BELGIAN DEBT AGENCY

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NationalBank OF BELGIUM
Eurosystem

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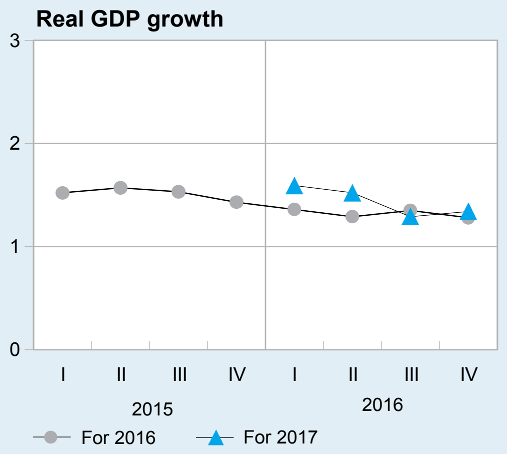
- In 2016, economic growth in Belgium remained robust although muted, in a context of large uncertainty.
- On average, the participating institutions expect real GDP growth in Belgium to level out at 1.3 % in 2017 as in 2016. HICP annual inflation is estimated at 1.8 % in 2016, partly against the backdrop of increases in indirect taxation and regulated prices, and is projected at 1.9 % in 2017 (see Macroeconomic Developments).
- Belgian labour market and wage formation reforms to be implemented at the beginning of 2017 to make the labour market more flexible and to make the wage-bargaining framework more resilient (see Special Topic).
- The Belgian Debt Agency completed its 2016 programme smoothly. It has now published its Funding Plan for 2017. The funding strategy remains in line with previous years, while the gross borrowing requirement is slightly lower (see Treasury Highlights).

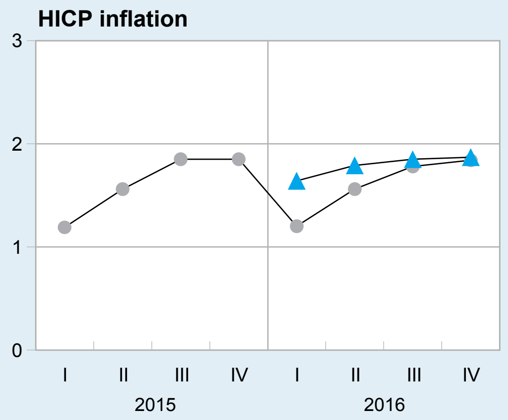
Consensus: Average of participants' forecasts

	2015		2016 p				2017 p			
	Belgium	Euro area	Belgium		Euro area		Belgium		Euro area	
Real GDP(1)	1.5	2.0	1.3	(1.4)	1.6	(1.6)	1.3	(1.3)	1.4	(1.3)
Inflation (HICP)(1)	0.6	0.0	1.8	(1.8)	0.2	(0.3)	1.9	(1.9)	1.3	(1.3)
General government balance(2)	-2.5	-2.1	-2.9	(-2.6)	-1.8	(-1.9)	-2.2	(-2.2)	-1.7	(-1.8)
Public debt(2)	105.8	92.6	106.6	(106.2)	90.6	(90.7)	106.1	(105.7)	89.9	(90.1)

Numbers in parentheses refer to the previous consensus forecast of September 2016.
(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM





Source: Belgian Prime News.

Macroeconomic Developments

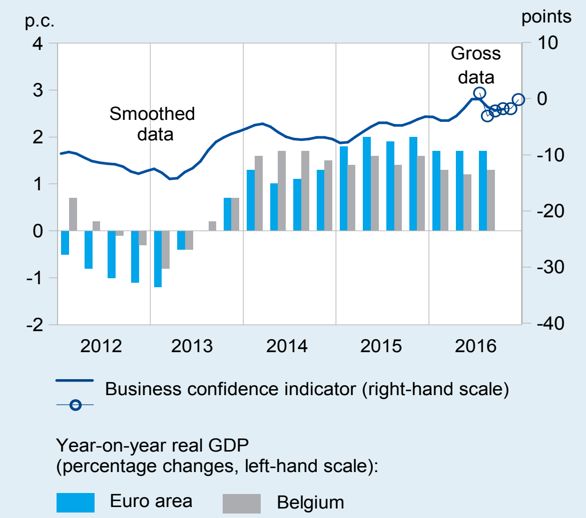
In 2016, the pace of real GDP growth subsided a little in Belgium, to about 1.2-1.3 % year-on-year, compared to 1.5 % on average over the two previous years. The slight deceleration stems for the combination of international and domestic factors. Foreign demand weakened slightly and political events in various countries fuelled some uncertainty for businesses and financial markets. On the domestic front, the terrorist attacks on Brussels in March, following those in Paris in November 2015, temporarily affected some travel-related business at the beginning of the year. During the autumn, consumer confidence was also temporarily hit by the announcements of future restructuring plans in the financial services and manufacturing industries. Moderate wage developments also curbed consumption a little in the short term.

However, the Belgian economy continued to show good resilience, in a context of improved cost competitiveness. Investment has strengthened, employment has continued to expand strongly, the current account has turned positive again, and, according to available information, export market share gains have been recorded recently. In launching the 2017 European Semester, the Commission actually confirmed its previous assessment that the Belgian economy is not experiencing any significant macroeconomic imbalances. **Against this background, the participating institutions expect GDP growth to reach 1.3 % in 2016 and in 2017.** The forecast is basically unchanged compared to September.

Headline inflation has been hovering around a level close to 2 % since June 2016, due to very robust core inflation by euro area standards, in particular for services, and a stronger price dynamic for energy, 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 1.9 % in 2017, up on the final estimate of 1.8 % for 2016.** In the euro area, inflation is estimated to have remained very low in 2016, at 0.2 %, but is forecast to rise more markedly in 2017, up to 1.3 %.

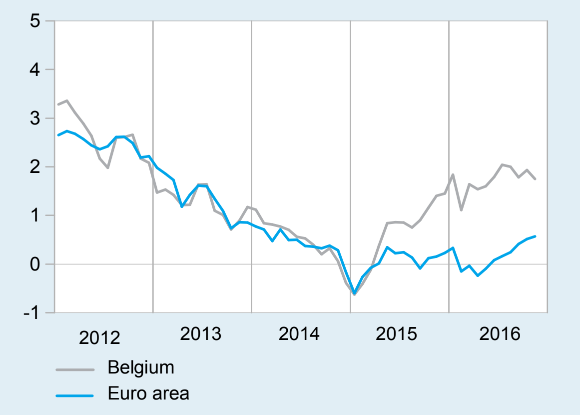
The Belgian public sector deficit is expected to amount to 2.9 % of GDP in 2016, before improving to 2.2 % in 2017. It should be noted that some participants implicitly include in their projections future consolidation efforts, often in line with the government targets, even if they have yet to be fully worked out. Some additional consolidation efforts would still be required to comply with the path of the budgetary plans submitted by the Belgian authorities to the EC. In this regard, the Commission is of the opinion that Belgium's Draft Budgetary Plan is at risk of non-compliance with the provisions of the Stability and Growth Pact (SGP). The Commission is therefore inviting the authorities to implement all planned measures within the national budgetary process and to ensure that the 2017 budget complies with the SGP. The participants anticipate a gradual decline in the Belgian public sector debt too, from 106.6 % of GDP in 2016 to 106.1 % in 2017. By 2017, euro area public debt should have dropped even further, to 89.9 % of GDP.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

HARMONISED INDEX OF CONSUMER PRICES
(annual percentage changes)



Source: EC.

Special Topic: Belgian labour market and wage formation reforms to be implemented at the beginning of 2017

In addition to the pension reform and structural reforms decreed over the last two years to step up action to get older workers and unemployed people back into employment, a new package of labour market measures will be implemented at the beginning of 2017. It has a two-pronged objective: on the one hand, to make the labour market more flexible and on the other hand, to make the wage-bargaining framework more resilient to unexpected shocks.

Both draft Laws are at the final stage in the legislative process. They have been submitted to the relevant advisory councils, and will now be discussed and approved by the Parliament in early 2017.

"Feasible and manageable work"

The aim of the Law on "travail faisable et maniable" – "werkbaar en wendbaar werk" is to inject more flexibility into the labour market. It proposes a variety of measures applicable to all enterprises, and an optional list of proposals for sectors, which may opt in or out on a voluntary basis, according to their needs. The social partners will have the choice of applying it (or not) at sectoral and firm levels.

The draft legislation contains a package of measures,

- Working time arrangements: possibility to annualise the calculation of the duration of work via social dialogue at sectoral or individual firm level; sectors facing international competition can make arrangements to calculate the working week of 38 hours on average over several years (6 maximum); possibility, for the worker, to work 100 hours overtime on a voluntary basis (only if the employer allows this);

- Work regimes: introduction of temporary work for an undetermined duration; possibility for small firms to jointly hire an employee;

- Training: a new target of at least 5 days on average per full-time equivalent;

- Working conditions for employees: a legal framework for occasional telework; the introduction of a "career account", making it possible to save days off; the extension of motivated career breaks/time credit for care of immediate family and leave for palliative care; the possibility for workers to fix their own working hours under a flexible working time scheme (with some limitations); the possibility of donating days off (holiday entitlement) for colleagues having sick children.

Revision of the Law of 1996 setting the framework for wage negotiation

A bill is in the final stage of preparation to revise the current 1996 Law on the Promotion of Employment and the Preventive Safeguarding of Competitiveness, which underpins wage bargaining in Belgium.

Despite a negotiation framework designed to keep in line with wage growth in the three main neighbouring countries, wage growth in Belgium had diverged significantly from the average evolution in Germany, the Netherlands and France over a relatively long period of time. So, the government had to step in, by taking a number of wage-moderation measures to preserve cost competitiveness in Belgium. To avoid any such derailment in the future, a number of automatic correction mechanisms are introduced by the draft Law.

The principle of a maximum nominal wage norm, based upon expected trends among the three main trade partners will be retained, as well as automatic wage indexation. However, the new Law would significantly adapt the calculation of the wage norm, including by making automatic correction mechanisms more effective if Belgium's wage trend moves out of step with the three main neighbouring countries and by introducing a safety margin to cope with projection bias in the main variables. Also, the so-called "historical gap", i.e. the wage gap accumulated before 1996, will be taken into account when implementing additional cuts in social contributions.

Treasury Highlights

During the fourth quarter of 2016, the Treasury held two auctions resulting in the issuance of € 4.746 billion worth of OLOs. The following table highlights the results of these auctions:

Auction date	OLO	Nr	Issued (€ billion)	Non-competetive tour (€ billion)	Total	Yield	Bid-to-cover
24/10/2015	OLO 1.00% 22/06/2026	OLO 77	0.490	0.000	0.490	0.192%	3.42
	OLO 1.00% 22/06/2031	OLO 75	0.676	0.000	0.676	0.567%	2.21
	OLO 3.75% 22/06/2045	OLO 71	0.642	0.000	0.642	1.003%	1.78
	Total		**1.808**	0.000	**1.808**		
21/11/2016	OLO 1.00% 22/06/2026	OLO 77	1.155	0.249	1.404	0.669%	1.84
	OLO 1.00% 22/06/2031	OLO 75	0.905	0.245	1.150	1.065%	1.52
	OLO 1.60% 22/06/2047	OLO 78	0.240	0.144	0.384	1.596%	3.25
	Total		**2.300**	0.638	**2.938**		

No further EMTNs or *Schuldscheine* were issued. Taking into account the € 19.0 million of State Notes issued in December, the total long-term funding for 2016 amounted to € 40.60 billion, equivalent to 101.36 % of the revised target of € 40.05 billion.

The overall 2016 funding cost for new long-term issuances reached a historic low of 0.818 %, and the Treasury also set a new record in terms of average maturity (17.51 years).

On 6 December, the Treasury published its 2017 borrowing requirements and Funding Plan

2017 BORROWING REQUIREMENTS AND FUNDING PLAN
(billions of euro)

	2016		2017	
I. Gross financing requirements		43.53		38.98
1. Net financing requirements		12.62		6.52
2. Debt maturing during the year		25.88		28.58
3. Planned pre-funding (bonds maturing in subsequent years)		5.04		3.63
4. Other financing requirements(1)		0.00		0.25
II. Funding resources (Medium and long-term)		42.33		39.25
1. Long and medium-term funding		40.60		39.25
OLOs	37.63		35.00	
Euro Medium Term Notes/Schuldscheine	2.93		4.00	
Securities for retail investors	0.04		0.25	
Other(2)	0.00		0.00	
2. Treasury bonds - Silver Fund		1.73		0.00
III. Net change in short term foreign currency debt		-0.02		0.00
IV. Change in Treasury Certificates stock(3)		1.15		0.00
V. Net change in other short-term debt and financial assets(4)		0.08		-0.27

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 01/01/2017: € 26.4 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 requirements in 2017

The Belgian Debt Agency expects its 2017 gross borrowing requirements to come to € 38.98 billion. This is a drop of € 4.55 billion compared to the € 43.53 billion borrowing requirements expected for 2016. In establishing this estimate, the Debt Agency assumed that the 2017 net financing requirements would amount to € 6.52 billion, against € 12.62 billion in 2016. This reflects an expected 1.17 %-of-GDP reduction in the federal government deficit in 2017 (1.28 % for the whole government sector).

Redemptions of medium- and long-term debt are projected to reach € 28.58 billion.

The Belgian Debt Agency also plans to buy back bonds maturing in 2018 and later for an amount of € 3.63 billion.

OLOs remain the main funding instrument: 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 € 35 billion worth of OLOs, which is € 2.63 billion lower than the € 37.63 billion issued in 2016. It expects to launch three new OLO fixed-rate benchmarks. A new OLO Floating-Rate Note could also be issued.

The Debt Agency also expects to issue € 4.00 billion via its EMTN programme or other alternative funding instruments such as *Schuldscheine*.

Against the backdrop of the low interest rate environment, State Note issuance for the private investors is again expected to result in limited € 0.25 billion of funding.

As for short-term funding, net short-term debt is planned to decline by € 0.27 billion in 2017. The volume of Treasury Certificates, which is expected to stand at € 26.46 billion at the end of 2016, should remain stable over the year 2017.

In the course of 2016, the 20 % maximum limit set for both the 12-month refinancing and the 12-month refixing risk has not been breached. The 12-month refinancing risk amounted to 17.67 % in December 2016. The 12-month refixing risk is expected to come to 18.73 % by year-end.

Turning to medium-term risks, both the 60-month refinancing risk and the 60-month refixing risk remained well below their maximum level of 50 %. They were expected to work out at 42.62 % and 43.03 % in December 2016.

In 2017, the medium-term refinancing and refixing risk limits will be lowered:
- The 60-month refinancing risk will come down by 2.50% to 47.50 %;
- The 60-month refixing risk will come down by 2.50% to 47.50 %;
- The 12-month refinancing and refixing risk will remain unchanged at 20.00 %.

The average life of the debt portfolio reached 8.65 years as of 31 December 2016 and the duration worked out at 7.96 years. The implicit cost of the portfolio had nevertheless dropped further to 2.60 % by that date.

In 2017, the average life of the debt portfolio is required to be higher than 8.50 years, i.e. 0.50 year higher than the minimum prevailing during the second half of 2016.

Funding strategy: predictability and flexibility

The main feature of the 2017 issuance strategy continues to be the combination of predictability and flexibility in order to respond adequately to changing market environments. This subtle combination can be obtained by enhanced communication.

The Treasury will remain predictable with regard to the number of OLO syndications and 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 2017 will be as follows.

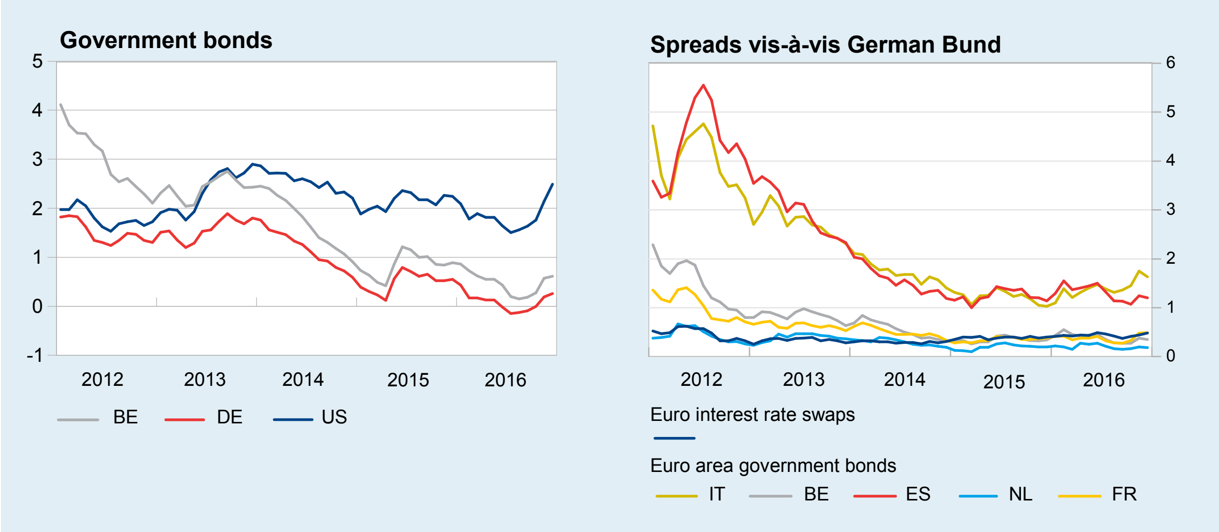
With regard to long term-financing:
- It is expected that new benchmarks will be launched through syndicated issues and expanded through auctions.
- The Treasury expects to launch three new fixed-rate OLO benchmarks.
- If there is sufficient demand, off-the-runs can be reopened in regular auctions.
- The number of OLO auctions remains at 10. There will be no auction in August or 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 Certificate 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 programme 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 2017 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)

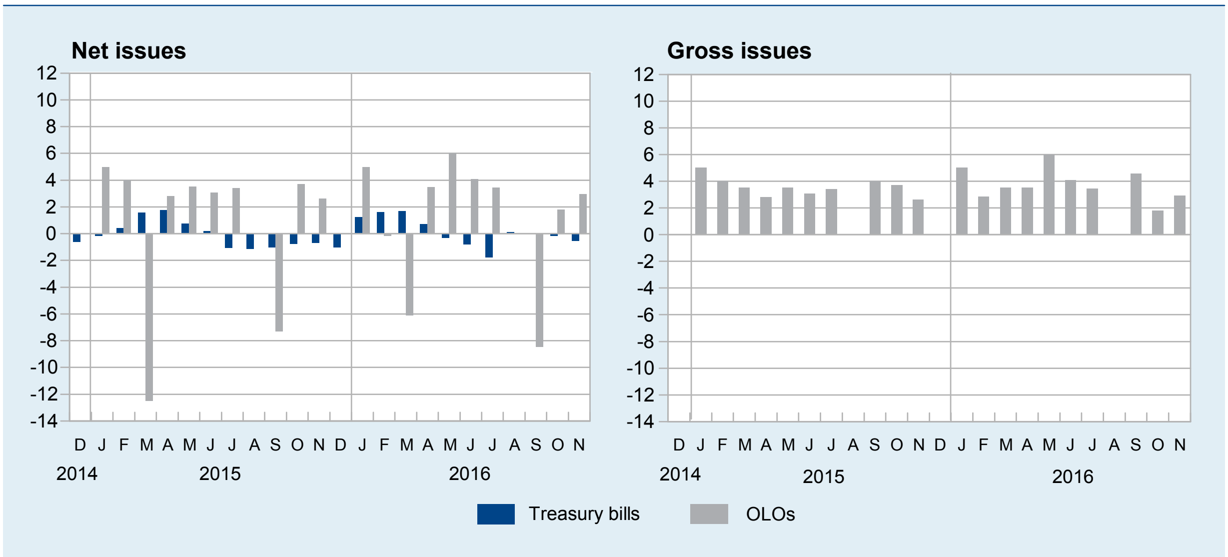


Sources: BIS, Datastream.

In the last quarter of 2016, long-term sovereign bond yields rose both in the United States and in the euro area. The increase was more pronounced in the US, where ten-year sovereign yields rose by as much as 86 bp. to 2.49 % in December. This hike followed the US presidential elections and mainly occurred on the back of growing market expectations of higher inflation associated with possible fiscal stimulus and protectionism. It was furthermore supported by (anticipations of) a higher target range for the federal funds rate announced by the FOMC on 14 December. Higher bond yields in the US triggered some increases in other countries. Across euro area countries, ten-year sovereign bond yields rose by between 35 bp and 62 bp (with the exception of Greece where sovereign yields declined). More specifically, the ten-year sovereign bond yield in Germany increased by 35 bp to 0.26 % (December average), and it also rose by 43 bp in Belgium, to 0.61 %. These developments were essentially driven by higher inflation expectations. Despite the general increase recorded over the review period, sovereign yields in the euro area dropped slightly after the ECB Governing Council meeting on 8 December.

Over the period under review, euro area sovereign spreads vis-à-vis Germany widened in general, except in Greece where spreads narrowed by about 175 bp. They widened the most in Italy, by 27 bp to 163 bp, against a background of political uncertainty stemming from the country's constitutional referendum held on 4 December and from problems faced by some financial institutions. To a lesser extent, spreads also increased in Belgium, the Netherlands and Spain (by less than 10 bp) and stand respectively at 35 bp, 18 bp and 120 bp. Overall, financial market volatility remained broadly stable in the last quarter of 2016, in spite of a peak triggered by the US elections.

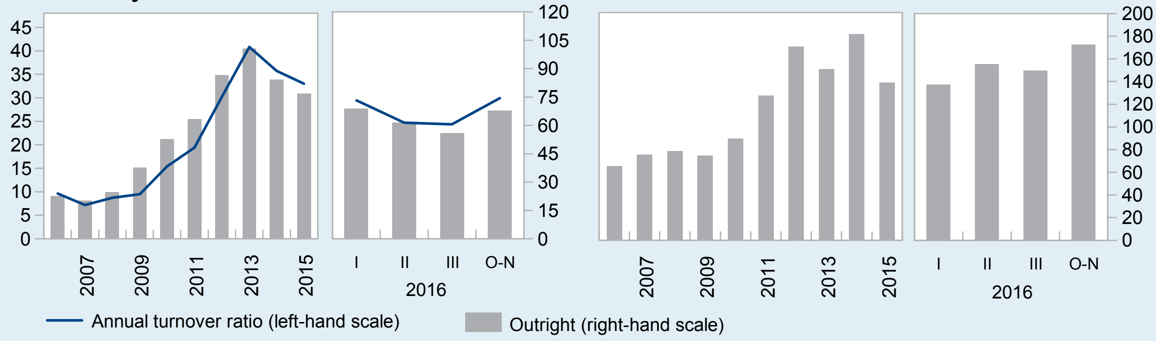
PRIMARY MARKET
(billions of euros)



SECONDARY MARKET TURNOVER

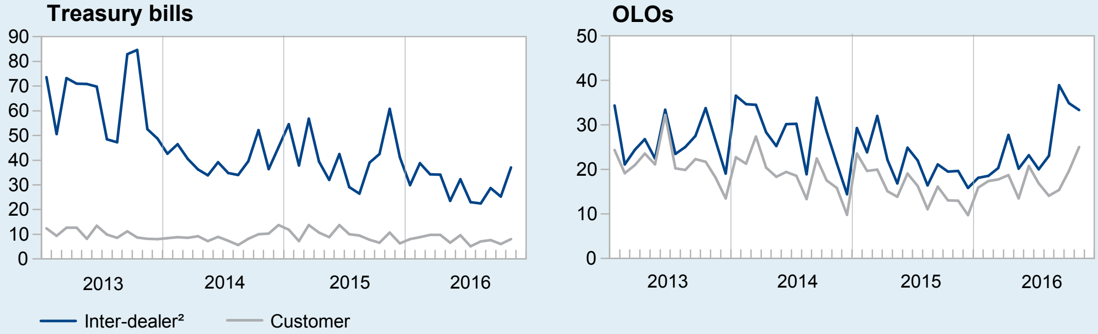
As compiled by the Securities Regulation Fund[1]
(billions of euros unless otherwise stated, monthly averages)

Treasury bills | **OLOs**



As reported by primary and recognised dealers to the Treasury
(billions of euros)

Treasury bills | **OLOs**

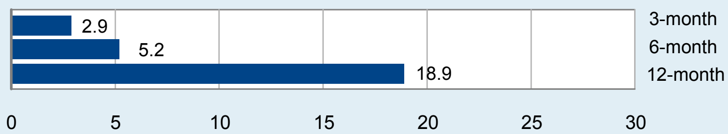


[1] As of January 2009, reporting information obtained via TREM is also included. The Securities Regulation Fund's turnover figures include some sell/buy-back transactions which are in fact repurchase agreements.
[2] Please note that inter-dealer turnover is double-counted in these figures.

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)

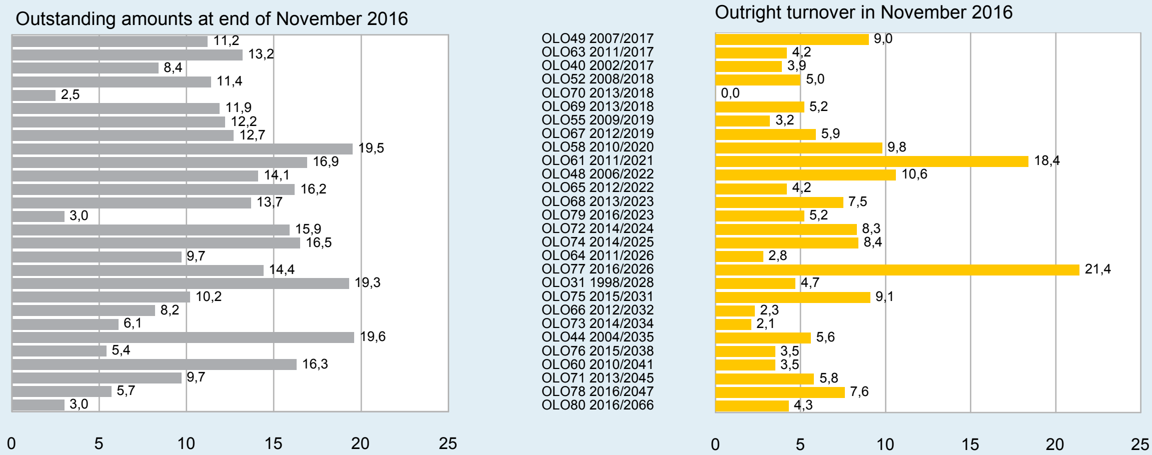
TREASURY BILLS

Nominal outstanding amounts at end of November 2016



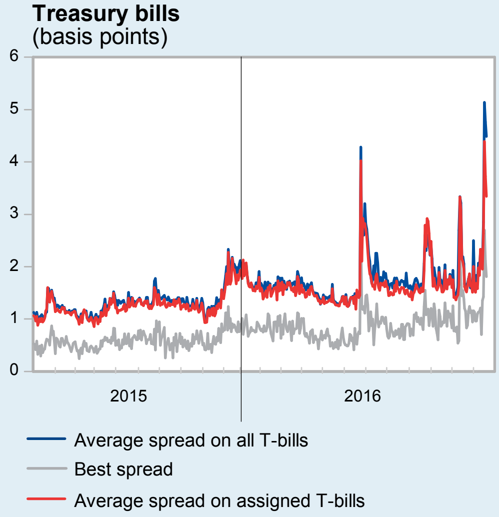
OLOs

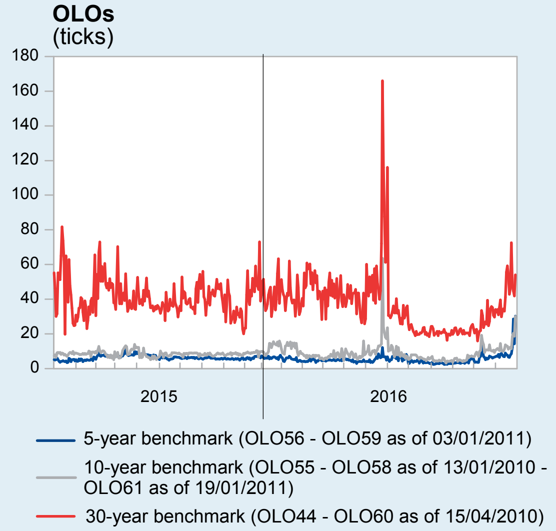
Outstanding amounts at end of November 2016 | Outright turnover in November 2016



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).

List of contact persons

PARTICIPATING INSTITUTIONS	TECHNICAL EDITORS	TELEPHONE	E-MAIL
Federal Public Service Finance	Mr Jean Deboutte	+32 2 574 72 79	jean.deboutte@minfin.fed.be
Barclays	Mr François Cabau	+44 20 31 34 35 92	francois.cabau@barclays.com
Belfius Bank	Mr Geert Gielens	+32 2 222 70 84	geert.gielens@belfius.be
BNP Paribas Fortis	Mr Philippe Gijsels	+32 2 565 16 37	philippe.gijsels@bnpparibasfortis.com
	Mr Arne Maes	+32 2 312 12 10	arne.maes@bnpparibasfortis.com
Citigroup	Mr Philip Brown	+44 20 7986 8950	philip.brown@citi.com
	Mr Guillaume Menuet	+44 20 7986 3281	guillaume.menuet@citi.com
Commerzbank	Mr Rainer Guntermann	+49 69 1 36 8 75 06	rainer.guntermann@commerzbank.com
ING	Mr Peter Vanden Houte	+32 2 547 80 09	peter.vandenhoute@ing.be
	Mr Philippe Ledent	+32 2 547 31 61	philippe.ledent@ing.be
KBC	Mr Piet Lammens	+32 2 417 59 41	piet.lammens@kbc.be
	Mr Jan Van Hove	+32 2 429 59 50	chiefeconomist@kbc.be
Morgan Stanley	Mr Olivier Bizimana	+44 20 7425 6290	olivier.bizimana@morganstanley.com
Nomura International Plc.	Ms Anna Titareva	+44 20 7102 8959	anna.titareva@nomura.com
Société Générale Corp. & Inv. Banking	Mr Michel Martinez	+33 1 42 13 34 21	michel.martinez@sgcib.com
GENERAL INFORMATION			
National Bank of Belgium	Mr Luc Dresse	+32 2 221 20 39	luc.dresse@nbb.be

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