BELGIAN PRIME NEWS
Quarterly publication

BELGIAN DEBT AGENCY

NationalBank OF BELGIUM
Eurosystem

Participating Primary and Recognised Dealers:
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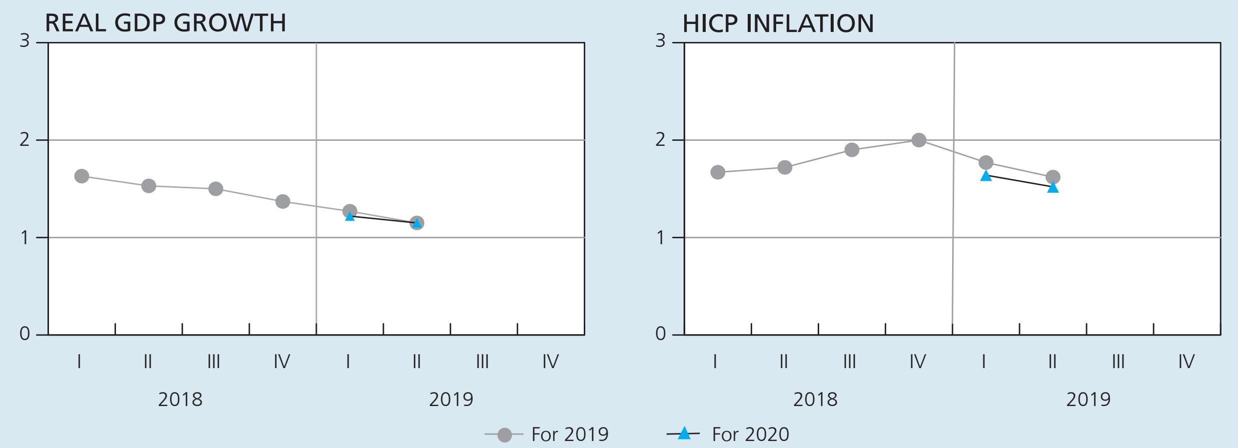
CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2018	2019p	2020p	2018	2019p	2020p
Real GDP (1)	1.4	1.1	1.1	1.9	1.2	1.3
Inflation (HICP) (1)	2.3	1.6	1.5	1.8	1.3	1.4
General government balance (2)	-0.7	-1.3	-1.6	-0.5	-1.0	-1.0
Public debt (2)	102.0	101.1	100.3	85.1	85.0	83.8

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

SUCCESSIVE FORECASTS FOR BELGIUM



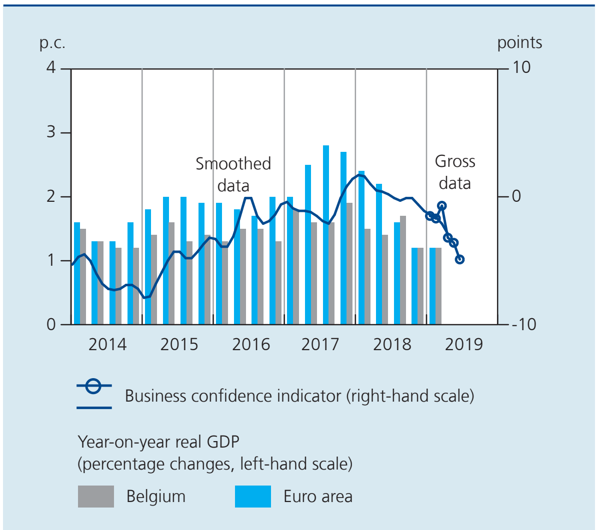
Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS **Ongoing weakness in global trade**

The world economy had already lost some momentum in the second half of last year and growth continued to moderate into 2019, mainly as a result of weak global manufacturing activity and trade. World trade growth even turned negative in the closing months of 2018 and early 2019, partly because of the drop in the volumes of goods exported by emerging Asian economies, although the sharp deceleration in trade was rather broad-based. The indirect impact of trade restrictions spreading through existing global value chains or generated by higher uncertainty is likely to have played a major role.

In the euro area, quarterly GDP growth came in at 0.4% in the first quarter, which was stronger than expected. Nonetheless, this was partly attributed to temporary factors such as mild winter weather and stockpiling in the UK ahead of the initial Brexit deadline that generated a spike in euro area foreign demand. High-frequency indicators suggest that euro area growth is likely to weaken again in the second quarter. All in all, BPN participants kept their forecasts largely unchanged compared to the March estimate: they still see **the euro area economy growing by 1.2% in 2019 and 1.3% in 2020. Euro area inflation is expected to remain moderate, at around 1.3% and 1.4% respectively.**

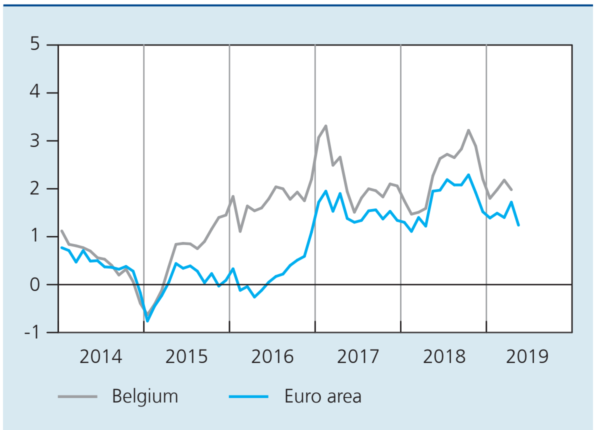
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

In Belgium, growth edged down marginally at the start of the year as quarterly GDP growth in the first quarter came in at 0.3%, slightly below the pace recorded in the last quarter of 2018. This was in line with Belgian confidence indicators, which have weakened in recent months. Consumer confidence, for example, took a clear dive as of December and is currently close to its long-term average. Producer confidence, on the other hand, though gradually deteriorating, is still above average. **BPN participants currently expect growth in Belgium to reach 1.1% in 2019 and 2020.** This implies a downward revision of 0.1 percentage point for both years compared to the March estimate.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

The Belgian labour market remained surprisingly buoyant as employment expanded by another 0.4% on a quarterly basis at the start of this year, which was even higher than the quarterly expansion rate of GDP. Meanwhile, on the nominal side, HICP inflation in Belgium remains above the euro area rate. In May, it stood at 1.7%, against 1.2% in the euro area. **According to the consensus forecast, inflation in Belgium should amount to 1.6% on average in 2019 and 1.5% in 2020.**

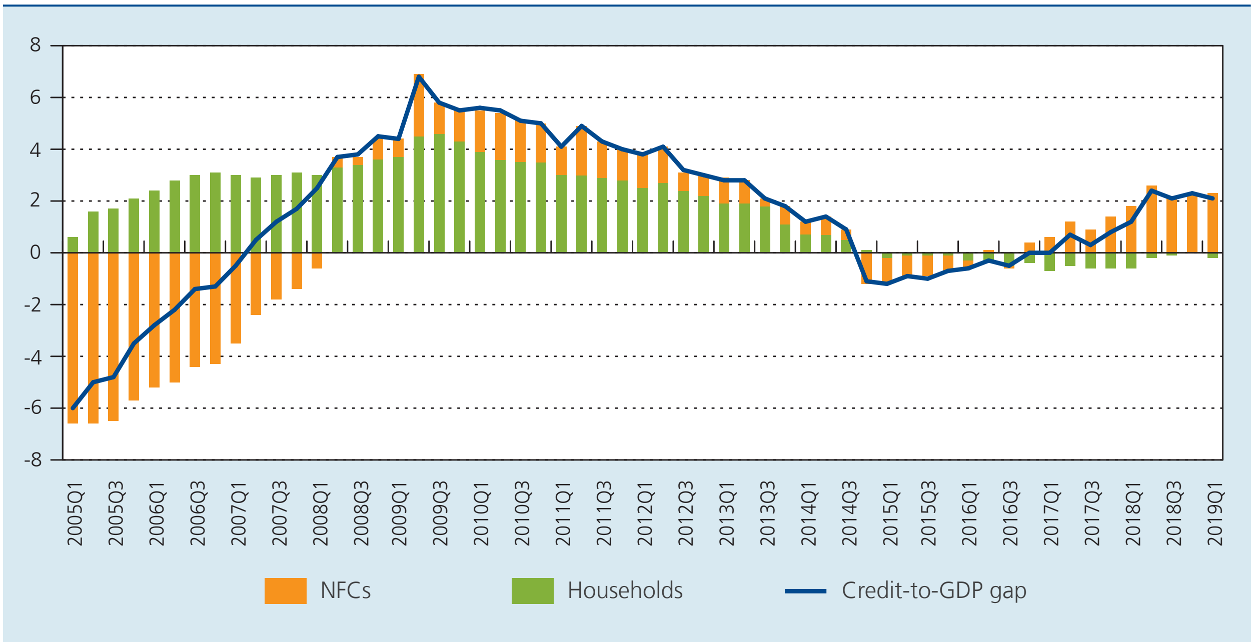
Belgian Prime News participants expect the government deficit to worsen markedly from an average of 0.7% of GDP in 2018 to 1.3% in 2019 and 1.6% of GDP in 2020. The 2018 budget was affected favourably by a strong rise in advance payments of corporation tax, as a consequence of increased incentives to frontload tax payments. In 2019, corporate income tax revenues are expected to drop because of lower tax assessments, effectively the reverse of the shift towards advance payments that drove up revenues in 2017 and 2018. In addition, tax on labour income is being cut further in 2019 as part of the phased tax shift programme. The rising structural deficit implies that additional fiscal consolidation efforts are required to achieve the medium-term objective of a balanced budget in structural terms by 2021, the target put forward in the 2019 Stability Programme. This is a task for the federal government and the governments of the Communities and Regions to be formed after the general elections held at the end of May. In the meantime, the current governments are acting in a caretaker capacity. 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 102% of GDP at the end of 2018 to just over 100% of GDP in 2020.**

SPECIAL TOPIC Cyclical systemic risks in Belgium and the countercyclical capital buffer

In its capacity as the Belgian macroprudential authority, the National Bank of Belgium (NBB) announced on 28 June 2019 that it was activating the countercyclical capital buffer (CCyB) in the third quarter of 2019 (1) for credit exposures to the Belgian private non‑financial sector. The CCyB is a macroprudential instrument used in a proactive and preventive manner to build up or maintain sufficient additional capital buffers (resilience) on bank balance sheets that can be used in the event of a financial recession to absorb possible credit losses and thus ensure the continuity of financial bank intermediation throughout the cycle. For the third quarter of 2019, the CCyB rate for credit risk exposures to the Belgian private non‑financial sector has been raised from 0 % to 0.5 %. This decision is nevertheless subject to a one‑year implementation period, which means that the countercyclical buffer rate of 0.5 % only becomes binding from 1 July 2020.

One of the mandates of the macroprudential authority is to monitor credit developments and identify risks of excessive credit provision (due to strong competition, for instance). If such developments give rise to an accumulation of systemic risks, macroprudential action may be justified. The NBB therefore closely monitors developments in the credit cycle. The triggering of the CCyB rate for Belgium was motivated by the observed acceleration of the Belgian credit cycle for the private non‑financial sector according to a number of reference indicators. Lending to the Belgian non‑financial sector is for instance growing rapidly by 5.3 % year‑on‑year (as measured in April 2019). Such credit growth is not necessarily in line with the growth of the Belgian economy and is partly due to low interest rates and excessively loose borrowing conditions. The acceleration of the credit cycle is further confirmed by the credit‑to‑GDP gap which, under Belgian law, is a key reference indicator for the credit cycle and reached 2.1 % in the first quarter of 2019 (see chart below), exceeding the 2 % threshold recommended by the ESRB for the activation of the CCyB. Going forward, baseline projections for credit growth and GDP suggest a further – sustained – increase in the credit‑to‑GDP gap, above the 2 % threshold.

CREDIT-TO-GDP GAP: SECTORAL BREAKDOWN
(percentages of GDP)



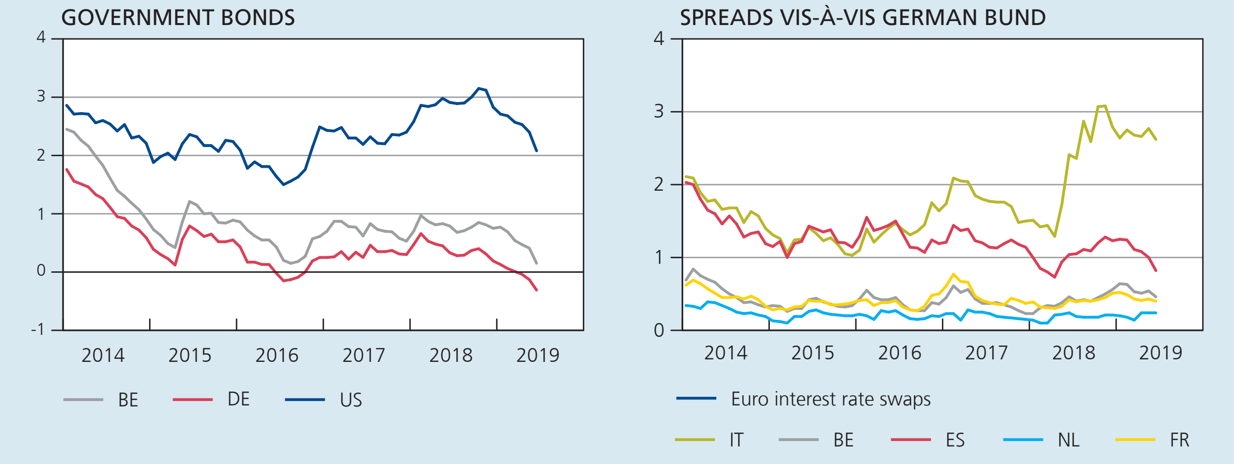
Source: NBB.

This latest CCyB measure entails the build‑up of an additional (countercyclical) capital buffer of approximately € 1 billion for the Belgian banking sector. Given Belgian banks' current solvency position and the relatively low buffer rate imposed (0.5 %), this measure should not disrupt credit pricing or credit availability to the Belgian economy. The NBB is of course taking due account of the current economic and political uncertainties. In this context, it stands ready to withdraw the measure if a significantly negative and persistent shock were to occur during its phase‑in period or to relax the requirement should such a shock occur after 1 July 2020, in order to avoid any procyclical effects of the measure.

(1) See also https://www.nbb.be/en/financial-oversight/macroprudential-supervision/macroprudential-instruments/countercyclical-buffer

Falling sovereign bond yields amid expectations of further monetary policy accommodation

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



Sources: BIS, Thomson Reuters.
Average over the first 26 days for June 2019.

During the second quarter of 2019, long-term sovereign bond yields continued to fall in the euro area. German and Belgian 10-year yields dropped by 32 and 39 basis points respectively to reach historically low levels of -0.31 % and 0.15 %. A similar fall occurred in the US, where the 10-year yield dropped by 49 basis points to 2.08 %. The higher bond yields in the US than in the euro area mainly reflects the superior position of the US economy in the business cycle. However, it is worth noting that the recent fall in US long-term yields resulted in an inversion of the yield curve (by the end of June, the effective federal funds rate stood at 2.38 %), something which has a good track record in signalling upcoming recessions.[1] Overall, the fall in global long-term yields has coincided with communication signals from both the Federal Reserve System and the ECB perceived by market participants as suggesting continued accommodative monetary policy. It also reflects the resurgence of trade tensions and the uncertainty about Brexit.

Largely driven by monetary policy expectations and the outlook for global trade, the euro remained relatively stable against the US dollar during the second quarter, while it had depreciated during the first quarter. Also, greatly determined by these factors and their influence on earnings expectations, stock prices stumbled in May – breaking their upward trend initiated in the first quarter –, before resuming their rise in June. Despite these ups and downs, financial market volatility remained relatively low throughout the review period, with the VIX and VSTOXX standing at respectively 16 % and 14 % at the end of June.

The relative tranquillity on the stock market is also reflected in sovereign bond spreads in the euro area, which remained broadly stable during the second quarter. In Belgium and France for instance, the 10-year spread vis-à-vis Germany narrowed by only 7 and 3 basis points respectively. In some other countries, spreads shrank more significantly. In Spain, the 10-year spread narrowed by 29 basis points to 0.82 %, following some volatility around the April elections. In Portugal, the 10-year spread fell by 41 basis points to 0.61 % as a result of an improved public fiscal position and a credit rating upgrade. In Italy, however, the ten-year spread remained relatively constant at 2.60 %, a level about 120 basis points higher than before the 2018 elections.

(1) More information on the mechanisms underlying the link between the yield curve and recessions can be found in De Backer *et al.* (2019), "Is a recession imminent? The signal of the yield curve", National Bank of Belgium, Economic Review, June.

TREASURY HIGHLIGHTS **Three-fourths of the financing target for 2019 already executed**

The Belgian Debt Agency plans to issue € 30.25 billion of medium- and long-term instruments in 2019, € 28.00 billion of which will be OLOs. The remainder of the funding is expected to be raised through EMTN and Schuldscheine (€ 2 billion) and State Notes (€ 0.25 billion).

OLO AUCTIONS (€ 7.473 BILLION)

Date	OLO	NR	Issued (€ Billion)	Yield	Bid to cover
April 29	OLO 0.50 % 22/10/2024 OLO 0.90 % 22/06/2029 OLO 1.70 % 22/06/2050	OLO 82 OLO 87 OLO 88	0.945 1.171 0.887	-0.164 % 0.440 % 1.510 %	1.78 2.22 1.83
Non-competitive subscriptions			*0.314*		
Total April			**3.317**		
June 17	OLO 0.50 % 22/10/2024 OLO 0.90 % 22/06/2029 OLO 1.90 % 22/06/2038 OLO 2.15 % 22/06/2066	OLO 82 OLO 87 OLO 76 OLO 80	0.800 0.987 0.525 0.890	-0.346 % 0.139 % 0.747 % 1.363 %	1.65 2.47 1.50 2.07
Non-competitive subscriptions			*0.954*		
Total June			**4.156**		

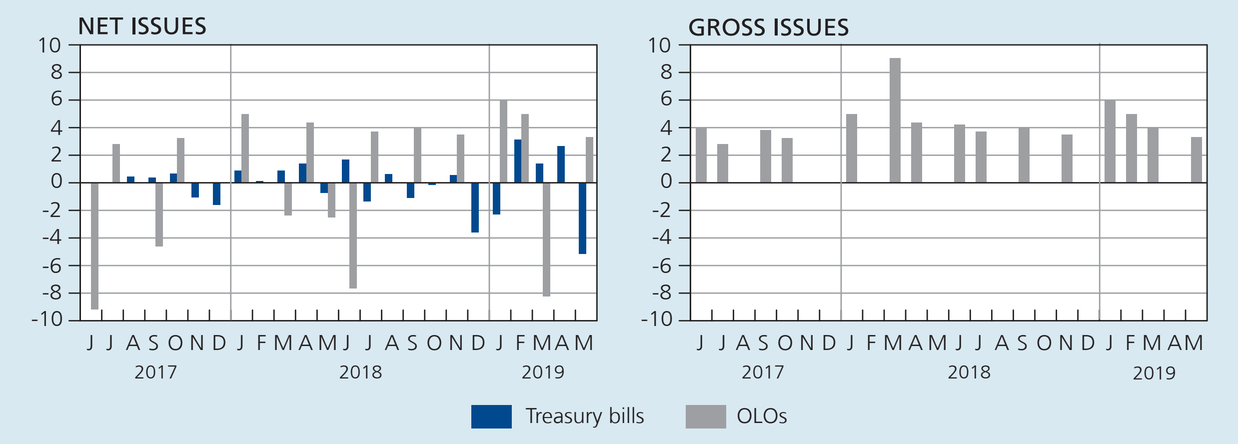
So far, € 52 million have been issued through the EMTN programme. The State Note issuance scheduled for 4 June 2019 has been cancelled.

Belgium has already issued € 22.51 billion, corresponding to 74.4 % of its funding target for 2019.

In terms of portfolio structure, the average life of the portfolio is now 9.87 years (as of end of May) and it has an implicit yield of 2.06 %.

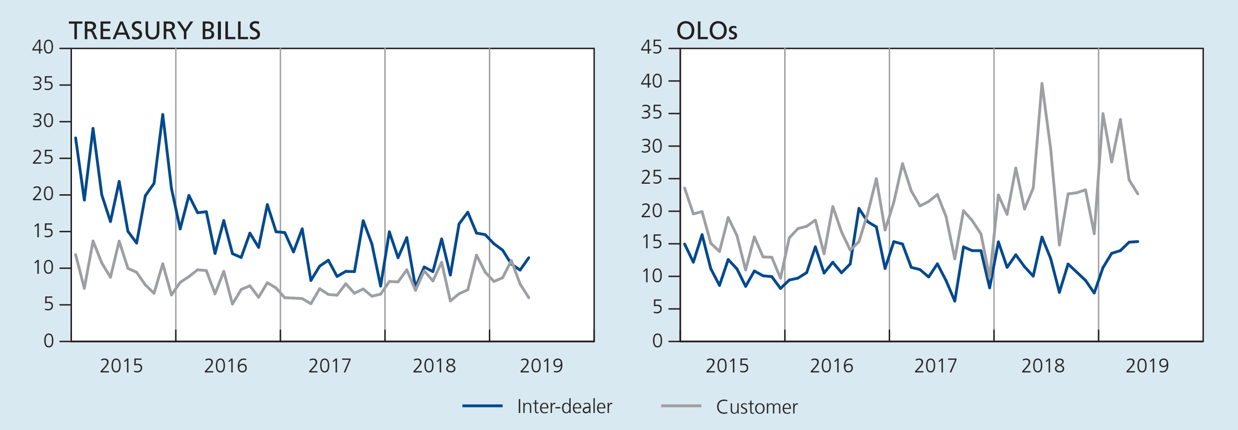
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(billions of euros)



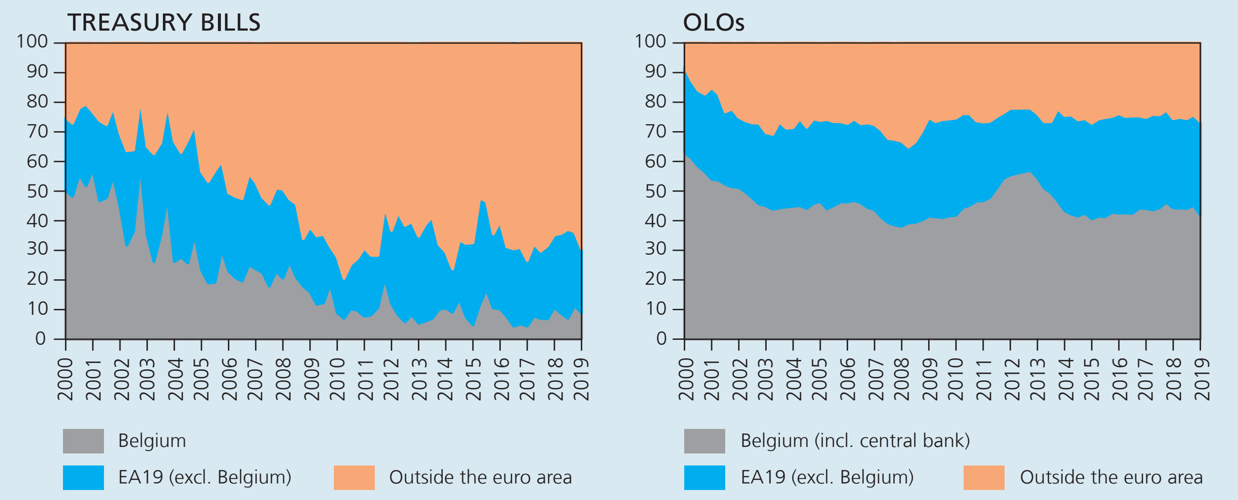
Source: Belgian Debt Agency.

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



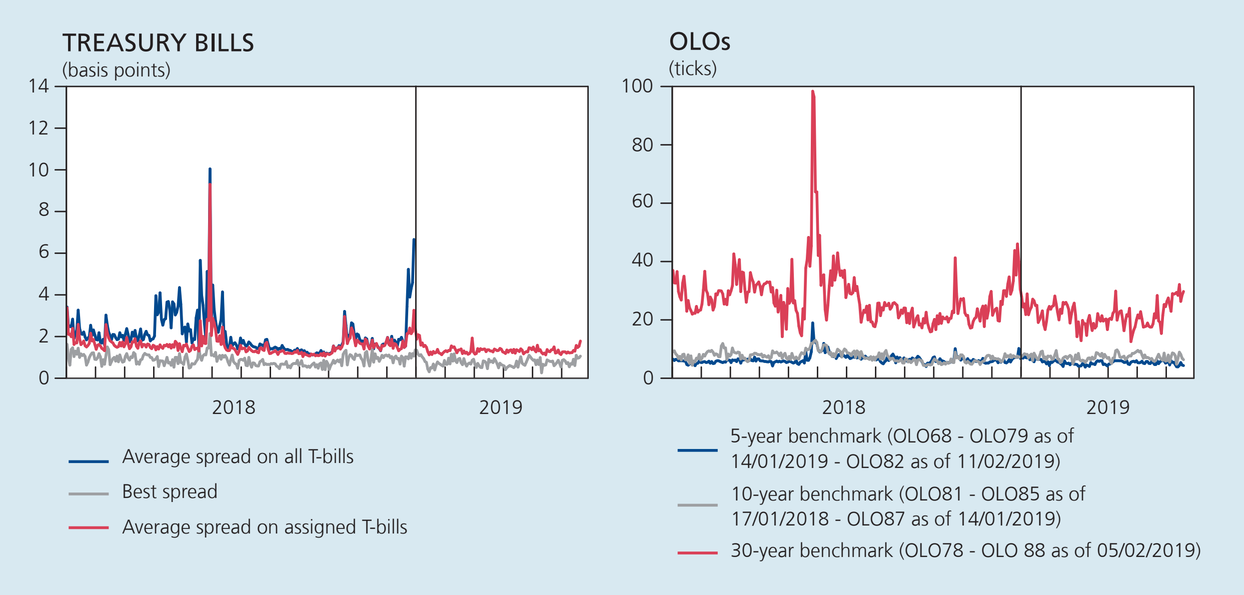
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



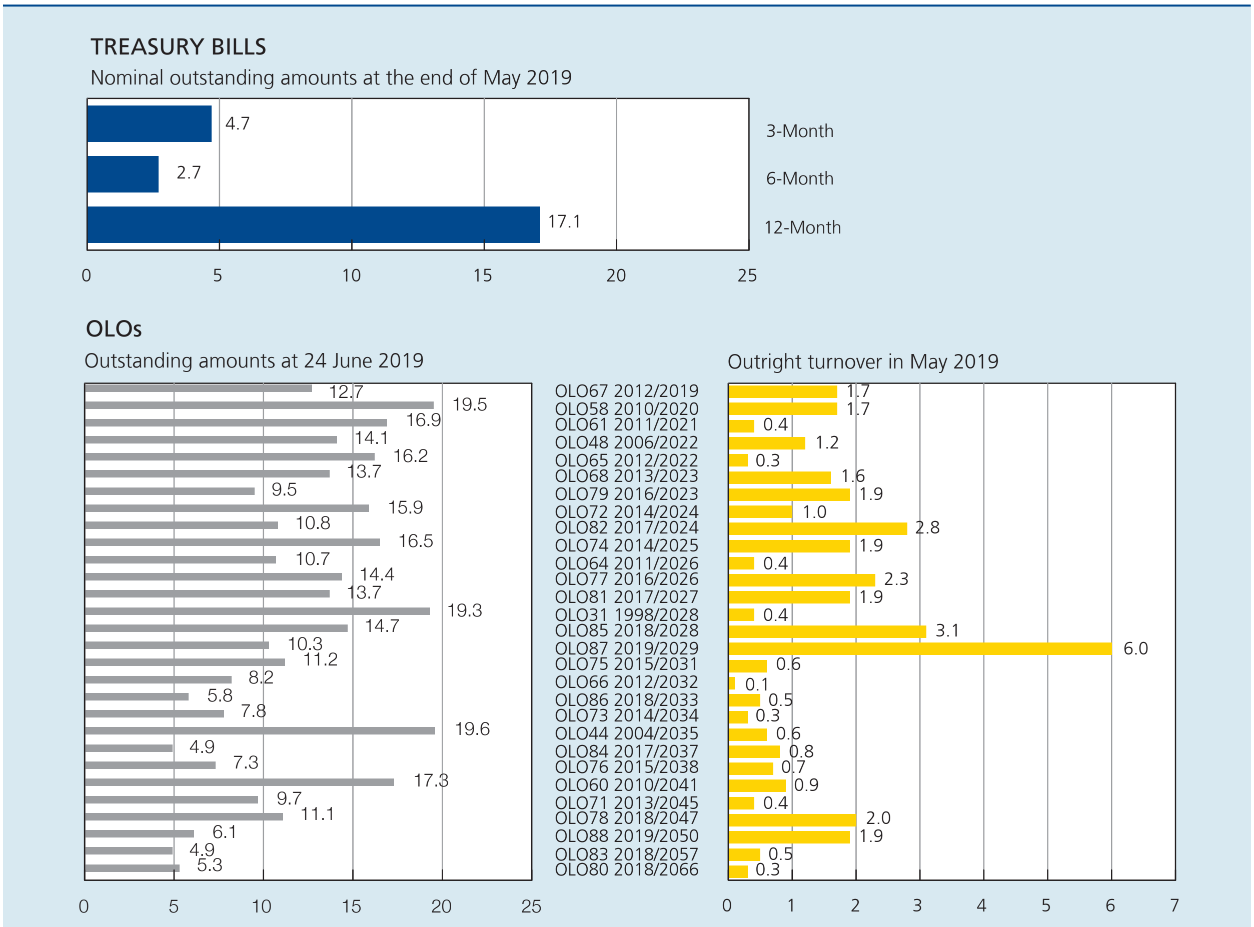
Source: NBB.

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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