Annual Report 2018

BELGIAN DEBT AGENCY

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FOREWORD BY MR. ALEXANDER DE CROO, DEPUTY PRIME MINISTER AND MINISTER OF FINANCE

I am delighted to present the 32nd annual report of the Federal State debt. In this report, the Belgian Debt Agency (the Agency) publishes its financial transactions and the evolution of the structure of the federal debt resulting from the rigorous management it applies.

As usual, a special chapter has been devoted to the strategic points that characterised the year under review. Four aspects can be highlighted by the Agency: the decision of the European Central Bank in 2018 to phase out its policy of quantitative easing in light of economic developments; the issue of a green OLO announced in the 2017 annual Debt Report and successfully completed in 2018; the measures taken by the Agency to prepare for Brexit and, last but not least, the debt management strategy that has focused on risk reduction in recent years.

This annual report also covers Belgium's economic developments and public finances.

In 2018, Belgium recorded a growth rate of 1.4%, a decrease compared to 2017 due, among other things, to a slackening of consumption and global trade. During the year under review, we can also highlight the positive impact of the impressive employment results that buoyed this economic growth.

As regards public finances, Belgium's deficit in 2018 was 0.7% of GDP, representing a 0.1 percentage point decrease in the deficit compared to 2017. Our national debt ratio fell by 1.4 percentage points of GDP, from 103.4% in 2017 to 102.0% of GDP in 2018.

To cover its financing needs, the Agency issued medium and long-term debt worth €34.14 billion in 2018: €33.94 billion in linear bonds (OLOs), €0.19 billion in EMTN, and €0.01 billion in State notes.

Moreover, at 14.81 years, the average duration of the Agency's issues remained very high in 2018, and the average duration of the federal debt in euros increased from 9.29 years in 2017 to 9.62 years in 2018.

Finally, in a context of low interest rates, interest charges on the federal public debt continued to fall, from €9.36 billion to €8.66 billion between 2017 and 2018. The weighted average interest rate on euro-denominated debt instruments increased from 2.30% at the end of 2017 to 2.17% at the end of the year under review.

Finally, I would like to thank the Agency for the high level of professionalism they have shown in their remit to manage the debt.

The Deputy Prime Minister and Minister of Finance,
Alexander DE CROO

THE KEY INDICATORS OF THE PUBLIC DEBT

(in billions Euros *or in %* at the end of December)

I. AMOUNTS OUTSTANDING OF THE MAIN FEDERAL GOVERNMENT DEBT INSTRUMENTS	2017	2018
1. Gross federal debt outstanding	**385.92**	**389.08**
• Granting Treasury's credits to entities of the public administrations sector.	1.67	1.46
• Treasury's management transactions	1.24	1.21
• Portfolio securities (Management transactions)	5.03	5.64
• Portfolio securities (SACA securities[1])	3.82	2.49
• Short term placements SACA	0.50	0.41
Net federal debt outstanding	**373.66**	**377.87**
2. Debt instruments		
A. Instruments in EUR (after swaps)**:**	**385.92**	**389.08**
• Linear Bonds (OLO)	329.81	337.93
• Treasury Certificates	25.61	24.87
• Euro Medium Term Notes (EMTN) in EUR	4.56	4.56
• Schuldscheine	2.11	2.06
• State notes	0.49	0.39
• Euro-Commercial Paper (ECP)	1.45	0.20
• Private loans, interbank loans and miscellaneous	12.61	13.18
• EMTN issued in currencies	9.03	5.66
• Debt of certain organisations, for which the government helps to service the debt	0.25	0.23
As % of the debt in EUR:		
• *Linear Bonds (OLO)*	*85.46%*	*86.85%*
• *Treasury Certificates*	*6.64%*	*6.39%*
• *EMTN (EUR + currencies)*	*3.52%*	*2.63%*
• *Schuldscheine*	*0.55%*	*0.53%*
• *State notes*	*0.13%*	*0.10%*
• *Other*	*3.71%*	*3.50%*
B. Instruments in foreign currencies (not swapped in EUR)	**0.00**	**0.00**
• Medium- and long-term debt	0.00	0.00
• Euro-Commercial Paper (ECP)	0.00	0.00

II. CHANGES IN NET FEDERAL GOVERNMENT DEBT OUTSTANDING OVER THE YEAR	2017	2018
1. Change in € billion	**-18.92**	**4.21**
• Net balance to be financed	4.22	3.97
• Exchange gain/loss	-0.11	0.04
• Interest capitalisation	0.00	0.00
• Debt of certain organisations	-0.02	-0.02
• Debt and asset assumptions[2]	-23.29	0.00
• Granting of credits to entities of the public administrations sector	0.26	0.20
• Miscellaneous	0.02	0.02
2. Change in %	***-4.82%***	***1.13%***

III. CHARACTERISTICS OF THE FEDERAL GOVERNMENT DEBT	2017	2018
1. Rating issued by rating agencies (long term)		
• S&P	AA	AA
• Moody's	Aa3	Aa3
• Fitch	AA-	AA-
• DBRS	AA (high)	AA (high)
2. Breakdown by currency (after swaps)		
• *Debt in EUR*	*100.00%*	*100.00%*
• *Debt in currencies*	*0.00%*	*0.00%*

[1] SACA (Services administratifs à comptabilité autonome): Administrative departments with autonomous accountancy

[2] When the Silver Fund was abolished on 1 January 2017, all assets and liabilities were transferred to the State.

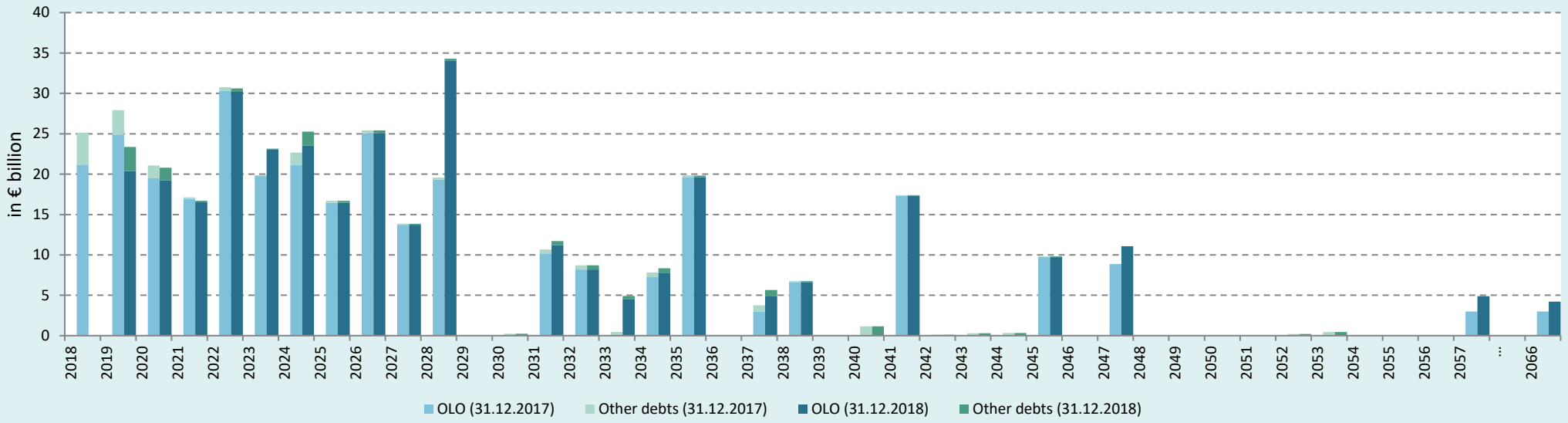
3. Breakdown by maturity		
• *Long and medium terms (> 1 year)*	*90.29%*	*90.64%*
• *Short term*	*9.71%*	*9.36%*
4. Breakdown by rate		
• *Fixed rate*	*89.26%*	*90.26%*
• *Variable rate*	*10.74%*	*9.74%*
5. Effective duration of the debt in EUR (in years)	8.25	8.56
6. Weighted average duration of the debt in EUR (in years)	9.29	9.62
7. Federal State interest charges	9.36	8.66
8. Weighted average interest rate [1]	*2.30%*	*2.17%*

IV. TRANSITION FROM FEDERAL DEBT TO GENERAL GOVERNMENT DEBT	2017	2018
1. Federal debt outstanding	385.91	389.08
2. Outstanding debt of other federal entities[2]	16.67	17.05
3. Debt of Communities and Regions, local authorities and Social Security	86.85%	87.87
4. Consolidation adjustment	35.19	34.24
5. Other corrections	-0.13	-0.11
Consolidated general government debt (1+2+3-4+5)	**454.11**	**459.65**
6. Gross Domestic Product (GDP)	439.17	450.51
General government debt ratio (1+2+3-4+5)/6	***103.40%***	***102.03%***

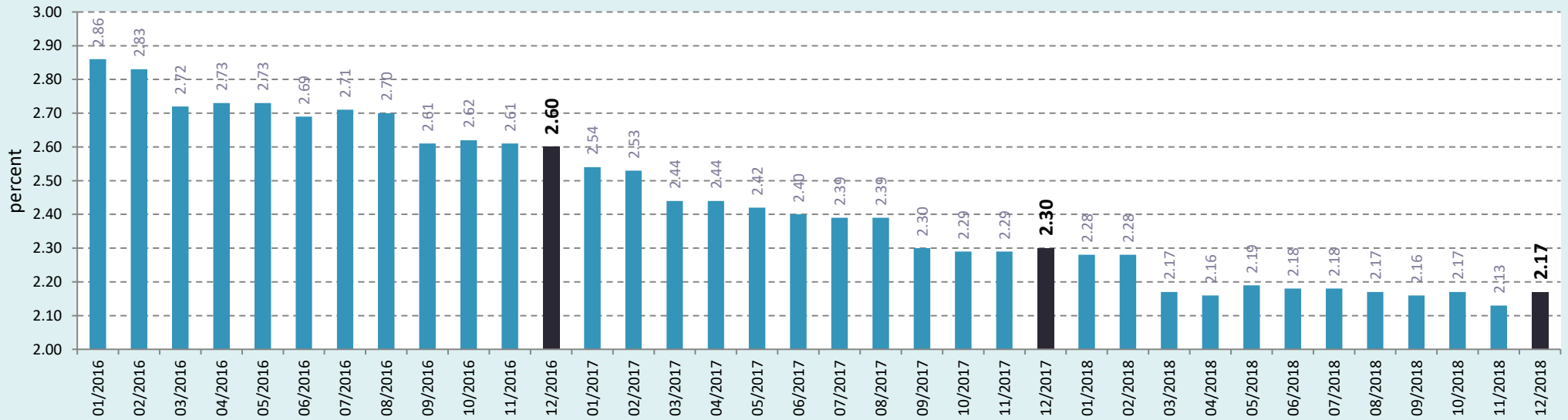
[1] Weighted average interest rate for debt instruments in euros at the end of the year.

[2] Debt represented by financial instruments within the meaning of the definition in the Maastricht Treaty.

MATURITY SCHEDULE OF LONG-TERM DEBT



WEIGHTED AVERAGE ACTUARIAL RATE OF THE DEBT



1 DEVELOPMENTS IN THE ECONOMY AND IN GOVERNMENT FINANCE

1.1 DEVELOPMENTS IN THE ECONOMY AND INTEREST RATES

1.1.1. DEVELOPMENTS IN THE ECONOMY

With a growth rate of 3.6% in 2018, the world economy experienced sustained growth, although there were disparities between countries due to growing uncertainties, particularly in the area of trade. While growth increased by 2.9% in the United States, it slowed in most advanced economies. Emerging economies, on the other hand, experienced variable developments in economic growth, which partly depended on whether they were oil-exporting or oil-importing countries.

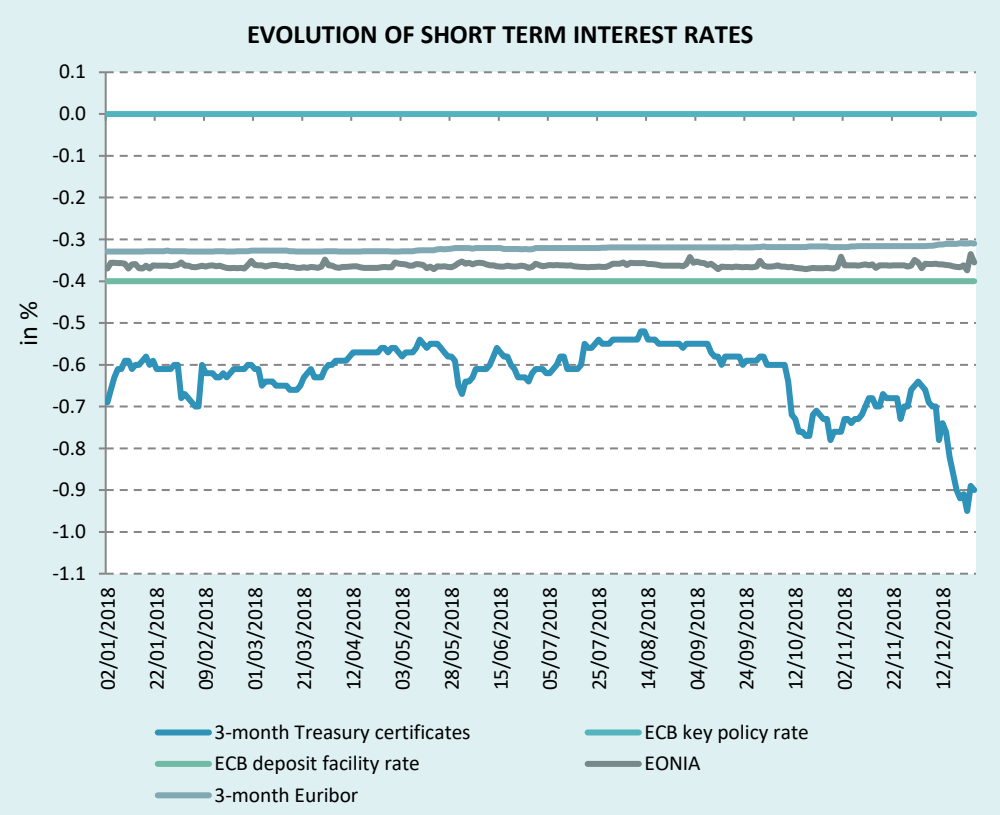
In the euro zone, economic activity was less dynamic in 2018, primarily due to a lower contribution from net exports following the slowdown in international trade. GDP growth therefore amounted to 1.8% compared to 2.4% in 2017. This prompted a further improvement in the labour market, and wage growth in a context of falling unemployment rates. In this context, the ECB's Governing Council reinforced its conviction that inflation was on course to converge in a sustainable manner with a level consistent with price stability.

In Belgium, economic growth in 2018 was 1.4%, down from 1.7% in 2017. This decline is primarily due to the weak increase in consumption, which is partly due to wage moderation measures that have weighed on the purchasing power of households. In addition, as in the euro zone, the lack of dynamism in global trade weighed on exports, which had an impact on Belgian economic performance. On the other hand, it should be noted that this was particularly buoyed once again by the rise in employment in Belgium (+1.2%). Despite significant regional differences, the unemployment rate has fallen to 6% of the working population. Finally, Belgian inflation posted a moderate overall increase to 2.3% in 2018.

1.1.2. EVOLUTION OF INTEREST RATES

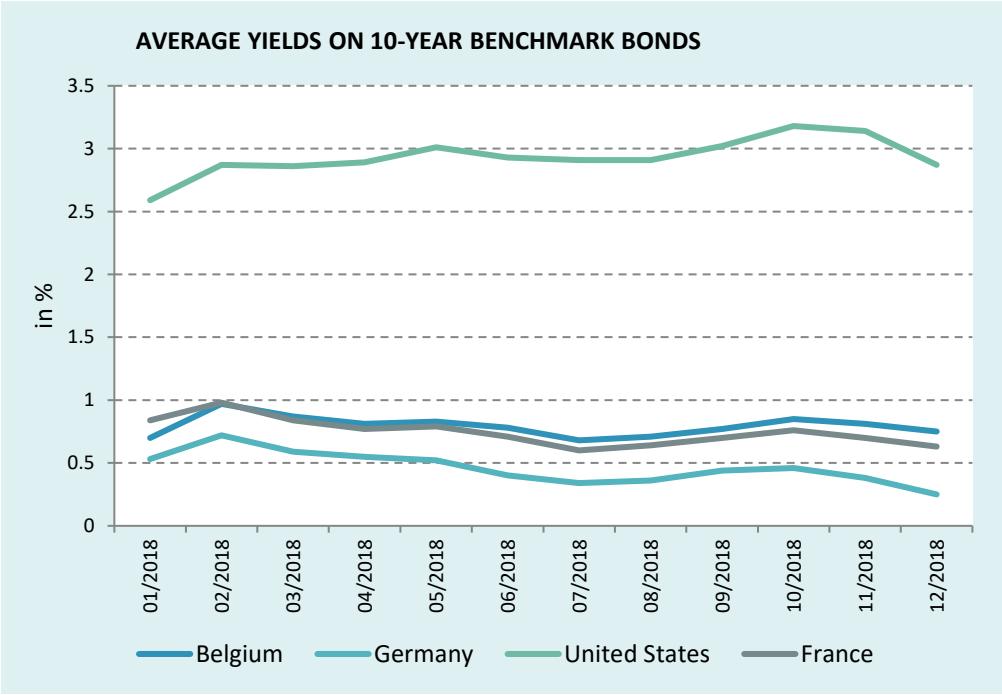
In the euro zone, the ECB's monetary policy decisions in 2018 heralded a gradual return to normality: net asset purchases were gradually wound down, while the key policy rates remained unchanged, the refinancing rate remained at 0% and the deposit rate at -0.40%.

Money market interest rates in the euro zone remained very low in 2018. The three-month EONIA (Euro Overnight Index Average) and EURIBOR (Euro Interbank Offered Rate) remained very stable, with an average of -36 and -32 basis points respectively. In Belgium, the three-month Treasury certificate rate stood at -0.69% at the beginning of January, before declining to -0.90% at the end of the year.



As a result, interest rates on the capital markets remained low. In Belgium, the yield on the 10-year benchmark fluctuated between 0.68 and 0.97% during the year under review. The average spread between German and Belgian 10-year benchmark bonds was around 33 basis points for the same period.

It can be observed that long-term rates in the euro zone generally remained below the US long-term rates, which were rather high in 2018. As such, the American 10-year benchmark bond rose on average from 2.59% in January to 2.87% in December of the year under review. These high levels are partly due to the monetary policy of the Federal Reserve which, in a context of sustained economic recovery in the United States in 2018, raised its key policy rate four times by 25 basis points, to reach a range of 2.25 to 2.50%.



1.2 DEVELOPMENTS IN GOVERNMENT FINANCES IN 2018

According to the figures published by the National Accounts Institute on 18 April 2019, the accounts of the Belgian government as a whole closed with a deficit of 0.7% of GDP in 2018. The financing balance improved slightly compared to the previous year, when a deficit of 0.8% of GDP was recorded.

The result is better than the target of the 2018-2021 stability programme submitted to the European authorities in April 2018, which forecast a deficit equivalent to 1% of GDP in 2018.

The reduction in the deficit is explained by the economic upturn, the sharp rise in employment, non-recurring measures and the low interest rate environment. The temporary measures concern in particular the increase in corporate tax revenues.

1.2.1. DEVELOPMENTS IN THE DIFFERENT SUB-SECTORS

According to figures from the NAI drawn up on the basis of ESA 2010, the deficit of 0.7% of GDP breaks down into a deficit of 0.2% of GDP for Entity I (Federal authorities and Social Security) and a deficit of 0.5% for Entity II (Communities, Regions and Local Authorities).

Within Entity I, the Federal authorities had a deficit of 0.2% of GDP, while the social security accounts were more or less balanced. Concerning Entity II, the Communities and Regions show a deficit of 0.5% of GDP and the Local Authorities are practically in balance.

The stability programme predicted that the deficit of the Federal authorities would be 0.5% of GDP, and that Social Security would be in balance. A deficit of 0.5% of GDP was expected for the Communities and Regions, and a balance was forecast for Local Authorities.

The budget results are therefore better than the forecasts of the stability programme at the Federal government level. They are consistent with the objectives for the other entities.

The achievement of a balance in social security is due to an allocation allocated for this purpose by the Federal government.

The autonomy factor, which determines the additional regional percentages on personal income tax, was definitively revised down at the end of 2017. This revision resulted in a one-off correction in 2018 of the tax surplus paid to the Regions since 2015. This correction had a positive influence on the financing balance of the Federal government and a negative impact on the balance of the Flemish Community, the Walloon Region and the Brussels-Capital Region. These three entities recorded a deficit, as did the French Community and the Common Community Commission. The other entities closed their accounts more or less in balance.

FINANCING BALANCE REALISATIONS (AS % OF GDP) [1]

	Realisations (ESA) 2017[2]	2018-2021 stability programme	Estimates (ESA) 2018
All public authorities	-0.8	-1.0	-0.7
Entity I	-1.1	-0.5	-0.2
- Federal government	-1.3	-0.5	-0.2
- Social Security	0.2	0.0	0.0
Entity II	0.3	-0.5	-0.5
- Communities and Regions	0.1	-0.5	-0.5
- Local Authorities	0.2	0.0	0.0

1.2.2. REVENUE AND EXPENDITURE

Revenues

Total government revenue increased by 0.4 percentage points of GDP in 2018, to 51.7% of GDP.

This increase was primarily due to the increase in fiscal and parafiscal revenues, by 0.3 percentage points of GDP, and to a lesser extent to the increase in non-fiscal and parafiscal revenues, by 0.1 percentage points of GDP.

[1] In the tables, total amounts can differ from the total amount of the figures mentioned in the rubrics, those being rounded off.

[2] These are figures recorded in accordance with ESA 2010. The figures do not take account of prepayments in the context of additional regional percentages, but are based on the actual percentages assessed.

The growth in fiscal and parafiscal revenues is mainly due to the increase in corporate tax revenues. Following a significant increase in 2017, these revenues increased further in 2018 by 0.3 percentage points of GDP, to 4.5% of GDP.

Advance payments by companies, which had already risen sharply in the previous year, continued to increase. This change can be explained by the new increase in the additional tax rate, from 2.25% to 6.75%, in the event of insufficient advance payments, which prompts companies to make larger advance payments.

The tax take on earned income declined slightly. Revenues from personal income tax and social security contributions have fallen following the measures taken as part of the tax shift. The deduction rate for fixed professional expenses has been raised across the board to 30%, the brackets of the tax scale have been adjusted and the income limit for an increased tax-exempt quota has been raised. The basic rate of employers' social security contributions has been reduced from 30% to 25%. On the other hand, the impressive job creation in 2018 contributed to an increase in tax revenues.

Revenues from other income and assets increased slightly due to the increase in the tax on stock market transactions, as well as the introduction of the tax on securities accounts.

Taxes on goods and services increased slightly. VAT revenues increased slightly, while excise revenues and similar levies remained more or less stable.

Non-fiscal and parafiscal revenues increased due to the increase in the dividend paid by Belfius to the Federal government.

Expenditure

The share of primary expenditure in GDP increased in 2018 by 0.4 percentage points of GDP, to 50.1% of GDP. The downward trend in this ratio observed over the previous four years has therefore stopped.

This change is mainly due to the increase in social benefits, as well as the growth in public investment and transfers to the rest of the world.

The various categories of expenditure on social benefits increased, with the exception of expenditure on unemployment benefit. Growth was most pronounced in expenditure on pensions and sickness and disability benefits, reflecting the increase in the number of beneficiaries. New cost-saving measures helped keep the health care budget in check.

The fall in expenditure for unemployment benefits is due to several factors: favourable economic conditions, good conditions on the labour market, the retirement of large cohorts of baby boomers from the working population, as well as measures taken to tighten the conditions for access to benefits.

As regards other current public expenditure, operating expenditure remained stable and remuneration expenditure grew moderately as a result of the quasi-stabilisation of employment in the public sector.

Public investment recorded a slight rise, reflecting the electoral cycle of local authorities' capital expenditure in the run-up to the local elections. However, the rise was less pronounced than in previous cycles.

The increase in transfers to the rest of the world in 2018 is explained by the fact that there was no longer any reduction in Belgium's contribution to the EU budget as in the previous year.

REVENUES AND EXPENDITURE OF ALL PUBLIC AUTHORITIES (AS % OF GDP)		
	Realisations 2017	Estimates 2018
Total Revenues	51.3	51.7
(of which general and special tax revenues)	44.3	44.6
Primary expenditure	49.7	50.1
Overall expenditure	52.1	52.4

The combination of revenue and primary expenditure as a percentage of GDP gave rise to a primary surplus of 1.6% of GDP in 2018. The result is more favourable than the target of the stability programme, which is a primary balance surplus of 1.3% of GDP.

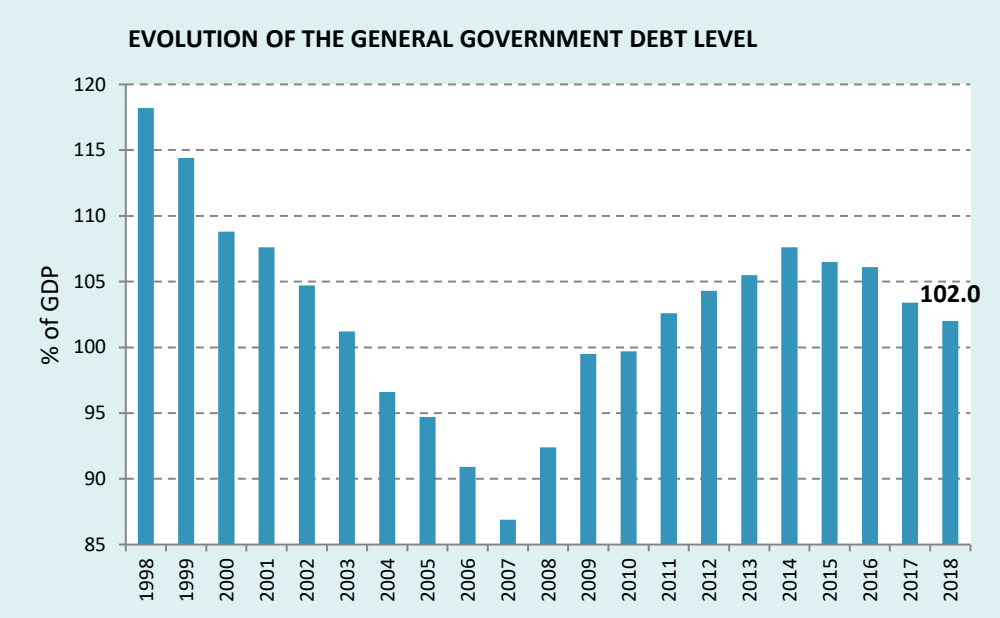
The reduction in interest charges on government debt continued in 2018. They fell by 0.2 percentage points of GDP compared to 2017, to 2.3% of GDP.

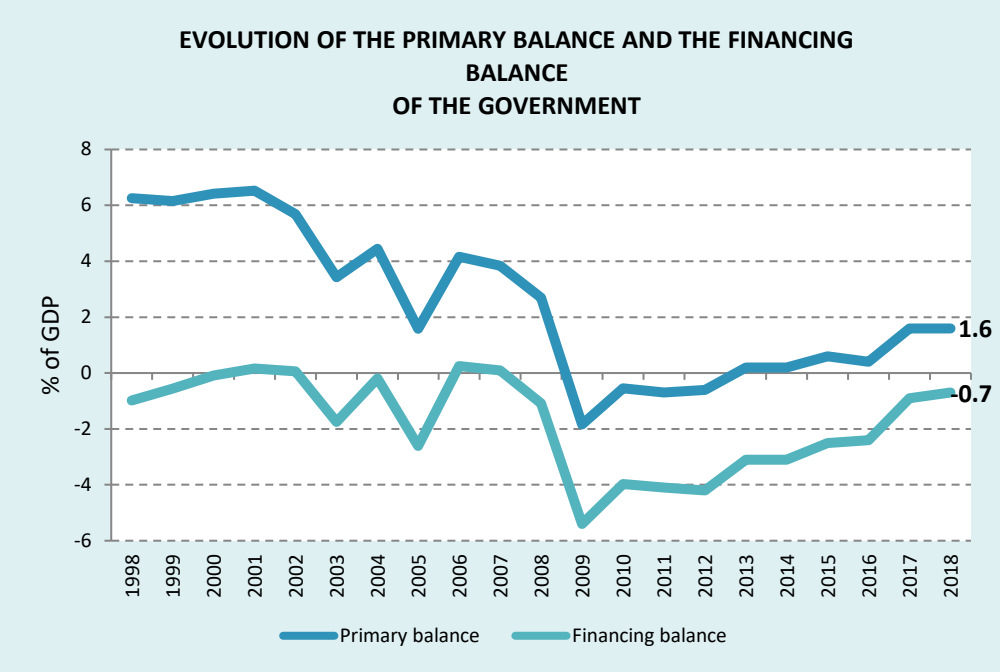
This progression is largely explained by the fall in the implicit interest rate on the debt. The market rates paid on new issues effectively stayed lower than the rates on expiring securities and borrowings. In the short term, thanks to negative interest rates, the State was even able to receive interest when Treasury certificates were issued for a period of three months to one year.

The general government debt ratio fell by 1.4 percentage points of GDP to 102.0% of GDP at the end of 2018.

This fall in the debt ratio is attributable to the favourable impact of internal factors. These factors primarily relate to the primary surplus (1.6% of GDP), as well as the positive gap between nominal GDP growth and the implicit interest rate on public debt.

On the other hand, external factors had an upward effect on the debt ratio. They are due to the increase in loans granted by the Flemish Region in the context of social housing policy and to accounting-related factors. Interest payments made on a cash basis were effectively higher than payments charged on a transaction basis, which are used as a reference to record interest charges in the general government accounts.





2 FINANCING POLICY

2.1 FINANCING REQUIREMENTS AND RESOURCES

In 2018, the gross financing requirements of the federal government amounted to €33.64 billion. This amount was therefore slightly higher than the €33.25 billion of gross financing requirements that the Debt Agency had included in its financing plan for 2018.

Concerning the breakdown of these requirements, the budget deficit in terms of cash (the net financing requirements of the federal authorities) amounted to €3.97 billion. This deficit was therefore less than the initially expected amount of €4.54 billion. The medium- and long-term debt arriving at maturity, which constitutes the majority of financing requirements, reached an amount of €25.15 billion, well in line with forecasts. However, in 2018, the Agency repurchased significantly more debt arriving at maturity in 2019 than expected. Debt repurchases amounted to €4.47 billion, compared to the €3.11 billion initially planned. Finally, other financing requirements, which mainly stemmed from the possible exercise of options by counterparties, proved to be much lower than expected, which reduced financing requirements by €0.50 billion.

At €34.14 billion, the amount of financing realised in the medium and long term was also fully in line with the financing plan, which anticipated €34.25 billion. This financing was almost exclusively realised thanks to the issuance by the Agency of OLOs, for a total of €33.94 billion. In effect, there were few opportunities to obtain advantageous financing via Euro Medium Term Notes (EMTNs) or Schuldscheine, so the amount issued using these instruments was limited to €0.19 billion. The issuance of State notes was also below the planned amount of €250 million.

Overall, short-term debt decreased as expected and this decrease was primarily on Treasury certificates, for which the amount in circulation decreased by €0.74 billion on an annual basis.

TREASURY FINANCING IN 2018 (IN € BILLION)				
	2018 Financing plan		Realisation as of 31.12.2018	
I. Gross financing requirements 2018		**33.25**		**33.64**
Federal State budget deficit		4.54		3.97
Debt maturing in 2018		25.05		25.15
• Medium- and long-term debt in EUR	25.05		25.15	
• Medium- and long-term debt in foreign currencies	0.00		0.00	
Planned prefinancing of bonds maturing in 2019 and later		3.11		4.47
Other financing requirements		0.55		0.05
II. Financing resources (long and medium-term)		**34.25**		**34.14**
OLOs	31.00		33.94	
Euro Medium Term Notes/Schuldscheine	3.00		0.19	
State notes	0.25		0.01	
III. Net change in short-term foreign currency debt		**0.00**		**-0.04**
IV. Change in Treasury Certificates stock		**0.00**		**-0.74**
V. Net change in other short-term debt and financial assets		**-1.00**		**0.28**

N.B.: The total may not correspond to the sum of the components, due to rounding up.

2.2 GENERAL GUIDELINES AND CONTROL OF RISKS

2.2.1. REFINANCING RISK AND RATE REFIXING RISK - AVERAGE DURATION.

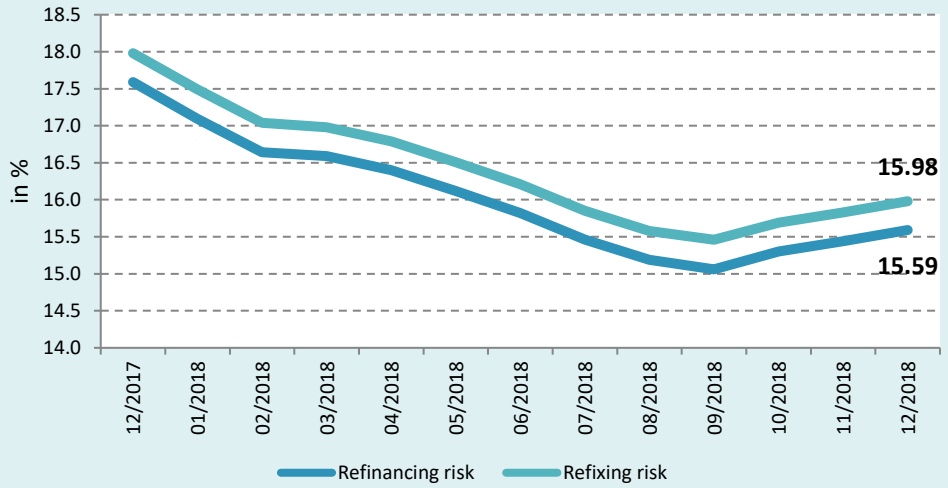
In his General Guidelines for 2018, the Minister of Finance had targeted a reduction in both the 12-month refinancing and the 12-month refixing risk. These two types of risks could not exceed 17.50% in 2018, whereas the maximum was 20.00% for 2017.

From January 2018, these two risks were below this maximum threshold. They continued to decline until September 2018 and then increased only to a limited extent. At the end of the year under review, they were significantly lower than at the end of 2017: the 12-month refinancing risk stood at 15.59% and the 12-month refixing risk at 15.98%. These two risks therefore represented a decrease of two percentage points compared to 2017.

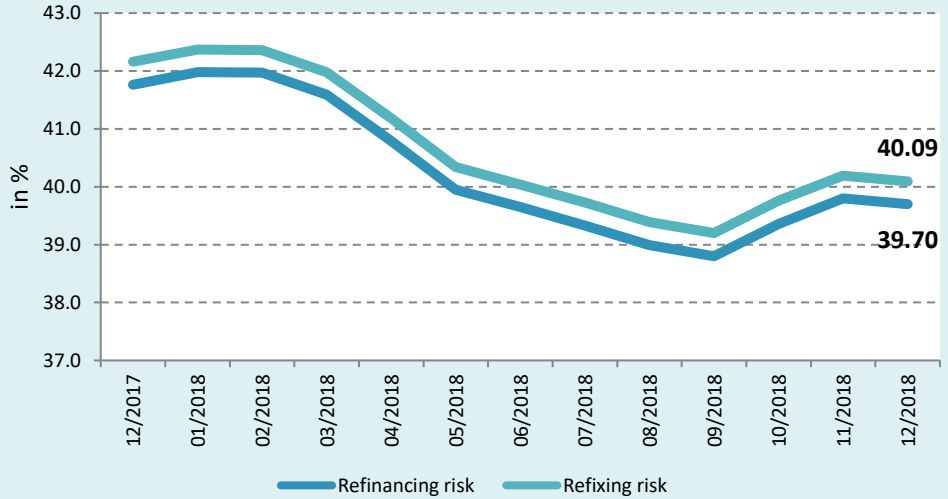
The Guidelines also provided for a reduction of the maximum limits to 42.50% for the 60-month refinancing and refixing risks. This represented a decrease of 5 percentage points compared to 2017. At the beginning of 2018, these risks were close to the maximum value and in February, the 60-month refixing risk even briefly exceeded 42.50%, but these risks then quickly started to decrease. At the end of 2018, the refinancing risk was 39.70% and the refixing risk was 40.09%.

Finally, the Guidelines imposed a further increase in the minimum average duration of the debt to 9.00 years. This limit was therefore increased by 0.50 years compared to 2017. In 2018, the average duration remained well above 9.00 years.

EVOLUTION OF 12-MONTH REFINANCING AND REFIXING RISKS ON EURO-DENOMINATED DEBT



EVOLUTION OF 60-MONTH REFINANCING AND REFIXING RISKS ON EURO-DENOMINATED DEBT



2.2.2. CREDIT RISK

Credit risk is determined by the potential loss to the Treasury if one or more of its counterparties fail to fulfil their contractual payment obligations.

The computer system for debt management[1] includes an application to monitor credit risk and manage credit limits. The rules determining credit limits and those determining credit risk were not modified in 2018. For the derivative products or repos, the Treasury calculates the net positive market value[2] on the credit line. If a Credit Support Annex (CSA) has been concluded with the counterparties in the case of derivative products or if a European Master Agreement[3] (EMA) contract has been concluded in the case of repos, the Agency then takes into account the collateral possibly provided by the counterparty. For investments (deposits), the Agency also impacts their market value on the credit line.

This year, changes in the legal structure of a counterparty led to the transfer of a credit line to the new parent company. However, two counterparties whose credit line had been deleted in the previous years received a new one in 2018, having since met the relevant conditions.

In the context of managing Treasury liquidities, the Agency concludes transactions on the interbank market and invests cash surpluses with financial counterparties or other European countries. In 2018, the Agency observed an overall increase in the average amount invested daily with its market counterparties (+13%), in contrast to the downward trend observed in recent years. Despite a policy of prioritising reverse repos, no such transactions were concluded in 2018, as was already the case in 2017. The Agency nonetheless maintained its decision to only make use of reverse repos for investments with banking counterparties which were greater than one week, and to the extent possible, to grant preference to concluding these instruments for shorter maturities as well. This limits the credit risk of these transactions, since the Agency receives an OLO and/or Treasury certificates as collateral for the duration of the reverse repos. Concluding ordinary investments at the expense of reverse repos began in the second quarter of 2015, intensified in 2016 and continued in 2017 and 2018, as the market interest rates for reverse repos became less advantageous than the interest rate on the deposit facility[4], making this market inefficient.

As of 31 December 2018, the total exposure in derivatives entailing a credit risk amounted to €385 million, or an increase of 16% compared with the end of the previous year (€332 million). Thanks to the CSAs that the Agency concluded with all of its primary dealers and with certain other counterparties, the Agency mostly hedged itself against this credit risk. At the end of 2018, it had received collateral of €263 million, thanks to which the real credit risk in derivatives only amounted to €122 million, a rise of 45% compared with the end of the previous year (€84 million).

The vast majority of this risk (94%) was with A-rated counterparties [5]. The share of this risk with counterparties with a rating below A further decreased from 10% at the end of 2017, to 6% at the end of 2018. At the end of the year under review, 42% of the total risk in derivatives of counterparties with a rating lower than A were hedged by collateral (compared to 58% at the end of the previous year). The total credit risk in derivatives of A-rated counterparties was 69% hedged by collateral (versus 76% at the end of 2017).

These are of course just snapshots of a given moment in time. On average, the total credit risk in derivative products amounted to €346 million in 2018, which represents a decrease of 36% in comparison with 2017 (€545 million). If the amount obtained as collateral is taken into account, the real credit risk in derivatives reached an average of just €109 million in 2018, which represents a decrease of 9% compared with the average amount of 2017 (€120 million).

The slight increase in total credit risk in derivatives between the end of 2017 and the end of 2018 came from the increase in credit risk (before collateral) of rate swaps of €51 million, and currency swaps for €2 million. The credit risk of other derivatives[6] was zero. As a result of these trends, the total credit risk in derivatives as of 31 December 2018 pertains almost entirely to interest rate swaps (99.1%). The variations due to conventional portfolio management and variations in curves and prices in the market were the main reasons for the increase in credit risk linked to rate swaps.

At the end of 2018, more than 100% of the total credit risk in derivatives before collateral was composed of transactions with a residual term of at least 10 years. However, the share of these transactions decreased from 114.3% at the end of 2017 to 101.6% at the end of 2018. The credit risk of interest rate swaps is made up of

[1] For more information about this computer system, see the Annual Report on the Federal State Debt 2013, part III, point 7.

[2] It is the positive market value after compensation (netting) for the counterparties with whom the Treasury has concluded a CSA or an EMA. For the counterparties without a CSA or EMA, the Agency does not apply compensation (netting) and therefore does not take into account negative market values.

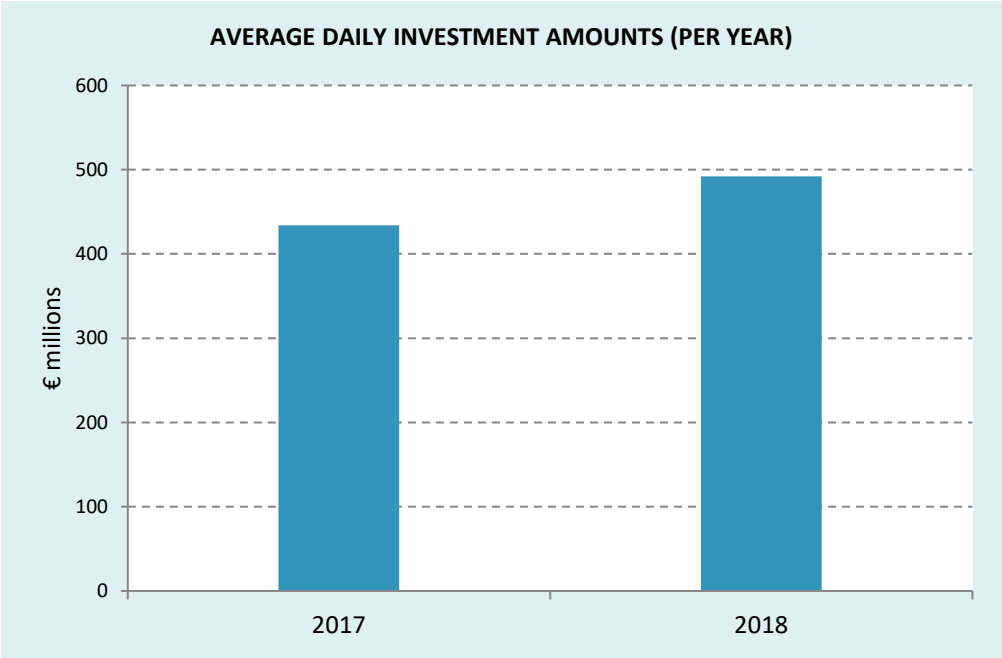
[3] See Annual Report on the Federal Government Debt 2007, Part 3, point 3 for more information about the EMA framework agreement.

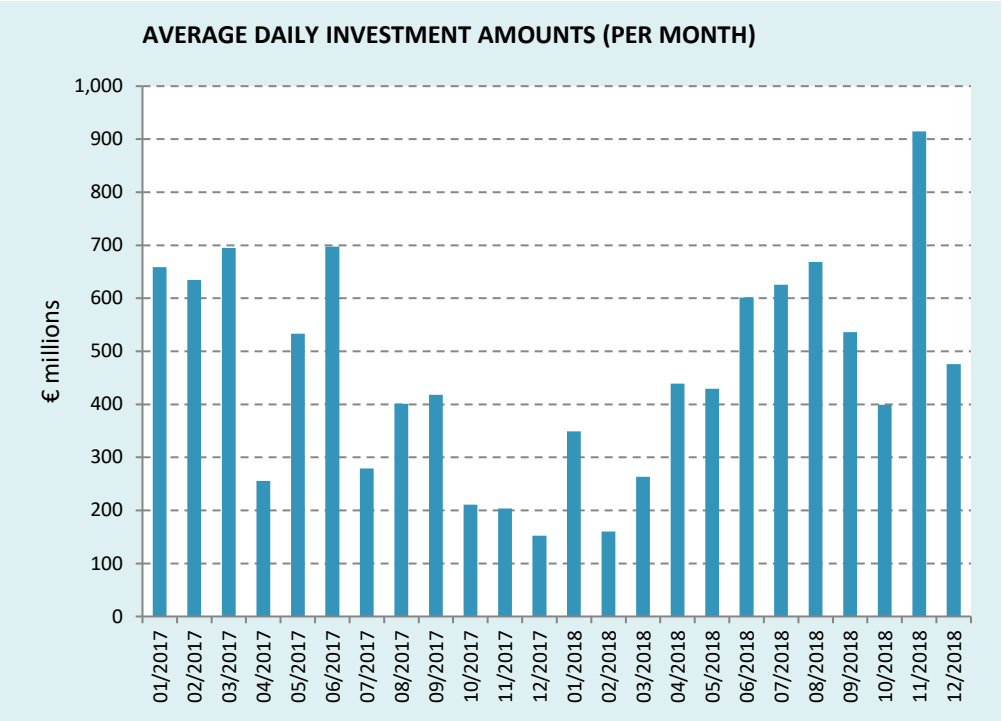
[4] One of the key policy rates determined by the ECB. It represents the interest that banks receive when they deposit cash overnight with the central bank.

[5] The Agency only accepts counterparties with a minimum A rating for new transactions.

[6] At the end of 2018, this category did not include any transactions.

transactions with (very) long residual maturity. The total market value of transactions in the 6-10 year segment represented 14% of the credit risk before collateral, while the total market value of transactions with a short maturity of less than 5 years was negative at the end of 2018.





CREDIT RISK FOR DERIVATIVES BY RATING LEVEL AS OF 31.12.2018							
Rating[1]	Number of transac-tions	%	Total risk before collateral	%	Collateral	Total risk	%
AAA	0	0.0%	-	0.0%	-	-	0.0%
AA	0	0.0%	-	0.0%	-	-	0.0%
A	29	93.5%	€372,758,562	96.9%	€258,090,000	€114,668,562	94.3%
< A	2	6.5%	€11,880,230	3.1%	€5,000,000	€6,880,230	5.7%
Total amount	31	100.0%	€384,638,792	100.0%	€263,090,000	€121,548,792	100.0%

CREDIT RISK FOR DERIVATIVES BY RATING LEVEL AND BY TYPE OF PRODUCTS AS OF 31.12.2018						
Rating[1]	Interest rate swaps	%	Currency swaps	%	Other derivative products	%
AAA	-	0.0%	-	0.0%	-	0.0%
AA	-	0.0%	-	0.0%	-	0.0%
A	€376,086,469	98.6%	-€3,327,907	-99.0%	-	0.0%
< A	€5,189,318	1.4%	€6,690,912	199.0%	-	0.0%
Total amount	€381,275,787	100.0%	€3,363,005	100.0%	-	0.0%

BREAKDOWN OF THE CREDIT RISK FOR DERIVATIVES BY RESIDUAL MATURITY AS OF 31.12.2018				
	Total amount	Interest rate swaps	Currency swaps	Other derivatives
< 1 year	-9.9%	0.0%	-1,135.2%	0.0%
1 to 5 years	-5.9%	-6.0%	0.0%	0.0%
6 to 10 years	14.2%	13.0%	147.3%	0.0%
≥ 10 years	101.6%	92.9%	1,087.9%	0.0%
Total amount	100.0%	100.0%	100.0%	0.0%

[1] Rating of the counterparty or the parent company

2.3 CONSOLIDATION OF FEDERAL GOVERNMENT FINANCIAL ASSETS

The Federal government has taken a series of measures in order to decrease the debt level (ratio of debt/GDP).

In order to achieve this objective, the law[1] includes a range of measures intended to consolidate public administrations' financial assets, entering into force on 31 December 2013.

This law stipulates that institutions which at the federal level come under the authority of sub-sectors S1311 (central administration) and S1314 (public social security bodies) according to the European System of National and Regional Accounts (ESA 2010):

- must deposit their cash assets (the funds that the body needs for its day-to-day management) on an account opened at the institution designated by the State (currently BPost);
- must invest their other liquid assets directly with the Treasury and/or in financial instruments issued by the Federal State.

As of 31 December 2018, the financial assets of the entities which fall under the sectors of the central administration and social security amounted to €25.14 billion. They were largely in the hands of social security institutions.

As of 31 December 2018, the total consolidated amount was €23.18 billion and the non-consolidated amount was €1.96 billion.

For the year 2018, there are two main observations:

Firstly, the abolition of the Monetary Fund on 1 January. The cash on hand from the Monetary Fund (€212.70 million as of 31/12/2017) was transferred to the Royal Belgian Mint and the OLO portfolio (€1.19 billion as of 31/12/2017) was transferred to the Federal State.

Secondly, the incorporation of Infrabel and its subsidiaries (SPV 162, SPV Brussels Port, SPV Zwankendamme and TUC Rail) into the scope of consolidation. As of 31 December 2018, the amount consolidated by these bodies amounted to €154.50 million.

CONSOLIDATION BY INSTITUTIONS AT THE FEDERAL LEVEL (IN EUR)			
	Situation as of 31.12.2017	Situation as of 31.12.2018	Difference
I. CASH ON HAND			
bpost	7,587,520,533	8,144,642,459	557,121,926
Other (non-consolidated)	192,186,893	188,354,612	-3,832,281
II. SHORT TERM INVESTMENTS			
Treasury	3,125,252,264	2,875,286,235	-249,966,029
Other (non-consolidated)	590,939,268	945,238,311	354,299,043
III. LONG TERM INVESTMENTS			
Instruments issued by the State (consolidated)	13,331,082,441	12,158,260,304	-1,172,822,137
Instruments issued by the Communities and Regions (non-consolidated)	338,950,000	325,250,000	-13,700,000
Other (non-consolidated)	253,257,340	499,665,927	246,408,587
TOTAL AMOUNT	**25,419,188,739**	**25,136,697,848**	**-282,490,891**
Consolidated	24,043,855,238	23,178,188,998	-865,666,240
Non-consolidated	1,375,333,501	1,958,508,850	583,175,349

[1] Law of 21 December 2013 laying down various fiscal and financial provisions (articles 113 to 121).

3
OFFERING OF
DIVERSIFIED
PRODUCTS

The Agency issues two types of products:

- **standardised liquid products**: linear bonds (OLO), Treasury certificates and State notes;
- **tailor-made products**: Euro Medium Term Notes (EMTN), Euro Commercial Paper (ECP) and Schuldscheine contracts.

OLOs are the Agency's most important financing instrument in terms of volumes issued. However, it should be noted that the Agency also offers flexible financing instruments such as the EMTN and Schuldscheine contracts.

These two products are issued at the request of investors with a view of achieving a greater diversification of the investor base.

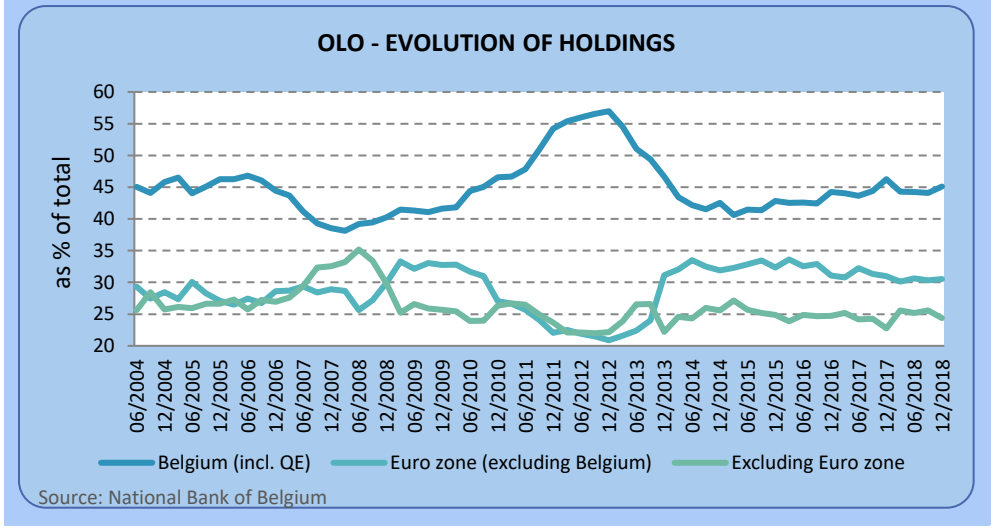
As these are flexible instruments, tailor-made for the investor, they can only be issued if they are shown to be cost effective. This means that the issue price must be lower than or equal to that of an OLO with the same maturity. These two instruments must therefore be considered as a supplement to the standard programme and must not in any way compromise the liquidity of the OLOs.

3.1 LINEAR BONDS (OLO)

In 2018, the Belgian Debt Agency issued OLOs for a total amount of €33.94 billion, compared to a volume of €35.55 billion in 2017. This amount included issues by syndication (€9.50 billion) and issues by auction (€24.44 billion).

Holdings of OLOs

Holdings of OLOs by Belgian investors fell slightly in 2018 after the rebound observed in 2017. At the end of December 2018, 45.12% of the OLOs were in the hands of Belgian investors, compared with 46.25% twelve months earlier. As regards foreign investors, euro area investors continue to hold the bulk of the OLOs. Holdings have stayed stable, at 30.52% in 2018 compared to 30.99% in 2017.



Source: National Bank of Belgium

The indicative auction schedule for 2018 anticipated only seven auctions of OLOs compared to ten in previous years.

As usual, the Agency made use of the syndication technique when launching its new benchmark loans. When the syndication was announced in January, the Agency cancelled the auction of that month. As such, during the year under review, the Agency organised 6 auctions out of the 7 initially scheduled.

3.1.1. PRIMARY MARKET[1] - SYNDICATIONS

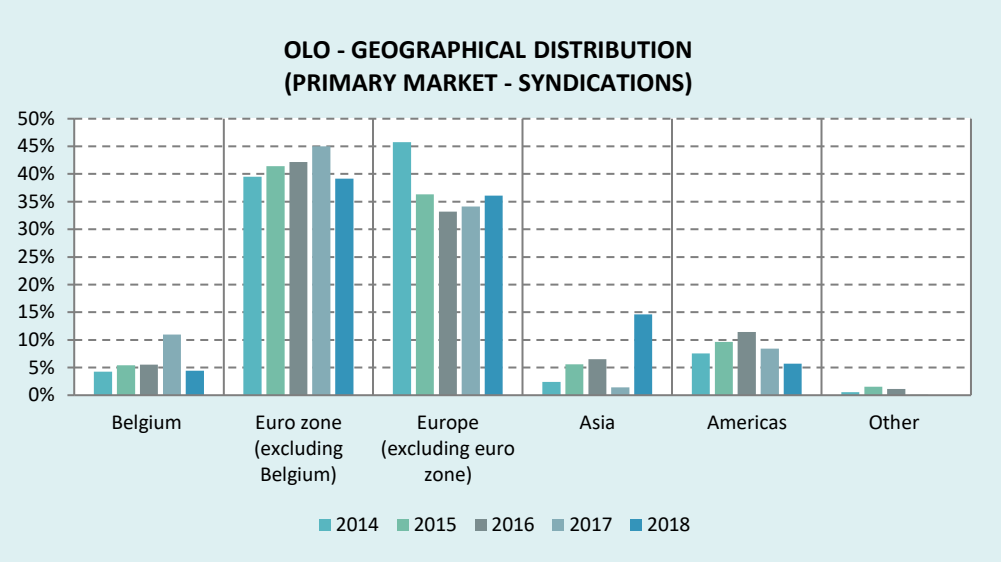
In 2018, the participation of Belgian investors in syndications returned to the level of previous years, after a rather atypical 2017, reaching 4.45% in 2018, compared to 10.99% in 2017.

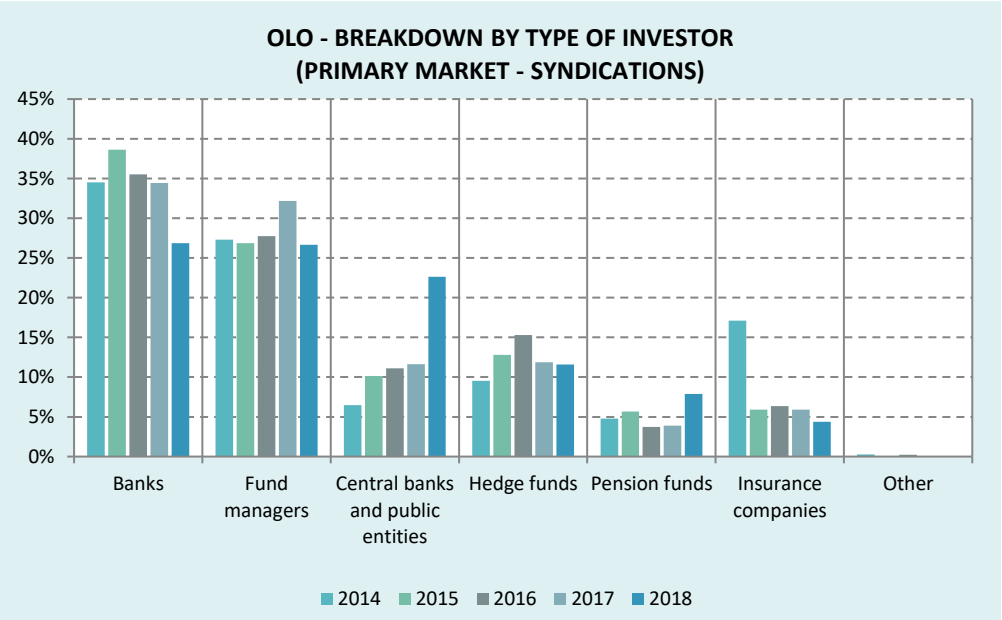
As a result of this movement, the geographical distribution changed somewhat compared to 2017, mainly in favour of the Asian continent, representing 14.63% of subscriptions in 2018, compared to only 1.40% in 2017. Europe (excluding the euro zone) also saw its share increase to 36.10% in 2018, from 34.12% in 2017. This was at the expense of demand from the euro zone (excluding Belgium), which nevertheless remained the main buyer, with 39.13% in 2018 compared to 45.02% in 2017, and American investors representing 5.68% of subscriptions in 2018 compared to 8.40% in 2017.

As regards the type of investors, despite a significant decrease, banks remain the main buyers with 26.85% in 2018, compared to 34.42% in 2017. They are directly followed by fund managers, whose share also fell to 26.65% in 2018 from 32.19% in 2017. These declines were offset by central banks and other public entities, whose share almost doubled to 22.65% in 2018, from 11.64% in 2017[2]. Pension funds also saw their share increase to 7.89% in 2018, from 3.90% in 2017. As for hedge funds and insurance companies, their share decreased to 11.60% and 4.36% respectively of the shares invested in 2018, versus 11.87% and 5.92% in 2017.

SYNDICATION RESULTS IN 2018 (in EUR millions)

Issue date	OLOs	Final maturity date	Coupon	ISIN Code	Amount	Price	Yield (%)
16/01/2018	OLO85	22/06/2028	0.80%	BE0000345547	5,000	99.881	0.812
26/02/2018	OLO86	22/04/2033	1.25%	BE0000346552	4,500	99.466	1.289
TOTAL AMOUNT					**9,500**		





[1] The data are solely based on the figures that the joint lead and co-lead managers supply to the Agency within the framework of issues by syndication. The Agency does not have such data for issues by auction.

[2] These percentages do not take into account purchases made as part of the ECB's quantitative easing policy.

NEW 10-YEAR BENCHMARK (OLO 85) IN JANUARY...

In a positive market environment with strong demand for sovereign paper, the Agency decided to launch its first syndicated transaction in January 2018. The Agency continued its usual strategy by issuing a new 10-year benchmark OLO, to kick off its syndication programme.

OLO 85, with a final maturity date of 22 June 2028, was invested by a syndicate for which the joint-lead managers were BNP Paribas Fortis, Citigroup Global Markets, NatWest Markets and Société Générale. The other primary dealers and recognized dealers also participated in the placement, as *co-lead managers* and members of the *selling group*, respectively.

Total orders amounted to more than €15.50 billion (including €2.10 billion from *joint lead managers*) from around 150 investors.

This volume and the good quality of the book made it possible to issue a total amount of €5 billion, once again demonstrating investors' confidence in the Belgian economic situation and paper.

The issue spread was set at the mid-swap rate of -17 basis points, which was equivalent to 25.8 basis points above the German Bund (0.50% - February 2028) and 1.5 basis points below the OAT (FRTR 0.50% - May 2028). The OLO's coupon was set at 0.80% and the issue price at 99.881%, equating to a yield of 0.812%. For this transaction, the yield of the issue was 2 basis points above the interpolated OLO curve.

The Agency once again used the *mixed pot* system for the book-building process and allocation of orders (see page 27). This system allows to improve the efficiency, transparency and objectivity of the book-building and allocation processes.

For each type of investor, the transaction was characterised by a significant participation of banks (37.2%), fund managers (21.5%), central banks and public entities (20.1%). Hedge funds (17.5%), insurance companies (3.4%) and pension funds (0.4%) took the rest of the issue.

The geographical distribution was characterised by a high concentration in Europe (75.4%) and a significant participation of Asia (16.5%) and the United States (8.0%).

FOLLOWED BY A 15-YEAR GREEN OLO IN FEBRUARY (OLO 86)

Following a pan-European roadshow organised for fundamentally "green" investors and non-governmental organisations, the Agency decided to issue a green OLO in February 2018, its second syndication of the year. In so doing, Belgium became the second country in the euro zone to target the green bond market, to promote the green finance sector in the Kingdom. It should also be noted that this green OLO was the second largest green government bond in the world in terms of amounts, at the time in February. The resulting funds should help ensure the transition to a sustainable economy (see insert).

GREEN OLOs*

Green bonds are bonds whose proceeds are used to finance projects aimed at protecting the environment, and which comply with the principles applicable to green bonds (*Green Bond Principles* published by the International Capital Market Association: the use of funds, project selection and evaluation, fund management and reporting).

The Green OLO Framework, which respects these principles, allows the Agency to issue green OLOs using an approach similar to that for conventional OLOs. Green OLOs are therefore bonds with the same characteristics as conventional OLOs, particularly in terms of initial amount, liquidity, splitting and reopening of lines by auction. The proceeds of these OLOs, which are intended to help mitigate climate change and foster environmental protection, will be used in Belgium for clean transport (primarily rail), biological resources and land use, renewable energy, the circular economy and energy efficiency. This product will also be reported in terms of allocation and environmental impact.

* see strategic point 4.2

With regard to the maturity chosen for the green OLO, there were interesting possibilities for the Agency to issue it in the 15 to 20 year segment on the OLO curve. These maturities and the way in which the bonds in this segment are usually augmented were in fact a response both to the Agency's desire to increase the size of this green OLO adequately and to the estimate of the amount of green expenditure eligible each year. After consulting investors, the maturity chosen by the Agency ended up being 15 years, which also made it possible to clearly distinguish the green OLO from the green OAT, which then had a maturity of 22 years.

At the close of the books, orders amounted to more than €12.70 billion (including €950 million from *joint lead managers*). The quality of the orders allowed the Agency to set the size of the issue at €4.5 billion, while taking into account the amount planned for eligible green expenditure. This transaction was notable due to the presence of more than 150 investors, many of whom could be qualified as "green", making it possible to effectively diversify the investor base.

OLO 86, maturing on 22 April 2033 and bearing a coupon of 1.25%, was issued at a price of 99.466%, equating to a yield of 1.289% and corresponding to mid-swap -14 basis points. This corresponded to a spread of 1.5 basis points above the interpolated OLO curve.

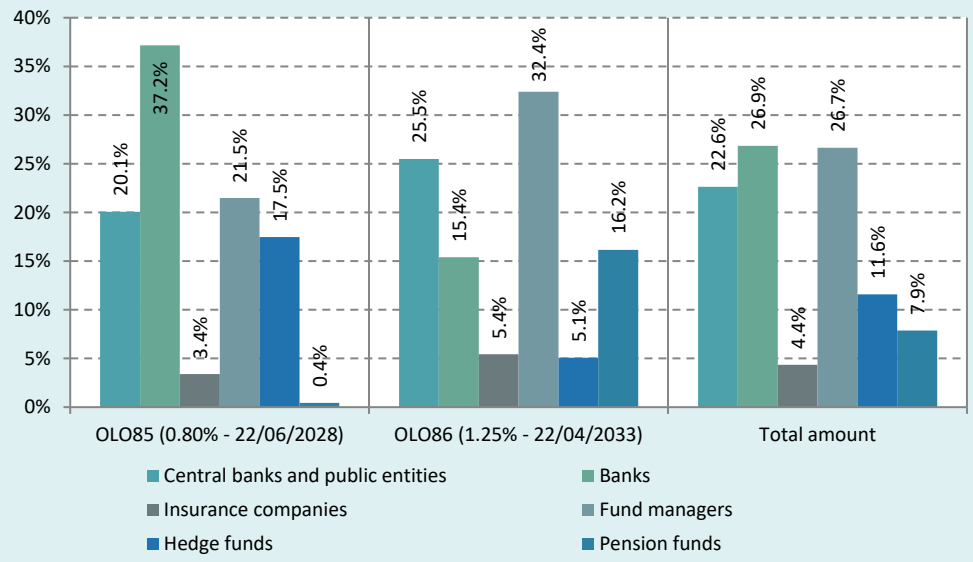
For this green syndication, the Agency chose the following five primary dealers as joint-lead managers: Barclays, BNP Paribas Fortis, Crédit Agricole, ING and JP Morgan. The other primary dealers and recognised dealers also participated in the investment, as *co-lead managers* and members of the *selling group*.

The Agency also used the *mixed pot* system for the allocation of the orders (see page 27).

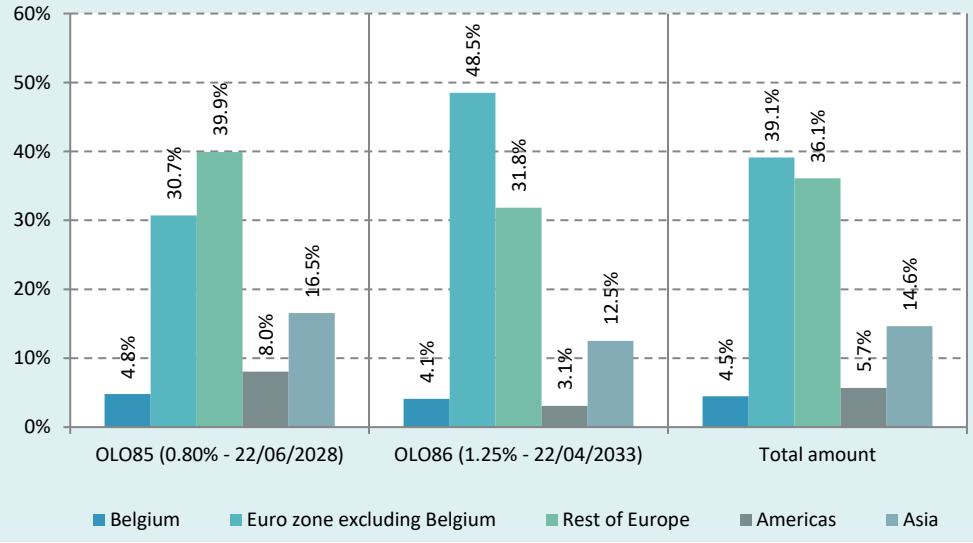
As regards geographical distribution, this 15-year transaction was characterised by interest from euro zone investors (52.6%) followed by non-euro zone Europe (31.8%), Asia (12.5%) and the Americas (3.1%).

As for the breakdown by type of investor, OLO 86 was mainly invested among fund managers (32.4%), central banks and public entities (25.5%), pension funds (16.2%) and banks (15.4%). Insurance companies (5.4%) and hedge funds (5.1%) took the rest.

OLO - BREAKDOWN BY TYPE OF INVESTOR IN 2018 - SYNDICATIONS



OLO - GEOGRAPHICAL DISTRIBUTION IN 2018 - SYNDICATIONS



Syndication

Syndication is an issuing technique via which the Agency makes use of a syndicate of primary and recognised dealers to issue and place its securities. The syndicate is a temporary association of banks, whose common objective is collective placement of the bonds. There are three levels within the syndicate:

1. **Lead manager:** this is the bank that receives a mandate from the issuer to lead the syndicate. The *lead manager* underwrites placement of most of the bonds and is responsible for overall coordination and organisation of the issue. In liaison with the issuer, it determines the structure, volume, spread and timing of the operation. Where several lead managers are in charge of the issue, they are called joint lead managers.

2. **Co-lead manager:** works one level below the lead manager. Guarantees a small share of the investment. The *co-lead managers* consist of other primary dealers, who are not joint-lead managers.

3. **Selling group:** this is the lowest level in the syndication structure. In the case of Belgium, the *selling group* is made up of recognised dealers. They are invited to participate but must not underwrite their participation. This participation is in fact limited to placing a small volume of securities. They do not have any other tasks or responsibilities.

"Mixed pot" syndication

In the *mixed pot* syndication structure, as in the normal pot syndication, the Agency has the advantage of total transparency regarding the identity of the buyer. However, there are two differences compared to normal pot syndication:

1. A **blind retention** is reserved for the co-lead managers. They are guaranteed this portion of the OLO allocation without the need to divulge the identity of the buyer to the joint lead managers. The blind retention forms a consideration by the Agency in return for their efforts in placing the OLOs and Treasury certificates over the course of the previous year;

2. There is a **strategic reserve**. A fraction of the debt issue is reserved for allocation of certain purchase orders presented by the co-leads and the selling group. In allocating the strategic reserve, the Agency strives to allocate the orders placed by the co-leads and the selling group members on the basis of the following criteria:
   a) The order is placed by an investor who is not yet registered in the books of lead managers;
   b) The order is of excellent quality and/or represents true diversification.

Duration manager

The Agency generally appoints a duration manager for each syndication. The function of a duration manager is to stabilise the market when the issue price of the new OLO is set, by acting as the counterparty for all switch orders placed by the investors in the book, amongst other roles. Switch orders are purchase orders for the new OLO on the condition that another security is sold simultaneously at a pre-determined minimum price. This orderly and efficient organisation of investors selling orders is intended to limit erratic movements in the market when the new OLO price is set.

3.1.2. PRIMARY MARKET - AUCTIONS

The OLOs are issued through syndications (see above) or auctions. The Agency publishes an indicative calendar containing auction details, so that financial markets are aware of the timing of issues. Transparency and predictability are of course important principles for the liquidity of OLOs. However, this means that the Agency runs a certain risk as regards its dependency in relation to circumstances and conditions prevailing at the time of the auction.

Previously, the calendar provided for monthly auctions, with the exception of August and December. Given the decrease in financing requirements, the number of auctions decreased from ten to seven. The months that were scrapped in this respect were February, May and October. As such, the amount to be auctioned remains high enough to maintain the full interest of primary and recognised dealers.

In principle, the auction takes place on the penultimate Monday of the month. The settlement date for the auction is two days later (T+2), in principle on a Wednesday.

The Agency can always decide to cancel an offer when a syndication takes place in that month or the previous month. In 2018, this happened in January due to the launch of OLO 85.

The issue calendar, which is always published in December, does not specify which lines will be auctioned the following year or the number of lines. This information is disclosed one week before the auction, following consultation with the primary dealers. Market demand and circumstances are analysed in depth during this consultation and a decision is taken on that basis.

During the six auctions in 2018, four lines were issued each time to obtain a sufficiently large amount per auction, and to provide additional liquidity to the OLO lines in the medium, long and very long term.

Given that it observed strong demand throughout the year for the new 10-year benchmark bond (OLO 85) launched in January, the Agency offered this OLO at each auction. The initial amount of €5.00 billion issued by syndication was increased to a total of €14.72 billion at the end of the year.

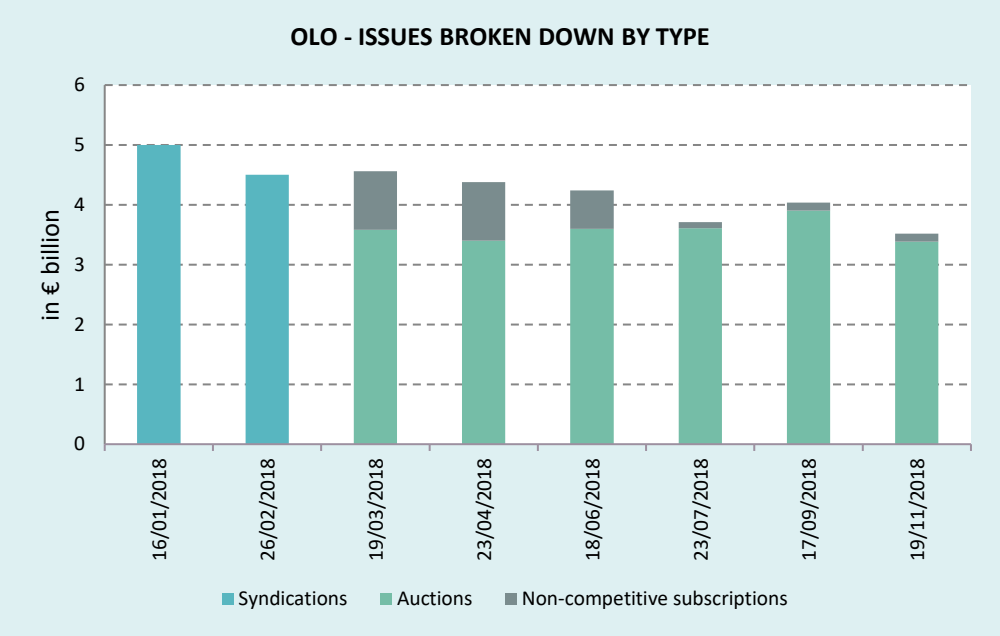
OLO 86, the Kingdom's first green OLO issued on 26 February 2018 for an amount of €4.50 billion and with a maturity of 15 years, could no longer be offered for auction as the amount initially issued was sufficient to finance the green expenditure earmarked for 2018.

In the medium-term segment, the Agency auctioned OLO 79, maturing on 22 October 2023 and OLO 82, maturing on 22 October 2024. For the first, the amount in circulation increased from €6.12 to €9.50 billion and for the second, it increased from €5.26 to €7.81 billion. The weighted average rates of the amounts auctioned on these average maturities varied between -0.004% and 0.370%.

In 2018, the Agency made efforts to regularly auction very long-term OLO lines (OLO 80 maturing on 22 June 2066 and OLO 83 maturing on 22 June 2057), in order to increase their liquidity and meet demand for this part of the curve. After being launched by syndication in 2016 and 2017 respectively, these two OLO lines had not yet been offered at auctions, as demand for these maturities had remained too limited.

OLO 80 was auctioned twice in 2018, increasing its outstanding amount from €3.00 billion to €4.22 billion. OLO 83 was offered three times and raised a total of €1.88 billion, increasing its amount in circulation from €3.00 billion to €4.88 billion.

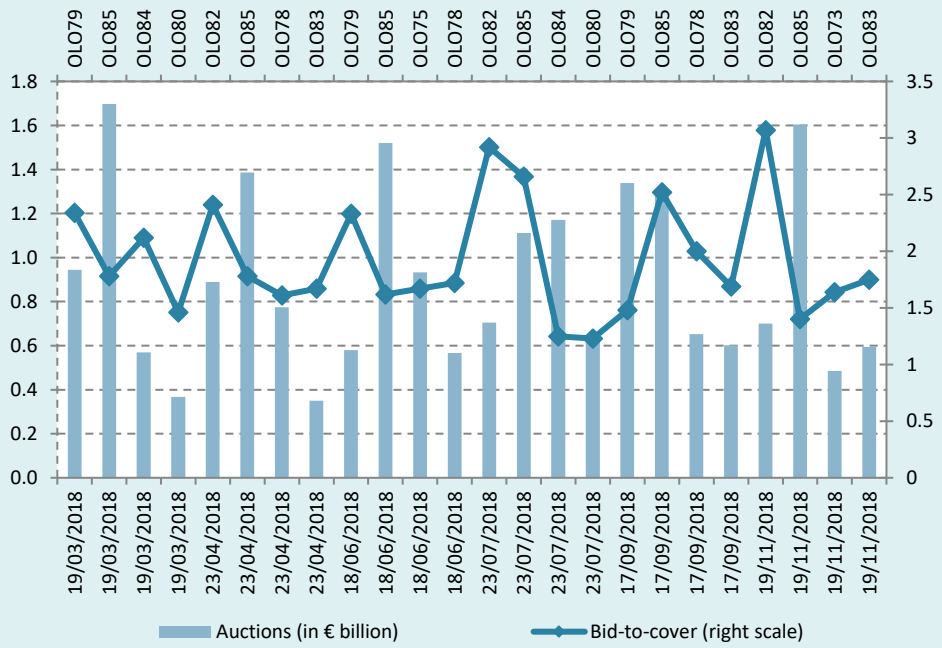
The other OLO lines that were offered once or twice at the auctions were OLO 75, maturing on 22 June 2031, OLO 73, maturing on 22 June 2034, OLO 84, maturing on 22 June 2037 and OLO 78, maturing on 22 June 2047. Offering these lines at auctions reflects strong demand for this segment of the curve.



The six auctions organised in 2018 together generated €24.44 billion: €21.48 billion in the competitive round and €2.97 billion in non-competitive subscriptions. The average amount issued per competitive round amounted to €3.58 billion.

The bid-to-cover ratio for all six auctions was an average of 1.90, compared to 1.63 in 2017 and 1.57 in 2016. The bid-to-cover ratio is the ratio between the amounts offered and the amounts selected, and indicates whether an auction is sufficiently covered by the bids and whether there is sufficient demand for the paper. A level of 1.90 indicates that demand for the OLO was significant. In 2018, the outlying values of the bid-to-cover ratio per OLO line was 1.23 and 3.07 respectively for the auction of OLO 80 (maturing on 22 June 2066) in July and OLO 82 (maturing on 22 October 2024) in November.

OLO - BID-TO-COVER RATIO DURING AUCTIONS



The *tail* is also another indicator for the auction. This is the difference between the limit price and the lowest price offered for the line in question. The tail highlights the quality of demand: a small tail means that all bids were competitive whereas a long tail indicates that the bids that were not accepted were too prudent and below the market price. This gives an illustration of the interest shown by dealers.

The tail of OLO 85, the 10-year benchmark, which was offered at each auction, fluctuated between 15 and 75 cents[1]. As for all other OLOs which were offered during auctions, the tail displayed values between the outlying values of 15 and 176 cents.

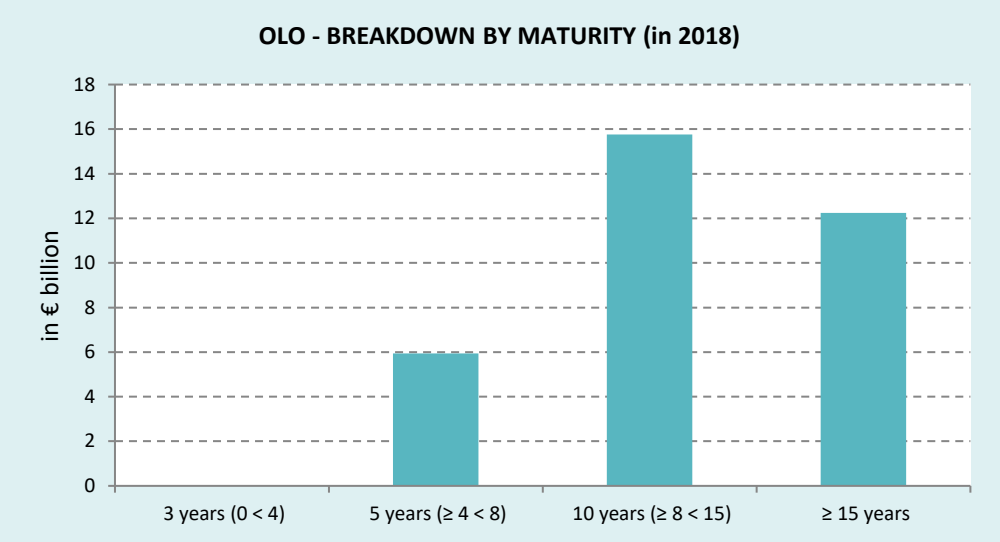
The 2018 data show that dealer bid prices have always been very close to the prices recorded on the secondary market.

As regards very long-term maturities (from 15 years), both the relative share and the amount issued stabilised at 36.06% and €12.24 billion respectively, compared to 35.07% and €12.47 billion in 2017.

With a relative share of 46.43%, compared to 41.39% in 2017, demand for maturities around 10 years remained particularly high. A total amount of €15.76 billion was issued in this maturity segment, compared to €14.71 billion in 2017.

In the short and medium-term segment (up to 7 years), both the relative share and the amount issued decreased compared to 2017, from 23.55% to 17.51% and from €8.37 billion to €5.95 billion respectively.

[1] The cents refer to a price differential.



However, the primary and recognised dealers received auction results after 6.5 minutes on average, right from the moment the bids are closed. The shortest time was 5 minutes and was recorded during the auctions in June, September and November. The longest time, 9 minutes, was recorded at the auction in July.

Non-competitive subscriptions

After the competitive round of auctions, primary dealers – but not recognised dealers – are entitled to participate in non-competitive subscriptions.

This right is given to primary dealers as a return for their active participation in the auctions. They can buy securities at the weighted average auction price, based on a predetermined percentage of their bids accepted in the two previous auctions.

This right to non-competitive subscriptions for all the primary dealers taken together amounted to €6.50 billion, of which 45.64% (or €2.97 billion) was actually exercised (versus 46.04% or €2.56 billion in 2017). Exercising this right depends on market conditions at the time of the non-competitive round.

Some institutions such as the Caisse des Dépôts et Consignations (Deposit and Consignment Office) also have the possibility to subscribe to non-competitive subscriptions. However, contrary to primary dealers, these institutions may only subscribe before the start of the competitive round at the weighted average price (which is not yet known at this time). In 2018, they did not resort to this possibility.

Previously, the Monetary Fund also had the possibility of introducing non-competitive subscriptions, but this Fund was abolished on 1 January 2018 by the Law of 31 July 2017 on various financial and tax provisions and measures relating to concession contracts (art. 5).

OLO AUCTION RESULTS IN 2018 (in € million)																		
Issue date	OLO N°	Final maturity date	Coupon	ISIN Code	Bid amount	Accepted amount (Competitive)	Subscriptions (non-competitive)	total amount	Average weighted price	Average weighted rate	Bid-to-Cover	Min/max bid	Limit price	% at stop price	Tenderers	Min range	Max range	Outstanding amounts after auction
19/03/2018					**6,969**	**3,581**	**978**	**4,559**			**1.95**					**3,000**	**3,600**	
	OLO79	22/10/2023	0.20%	BE0000339482	2,207	945	298	1,243	100.231	0.158	2.34	99.75/100.26	100.22	100.00	8			7,359.0
	OLO85	22/06/2028	0.80%	BE0000345547	3,014	1,698	392	2,090	99.506	0.850	1.78	98.75/99.58	99.46	100.00	12			7,090.0
	OLO84	22/06/2037	1.45%	BE0000344532	1,210	570	158	728	101.345	1.370	2.12	100.50/101.41	101.31	100.00	10			3,728.0
	OLO80	22/06/2066	2.15%	BE0000340498	538	368	130	498	108.693	1.874	1.46	107.00/108.97	108.55	100.00	10			3,498.0
23/04/2018					**6,442**	**3,402**	**977**	**4,379**			**1.89**					**2,900**	**3,400**	
	OLO82	22/10/2024	0.50%	BE0000342510	2,144	890	264	1,154	100.829	0.370	2.41	100.60/100.86	100.81	100.00	10			6,409.0
	OLO85	22/06/2028	0.80%	BE0000345547	2,469	1,387	390	1,777	99.362	0.866	1.78	98.94/99.39	99.34	85.33	10			8,867.0
	OLO78	22/06/2047	1.60%	BE0000338476	1,245	775	193	968	99.035	1.642	1.61	98.00/99.08	98.97	100.00	10			9,826.0
	OLO83	22/06/2057	2.25%	BE0000343526	584	350	130	480	111.837	1.824	1.67	110.00/112.00	111.76	100.00	10			3,480.0
18/06/2018					**6,355**	**3,600**	**640**	**4,240**			**1.77**					**3,100**	**3,600**	
	OLO79	22/10/2023	0.20%	BE0000339482	1,351	580	224	804	101.090	-0.004	2.33	100.90/101.14	101.05	50.00	9			8,163.0
	OLO85	22/06/2028	0.80%	BE0000345547	2,469	1,520	295	1,815	100.652	0.732	1.62	100.35/100.67	100.62	100.00	11			10,682.0
	OLO75	22/06/2031	1.00%	BE0000335449	1,558	933	102	1,035	100.051	0.996	1.67	99.40/100.14	100.02	100.00	8			11,228.0
	OLO78	22/06/2047	1.60%	BE0000338476	977	567	19	586	97.702	1.701	1.72	96.50/97.79	97.65	100.00	12			10,412.0
23/07/2018					**7,247**	**3,606**	**106**	**3,712**			**2.01**					**3,100**	**3,600**	
	OLO82	22/10/2024	0.50%	BE0000342510	2,060	705		705	102.064	0.167	2.92	101.90/102.08	102.05	27.54	9			7,114.0
	OLO85	22/06/2028	0.80%	BE0000345547	2,963	1,112		1,112	101.045	0.691	2.66	100.25/101.12	101.00	43.33	10			11,794.0
	OLO84	22/06/2037	1.45%	BE0000344532	1,466	1,171	5	1,176	101.839	1.339	1.25	100.70/102.10	101.71	100.00	12			4,904.0
	OLO80	22/06/2066	2.15%	BE0000340498	758	618	101	719	107.935	1.896	1.23	107.05/108.20	107.82	100.00	9			4,217.0
17/09/2018					**7,587**	**3,902**	**136**	**4,038**			**1.94**					**3,400**	**3,900**	
	OLO79	22/10/2023	0.20%	BE0000339482	1,977	1,339		1,339	100.800	0.043	1.48	100.60/100.86	100.76	72.08	11			9,502.0
	OLO85	22/06/2028	0.80%	BE0000345547	3,295	1,310		1,310	100.300	0.768	2.52	99.98/100.33	100.28	100.00	8			13,104.0
	OLO78	22/06/2047	1.60%	BE0000338476	1,302	652		652	97.358	1.717	2.00	96.50/97.42	97.33	100.00	9			11,064.0
	OLO83	22/06/2057	2.25%	BE0000343526	1,013	601	136	737	108.680	1.930	1.69	108.10/108.78	108.63	36.55	10			4,217.0
19/11/2018					**6,224**	**3,384**	**131**	**3,515**			**1.84**					**2,900**	**3,400**	
	OLO82	22/10/2024	0.50%	BE0000342510	2,150	700		700	101.647	0.219	3.07	101.45/101.68	101.63	100.00	5			7,814.0
	OLO85	22/06/2028	0.80%	BE0000345547	2,240	1,605	15	1,620	99.964	0.804	1.40	99.70/100.02	99.85	100.00	10			14,724.0
	OLO73	22/06/2034	3.00%	BE0000333428	795	485	49	534	123.742	1.306	1.64	123.37/123.84	123.65	100.00	8			7,784.0
	OLO83	22/06/2057	2.25%	BE0000343526	1,039	594	67	661	106.103	2.020	1.75	105.00/106.21	106.01	100.00	10			4,878.0
TOTAL AMOUNT								**24,443**										

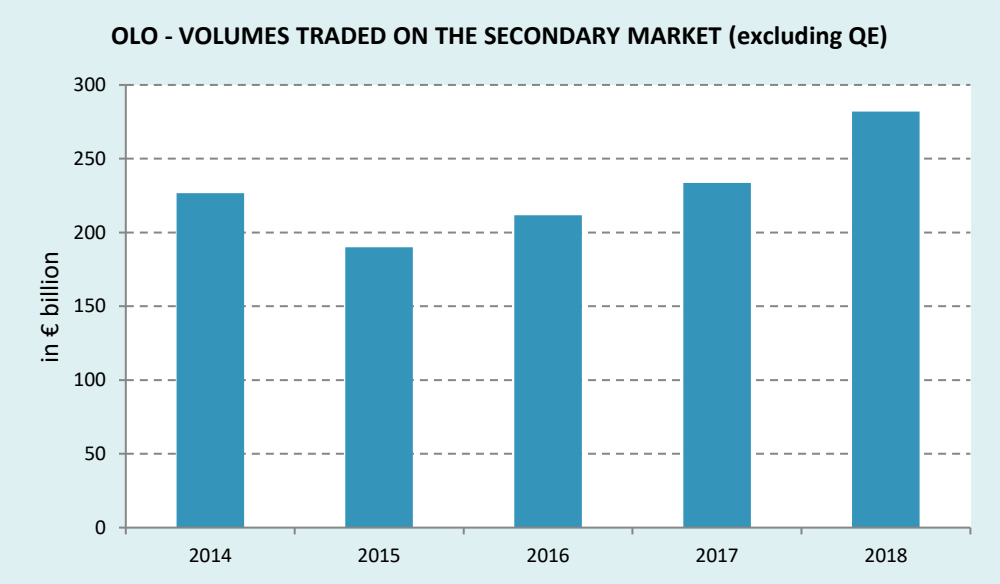
OLO LINES AND OUTSTANDING AMOUNTS AS OF 31.12.2018 (IN EUR)									
Maturity		Coupon	ISIN Code	No.	Available net[1]	Buybacks in portfolio	Strips		
							Strippable (X)	Amount stripped	%
2019	28/03	4.00	BE0000315243	55	9,596,000,000.00	2,641,000,000.00	X		
2019	28/09	3.00	BE0000327362	67	10,762,500,000.00	1,899,500,000.00	X	20,869,327.44	0.19%
2020	28/09	3.75	BE0000318270	58	19,226,000,000.00	260,000,000.00	X	18,666,077.26	0.10%
2021	28/09	4.25	BE0000321308	61	16,530,000,000.00	415,000,000.00	X	17,481,055.16	0.11%
2022	28/03	4.00	BE0000308172	48	14,024,000,000.00	60,000,000.00	X		
2022	28/09	4.25	BE0000325341	65	16,176,000,000.00	70,000,000.00	X	47,200,000.00	0.29%
2023	22/06	2.25	BE0000328378	68	13,535,000,000.00	117,000,000.00	X		
2023	22/10	0.20	BE0000339482	79	9,502,000,000.00	-	X		
2024	22/06	2.60	BE0000332412	72	15,735,000,000.00	150,000,000.00	X		
2024	22/10	0.50	BE0000342510	82	7,814,000,000.00	-	X		
2025	22/06	0.80	BE0000334434	74	16,452,000,000.00	-	X		
2026	28/03	4.50	BE0000324336	64	10,708,000,000.00	-	X		
2026	22/06	1.00	BE0000337460	77	14,388,000,000.00	-	X		
2027	22/06	0.80	BE0000341504	81	13,728,000,000.00	-	X		
2028	28/03	5.50	BE0000291972	31	19,344,939,136.01	-	X	2,195,059,160.62	11.35%
2028	22/06	0.80	BE0000345547	85	14,724,000,000.00	-	X		
2031	22/06	1.00	BE0000335449	75	11,228,000,000.00	-	X		
2032	28/03	4.00	BE0000326356	66	8,204,000,000.00	-	X	252,373,682.51	3.08%
2033	22/04	1.25	BE0000346552	86	4,500,000,000.00	-	X		
2034	22/06	3.00	BE0000333428	73	7,784,000,000.00	-	X	700,000.00	0.01%
2035	28/03	5.00	BE0000304130	44	19,604,692,800.00	30,000,000.00	X	2,692,552,029.81	13.73%
2037	22/06	1.45	BE0000344532	84	4,904,000,000.00	-	X		
2038	22/06	1.90	BE0000336454	76	6,627,000,000.00	-	X	132,000,000.00	1.99%
2041	28/03	4.25	BE0000320292	60	17,299,000,000.00	-	X	2,538,823,381.30	14.68%
2045	22/06	3.75	BE0000331406	71	9,737,000,000.00	-	X	462,300,000.00	4.75%
2047	22/06	1.60	BE0000338476	78	11,064,000,000.00	-	X	136,200,000.00	1.23%
2057	22/06	2.25	BE0000343526	83	4,878,000,000.00	-	X	284,500,000.00	5.83%
2066	22/06	2.15	BE0000340498	80	4,217,000,000.00	-	X	385,500,000.00	9.14%
			TOTAL AMOUNT		**332,292,131,936.01**	**5,642,500,000.00**		**9,184,224,714.10**	

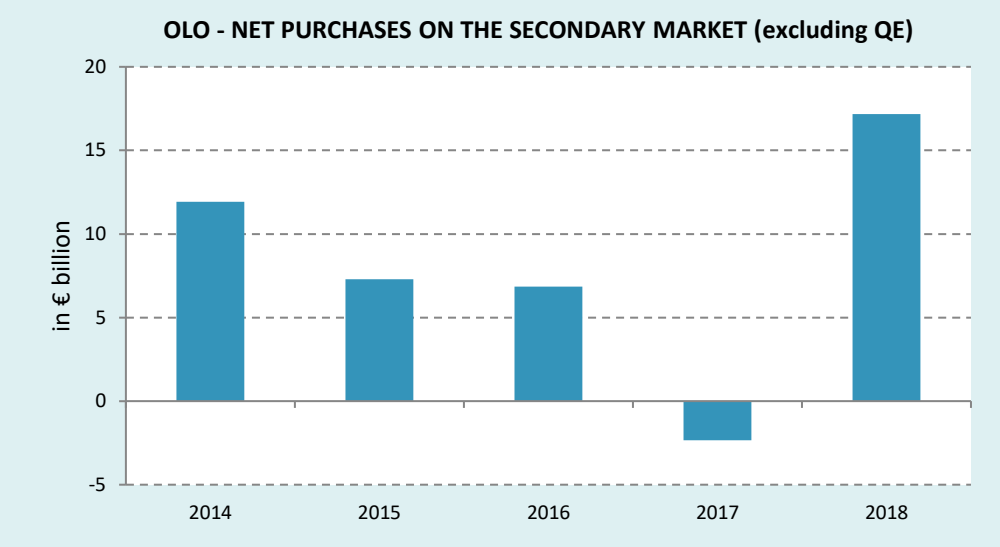
[1] Available on the market (issued amounts minus buybacks) on 31.12.2018.

3.1.3. SECONDARY MARKET

The Agency highlights the fact that the following data are based only on figures obtained from primary and recognised dealers. They are the main active dealers on our debt, although they are not the only ones. In addition, these figures do not take account of the quantitative easing performed by the ECB since March 2015. Nonetheless, these figures allow us to identify certain trends. It should also be noted that the figures only refer to the purchases/sales of final investors and therefore not the interdealer market.

In 2018, and for the third consecutive year, trading volumes increased (+20.72%) on the secondary OLO market. Net purchases of OLOs by investors made a strong return to positive territory (+€17.17 billion in 2018 versus -€2.34 billion in 2017), which can be explained by the gradual reduction in the ECB's quantitative easing policy, which increased the liquidity of OLOs on the secondary market.

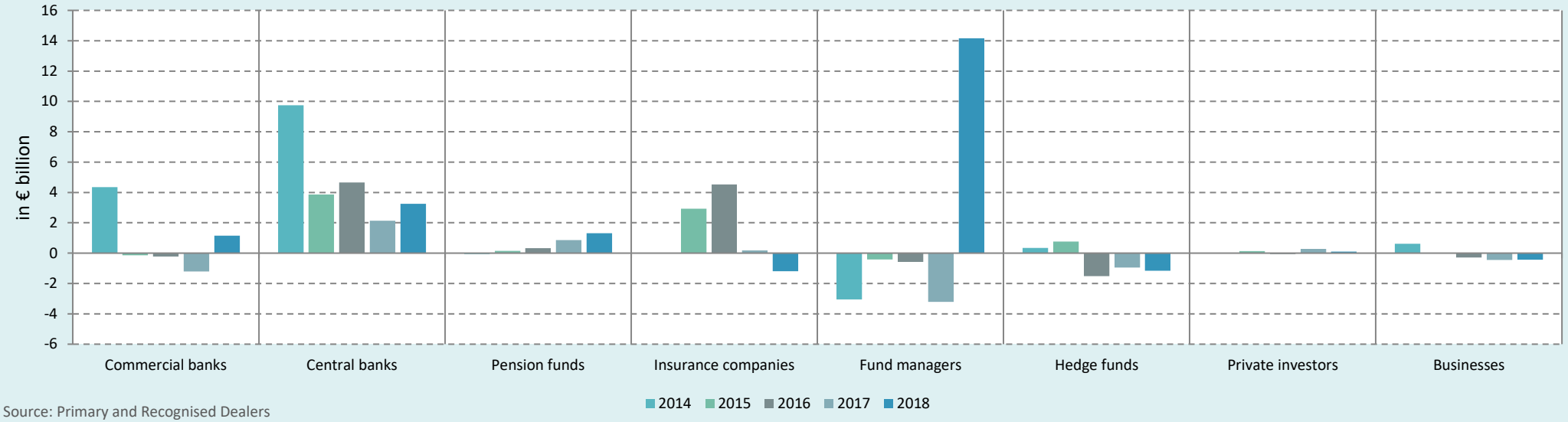




From a geographical perspective, net purchases by investors in the euro zone (excluding Belgium) recorded the strongest growth with +€14.83 billion in 2018, compared to only +€0.78 billion in 2017. There were also more European investors (excluding the euro zone) and American investors, even becoming net buyers again after two years of negative positions for the Europeans and four for the Americans, with respectively +€1.02 and +€0.27 billion in 2018 against -€3.02 and -€1.59 billion in 2017. Finally, we can observe that the net buyer positions of Belgian and Asian investors stabilised. However, the rest of the world saw its position as a net seller decrease, coming closer to equilibrium.

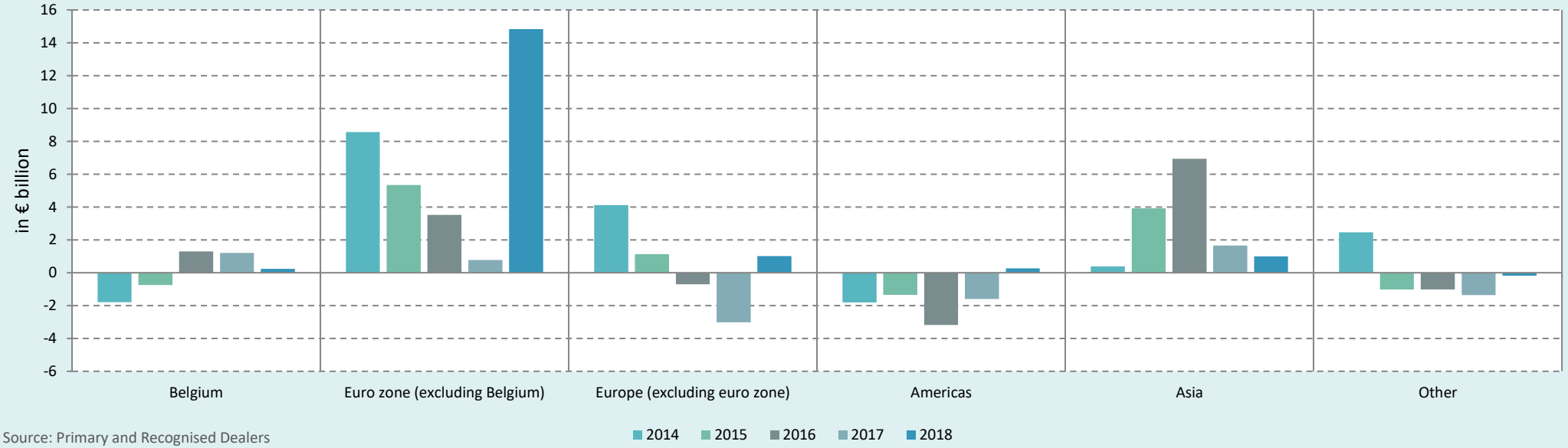
In terms of the breakdown by type of investor, the most important trend can be seen among fund managers, who were overwhelmingly net buyers in 2018 (+€14.15 billion) despite still being net sellers in 2017 (-€3.20 billion). It can also be observed that commercial banks made the same transition from being net sellers to net buyers, but to a lesser extent (+€1.15 billion in 2018 compared to -€1.21 billion in 2017). Central banks and pension funds slightly strengthened their position as net buyers, with respectively +€3.25 and +€2.13 billion in 2018, versus +€1.31 and +€0.86 billion respectively in 2017. Hedge funds remained net sellers, while insurance companies became net sellers.

OLO - NET PURCHASES (excluding QE) - BREAKDOWN BY TYPE OF INVESTOR



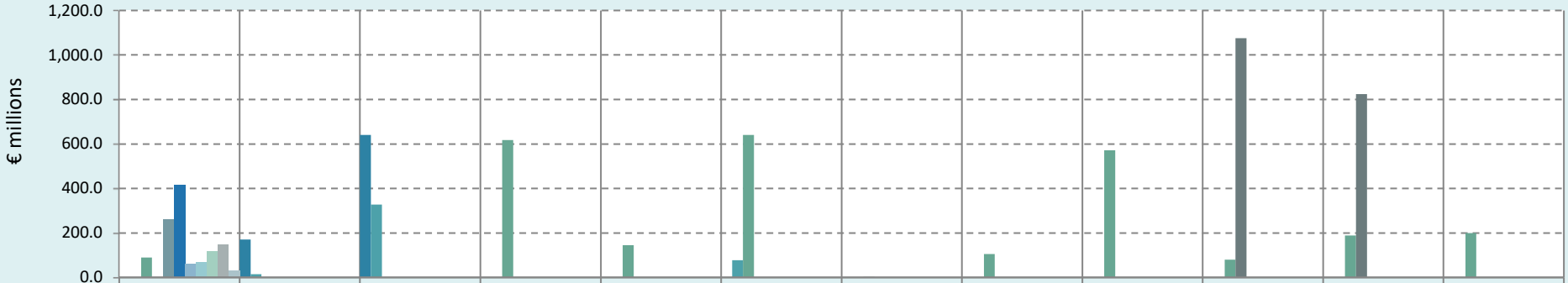
Source: Primary and Recognised Dealers

OLO - NET PURCHASES (excluding QE) - GEOGRAPHICAL DISTRIBUTION



Source: Primary and Recognised Dealers

3.1.4 BUYBACKS



	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUG.	SEPT.	OCT.	NOV.	DEC.
OLO 52 - March 2018		170.0	640.0									
OLO 69 - June 2018		15.0	328.0			77.0						
OLO 55 - March 2019	90.0			617.5	145.0	640.0	2.5	105.0	572.0	80.0	189.0	200.0
OLO 67 - September 2019										1,075.0	824.5	
OLO 58 - September 2020	260.0											
OLO 61 - September 2021	415.0											
OLO 48 - March 2022	60.0											
OLO 65 - September 2022	70.0											
OLO 68 - June 2023	117.0											
OLO 72 - June 2024	150.0											
OLO 19 - March 2035	30.0											

In 2018, the Agency bought back a total amount of €5.68 billion in four different OLO lines: €1.23 billion in the two lines maturing in 2018 and €4.45 billion in the two lines maturing in 2019. In addition, following the abolition of the Monetary Fund on 1 January 2018[1], the Agency took over the latter's portfolio. This portfolio contained 8 OLO lines, for a total of €1.19 billion, maturing between 2019 and 2035 (see box in the table).

Without taking this portfolio into account, the Agency bought back €4.47 billion over the final maturity of 2019 and beyond, divided into €4.45 billion in OLOs and €0.02 billion in State notes. This amount is significantly higher than the amount of €3.11 billion provided for in the financing plan. This increase in buybacks over the 2019 maturity date was the result of a decision by the Agency to reduce the cash surplus that had been anticipated during the year.

[1] Law of 31 July 2017 on various financial and tax provisions and measures relating to concession contracts (art. 5).

In general, the buyback of an OLO arriving at maturity in the near future has two advantages:

- More efficient cash management, since the amount bought back is refinanced during the previous 12 months. Therefore a lower amount is obtained at the maturity date, which brings a decreasing refinancing risk;
- as well as a pre-financing in the year prior to maturity date; the latter makes it possible to adjust the amount to be issued in an OLO if issue conditions are favourable.

Since July 2011, the Agency has been using the MTS Belgium (MTSB) electronic trading platform for bond buybacks, as it offers liquidity, efficiency and pricing transparency. Buybacks are carried out via a screen ("Belgian Buybacks"/ BBB) available to primary and recognised dealers, and on which the Agency continuously displays purchase prices. Apart from this possibility, dealers can also contact the Agency by telephone to take part in this buyback programme.

As soon as an OLO line has reached less than twelve months from its final maturity, the Agency proposes a buyback.

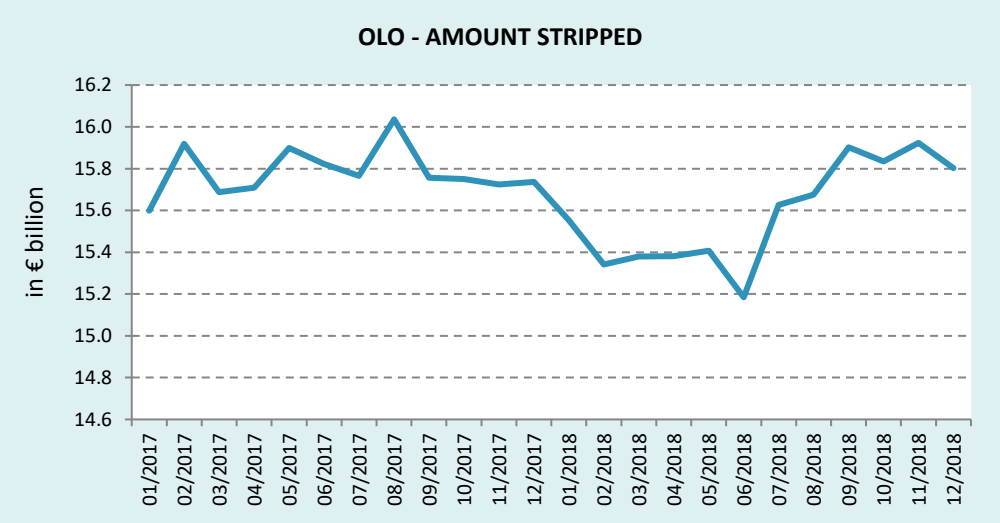
During the course of 2017, the Agency had already started to buy back the lines OLO 52 (maturing on 28 March 2018) and 69 (maturing on 22 June 2018). As regards OLO 52, €0.81 billion was bought back during the first three months of 2018, bringing the total amount bought back to €3.08 billion, or 26.91% of the total amount issued.

In 2017, the Agency had already bought back €2.44 billion of OLO 69 and, with buybacks of €0.42 billion in 2018, the amount to be repaid at final maturity decreased to €9.03 billion, a decrease of 24.05%.

From 29 March 2018, the Agency started buying back OLO 55 (maturing on 28 March 2019). The amount in circulation on this OLO was originally €12.24 billion, of which €2.64 billion (21.58%) was bought back, including €90 million from the Monetary Fund.

Buybacks on OLO 67 (maturing on 28 September 2019) began on 1 October 2018 and amounted to a total of €1.90 billion in 2018, with the result that the amount in circulation fell to €10.76 billion, a decrease of 15.00%.

3.1.5. STRIPS

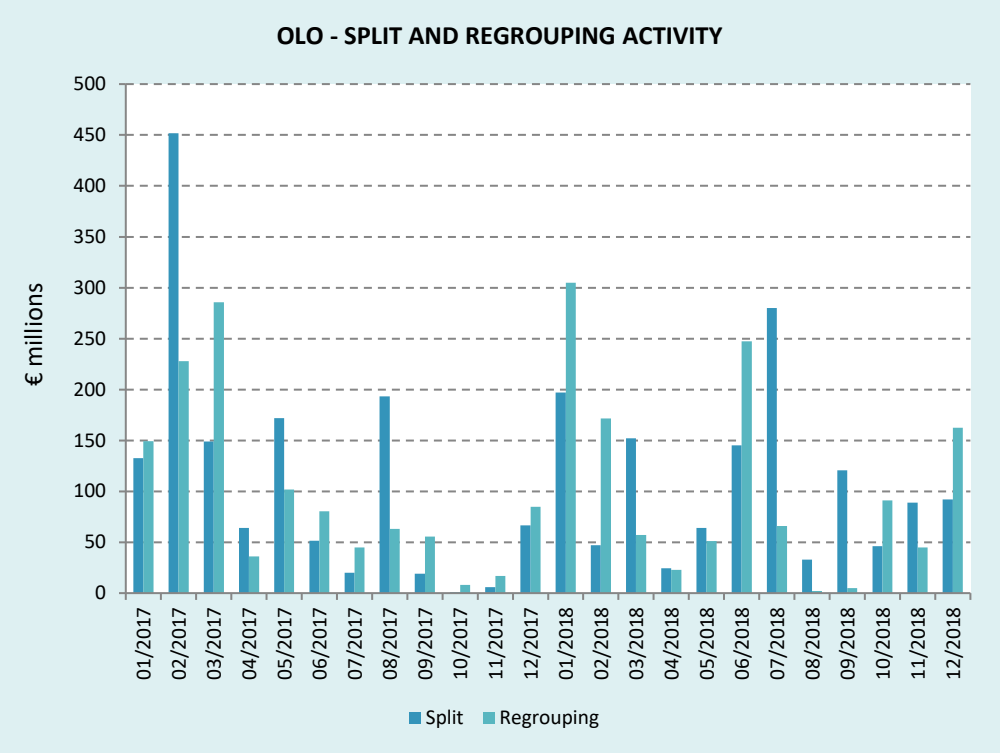


The recorded activity for BE-strips remained limited in 2018. The amount of BE-strips outstanding, roughly €15 billion, changed very little during the year. There was only a decrease in outstanding amounts on the final maturities of OLOs. There were similar amounts of splits and regroupings. This shows that after the splits, there were sales of long-term BE-strips. After that, the short-term BE-strips for which there was no demand were reconstituted as OLOs with a shorter residual maturity than the initially split OLOs. There are twelve OLO lines for which the nominal amount in circulation exceeded the amount initially issued, via the regrouping of OLOs from interchangeable BE-strips which represented coupons only.

The low level of yields was the main reason for the stagnation of this market. In February 2018, the Agency noted a strong flattening of the OLO curve, followed by a steepening from March onward. The steeper the OLO curve, the greater the difference in yield between BE-strips and OLOs with the same maturity. However, the spread (±10 basis points) in the very long maturities remained too limited to stimulate activity in the strips market.

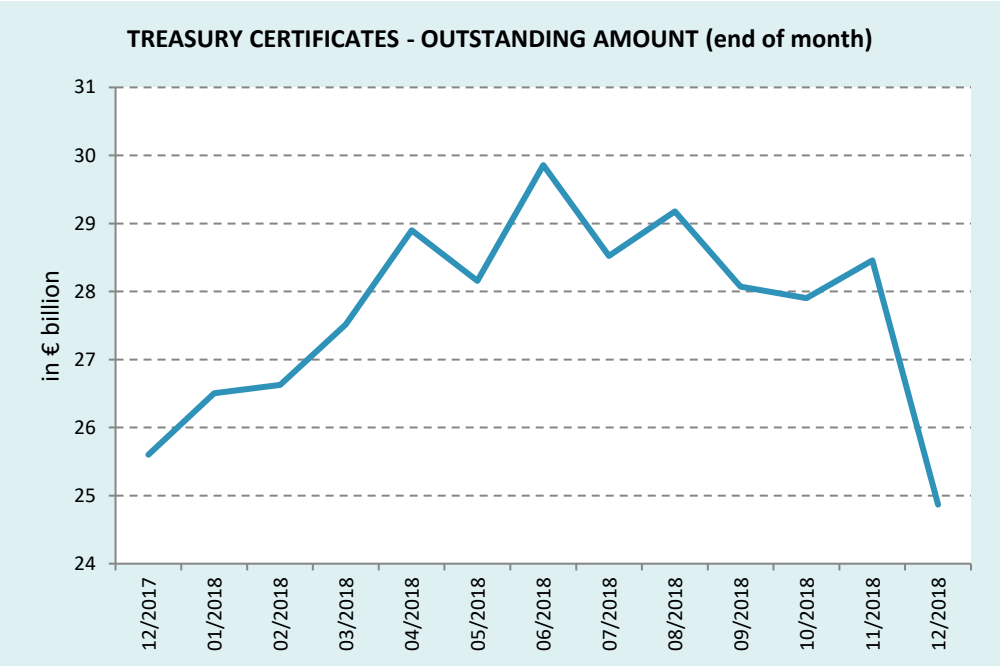
All new OLO lines, including the first green OLO (OLO 86), were split from the value date of their issue.

Regardless of whether the strips represent capital or interest, they are interchangeable if they have the same maturity date and are referred to as BE-strips. Given the specific nature of the green OLO, these are not interchangeable with traditional OLOs. As such, a different coupon maturity date was chosen for this green OLO.



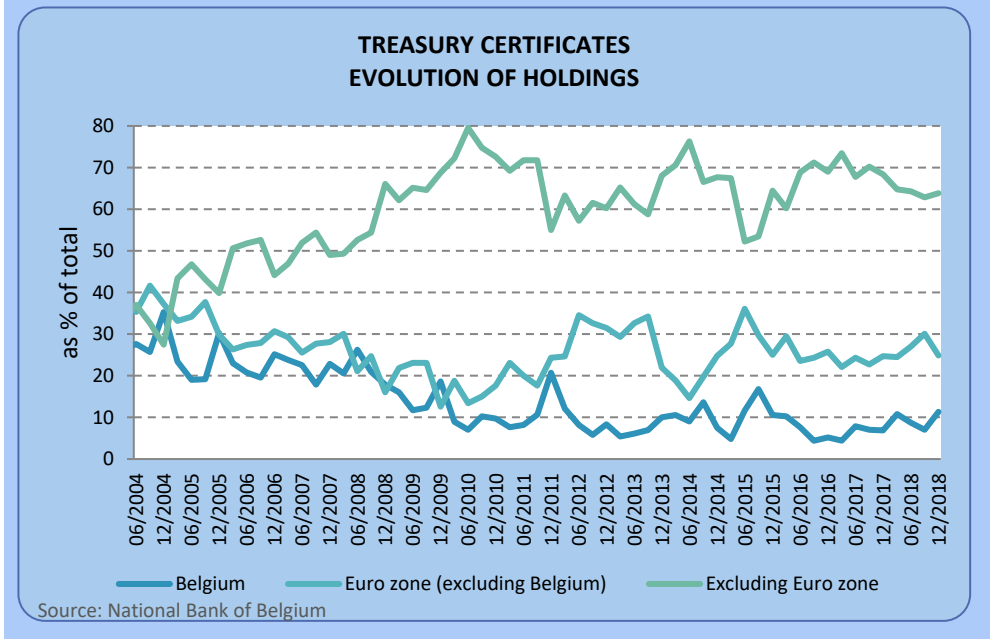
3.2 TREASURY CERTIFICATES

The outstanding amount of Treasury certificates fluctuated significantly in 2018. However, at the beginning and end of the year, it amounted to around €25 billion. It can be seen that in June 2018, the outstanding amount reached a peak of €29.86 billion due to the pre-financing of an OLO maturing on 22 June.



Holdings of Treasury Certificates

The interest of Belgian investors in holding Treasury certificates increased in 2018 with 11.34% at the end of December, the rest (88.66%) still in the hands of foreign investors. It should be noted that Treasury certificates are not affected by the ECB's quantitative easing programme.

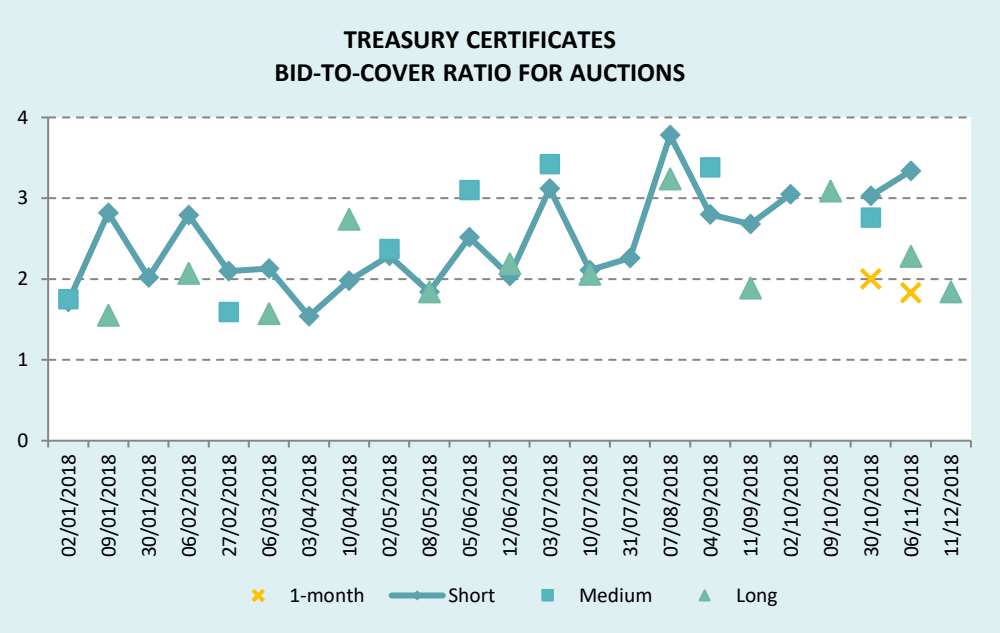


Source: National Bank of Belgium

3.2.1. THE PRIMARY MARKET FOR TREASURY CERTIFICATES

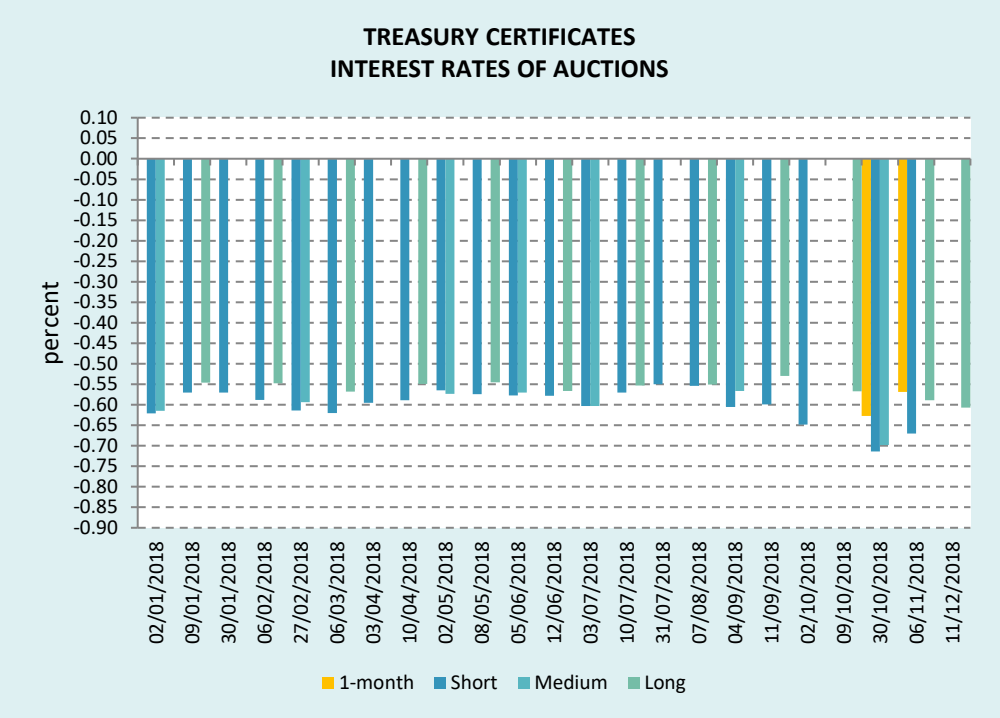
In 2018, the Agency went from twelve to six lines for its auctions of Treasury certificates. The idea was not to reduce the total outstanding amount, but to double the outstanding amount per line from around €3.5 billion to €7 billion. In this way, the liquidity of a new line can be quickly increased. The Agency therefore proposed a new 12-month line to be reopened one month later with an maturity of 11 months (see 2017 Annual Debt Report).

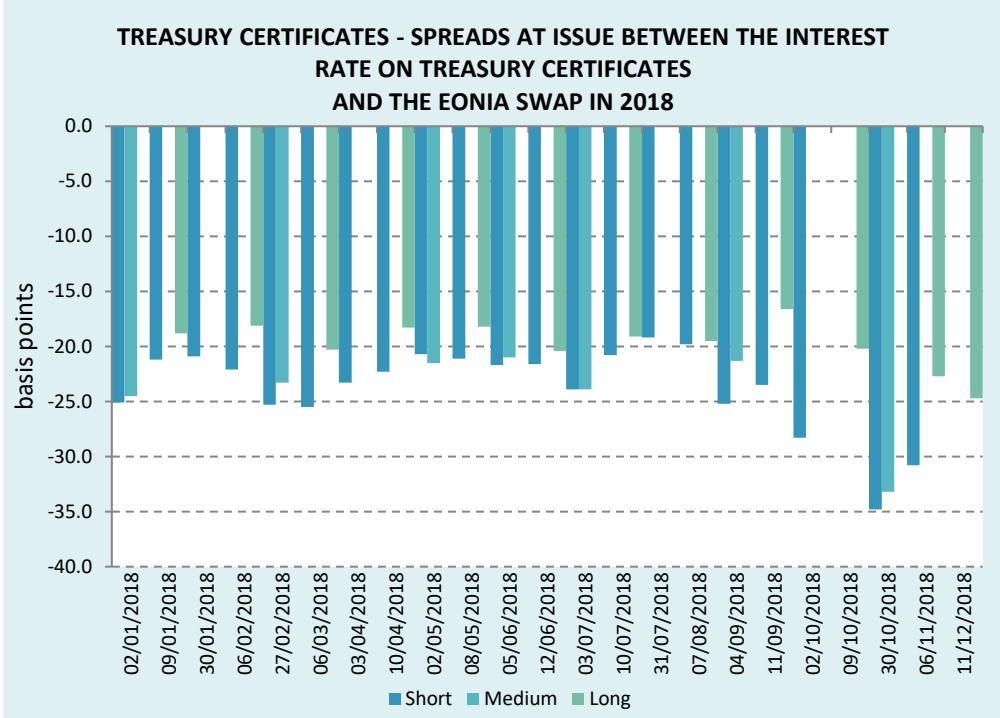
On 30 October and 6 November 2018, the Treasury Certificate line maturing on 13 December 2018 was again offered for auction on top of the lines already planned, to cover a temporary cash shortfall. After that, the Agency announced that it was withdrawing the auction of 4 December 2018 for the three-month certificate maturing on 7 March 2019, to avoid a cash surplus at the end of the year.



The *bid-to-cover* ratio, which is the ratio between the amounts bid and allocated in auctions, remained very good at all maturities. The average bid-to-cover ratio of Treasury certificates in the short and medium term was 2.39 and 2.37 respectively.

In long maturities, the bid-to-cover ratio of certificates was 2.20. From 2018 onwards, the number of Treasury certificates was halved from 12 to 6 and the 12-month certificate was again offered one month later with a maturity of 11 months. Despite the issuance of a larger amount at the auction of a new 12-month line (around €1.80 billion instead of €1.50 billion in 2017), the bid-to-cover ratio increased from 1.50 to 1.87. For the auction of the 11-month Treasury Certificate, the bid-to-cover ratio was 2.53. This higher figure is explained by the lower amount accepted at the auction (from €1 to €1.2 billion).





The yield on Treasury certificates remained significantly negative (below -0.50% for all maturities). It also remained stable during the year, except for the last quarter, when it fell again. This is due in part to the fact that there were smaller auctions during the last quarter to avoid cash surpluses at the end of the year. In addition, there is still strong demand at the end of the year for high quality short-term paper, which further reduces yields.

The weighted average rate for certificate issues was -0.60% for short and medium term certificates and -0.56% for long term certificates. The spread between the short and medium-term segment, and the long-term segment, amounted to only four basis points, despite much larger issues in the long-term segment.

The change from twelve lines to six lines was therefore successful.

Throughout the year, the swap rate curve against Eonia remained very flat for short maturities since the ECB's rates were not expected to rise and because there was still significant liquidity surplus in the euro market. As such, the evolution of certificate yields in the short, medium and long term was in line with the evolution of the spreads.

The average spread against Eonia for short, medium and long-term certificates was - 31, -30.5 and -26 basis points respectively.

The right to non-competitive subscriptions was not exercised much in 2018. Only 8.18% of this right was exercised in the first round (ordinary subscriptions) and 7.22% in the second round (special subscriptions). This relatively low percentage is explained by the fact that this option of non-competitive subscriptions was most often not *in the money*. This means that this additional right of purchase had no value for dealers since yields between the time of the auction and the time of non-competitive subscriptions had not decreased. As such, for the Treasury certificates in the long-term segment, this option was only *in the money* three times in the first round, out of a total of eleven auctions.

TREASURY CERTIFICATE AUCTION RESULTS IN 2018 (in € million)																				
Date of Auction	Maturity Date	ISIN	Duration	Bid amount	Accepted amount (Competitive)	Subscriptions (non-competitive)	Total Amount	Average weighted price	Average weighted rate	Bid-to-Cover		Bid min/max	Limit rate/price	% at stop price	Tenderers	Euribor spread	Min range	Max range	Outstanding amounts after auction	Amount at maturity
02/01/2018				**3,785**	**2,185**	**0**	**2,185**			**1.73**	→						1,800	2,200		
	10/05/2018	BE0312754261	S	1,950	1,135		1,135	100.218	-0.621	1.72		-0.630/-0.590	-0.614	100.00	10	-62.10			2,138	
	12/07/2018	BE0312756282	M	1,835	1,050		1,050	100.324	-0.615	1.75		-0.623/-0.595	-0.610	100.00	11	-34.40			1,694	
09/01/2018				**4,720**	**2,530**	**71**	**2,601**			**1.87**	→						2,300	2,700		3,889
	10/05/2018	BE0312754261	S	1,750	620		620	100.189	-0.570	2.82		-0.578/-0.535	-0.565	100.00	8	-57.00			3,273	
	10/01/2019	BE0312762348	L	2,970	1,910	71	1,981	100.555	-0.546	1.55		-0.550/-0.515	-0.543	100.00	12	-35.90				
30/01/2018				**2,425**	**1,203**	**103**	**1,306**			**2.02**	→						900	1,300		
	10/05/2018	BE0312754261	S	2,425	1,203	103	1,306	100.156	-0.570	2.02		-0.582/-0.550	-0.567	74.23	11	-24.20			3,893	
06/02/2018				**4,005**	**1,760**	**57**	**1,817**			**2.28**	→						1,400	1,800		2,998
	14/06/2018	BE0312755276	S	1,395	500	28	528	100.206	-0.588	2.79		-0.591/-0.565	-0.580	44.00	8	-58.80			1,475	
	10/01/2019	BE0312762348	L	2,610	1,260	29	1,289	100.514	-0.548	2.07		-0.555/-0.530	-0.545	100.00	11	-54.80			1,981	
27/02/2018				**3,155**	**1,730**	**0**	**1,730**			**1.82**	→						1,500	1,900		
	12/07/2018	BE0312756282	S	1,680	800		800	100.228	-0.614	2.10		-0.621/-0.585	-0.611	100.00	9	-61.40			2,744	
	13/09/2018	BE0312758304	M	1,475	930		930	100.324	-0.594	1.59		-0.604/-0.575	-0.590	100.00	11	-32.30			1,626	
06/03/2018				**4,945**	**2,797**	**98**	**2,895**			**1.77**	→						2,600	3,000		3,735
	12/07/2018	BE0312756282	S	2,115	995	98	1,093	100.218	-0.620	2.13		-0.623/-0.600	-0.616	100.00	9	-62.00			3,544	
	7/03/2019	BE0312763353	L	2,830	1,802		1,802	100.578	-0.568	1.57		-0.575/-0.555	-0.565	34.65	13	-37.70				
03/04/2018				**2,160**	**1,400**	**0**	**1,400**			**1.54**	→						1,000	1,400		
	12/07/2018	BE0312756282	S	2,160	1,400		1,400	100.162	-0.595	1.54		-0.604/-0.570	-0.590	80.00	12	-26.70			4,637	
10/04/2018				**4,285**	**1,755**	**62**	**1,817**			**2.44**	→						1,400	1,800		1,836
	9/08/2018	BE0312757298	S	1,365	690		690	100.195	-0.589	1.98		-0.593/-0.565	-0.584	100.00	10	-58.90			1,568	
	7/03/2019	BE0312763353	L	2,920	1,065	62	1,127	100.505	-0.549	2.74		-0.554/-0.530	-0.547	100.00	8	-54.90			1,802	
02/05/2018				**4,300**	**1,845**	**5**	**1,850**			**2.33**	→						1,500	1,900		
	13/09/2018	BE0312758304	S	2,035	890	5	895	100.208	-0.565	2.29		-0.575/-0.545	-0.563	100.00	9	-56.50			2,556	
	8/11/2018	BE0312760326	M	2,265	955		955	100.300	-0.573	2.37		-0.577/-0.560	-0.572	100.00	9	-30.40			1,413	
08/05/2018				**4,795**	**2,604**	**0**	**2,604**			**1.84**	→						2,400	2,800		5,199
	13/09/2018	BE0312758304	S	1,420	770		770	100.201	-0.574	1.84		-0.580/-0.550	-0.569	100.00	9	-57.40			3,451	
	9/05/2019	BE0312764369	L	3,375	1,834		1,834	100.554	-0.545	1.84		-0.550/-0.520	-0.541	40.66	13	-35.60				
05/06/2018				**3,610**	**1,306**	**7**	**1,313**			**2.76**	→						900	1,300		
	11/10/2018	BE0312759310	S	1,900	755		755	100.202	-0.577	2.52		-0.585/-0.550	-0.570	29.33	12	-57.70			1,793	
	13/12/2018	BE0312761332	M	1,710	551	7	558	100.300	-0.570	3.10		-0.575/-0.550	-0.565	62.86	7	-30.10			1,311	
12/06/2018				**5,052**	**2,392**	**0**	**2,392**			**2.11**	→						2,100	2,500		2,003
	13/09/2018	BE0312758304	S	2,465	1,210		1,210	100.146	-0.578	2.04		-0.585/-0.560	-0.573	100.00	12	-25.70			4,221	
	9/05/2019	BE0312764369	L	2,587	1,182		1,182	100.520	-0.566	2.19		-0.573/-0.550	-0.564	100.00	13	-56.60			1,834	
03/07/2018				**5,584**	**1,705**	**0**	**1,705**			**3.28**	→						1,500	1,900		
	8/11/2018	BE0312760326	S	2,502	803		803	100.212	-0.603	3.12		-0.610/-0.585	-0.600	50.30	10	-60.30			2,368	
	10/01/2019	BE0312762348	M	3,082	902		902	100.318	-0.603	3.42		-0.610/-0.580	-0.600	41.33	9	-33.30			3,270	
10/07/2018				**6,240**	**3,000**	**0**	**3,000**			**2.08**	→						2,600	3,000		6,037

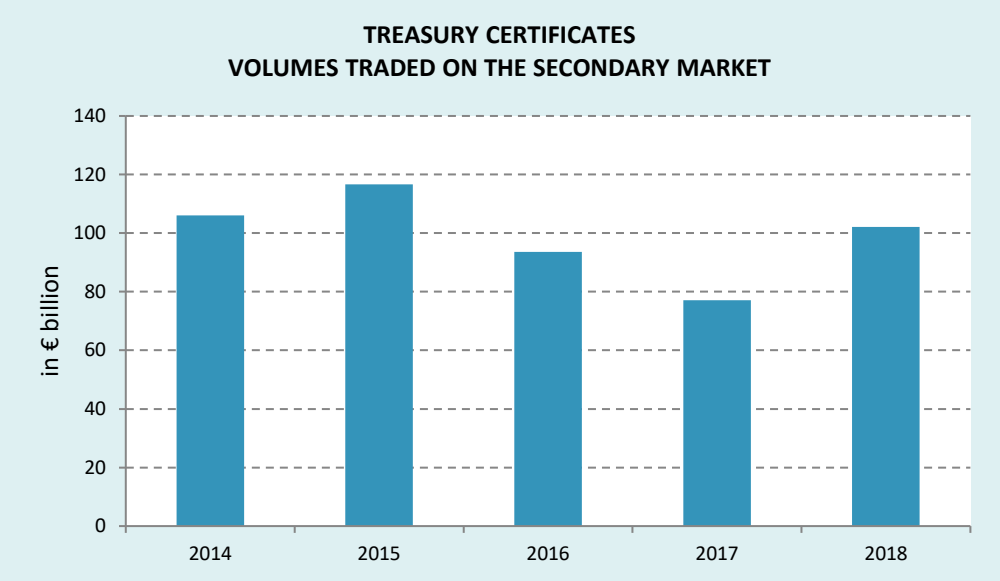
	8/11/2018	BE0312760326	S	2,410	1,140		1,140	100.189	-0.570	2.11		-0.574/-0.555	-0.567	100.00	10	-57.00			3,171	
	11/07/2019	BE0312765374	L	3,830	1,860		1,860	100.562	-0.553	2.06		-0.556/-0.537	-0.551	87.50	12	-37.30				
31/07/2018				**3,020**	**1,335**	**0**	**1,335**			**2.26**	→						1,100	1,500		
	8/11/2018	BE0312760326	S	3,020	1,335		1,335	100.150	-0.550	2.26		-0.556/-0.530	-0.547	100.00	10	-23.10			4,311	
07/08/2018				**5,360**	**1,576**	**0**	**1,576**			**3.40**	→						1,300	1,700		2,258
	13/12/2018	BE0312761332	S	1,795	475		475	100.194	-0.554	3.78		-0.560/-0.530	-0.551	100.00	6	-55.40			1,869	
	11/07/2019	BE0312765374	L	3,565	1,101		1,101	100.517	-0.551	3.24		-0.552/-0.530	-0.547	43.48	9	-55.10			1,860	
04/09/2018				**4,945**	**1,617**	**0**	**1,617**			**3.06**	→						1,400	1,800		
	10/01/2019	BE0312762348	S	2,525	902		902	100.212	-0.605	2.80		-0.610/-0.585	-0.602	62.50	9	-60.50			4,172	
	7/03/2019	BE0312763353	M	2,420	715		715	100.287	-0.566	3.38		-0.575/-0.530	-0.564	100.00	8	-29.70			2,929	
11/09/2018				**5,690**	**2,675**	**38**	**2,713**			**2.13**	→						2,400	2,800		5,431
	10/01/2019	BE0312762348	S	2,145	800		800	100.198	-0.599	2.68		-0.602/-0.570	-0.597	100.00	5	-59.90			5,074	
	12/09/2019	BE0312766380	L	3,545	1,875	38	1,913	100.539	-0.530	1.89		-0.535/-0.510	-0.526	100.00	11	-36.40				
02/10/2018				**3,358**	**1,100**	**107**	**1,207**			**3.05**	→						900	1,300		
	10/01/2019	BE0312762348	S	3,358	1,100	107	1,207	100.177	-0.648	3.05		-0.657/-0.600	-0.641	100.00	6	-33.00			5,874	
09/10/2018				**3,155**	**1,020**	**155**	**1,175**			**3.09**	→						900	1,300		2,548
	12/09/2019	BE0312766380	L	3,155	1,020	155	1,175	100.532	-0.567	3.09		-0.571/-0.550	-0.564	100.00	8	-56.70			1,913	
30/10/2018				**5,692**	**2,397**	**0**	**2,397**			**2.37**	→						2,000	2,400		
	13/12/2018	BE0312761332	S	2,797	1,397		1,397	100.073	-0.627	2.00		-0.650/-0.582	-0.610	100.00	12	-25.80			2,344	
	7/03/2019	BE0312763353	S	1,515	500		500	100.251	-0.714	3.03		-0.719/-0.662	-0.710	40.00	4	-71.40			3,644	
	9/05/2019	BE0312764369	M	1,380	500		500	100.368	-0.698	2.76		-0.706/-0.637	-0.690	100.00	4	-43.90			3,016	
06/11/2018				**8,545**	**3,590**	**216**	**3,806**			**2.38**	→						3,300	3,700		5,646
	13/12/2018	BE0312761332	S	1,985	1,085		1,085	100.055	-0.569	1.83		-0.590/-0.500	-0.557	100.00	8	-20.00			3,741	
	7/03/2019	BE0312763353	S	2,690	805	72	877	100.222	-0.670	3.34		-0.675/-0.610	-0.665	5.00	7	-67.00			4,144	
	7/11/2019	BE0312767396	L	3,870	1,700	144	1,844	100.599	-0.589	2.28		-0.597/-0.560	-0.584	60.00	8	-44.00				
11/12/2018				**2,185**	**1,185**	**56**	**1,241**			**1.84**	→						800	1,200		4,826
	7/11/2019	BE0312767396	L	2,185	1,185	56	1,241	100.558	-0.607	1.84		-0.670/-0.570	-0.595	100.00	10	-60.70			1,844	
TOTAL AMOUNT							**45,682**													

Total amounts	S	M	L
Competitive bids	21,310	5,603	17,794
Competitive & non-competitive bids	21,723	5,610	18,389

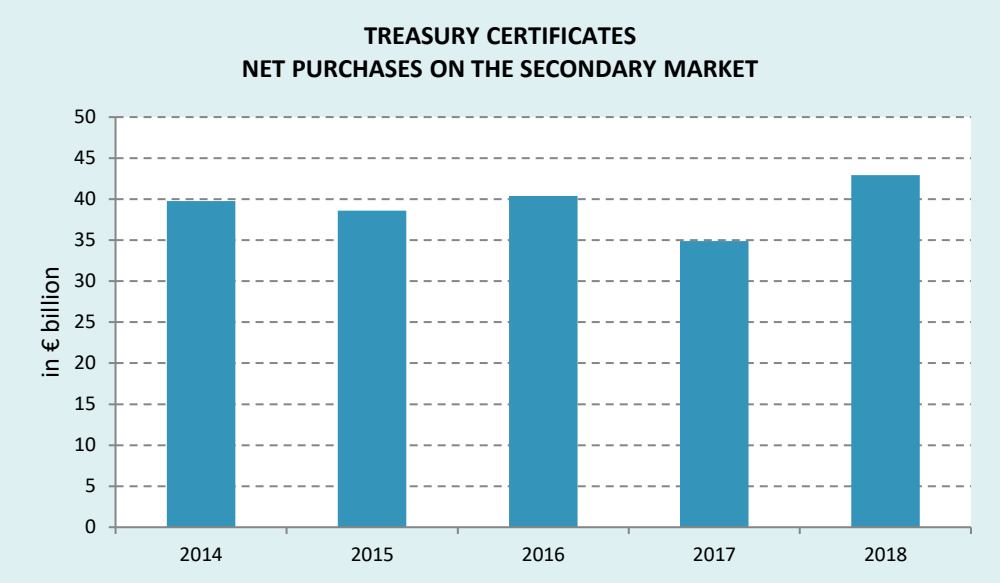
	S	M	L
Average yield	-0.598	-0.599	-0.559

3.2.2. SECONDARY MARKET FOR TREASURY CERTIFICATES

As for the secondary market for OLOs, the following information is solely based on figures obtained from primary and recognised dealers. They are the main active dealers on our debt, although they are not the only ones. Nonetheless, these figures allow us to identify certain trends. It should also be noted that the figures only refer to the purchases/sales of final investors and therefore not the interdealer market.



After two consecutive years of decline, the volumes traded in Treasury certificates picked up, gaining 32.46% compared to the volume in 2017. Net purchases also recovered with an increase of 23.05%.

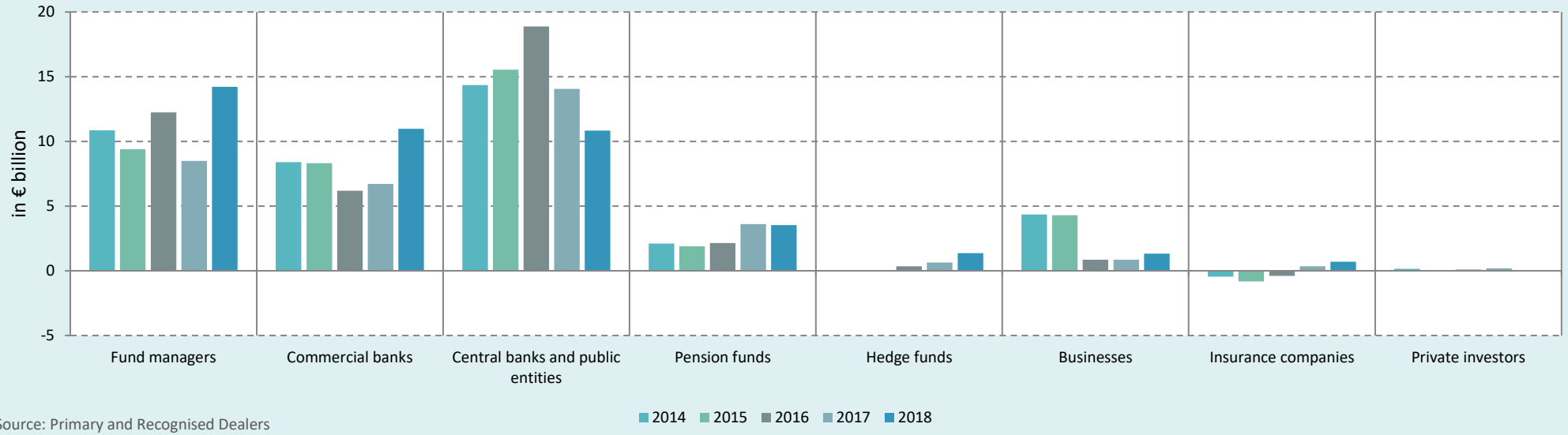


The geographical breakdown primarily shows an increase in net purchases in the euro zone (excluding Belgium) with +€18.08 billion of net purchases in 2018 compared to +€11.02 billion in 2017. Belgium also saw its net buyer position strengthen with +€4.31 billion in 2018 compared to +€1.66 billion in 2017. Europe (outside the euro zone) saw its net buyer position unchanged while American and Asian investors saw theirs weaken slightly.

In terms of the type of investors, fund managers become the main net buyers followed by banks and central banks and public entities, changing the order of this group of three which had remained unchanged for several years. Pension funds maintained their position as net buyers compared to 2017, while hedge funds strengthened their position.

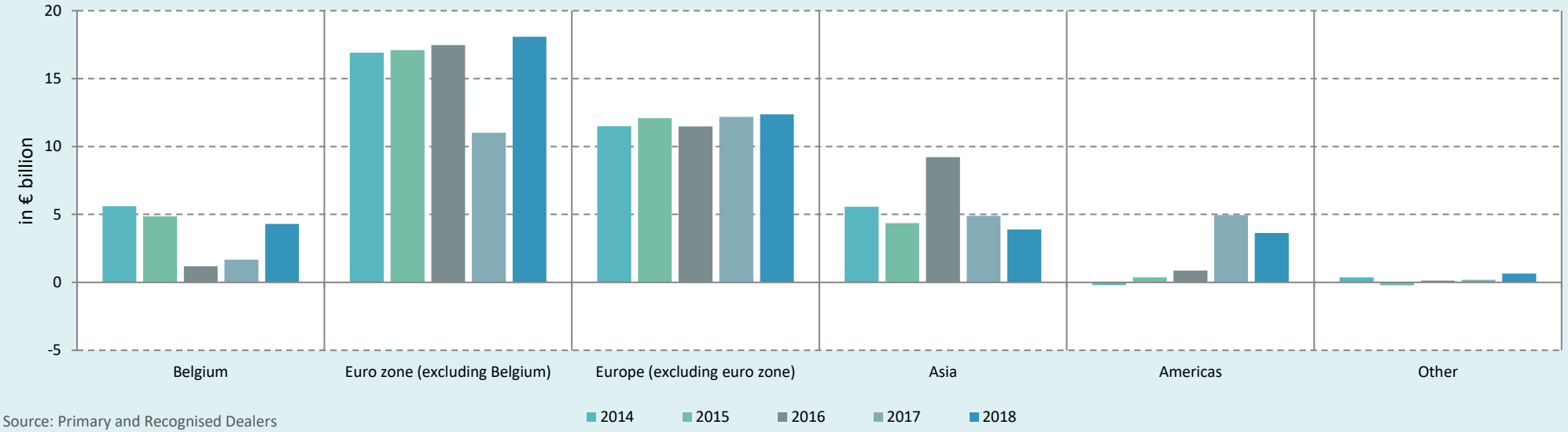
Finally, as tends to be the case, private savers showed little interest in Treasury certificates, nor did businesses or insurance companies, which were very slightly net buyers.

TREASURY CERTIFICATES - NET PURCHASES - BREAKDOWN BY TYPE OF INVESTOR



Source: Primary and Recognised Dealers

TREASURY CERTIFICATES - NET PURCHASES - GEOGRAPHICAL DISTRIBUTION



Source: Primary and Recognised Dealers

3.3 STATE NOTES

State notes are medium- and long-term loans with annual coupons, in euros, issues four times a year. They are invested through investment institutions contractually bound to the Agency (see annex).

In the primary market, this product is intended for individuals who are domiciled in the European Economic Area, and for certain other categories of investors: foundations, certain public bodies, non-profit associations, church wardens or similar entities.

Since the computerisation of the Ledger Service, the possibility is offered to private individuals as well as some legal persons to subscribe to State notes online, carry out payment and check their portfolios. It is an application which offers a user-friendly, efficient high-quality service. Moreover, it should be emphasised that a nominative registration with the Ledger Service is entirely free of charge for the holder.

In 2018, the Agency only issued State notes three times, the December issue having been cancelled due to the very low level of interest rates. For each of these, only a 10-year bond was offered.

It is in this context of low interest rates that the total amount of subscriptions for 2018 was lower than in 2017. As such, the subscribed amount for 2018 amounted to €10.36 million versus €19.55 million for 2017.

Nevertheless, continuing the emissions is justified by the willingness to keep a product which is dedicated to individuals.

As for the secondary market, the State notes are quoted on Euronext Brussels and the liquidity is underwritten by a liquidity provider, Florint BV.

Finally, in order to facilitate liquidation and tax payment of State notes, they are included in the Belgian National Bank's X/N liquidation system.

STATE NOTE ISSUES IN 2018

Issues	Type	Coupon	Price	Total subscribed
04.03.2018	10-year BE	0.90%	100%	5,679,500 EUR
04.06.2018	10-year BE	0.75%	100%	2,379,200 EUR
04.09.2018	10-year BE	0.65%	100%	2,299,800 EUR
04.12.2018	-	-	-	-
TOTAL AMOUNT				**10,358,500 EUR**

3.4 EURO MEDIUM TERM NOTES (EMTN) AND SCHULDSCHEINE

In 2018, only one loan was issued under the EMTN programme set up by the Agency in 2008.

EMTN TRANSACTIONS IN 2018			
Value date	Maturity	Amount	Type of rate
26/09/2018	03/04/2024	189,096,000 EUR	Fixed
Total amount		**189,096,000 EUR**	

On 19 September 2018, the Agency issued an EMTN bond, maturing on 3 April 2024 and with a coupon of 0.10%. The amount raised was €189.10 million.

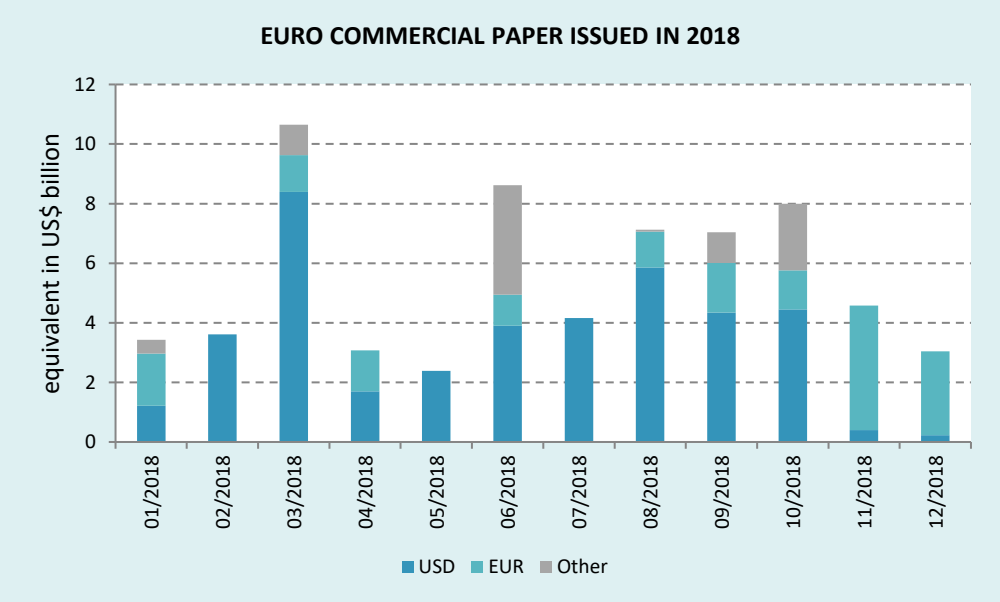
It can be observed that market conditions did not allow the Agency to issue more loans under this programme during the year under review.

It should be recalled that these issues are only realised if the issuance cost is less or equal to the cost of an OLO with the same maturity. It is understood that the use of these new instruments must not compromise the liquidity of OLOs. Emissions under the EMTN programme are therefore considered as a complement to the traditional OLO programme.

Furthermore, the Agency did not enter into any Schuldscheine contracts in 2018.

3.5 EURO COMMERCIAL PAPER (ECP)

As stipulated in the 2018 financing plan, the ECP programme was used to bridge the remaining cash shortfalls after the issuance of Treasury certificates. In addition, the Agency used this programme to refinance outstanding foreign currency debt (CHF 1.4 billion).



During the second half of 2018, the Agency also decided, following a cost-benefit analysis, to continue to wind down its debt in CHF. Maintaining a debt in CHF implies assessing whether the difference in yield between financing in EUR or in CHF offsets the evolution of the EUR/CHF exchange rate. At the end of 2018, this decision was gradually implemented so that the nominal amount of this debt decreased from CHF 1.4 billion to CHF 0.77 billion. As in previous years, this amount was provisionally refinanced in euros in order, to eliminate the year-end cash surplus.

In 2018, a total amount equivalent to €65 billion was issued in ECP. The weighted average duration was three weeks.

As in 2017, the Agency was able to obtain a very attractive post-swap financing cost for the euro via the ECP programme. In total, it earned an amount of approximately €25 million, thanks to negative interest. However, unlike the situation which prevailed in previous years, for maturities of more than one month, the Agency no longer obtained yields, after swapping to the euro, that were lower than those of Treasury certificates with the same maturities. This was primarily due to less favourable terms of the USD/EUR basis swap. As such, the market share of issues in USD decreased from 94% in 2017 to 62% in 2018, while the market share of issues in EUR increased to 25%.

As in 2017, it appears that ECP investors were mainly central banks. This multi-currency programme offers these investors the opportunity to invest their foreign currency reserves, which are primarily made up of dollars. Some central banks only invest in ECP and not in Treasury certificates or OLOs. As such, the ECP often becomes a primary method of investing in debt instruments issued by the Agency, to which other products are subsequently added.

4
MAIN STRATEGIC POINTS

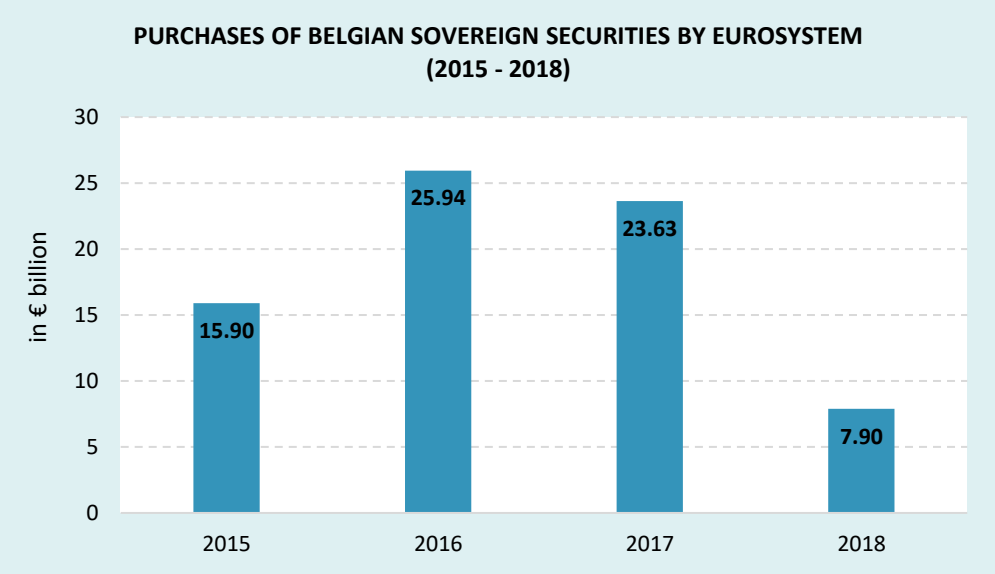
4.1 WINDING DOWN OF QUANTITATIVE EASING[1] IN THE EURO SYSTEM

In 2018, for the fourth consecutive year, the European Central Bank purchased sovereign debt from the countries of the euro zone[2][3]. The aim of this unconventional measure was, and is, to stimulate inflation and inflation expectations so that they are more in line with the ECB's objective. At the time, the ECB had considered that it could not achieve its objectives with the arsenal of conventional measures, such as setting short-term rates.

The purchasing programme had already been scaled back once, in April 2017 when the ECB decided to only buy a total monthly amount of €60 billion in sovereign debt - as well as other instruments such as corporate debt, *asset backed securities* and *covered bonds* - instead of €80 billion previously. This winding down continued in 2018: from January onwards, the monthly amount was reduced to €30 billion and from October to €15 billion.

Finally, the ECB decided to phase out the purchases as from December 2018, on the understanding that it was only a winding down of net purchases. The amounts mentioned above are also net purchases: the amounts from matured securities have in the meantime been reinvested by the ECB in each case. From January 2019 onwards, the ECB should therefore continue purchasing sovereign debt and other financial instruments, but only in the case of reinvesting maturing securities. Since the volume of sovereign securities will not decrease structurally in the ECB's balance sheet, quantitative easing will still be on the cards in 2019, but 2018 will have marked the end of the increase in the volume of securities held by the ECB.

This situation therefore meant that Belgian sovereign debt had to be purchased at a much lower level than in previous years. In total, the ECB purchased Belgian sovereign debt worth €7.90 billion in 2018, primarily or even exclusively in the form of OLOs. In 2016 and 2017, this was still more than €20 billion.



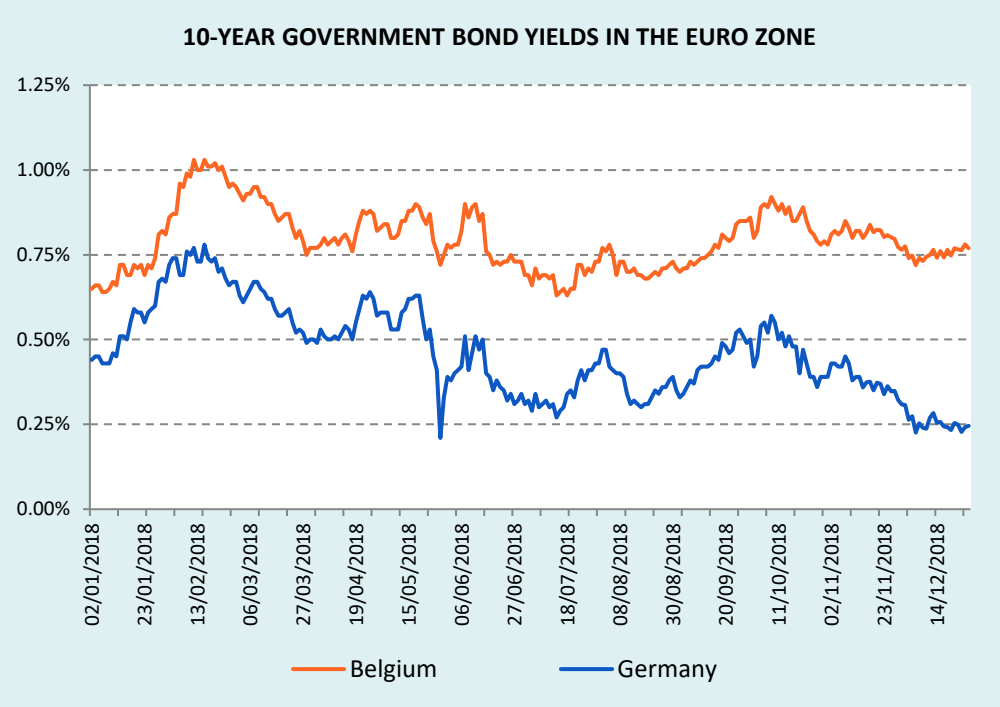
By the end of 2018, the ECB had already purchased €73.37 billion in OLOs. In this case, this was what the ECB paid in cash for these OLOs, it was not their nominal value. Since many OLOs were quoted above (or even very much above) par, the nominal value of the OLOs held by the ECB was easily several billion lower than the €73.37 billion. However, this nevertheless represents a significant proportion of the total OLO portfolio, which amounted to €337.93 billion in nominal terms at the end of 2018.

In 2018, other investors were therefore expected to pick up the slack following the decline in demand from the ECB. Since these investors were generally more - or even purely - guided by the yield on their investment, it was generally expected that the winding down of quantitative easing would lead to higher rates.

[1] *(QE)*

[2] With the exception of Greece

[3] In addition, the ECB also purchased debt from public agencies and institutions as well as multilateral development banks, as part of its *Public Sector Purchase Program* (PSPP)



However, this rate increase did not occur. The Belgian 10-year rate ended the year at a slightly higher level (0.77%) than at the beginning of 2018 (0.68%). The German 10-year rate was even significantly lower at the end of the year compared to the level at the beginning of the year. It is therefore not the rates themselves but the rate differentials that have increased in the euro area. This last evolution may very well be the result of both the winding down of quantitative easing and the worsening of the economic outlook, which has prompted a *flight to quality*, benefiting the debts of the most solvent countries in the euro zone.

4.2 INAUGURAL ISSUE OF A GREEN OLO

In recent years, actors in the financial markets have been very keen on sustainable financing. This involves financing expenditures and investments, taking into account their impact on the environment, social affairs and governance. Initially, sustainable financing primarily focused on green initiatives and projects that stimulated economic growth but at the same time aimed to reduce the environmental footprint, tackle greenhouse gas emissions and pollution, minimise waste and improve efficiency in the use of natural resources.

Based on these ideas and the Paris Climate agreement in 2015, the Belgian government decided at the 2017 summer agreement to issue a green sovereign bond in the form of a green OLO. In so doing, Belgium became the second country in the euro zone to go down this path. As such, the government hopes to achieve two objectives:

- demonstrate Belgium's commitment to addressing climate change and its willingness to continue to raise awareness among market players and the general public;
- by issuing a large and liquid bond, contribute to increasing the size and liquidity of the green bond market and gain support for this initiative in the country.

On 26 February 2018, the Agency successfully issued the green OLO for an amount of €4.50 billion (see also point 3.1.1.). Among the investors, many had been mandated to work towards sustainable financing.

When companies issue green bonds, it is usually to finance investments in specific projects. For governments, the situation is different: the funds collected cannot be directly linked to specific expenditures or investments. This is why another approach has been developed and set out in the *Green OLO Framework*:

- First of all, the Agency has identified, in close collaboration with the Federal Public Service Environment, the environmental challenges that Belgium wishes to address in its environmental policy. These challenges fall under five categories set out in the *Green Bond Principles*[1].
- within these green categories, the Agency has identified, with the help of other public services, the expenditure of the federal authorities (*eligible green expenditure*) that finance the assets (investments, subsidies, operational expenditure) to support Belgian environmental policy. This expenditure may consist of direct budgetary expenditure, but also investments by public enterprises and tax cuts.
- annual reports will explain the eligible green expenditure that has been financed by the issue of the green OLO.
- from all the preparatory work on the Green OLO and the distribution of competences between the various levels of Belgian government, it is already clear that the eligible green expenditure is primarily concentrated on rail infrastructure and railway operations.

Through its annual reporting, the Belgian government undertakes to ensure a very high level of transparency regarding the financing of green expenditure. In addition, a reporting system will provide explanations on the environmental impact of this expenditure.

Since the green OLO is also a fully-fledged OLO, it will also be presented as such at various auctions in the future. After every year in which the green OLO is auctioned, there will be an allocation report setting out the links between the funds collected and the financing of budgetary expenditure, investments and tax reductions.

[1] https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/

4.3 THE AGENCY'S PREPARATIONS FOR BREXIT

On 23 June 2016, the British public decided, in a referendum, to leave the European Union. On 29 March 2017, the British government announced that this would happen by 29 March 2019 at the latest. In the meantime, the UK's departure from the European Union has been postponed.

As a major player on the European money and capital markets, the Belgian Debt Agency has many contacts with counterparties in London. London is undeniably by far the most important financial centre in Europe, and one of the most important in the world. Among the Agency's main counterparties, namely the primary dealers, six out of thirteen have their headquarters in London for their European activities.

When the United Kingdom leaves the European Union, it can develop its own legislation on financial transactions and markets that will no longer necessarily be in line with European developments in this area.

The Agency considers it important that market-making in OLOs and Treasury certificates should be carried out mainly via counterparties established in the EU and within the framework of European law. As such, in 2018, the Agency decided to require its primary and recognised dealers to have all authorisations at all times to offer their financial services throughout the EU, and comply with their obligations as dealers. This requirement was therefore incorporated into the specifications of the primary and recognised dealers from 2019 onwards and formally approved by all dealers.

All the dealers concerned have been working for a while on projects to adapt their structure and organisation so that they can continue to offer all their financial services in the European Union. This implies in practice that the legal entity representing the primary or recognised dealer will be replaced in due course by another entity from the same financial group but with an establishment in the EU. Steps will be taken to ensure that in its contacts with these new entities, the Agency will have access to the same services as before. The necessary documentation for these transfers was prepared with the dealers concerned and signed by the Minister of Finance at the beginning of March.

The de facto transfer of activities will obviously depend on the implementation of Brexit, with or without a deal. The Agency believes that all the necessary measures have been taken to bring the Belgian sovereign bond market smoothly into a new era.

4.4 DEBT MANAGEMENT STRATEGY

In recent years, the federal government's debt management strategy years has consisted of continually reducing risk.

This strategy was also pursued in 2018: the average duration of the debt therefore increased from 9.29 years in December 2017 to 9.62 years at the end of December 2018. The extension of the average term to maturity resulted in a reduction in the 5-year refinancing risk, from 41.8% to 39.7%, meaning that at the end of 2018, only 39.7% of the total federal government debt needed to be refinanced[1] within 5 years. This refinancing entails risk each time. In effect, neither the market rate nor the rate that the Belgian State will have to pay[2] is known in advance, and it may turn out to be higher than expected. Given that the federal government almost exclusively issues fixed-rate debt instruments, new financing or refinancing is the main source of risk. Extending the average duration of the debt makes it possible to keep this risk under control.

The General Guidelines, determined by the Minister of Finance every year on the proposal of the Agency's Strategic Committee, have systematically imposed a reduction in refinancing risk and/or an extension of the average term, since 2012.

MAXIMUM VALUES FOR REFINANCING RISKS AND MINIMUM VALUES FOR THE AVERAGE DURATION (GENERAL GUIDELINES 2012-2018)

Year	12-month (max.) refinancing risk	12-month (max.) refinancing risk	Average duration (min. years)
2012	22.50%	60.00%	-
2013	20.00%	60.00% (S1) / 55.00% (S2)	-
2014	20.00%	55.00%	7.50
2015	20.00%	50.00%	7.50 (S1) / 7.75 (S2)
2016	20.00%	50.00%	7.75 (S1) / 8.00 (S2)
2017	20.00%	47.50%	8.50
2018	17.50%	42.50%	9.00

Regarding its proposals to extend the average maturity and reduce the refinancing risk, the Agency's Strategic Committee was inspired, among other things, by the significant increase in the federal government's debt, which rose from €285.81 billion in December 2007 to €363.84 billion in December 2011. Belgium's debt ratio, which is the ratio between federal debt, regional debt and the debt of other public authorities and GDP at market prices, also increased from 86.9% to 102.6%. An increase in public debt implies, ceteris paribus, an increase in risks and a strategy designed to reduce these risks therefore seems appropriate.

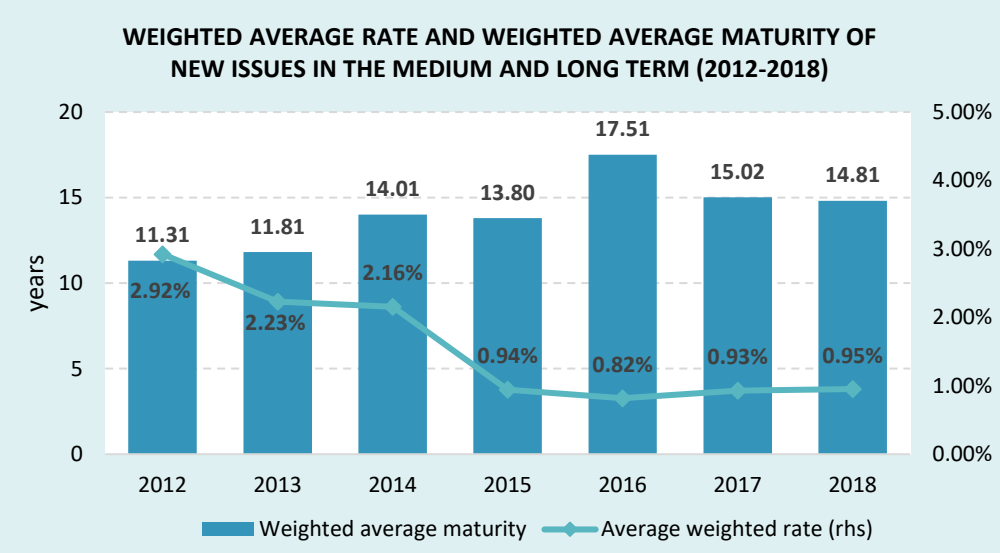
In addition, the financing needs that led to the increase in public debt came unexpectedly most of the time. This was the case in particular for the financing of interventions in financial institutions at the end of 2008, and for the sharp increase in the budget deficit resulting from the recession in 2009. In order to cope with shocks on this scale, it is essential that the amount needed to refinance the debt is manageable at the outset.

A few years later, the sovereign debt crisis in the euro zone generated a sharp increase in interest rate differentials between countries themselves. During the course of 2010, Belgian rates came under slight pressure, continuing in 2011 before turning into a very rapid but fortunately temporary rate increase in November 2011. In order to limit the impact of such an increase in interest rates, it was once again necessary to resort to limited debt refinancing.

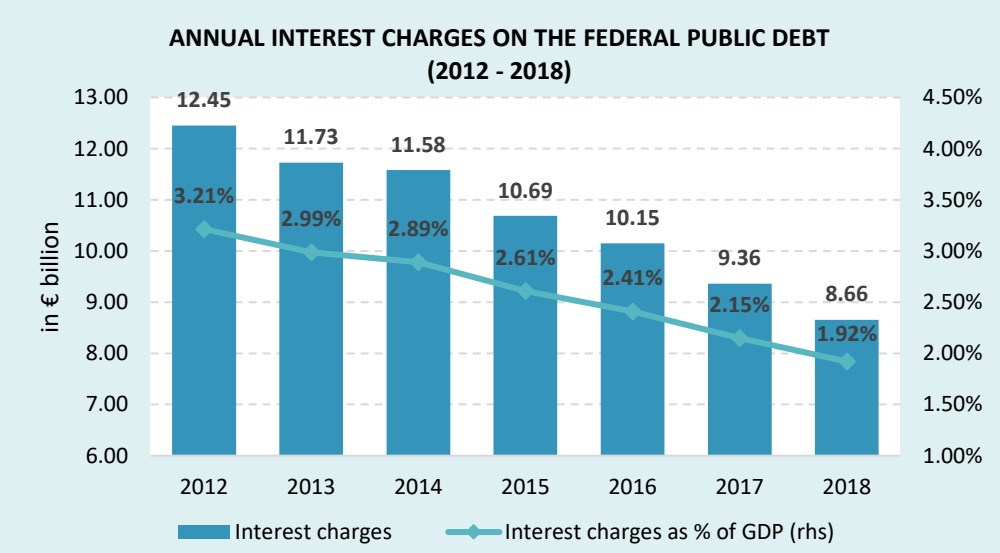
The rise in public debt and the succession of unexpected shocks in terms of debt and rates therefore prompted the Strategic Committee to move towards reducing risks in the future. This strategy proved all the more attractive as Belgian rates started to fall, which happened from 2012 onwards. As a result, the Agency was able to issue the (very) long-term securities necessary to extend the average maturity at favourable terms. A comparison of the average rates obtained with the average duration of the financing for the years 2012-2018 shows that for the period 2012-2016, the Agency always obtained longer periods on ever more favourable terms. In 2017 and 2018, the average duration of new issues declined somewhat, while rates increased slightly. However, the results were still better than those of 2015.

[1] Including short-term debt that is refinanced on an ongoing basis.

[2] The rate that the Belgian government would have to pay in the case of unchanged rates or even lower risk-free rates may, however, increase if the *spread* were to increase.



As such, the rate to be paid on the State debt has fallen from year to year. Over the period 2012-2018, interest charges fell by €3.79 billion, or 1.29% of GDP. This is a surprising result, since both the increase in government debt and the extension of the maturities of the issues should in principle have led to an increase in costs.



Another reason for the historically low level of interest rates in recent years is the increase in investor demand for long-term securities. In effect, in order to still obtain a given return, a large number of investors have raised their objectives in terms of duration for their investments in sovereign securities. This allowed the Strategic Committee to give priority to implementing its strategy, given that sufficient demand from investors could be expected for long periods of time.

The average duration of the federal government's debt has therefore evolved from 6.83 years in 2011 to 9.62 years in 2018. For 2019, for the first time in several years, the General Guidelines do not provide for any change in the minimum average term or maximum refinancing risks. This suggests that it is no longer necessary to further reduce the debt risks.

ANNEXES

A STATE GUARANTEES GRANTED TO FINANCIAL INSTITUTIONS

AMOUNTS GUARANTEED IN CIRCULATION AND PREMIUMS RECEIVED (IN EUR)				
	Outstanding amounts as of 31.12.2017	Outstanding amounts as of 31.12.2018	Premium 2017	Premium 2018
Dexia guarantee 2013	34,766,290,471	33,663,741,295	18,653,884	17,580,401

B EVOLUTION OF THE RATING OF THE KINGDOM OF BELGIUM

FITCH RATINGS

- 01/06/2018: Rating AA- confirmed, outlook stable;
- 30/11/2018: Rating AA- confirmed, outlook stable;
- 05/04/2019: Rating AA- confirmed, outlook stable.

S&P

- 12/01/2018: Rating AA confirmed, outlook stable;
- 23/03/2018: Rating AA confirmed, outlook stable;
- 21/09/2018: Rating AA confirmed, outlook stable;
- 22/03/2019: Rating AA confirmed, outlook stable.

MOODY'S

- 09/11/2018: Rating Aa3 confirmed, outlook stable.

DBRS

- 16/02/2018: Rating AA (high) confirmed, outlook stable;
- 17/08/2018: Rating AA (high) confirmed, outlook stable;
- 15/02/2019: Rating AA (high) confirmed, outlook stable.

JAPANESE CREDIT RATING AGENCY

- 02/03/2018: Rating AAA confirmed, outlook stable.

RATING AND INVESTMENT INFORMATION, INC.

- 16/04/2018: Rating AA+ confirmed, outlook stable;
- 04/02/2019: Rating AA+ confirmed, outlook stable.

C DEALERS AND INVESTMENT ESTABLISHMENTS

PRIMARY DEALERS

BARCLAYS BANK, London
BNP PARIBAS FORTIS, Brussels
CITIGROUP GLOBAL MARKETS, London
CREDIT AGRICOLE CIB, Paris
HSBC FRANCE, Paris
ING BANK, Amsterdam
JP MORGAN SECURITIES, London
KBC BANK, Brussels
MORGAN STANLEY & CO. INT., London
NATIXIS, Paris
NATWEST MARKETS, London
NOMURA INTERNATIONAL, London
SOCIETE GENERALE, Paris

RECOGNISED DEALERS

ABN AMRO BANK, Amsterdam
BELFIUS BANK, Brussels
COMMERZBANK, Frankfurt
COÖPERATIEVE RABOBANK U.A, Utrecht
GOLDMAN SACHS INT. BANK, London
SCOTIABANK EUROPE, London

DEALERS (ECP)

ABN AMRO BANK, Amsterdam
BARCLAYS BANK, London
BNP PARIBAS FORTIS, Brussels
BRED BANQUE POPULAIRE, Paris
CITIBANK INTERNATIONAL, London
ING BANK, Amsterdam
COÖPERATIEVE RABOBANK U.A, Utrecht
SOCIETE GENERALE, Paris

INVESTMENT ESTABLISHMENTS (STATE NOTES)

BANQUE DEGROOF PETERCAM, Brussels
BELFIUS BANK, Brussels
BNP PARIBAS FORTIS, Brussels
BPOST BANK, Brussels
CRELAN, Brussels
DEUTSCHE BANK, Brussels
DIERICKX, LEYS & Cie, Antwerp
GOLDWASSER EXCHANGE, Brussels
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LELEUX ASSOCIATED BROKERS, Brussels
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