BELGIAN PRIME NEWS

Quarterly publication

BELGIAN DEBT AGENCY

NationalBank OF BELGIUM

Eurosystem

Participating Primary and Recognised Dealers:

Barclays, Belfius Bank, BNP Paribas Fortis, Citigroup, Crédit Agricole CIB, HSBC, ING, KBC Bank, Morgan Stanley, Natixis, Natwest (RBS), Nomura, Société Générale Corporate & Investment Banking

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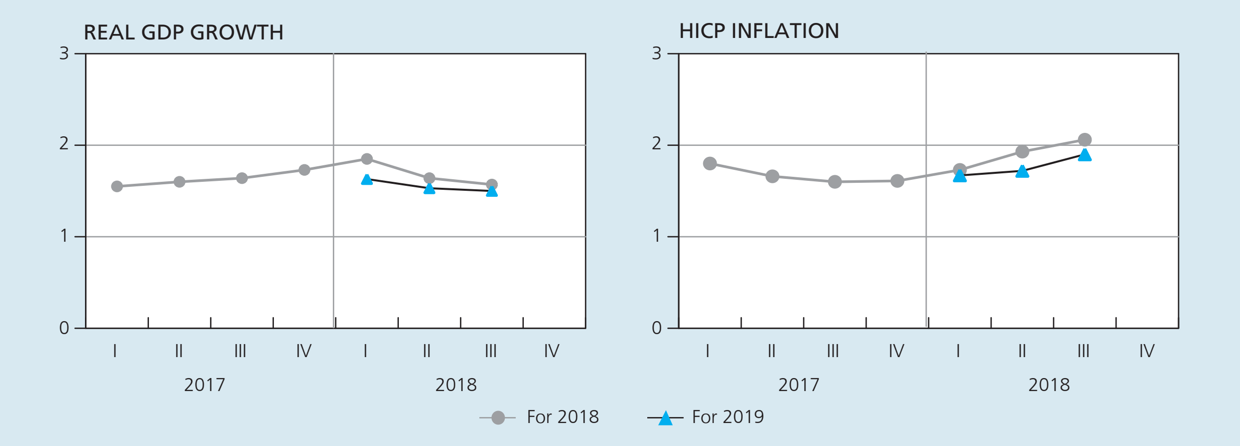
- MACROECONOMIC DEVELOPMENTS: Global environment clouded by trade tensions
- SPECIAL TOPIC: The Belgian financial sector, ten years after Lehman Brothers
- FINANCIAL MARKETS AND INTEREST RATES: Interest rates low for longer for most euro area sovereigns, in a context of higher risk premiums
- TREASURY HIGHLIGHTS: Smooth execution of the 2018 funding plan.

CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2017	2018p	2019p	2017	2018p	2019p
Real GDP(1)	1.7	1.6	1.5	2.4	2.0	1.8
Inflation (HICP)(1)	2.2	2.1	1.9	1.5	1.7	1.6
General government balance(2)	-1.0	-1.2	-1.4	-0.9	-0.8	-0.9
Public debt(2)	103.4	101.7	100.4	86.7	86.5	84.7

(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Global environment clouded by trade tensions

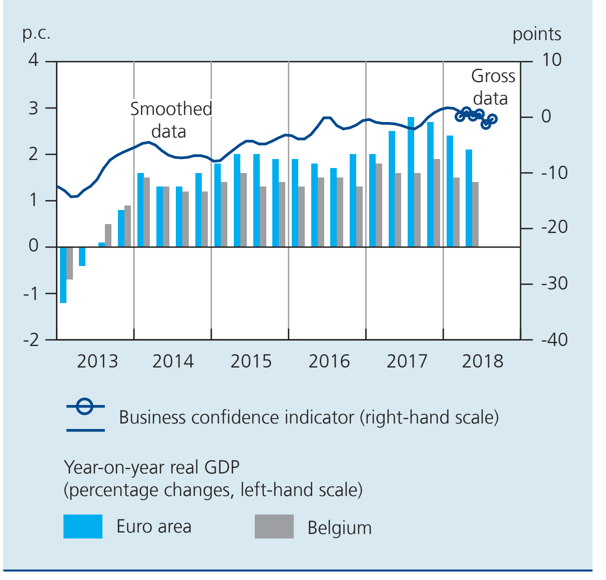
In the first half of the year, global growth was rather sluggish, although there was some divergence across countries and regions. While the United States registered a surge in economic activity in the second quarter of 2018 following a weak start of the year, the euro area economy posted stable performance with an average quarterly growth rate of 0.4 % in the first half of 2018. This is evidence of cooling off compared to the vigorous growth rates recorded during 2017 and may be indicative of a shift in the pace of euro area economic activity closer to potential growth. Meanwhile, there were also signs of global trade slowing down, which is most likely related to the uncertainty resulting from rising trade tensions. If trade threats and restrictions were to escalate further, they are likely to constitute an important drag on global growth.

In Belgium, GDP growth came in at 0.4 % in the second quarter of 2018, which is in sync with the euro area growth rate. In Belgium, economic activity was, to a large extent, supported by net exports, while private consumption turned out to be rather weak. While business and consumer confidence indicators are still at high levels, they are no longer at the record highs that were observed in late 2017. Against this background, the average GDP forecast has been revised slightly downwards from the June estimate for Belgium, and a little more markedly for the euro area. **On average, BPN participants currently expect growth in Belgium to reach 1.6 % in 2018 and 1.5 % in 2019. In the euro area, GDP is expected to grow by 2.0 % in 2018 and 1.8 % in 2019.**

The Belgian labour market has continued to perform relatively well throughout the first half of 2018, with the harmonised unemployment rate dipping as low as 6 % in the second quarter, according to the EU's labour force survey. Meanwhile, on the nominal side, headline inflation was pushed up by higher oil prices throughout the summer. In August, HICP inflation in Belgium reached 2.6 %. **According to the consensus forecast, inflation in Belgium should average 2.1 % for 2018 as a whole and 1.9 % in 2019, while it is likely to work out at respectively 1.7 and 1.6 % in the euro area.**

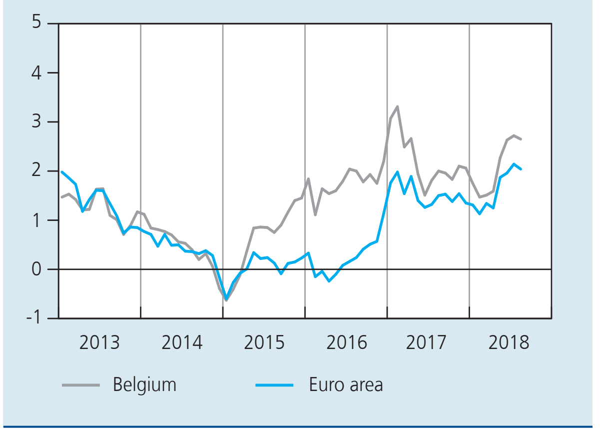
Belgian Prime News participants expect the public sector deficit to worsen slightly from 1 % in 2017 to, on average, 1.2 % in 2018 and 1.4 % in 2019. Some positive surprises could possibly lead to a better outcome in 2018. They stem from lower unemployment expenditure and strong advance payments on corporation tax, the latter factor reflecting greater incentives for frontloading tax payments. In any case, additional fiscal consolidation efforts would still be required to achieve the medium-term objective, which is a balanced structural budget in 2020. On the basis of their own macro and budgetary forecasts, **the BPN participants anticipate a further slow reduction in the Belgian public sector debt, from 103.4 % of GDP at the end of 2017 to 101.7 % in 2018 and 100.4 % in 2019.**

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

The market stress triggered by the collapse of Lehman Brothers on 15 September 2008 challenged the profitability and liquidity positions of several large Belgian financial institutions. Central bank support and government interventions were needed to secure the system. Since then, a wide-ranging process of transforming business models and activities has taken place, not least as a result of the post-crisis regulatory reforms that addressed the weaknesses revealed by the banking crash. Even now, ten years on, the financial sector will need to continue adapting to new challenges.

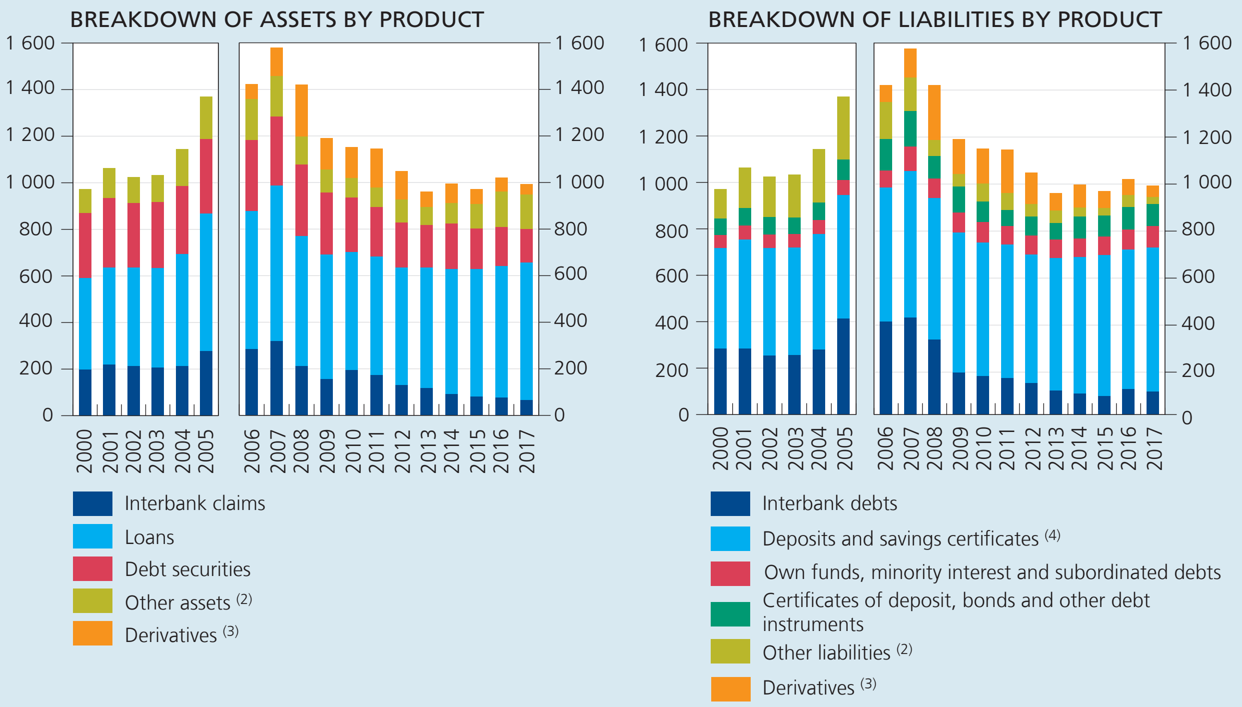
Belgian banking sector

The first five years of the post-Lehman-Brothers decade were mainly characterised by massive balance sheet deleveraging, bringing total assets down from over € 1 700 billion at the end of June 2008 to around € 1 000 billion since 2012 (see chart). This deleveraging was driven by the largest credit institutions and resulted mainly from scaling down of capital market activities and non-core cross-border business with foreign counterparties. On the liabilities side, slimmer balance sheets have been mainly used by banks to significantly lower their reliance on interbank and other wholesale funding sources.

The re-focusing of banks on their core business (back to basics) and core markets (back to Belgium) was also reflected in a changed composition of the balance sheet, with a bigger share of loans and deposits on, respectively, the assets and liabilities side. As a result, the share of retail deposits in total liabilities grew from 26 % in 2010 to 38 % in 2017 for example. Slimmer balance sheets and the re-orientation of business models towards more traditional activities led to a large fall in total risk-weighted assets (RWAs) and significantly improved solvency (with the Tier 1 capital ratio rising from 11.5 % at the end of 2008 to 16.9 % at the end of 2017).

Compared to their counterparts in many other European banking sectors, Belgian banks moved faster in addressing the vulnerabilities that were revealed by the crisis, giving them a head start in facing the challenges related to the low interest rate

BALANCE SHEET STRUCTURE [1]
(consolidated end-of-period data, in € billion)



Source: NBB.
(1) Data compiled in accordance with the Belgian accounting rules until 2005 (Belgian GAAP) and IAS/IFRS from 2006.
(2) "Other assets" mainly comprise balances with central banks, shares, tangible and intangible assets and deferred tax assets. "Other liabilities" are primarily short positions, liabilities other than deposits and debt securities, provisions and liabilities for defined benefit obligations. From the third quarter of 2014, liabilities linked to transferred assets are no longer recognised under "other liabilities" but are included under different items on the liabilities side.
(3) Derivatives are recorded at their market value, including, from 2007, income receivable and expense payable.
(4) From the third quarter of 2014, savings certificates are no longer included in "deposits and savings certificates" but are recorded under "certificates of deposit, bonds and other debt instruments".

environment and the weak economic growth in the years that followed. With an average return on equity of close to 10 % in recent years, the profitability of Belgian banks has indeed compared rather well with that seen in many other European countries. Yet, given the downward pressure on banks' net interest income as a result of the persistently low interest rate environment, maintaining this profitability will require further efforts to improve cost efficiency and raise new revenue, while preparing business models for the challenges and opportunities offered by the growing digitisation of financial services. Banks will also need to be vigilant about greater concentration of their assets on the Belgian residential and commercial property markets and maintain sound credit standards in new lending, including in the pricing of risk

Belgian insurance sector

In the decade that followed the failure of Lehman Brothers, the Belgian insurance sector had to deal with periods of major stress in global financial markets but also with an economic environment marked by very low interest rates and moderate economic growth that proved highly challenging for the traditional business model for individual life insurance policies offering guaranteed rates of return. As insurance companies with identified vulnerabilities undertook recapitalisation and restructuring programmes, recent stress tests have shown sufficient shock-absorbing capacity to withstand various economic scenarios, including one of continuously low interest rates. The sector has also succeeded in maintaining good profitability in recent years, with an average return on equity of around 10 % since 2010.

A financial sector serving the economy

Notwithstanding strong restructuring efforts, the Belgian financial sector has continued to serve the economy all through the crisis and in its aftermath. It should be in a good position to confront the challenges arising from digitisation and the persistently low interest rate environment. The authorities' commitment to maintaining financial stability, via high-standard micro supervision and macro financial surveillance will contribute to doing so. After all, a sound financial system is one of the necessary conditions which should be in place for a successful transition towards a future-proof economy.

FINANCIAL MARKETS AND INTEREST RATES

Interest rates low for longer for most euro area sovereigns, in a context of higher risk premiums

After a bout of tension in February 2018, volatility in the financial markets has remained relatively low over the past six months. Against a background of strong economic growth, American stock market indices have risen steadily. Following the largely anticipated rise in the Fed's reference interest rates on 13 June, the ten-year yield on US government bonds rose by 6 basis points between June and September and the dollar exchange rate peaked against the euro and other currencies in August.

Fuelled by concerns of trade wars, emerging markets were hit by currency depreciation and rising risks premiums, albeit to varying extents. This movement was particularly pronounced for the more vulnerable ones, such as Argentina and Turkey, two countries characterised by high levels of external debt and large current account deficits.

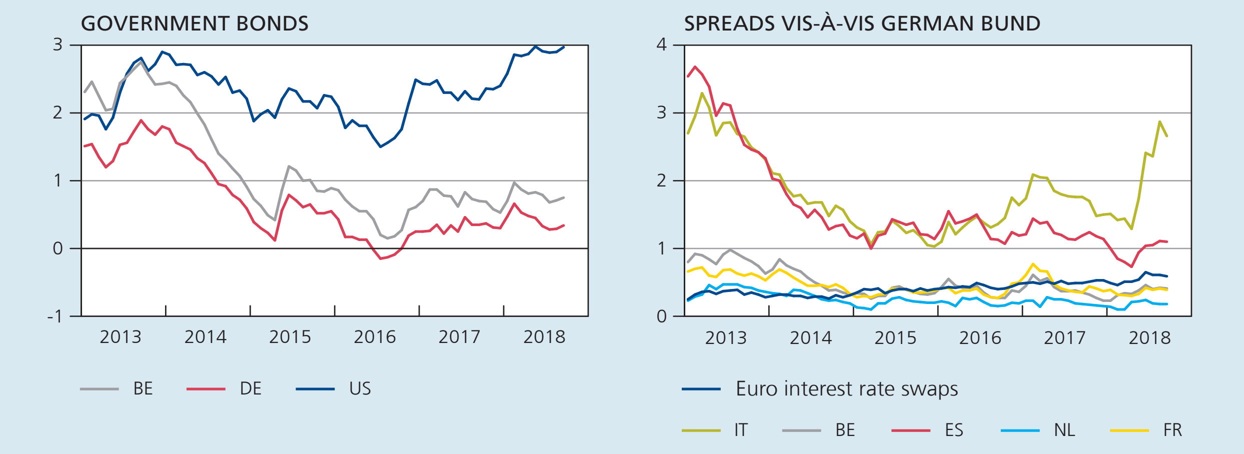
In the euro area, too, equity prices were supported by an overall favourable macroeconomic environment, despite some slowing down of the pace of growth. However, the euro area's exporting companies have been affected by worries raised by the trade dispute with the US and by Brexit. Some banks' stock market prices have been declining since January 2018, depending on their exposures to non-performing loans or to emerging markets, among other factors.

In line with previous communication, the ECB has kept policy rates unchanged and reduced the pace of its net asset purchases. Subject to confirmation of the self-sustained medium-term inflation outlook, net purchases are expected be stopped at the beginning of 2019. In its most recent communication, the Governing Council also confirmed that interest rates would stay at their current level up to the summer of 2019 at least.

The Eurosystem's accommodative monetary policy stance is exerting continued downward pressure on long-term interest rates. Indeed, while ten-year yields have remained virtually stable for the German Bund between June and September, they have fallen somewhat in France and in the Netherlands, by 2 and 5 basis points, respectively. In Belgium, the average interest rate on ten-year OLOs has declined by 4 basis points, reaching 0.75 % in September 2018.

Consequently, these countries' sovereign debt spreads vis-à-vis the German Bund narrowed slightly over the same period. By contrast, the Italian ten-year spread experienced another sharp rise in August. After an initial increase in May when the new government took office, this recent development clearly reflects investors' concerns about the budget to be put forward.

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



Sources: BIS, Thomson Reuters.
Average over the first 20 days for September 2018.

TREASURY HIGHLIGHTS **Smooth execution of the 2018 funding plan**

The Belgian Debt Agency held its scheduled OLO auctions in July and in September. The Agency offered four lines at each auction, in order to attract sufficient funding, given the fact that the number of OLO auctions has been reduced in 2018. In total, € 7 750 billion was raised.

OLO AUCTIONS (€ 7 750 BILLION)

Date	OLO	NR	Issued (€ Billion)	Yield	Bid to cover
July 23	OLO 0.50 % 22/10/2024	OLO82	**0.705**	0.167 %	2.92
	OLO 0.80 % 22/06/2028	OLO85	**1.112**	0.691 %	2.66
	OLO 1.45 % 22/06/2037	OLO84	**1.171**	1.339 %	1.25
	OLO 2.15 % 22/06/2066	OLO80	**0.618**	1.896 %	1.23
Non-competitive tour			***0.106***		
Total July			3.712		
September 17	OLO 0.20 % 22/10/2023	OLO79	**1.339**	0.043 %	1.48
	OLO 0.80 % 22/06/2028	OLO85	**1.310**	0.768 %	2.52
	OLO 1.60 % 22/06/2047	OLO78	**0.652**	1.717 %	2.00
	OLO 2.25 % 22/06/2057	OLO83	**0.601**	1.930 %	1.69
Non-competitive tour			***0.136***		
Total September			4.038		

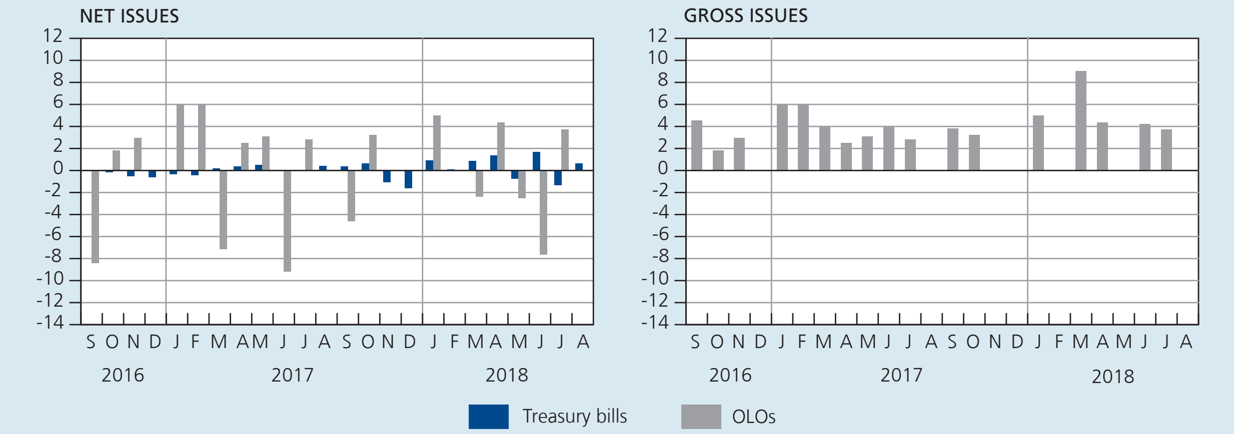
On September 26, the Agency also issued its first EMTN of the year. It was a private placement in euro, amounting to 189 million euro.

So far, Belgium now has already issued € 30.63 billion, corresponding to 89.4 % of its € 34.25 billion funding target.

In terms of portfolio structure, the average life of the portfolio is now 9.59 years, and the debt portfolio has an implicit yield of 2.17 %.

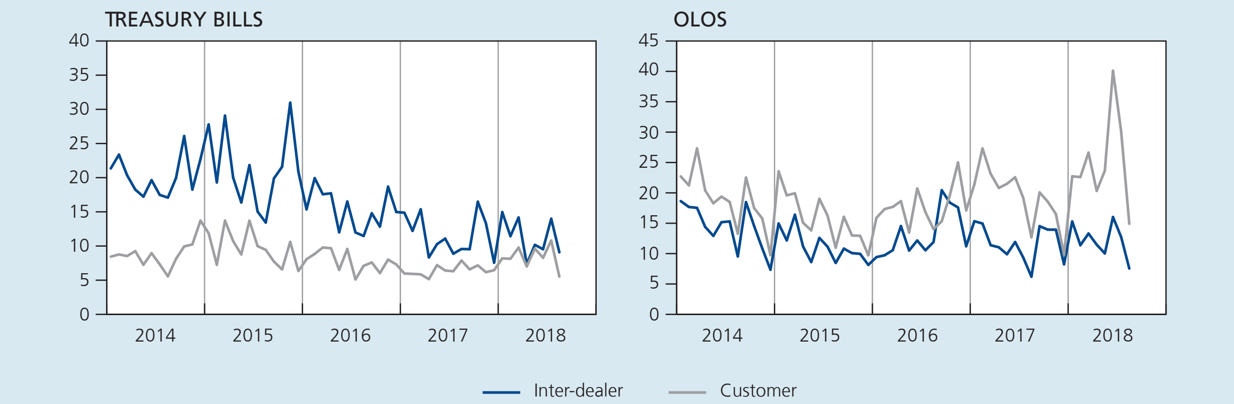
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(billions of euros)



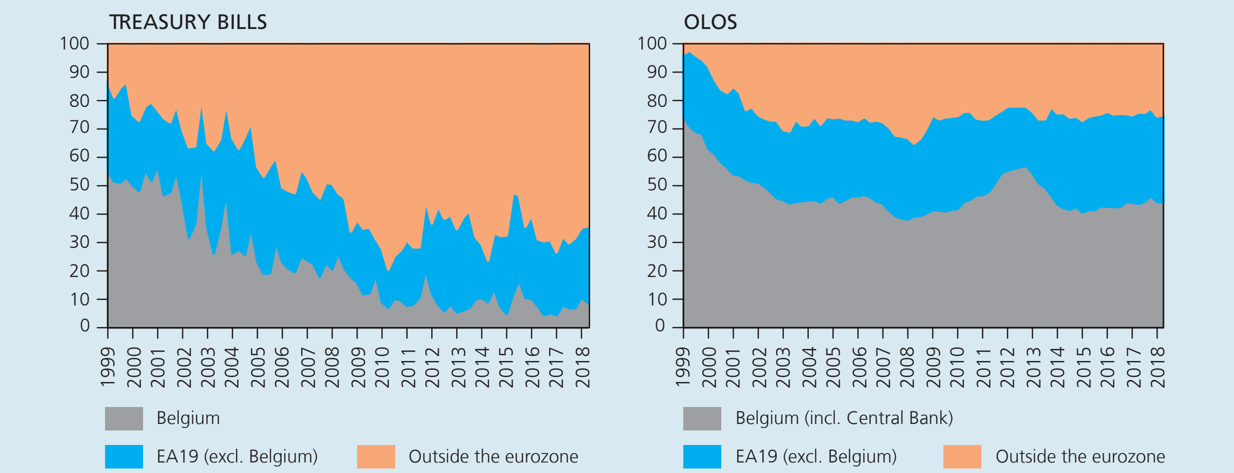
Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER
(as reported by primary and recognised dealers to the Treasury, billions of euros)



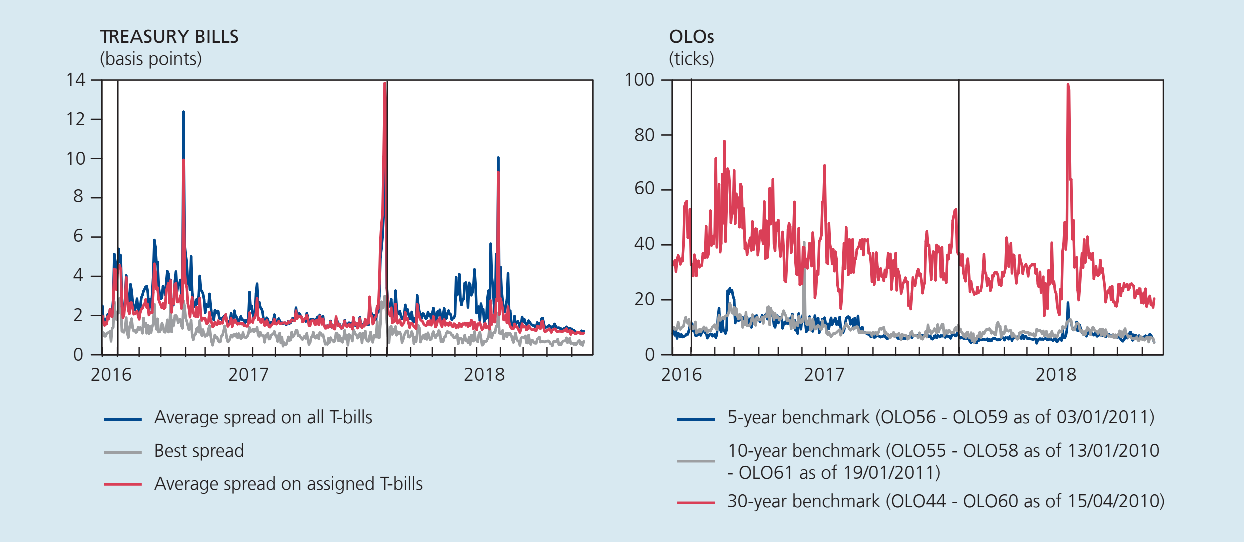
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



Source: NBB.

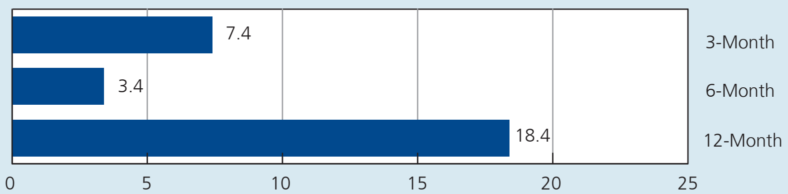
BEST BID/OFFER SPREADS [1]



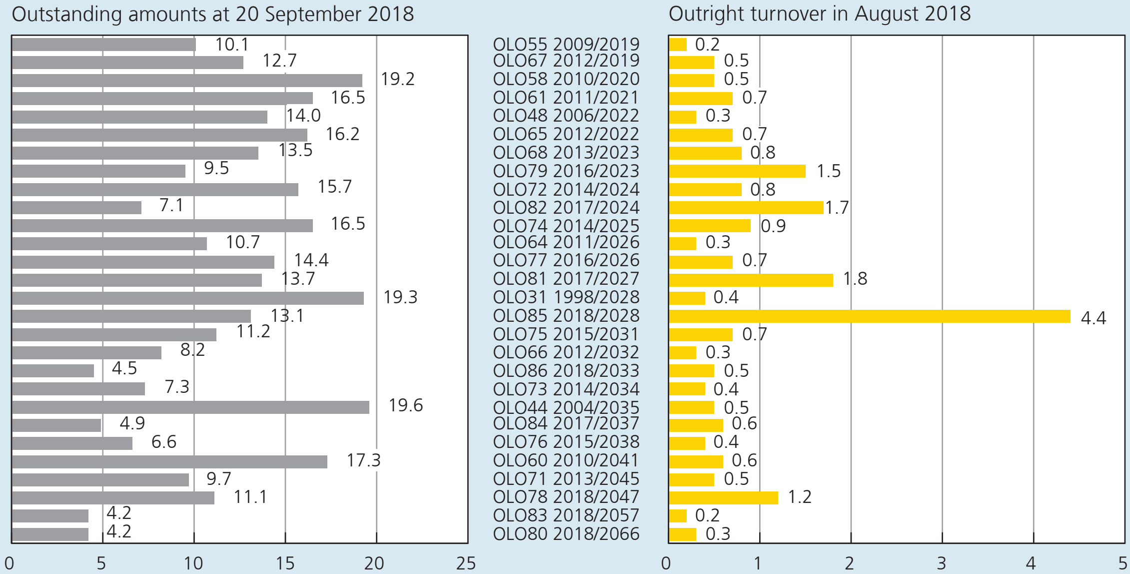
Source: Treasury.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

TREASURY BILLS
Nominal outstanding amounts at the end of August 2018



OLOs
Outstanding amounts at 20 September 2018
Outright turnover in August 2018



Source: Belgian Debt Agency.

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