

Belgian Prime News



QUARTERLY PUBLICATION

No. 71 March 2016

Last update: 29 March 2016

Next issue: June 2016

- Economic recovery is expected to continue at a moderate pace in Belgium and in the euro area, while inflation should gradually bottom out.
- On average, the participating institutions expect GDP growth in Belgium to reach 1.4 % in 2016 and 1.6 % in 2017. HICP annual inflation should pick up from at 0.6 % in 2015 to 1.2 % in 2016, against the backdrop of increases in indirect taxation to finance the tax shift, and 1.6 % in 2017 (See Macroeconomic Developments).
- A dynamic economy and sound public finances are the best option in times of uncertainties. Hence, the structural reforms implemented in 2015 in Belgium to improve cost competitiveness and to curb ageing costs should be complemented with measures to bring the public debt onto a clear downward trend (see Special Topic).
- The Belgian Debt Agency launched its 2016 programme smoothly, notwithstanding a more challenging market environment (see Treasury Highlights).

Consensus: Average of participants' forecasts

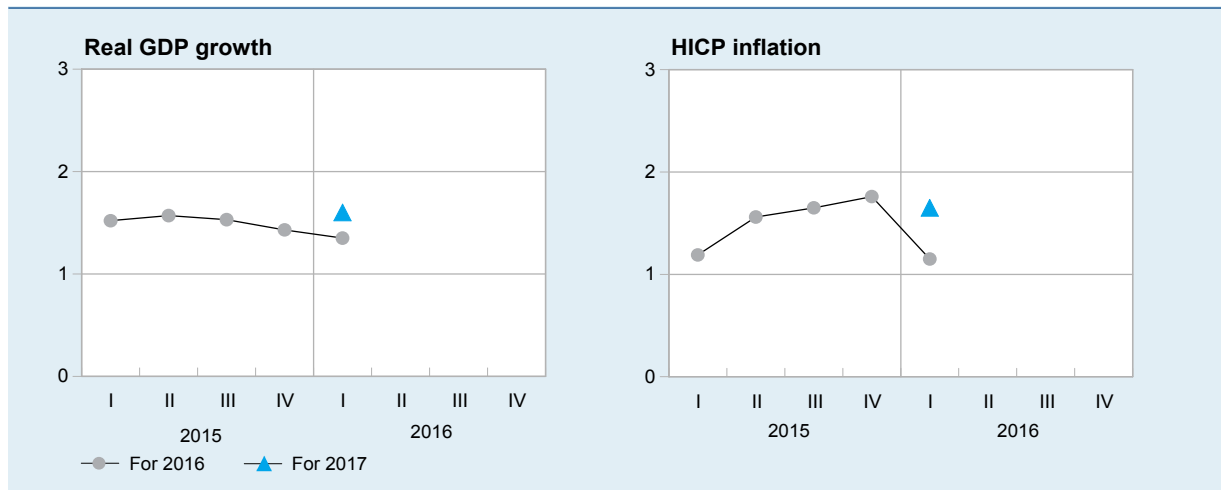
	2015		2016 p				2017 p	
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP ⁽¹⁾	1.4	1.6	1.4	(1.4)	1.4	(1.6)	1.6	1.6
Inflation (HICP) ⁽¹⁾	0.6	0.0	1.2	(1.8)	0.3	(1.1)	1.6	1.5
General government balance ⁽²⁾	-2.8	-2.2	-2.6	(-2.4)	-2.0	(-1.9)	-2.2	-1.8
Public debt ⁽²⁾	106.5	93.5	106.9	(106.4)	92.7	(92.5)	106.2	91.7

Numbers in parentheses refer to the previous consensus forecast of January 2016.

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Macroeconomic Developments

Albeit supported by a number of factors, such as low oil prices, the favourable euro exchange rate, low financing costs and a fiscal stance becoming gradually more supportive, the euro area recovery remains moderate. Their boost is actually offset by a worsening global environment, renewed uncertainties and financial market volatility. Legacies from the crisis, in terms of debt and unemployment, remaining particularly high in some member countries, continue to weigh on growth and investment. This low-key environment combined with an inflation outlook still below its target in the medium run have triggered the expansion of the ECB monetary policy package in early March.

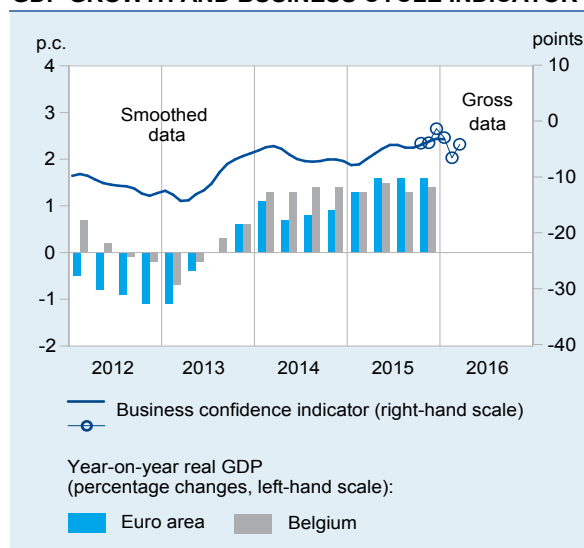
In Belgium, economic activity decelerated somewhat in the second half of 2015, reflecting weaker foreign demand. But with a quarter-on-quarter rate of 0.3% in the final three months of 2015, GDP was still growing at a positive pace. However, most confidence indicators have weakened again since the start of this year. **Against this background, the participating institutions expect GDP growth to remain stable at 1.4 % in 2016 and slightly accelerate to 1.6% in 2017.** Economic activity in the euro area is expected to develop at the same pace in both years. It should be noted that these forecasts were made before the terrorist attacks in Brussels on 22 March.

Private consumption, which was the main engine of growth in 2015, is likely to decelerate in 2016. Households' purchasing power is set to be restrained by the wage moderation policies and by rises in indirect taxation; additional windfall gains from the further drop in oil prices might also be more limited than in the first half of 2015. On the other hand, steady job creation, especially in the private sector, bringing a further drop in the unemployment rate, is buoying up consumption as well as housing investment. On the corporate side, renewed uncertainty and falling demand expectations are weighing on their business in the short run. At the same time, on average, companies are benefiting from a sound financial situation, on the back of competitiveness-enhancing measures, together with the past depreciation of the euro and favourable commodity prices. Government expenditure is expected to remain curbed by the restrictive medium-term orientation of Belgian fiscal policy.

Lower oil prices at the beginning of 2016 again delayed the rebound of headline inflation. However, in Belgium, various tax increases aimed at financing the tax shift are already likely to trigger some acceleration in inflation this year. **As a consequence, participating institutions expect Belgian inflation to pick up to 1.2 % in 2016 and reach 1.6 % in 2017.** In the euro area, inflation is forecast to remain very low this year (0.3 %) but rise more markedly in 2017, moving up to 1.5 % in 2017. Compared with the previous consensus forecast, this corresponds to a major downward revision of inflation prospects for 2016 (-0.6 of a percentage point for Belgium and -0.8 p.p. for the euro area).

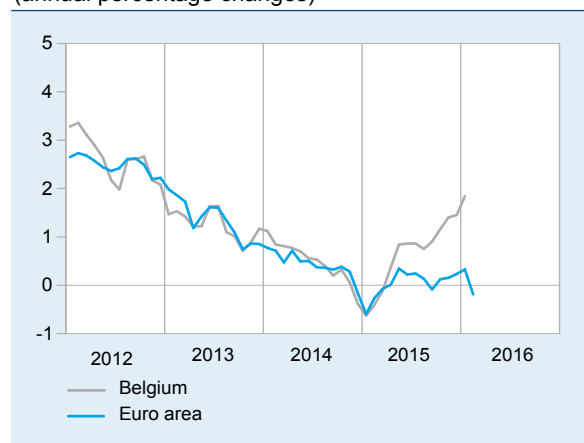
The Belgian public sector deficit is expected to recede slightly, from 2.8 % in 2015 to 2.6 % in 2016 and to 2.2 % in 2017. Additional consolidation efforts would thus be required to comply with the path of the budgetary plans submitted by the Belgian authorities to the EC. Forecasters are slightly more optimistic for the euro area as a whole, where the deficit is set to decline to 2.0% in 2016 and to 1.8 % in 2017. In a context of low nominal growth, **Belgium's public debt is expected to stabilise around 106-107% 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: A dynamic economy and sound public finances to overcome troubled waters

In the wake of the euro area's recovery, the gradual revival of the Belgian economy has continued. GDP has been on a positive, albeit muted, growth track for three years. As a result, at the end of 2015, GDP in Belgium exceeded its pre-great recession level by nearly 5 %, while in the euro area it is poised to recover the pre-crisis level. Gradually, the momentum in economic activity has translated into improvements on the labour market and an upturn in the dynamic of bank loans to NFCs.

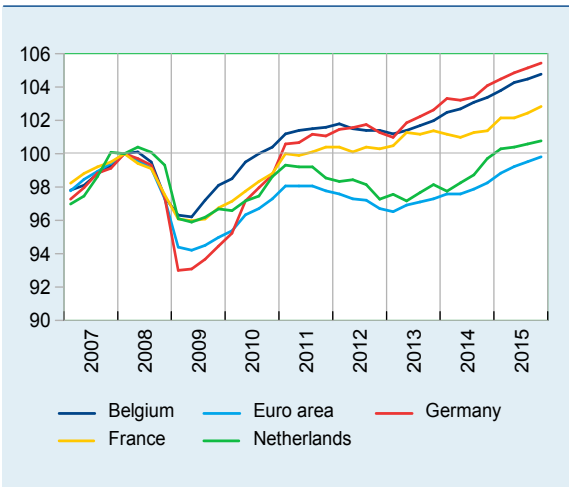
True, the recovery was bolstered by monetary policy easing, by the past depreciation of the euro, and by the fall in commodity prices. The beneficial effects stemming from these factors will not last permanently. Besides, like other advanced economies, Belgium still faces considerable challenges, concerning progressive globalisation, climate change, the impact of rapid technological development and the costs of population ageing. Those challenges are compounded by heightened uncertainty and volatility, arising from the economic and financial environment, but also by geopolitical tensions and conflicts. The terrorist attacks suffered by Belgium on 22 March 2016, after many other places in Europe and in other parts of the world, illustrate this dramatically.

In this context, authorities need to continue with resolute efforts to consolidate the still fragile recovery, and to channel it into a sustainable path of robust growth. It is a matter of laying solid foundations not only for economic activity and sound public finances but also for the financial sustainability of the Belgian social model.

Over the last five years, consistent efforts have been made by social partners and successive governments to promote competitiveness and employment. Apart from the ban or strict limitations on awarding real collectively negotiated pay rises observed since 2009, the indexation mechanism was temporarily suspended from April 2015. In addition, the tax shift currently being implemented will reduce the wedge between labour costs and net pay. Those measures will significantly contribute to narrow down the gap in hourly labour costs which had built up since 1996 in relation to the three neighbouring countries. According to the Central Economic Council, the gap shrank from 4.1 % in 2013 to 1.5 % in 2015; it should actually turn slightly negative in 2016. The policy pursued is beginning to produce results, as gains in export market share have been made recently and employment has expanded in the market sector.

THREE YEAR OF RECOVERY IN BELGIUM

(GDP in volume, index 2008Q1 = 100, data adjusted for seasonal and calendar effects)

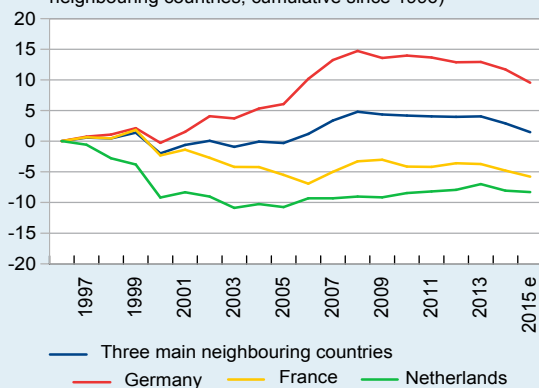


Sources: EC, NAI.

STRUCTURAL REFORMS HAD AN IMPACT ON ECONOMIC DEVELOPMENTS IN 2015

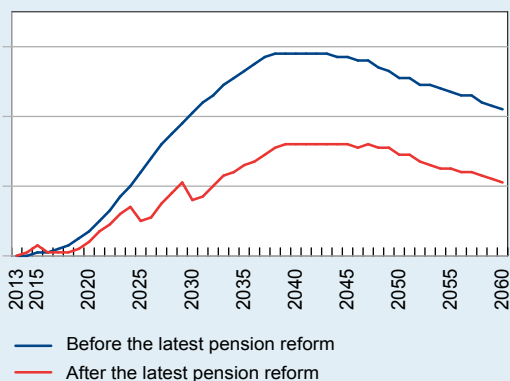
Private sector's hourly labour cost differential with neighbouring countries

(percentage differences compared with the three main neighbouring countries, cumulative since 1996)



Budgetary cost of ageing compared with 2012

(% of GDP)



Sources : CEC, Study Committee on Ageing

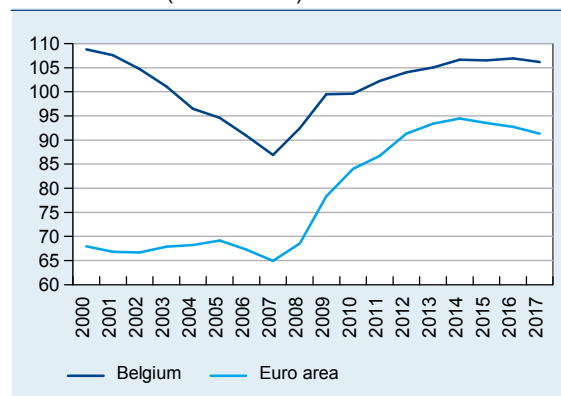
Special Topic: (continued)

There have also been significant measures to ensure the long-term sustainability of public finances. Further steps in the pension reforms were implemented in 2015, raising the statutory retirement age to 66 and 67 years in 2025 and 2030, respectively. The conditions governing early retirement have been tightened up as well. The Study Committee on Ageing has calculated that population ageing costs between now and 2040 will drop from 5.8 % to an estimated 3.1 % of GDP, and from 4.2 % to 2.1 % by 2060. Employment, and hence GDP, is expected to be boosted by 5.6 %. The employment rate of those in the 55-66 age group is forecast to rise further, deepening the progress already achieved over the last 15 years, to reach 68.2 % in 2060.

Besides these important reforms, important challenges still need to be tackled. In particular, only very modest progress was made with fiscal consolidation in 2015 and, in the follow-up to the draft budgetary plans for 2016, the Eurogroup assessed that Belgium is at risk of non-compliance with the requirements of the Stability and Growth Pact. According to the European Commission's Winter 2016 forecast, the budget deficit is expected to remain close to, but below, 3 % of GDP. The improvement of the structural balance by ¼ percentage point of GDP in 2015, and again in 2016, would fall short of the required effort. Public debt is expected to remain elevated, at a level close to 107 % of GDP in 2016 (106.9 % according to the BPN consensus), before receding only slightly in 2017 (106.2 % of GDP).

Against this backdrop, the federal government is currently reviewing the execution of the budget. The additional measures to be decided in this exercise were not yet known by the cut-off date for this issue of Belgian Prime News. Together with the starting point provided by the official public accounts for 2015 to be published by Eurostat, they will form the new basis for the updated stability programme, to be released by the end of April 2016. This programme should include clear commitments by the federal government and by the governments of the Communities and Regions for a credible path towards a balanced budget, without unnecessary delay.

PUBLIC DEBT (in % of GDP)



Sources: EC, NAI, Belgian Prime News.

Such a path, consistent with the rules of the Stability and Growth Pact, is necessary to provide the means to meet the budgetary costs of ageing and, via a substantial reduction in the public debt, to rebuild financial buffers needed to absorb negative shocks and create the scope for addressing the new challenges facing society. More generally speaking, all available levers must be deployed in policies geared even more closely to maximum support for job creation, longer working life arrangements and raising the low employment rate among certain groups in the population. Substantial efforts must also be devoted to promoting entrepreneurship, innovation and productivity which, in the long term, will be the main source of income creation and the key to the various dimensions of greater resilience and sustainability. Offering greater opportunities to everyone, in a sound, dynamic and open economy, is the best and only way to overcome the prevailing troubles and grasp the benefits of a rapidly evolving world.

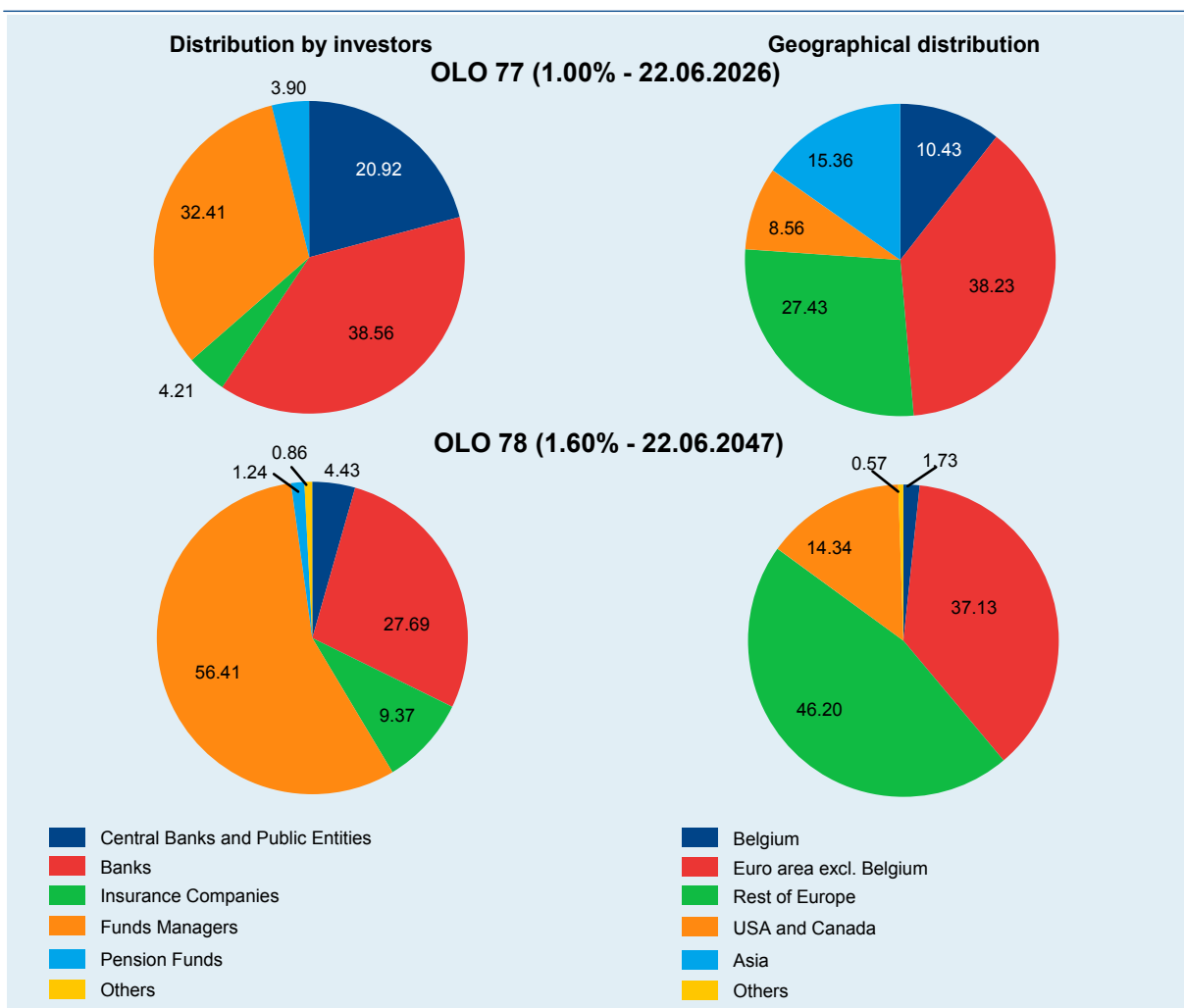
Treasury Highlights

Belgium started off its € 37.75 billion long-term funding programme with the traditional launch of its new 10-year benchmark. The € 5 billion OLO 1.00% 22/06/2026 (OLO 77) was issued on 13 January 2016 at a spread of MS+12bps. For the third year in row, Belgium was able to issue € 5 billion of its 10-year benchmark, with a fine geographical distribution and a book size of almost € 14 billion.

In March, the Treasury launched a second syndicated OLO benchmark. The € 3.5 billion 1.6% (OLO 78) due to 22 June 2047 was issued on 1 March, at a spread of MS+63bps. With this new 30-year OLO, the Treasury has confirmed its commitment to offering liquid reference points at the long end of the OLO curve. In doing so, it has taken advantage of historically low interest rates, and replaced the on-the-run 30-year Treasury bond due June 2045 (OLO 71) issued more than two years ago and now trading far above par in cash prices.

Treasury Highlights (continued)

Distribution of the new OLO at issuance



Besides those two new issuances, an OLO auction held on 22 February reached € 2.824 billion. The auction scheduled for 18 January was cancelled.

Date	OLO		Issued (€ billion)	Yield	Bid to cover
22/02/2016	OLO 1.00% 22/06/2026	OLO 77	1.082	0.684%	1.78
	OLO 1.00% 22/06/2031	OLO 75	0.690	1.131%	1.75
	OLO 4.25% 28/03/2041	OLO 60	0.425	1.427%	1.82
	<i>Non-competitive tour</i>		0.627		
	Total		2.824		

So far, there have been no EMTN or Schuldscheine issues.

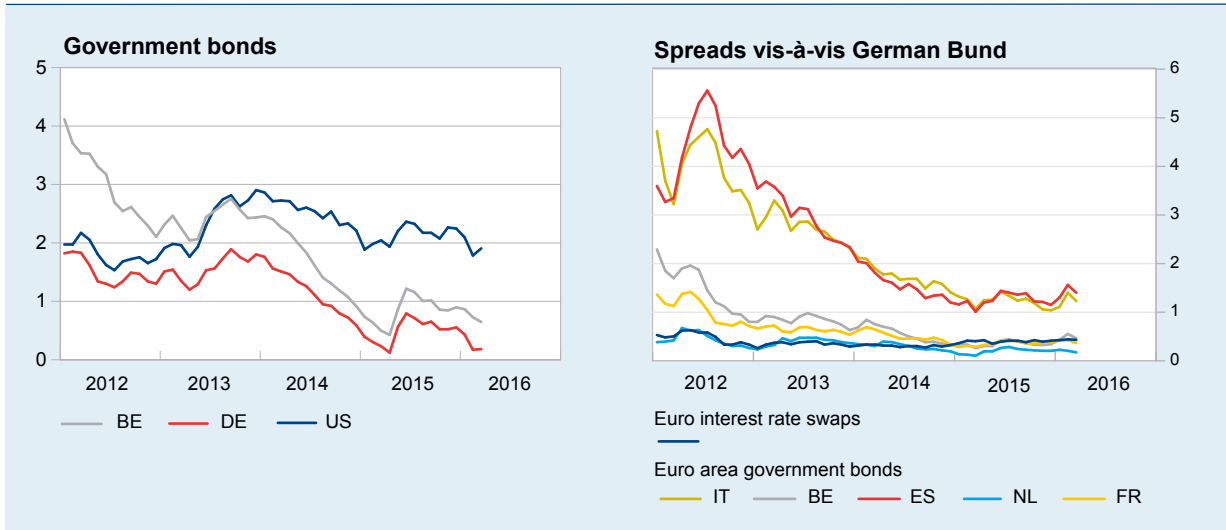
Belgium has therefore already issued € 11.33 billion, corresponding to 30.0% of its € 37.75 billion funding target.

In terms of portfolio structure, the average life of the portfolio is now 7.98 years (end February) and it has an implicit yield of 2.83%.

Government Securities Market

10-YEAR INTEREST RATES

(percentage points, monthly averages¹)



Sources: BIS, Datastream.

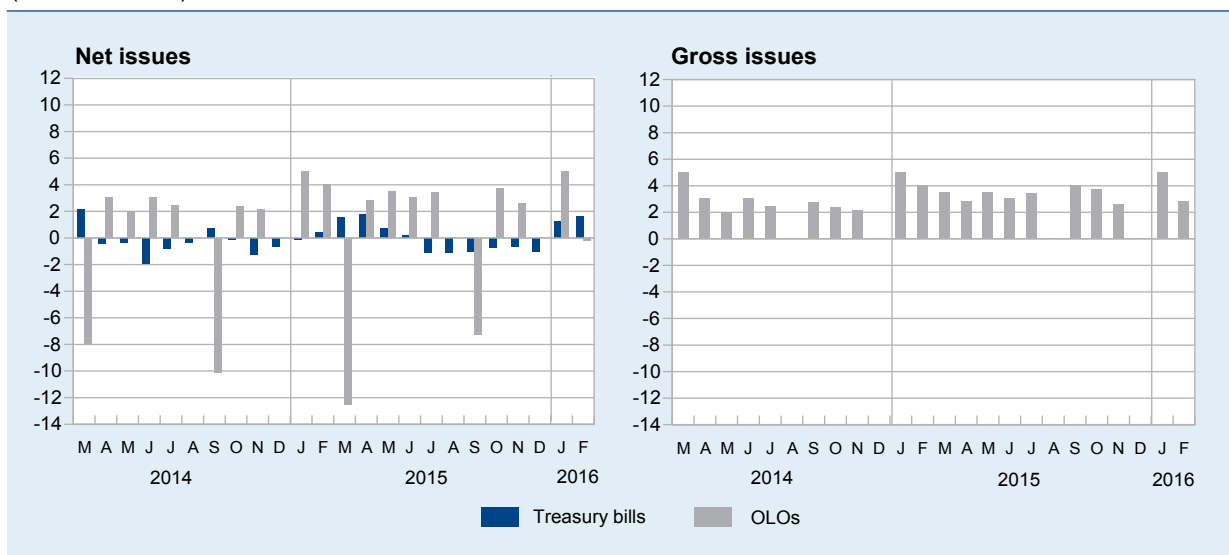
¹ Average over the first 21 days for March 2016

Long-term sovereign yields in the euro area in general and the US declined significantly between January and mid-March 2016. These developments can to a large extent be explained by different monetary policy actions carried out worldwide, such as the ECB announcement of further conventional and non-conventional accommodative monetary policy measures (March 10), the decisions by the Fed to leave its target range for the federal funds rate unchanged for two consecutive meetings (end of January and mid-March), and the adoption of negative interest rates by the Bank of Japan (end of January). On top of this, concerns about the global economic outlook (partly related to downward revisions of real GDP and inflation projections for the euro area) have also exerted downward pressure on sovereign bond yields. More specifically, German and Belgian ten-year sovereign bond yields fell to 0.18 % and 0.64 % in March 2016, a drop by respectively 37 bp and 25 bp since the beginning of the year. Likewise, the ten-year US sovereign yield declined by 34 bp over the same period, to stand at 1.90 %.

Despite the general decline in long-term sovereign bond yields, spreads vis-à-vis Germany did not converge any further over the period under review. In January and February 2016, spreads narrowed marginally or remained approximately stable in high-rated euro area countries, while they tended to widen in other euro area countries. These developments mainly reflected the search for safe assets in a context of high financial market volatility, growth concerns and specific market worries on State budgets and reform agendas (especially in Portugal). Spreads in the euro area nevertheless generally fell in March 2016, against the background of enhanced (anticipated) monetary stimulus from the ECB and somewhat receding financial market volatility. Over the review period as a whole, ten-year sovereign bond spreads in France (36 bp) and the Netherlands (17 bp) remained relatively stable, while those in Belgium, Italy and Spain rose by respectively 12 bp, 19 bp and 26 bp to reach 46 bp, 122 bp and 139 bp.

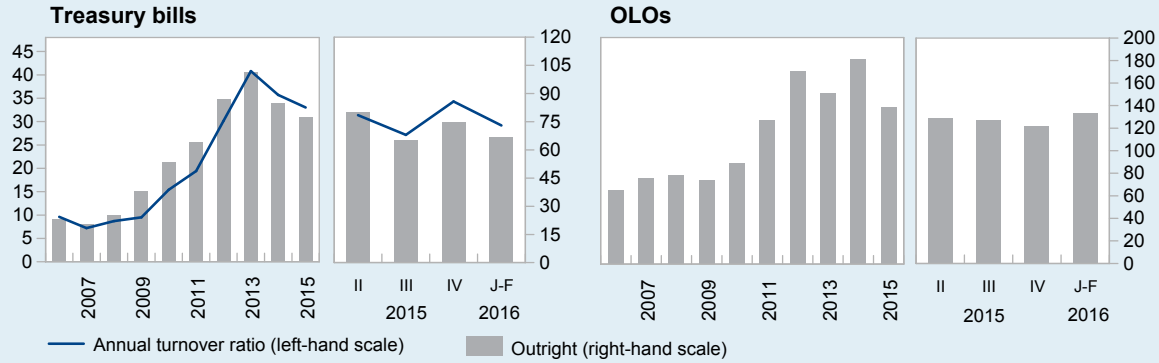
PRIMARY MARKET

(billions of euros)

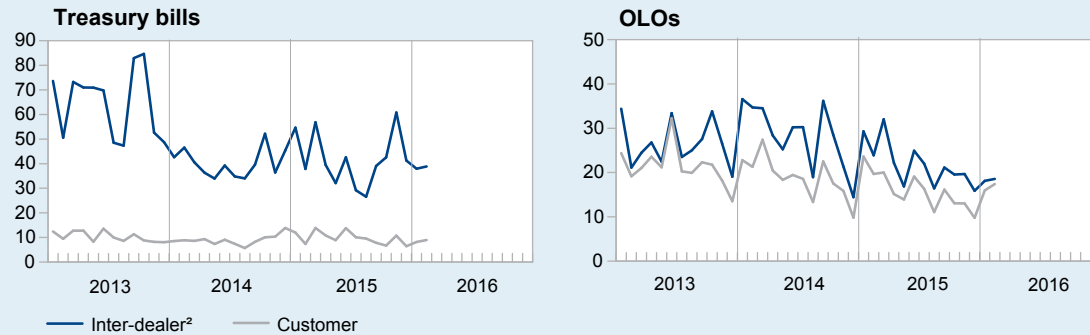


SECONDARY MARKET TURNOVER

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.

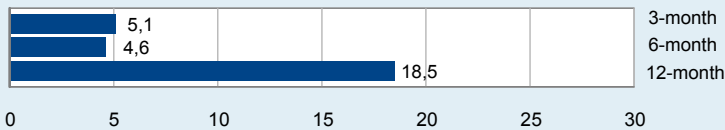
² Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER

(billions of euros)

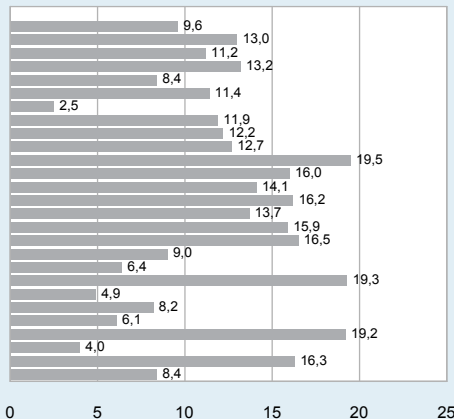
TREASURY BILLS

Nominal outstanding amounts at end of February 2016

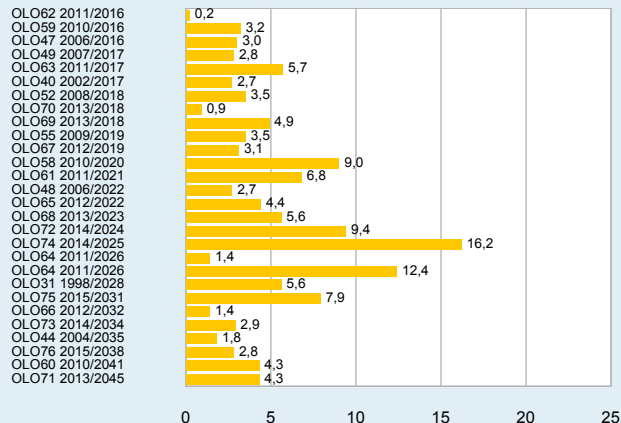


OLOs

Outstanding amounts at end of February 2016



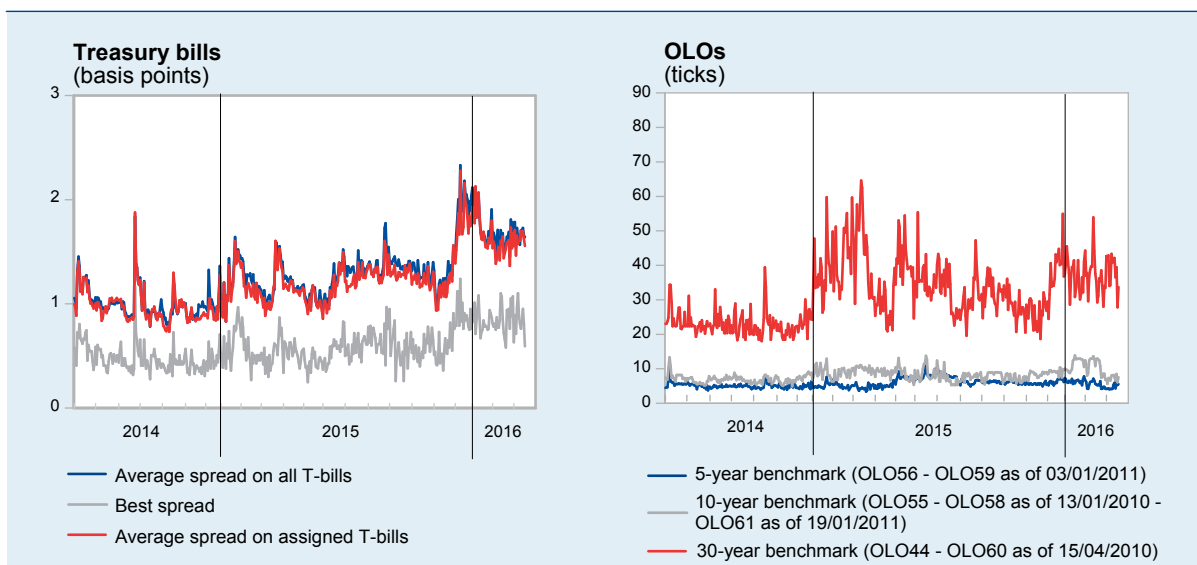
Outright turnover in February 2016



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).

List of contact persons

PARTICIPATING INSTITUTIONS

Federal Public Service Finance
Barclays
Belfius Bank
BNP Paribas Fortis

Citigroup

Commerzbank
ING

KBC Bank

Morgan Stanley
Nomura International Plc.
Royal Bank of Scotland
Société Générale Corp. & Inv. Banking

TECHNICAL EDITORS

Mr Jean Deboutte
Mr François Cabau
Mr Geert Gielens
Mr Philippe Gijssels
Mr Arne Maes
Mr Philip Brown
Mr Guillaume Menuet
Mr Rainer Guntermann
Mr Peter Vanden Houte
Mr Philippe Ledent
Mr Piet Lammens
Mr Johan Van Gompel
Mr Olivier Bizimana
Mr Nick Matthews
Mr Richard Barwell
Mr Michel Martinez

TELEPHONE

+32 2 574 72 79
+44 20 31 34 35 92
+32 2 222 70 84
+32 2 565 16 37
+32 2 312 12 10
+44 20 7986 8950
+44 20 7986 3281
+49 69 1 36 8 75 06
+32 2 547 80 09
+32 2 547 31 61
+32 2 417 59 41
+32 2 429 59 54
+44 20 7425 6290
+44 20 7102 5126
+44 20 7085 5361
+33 1 42 13 34 21

E-MAIL

jean.deboutte@minfin.fed.be
francois.cabau@barclays.com
geert.gielens@belfius.be
philippe.gijssels@bnpparibasfortis.com
arne.maes@bnpparibasfortis.com
philip.brown@citi.com
guillaume.menuet@citi.com
rainer.guntermann@commerzbank.com
peter.vandenhoute@ing.be
philippe.ledent@ing.be
piet.lammens@kbc.be
johan.vangompel@kbc.be
olivier.bizimana@morganstanley.com
nick.matthews@nomura.com
richard.barwell@rbs.com
michel.martinez@sgcib.com

GENERAL INFORMATION

National Bank of Belgium Mr Luc Dresse +32 2 221 20 39 luc.dresse@nbb.be

Published by: National Bank of Belgium (NBB).

Sources: NBB, unless otherwise stated.

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

Information on the Belgian government debt can be found on the Treasury website: www.debtagency.be.

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