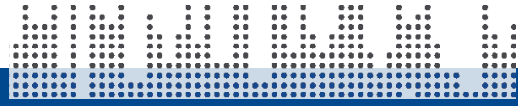


Belgian Prime News



QUARTERLY PUBLICATION

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- Economic growth continued at a moderate pace in Belgium and in the euro area over the first six months of 2016. It should be curbed by weaker foreign demand and higher uncertainty, as a result of the Brexit vote.
- On average, the participating institutions expect GDP growth in Belgium to reach 1.4 % in 2016 and 1.3 % in 2017. HICP annual inflation should pick up from 0.6 % in 2015 to 1.8 % in 2016, partly against the backdrop of increases in indirect taxation and regulated prices, and 1.9 % in 2017 (see Macroeconomic Developments).
- In the current low interest rate environment, developments in the residential property market require close monitoring. Appropriate macroprudential measures are being taken in Belgium to prevent pockets of risk from developing (see Special Topic).
- During the summer, the Treasury took an important step towards the completion of its EMTN funding targets, by issuing a 3-year USD 3.0 billion note. It has now implemented 82.3 % of its funding plan for 2016 (see Treasury Highlights).

Consensus: Average of participants' forecasts

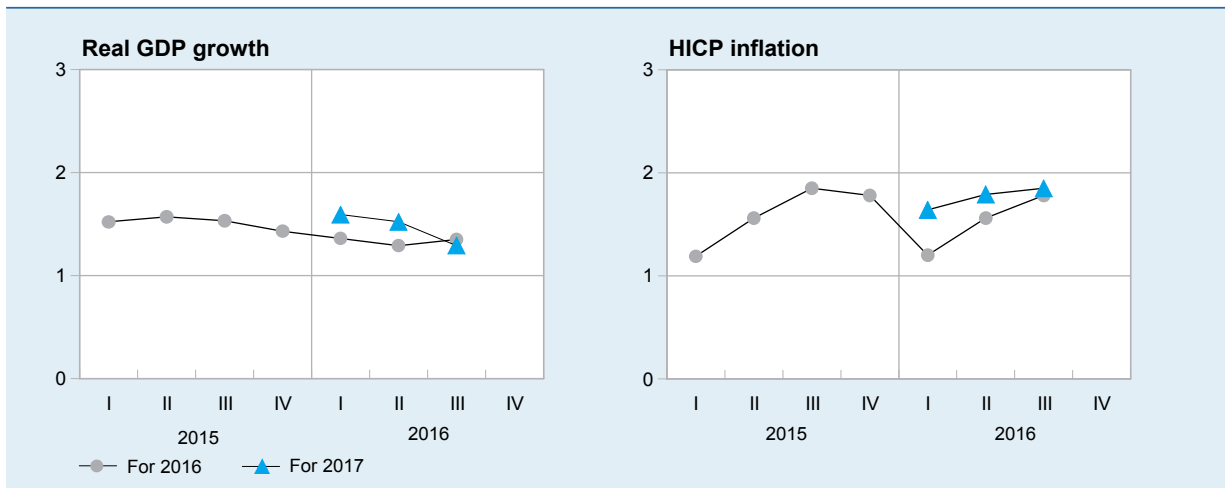
	2015		2016 p				2017 p			
	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area	Belgium	Euro area
Real GDP ⁽¹⁾	1.4	1.7	1.4	(1.3)	1.6	(1.6)	1.3	(1.5)	1.3	(1.6)
Inflation (HICP) ⁽¹⁾	0.6	0.0	1.8	(1.6)	0.3	(0.2)	1.9	(1.8)	1.3	(1.4)
General government balance ⁽²⁾	-2.6	-2.1	-2.6	(-2.5)	-1.9	(-1.9)	-2.2	(-2.1)	-1.8	(-1.7)
Public debt ⁽²⁾	106.1	90.7	106.2	(106.4)	90.7	(90.8)	105.7	(105.7)	90.1	(90.0)

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

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Macroeconomic Developments

In line with a trend that began in mid-2013, and similar to the euro area, economic conditions have continued to improve gradually in Belgium since the beginning of 2016. GDP has risen at a steady but modest pace of around 1.5 % year-on-year. Domestic demand has strengthened, employment has continued to expand, and credit growth in the non-financial private sector (households and non-financial corporations) has accelerated.

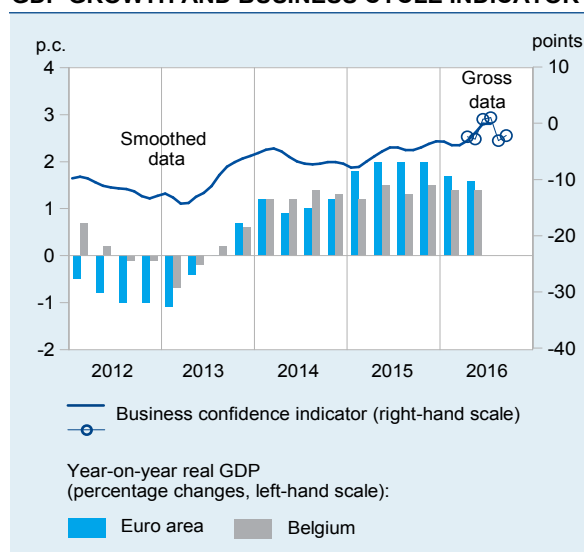
The Belgian and European economies have thus displayed some resilience in the face of various factors of uncertainty. While the serious tensions affecting some emerging economies or commodity-exporting countries at the beginning of 2016 have eased recently, the run-up to the British referendum on membership of the European Union had fuelled volatility on the financial and foreign exchange markets. Since the verdict fell, the euro appreciated vis-à-vis the British pound and the environment of low interest rates became more entrenched. In the absence of any clear indications of the nature of future economic and financial relations between the United Kingdom and its various partners, the uncertainty has shifted to businesses and households, and could erode their demand for investment and consumption. Moreover, various sources of vulnerability are affecting the global economy (particularly geopolitical tensions) and the economies of the euro area (vulnerability of the banking system and political uncertainties in some countries).

In Belgium, growth in economic activity proved stronger than expected in the second quarter of 2016, reaching 0.5 % quarter-on-quarter, against an increase of 0.2 % in the first quarter. Apparently, although the business climate in some sectors continues to be affected by the terrorist threat, its macro impact on growth remained temporary. **Against this background, the participating institutions expect GDP growth to come down a bit, to 1.4 % in 2016 and 1.3 % in 2017.** The forecast for next year has been revised downwards by about 0.2 of a percentage point compared to June, mainly as a consequence of the ripple effect of the Brexit vote. In September 2016, consumer confidence in Belgium was also hit by announcements of future restructuring plans in the financial services and manufacturing industries.

Headline inflation came to 1.5 % on average in the first part of 2016 and reached 2 % in July and August, 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 increases aimed at financing the tax shift. **As a consequence, participating institutions expect Belgian inflation to reach 1.8 % in 2016 and 1.9 % in 2017.** In the euro area, inflation is forecast to remain very low this year, at 0.3 %, but rise more markedly in 2017, up to 1.3 %.

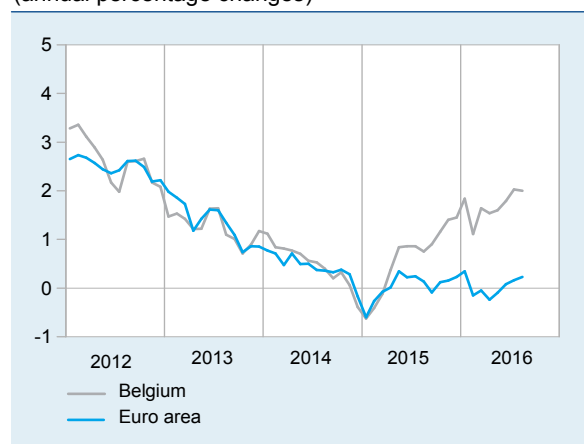
The Belgian public sector deficit is expected to amount to 2.6 % of GDP in 2016, unchanged on the previous year, before improving to 2.2 % in 2017. It should be noted that some participants implicitly include in their projections future consolidation efforts, often in line with the government targets, even if they have 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. Under EU rules, the 2017 draft budgetary plan is due by mid-October. **The participants anticipate a gradual decline in the Belgian public sector debt too, from 106.2 % of GDP in 2016 to 105.7 % in 2017.** By 2017, euro area public debt should have dropped even further, to 90.1 % of GDP.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES (annual percentage changes)



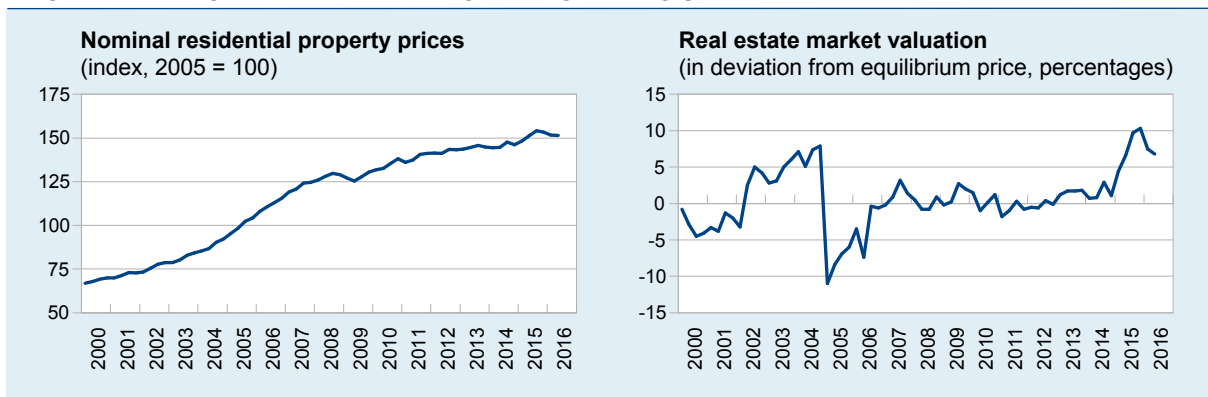
Source: EC.

Special Topic: Residential property and mortgage market in Belgium: taking advantage of the low interest rate environment, while avoiding excessive risk exposure

To prevent the long period of low growth, low inflation and abundant savings worldwide from exerting entrenched effects on the economy, central banks have maintained an accommodative monetary policy stance. The resulting low interest rate environment is providing broad-based support for consumption and investment. However, to ensure long-term sustainability, possible ill-considered risk-taking and the development of bubbles in certain asset categories should be contained via appropriate macroprudential actions. In this respect, real-estate-related credit deserves a specific attention, given its importance in households' and in banks' balance sheets.

In Belgium, residential property prices have more than doubled in nominal terms since the year 2000, presenting only a very mild correction during the great recession in contrast to the experience of many euro area Member States. However, the growth rate has slowed down significantly since 2011. After having temporarily picked up in 2015, when nominal growth of 4.1 % was recorded despite less generous tax treatment of mortgages, property prices dropped slightly in the first half of 2016. Recent price developments have translated into an even greater overvaluation of the residential real estate market. According to a model-based estimate, it was overvalued by 10.3 % at the end of 2015; the figure is estimated to have fallen back to 6.8 % in the second quarter of 2016.

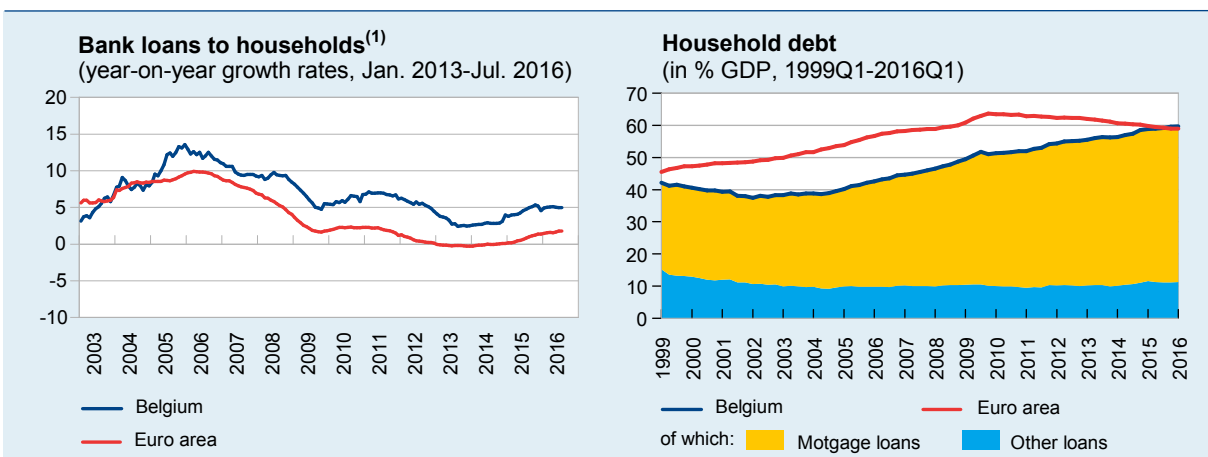
RESIDENTIAL PROPERTY PRICE DEVELOPMENTS IN BELGIUM



Source: NBB.

Over the last fifteen years, the Belgian household sector's mortgage debt has almost tripled, rising from € 71 bn. at the beginning of 2001 to € 199 bn. in the first quarter of 2016. Bank lending growth rates for households in Belgium remained positive, during the crisis years as well, and started to rise again at the end of 2014. They stabilised at about 5 % year on year by the end of 2015. By comparison, euro area households' bank credit did not grow for about two years (2013-2014) and annual credit growth was only about 1.8 % in July 2016. As a result, the gross debt ratio of Belgian households maintained its upward trend, reaching 59.7 % in the first quarter of 2016. This further rise contrasts with the slight deleveraging seen since the beginning of 2010 in the euro area, where the debt ratio declined gradually to 58.9 % of GDP in the first quarter of 2016.

BANK LOANS AND HOUSEHOLD DEBT



Sources: ECB, NBB.

(1) Loans (including securitised loans) granted by resident MFIs to residents.

Special Topic: (continued)

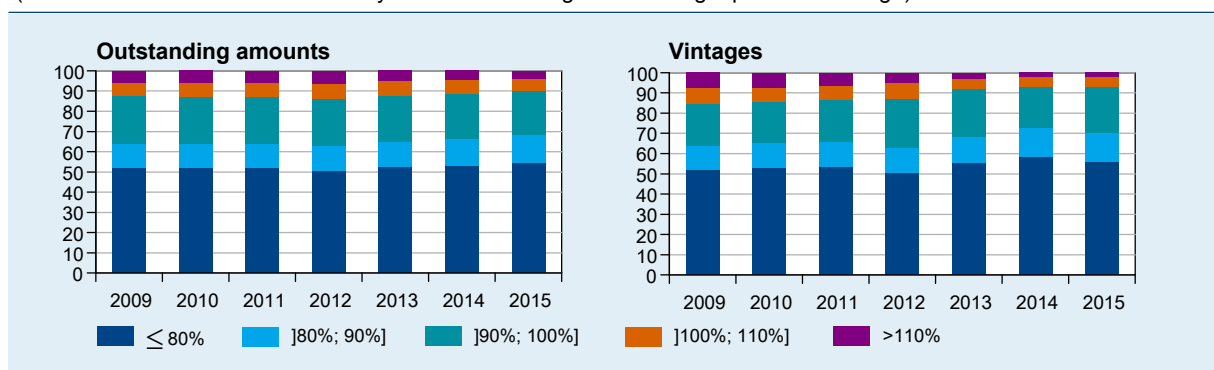
Despite the further rise in the gross debt ratio in Belgium, the financial position of households remains robust overall, as is evident for instance from the debt-to-financial-assets ratio, which is still lower in Belgium than in the euro area. The relatively low and stable level of private individuals' arrears recorded by the Central Credit Register (as a percentage of total credit) shows that the current debt service burden is still under control for most households. This is attributable partly to the accommodative monetary policy which, by lowering interest rates, has prevented a rise in the debt repayment burden over the past year.

However, microeconomic data indicate that debt, income and assets are unevenly distributed among households, and identify potential vulnerabilities in the debt structure (pockets of risk). More particularly, some households have limited repayment capacity in view of their income or liquid assets.

On the banks' side of the equation, mortgage loans account for around 15 % of the sector's balance sheet, though for some institutions that figure may exceed 40 %. Although the recent increase in mortgage lending volumes has not been accompanied by any substantial, general easing of credit standards that banks apply when granting loans, the proportion of the new production with a high value for one or more risk parameters is still relatively large. In the total sector portfolio, the percentage of mortgage loans with a contractual maturity of over 25 years has declined steadily since 2012. In 2015, those loans accounted for only a small proportion (2 %) of the total amount of new lending. Furthermore, partly as a result of the low interest rates, the DSTI (debt-service-to-income) ratio for new loans stabilised in 2015, despite the shorter average maturity. Nevertheless, loans with a DSTI of more than 50 % still represented a fifth of new business in 2015. Owing to the low interest rates, the average amount borrowed under newly granted mortgages has also increased in the past two years. This has put upward pressure on the average level of LTV (loan-to-value ratio, i.e. the ratio between the amount of the loan and the value of the property being financed) for new loans, without, however, exceeding the limits defined by the banks' internal lending policies. The proportion of loans with an LTV ratio of more than 100 % has therefore remained stable since 2013 at a relatively modest level. However, in 2015, loans with an LTV ratio (at origination) of over 90 % still represented almost 30 % of new business.

MATURITIES AT ORIGIN

(in % of total loans at the end of the year or total loans granted during a particular vintage)



Source: NBB.

In light of these developments, the National Bank of Belgium (NBB) decided to introduce at the end of 2013 a macroprudential measure targeting the real estate market, imposing a fixed 5-percentage-point increase in the risk weightings on domestic residential mortgage loans for banks using the internal ratings-based (IRB) approach to determine their minimum regulatory capital requirements. This measure was first rolled over for one year at the end of 2015; it will be extended again for one more year.

In June 2016, in view of the persistence of the vulnerabilities on the residential real estate market, the NBB Board decided to take an additional capital-based measure geared towards riskier loan segments. The measure will be implemented in 2017, pending approval by the EC and the ECB, and will provide an additional capital buffer by targeting domestic mortgage loans with an "indexed loan-to-value" (indexed LTV) ratio higher than 80 % at the time of calculation of the buffer. To achieve this, the measure has resorted to applying higher loss-given-default (LGD) floors for specified index-linked LTV segments.

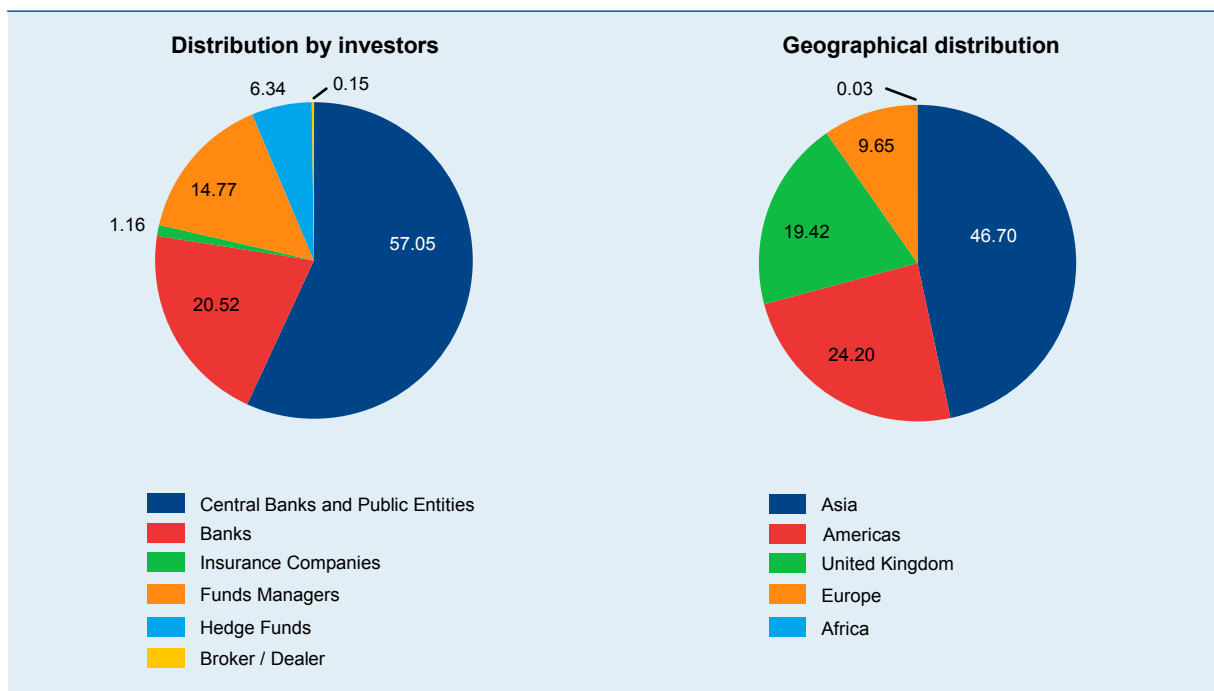
In addition to activating the above-mentioned macroprudential measure, the NBB again recommended in its latest Financial Stability Report (June 2016) that financial institutions should maintain prudent lending standards. Indeed, the NBB considers that the proportion of new loans with a high risk profile is still too high.

Treasury Highlights

On Wednesday 27 July, the Treasury took an important step towards the completion of its EMTN funding targets for 2016 by issuing a 3-year **USD 3.0 billion** note. The note pays a coupon of 1.125 % and was priced at Mid-Swaps + 15bp. The proceeds were swapped to euros and the resulting yield was negative for the Kingdom.

Asian investors showed great interest in the deal, taking up 46.70 % of the issue, as well as US investors that made up 24.20 %. In terms of investor type, the large proportion of central banks (57.05 %) was striking.

Distribution of the EMTN USD 3 billion dollar not



Source: Belgian Debt Agency.

During the OLO auction on 18 July, the Treasury issued an amount of **EUR 3.321 billion**, distributed along four lines. This was followed by **EUR 0.113 billion** of non-competitive issuance after the auction.

Auction date	OLO	Nr	Issued (€ billion)	Yield	Bid-to-cover
18/07/2016	OLO 1.00 % 22/06/2026	OLO 77	1.210	0.220 %	1.14
	OLO 1.00 % 22/06/2031	OLO 75	0.755	0.573 %	1.11
	OLO 1.90 % 22/06/2038	OLO 76	0.741	0.844 %	1.23
	OLO 1.60 % 22/06/2047	OLO 78	0.615	1.091 %	1.12
	<i>Non-competitive tour</i>		<i>0.113</i>		
	Total		3.434		

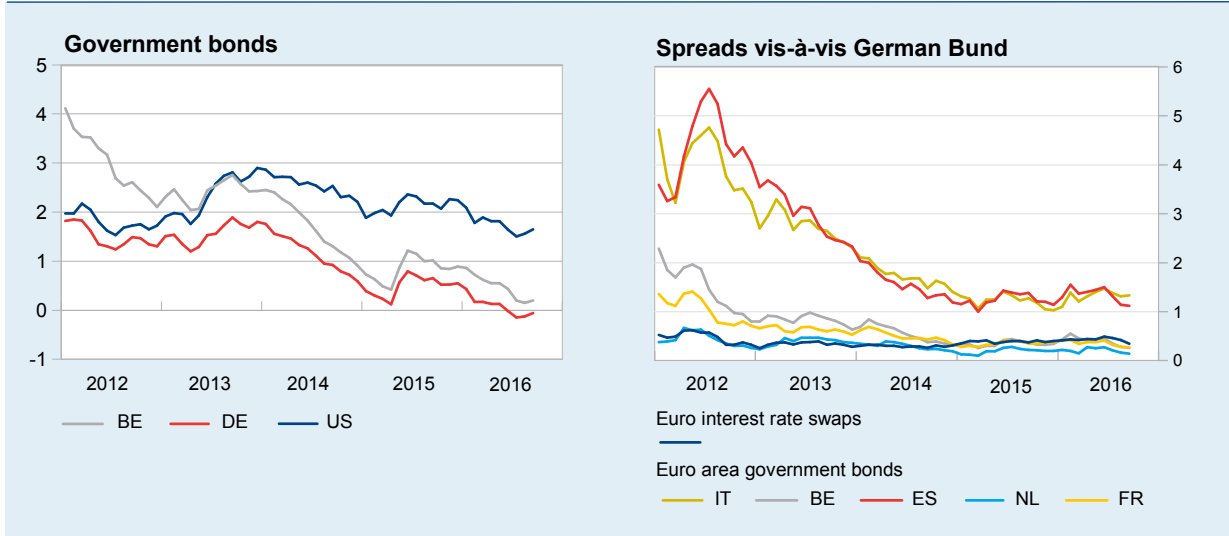
The yields obtained were the lowest of 2016, and they were also at historical lows for the 10-, 15- and 20-year maturity series.

The Treasury now has issued **EUR 31.281 billion** and as such has realised **82.86 %** of its funding plan (EUR 37.75 billion) for 2016.

Government Securities Market

10-YEAR INTEREST RATES

(percentage points, monthly averages¹)



Sources: BIS, Datastream.

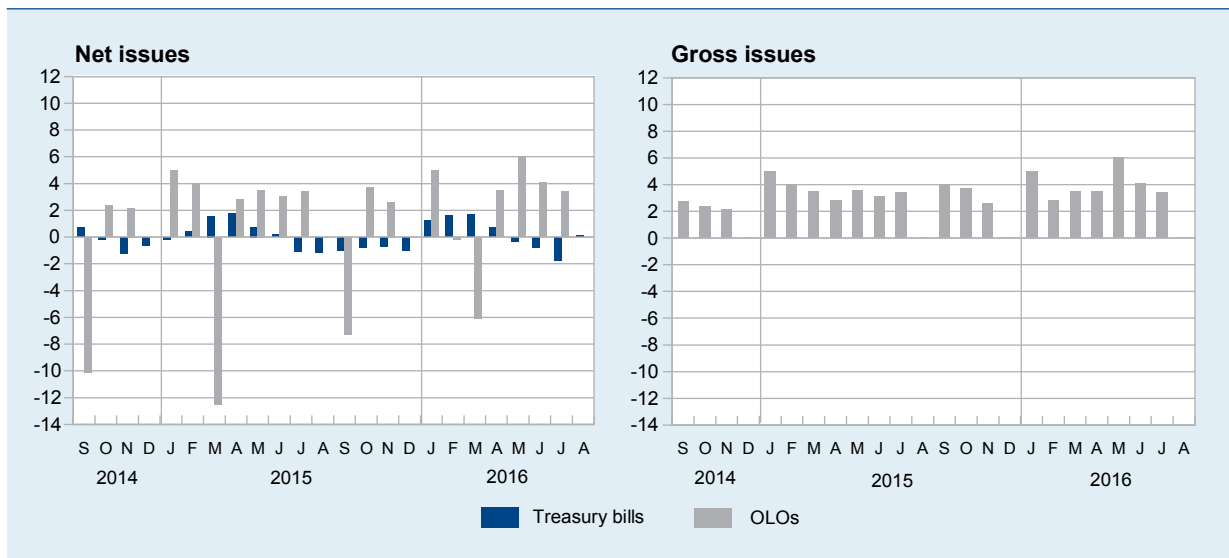
¹ Average over the first 22 days for September 2016.

Between the end of June and mid September 2016, long-term sovereign bond yields in the euro area continued to decline in peripheral countries, whereas they seemed to remain more stable in core countries. The ten year Bund yield increased by 8 bp to -0.06 %, slightly recovering from the drop following the outcome of the Brexit vote. In Belgium, the ten-year yield dropped by 8 bp over the same period to 0.20 %. By contrast, ten-year sovereign yields in the US have risen by 18 bp since the last week of June to reach 1.65 % on average in September. These diverging developments are most likely attributable to market perceptions of different economic situations and anticipations of monetary policies across these economic areas. Regarding the latter, long-term yields in the US rose before the FOMC decision of 21 September 2016, but dropped slightly upon the announcement of the unchanged target range for the federal funds rate.

Over the period under review, euro area sovereign spreads vis-à-vis Germany narrowed further, especially in peripheral euro area countries. More specifically, despite political events that could represent a source of uncertainty, ten-year spreads narrowed significantly in Italy (-20 bp) and Spain (-34 bp), to stand respectively at 133 bp and 112 bp. Spreads in Belgium, France and the Netherlands declined by slightly more than 10 bp to stand at 26 bp, 27 bp and 14 bp respectively. Since the announcement of the result of the Brexit referendum, financial market volatility has receded and markets have remained relatively calm over the period under review, despite remaining concerns about the EU exit process.

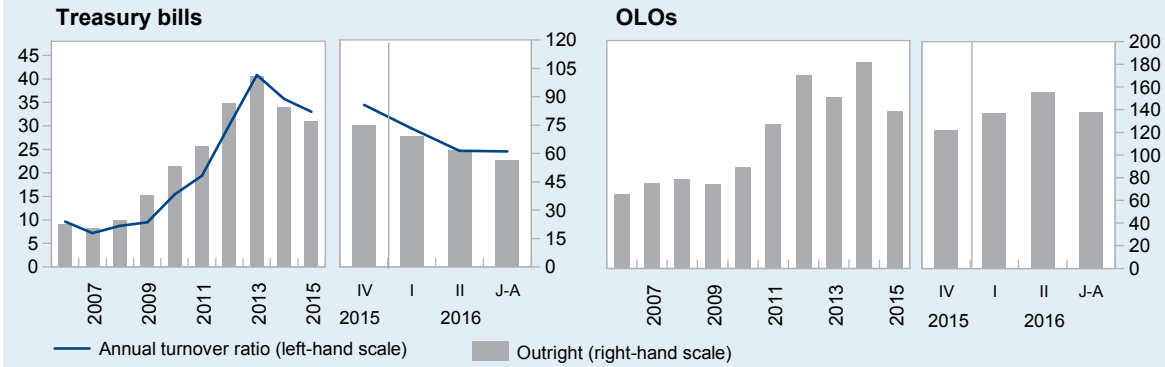
PRIMARY MARKET

(billions of euros)

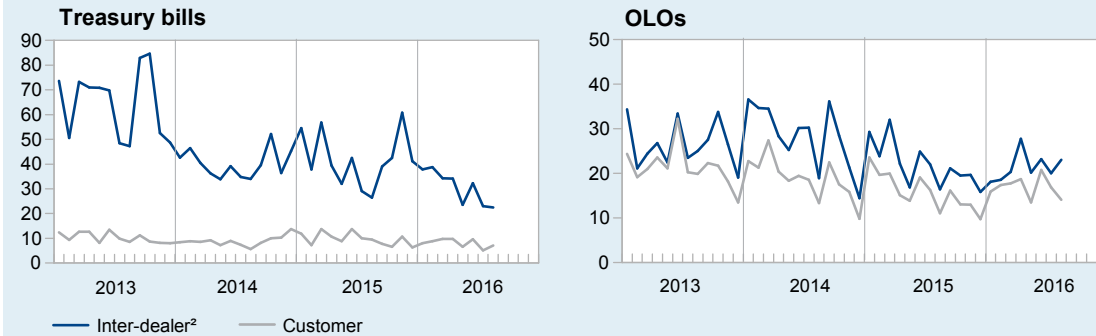


SECONDARY MARKET TURNOVER

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)

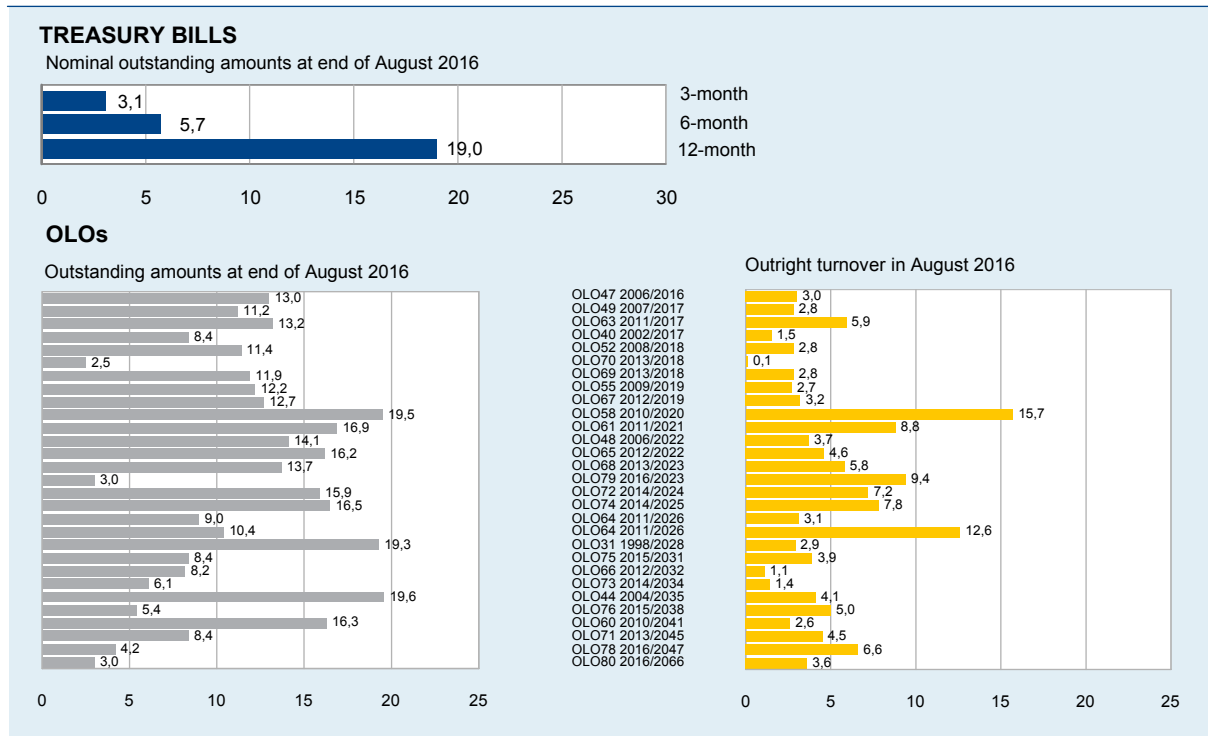


¹ As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.

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

OUTSTANDING AMOUNTS AND TURNOVER

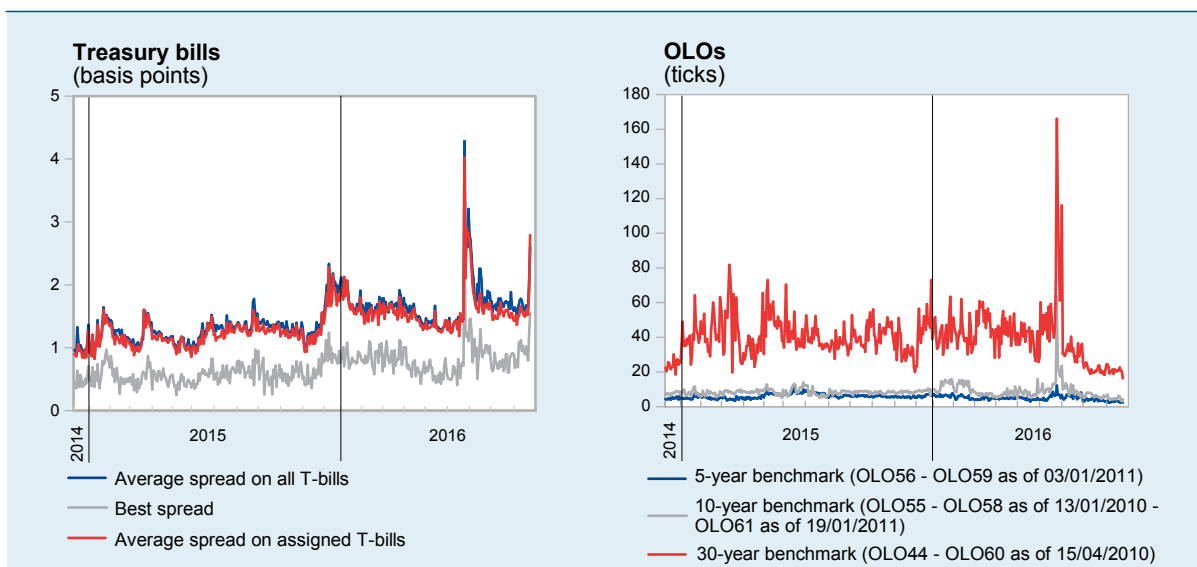
(billions of euros)



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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