

Belgian Prime News



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- Economic recovery is expected to continue at a moderate pace in Belgium and in the euro area, while inflation should gradually gain momentum.
- On average, the participating institutions expect GDP growth in Belgium to reach 1.4 % in 2015 and in 2016. HICP annual inflation should accelerate from 0.6 % in 2015 to 1.8 % in 2016, against the backdrop of increases in indirect tax hikes (see Macroeconomic Developments).
- The federal government has implemented a tax shift to support jobs and competitiveness (see Special Topic).
- The Belgian Debt Agency completed its 2015 programme smoothly. It has now published its Funding Plan for 2016: gross borrowing requirements and funding strategy are in line with the previous year's (see Treasury Highlights).

Consensus: Average of participants' forecasts

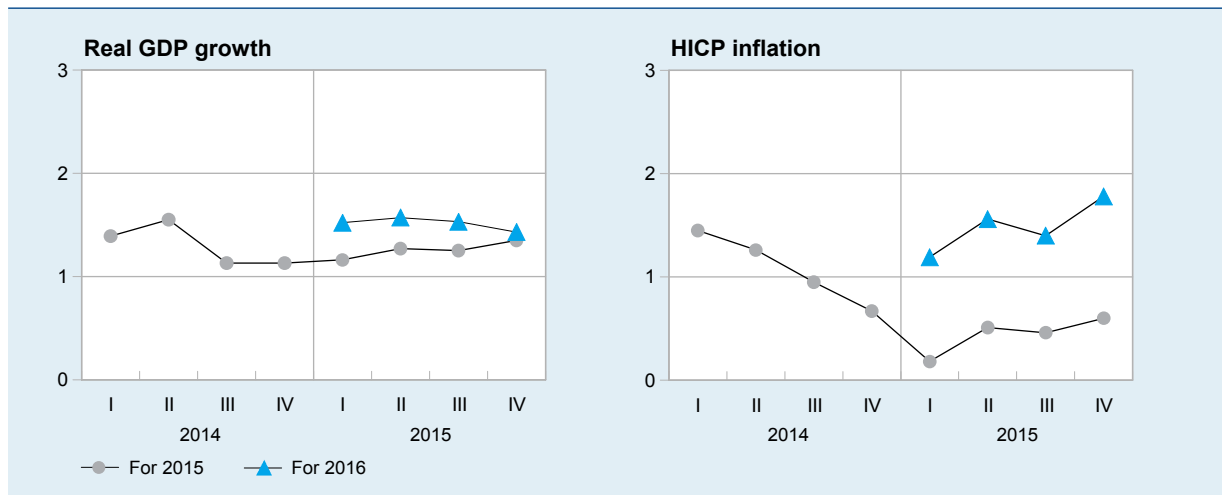
	2014		2015 p		2016 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP ⁽¹⁾	1.3	0.8	1.4 (1.3)	1.5 (1.3)	1.4 (1.5)	1.6 (1.6)
Inflation (HICP) ⁽¹⁾	0.5	0.4	0.6 (0.5)	0.1 (0.1)	1.8 (1.4)	1.1 (1.1)
General government balance ⁽²⁾	-3.1	-2.4	-2.7 (-2.7)	-2.1 (-2.1)	-2.4 (-2.3)	-1.9 (-1.8)
Public debt ⁽²⁾	106.7	94.2	106.8 (107.0)	93.5 (93.4)	106.4 (105.9)	92.5 (92.5)

Numbers in parentheses refer to the previous consensus forecast of September 2015.

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Macroeconomic developments

Global economic activity remains on a gradual but uneven recovery path. The sharp deceleration in emerging market economies and the accompanying downturn in world trade are weighing on growth in advanced economies. In the euro area, the slowdown has remained contained so far since economic activity is still bolstered by low oil prices, the past depreciation of the euro and low interest rates, while fiscal policies are becoming less restrictive. Notwithstanding, the international context is not immune to uncertainties, and risks remain skewed to the downside in the short term. Global inflationary pressures are expected to remain contained as a consequence of low energy prices and the still sizeable economic slack. The recalibration of ECB monetary policy measures announced after the Governing Council meeting on 3 December has to be considered against this background, in order to secure a return to inflation rates that correspond to price stability.

In Belgium, the economic recovery continued at a moderate pace in the first half of 2015 before running out of steam somewhat from the summer onwards, against a backdrop of deteriorating business and household confidence at that moment. That loss of momentum is likely to be temporary, and growth is expected to strengthen gradually in the coming quarters: **according to the average of the participants' forecasts, GDP growth in Belgium should hover around 1.4 % in 2015 and in 2016.** With those rates of growth, Belgium would slightly underperform the euro area in the coming years.

Private consumption, which was the main engine of growth in the first half of 2015, is expected to slow sharply. Although the labour market is doing relatively well, wage moderation and the rise in indirect taxes – as part of the financing of the tax shift (see Special Topic) – should curb real disposable income of households. Firms are set to benefit from a clear improvement in their cost competitiveness, thanks to the above-mentioned government measures aimed at cutting labour costs, combined with the competitive advantage obtained from the past depreciation of the euro. This should support their exports and investment, by fuelling their profitability at the same time. The continuing fiscal consolidation at all levels of government will bring further tight restrictions on public expenditure in the coming years.

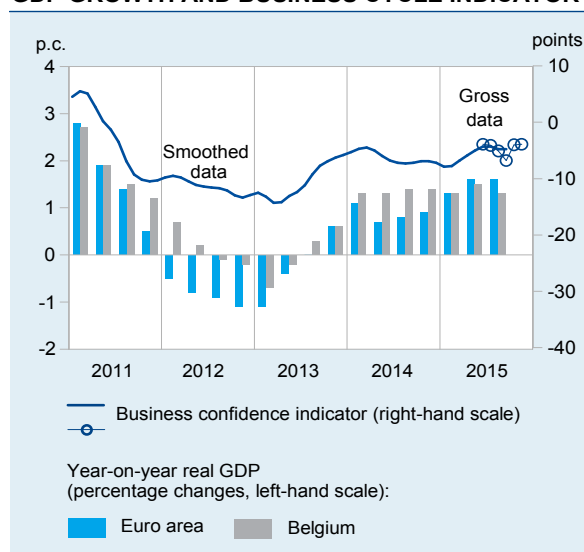
The labour market has been slowly improving since mid-2013: around 16,000 new jobs were created in 2014 and this figure is estimated to have doubled for the year 2015, triggering a declining trend in the unemployment rate in the second half of the year. Strengthening economic growth and the reduction in labour costs should further support net job creation. In contrast to previous years, the branches sensitive to the business cycle are likely to become the main drivers of jobs growth, while subsidised jobs and public sector employment are expected to shrink a bit, as a consequence of economy measures decided by the authorities at the federal, regional and local levels. In a context of an increasing labour market participation rate, the unemployment rate is forecast to decline slightly, from 8.6 % in 2014 to 8.4 % on average in 2016.

HICP inflation in Belgium bottomed out in January 2015 at -0.6 %, but started to rise thereafter, reaching 1.4% in December. Inflation is projected

to increase further in 2016 owing to the strong upward base effect of energy prices and the increase in indirect taxes. **On average, the primary dealers expect Belgian HICP annual inflation to rebound to 1.8% in 2016, from 0.6% in 2015.** For both years, inflation in Belgium is thus set to clearly outpace the euro area average.

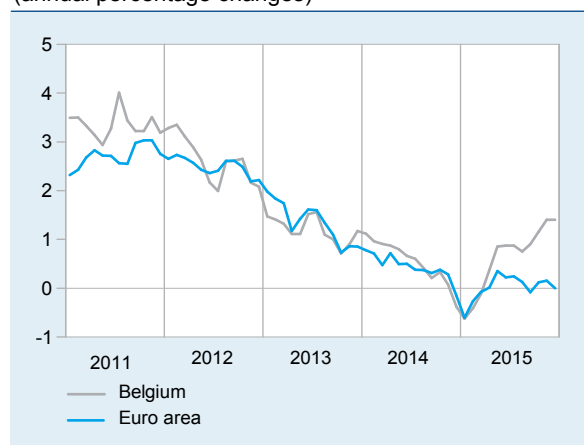
Regarding the fiscal outlook for Belgium, **the public sector deficit is expected to recede from 3.1 % in 2014 to 2.7 % in 2015 and to 2.4 % in 2016.** In that respect, it should be noted that most of the participants in this forecasting exercise, excluding the NBB, depart from a purely technical “unchanged policy” assumption, and implicitly include expected future consolidation efforts, in line with the government targets. Under this condition, the pace of consolidation in Belgium is broadly comparable to that for the euro area as a whole, although from a less favourable starting point. In a context of moderate nominal growth, **the Belgian public debt is expected to stabilise around 106% of GDP in the near term.**

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES (annual percentage changes)



Source: EC.

Special Topic: Tax shift implemented in Belgium to support employment and competitiveness

Together with the budget for 2016, the Belgian government decided in mid-October to implement a package of measures, known as the "tax shift", which aims to alleviate the heavy tax burden on labour by transferring part of it to other tax bases, namely consumption and capital. The package has a dual objective. On the one hand, it enhances firms' competitiveness through a significant reduction in their wage costs, mainly by cuts in social security contributions. On the other hand, it supports households' purchasing power by reducing personal income taxes on labour income or employee social security contributions. Indirect taxes play a large role in the financing of the measures, together with taxation on capital income and on companies.

The macroeconomic impact of this set of measures has been evaluated through the lenses of the NBB quarterly macroeconomic model. The exercise produced the following conclusions. First, as long as cuts in labour costs do not lead to extra wage negotiations and cost reductions are passed onto prices, the set of measures reducing employers' social security contributions is the most efficient in job creation terms. Second, the simulated tax shift exercise, all measures taken together, is estimated to yield a cumulative increase in GDP of about 1.3% by the year 2020. This is not only the result of a pure shift between tax sources, but also of a fiscal stimulus, as the cost of the reduction in labour income taxation is not fully financed ex ante. Thanks to feedback effects, the deterioration in the budget balance is limited to 0.4 % of GDP in 2020, while the public debt is up by 0.8 % of GDP.

Together with the pension reform enacted in the course of 2015, the tax shift is a welcome step to alleviate bottlenecks to sustainable growth and sound public finances in Belgium. Full implementation of these measures should be closely monitored, with a view to quickly counteracting any possible adverse effects on the budget.

GOVERNMENT MEASURES FOR THE TAXSHIFT AND MACROECONOMIC IMPACT						
	2015	2016	2017	2018	2019	2020
Cumulative cuts in taxation on labour ⁽¹⁾, in € billion	1.0	5.1	5.8	8.0	10.1	11.4
Employers	0.9	3.2	3.5	5.2	7.0	7.3
Employees	0.1	1.9	2.3	2.8	3.1	4.1
Cumulative ex-ante financing, in € billion	0.9	3.1	3.9	4.5	4.7	4.8
o.w. Consumption taxation	0.4	1.5	1.9	2.4	2.6	2.6
Capital taxation	0.5	1.5	2.0	2.0	2.0	2.1
Macroeconomic impact (deviation from baseline, in %)						
GDP	0.0	0.2	0.5	0.7	1.0	1.3
Employment	0.0	0.1	0.3	0.5	0.8	1.1
Consumer price index	0.2	0.5	0.6	0.8	0.7	0.5
Public balance (in % GDP)	-0.1	-0.4	-0.1	-0.3	-0.6	-0.4
Public debt (in % GDP)	-0.1	0.1	-0.1	0.1	0.6	0.8

Source: Federal government, NBB estimates of the macroeconomic impact.
(1) Including social security contributions.

Treasury highlights

In 2015, the Treasury issued € 39.09 billion of long-term funding, which corresponds to 103.5% of its € 37.75 billion annual target.

Since September, two OLO auctions, held on 19 October and 23 November, have brought the total amount of OLOs issued for the year 2015 up to € 35.635 billion. The following table highlights the results of these auctions:

Date	OLO		Issued (€ billion)	Yield	Bid to cover
19/10/2015	OLO 4.25% 28/09/2022	OLO 65	0.686	0.372%	2.00
	OLO 0.80% 22/06/2025	OLO 74	1.127	0.858%	2.05
	OLO 3.75% 22/06/2045	OLO 71	0.985	1.838%	1.89
	<i>Non-competitive tour</i>		0.897		
	Total		3.695		
23/11/2015	OLO 0.80% 28/09/2025	OLO 74	1.280	0.811%	1.45
	OLO 5.50% 28/03/2028	OLO 31	0.720	1.088%	2.84
	<i>Non-competitive tour</i>		0.617		
	Total		2.617		
Total for 2015			35.635		

Treasury highlights (continued)

The amount of OLOs issued in 2015 was € 3.14 billion higher than targeted (€ 32.50 billion).

This enabled the Treasury to compensate for the EMTN and Schuldscheine issuance for which the targets were not met. In total, € 3.42 billion was issued under these programmes as of December 10, compared to an annual target of € 5.00 billion. In the course of the fourth quarter of 2015, the Treasury was able to increase the size of its 100-year note with € 25 million, and it issued a 6-year note for an amount of € 108 million.

Also, in 2015, € 23.1 million of State Notes were issued, with the annual target of € 250 million not being met.

The overall 2015 funding cost for new long-term issuances was 0.945%, while they had an average maturity of 13.57 years.

On December 8th, the Treasury published its 2016 borrowing requirements and funding plan

2016 BORROWING REQUIREMENTS AND FUNDING PLAN (billions of euro)

	2015	2016
I. Gross financing requirements	40.13	38.86
1. Federal State budget deficit	8.50	7.93
2. Debt maturing during the year	28.02	25.88
3. Planned pre-funding (bonds maturing in subsequent years)	3.61	4.55
4. Other financing requirements ⁽¹⁾	0.00	0.50
II. Funding resources (Medium and long-term)	40.72	39.48
1. Long and medium-term funding	39.09	37.75
OLOs	35.64	33.50
Euro Medium Term Notes/Schuldscheine	3.43	4.00
Securities for retail investors	0.02	0.25
Other ⁽²⁾	0.00	0.00
2. Treasury bonds - Silver Fund	1.63	1.73
III. Net change in short term foreign currency debt	0.00	0.00
IV. Change in Treasury Certificates stock ⁽³⁾	-1.20	1.00
V. Net change in other short-term debt and financial assets ⁽⁴⁾	0.61	-1.62

Source: Belgian Debt Agency.

(1) Including buy backs of long term debt issued in foreign currencies, "put" options exercised on state notes and net redemptions of the Treasury bonds representing Belgian participation in international organisations.

(2) Including net issues of Treasury bonds representing Belgian participation in international organisations.

(3) Outstanding stock of Treasury Certificates on 01/01/2015: € 26.40 billion.

(4) This section includes residual financing instruments complementing the reference instruments mentioned in the previous section, including collateral margin changes. A positive figure represents an increase in the stock of residual financing and/or a reduction in financial assets.

Lower gross borrowing requirement in 2016

The Treasury expects its 2016 gross borrowing requirements to come to € 38.86 billion. This represents a decrease of € 1.27 billion compared to the € 40.13 billion borrowing requirements expected for 2015. In establishing this estimate, the Treasury assumed that the 2016 net financing requirements would amount to € 7.93 billion. As new issuance premiums should be lower in 2016, the net financing requirements are only slightly less than for 2015 (€ 8.50 billion), and as such they do not fully reflect the expected improvement in the government budget deficit.

Redemptions of medium- and long-term debt are projected to reach € 25.88 billion.

The Treasury also plans to buy back bonds maturing in 2017 and later for an amount of € 4.55 billion.

■ Treasury highlights (continued)

OLOs remain the main funding instruments: three new fixed-rate benchmarks set to be issued, backed up by the EMTN programme and other alternative instruments

The Belgian Debt Agency plans to issue € 33.50 billion worth of OLOs, which is € 2.14 billion lower than the € 35.64 billion issued in 2015. It expects to launch three new OLO fixed-rate benchmarks. A new OLO Floating-Rate Note could also be issued.

The Treasury also expects to issue € 4.00 billion via its EMTN-program or other alternative funding instruments such as *Schuldscheine*.

In addition, € 1.73 billion worth of instruments for the Silver Fund will be issued in order to refinance the existing Treasury Bond that will come to maturity.

In 2016, most of the risk limits of 2015 will prevail:

- The 12-month refinancing risk will be limited to 20.00%
- The 60-month refinancing risk will be limited to 50.00%
- The 12-month refixing risk will be limited to 20.00%
- The 60-month refixing risk will however decrease by 5.00%, to 50.00%.

The duration of the debt portfolio reached 7.27 as of 30 November 2015 and the average life worked out at 7.94 years. The implicit cost of the portfolio had nevertheless dropped further to 2.84% by 30 November 2015.

In 2016, the average life of the debt portfolio is required to be higher than 7.75 years during the first six months, and this minimum increases to 8.00 years thereafter.

Funding strategy: predictability and flexibility

The main feature of the 2016 issuance strategy continues to be the combination of predictability and flexibility in order to respond adequately to changing market environments.

The Treasury will remain predictable with regard to the number of OLO syndications and of auctions for its main financing instruments, both OLOs and TCs. Predictability will also prevail as to the size of the financing programme and the size of issuance in various instruments.

Flexibility will enable the size, instruments and maturities to be adapted to prevailing market demand at the moment of issuance.

In this context, the forecast issuance strategy for 2016 will be as follows.

With regard to long term-financing:

- It is expected that new benchmarks will be launched through syndicated issues and expanded through auctions.
- The Treasury expects to launch three new fixed-rate OLO benchmarks.
- If there is sufficient demand, off-the-runs can be reopened in regular auctions.
- The number of OLO auctions remains at 10. There will be no auction in August nor in December, and an auction might be cancelled and replaced by a syndicated issue.
- The Treasury may use the possibility of Syndicated Taps on longer-term OLO benchmarks.
- The OLO issuance will be supplemented by alternative financing instruments. They can include: an OLO floater, hedged foreign currency issuance and/or structured products issued under the EMTN programme, possibly including inflation-linked notes, or other funding instruments, in particular *Schuldscheine*.

With regard to short term financing:

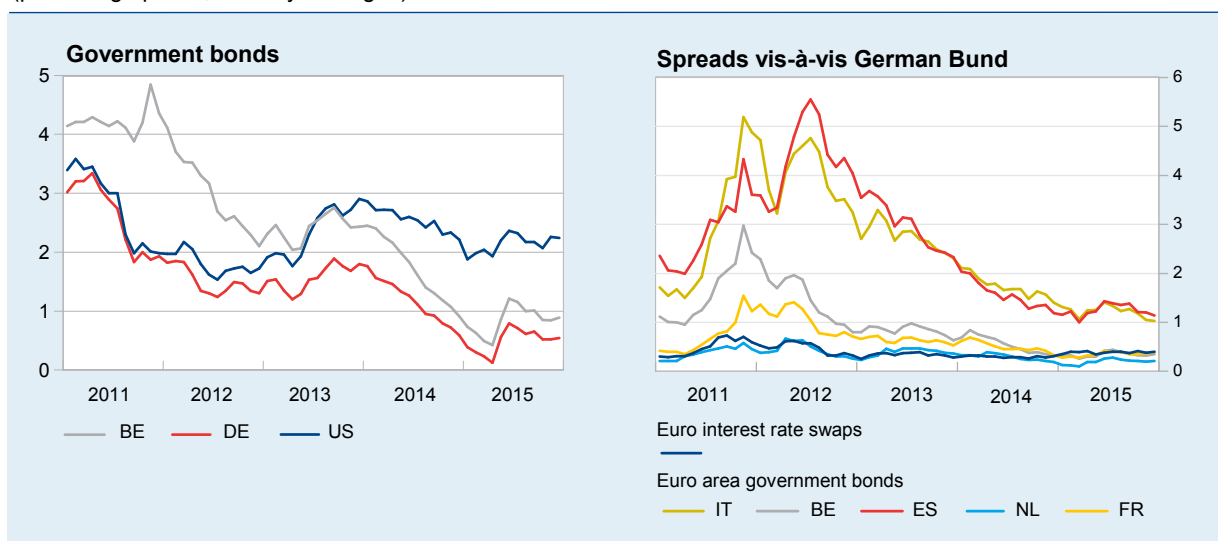
- A Treasury Certificate² issuance programme consisting of two auctions per month at which two fixed lines will be offered. Exceptionally, the Treasury will offer a supplementary line.
- The regular Treasury Certificate program will be supplemented by issuance under the updated ECP programme offering wider possibilities to issue in foreign currency. This enables on-tap issuance in various currencies but swapped into euro.

The details of the 2015 Funding Plan and the issuance calendar are available on the Belgian Debt Agency's website www.debtagency.fgov.be

Government securities market

10-YEAR INTEREST RATES

(percentage points, monthly averages)



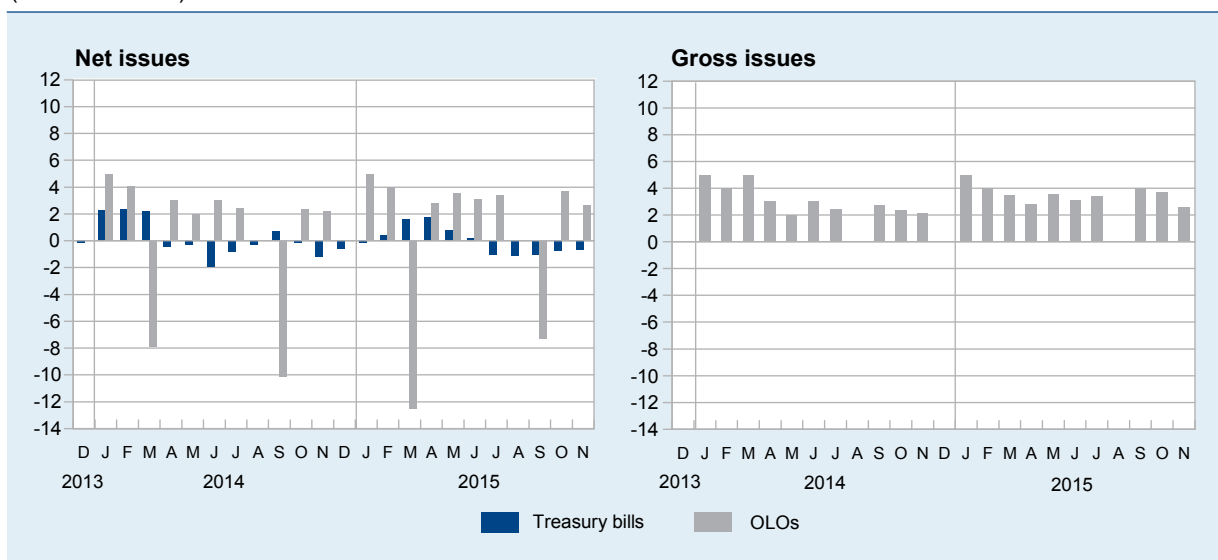
Sources: BIS, Datastream.

Over the review period, yield developments in the euro area and the US were to a large extent driven by (expectations of) monetary policy actions. Against a backdrop of strong market expectations of more non conventional monetary policy stimulus in the euro area, long term sovereign bond yields in most euro area Member States pursued their downward trend in October and November 2015. However, when the monetary policy measures announced at the ECB's Governing Council meeting in December fell short of market expectations, long term yields started to rise again (+20 bp for ten year yields in the euro area on average), before stabilising by the end of the year. Over the review period as a whole, ten-year sovereign yields declined in general in the euro area, reaching 0.54 % (-11 bp) in Germany and 0.89 % (-12 bp) in Belgium (monthly averages). By contrast, ten-year sovereign yields in the US went up over the review period to 2.24 % (+7 bp) in December 2015. These developments in US yields were mainly driven by expectations of the FOMC's upward revision of the target range for the federal funds rate, which eventually materialised in mid-December. The latter policy decision had already been priced into US yields so it did not cause any significant changes in US yields.

Long-term sovereign spreads vis-à-vis Germany remained relatively stable in core euro area countries throughout the period under review, whereas they continued to fall in the periphery. Regarding the centre of the euro area specifically, ten-year spreads were almost stable in Belgium (-1 bp), France (+4 bp) and the Netherlands (-1 bp), where they stood at respectively 35 bp, 39 bp and 21 bp in December 2015. In Italy and Spain however, spreads narrowed by a further 24 bp, reducing the difference with the yield on the German Bund to respectively 103 bp and 114 bp. Despite the uncertainty over the course of monetary policy, volatility in global financial markets receded somewhat following a period of strong volatility linked to developments in China.

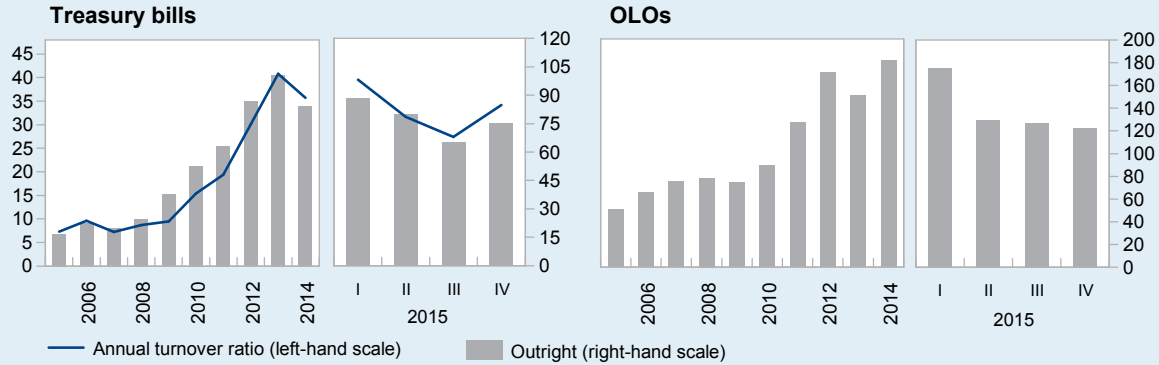
PRIMARY MARKET

(billions of euros)

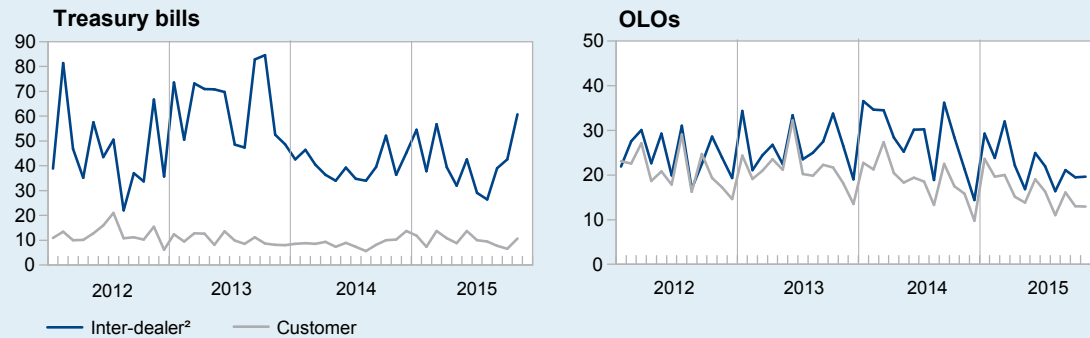


SECONDARY MARKET TURNOVER

As compiled by the Securities Regulation Fund¹
(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.

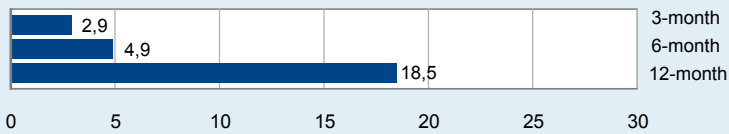
² Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euros)

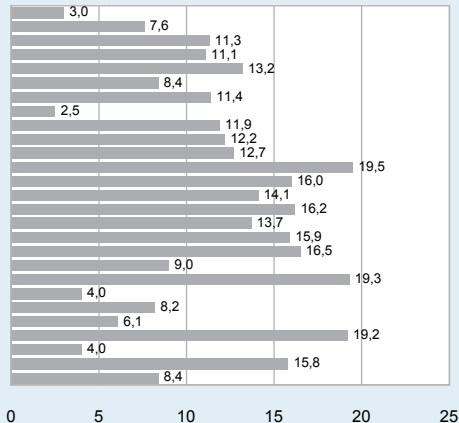
TREASURY BILLS

Nominal outstanding amounts at end of December 2015

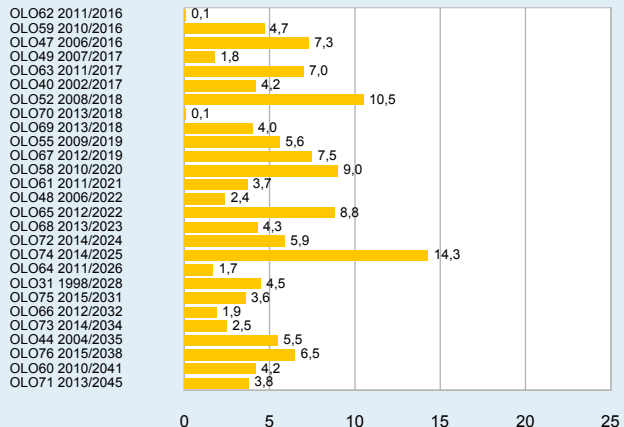


OLOs

Outstanding amounts at end of December 2015



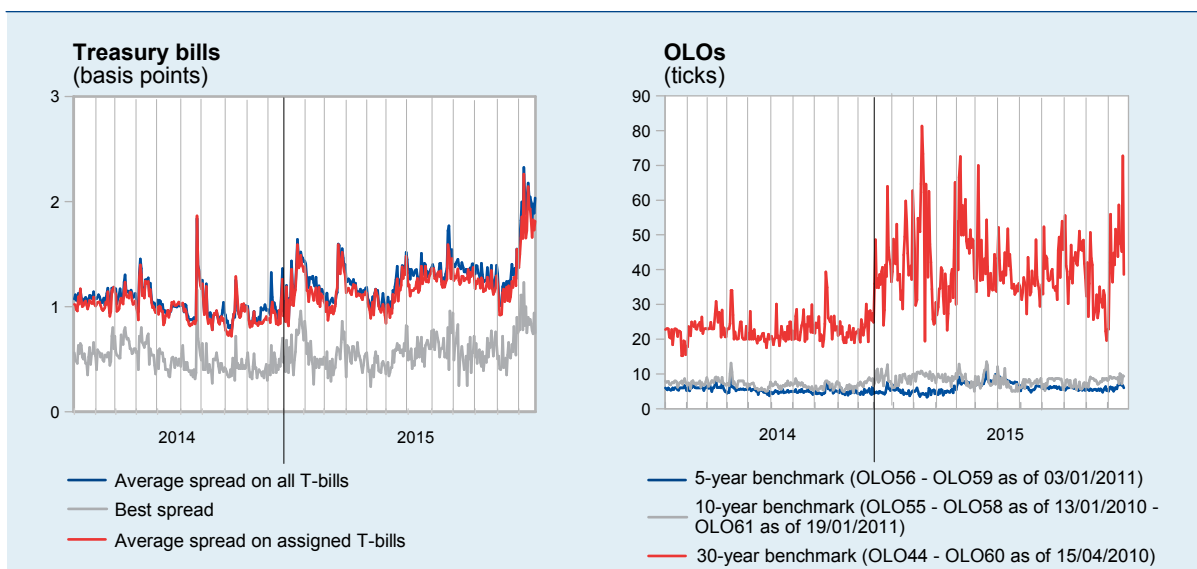
Outright turnover in December 2015



Source: Securities Regulation Fund.

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

BEST BID/OFFER SPREADS¹



Source: Treasury.

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

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This publication is also available on the internet site www.nbb.be.

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