BELGIAN PRIME NEWS

Quarterly publication

BELGIAN DEBT AGENCY

NationalBank OF BELGIUM

Eurosystem

Participating Primary and Recognised Dealers:

Barclays, Belfius Bank, BNP Paribas Fortis, Citigroup, Crédit Agricole CIB, HSBC, ING, KBC Bank, Morgan Stanley, Natixis, Natwest (RBS), Société Générale Corporate & Investment Banking

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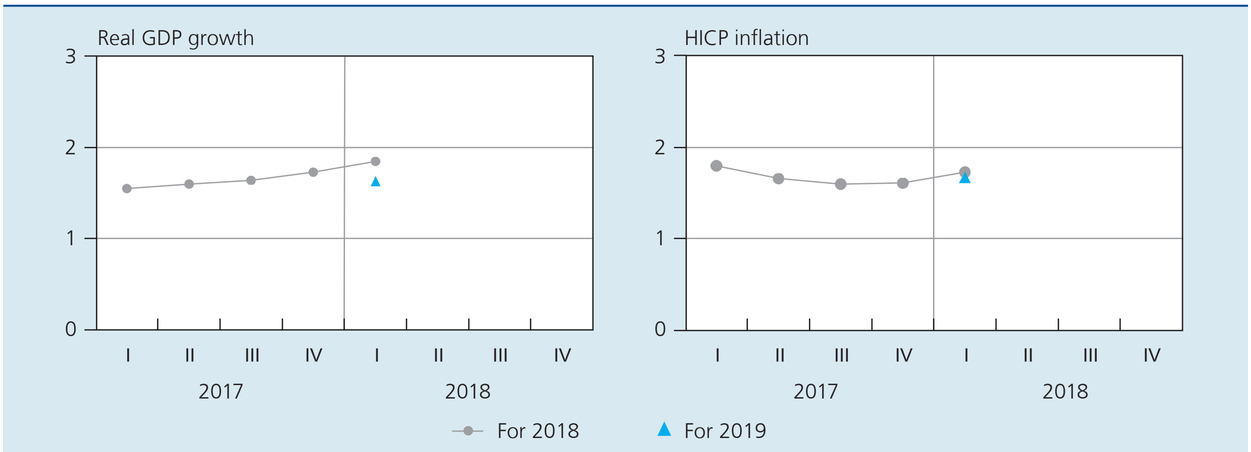
- MACROECONOMIC DEVELOPMENTS: Positive note in 2017 set to continue.
- SPECIAL TOPIC: Belgium issues inaugural Green OLO.
- FINANCIAL MARKETS AND INTEREST RATES: Towards more volatility, widening risk premiums and higher interest rates?
- TREASURY HIGHLIGHTS: A good start for the 2018 funding plan.

CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2017	2018p	2019p	2017	2018p	2019p
Real GDP(1)	1.7	1.9	1.6	2.4	2.4	1.9
Inflation (HICP)(1)	2.2	1.7	1.7	1.5	1.5	1.5
General government balance(2)	–1.0	–1.2	–1.2	–1.0	–0.9	–0.9
Public debt(2)	102.8	101.9	100.5	86.7	86.0	84.5

(1) Percentage changes.
(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



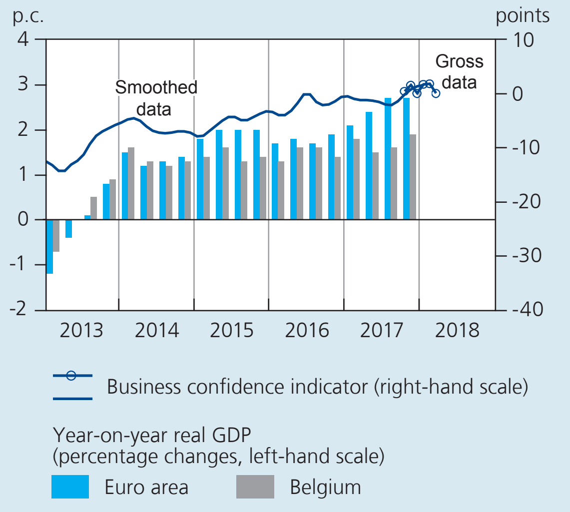
Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS **Positive note in 2017 set to continue**

Global economy performed well in 2017. Most economies, advanced as well as emerging ones, contributed to the sustained expansion, supported by a robust recovery of world trade. Economic growth was equally vibrant in the euro area and recorded the strongest performance for a decade. Benefiting from the global momentum and against the background of a (still) accommodative monetary policy and broadly neutral fiscal stance, euro area GDP growth reached 2.4 % on average over the year. It was broad-based, driven by consumption, investment and net trade, against the backdrop of strong job creation.

Belgium's economy benefited from a favourable external context. In particular, (business) investment, exports and employment showed strong dynamics. Net job creation reached a peak which had not been observed since the economic and financial crisis, under the combined effect of a decrease of unemployment and higher labour market participation. However, at 1.7 % in 2017, GDP growth remained below the average in the euro area and the three main neighbouring countries, as had also been the case in the two previous years. This contrasts with a stronger resilience over the period 2008-2013, during the global financial and economic crisis and the euro area sovereign debt crisis. Recent economic policies, such as wage moderation and control over public expenditure have probably exerted a temporary downward pressure on consumption and GDP growth.

GDP GROWTH AND BUSINESS CYCLE INDICATOR

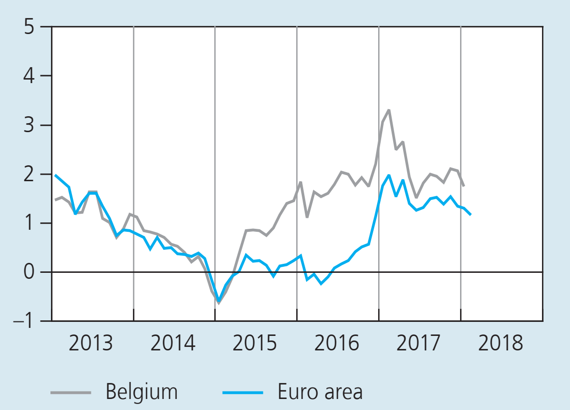


Sources: EC, NAI, NBB.

Over the coming years, the fundamentals should remain in place for a continued expansion. **The consensus forecast currently puts economic growth in 2018 at 1.9 % for Belgium (+0.1 percentage point up on the December estimate). A mild slowdown is then anticipated to take place in 2019, to around 1.6 %. In the euro area, GDP is expected to increase by 2.4 % in 2018 and by 1.9 % in 2019.**

HICP inflation in Belgium attained 2.2 % on average in 2017. While higher oil prices had temporarily pushed headline inflation up at the beginning of 2017, some base effects related to electricity prices along with an easing of oil price growth exerted a moderating impact in the course of the year. Inflation decelerated further at the beginning of 2018, as a result of the disappearance of a tax on electricity consumption in the Flemish Region and a smaller increase of oil prices. As a result of these developments and the higher acceleration of inflation in 2017 in the euro area, the gap with the average euro area inflation rate has clearly shrunk. **According to the consensus forecast, inflation in Belgium should remain at 1.7 % in 2018 and 2019, whereas in the euro area it is expected to average around 1.5 %.**

INFLATION (HICP)
(annual percentage changes)



Source: EC.

Belgium ended 2017 with a general government deficit of 1 % of GDP – an improvement of 1.5 percentage point on 2016. The reduction was due in part to a structural improvement in public finances, reinforced by the continuing upturn in the economy, the low interest rate environment and unexpectedly favourable advance payments of corporate taxes. **Belgian Prime News participants expect the public sector deficit to stabilise at 1.2 % in 2018 and 2019.** This implies that additional fiscal consolidation efforts will be required to achieve the medium-term objective, which is a balanced structural budget. In March 2018 the federal government confirmed its intention to improve the structural budget balance by 0.3 % of GDP in 2018, as laid down in the draft budgetary plan of October 2017. **On the basis of their own macroeconomic and budgetary forecasts, the BPN participants anticipate a slow reduction in the Belgian public sector debt, from close to 102 % of GDP in 2018 to 100.5 % in 2019.**

SPECIAL TOPIC **Belgium issues inaugural Green OLO**

The Kingdom of Belgium issued its first-ever green bond on 26 February 2018. The OLO 86 Green OLO benchmark, with a maturity of 15 years, is the fruit of a bond issue framework jointly prepared by the Prime Minister, FPS Finance, FPS Environment and the Belgian Debt Agency.

The Green OLO framework was designed according to best market practice and is compliant with the Green Bond Principles.The size and other financial characteristics of the inaugural Green OLO are comparable with all other OLOs, but the proceeds will only be allocated to assets with the aim of transition to a sustainable economy.

Eligible Green Expenditure to which proceeds will be allocated will help address three global environmental challenges through financing projects in five economic sectors.

Among these five sectors, clean transportation will benefit the most from the Green OLO proceeds.

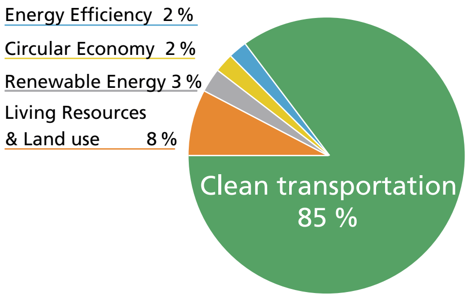
Global challenges

- Climate Change
- Biodiversity conservation
- Preservation of Natural Resources

Eligible Green Expenditures

- Tax expenditures
- Operating expenditures
- Investment expenditures

Sectors



Use of proceeds: Clean transportation

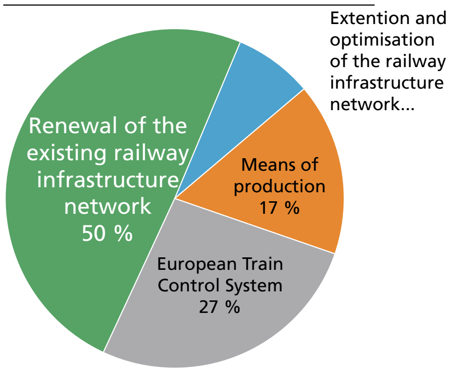
Mainly the development/maintenance of the Belgian railway sector (SNCB & Infrabel), to the tune of more than € 2 billion per year.

SNCB Eligible Green Expenditure includes:

→ Federal State's subsidy to SNCB's investment:
  - Investment in rolling stock: € 411m
    (M7 Trains = the new generation of SNCB double-decker trains)
  - Investment in client reception: € 103m
  - Maintenance facilities: € 119m

→ Federal State's subsidy to SNCB's operating expenditure related to rail and infrastructure assets:
  - Annual charge for use of Infrastructure: € 631m
  - SNCB maintenance costs: € 85m.

INFRABEL (the Belgian railway infrastructure manager)
Eligible Green Expenditure includes:



Use of proceeds: Illustration in other sectors

→ **Support to the Stereo and Belgica Fidentia Funds**
Research programmes.

→ **Fidentia Funds**
Investing in office buildings in Belgium and Luxembourg with a green certification.

→ **International Cooperation**
Belgium has promised to contribute to the joint commitment by developed countries to mobilise $ 100bn/year in 2020 to support the fight against climate change in developing countries.

→ **Ginkgo Funds**
Specialised in the sustainable rehabilitation of polluted industrial sites in urban areas across Europe.

REPORTING

The Kingdom of Belgium is obliged to provide two levels of reporting.

- Allocation reporting: the Ministry of Finance and the Belgian Debt Agency will coordinate and publish an annual report on the management/allocation of the proceeds of the preceding year to Eligible Green Expenditure or their estimates to be further refined throughout the year. This allocation of proceeds will be reviewed annually by an independent audit firm.
- Impact reporting: The Environment Minister will coordinate and publish a report on the environmental impact assessment of Eligible Green Expenditure. For the purpose of this reporting, a task force – consisting of the DG Environment, FPS Finance, FPS Mobility, FPS Economy/DG Energy, Government Buildings Agency, Scientific Policy and Development Cooperation, and any other relevant body – will provide input. The first impact report will be published in the year following the Green OLO issue.

FINANCIAL MARKETS AND INTEREST RATES

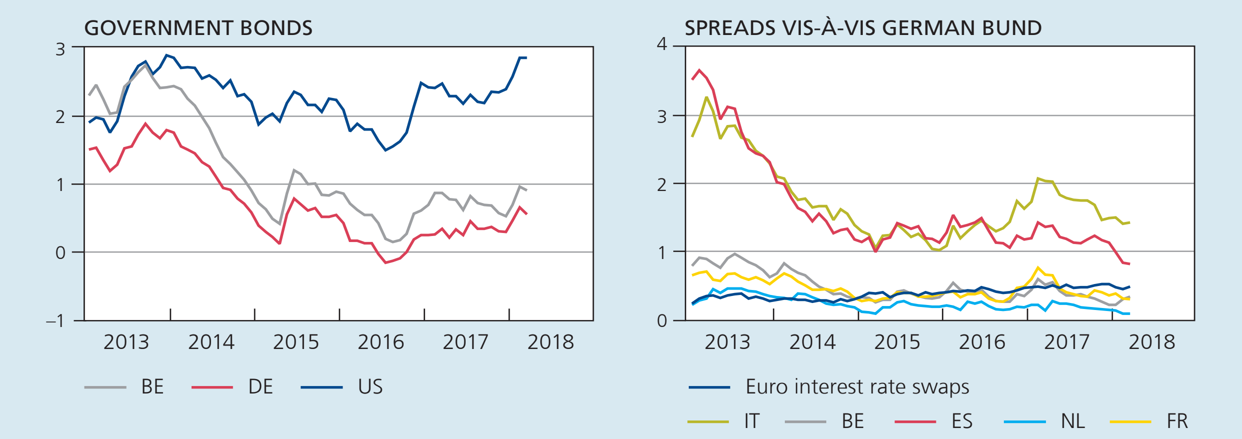
Towards more volatility, widening risk premiums and higher interest rates?

Regarding financial markets, stock prices drew most of the attention in the first quarter of 2018. After a constant and rapid rise until the end of January, major stock indices plummeted and, in the space of a few days, lost almost all gains made in 2017. The correction was most likely triggered by market perceptions of rising inflation, especially in the US, and a corresponding adjustment in monetary policy expectations. This fall has been accompanied by an increase in implied stock market volatility to levels not seen since the Brexit vote in mid-2016. Although stock prices have in the meantime partly recovered from the fall, the VIX and VSTOXX indices continue to indicate a higher level of implied volatility in the US and the euro area. Stock prices are of course still sensitive to macroeconomic news, including those related to the Brexit negotiations and trade policy measures. All in all, stock prices remain stretched, especially in the US where the cyclically-adjusted price/earnings ratio reached 33, a level comparable to right up to the onset of the Great Depression in 1929, and the build-up of the dotcom bubble in 1998.

The turmoil in stock markets at the end of January and beginning of February 2018 did not affect bond markets substantially. However, long-term sovereign bond yields in the euro area and the US increased over the first quarter of 2018, reflecting improving market expectations of economic growth and inflation, as well as revisions to expectations regarding the associated monetary policy reaction. Over the first quarter of 2018, the ten-year sovereign bond yield in Germany and Belgium rose by, respectively, 26 and 38 bp, to 0.56 % and 0.91 %, while it increased in the US by 46 bp, to 2.86 %. More specifically, long-term sovereign yields started to rise at the end of December 2017 in the days following the ratification of a major tax reform by the US Congress. In March, they tended to decline slightly in the euro area, possibly as investors shifted funds from equity markets towards safer assets, whereas they remained broadly constant in the US where they were supported by (expectations related to) the Fed's monetary policy. On 21 March, the Fed decided to raise the target range for the federal funds rate to 1.5 % – 1.75 %.

After following a downward trend initiated in 2017, long-term sovereign spreads vis-à-vis Germany ceased to narrow in some euro area countries. In France and the Netherlands for instance, ten-year spreads remained broadly stable in the first quarter of 2018 (at about 31 and 10 bp). The narrowing trend, however, continued in countries with higher sovereign yields, as for instance in Spain where the ten-year spread shrank by 32 bp, to 83 bp. In these countries, spread declines mainly reflect a more favourable macroeconomic outlook. In Italy in particular, the ten-year spread dipped by only 5 bp (to 144 bp), since a temporary larger decline in January was subsequently reversed in the weeks preceding the parliamentary elections in March. In Belgium, the ten-year spread widened by 12 bp, to 35 bp, which is essentially due to methodological changes in the measurement of the benchmark sovereign yield.

10-YEAR INTEREST RATES
(percentage points, monthly averages)



Sources: BIS, Thomson Reuters.
Average over the first 20 days for March 2018.

TREASURY HIGHLIGHTS **A good start for the 2018 funding plan**

OLO AUCTIONS (€ 4 559 BILLION)

Date	OLO	NR	Issued (€ Billion)	Yield	Bid to cover
March 19	OLO 0.20 % 22/10/2023	OLO 79	**0.945**	0.158 %	2.34
	OLO 0.80 % 22/06/2028	OLO 85	**1.698**	0.851 %	1.78
	OLO 1.45 % 22/06/2037	OLO 84	**0.570**	1.370 %	2.12
	OLO 2.15 % 22/06/2066	OLO 80	**0.368**	1.875 %	1.46
Non-competitive tour			***0.978***		
Total March			**4.559**		

The Belgian Debt Agency plans to issue **€ 34.25 billion** worth of medium and long-term instruments in 2018, **€ 31.00** billion of which will be **OLOs.** The remainder of the funding would be raised through EMTN and Schuldscheine (€ 3.00 billion) and State Notes (€ 0.25 billion).

OLO syndication (€ 5.0 billion 10-year benchmark)

On 16 January, the Kingdom of Belgium issued its first new OLO benchmark of the year and opted for a 10-year OLO, in keeping with tradition. The new € 5.0 billion 0.80 % OLO 85 22/06/2028 was priced at a spread of –17 bps over the interpolated mid-swap reference rate, implying a re-offer yield of 0.812 %. Joint bookrunners were BNP Paribas Fortis, Citi, NatWest Markets and SG CIB.

Green OLO syndication (€ 4.5 billion 15-year benchmark)

On 26 February, the Kingdom of Belgium launched its inaugural Green OLO as the € 4.5 billion 1.25 % OLO 86 22/04/2033. The transaction priced at m/s-14 bps for a re-offer yield of 1.289 %. This represents a concession of just 1.5 bps compared to the mid-swap spread interpolated on the basis of OLOs 2031 and 2037, reflecting the quality of the book.

The lead managers for this syndicated OLO were Barclays, BNP Paribas Fortis, Crédit Agricole CIB, ING and J.P. Morgan. BNP Paribas Fortis and Crédit Agricole CIB were in charge of structuring the Green OLO. This new benchmark is quoted by all primary dealers on the regular trading platforms and benefits from the same liquidity as other OLOs.

Please refer to the Special Topic for more information.

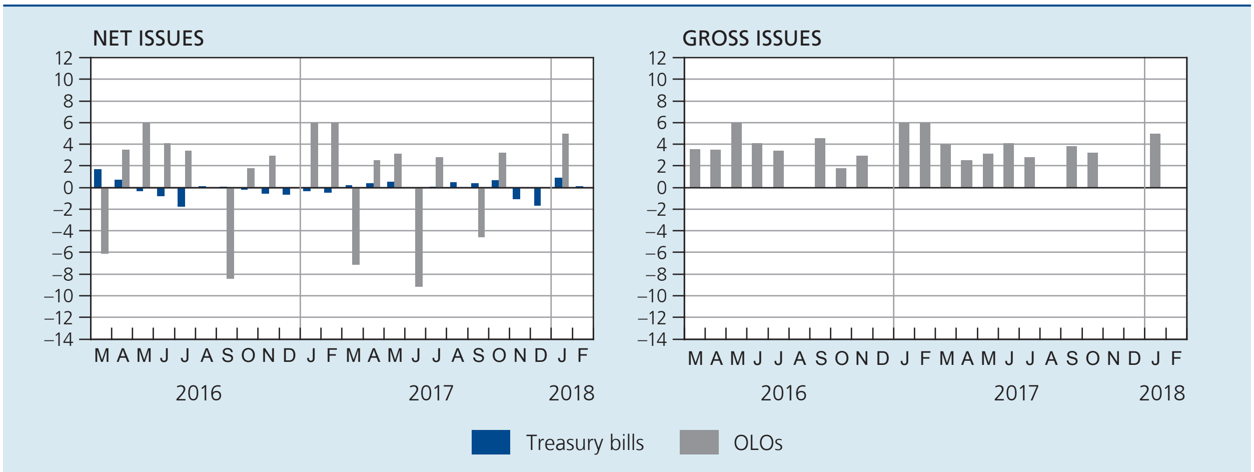
So far, there have been no EMTN or *Schuldscheine* issues. The State Note issuance of 4 March 2018 resulted in € 5.7 million of funding.

Belgium has therefore already issued **€ 14.07 billion**, corresponding to 41.1 % of its funding target.

In terms of portfolio structure, the average life of the portfolio is now 9.18 years (as of end of February) and it has an implicit yield of 2.28 %.

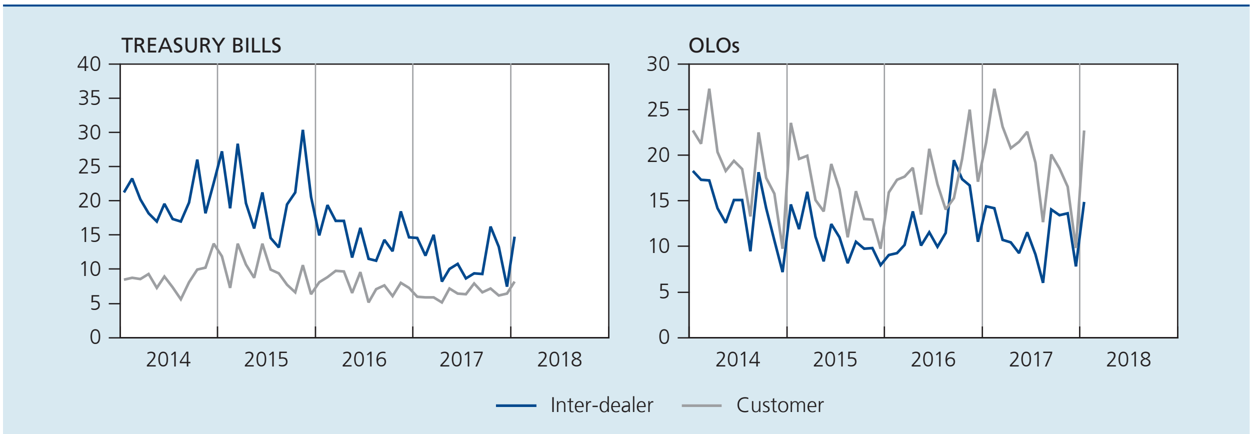
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(billions of euros)



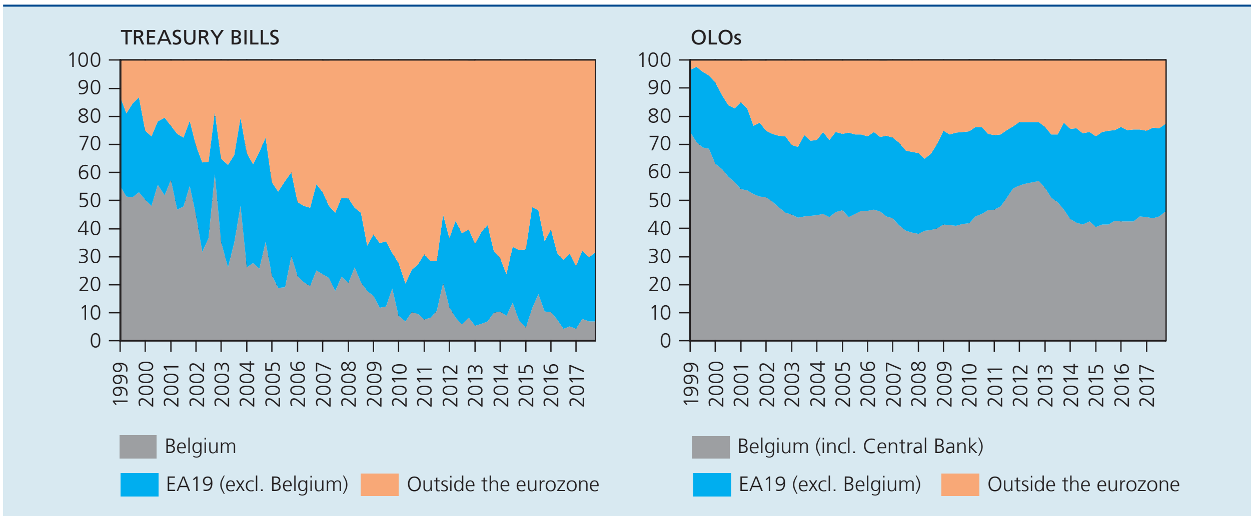
Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER
(as reported by primary and recognised dealers to the Treasury, billions of euros)



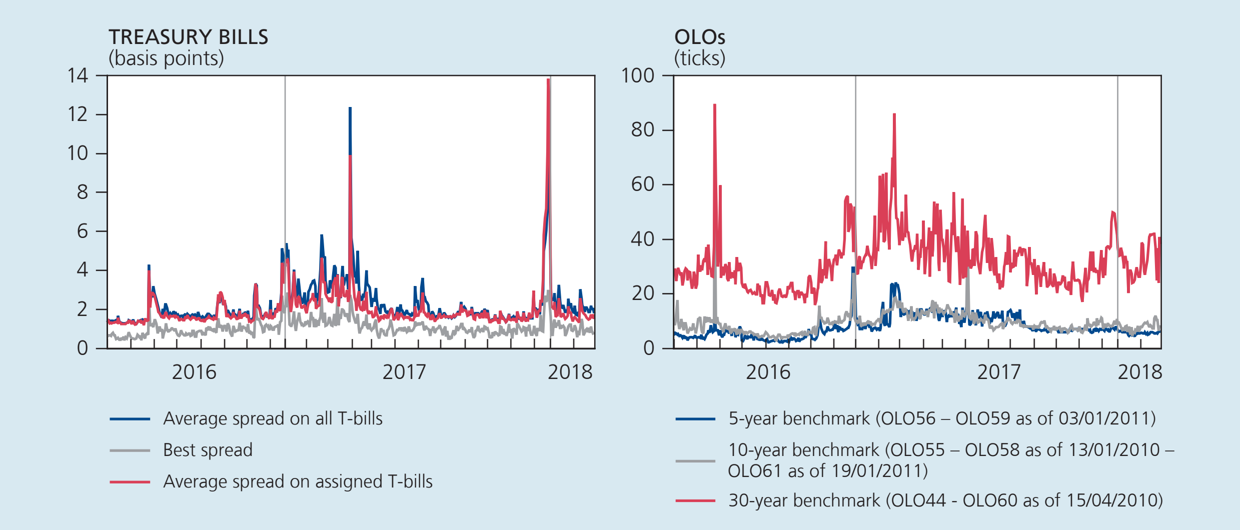
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



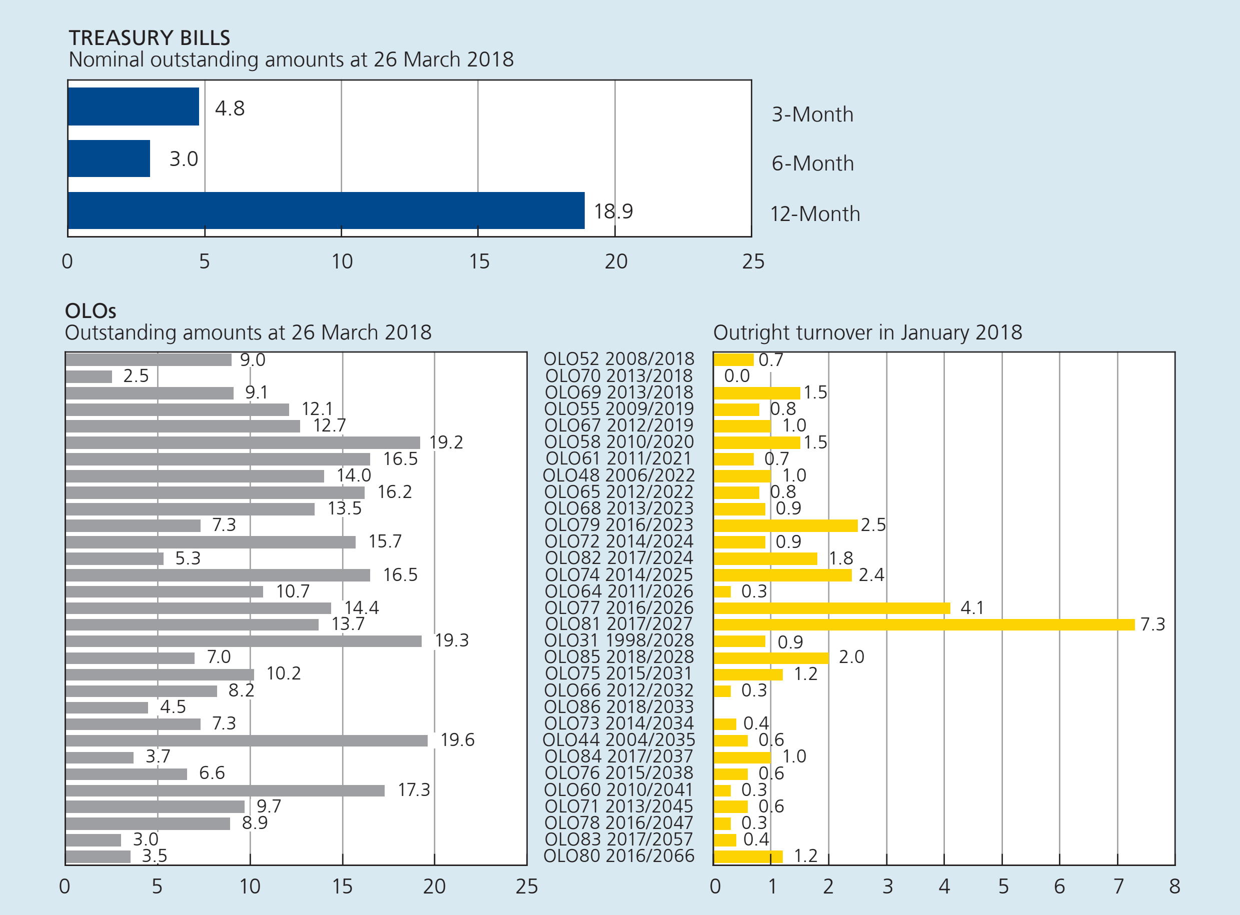
Source: NBB.

BEST BID/OFFER SPREADS (1)



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

OUTSTANDING AMOUNTS AND TURNOVER
(billions of euros)



Source: Belgian Debt Agency.

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