer consultation and specific cooperation agreements between the various government entities. The specific arrangement decided recently[2] for explicit coordination to ensure that budgetary targets are binding at federal level and sub-federal levels serves this purpose. Under the new Finance Act, they provide a more stable framework which should be used for the necessary further steps towards fiscal consolidation.

[2] See the Special topic in the January 2014 BPN.

Treasury highlights

The benign bond market environment of 2013 continued in early 2014 as spreads of peripheral and semi-core countries towards the core country's yields tightened further, while the latter were falling themselves. The widely expected rise in bond yields did not actually materialise.

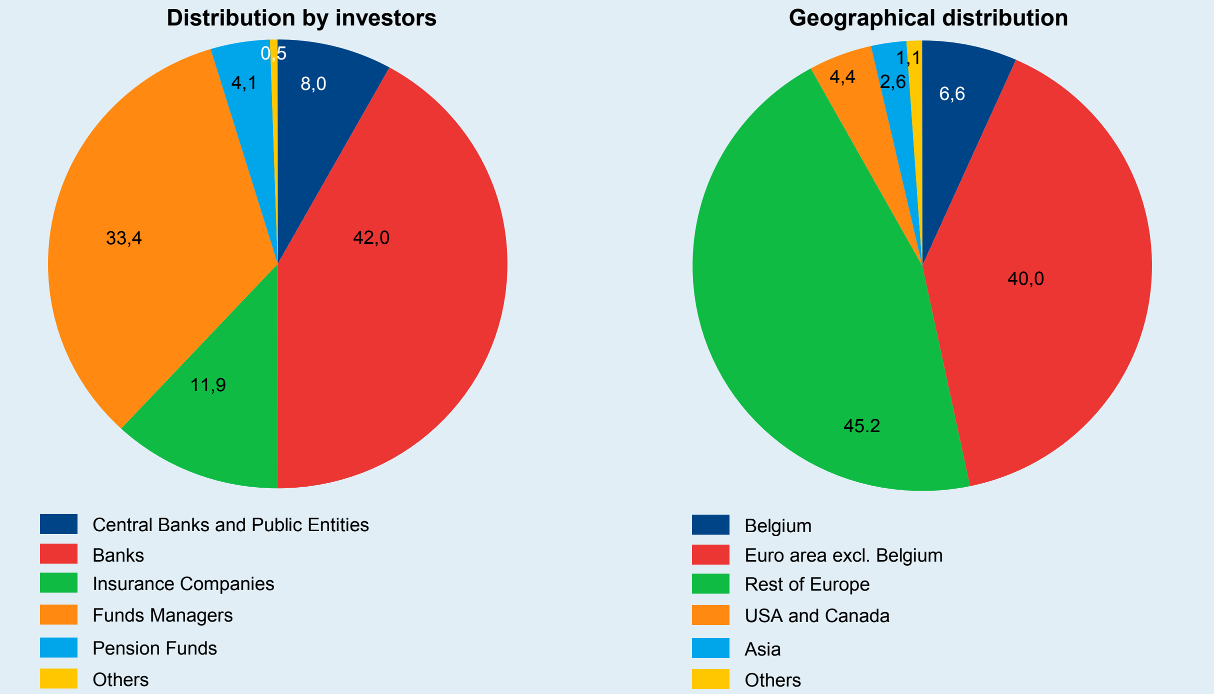
Belgium made a swift start to its € 33.5 billion long-term funding programme with the traditional launch of its new 10-year benchmark. The € 5 billion OLO 2.60% 22/06/2024 (OLO 72) was issued on 14 January 2014 at a spread of MS+49 bps. For the first time in four years, Belgium was able to issue € 5 billion of its 10-year benchmark which, in addition, required only a very small new issuance premium of about 2bp. Book size was € 11 billion with significant non-domestic interest: UK investors took up 34%, followed by Dutch (15%) and German (10%) investors.

The OLO funding program continued in February with the regular OLO auction during which three OLO lines were offered:

- OLO 4.00% 28/03/2019 (OLO 55): € 1.085 billion – average yield 1.087% - bid-to-cover 1.67
- OLO 2.60% 22/06/2024 (OLO 72): € 1.160 billion – average yield 2.424% - bid-to-cover 1.76
- OLO 4.25% 28/03/2041 (OLO 60): € 1.256 billion – average yield 3.249% - bid-to-cover 1.69

In total, the Treasury took up € 3.501 billion, to which another € 534 million were added during the non-competitive tour. As such, 4.035 billion was issued.

Distribution of the OLO 72 (2,60% - 22/06/2024) at issuance



Source: Thomson Reuters Datastream.

Finally, in March, the Treasury took advantage of the continuing positive sentiment in the market as well as of the perceived improvement in Belgium's creditworthiness – both Standard & Poor's and Moody's changed their rating outlook to stable – and it launched a new 20-year OLO line. The € 5 billion OLO 3.00% 22/06/2034 ss(OLO 73) was issued on 11 March 2014 at a spread of MS+58 bps, representing a slim new issuance premium of about 2 basis points. It was thus the largest 20-year SSA transaction ever. Book size was in excess of € 8.5 billion, with overwhelmingly non-domestic interest: UK investors took up 39.57%, followed by French (17.78%) and US (10.74%) investors.

Besides the OLO issuance, the Treasury's EMTN and Schuldscheine programmes were again activated with three EMTN private placements for a total amount of € 924.7 million and one Schuldscheine issuance of € 50 million carrying a maturity of 04/02/2064, which is the longest issue ever for Belgium.

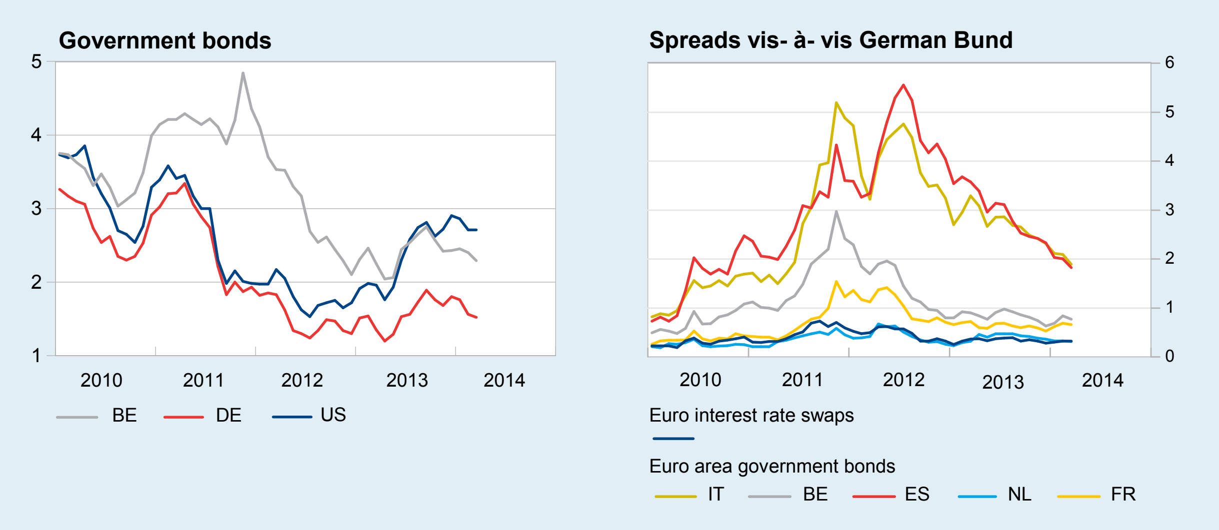
By contrast, the State note issue of 4 March 2014 only resulted in € 15.7 million as a result of the very low coupon attached to the 5- and 8-year notes.

With this, Belgium has already issued **€ 15.025 billion**, which corresponds to 44.9% of its € 33.50 billion funding target for 2014.

In terms of portfolio structure, the average life of the portfolio increased to 7.65 years by the end of February, comfortably above the 7.5 year minimum level agreed for 2014.

Government securities market

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

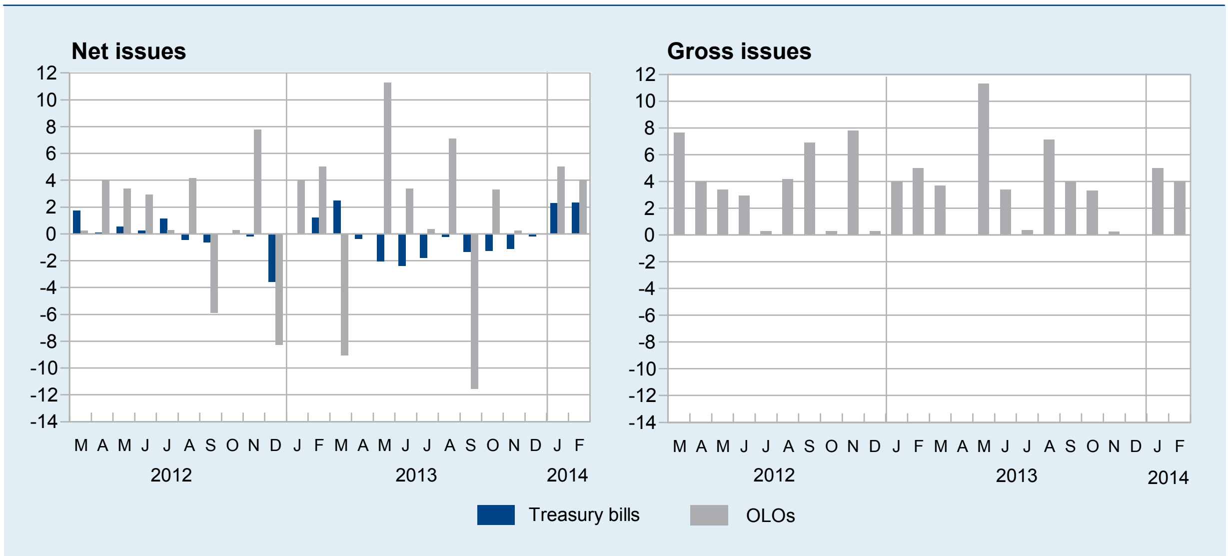


Sources: BIS, Datastream.
[1] Average over the first 19 days for March 2014.

During the first quarter of 2014, long-term yields on sovereign bonds in the US and Germany followed broadly similar developments, mainly driven by the Federal Reserve's decision to reduce its large-scale asset purchases, mixed economic news releases, tensions in the emerging markets as well as political tensions towards the end of the quarter. More specifically, between December and March, the monthly averages of long-term yields for US bonds and the Bunds fell by respectively 28 and 19 bp. These developments partly reflect safe-haven flows as a consequence of turbulence in the emerging countries and geopolitical tensions as well as mixed economic results. The latter were especially relevant for the euro area, with greater market focus on inflation dynamics. Moreover, uncertainty about near-term bond market developments, as measured by the implied volatility of options, fluctuated significantly over the review period for both the euro area and the US.

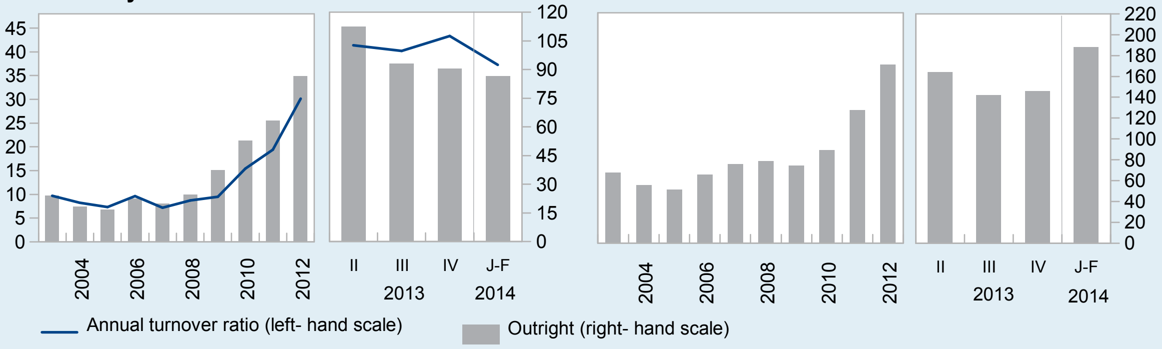
Spreads on long-term yields relative to the Bund continued to narrow over the period under review for most euro area countries. The Spanish and Italian spreads, in particular, declined to reach respectively 182 and 189 bp (monthly averages). These movements come against a backdrop of safe-haven flows and divergent signals concerning the economic recovery.

PRIMARY MARKET
(billions of euros)

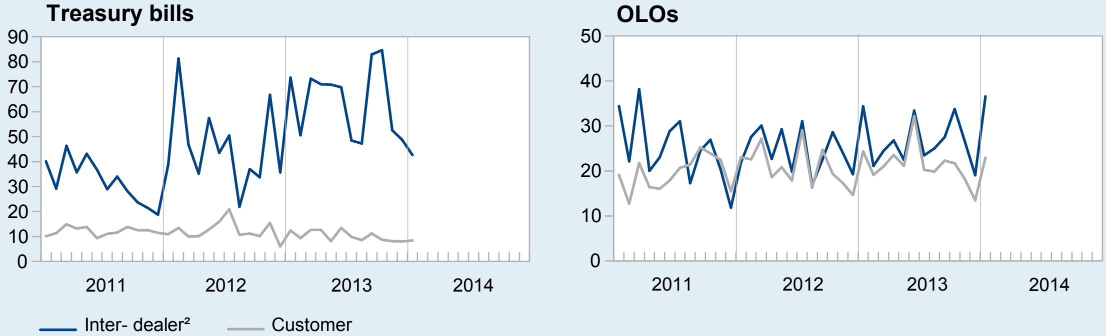


SECONDARY MARKET TURNOVER

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)

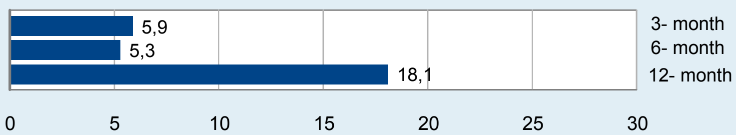


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy- back transactions which are in fact repurchase agreements.
[2] Please note that inter- dealer turnover is double- counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

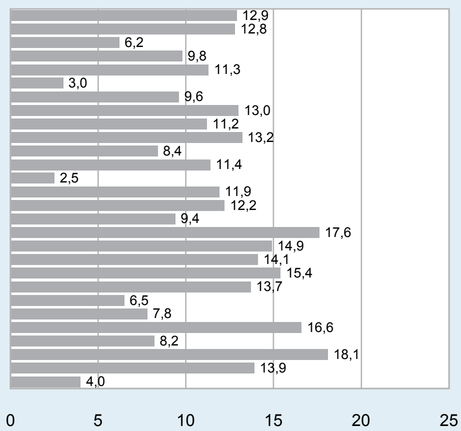
TREASURY BILLS

Nominal outstanding amounts at 28 February 2014

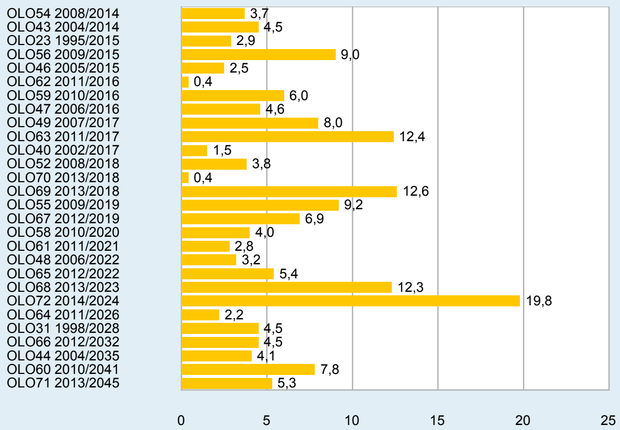


OLOs

Outstanding amounts at 28 February 2014

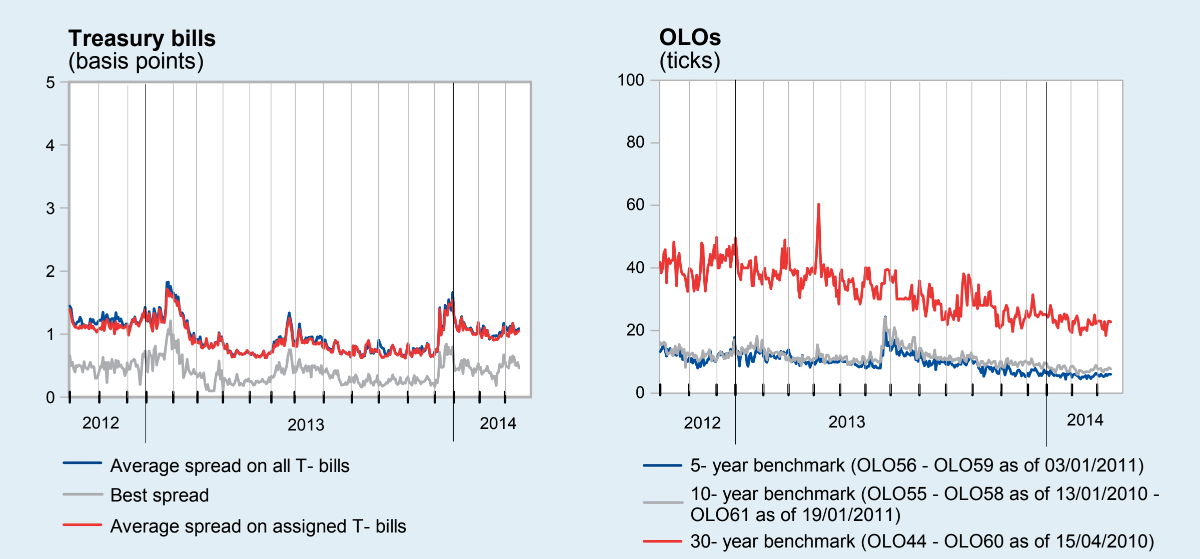


Outright turnover in February 2014



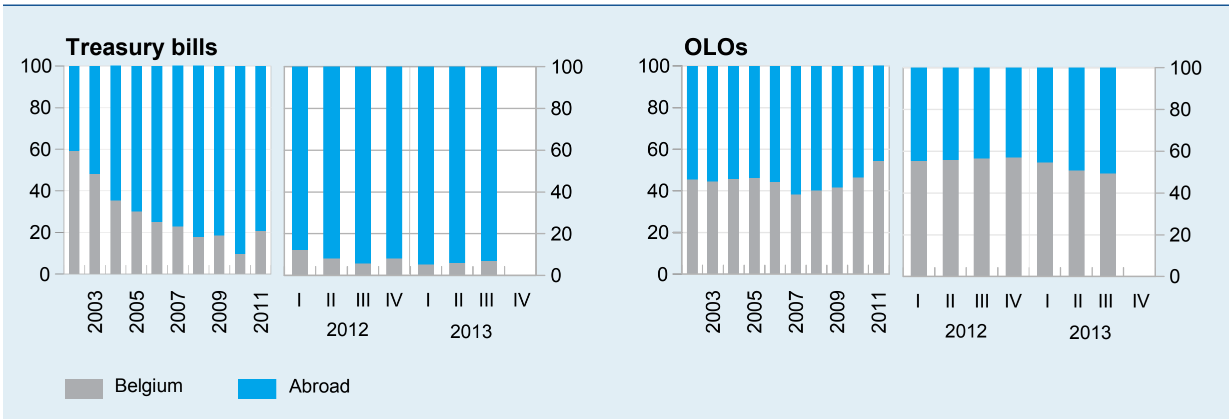
Source: Securities Regulation Fund.
[1] The turnover figures include sell/buy- back transactions which are in fact repurchase agreements.

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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