BELGIAN DEBT AGENCY

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NationalBank OF BELGIUM
Eurosystem

Belgian Prime News

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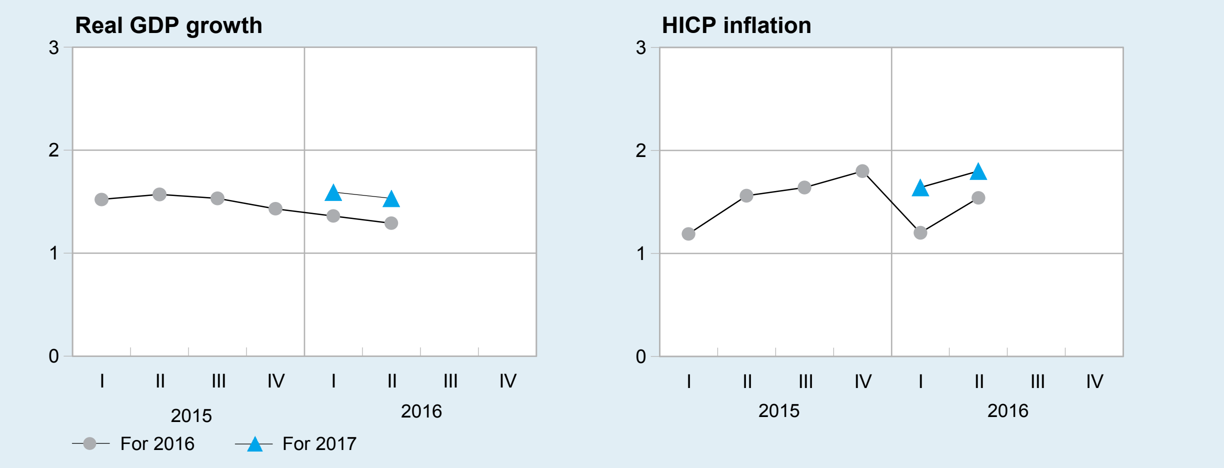
- Economic growth is expected to slowly gain further momentum in the euro area. In Belgium, this pace was temporarily checked by the impact of the terrorist attacks at the beginning of the year. The environment remains fragile, as illustrated by the uncertainty raised by the UK referendum (see Macroeconomic Developments).
- The Brexit's decision will have ripple effects on Belgium as on other European economies. Around 3 % of the Belgian GDP is triggered by the UK. The exposure of banks has been significantly reduced since the financial crisis. The soundness and the resilience of the economy have also improved on several accounts. Securing further fiscal sustainability in the near to medium term would also be important in that respect. (see Special Topic).
- On the back of investors' appetite for long-term instruments, the Belgian Debt Agency successfully issued its inaugural 50-year benchmark in April 2016 and a new 100-year note. The new issuance maturity is around 20 years and the average life of the federal debt portfolio had risen to an all-time high of 8.51 years by the end of May 2015 (see Treasury Highlights).

Consensus: Average of participants' forecasts

	2015		2016 p				2017 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	1.4	1.6	1.3	(1.4)	1.6	(1.4)	1.5	(1.6)	1.6	(1.6)
Inflation (HICP)(1)	0.6	0.0	1.6	(1.2)	0.2	(0.3)	1.8	(1.6)	1.4	(1.5)
General government balance(2)	-2.6	-2.1	-2.5	(-2.6)	-1.9	(-2.0)	-2.1	(-2.2)	-1.7	(-1.8)
Public debt(2)	106.1	90.7	106.4	(106.9)	90.9	(92.7)	105.7	(106.2)	90.0	(91.7)

Numbers in parentheses refer to the previous consensus forecast of March 2016.
Note: the forecasts were established before the UK's referendum.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Macroeconomic Developments

Although some of the favourable external tailwinds of the last two years are fading, the euro area recovery is still ongoing, mainly thanks to strong domestic demand, in the context of the very accommodating monetary policy and slightly expansionary fiscal policy. However, business confidence indicators are somewhat shaky and remind us just how fragile that recovery is. As shown recently with the Brexit referendum, political uncertainty in some jurisdictions could weigh further on investment and growth. Legacies from the crisis, in terms of high debt and unemployment, also persist in some member countries.

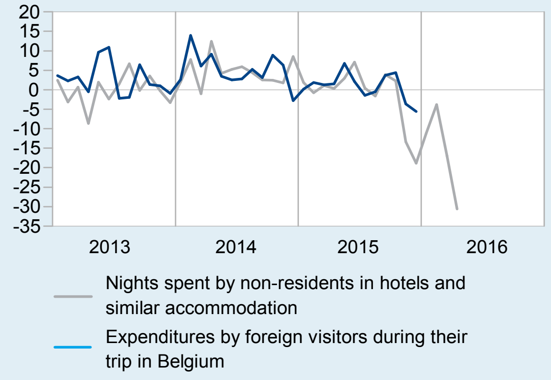
In Belgium, economic activity decelerated somewhat in the first quarter of 2016 to reach a quarter-on-quarter growth rate of 0.2 %. This partly reflects some downward impact of the terrorist threat that was sparked by the attacks in Paris in November 2015 and in Brussels on 22 March 2016. Although business confidence has barely suffered, consumer confidence temporarily dipped just below its long-term average in April. Also, as indicated by the number on nights spent by non-residents in hotels or similar accommodation, Belgium's tourism industry (i.e. exports of services) has suffered significantly from the terrorist threat so far and there is also likely to be some impact on the figures for the second quarter. **Against this background, the participating institutions expect GDP growth to come down somewhat in 2016, to 1.3 %, and pick up slightly to 1.5 % in 2017.** Note that the forecasts were established before the UK's referendum.

Private consumption, which was the main engine of growth in 2015, is likely to decelerate in 2016. Households' purchasing power is expected to remain restrained by the wage moderation policies and by rises in indirect taxation, the latter being however largely offset by cuts in personal income taxes. Furthermore, households' traveling, entertainments or restaurants consumption may also be hampered somewhat by the terrorist threat. However, comparison with other terrorist-hit countries, such as Spain, France and the UK, shows that consumer confidence typically returns to normal rather quickly. Meanwhile, steady job creation, reinforced by the competitiveness-enhancing measures, is shoring up consumption as well as housing investment. Investment is also recovering further on the corporate side, supported by strong demand, increasing corporate profitability and favourable financing conditions.

Headline inflation has averaged 1.5% in the first part of this year, due to very robust core inflation by euro area standards, in particular for services, and is expected to accelerate further this year, triggered by the upward trajectory of oil prices and various tax rises to help finance the tax shift. **As a consequence, participating institutions expect Belgian inflation to reach 1.6 % in 2016 and 1.8 % in 2017.** In the euro area, inflation is forecast to remain very low this year, at 0.2 %, but rise more markedly in 2017, reaching up to 1.4 %.

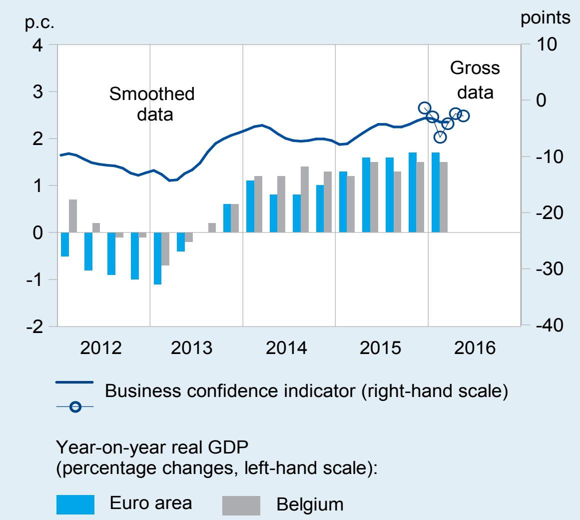
The Belgian public sector deficit is expected to amount to 2.5 % of GDP in 2016 - close to the 2.6 % recorded in the previous year -, before it improves to 2.1 % in 2017. It should be noted that some participants implicitly include in their projections future consolidation efforts, often in line with government targets, even if they are yet to be decided in detail. Still, some additional consolidation efforts would be required to comply with the path of the budgetary plans submitted by the Belgian authorities to the EC. **The participants expect the Belgian public sector debt to gradually decline too, from 106.4% of GDP in 2016 to 105.7% in 2017.** By 2017, euro area public debt is likely to have dropped further, to 89.6% of GDP.

INBOUND TOURISTS
(annual percentage changes)



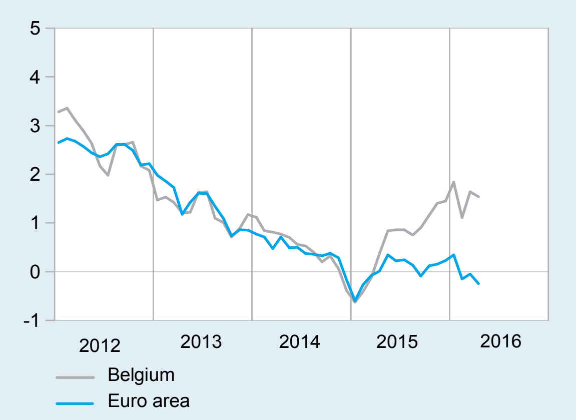
Source: Eurostat.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

Special Topic: BREXIT: HOW EXPOSED AND HOW RESILIENT IS THE BELGIAN ECONOMY?

For the last few months, the referendum on the United Kingdom's membership of the European Union has been an important source of volatility on the financial markets. While opinion polls pointed to a very close result, the ups and downs of the Leave and Remain camps were reflected in the pound sterling's movements against other currencies. Equity and bond market prices have also been affected since the beginning of the year.

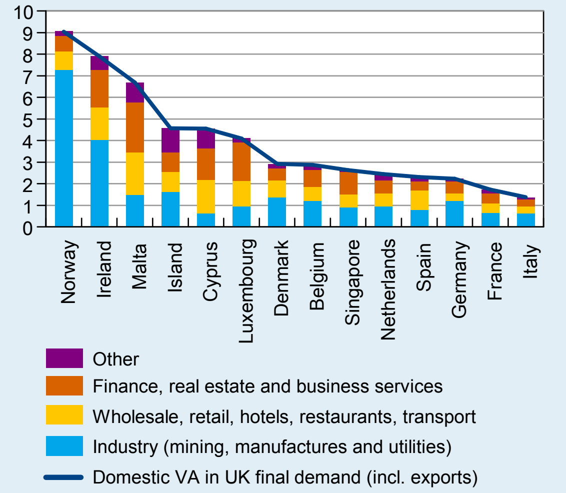
On 23 June 2016, a majority of British citizens voted for the United Kingdom to leave the EU. The referendum result triggered a sharp depreciation of the British currency against the euro and even more so against the other main currencies. Share prices also fell heavily across the globe. Financial institutions' shares were particularly badly hit.

Beyond these immediate reactions from the markets, this decision opens a long period of profound uncertainty about the divorce proceedings between the United Kingdom and the European Union and the nature of future relations between these economies. More broadly, it raises the question as to what form the European integration process will now take.

Importance of the United Kingdom for Belgium

At this stage, quantifying the possible economic impact of the Brexit is a hazardous undertaking. It nevertheless appears that the consequences will be negative, especially for the near to medium term. They will mainly affect the British economy, as a result of the uncertainty that companies and households have been thrown into, while movements in exchange rates and asset prices will weigh heavily on their wealth. Apart from the widespread adverse impact of the uncertainty and volatility on the financial markets, Belgium and the other European economies will also be affected through trade and financial links with the United Kingdom.

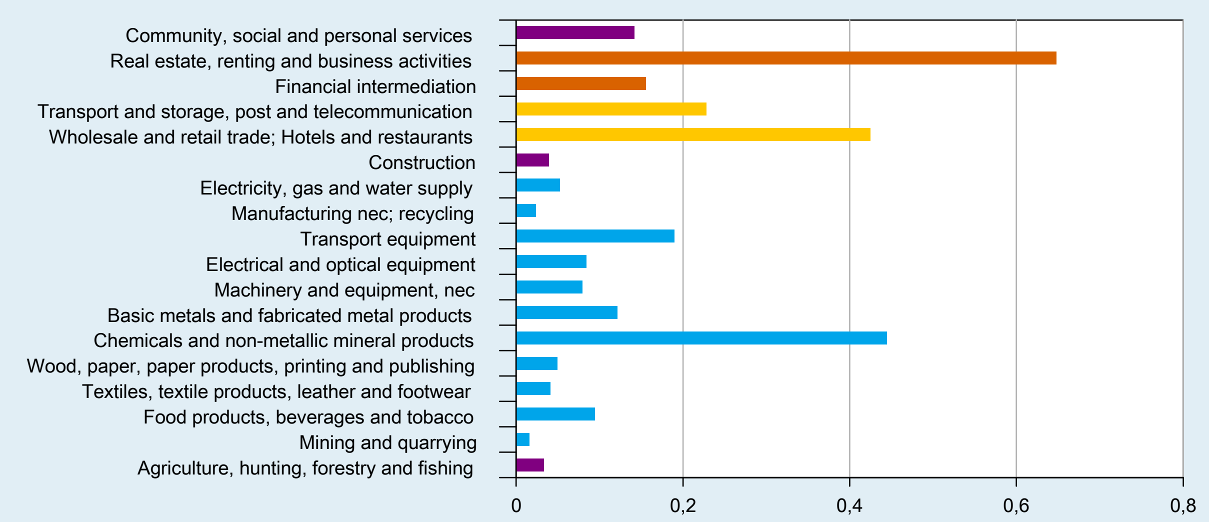
DOMESTIC VALUE ADDED EMBODIED IN UK FINAL DEMAND
(% GDP, 2011)



Source: OECD TiVa.

Because of its geographic proximity, trade relations between Belgium and the United Kingdom are relatively more intense than for European countries on average. In 2015, 9 % of exports of goods and services from Belgium went to the United Kingdom. More fundamentally, some 3 % of the value added produced in Belgium is generated by final demand of British origin. Chemicals, transportation equipment, tourist and business trips, transportation and professional services are among the key sectors involved.

BELGIAN VALUE ADDED EMBODIED IN UK FINAL DEMAND (Incl. exports)
(% GDP, 2011)

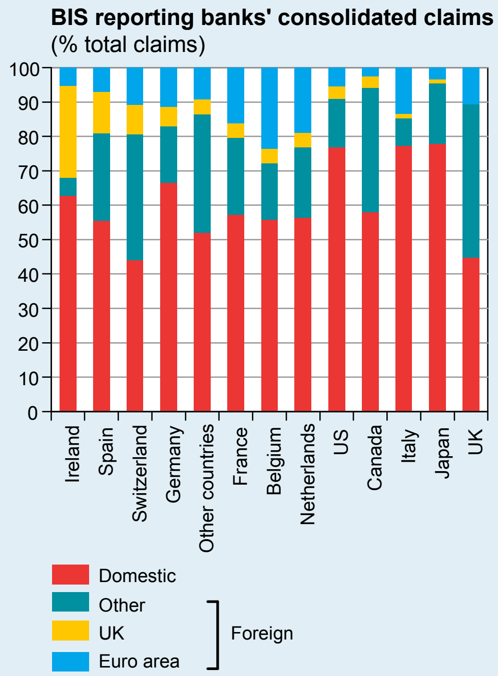


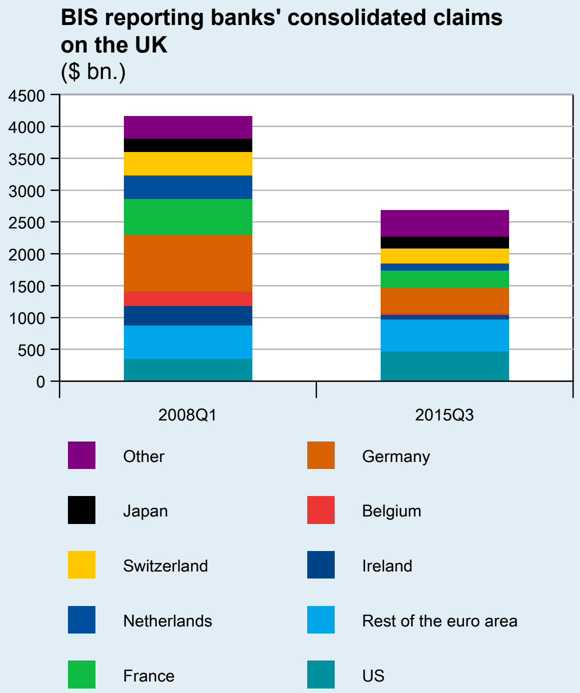
Source: OECD TiVa.

London's financial centre holds a predominant position in the international financial markets. It is a world leader in the field of interest rate derivatives and transactions on the foreign exchange markets. Regardless of their original nationality, international banks have all built up major business activities there.

Belgian banks, for their part, have sharply reduced their exposure to the British economy since the 2008-2009 financial crisis. This downsizing movement is part of the wider process of refocusing their core business on Belgium and a few strategic markets. It is also the results of important banks having been took over by foreign group or put in run-off. On a consolidated basis, their claims on British counterparties thus came down from $ 235 billion at the beginning of 2008 to $ 20 billion in the third quarter of 2015. By then, these claims accounted for 4 % of their total assets.

BANKS' EXPOSURES ON THE UK





Source: BIS.

Foreign direct investment relations also make a fundamental contribution to the prosperity of economies, providing access to labour resources and outlets of foreign markets and reinforcing the diffusion of knowledge and innovation. Established on the basis of long-term strategies, these relations are not likely to be changed overnight. But they could be gradually affected by greater restrictions on free movement of capital or people. Recent statistics suggest that 3.5 % of foreign direct investment by Belgian firms goes into the United Kingdom, an amount of 6 % of GDP. The euro area's direct investment in the United Kingdom comes to 12 % of GDP. On the other side of the coin, British companies account for 6.5 % of foreign direct investment in Belgium. This FDI is worth 14 % of Belgian GDP, compared with an average of 18.8 % of GDP in the euro area as a whole.

Strengthening the Belgian economy's resilience

The United Kingdom's decision to leave the European Union opens a long period of uncertainty for itself, for all its European partners, and for the global economy, and leads to a significant negative shock.

Belgium will not be the only one having to deal with it. The ECB – along with the Eurosystem national central banks – is in close contact with the other central banks. In concertation with the banks that it supervises, it stands ready to meet any liquidity requirements in euros or in foreign currency. In view of its position at the crossroads of Europe, Belgium will benefit particularly from the steps that will be taken by the European Union to set out fair and balanced conditions for the new trade and financial relationship with the United Kingdom. Where appropriate, any mitigation actions that might be taken to alleviate the short-term effects of Brexit will also benefit Belgium.

Special Topic: (continued)

At the same time, the Belgian authorities also have a key responsibility in establishing favourable conditions conducive to strong and sustainable growth over the long term and, consequently, greater resilience to external shocks. On several counts, Belgium's capacity to cope with this type of shock has been strengthened over the last few years. The financial sector, in particular, has drastically scaled back its risky activities and strengthened its solvency and liquidity positions. On the economic front, wage moderation measures, including the tax shift, have improved corporate competitiveness in terms of costs and have contributed to stronger job creation over the last two years. The pensions reform implemented in 2015 has also reinforced the sustainability of long-term public finances significantly. Furthermore, on the back of high demand for the issue of long-term securities, the Debt Agency has extended the average maturity of public debt so that it had reached 8.5 years in May 2016.

Nevertheless, it is up to the authorities to do their utmost to reduce the factors of uncertainty likely to affect household and corporate behaviour. Setting and implementing a fiscal policy that will bring about a rapid and credible reduction in the public debt remains a priority here. The 2017 budgets for the federal government and the governments of the Communities and Regions will have to be considered from that angle. In budget matters just as for other economic policies, efficient coordination between the different levels of government is also at the essence to establish a sound and supportive business environment.

Treasury Highlights

Besides its new 10-year and 30-year benchmarks, issued in January and March 2016, respectively, the Belgian Debt Agency issued its inaugural 50-year benchmark in April 2016. It was a dual-tranche issue, comprising new 7-year and 50-year lines. The new € 3 billion OLO 79 due 22 October 2023 pays an annual coupon of 0.20 % and was priced at a spread of -13 bps versus the interpolated mid-swap reference rate, implying a reoffer yield of 0.216 %.The new € 3 billion OLO 80 due 22 June 2066 pays an annual coupon of 2.15 % and was priced at a spread of + 17 bps over the mid-yield of the FRTR 1.75 % 2066, implying a reoffer yield of 2.1854 %.

The 7-year tranche allowed the Kingdom of Belgium to respond to investor demand for a new benchmark in the shorter part of the curve where it hadn't issued a new benchmark for some time, whereas the 50-year tranche has created a new part of the curve providing investors with an offer to achieve a higher yield. At the same time, such a tenor fits into the Kingdom's overall strategy to lengthen the average life of its debt.

Orders were over € 6.3 billion for the 7-year tranche and above € 8 billion for the 50 year line. The issue volume of € 3 billion on each tranche represents more than 100 investors in the 7-year and nearly 200 investors in the 50 –year, a sign of a very granular book.

With regard to the geographical distribution of the 7-year tranche, the UK took 20 %, the US 12 %, France and Spain 10 %, other euro area countries 37 % and Asia 8 %. The majority was placed with real money accounts, i.e. bank treasuries 25 %, fund managers 22 % and central banks 10 %. Banks took 31 % and hedge funds 12 %.

As for the 50-year tranche, the UK took 29 %, Germany 17 %, the Netherlands 16 %, non-EUR Europe 10 % and the US 11 %, representing mainly real money investors (76 %), more precisely fund managers 37 %, bank treasuries 12 %, insurance companies 12 %, pension funds 10 % and central banks 5 %. Hedge funds with 17 % and banks with 7 % took the remainder.

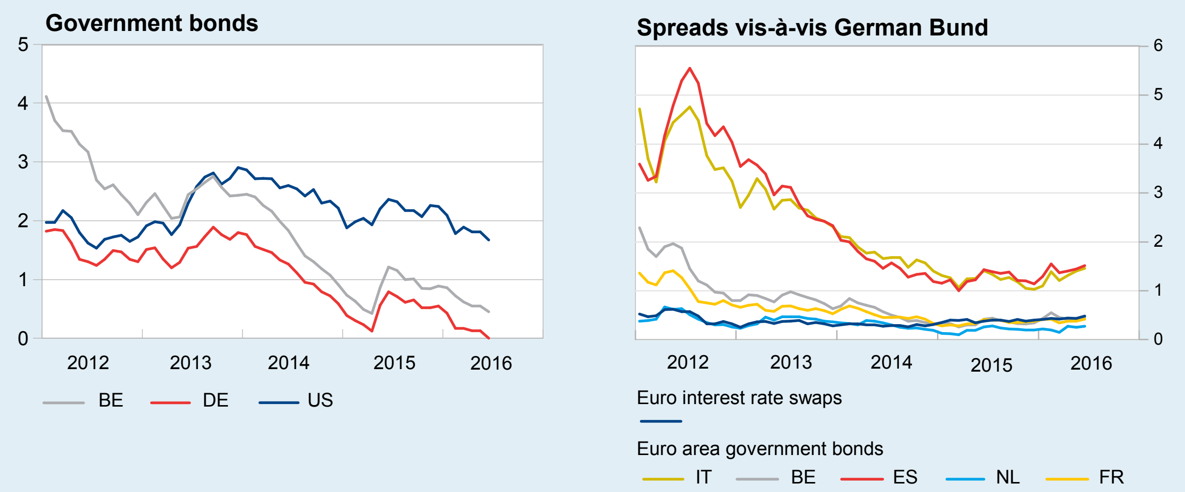
Moreover, the Treasury organised an OLO-auction on 20 June, resulting in issuance of 10-, 15- and 22-year maturities for a total amount of € 4.08 billion. As a result, the Kingdom of Belgium already issued 74.3 % of its target for the 2016 OLO funding. It achieved 66.5% of the total long-term funding amount of € 37.75 billion. The Belgian Debt Agency is planning to conduct four more auctions this year to finalise its primary market OLO-programme.

On the EMTN side, after its inaugural century note in September 2015, the Belgian Debt Agency again issued a 100-year note for an amount of € 100 million. With this issue, the Debt Agency has shown its flexibility to cater to the needs of investors while keeping its issue costs to reasonable levels. The Belgian Debt Agency also printed another inflation-linked note due September 2040 for an amount of € 100 million. Both issues are private placements.

The average life of the federal debt portfolio rose to an all-time high of 8.51 years by the end of May.

Government Securities Market

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

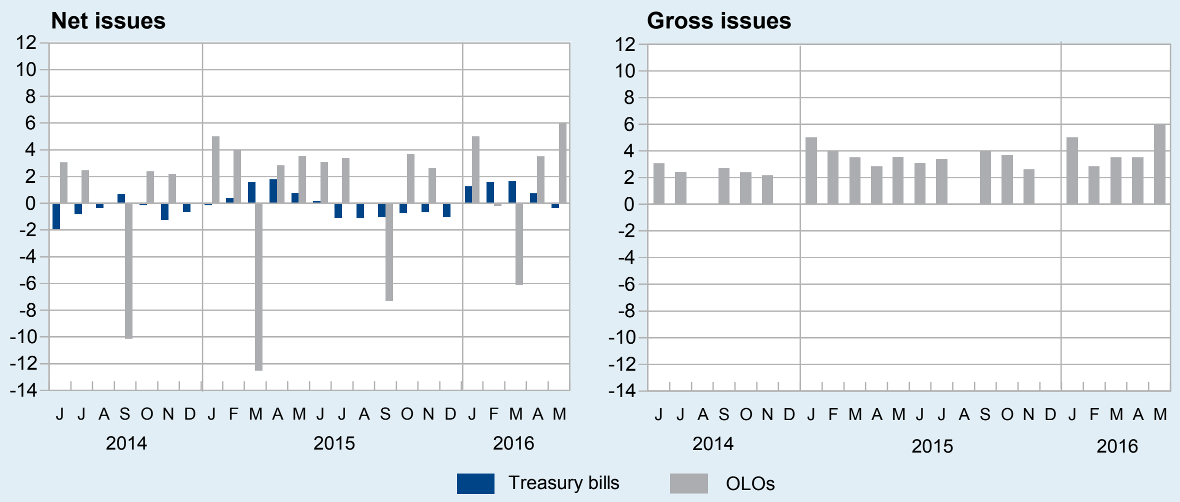


Sources: BIS, Datastream.
[1] Average over the first 27 days for June 2016.

Long term sovereign bond yields in core euro area countries and in the US continued on a downward trend between April and the end of June 2016. These developments can to a large extent be explained by the very accommodative stance of monetary policy in both economic regions, on the one hand, and by flight-to-safety flows following the announcement of the "leave" win at the Brexit referendum, on the other hand. Regarding the impact of Brexit, the ten-year UK yield declined by 27 bp the day after the vote, possibly indicating a search for safe assets as well as some anticipation of accommodative monetary policy by the Bank of England. In Germany, the ten-year Bund yield declined by 17 bp over the review period to 0 % on average for June 2016, and was even negative by the end of June, reaching a new historical low. After the referendum, the ten-year Bund yield declined by 14 bp. In Belgium, the ten-year yield dropped by 17 bp since April 2016 to 0.45 % in June. Similarly, the ten year US yield fell to 1.67 % after declining at the end of the review period, mainly due to the (anticipation of an) unchanged target range for the federal funds rate at the June FOMC meeting and to the result of the Brexit vote.

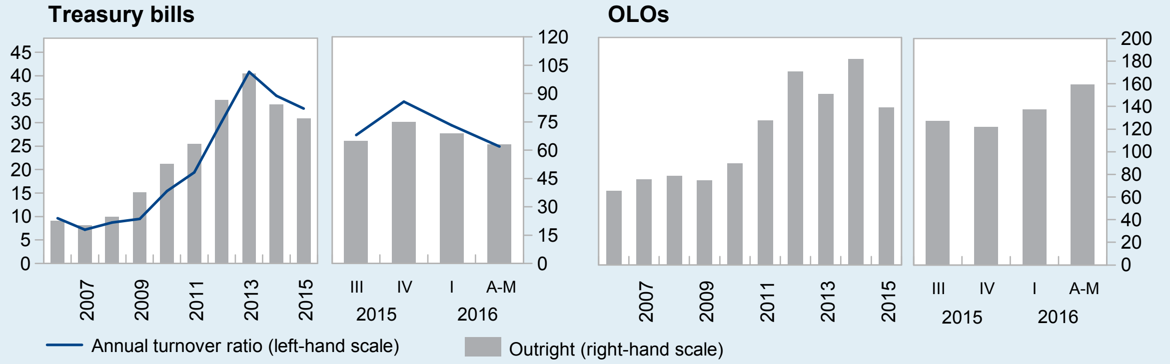
Over the period under review, the movement of declining spreads for high-rated euro area sovereign bonds vis-à-vis German bunds generally stalled. Spreads widened significantly for lower-rated countries, on the back of a combination of specific (political) risks and of the Brexit referendum. More specifically, ten-year spreads in Belgium remained relatively stable (at slightly less than 50 bp) while they widened markedly in Italy, Portugal and Spain by respectively 28, 38 and 13 bp. They stood 165 bp, 345 bp and 164 bp by the end of June 2016. The ten-year Greek spread was significantly decreasing over the review period in the context of the Eurogroup's extension of loans to Greece, until it rose again sharply following the British vote (+106 bp) to return to its original level of about 900 bp. After a period of relative tranquillity in financial markets, implied volatility indices rose in mid-June with the approaching vote on Brexit.

PRIMARY MARKET
(billions of euros)

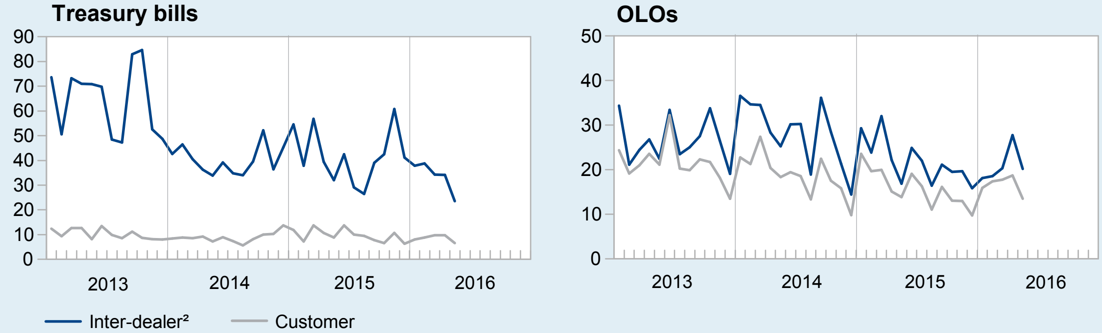


SECONDARY MARKET TURNOVER

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)

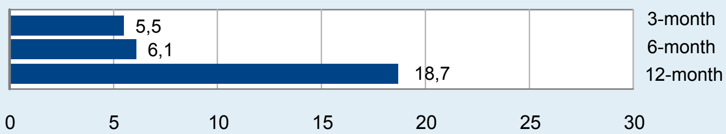


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.
[2] Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

TREASURY BILLS

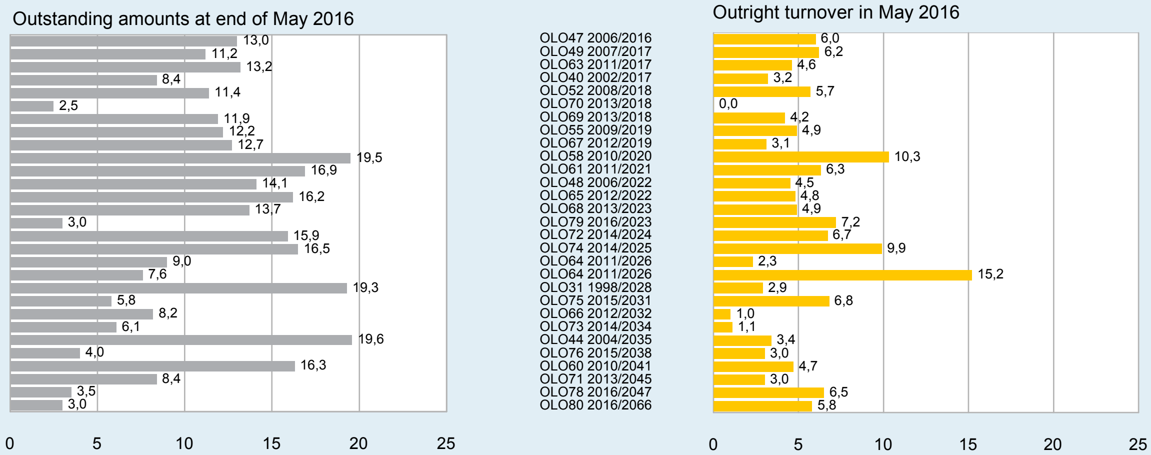
Nominal outstanding amounts at end of May 2016



OLOs

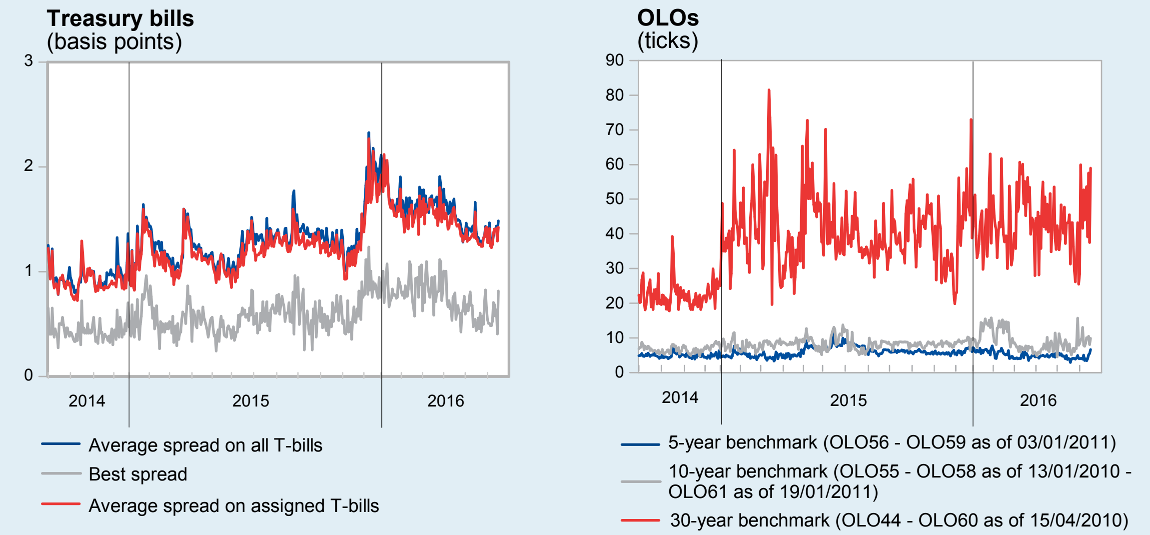
Outstanding amounts at end of May 2016

Outright turnover in May 2016



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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Sources: NBB, unless otherwise stated.

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