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- MACROECONOMIC DEVELOPMENTS: The world economy is growing at a subdued pace
- SPECIAL TOPIC: Economic flows between Regions in Belgium
- FINANCIAL MARKETS AND INTEREST RATES: Sovereign bond yields have broken their downward trend
- TREASURY HIGHLIGHTS: Funding plan for 2020 announced

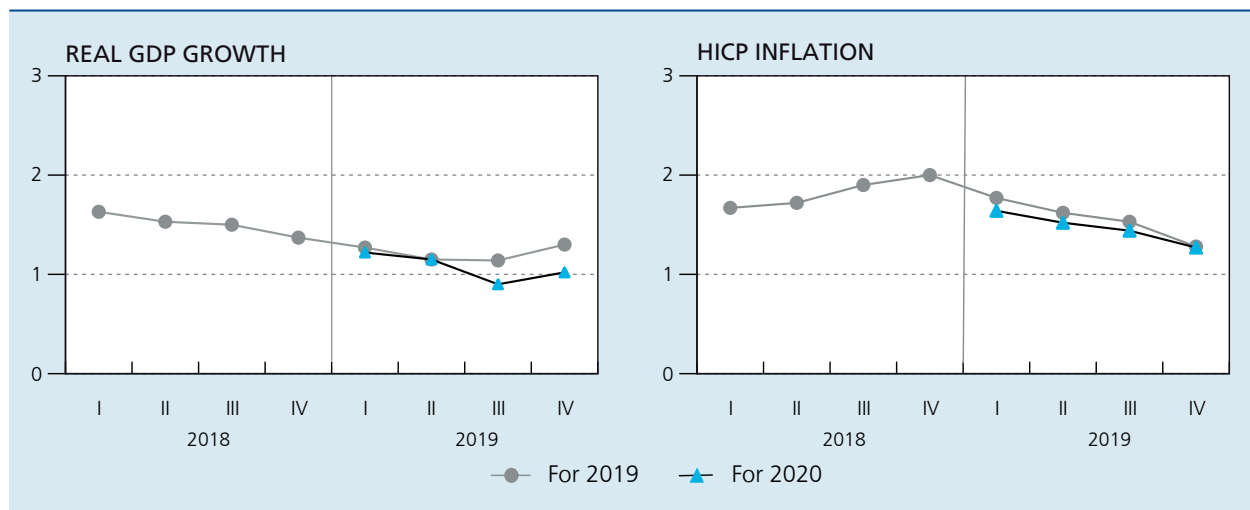
CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2018	2019p	2020p	2018	2019p	2020p
Real GDP ⁽¹⁾	1.5	1.3	1.0	1.9	1.2	1.0
Inflation (HICP) ⁽¹⁾	2.3	1.3	1.3	1.8	1.2	1.2
General government balance ⁽²⁾	-0.7	-1.6	-2.1	-0.5	-0.8	-0.9
Public debt ⁽²⁾	100.0	99.5	99.3	87.9	85.7	84.9

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS The world economy is growing at a subdued pace

The world economy is expected to have grown by less than 3% in 2019, thereby posting its slowest expansion since the great recession. This subdued performance should be considered against the background of trade policy uncertainty and heightened geopolitical tensions. The slowdown compared to 2018 was mostly evident in the manufacturing industry but could be observed across both advanced and developing countries.

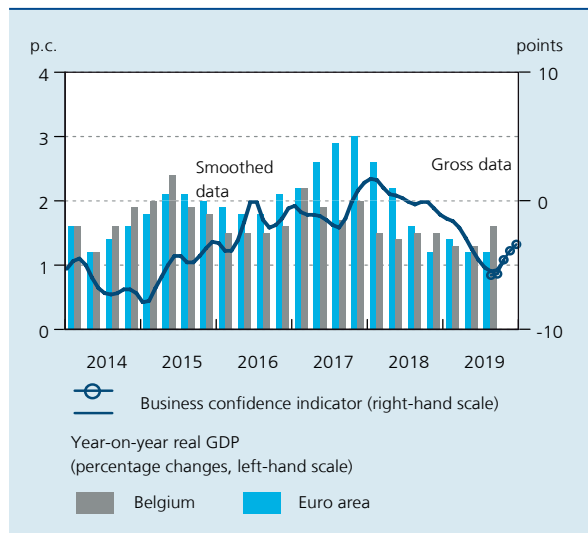
Economic activity in the euro area has remained sluggish, with growth coming in at 0.2% again in the third quarter as net trade continued to be a drag on GDP. Looking at the large euro area countries, the lowest growth was observed in Italy and Germany, with the latter only narrowly avoiding a recession. Most high-frequency euro area indicators and especially those related to the manufacturing industry continue to point towards very modest growth rates for the end of 2019. All in all, BPN participants have largely kept their forecasts unchanged compared to the September estimate: they see the **euro area economy growing by 1.2% in 2019 and 1.0% in 2020. Euro area inflation is expected to remain moderate, at around 1.2% in both years.**

In Belgium, economic activity grew by 0.4% in the third quarter and therefore clearly remained more robust than in the euro area and most of the neighbouring countries. In fact, a quarterly rate of 0.4% corresponds to the average pace recorded over the past two years and does not reflect any slowdown in activity, despite the softening of confidence indicators since the beginning of 2018. Still, growth is expected to moderate in the final quarter of 2019, to a rate that seems more in line with the current levels of the high-frequency indicators, despite the uptick in the most recent months. **BPN participants currently expect growth in Belgium to reach 1.3% in 2019 and 1.0% in 2020.** In general, this implies a small upward revision compared to the September consensus estimate, probably as a result of the higher-than-expected outcome in the third quarter.

The Belgian labour market has continued to expand at a strong pace, but there are some indications that job creation would start to slow. The job vacancy rate seems to have reached its peak in 2018, as seems to be the case for the number of producers that are signalling the lack of sufficiently skilled workers as an obstacle to production. Both indicators could be considered as indicative of a less tight labour market. Meanwhile, on the nominal side, HICP inflation in Belgium has continued to soften, on account of falling energy prices. In November, the overall HICP rate stood at only 0.4%. **According to the consensus forecast, inflation in Belgium should come to 1.3% on average in 2019 and 2020.**

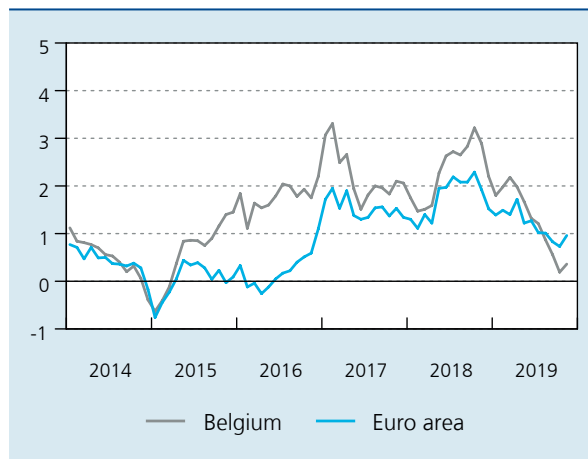
Belgian Prime News participants expect the government deficit to widen substantially in the following years. The deficit is likely to amount to 1.6% of GDP in 2019 and 2.1% of GDP in 2020. In 2019, the tax on labour income has been cut further as part of the phased tax shift programme and corporate income tax revenues are expected to normalise following the exceptional hike in the last two years. Moreover, population ageing is likely to lead to increasing health care expenditure in the next years. The rising budget deficit leaves Belgium far from its medium-term objective of a balanced budget in structural terms by 2021 and will, in any case, require additional fiscal consolidation efforts to restore the soundness of public finances. However, the current federal government is still acting in a caretaker capacity, as a new government is yet to be formed following the general elections held end-May. On the basis of their own macro and budgetary forecasts, **BPN participants anticipate a further reduction in the Belgian public sector debt, albeit only slowly, from 100% of GDP in 2018 to 99.3% in 2020.**

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP) (annual percentage changes)



Source: EC.

SPECIAL TOPIC Economic flows between Regions in Belgium

Economically speaking, Belgium is composed of three Regions: Flanders, Wallonia and the Brussels-Capital Region. While the labour market is characterised by major disparities between the three Regions, not least in terms of unemployment rates (13.4% in Brussels, 3.5% in Flanders and 8.5% in Wallonia in 2018), interregional capital stakes and goods and services flows between the Regions are substantial.

There are several factors that make Belgium an interesting study case⁽¹⁾. First, Belgium is a small country (the largest distance across it is less than 300 km), with a very dense transport network, and without any natural obstacle to flows. Second, the three Regions exhibit persistent disparities in terms of economic performance. Third, the Brussels-Capital Region is an important city-region in Europe. It is located centrally in the country and is a part of both the French Community (with Wallonia) and the Flemish Community (with Flanders).

Distance comes at a cost for workers

In the context of high unemployment rate disparities between the three Regions, one would expect to see a convergence process at play, especially in the form of worker mobility. Yet, 85% of employees work in the Region where they live. This finding is even more clear-cut on a (smaller) provincial scale: 75% of employees do not leave their province for their work.

There are of course disparities between the Regions. In Brussels and Wallonia, the share of interregional commuters (accounting for around 20% of total employment) is higher than in Flanders (12%). This seems to be dictated by economic necessity.

Distance obviously puts a brake on geographical mobility, but its impact depends on the characteristics of workers. Highly-educated people, private sector employees and civil servants cross regional borders to go to work more frequently than medium- and low-educated people or blue-collar workers. Wages are also an important factor: the share of interregional commuters rises strongly with the salaries they are paid. And, lastly, the branch of activity is crucial, as interregional workers generally tend to be concentrated in banking and insurance, IT, public administration and business services. For both Flanders and Wallonia, Brussels is the primary destination of interregional commuters. The Brussels-Capital Region posts strong demand for skilled labour owing to the concentration of administrative centres and company headquarters.

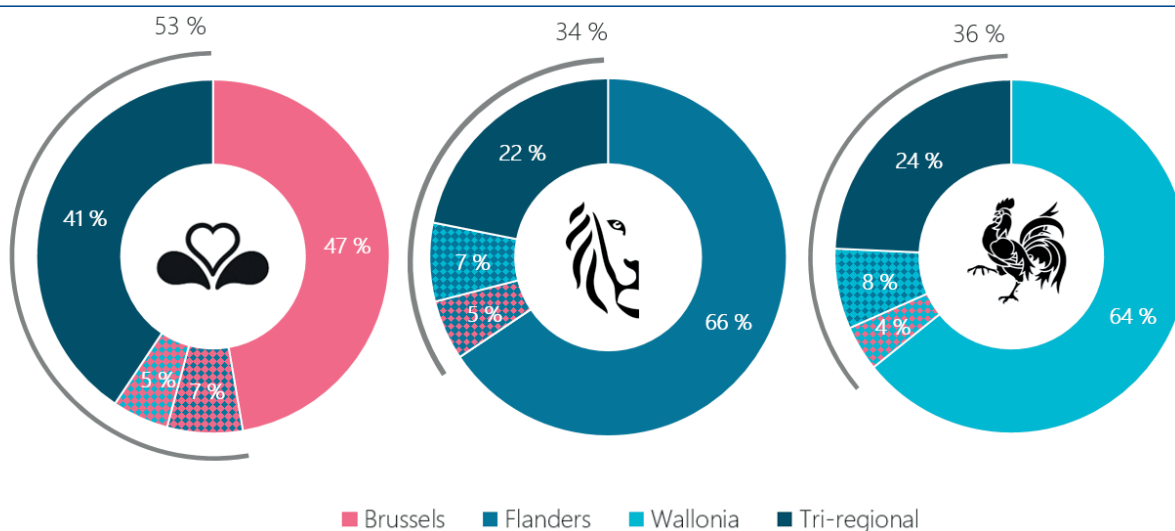
Financial links are few and far between, but nevertheless important

As far as capital movements are concerned, the findings are striking. In Flanders and in Wallonia, only 1 or 2% of firms hold stakes or own establishments in another Region. The percentage is highest in Brussels (6%), which is unusual in being home to a large number of operational headquarters.

(1) For more in-depth analysis, see Duprez C. and M. Nautet (2019, *Economic Flows Between Regions*, NBB Economic Review, December).

PRIVATE SECTOR EMPLOYMENT IN MULTI-REGIONAL GROUPS⁽¹⁾

(employment by firm's status in Brussels, Flanders and Wallonia, 2015)



Source: NBB.

(1) The sample includes all financial and non-financial corporations. A firm's status (mono, bi- or tri-regional) depends on the presence of establishments or firms in which at least 49% of the shares are owned in one, two or three Regions respectively.

What can be said about the 600 firms that have establishments in all three Regions? While there are not very many of them in relative terms when there are more than 300 000 firms operating in Belgium, they are nevertheless fairly large, employing over 800 workers on average. They are also firmly anchored in Belgium, since only one-quarter of these firms record any foreign direct investment. And they are active in different sectors, in particular temporary agency employment, mass retail trade, banking, postal activities and transport, etc.

Lastly, while capital movements between the Regions concern only a few firms, those firms represent a particularly large volume of employment. In both Flanders and Wallonia, more than one-third of private sector workers are active in bi-regional or tri-regional groups. The proportion is even higher, above 50%, in Brussels.

Substantial trade in goods and services between the Regions

To assess the scale of sales from one Region to the other two Regions, it is interesting to compare them with sales abroad, i.e. exports of goods and services (excluding re-exports). In practical terms, for establishments located in Flanders, sales to Brussels and to Wallonia come to 29% of total extra-regional sales. By way of comparison, Germany accounts for 10%, the Netherlands and France 9%. The interregional market is even bigger for Walloon establishments, representing 44%, compared to 13% for France, 8% for Germany and 4% for the Netherlands. In the case of Brussels, the interregional market takes the lion's share, of as much as 57%, compared to 7% for the United States, 6% for France and 5% for the Netherlands.

Two other figures underline the importance of the interregional market. 6% of firms in the sample export goods and services abroad, while the proportion of firms that sell to at least one other Region works out at 55%. Interregional trade therefore concerns a much larger set of firms than international trade does.

What is the cost of distance and the regional barriers in Belgium?

The first finding is that, in the era of globalisation, geographical distance is still an impediment to economic flows. Even in a small country like Belgium with well-developed transport networks and no natural barriers, the number of commuters, financial stakes, and trade in goods and services declines significantly with the number of kilometres to be travelled. This reduction in the number of connections is taking place even within each Region itself.

In addition to this cost of distance, there is a barrier between Flanders and Wallonia, which does exist but is not dominant. It is higher for commuters, moderate for capital and services and lower for manufactured goods. Conversely, there is no penalty affecting movements between Brussels and the other two Regions. The Brussels-Capital Region exerts a strong attraction for workers or companies from the other Regions, so much so that it partly offsets the costs associated with distance.

FINANCIAL MARKETS AND INTEREST RATES **Sovereign bond yields have broken their downward trend**

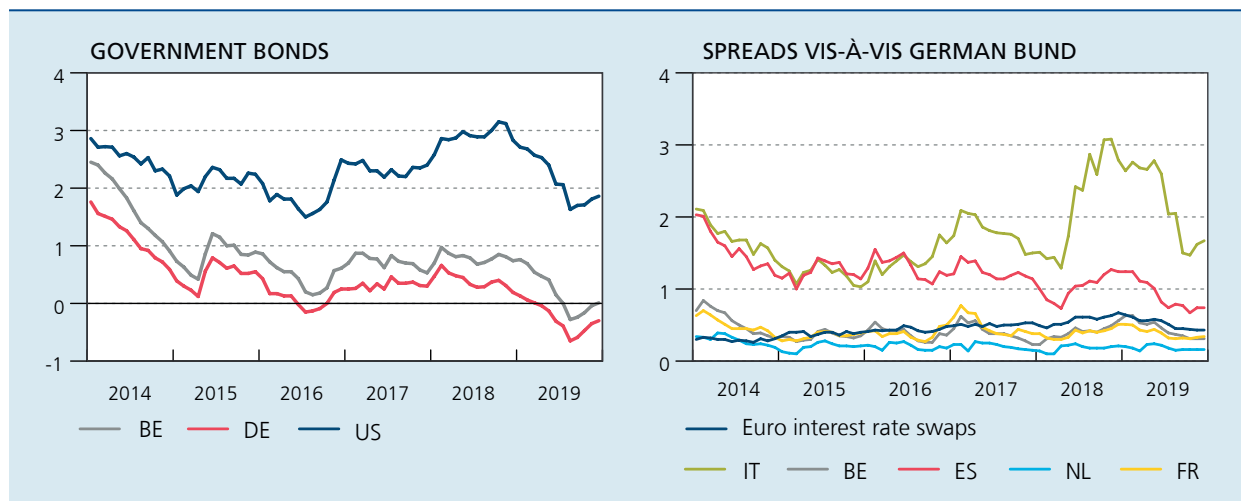
While long-term sovereign bond yields fell in the US and the euro area from January to August 2019, their downward trend reversed in September. They rose further in the fourth quarter. German and Belgian 10-year yields increased by 29 and 24 basis points respectively over the fourth quarter, to settle at -0.30% and 0.01%. The increase in the US was more limited: the 10-year yield rose by 16 basis points to 1.86%. The higher bond yields in the US mainly reflect the different position of the US economy in the business cycle.

German and Belgian 10-year yields thus recovered later in the year from their all-time low reached in August (but remained negative in Germany, and close to zero in Belgium) in a context of accommodating monetary policies, low inflation expectations, weak growth and global trade as well as policy uncertainty. In the euro area, OIS forward rates indicate that the negative interest rate environment is expected to stay for a long period (albeit slightly shorter than had been predicted in third quarter). In the US, the increase in long-term government bond yields was less pronounced as the Federal Reserve lowered its target range for the federal funds rate by 25 basis points for the third time this year to between 1.50 and 1.75%. It is also worth noting that the US yield curve reverted to normal in October after inverting in the second and third quarter.

Amid monetary policy easing in the US and receding fears of recession, the euro performed relatively well against safe-haven currencies such as the US dollar, the Japanese yen and the Swiss franc in the fourth quarter. The British pound appreciated against the euro, although uncertainties related to trade and Brexit caused episodes of high volatility for the British pound and the Chinese renminbi. Share prices continued to rise, following their upward trend that began in early 2019. Although a small dip occurred in early October, financial market volatility remained relatively low throughout the period under consideration, with the VIX and VSTOXX both standing at 14% at the end of December (values below 20% being generally associated with stable periods).

10-YEAR INTEREST RATES

(percentage points, monthly averages)



Sources: BIS, Thomson Reuters.

The relative tranquillity on the stock market is also reflected in sovereign bond spreads in the euro area, which remained broadly stable during the fourth quarter. In Belgium, the 10-year spread vis-à-vis Germany narrowed by 5 basis points. Notably, the Italian spread widened by 17 basis points between September and December to settle at 1.67%.

TREASURY HIGHLIGHTS Funding plan for 2020 announced

2019 funding completed

The final OLO auction of 18 November 2019 brought in the modest sum of € 1.369 billion in long-term funding. Due to the advanced state of its funding plans, the Belgian Debt Agency (BDA) had announced a range of € 1.1 to 1.3 billion, which was considerably less than usual. As a result, bid-to-cover ratios for this auction were the highest achieved in 2019.

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
November 18	OLO 0.90 % 22/06/2029	OLO87	0.651	-0.064 %	3.13
	OLO 1.00 % 22/06/2031	OLO75	0.653	0.076 %	2.64
	<i>Non-competitive subscriptions</i>		0.065		
Total November			1.369		

In addition, on 25 October, the BDA issued its second private placement under its EMTN programme in the form of a € 500 million inflation-linked note redeeming in 2047. This brought the total long-term issuance in 2019 to € 30.30 billion, in line with the BDA's plan to issue € 30.25 billion.

2020 funding plan announced

The Belgian Debt Agency expects the 2020 gross borrowing requirements to amount to € 31.46 billion. This is € 3.28 billion less than the 2019 borrowing requirements, which amounted to € 34.74 billion (but were originally announced as € 30.11 billion).

In establishing this estimate, the Debt Agency assumed that the 2020 net financing requirements would come to € 9.60 billion. This figure is based on Belgium's draft budgetary plan that was sent to the European Commission in October 2019, and it could be revised once a new federal government is formed as it may adopt a different budgetary plan.

Redemptions of medium- and long-term debt are estimated at € 18.46 billion.

The Belgian Debt Agency plans to buy back bonds maturing in 2021 and 2022 to the tune of € 2.90 billion. The rationale behind including 2022 for buybacks is the relatively high amount of redemptions in that year.

Under the plan, long-term funding would consist of € 28.00 billion worth of OLOs, a reduction of € 1.74 billion compared to the € 29.74 billion issued in 2019. The BDA is expecting to launch two new OLO fixed-rate benchmarks. It also plans to issue € 2.00 billion via its EMTN programme or other alternative funding instruments such as Schuldscheine.

Short-term debt is planned to increase by € 1.46 billion in 2020 in net terms. The volume of Treasury Certificates, forecast at € 27.07 billion at year-end 2019, is expected to rise by another € 2.0 billion by the end of 2020.

In 2020, both the maximum for the 12-month refinancing and the refixing risk will be maintained at their current level, i.e. 17.50 %. The maximum for the 60-month refinancing and refixing risk will also remain unchanged at 42.50 %. The average life of the debt portfolio reached 9.81 years as per 31 December 2019, and the duration worked out at 9.45 years. In 2020, the average life of the debt portfolio will again be required to be higher than 9.00 years, as in 2018 and 2019.

(€ billion)	2020 Plan	2019 realisations
I. Gross financing requirements	31.46	34.74
1. Net financing requirements:	9.60	7.43
Net financing requirements (stricto sensu):	9.63	7.51
Participation in/loans to financial institutions and sovereigns:	-0.03	-0.08
2. Debt maturing	18.46	23.37
Long- and medium-term debt in €:	18.46	23.37
Long- and medium-term debt in foreign currencies:	0.00	0.00
3. Planned pre-funding (bonds maturing in subsequent years)	2.90	3.94
Buybacks	2.90	3.94
4. Other financing requirements⁽¹⁾	0.50	0.00
II. Funding resources (long- and medium-term)	30.00	30.30
OLOs	28.00	29.74
€ Medium-Term Notes/Schuldscheine	2.00	0.55
Securities for retail investors	0.00	0.00
Other ⁽²⁾	0.00	0.00
III. Net change in short-term foreign currency debt	0.00	0.00
IV. Change in Treasury Certificates stock⁽³⁾	2.00	2.63
V. Net change in other short-term debt and financial assets⁽⁴⁾	-0.54	1.80

(1) Including put/call options exercised on bonds or loans and net redemptions of Treasury bonds representing Belgian participation in international organisations.

(2) Including net issues of Treasury bonds representing Belgian participation in international organisations.

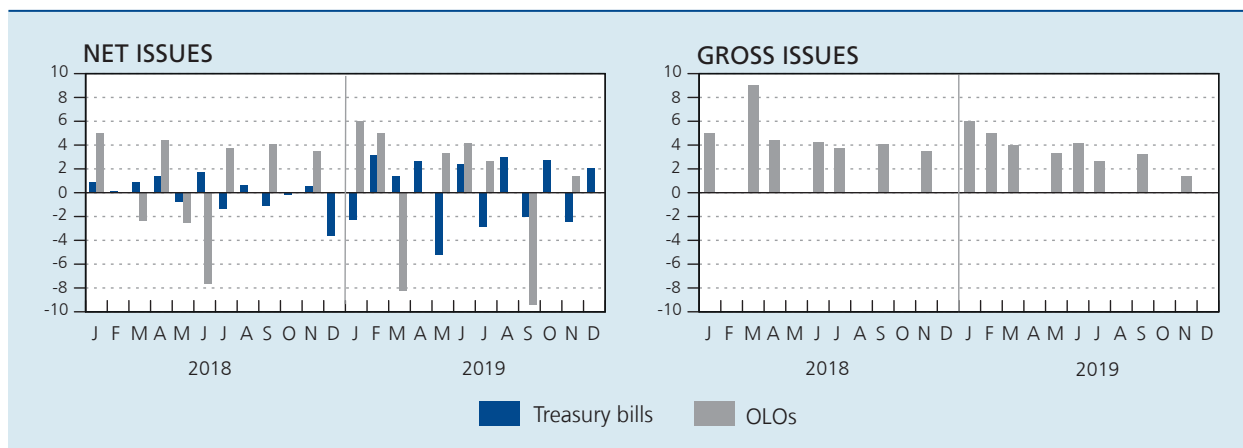
(3) Outstanding stock of Treasury Certificates on 01/01/2019: € 24.87 billion.

(4) This section includes residual financing instruments complementing the reference instruments mentioned in the previous section including collateral margin changes. A positive figure represents an increase in the stock of residual financing and/or a reduction in financial assets.

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

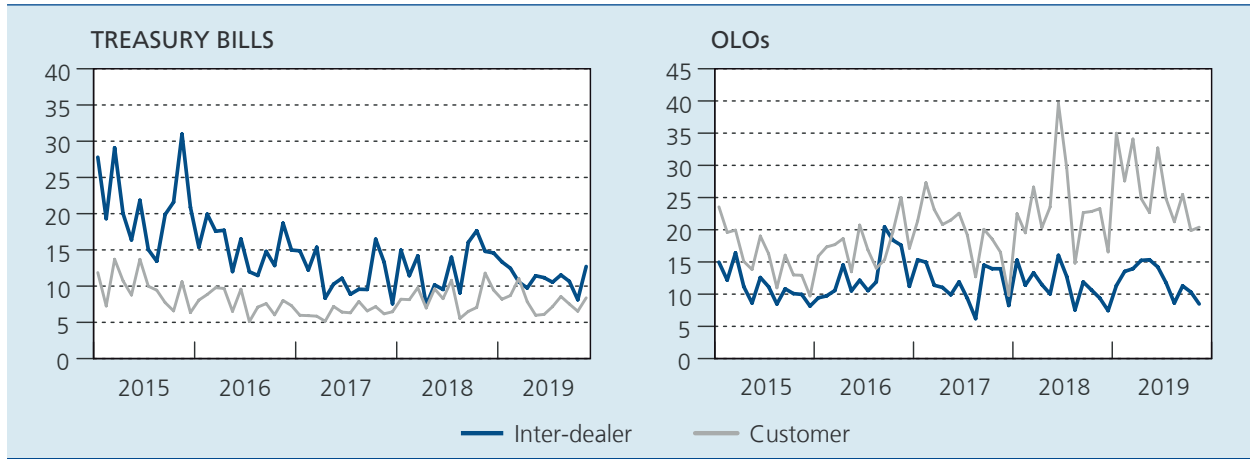
(€ billion)



Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER

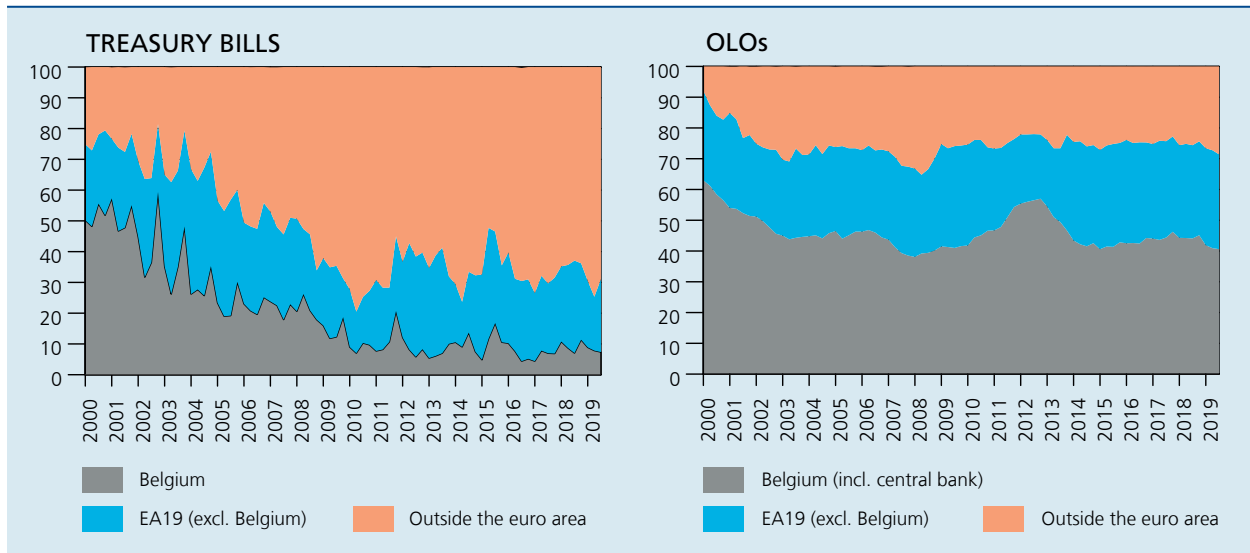
(as reported by primary and recognised dealers to the Treasury, € billion)



Source: Belgian Debt Agency.

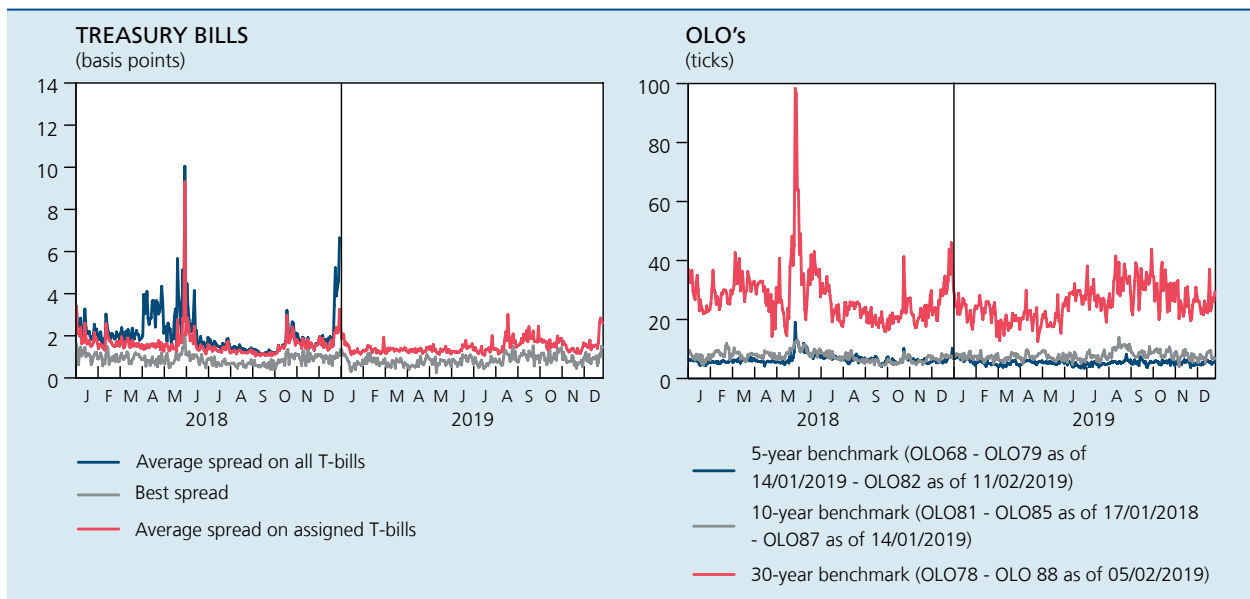
HOLDERSHIP BELGIAN SECURITIES

(in %)



Source: NBB.

BEST BID/OFFER SPREADS ⁽¹⁾



Source: Treasury.

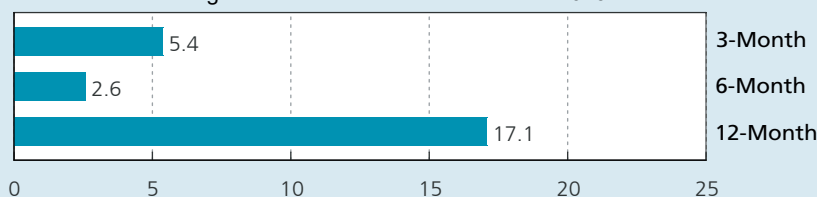
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

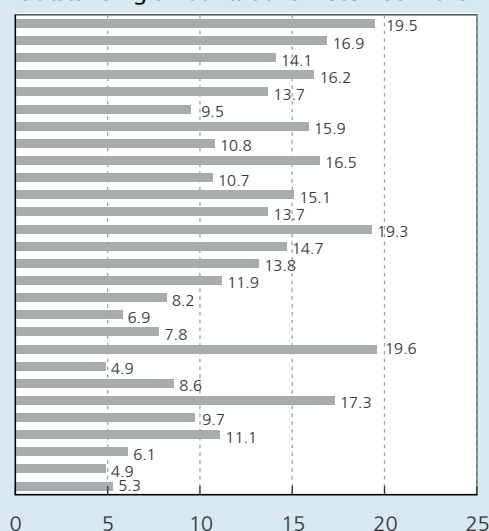
TREASURY BILLS

Nominal outstanding amounts at the end of November 2019

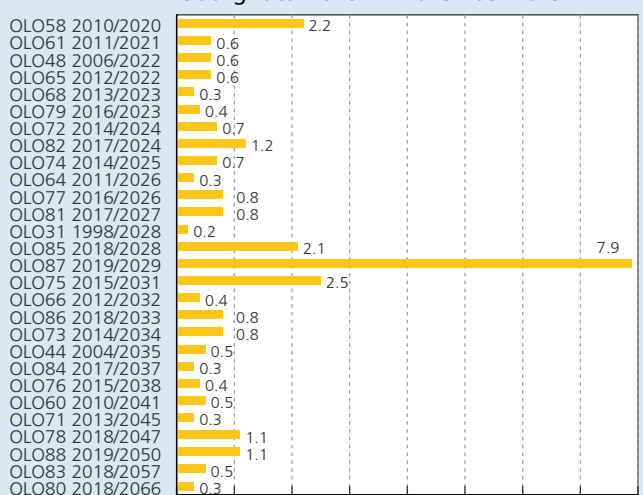


OLOs

Outstanding amounts at 19 December 2019



Outright turnover in November 2019



Source: Belgian Debt Agency.

LIST OF CONTACT PERSONS

PARTICIPATING INSTITUTIONS

Belgian Debt Agency
Barclays
Belfius Bank
BNP Paribas Fortis
Citigroup
Crédit Agricole CIB
HSBC
KBC Bank
Morgan Stanley
Natixis
NatWest (RBS)
Nomura
Société Générale Corp. & Inv. Banking

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GENERAL INFORMATION

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