Participating Primary Dealers:

Bank of America, Barclays, Belfius Bank, BNP Paribas Fortis, Citigroup, Crédit Agricole CIB, Deutsche Bank, HSBC, J.P. Morgan, KBC Bank, Morgan Stanley, Natixis, NatWest (RBS), Nomura, Société Générale Corporate & Investment Banking

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- MACROECONOMIC DEVELOPMENTS : The global economy remains resilient despite headwinds
- SPECIAL TOPIC : Belgian house prices since 2022 : a slowdown but no crash
- FINANCIAL MARKETS AND INTEREST RATES : Long-term yields break their upward trend in the euro area but remain volatile
- TREASURY HIGHLIGHTS : Nearly two-thirds of the 2023 funding plan has been raised

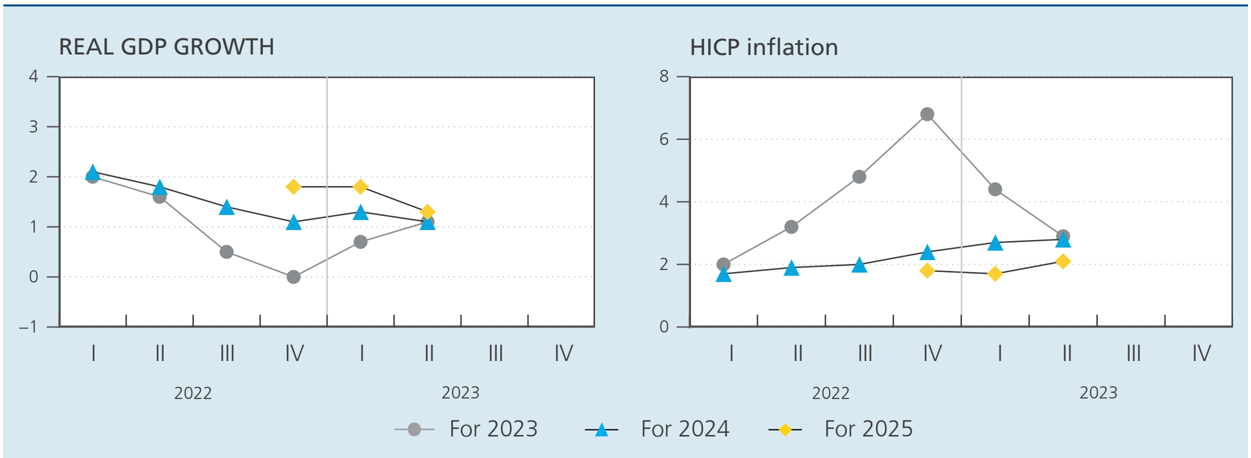
CONSENSUS **Average of participants' forecasts**

A spreadsheet on the NBB website gives more details on participants' individual forecasts.

	Belgium				Euro area			
	2022	2023e	2024e	2025e	2022	2023e	2024e	2025e
Real GDP[1]	3.2	1.1	1.1	1.3	3.5	0.6	0.9	1.4
Inflation (HICP)[1]	10.3	2.9	2.8	2.1	8.4	5.5	2.6	2.0
General government balance[2]	–3.9	–4.7	–4.7	–5.0	–3.6	–3.4	–2.9	–2.7
Public debt[2]	105.1	105.5	106.9	107.4	93.2	91.2	90.9	89.4

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

SUCCESSIVE FORECASTS FOR BELGIUM
(each line shows the evolution since the start of 2022 of the growth and inflation forecast for the calendar years 2023-2024-2025)



Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS

The global economy remains resilient despite headwinds

The global economy got off to a good start in 2023 thanks to the further dissipation of supply chain constraints, the fall in energy and other input prices, and the rebound of the Chinese economy following its reopening. Specific headwinds, such as the financial turmoil caused by liquidity problems affecting certain financial institutions and the US debt ceiling negotiations, did not derail the economic upturn. According to the Eurosystem, the world economy (excluding the euro area) is projected to grow by slightly over 3% in the coming years.

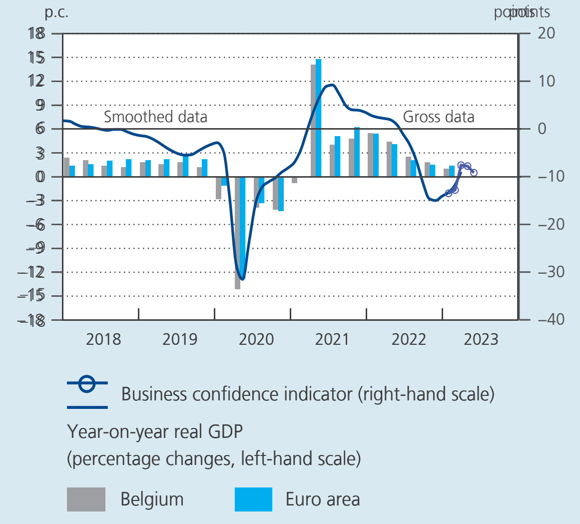
The euro area economy posted slightly negative growth in the last quarter of 2022 and the first quarter of this year. However, the economy is expected to expand again in the coming quarters. In annual terms, Belgian Prime News participants expect the **euro area economy to grow by 0.6% in 2023. Growth is expected to speed up somewhat to 0.9% in 2024 and to 1.4% in 2025**. This represents only a minor downward revision compared to the March consensus, but the detailed excel file published as an annex to the BPN reveals a significant degree of uncertainty, as displayed by a very wide range of individual forecasts. **Participants now expect euro area inflation to come in at 5.5% in 2023**, down from the average rate of 8.4% recorded in 2022, and expect it to reach 2% in 2025.

In Belgium, economic activity rebounded strongly in the first quarter of 2023, by 0.4% on a quarterly basis. Short-term sentiment indicators suggest that growth should remain solid in the near term. According to the latest Business Cycle Monitor, economic activity should expand by 0.4 % on a quarterly basis in the second quarter. **BPN participants expect real GDP growth in Belgium to reach 1.1 % in 2023**. Growth is expected to barely pick up in 2024 (1.1 %) and 2025 (1.3 %). Compared to March, the consensus forecasts have been adjusted upwards for 2023 and somewhat downwards for 2024 and 2025.

The Belgian labour market expanded quite strongly as well in the first quarter of the year, after employment growth temporarily stalled in the last quarter of 2022. The harmonised unemployment rate remains very low and is expected to hold steady below 6% in the coming years. This signals continued tightness in the labour market, as confirmed by the Eurostat job vacancy indicator which remains historically high.

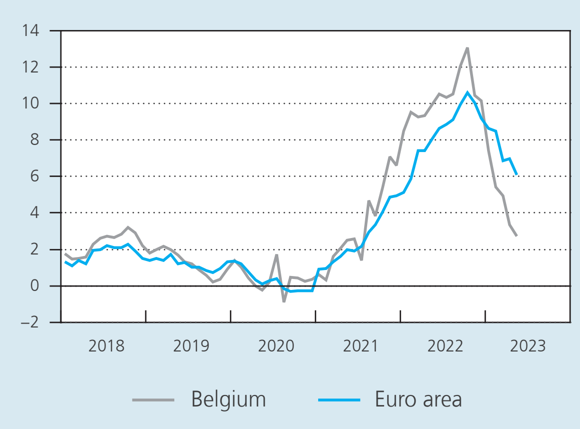
Inflation in Belgium has clearly moderated thanks to rapidly falling energy prices. The HICP reading for May stood at 2.7%. **According to the latest Belgian Prime News consensus forecast, the headline inflation rate in Belgium is expected to be 2.9% in 2023 and 2.8% in 2024. It should drop to just above 2% in 2025**. Compared to the BPN's March consensus, this represents a downward revision in inflation forecasts for 2023.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



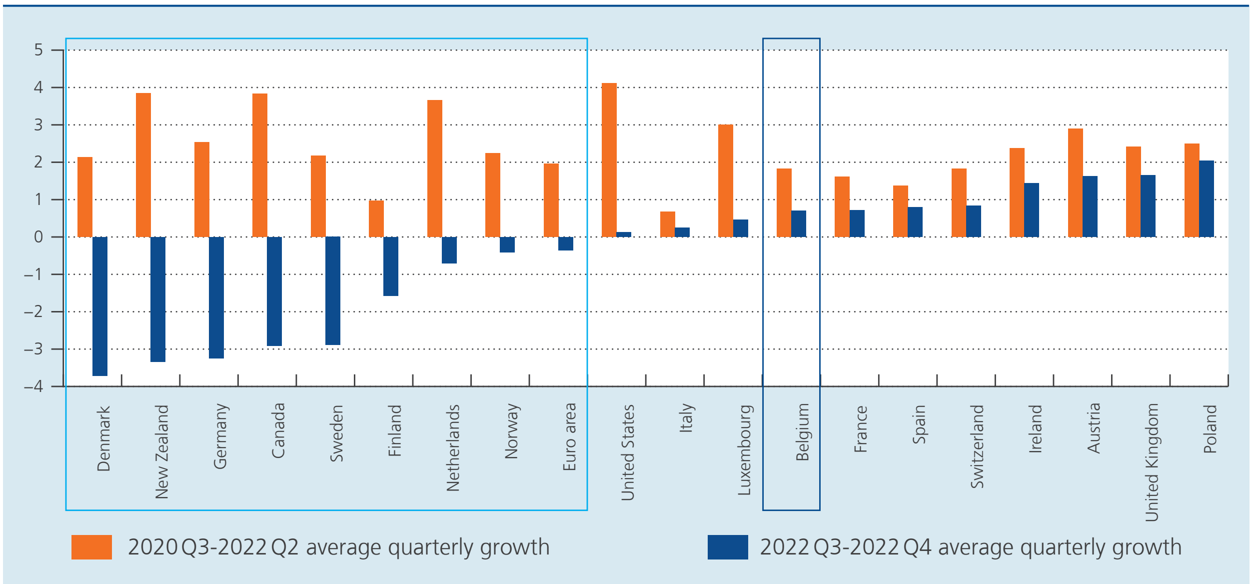
Source: EC.

On the public finance side, the budget balance will benefit from the unwinding of temporary measures but is still expected to **widen to 4.7% of GDP in 2023**, compared to 3.9% in 2022. **BPN participants even expect the budget deficit to increase further after 2023**. Finally, they expect Belgian public debt to edge upwards in the coming years, from around 105% of GDP in 2022 to 107.4% of GDP by 2025.

Belgian house prices since 2022 : a slowdown but no crash

After having accelerated during the pandemic, nominal house price growth slowed in 2022 while remaining clearly positive. In Belgium, house prices increased by 16 % during the period Q3 2020 - Q2 2022 (i.e. an average quarterly growth rate of almost 2 %). This rate was in line with the euro area, but much lower than in certain other countries including Luxembourg, Austria, Germany and, especially, the Netherlands, Canada, New Zealand and the United States, where the growth rate was more than double. As in most countries, nominal house price growth in Belgium slowed in 2022 and was clearly negative in real terms due to very high inflation. However, the slowdown was much less pronounced than in the euro area, and several countries, such as the Nordics, New Zealand, Germany and Canada, even posted sharply negative growth rates. Recent data show that Belgian house price growth even increased again in Q1 2023, but this increase is likely the result of an unusually low number of transactions of energy-inefficient dwellings.[1]

QUARTERLY NOMINAL HOUSE PRICE GROWTH IN OECD COUNTRIES
(in %, seasonally adjusted data)



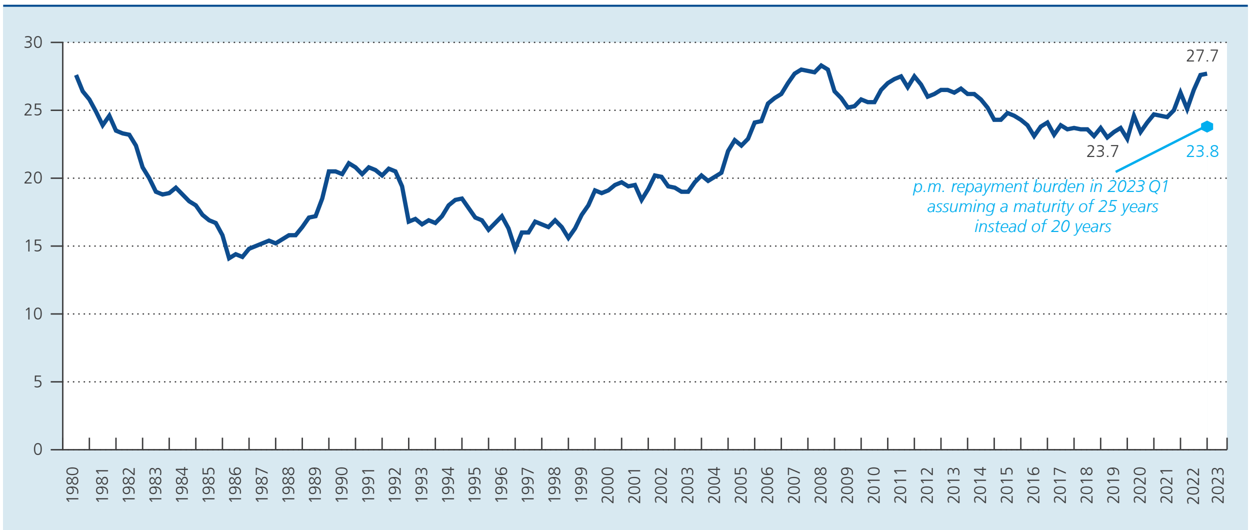
Sources: NBB, OECD.

As in other countries, the cooling in Belgian house prices has been driven by the sharp rise in mortgage rates since 2022. Belgian mortgage rates rose substantially from 1.4 % in early 2022 to 3.3 % in the first quarter of 2023. This means that for the same monthly repayment on a 25 year mortgage, households can borrow 19 % less, which negatively affects their housing demand. In addition, the rise in market rates has likely also caused a drop in real estate investment demand, which had been high in recent years due to the lower interest rate environment and corresponding search for yield.

However, the negative impact of higher interest rates on house prices was offset in Belgium by an increase in the maturity of new mortgages and a rapid rise in nominal income. First, the share of new mortgages with a maturity of more than 20 years rose from 40 % in 2021 to 53 % in the first five months of 2023, with this share being much higher for first-time buyers. Second, as a result of very high inflation and automatic indexation in Belgium, nominal net disposable household income was about 22 % higher in Q1 2023 than in Q1 2019. Both factors improved the monthly repayment burden for new mortgage loans, which had deteriorated in recent years due to an increase in both house prices and interest rates. In addition, the increase in down payments since 2020 and, in the longer term, the likely slowdown in the expansion of housing supply are expected to positively affect house prices. Uncertainty – due to the inflation outlook, interest rates, economic activity and the war in Ukraine – remains high, however.

[1] A number of (less-expensive) energy-intensive dwellings with EPC-labels of E or F were disposed of in Q4 2022 in order to circumvent the Flemish energy renovation obligation, which entered into force in January 2023. As a result, the average house price in Q1 2023 was artificially pushed up by an abnormally low number of sales of energy-inefficient dwellings, while the opposite was true for Q4 2022.

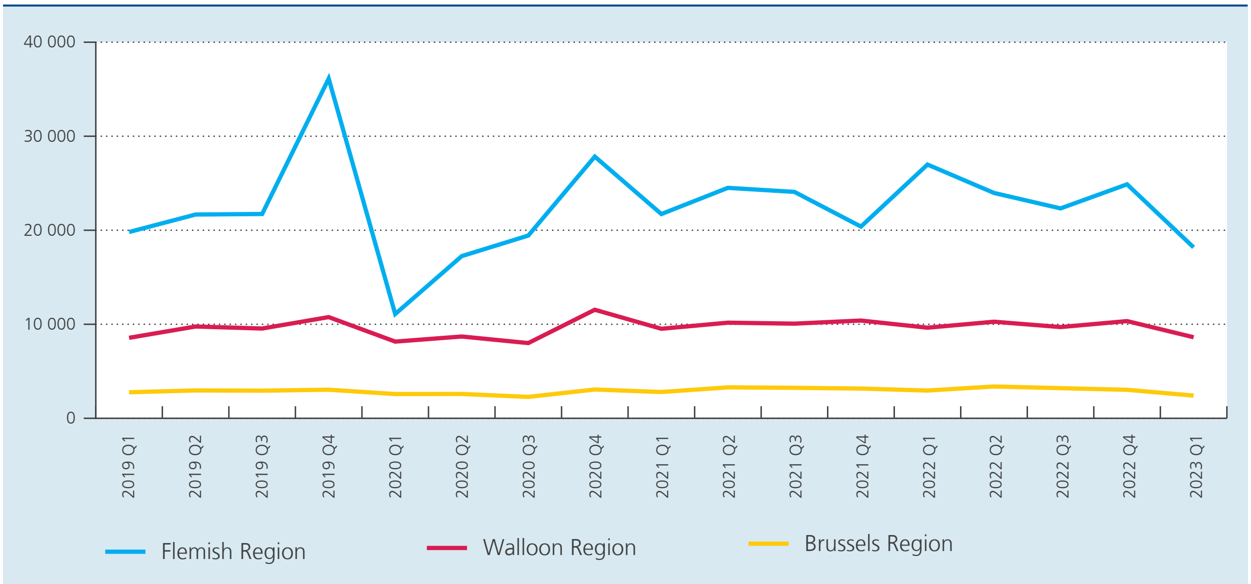
REPAYMENT BURDEN OF A NEW 20-YEAR MORTGAGE LOAN WITH AN 80 % LOAN-TO-VALUE RATIO FOR THE PURCHASE OF AN AVERAGELY PRICED DWELLING [1]
(in % of average net disposable income)



Source : NBB.
[1] This indicator is based on the assumption that a household with average disposable income buys an averagely priced dwelling and finances 80 % of the purchase price with a fixed-rate 20-year mortgage. The tax deductibility of the mortgage payments, transaction costs and future changes in nominal income are not taken into account.

Finally, the number of dwelling transactions held up throughout 2022 but fell in Q1 2023. The decline in the number of transactions in Q1 2023 was much more pronounced in the Flemish Region (–33 % and –8 % compared to Q1 2022 and Q1 2019, respectively) than in the Walloon Region (–11 % and +1 % compared to Q1 2022 and Q1 2019) and the Brussels Capital Region (–18 % and –13 % compared to Q1 2022 and Q1 2019). However, this is likely due to new regulations having been introduced in the Flemish Region in late 2022 and early 2023, causing some transactions to have been frontloaded and others delayed.

Number of dwelling transactions in the Regions



Source : Statbel.

Long-term yields break their upward trend in the euro area but remain volatile

In a context of falling but still high inflation, central banks in the US and the euro area took additional steps to bring inflation back to target. The ECB slowed the pace of its interest rate hikes but nonetheless implemented two consecutive 25-basis-point rate increases in May and June. The deposit facility rate now stands at 3.5 %. The Fed also raised its policy rate by 25 basis points in May but in June decided to maintain the target range for the federal funds rate at 5 % to 5.25 % percent.

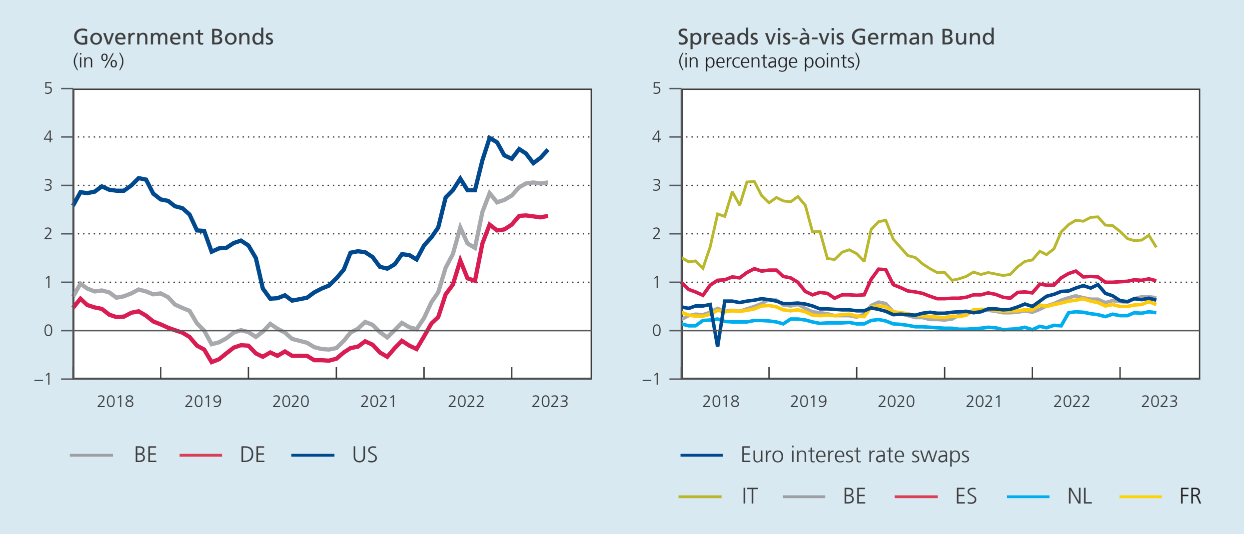
Throughout the second quarter of 2023, long-term sovereign bond yields held broadly stable in the US and the euro area. The German 10-year sovereign yield was up by one basis point, from 2.38 % in March to 2.39 % in June. The Belgian 10-year government bond yield increased by three basis points, settling at 3.07 %. Over the same period, the US 10-year bond yield rose by eight basis points, from 3.66 % in March to 3.74 % in June.

The apparent stability of long-term government bond yields at quarterly or monthly frequencies nevertheless masks day-to-day volatility. The MOVE index, which tracks the movement in US Treasury yield volatility, remained high amidst an uncertain inflation outlook. Moreover, the uncertainty surrounding the US debt ceiling temporarily exacerbated US bond market volatility. In contrast, volatility receded on the stock markets. The VIX and VSTOXX spiked temporarily in March following the collapse of Silicon Valley Bank but have been hovering below their historical average since the beginning of the current quarter.

The recovery from the contained banking crisis in the US and hopes that inflation would recede contributed to the good performance of stock markets in the second quarter of 2023. The Stoxx 600 Europe and S&P 500 gained 4 % and 11 %, respectively, compared to their mid-March troughs, although the price of bank stocks has yet to recover from the turmoil affecting the banking sector earlier this year. On the European markets, spot gas prices remained below the € 50 per megawatt hour (MWh) mark even though they were up in June due to renewed supply fears and hot weather forecasts for the summer months. Crude oil prices initially went up when OPEC+ announced supply cuts but later fell back to around $ 70 a barrel. Lower energy prices have been lifting growth prospects in Europe since the beginning of this year.

The Italy-Germany bond spread eased in the second quarter of 2023 while sovereign spreads remained broadly stable in the rest of the euro area. The Italian spread declined by 14 basis points, to 1.72 % in June, its lowest level in over a year. In Belgium, France and the Netherlands, sovereign spreads settled at 0.68 %, 0.54 % and 0.37 %, respectively.

10-YEAR INTEREST RATES
(monthly averages)



Sources: BIS, Thomson Reuters.
Average over the first 23 days for June 2023.

TREASURY HIGHLIGHTS

Nearly two-thirds of the 2023 funding plan has been raised

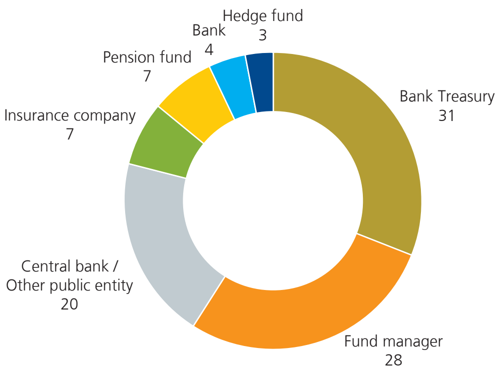
The Belgian Debt Agency plans to issue **€ 47.25 billion** in medium and long-term instruments in 2023, including **€ 45.00 billion** in **OLOs**. The remaining funding will be raised through EMTN, Schuldscheine and State Notes (€ 2.25 billion).

Since the end of March 2023, the Belgian Debt Agency has carried out the following funding transactions.

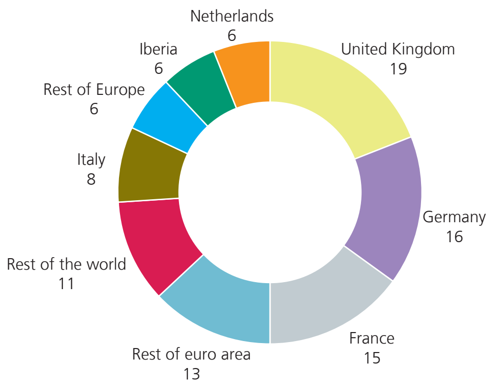
OLO syndication (€ 4.0 billion 20-year benchmark)

On 16 May, Belgium issued its third new OLO benchmark this year; this time with a maturity of 20 years. The € 4.0 billion 3.45 % OLO 99 22/06/2043 was priced at a spread of 54 bps over mid-swaps, implying a reoffer yield of 3.451 %. The joint lead managers were BNP Paribas Fortis, Citi, Crédit Agricole, Nomura and Société Générale.

OLO99 - Distribution by investor type (in %)



OLO99 - Geographical distribution (in %)



On 24 April and 19 June, the Belgian Debt Agency issued € 8.720 billion through two auctions:

OLO auctions (€ 8.720 billion)

Date	OLO		Issued (€ billion)	Yield	Bid-to-cover
24 April	OLO 0.80 % 22/06/2028	OLO 85	1.145	2.817 %	2.55
	OLO 3.00 % 22/06/2033	OLO 97	1.371	3.134 %	1.89
	OLO 3.30 % 22/06/2053	OLO 98	1.000	3.550 %	1.90
Non-competitive subscription			1.127		
Total			4.463		
19 June	OLO 0.00 % 22/10/2027	OLO 91	1.140	2.878 %	1.98
	OLO 3.00 % 22/06/2033	OLO 97	1.357	3.089 %	2.23
	OLO 3.30 % 22/06/2054	OLO 98	1.005	3.518 %	1.98
Non-competitive subscription			0.575		
Total			4.077		

Moreover, the Debt Agency issued an additional € 1.463 billion through three ORI auctions, on 31 March, 5 May and 2 June.

ORI (€ 1.463 billion)

Date	OLO		Issued (€ billion)	Yield
31 March	OLO 5.50% 28/03/2028 OLO 5.00% 28/03/2035	OLO 31 OLO 44	0.300 0.200	2.716% 3.165%
5 May	OLO 4.00% 28/03/2032 OLO 3.00% 22/06/2034	OLO 66 OLO 73	0.248 0.230	2.870% 3.033%
2 June	OLO 2.25% 22/06/2057	OLO86	0.485	3.394%
Total			1.463	

Again, there were no EMTN or ***Schuldscheine*** issues.

On 4 June, retail notes (State Notes) were offered for the second time in 2023, raising € 127.5 million.

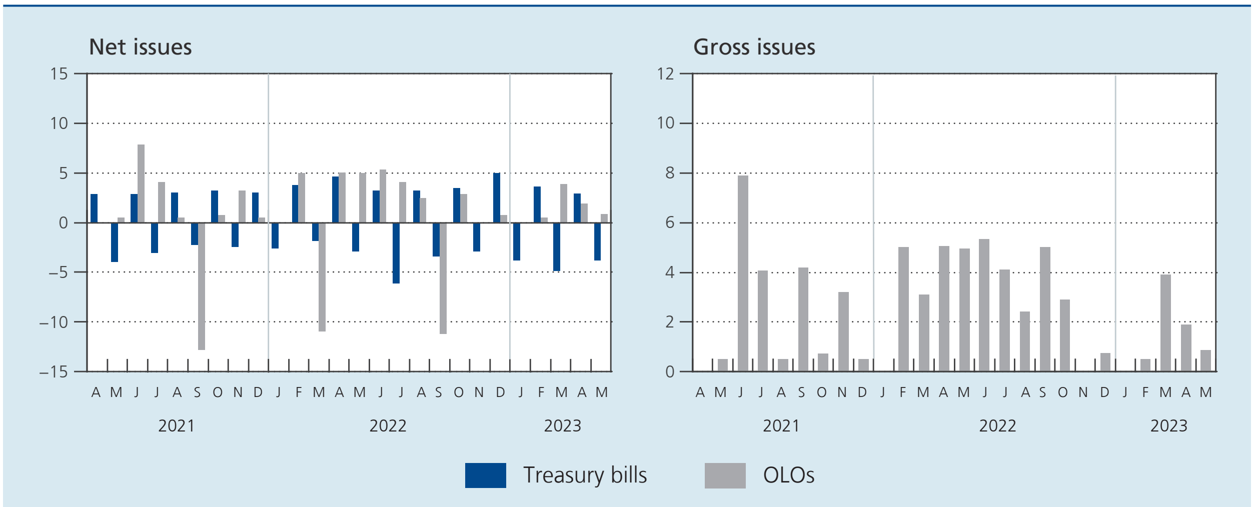
Thus far this year, Belgium has issued **€ 30.98 billion**, corresponding to 65.57% of its annual funding target.

In terms of portfolio structure, the average life of the portfolio is now 10.55 years (as of the end of May), with an implicit yield of 1.66%.

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

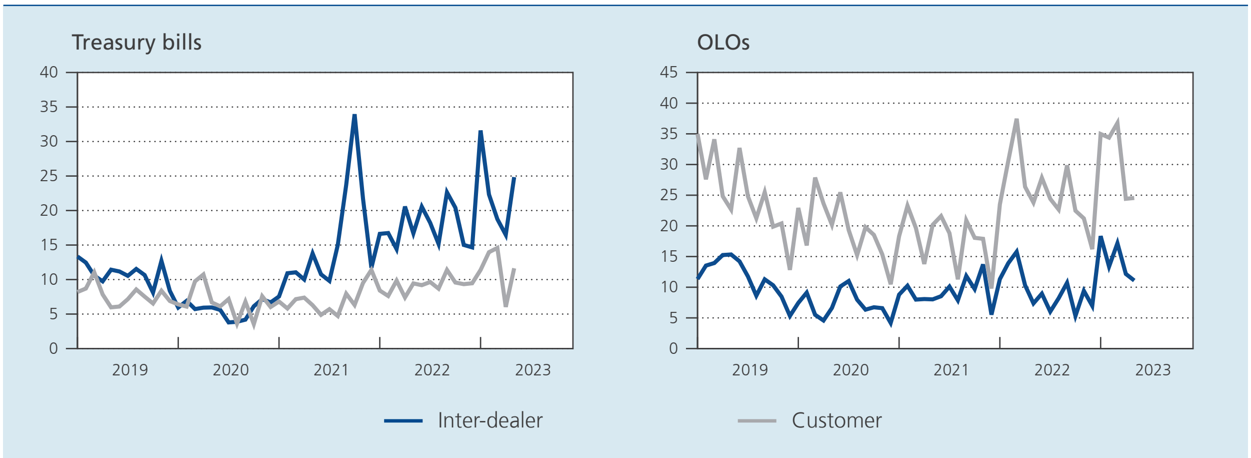
(€ billion)



Source: Belgian Debt Agency.

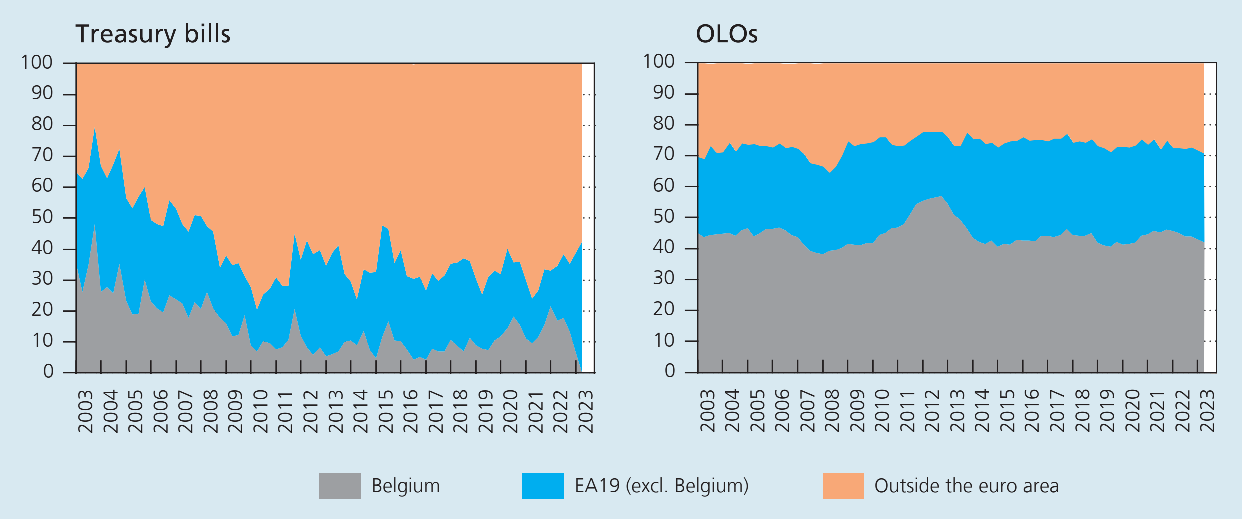
SECONDARY MARKET TURNOVER

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



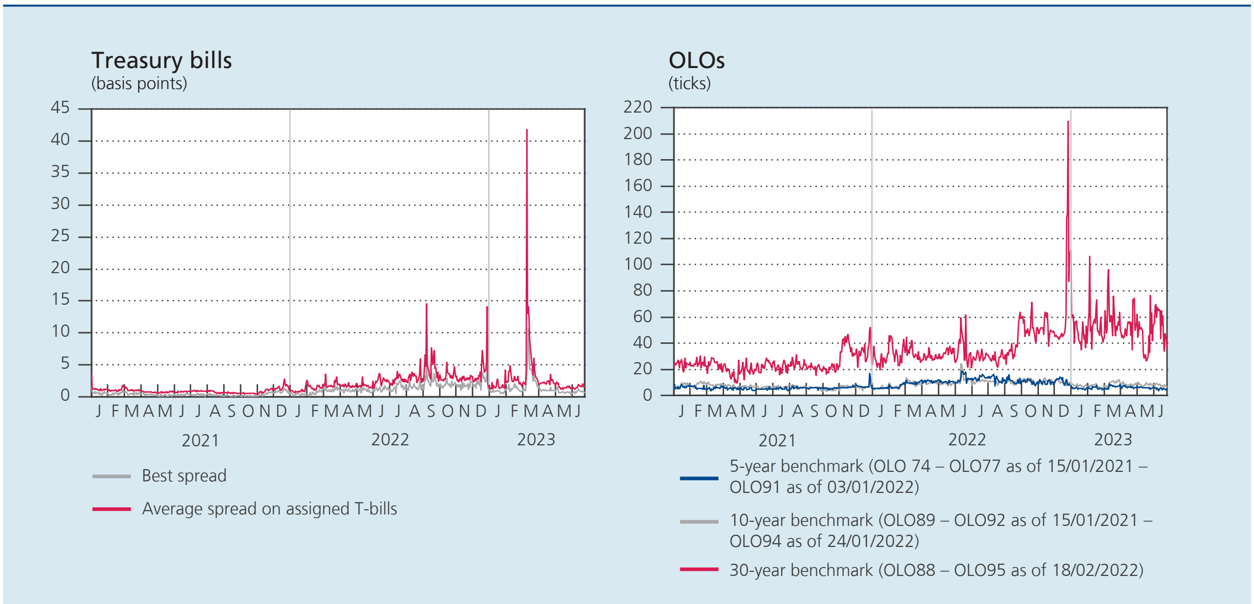
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



Source: NBB.

BEST BID/OFFER SPREADS (1)



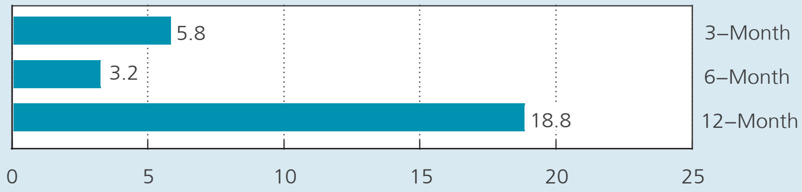
Source: Belgian Debt Agency.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

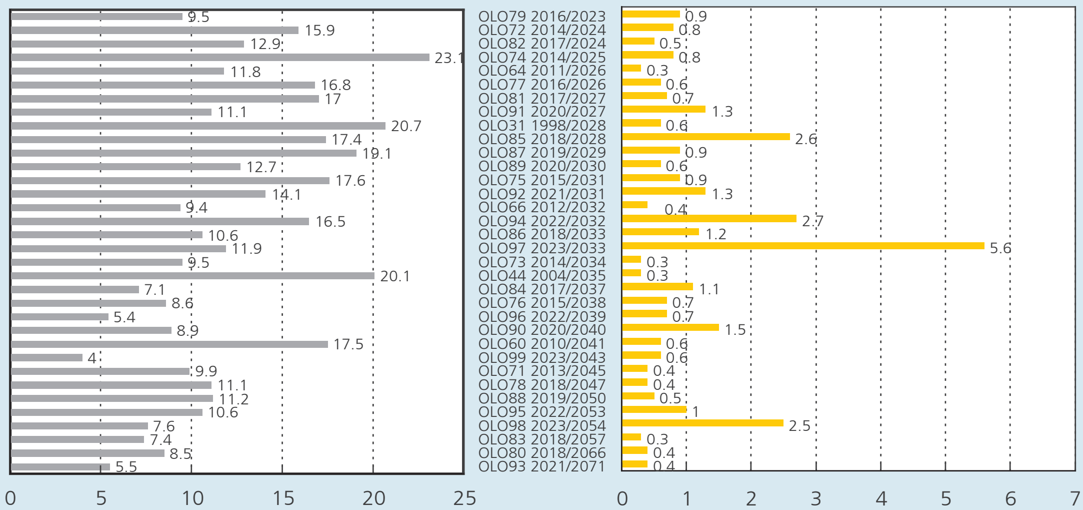
Treasury bills

Nominal outstanding amounts at the end of May 2023



OLOs

Outstanding amounts on on 28 June 2023 / Outright turnover in May 2023



Source: Belgian Debt Agency.

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