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

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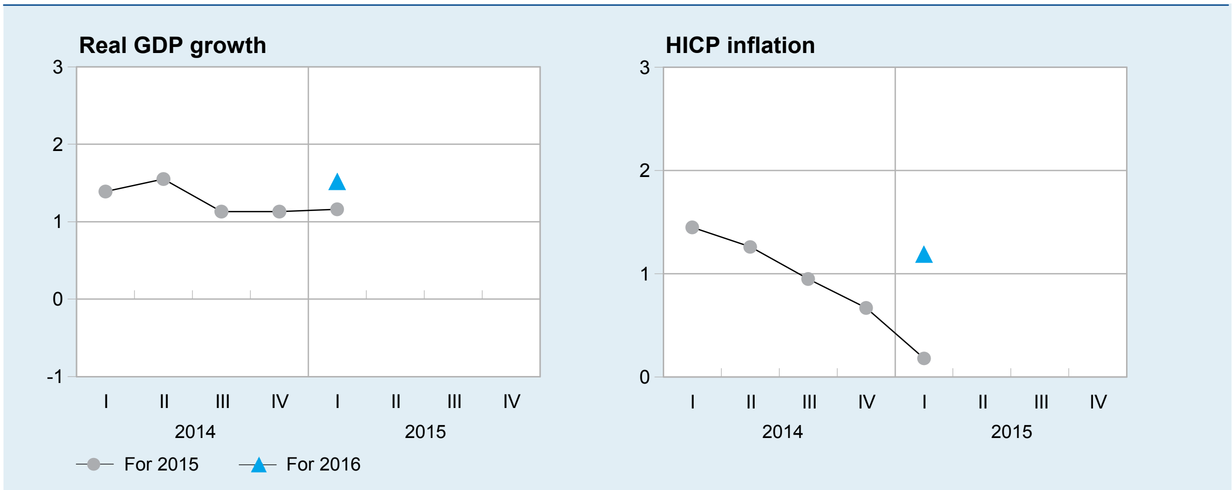
- On average, the BPN participating institutions expect GDP growth to gradually gain traction, 1.2 % in 2015 and 1.5 % in 2016. HICP annual inflation should remain subdued, at 0.2 % and 1.2 %, respectively.
- Fiscal consolidation and structural reforms should work together as an agenda for sound public finances, sustainable growth and job creation in Belgium, along the lines of the European Semester (see Special Topic).
- By February, the Belgian Debt Agency has already completed 30 % of its long-term funding programme for 2015 (see Treasury Highlights).

Consensus: Average of participants' forecasts

	2014		**2015 p**				**2016 p**	
	Belgium	Euro area	Belgium		Euro area		Belgium	Euro area
Real GDP(1)	1.0	0.8	1.2	(1.1)	1.3	(1.1)	1.5	1.6
Inflation (HICP)(1)	0.5	0.4	0.2	(0.7)	0.1	(0.6)	1.2	1.3
General government balance(2)	-3.2	-2.6	-2.6	(-2.4)	-2.3	(-2.3)	-2.2	-2.0
Public debt(2)	106.5	94.3	107.2	(107.3)	94.9	(94.6)	105.9	94.2

Numbers in parentheses refer to the previous consensus forecast of January 2015.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Macroeconomic developments

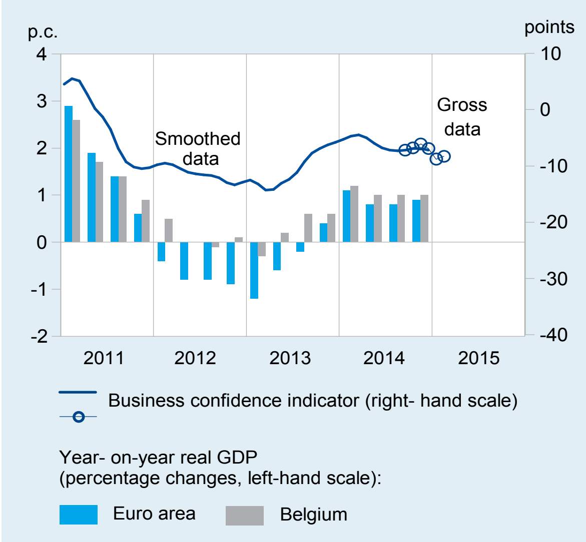
Low oil prices, favourable financial conditions and a weaker euro are supporting economic activity and demand prospects in the euro area. At the same time, significant spare capacity, along with deleveraging and fiscal consolidation needs, are still curbing economic development in some countries, although to a lesser extent than in previous years. In this context, the gradual recovery currently under way is expected to continue at a moderate pace, while inflation should pick up slowly.

Against this background, business confidence in Belgium has recently recovered after a weakening at the start of the year. Despite a limited correction in March, consumer confidence has also improved significantly since November 2014, corroborating the same picture of the recovery gaining momentum gradually. **All in all, the participating institutions expect GDP growth in Belgium to accelerate moderately, from 1 % in 2014, to 1.2 % in 2015 (1.1 % in the previous release) and 1.5 % in 2016.** Private consumption had already started to recover in 2014, in part due to the boost in purchasing power stemming from plummeting energy prices. It should continue to grow broadly at the same pace as GDP over the current and the coming year, although stronger fiscal consolidation efforts and contained wage developments are likely to weigh on disposable income in the short run. At the same time, these measures, being necessary steps for restoring fiscal sustainability and improving competitiveness, are supporting exports, investment and job creation.

The unemployment rate has remained stable at around 8.5 % of the labour force from mid-2013 up to the most recent data, from February 2015, some 1.5 percentage points higher than before the euro area sovereign debt crisis unfolded in 2011. According to forecasts available from BPN participants as well as international institutions, a slight decline should set in during the course of 2016.

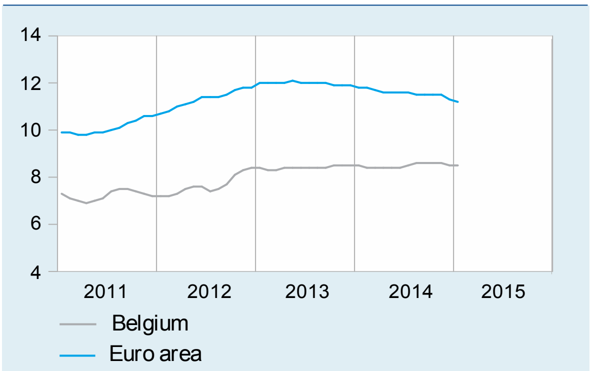
In Belgium, HICP inflation fell into negative territory in December 2014 and remained there for the two first months of 2015 (latest data available), reaching a low point of -0.6 % in January. The decline in the consumer price index stems mainly from the energy component and, to a lesser extent, from the unprocessed food items, while the underlying trend in inflation - measured as HICP excluding energy and food – has hovered around 1.5 -1.6 % since the beginning of last year. As the strong negative base effects should unwind over the coming months, **on average, the primary dealers expect Belgian HICP annual inflation to be close to the euro area average, reaching 0.2 % in 2015 and 1.2 % in 2016.**

GDP GROWTH AND BUSINESS CYCLE INDICATOR



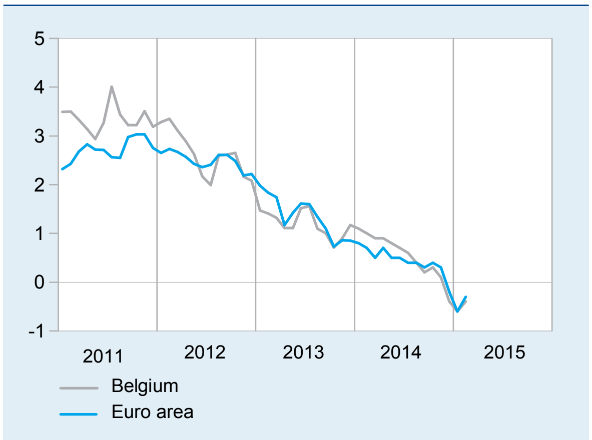
Sources: EC, NAI, NBB.

UNEMPLOYMENT RATE
(percentage of the labour force)



Source: EC.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

Official public accounts for 2014 will be released by the National Accounts Institute in mid-April. As of today, estimates published in the NBB Annual Report and in the EC Winter Economic Forecast point to a 3.2 %-of-GDP deficit for the general government. **According to the average of the participating institutions' forecasts, the general government deficit in Belgium is estimated at 2.6 % of GDP in 2015 and 2.2 % in 2016.** This forecast confirms the European Commission's view that the excessive deficit in 2014 was only temporary (see Special topic). However, additional consolidation efforts would still be required to comply with the path of the draft budgetary plans submitted by the Belgian authorities to the EC. In a context of weak nominal growth, **the debt ratio is expected to rise from 106.5 % of GDP in 2014 to 107.2 % in 2015, before dropping back to 105.9 % in 2016.**

Special Topic: An agenda for sound public finances, sustainable growth and job creation in Belgium

To coincide with the arrival of spring, the Belgian economy seems to be slowly gaining traction, along with the euro area. However, in view of the structural challenges, it is of utmost importance to consolidate the recovery and turn it into sustainable and robust growth. This requires appropriate policies for sound public finances, more job creation in the private sector, and an upturn in productivity growth.

In view of specific weaknesses identified for Belgium, various measures and reforms have been taken in the country over the last few years. This Special Topic will review recent developments with some of them, through the lens of reports published recently by the European Commission for the European Semester 2015.

Budgetary developments

In October 2014, the draft budgetary plan for 2015 targeted a reduction in the nominal deficit from 2.9 % in 2014 to 2.1 % in 2015, thanks to an improvement of the structural balance of 0.7 % of GDP.

After its initial assessment that the plan was at risk of non-compliance with the provisions of the Stability and Growth Pact, as was also the case for France and Italy, the European Commission indicated in November 2014 that it would examine in early March 2015 its position vis-à-vis Belgium's obligations in light of the finalisation of the budget law and of the expected specification of the structural reform programme. Moreover, as the deficit for 2014 (3.2% of GDP according to the EC winter forecast) actually exceeds the reference value and because of the deviation from the required trajectory towards debt reduction, the European Commission had to prepare a report in accordance with Article 126(3) of the Treaty.

The Commission decided not to open an excessive deficit procedure against Belgium at this stage, on the basis of the following assessment:

- The estimated deficit for 2014 is close to the reference value, and is exceptional because of the statistical changes in government accounts in October 2014, as well as revenue shortfalls. Moreover, the excess is temporary, with the deficit for 2015 falling below the reference value (2.6 % of GDP). This suggests that the deficit criterion has been met.

- The required minimum linear structural adjustment (MLSA) in the context of the debt criterion is not met in 2014, nor in 2015, but the EC has given consideration to the following relevant factors: (i) the progress towards the MTO in 2015 is satisfactory; (ii) the agreed structural reforms in the area of pensions, cost-competitiveness, and labour market participation, and (iii) extraordinary economic conditions, in particular low inflation on top of low growth, which may hamper the reduction of the debt-to-GDP ratio and make compliance with the provisions of the Stability and Growth Pact particularly demanding. In view of these adverse cyclical circumstances, the high MLSA effort currently required is considered as neither feasible nor desirable.

In this report, the EC also concludes that Belgium is not expected to deviate significantly from its path to the Medium Term Objective in 2014 and 2015 and can therefore be considered to be broadly compliant with the preventive arm of the SGP.

COMPARISON OF MACROECONOMIC AND FINANCIAL INDICATORS FOR BELGIUM
(2014, unless otherwise stated)

	Belgium	Euro area	Germany	France	Netherlands
GDP growth (average annual rate 2008-2014)	0.5	-0.1	0.7	0.3	0.0
Inflation (average annual rate 2008-2014)	2.1	1.7	1.6	1.6	1.8
Unemployment rate (% of labour force)	8.5	11.6	5.0	10.2	7.4
Employment rate (% of 20-64 years population)	67.3	68.7	77.7	69.0	76.1
Public fiscal balance (% of GDP)	-3.2	-2.6	0.4	-4.3	-2.8
Public debt (% of GDP)	106.4	94.3	74.2	95.3	69.5
Current account balance (% of GDP - NA definition)	-0.1	2.8	7.7	-1.8	8.5
Net financial assets (whole economy - in % of GDP)[1]	35.4	-11.5	42.9	-9.0	73.4
Net financial assets of households (% of GDP)[1]	224.9	141.2	124.2	156.1	190.7

Source: EC.
[1] 2014 Q3.

Special topic: An agenda for sound public finances, sustainable growth and job creation in Belgium (continued)

Besides the Commission's assessment, it is now of utmost importance for the authorities to ensure that the budgetary and fiscal outcomes for 2015 remain on track to reach their objectives, i.e. a 0.7 %-of-GDP improvement in the structural balance of the general government sector as a whole. In this context, the federal government and governments of the Communities and Regions are conducting budget controls. Additional consolidation measures should be taken in case of deviation.

Beyond the budget for 2015, an updated budget trajectory will be laid down in the Stability programme 2015-2018, to be submitted by end-April 2015. The overall objectives and their repartition between the federal level and the federated entities will need approval by the Consultative Committee between the federal government and the governments of the Regions and Communities, based upon the advice of the High Finance Council. This advice recommends improving the general government's structural budget balance by 0.7 % of GDP each year from 2015 to 2017 and by 0.6 % in 2018, in order to reach by then a balanced budget in structural terms. On 30 March, the federal government announced having agreed on additional measures for the 2015 budget, consistent with this target.

Macroeconomic imbalances and structural issues

In parallel with the assessment of the budgetary plan implementation, the European Commission also published its country report on Belgium, including an in-depth review of the prevention and correction of macroeconomic imbalances. It concluded that Belgium, together with a group of countries including the Netherlands, Romania, Finland, Sweden and the United Kingdom, is experiencing macroeconomic imbalances, which require policy action and monitoring.

The vulnerabilities and imbalances identified in the assessment largely reiterate the conclusions of previous analyses by the Commission and other institutions. In a nutshell, they mainly concern the high level of public debt, the loss of external competitiveness, under-utilisation of labour, reflected in the low employment rate, and supply-side factors limiting productivity developments and potential growth in the economy.

Over the last few years, actions have in fact already been taken by the authorities to tackle those challenges, and further measures are planned, following the instalment of new governments in the course of 2014.

Increasing the labour market participation of older people is an important priority, not just because this is one of the categories suffering from a low employment rate in Belgium, but also in view of the consequences of the ageing. In recent years, the minimum age and career requirements to access schemes for early exit from the labour market were tightened up, in order to reduce the gap between the effective and legal retirement age. The new federal government has decided additional steps in the same direction. Furthermore, the legal retirement age will be raised from 65 currently to 66 in 2025 and 67 in 2030. According to the calculation made by the Federal Planning Bureau, as a result of the pension reforms, the employment rate should reach 73.2 % in 2060 (compared to 68.1 % in a baseline scenario), and the budgetary cost of ageing should come down by some 1.9 % of GDP. In its assessment, the Commission considers this reform as significant progress, although implementation risks remain as long as the legislative process is not completed.

The very high level of labour costs is also a key feature of the Belgian economy. True, it also reflects – at least partly – the high productivity levels in Belgium. However, wages should be kept in line with trends observed for competitors and should serve the objective of stronger job creation, for less-skilled people too. Various measures have been taken to promote wage moderation. Over the period 2011-2014, there were almost no wage increases apart from the impact of automatic indexation. Cuts in social security contribution were also made. The social partners have agreed to freeze wages in real terms in 2015 and to limit the increase to 0.8 % in 2016. In addition, indexation of wages will be temporarily suspended - the so-called "index-jump", curbing wages increases by 2 % and additional cuts in social security contributions will be made. The objective is to fully unwind the wage gap that has accumulated since 1996 between Belgium and the three main neighbouring countries, after it had already come down from 4.2% in 2013 to 2.9% in 2014. The opportunity to implement a broader tax shift is also under discussion, as the fiscal and parafiscal wedge contributes significantly to the high labour costs in Belgium.

Obviously, besides the two issues just mentioned, a wide range of actions is necessary to place the economy on a broader footing, such as education and activation policies to help reduce labour market mismatches, innovation policies geared towards new products and new processes, and smoothly functioning product and labour markets to encourage a reallocation of production factors to the most efficient companies. They can build on a resilient and diversified economy, enjoying highly-skilled human capital and a sound financial position, as witnessed by the country's positive net financial asset position.

Treasury highlights

Belgium started off its € 35.75 billion long-term funding programme with the traditional launch of its new 10-year benchmark. The € 5 billion OLO 0.80% 22/06/2025 (OLO 74) was issued on 7 January 2015 at a spread of MS+11 bps. For the second year in row, Belgium was able to issue € 5 billion of its 10-year benchmark. Book size exceeded € 11 billion with a very good balance between the largest European jurisdictions (UK 19.8%, the Netherlands 13.8%, Germany 12.9% and France 9.5%), Asia (9.4%) and the Americas (8.2%).

In February, the Treasury had already launched the second syndicated OLO benchmark for 2015. The € 4 billion 1% (OLO75) due 22 June 2031 was issued on 10 February 2015 at spread of MS+4 bps. The decision to issue a new 15-year OLO was taken to meet the real money demand for longer-dated European sovereign debt on the primary market. This new 15-year benchmark was priced at the lowest ever yield and lowest ever coupon for a 15-year OLO. The geographical distribution shows a good balance between the largest European jurisdictions (UK 36%, France 17% and Germany 9%), and the USA (16%).

The auctions scheduled for 19 January and 16 February were cancelled.

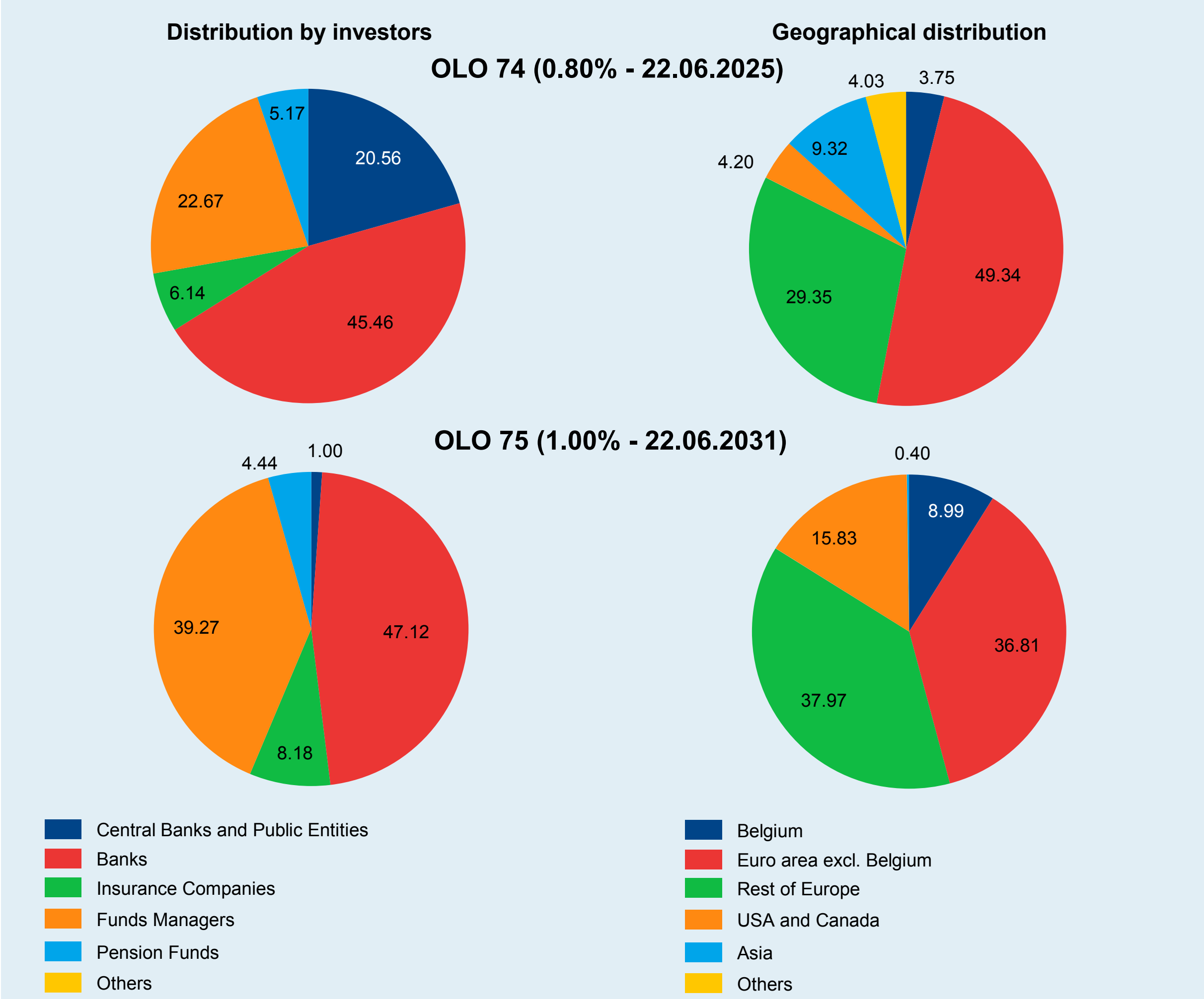
Besides the OLO issuance, the Treasury's EMTN and Schuldscheine programmes were again activated with two Schuldscheine issuances for a total of € 139 million and one EMTN public placement of $2 billion. This new $2 billion bond matures on 5 March 2018 and pays a coupon of 1.125%. After swap, the cost for the Kingdom of Belgium represents a negative yield.

By contrast, the State note issuance of 4 March 2015 only brought in € 3.5 million as a result of the very low coupon attached to the 8- and 10-year notes.

Belgium issued as such already € 10.90 billion which corresponds to 30.5% of its € 35.75 billion funding target.

In terms of portfolio structure, the average life of the portfolio is now 7.68 years as at the end of February and has an implicit yield (yield at issuance) of 3.10 %.

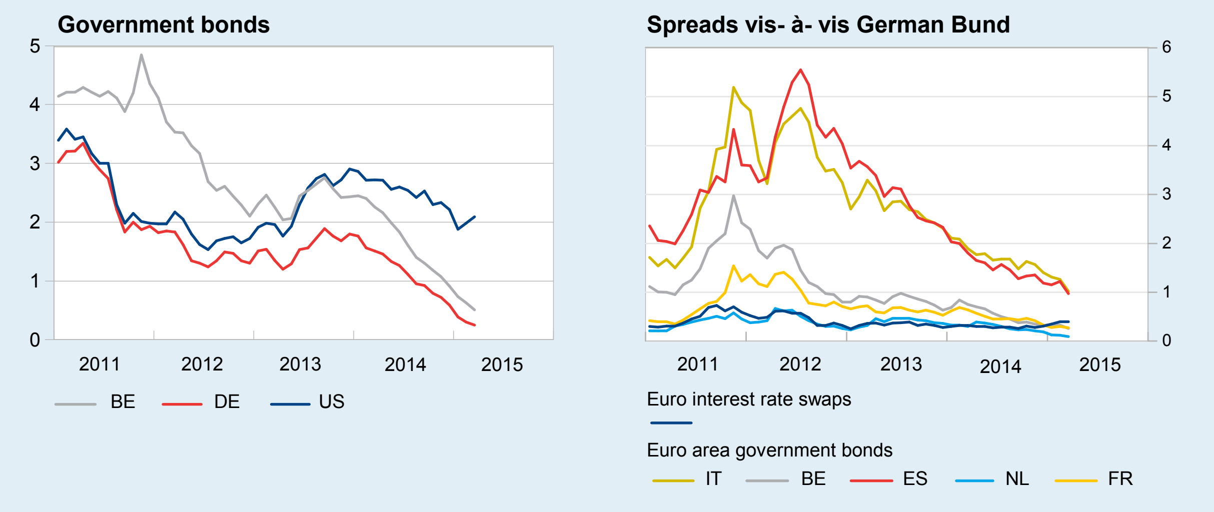
Distribution of the new OLO at issuance



Source: Thomson Reuters Datastream.

Government securities market

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

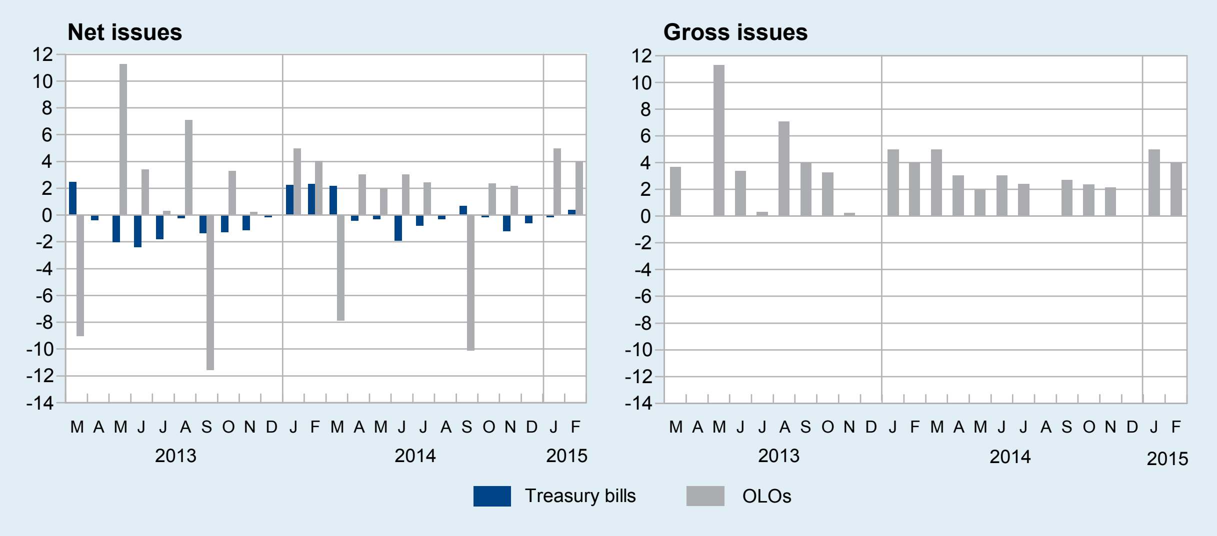


Sources: BIS, Datastream.
[1] Average over the first 20 days for March 2015.

The decline in long-term sovereign bond yields in the euro area continued between December 2014 and mid-March 2015 to reach new historical lows in most euro area Member States. In particular, over the review period, 10-year sovereign yields in Germany and Belgium dropped by respectively 34 and 40 bp to reach 0.25 % and 0.51 %, and yields for shorter maturities are in negative territory. These developments came in the wake of the announcement on January 22 and the subsequent implementation of the ECB's expanded asset purchase programme (EAPP) as well as some reductions in liquidity risk premiums (possibly also related to the EAPP). By contrast, 10-year sovereign yields in the US – even though they declined over the period under review by 12 bp – have risen by 21 bp since January to 2.09 %, reinforcing the decoupling of sovereign yields between the euro area and the US. This divergence can be attributed mainly to the different (cyclical) positions between the two economies, as well as differing market expectations regarding conventional and non-conventional monetary policy in the two areas.

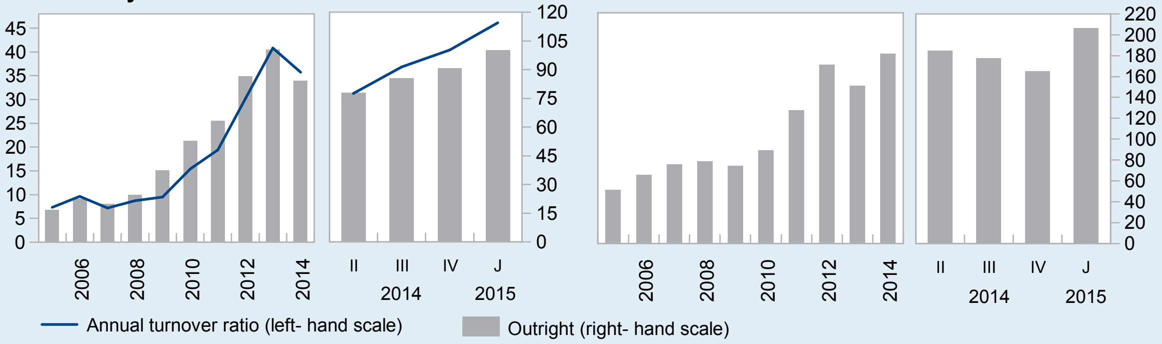
Long-term sovereign spreads vis-à-vis the German Bund also continued to decrease over the period under review for most euro area countries. Specifically, the Italian and Spanish spreads narrowed by 38 and 23 bp, respectively, to levels not observed since mid-2010 (102 and 97 bp). Spreads in both Belgium and France shrank by 6 bp to 26 and 27 bp, respectively. The narrowing of spreads was most noticeable in the euro area periphery as it partially reflected a higher search-for-yield response to low yields in the core countries, despite the ongoing uncertainty surrounding Greece's access to finance. This latter element had so far had only a limited impact on the sovereign yields of other Member States. However, it may explain the slight increase in general uncertainty on euro area government bond markets, as measured by option-implied volatility.

PRIMARY MARKET
(billions of euros)

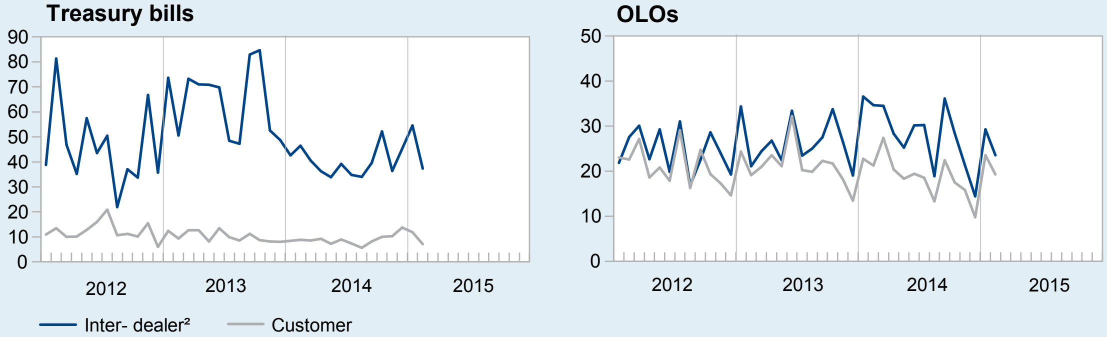


SECONDARY MARKET TURNOVER

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)

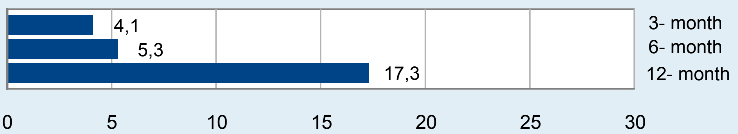


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy- back transactions which are in fact repurchase agreements.
[2] Please note that inter- dealer turnover is double- counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

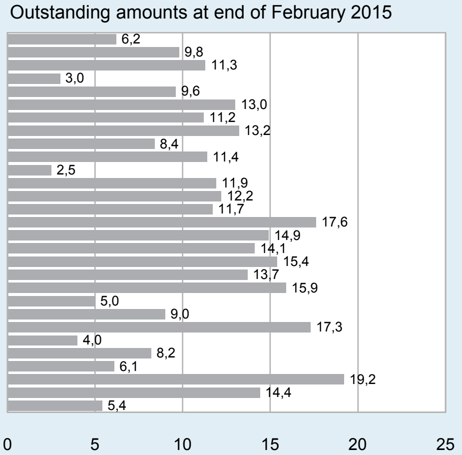
TREASURY BILLS

Nominal outstanding amounts at end of February 2015

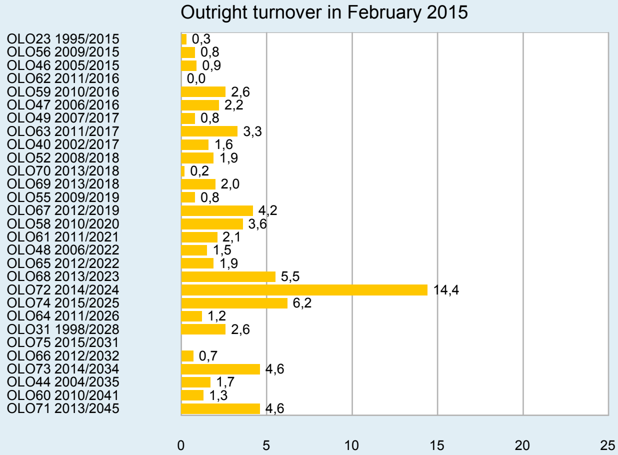


OLOs

Outstanding amounts at end of February 2015

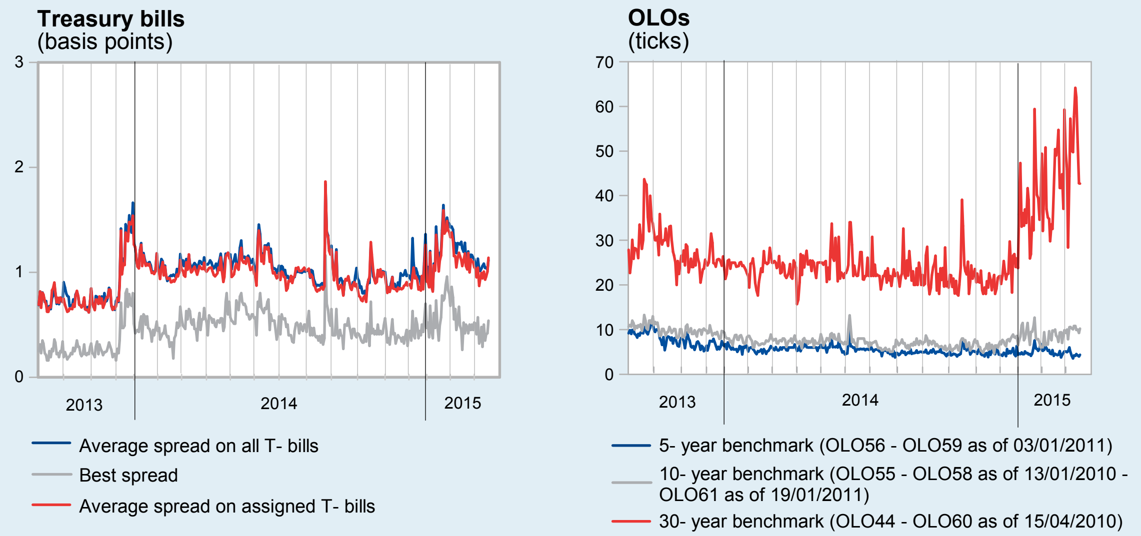


Outright turnover in February 2015



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).

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