BELGIAN Prime News

Quarterly publication

BELGIAN DEBT AGENCY

NationalBank OF BELGIUM

Eurosystem

Participating Primary Dealers:

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- FINANCIAL MARKETS AND INTEREST RATES: Sovereign bond yields rose but spreads remained broadly stable in the euro area
- TREASURY HIGHLIGHTS: 90 % of the 2023 funding plan has been raised

CONSENSUS **Average of participants' forecasts**

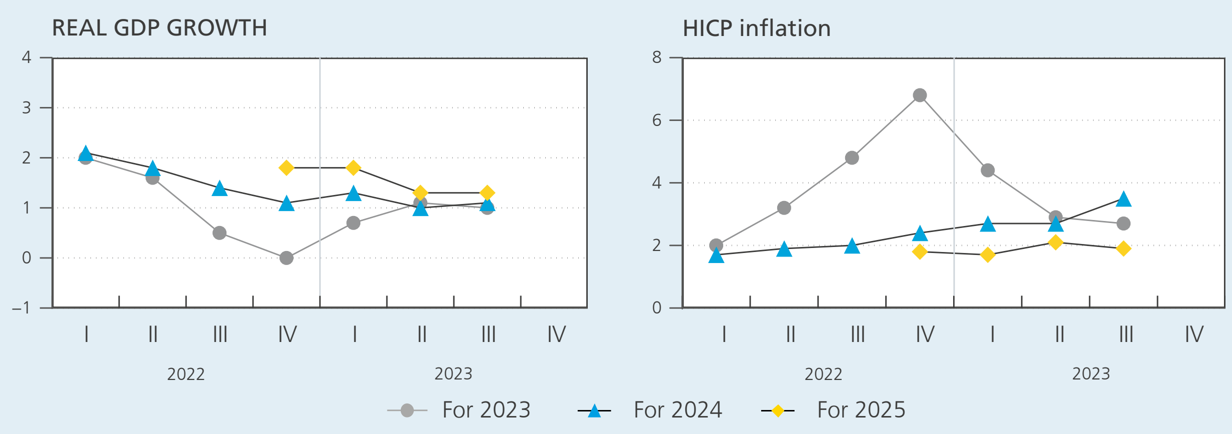
A spreadsheet on the NBB website gives more details on participants' individual forecasts.

	Belgium				Euro area			
	2022	2023e	2024e	2025e	2022e	2023e	2024e	2025
Real GDP(1)	3.2	1.0	1.0	1.3	3.5	0.5	0.7	1.4
Inflation (HICP)(1)	10.3	2.7	3.5	1.9	8.4	5.6	2.8	1.9
General government balance(2)	−3.9	−3.5	−3.8	−4.8	−3.6	−3.4	−2.9	−2.8
Public debt(2)	105.1	105.4	106.8	107.0	91.5	90.9	90.5	89.9

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 **Signs of softening global activity**

After a strong start to the year, global growth moderated as the Chinese economic recovery following the end of COVID-19 restrictions turned out to be short-lived. Meanwhile, PMI indicators fell, suggesting a further, mild weakening of growth. According to the ECB, the world economy (excluding the euro area) is projected to grow by (slightly more than) 3 % in the coming years.

The euro area economy has essentially flatlined over the past three quarters and high-frequency indicators do not yet show any clear improvement. In annual terms, Belgian Prime News (BPN) participants expect the **euro area economy to grow by 0.5 % in 2023. Growth is then expected to speed up somewhat to 0.7 % in 2024 and to 1.4 % in 2025**. This represents another downward revision for 2023 and 2024 compared to the consensus in June. The detailed data published as an annex to the BPN also reveal a significant degree of uncertainty concerning 2024, as reflected in the very wide range of individual forecasts. **Participants currently expect euro area inflation to come in at 5.6 % in 2023**, down from the average rate of 8.4 % recorded in 2022, and to dip below 2 % in 2025.

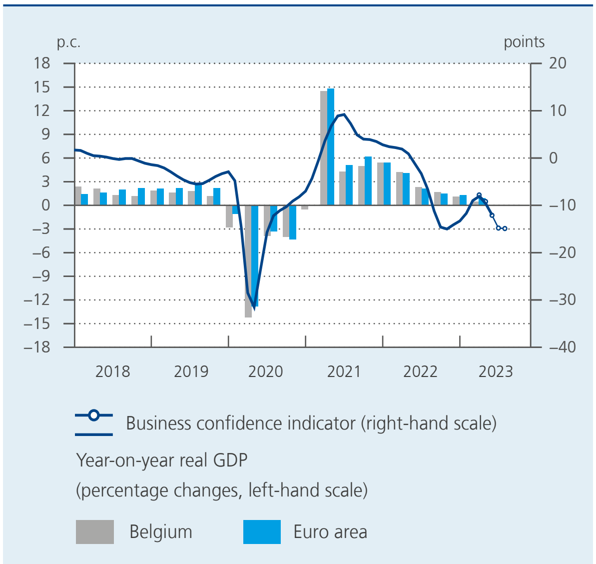
In Belgium, economic activity slowed down somewhat following a first-quarter rebound, coming in at 0.2 % a quarterly basis. According to the latest Business Cycle Monitor, economic growth is likely to remain broadly constant in the third quarter. **BPN participants expect real GDP growth in Belgium to reach 1 % in 2023**, barely picking up in 2024 (1 %) and 2025 (1.3 %). Compared to June, the consensus forecasts was rather stable.

The Belgian labour market expanded robustly in the first half of the year, as employment growth picked up again. The harmonised unemployment rate remains very low and is expected to stay below 6 % over the coming years, with the labour market remaining quite tight. Nevertheless, employment expectations, as measured by the NBB's consumer and business surveys, have weakened slightly in recent months.

Price pressures have eased and, consequently, inflation in Belgium has clearly cooled since the peak seen at the end of last year. However, according to the latest HICP reading for August, the downward trend has temporarily ceased, as inflation came in higher than in July, at 2.4 %. **According to the latest Belgian Prime News consensus forecast, the headline inflation rate in Belgium is expected to be 2.7 % in 2023** and 3.5 % in 2024, **dropping to just below 2 % in 2025**.

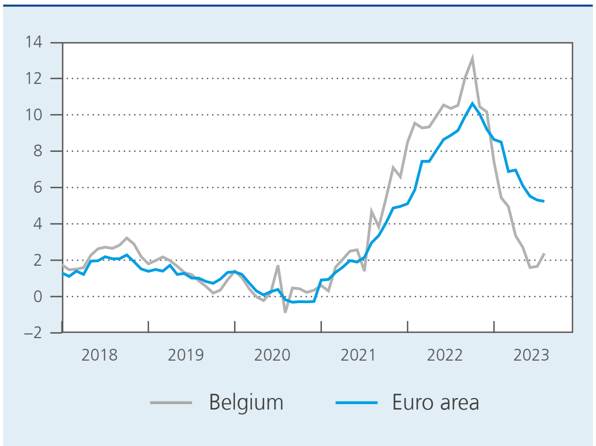
On the public finance side, the budget balance will benefit from the gradual unwinding of temporary measures but is still expected to **amount to 3.5 % of GDP in 2023**, compared to 3.9 % in 2022. **BPN participants expect the budget deficit to increase after 2023**. Lastly, participants expect Belgian public debt to edge upwards in the coming years, from around 105 % of GDP in 2022 to 107 % of GDP by 2025.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

The most successful issuance of a State Note in history

After the COVID-19 pandemic, the Belgian Debt Agency restarted issuing State Notes with maturities ranging from 3 to 10 years. More recently, the agency issued its first one-year State Note, set to mature on 4 September 2024. The issuance of the Note and its unusually short maturity should be viewed against the backdrop of the very slow transmission of higher interest rates on capital markets to the rates Belgian banks were offering retail savers [1]. By issuing a retail product resembling a savings deposit (the popular Belgian regulated savings deposit combines a base rate with a loyalty premium earned after a period of 12 months), the Minister of Finance sought to:

1) stimulate competition among banks, resulting in higher deposit saving rates;
2) send a positive signal to the financial markets; and
3) offer households a safe and attractive short-term investment opportunity.

Retail investor demand for the new State Note was huge: more than 500 000 savers signed up and € 21.9 billion was raised. According to Bloomberg, the operation was "Europe's biggest-ever debt offering targeted exclusively at retail investors" [2].

A key factor to explain the record demand is the State Note's 3.3% gross coupon (resulting in a yield of 2.81 % after tax) [3], which exceeds the interest rates banks were offering on household deposits around the launch of the operation. Belgian households mainly save via regulated savings deposits that benefit from an annual withholding tax exemption (up to an amount of € 980 of interest revenues for 2023). None of Belgium's four largest commercial banks (which together hold about 70 % of Belgian savings deposits) offered more than 1.5 % on their savings accounts at the time, and rates at smaller banks did not exceed 2.5 %. As for term deposits, those with an agreed maturity of up to one year offered 3.13 % (before application of the 30 % withholding tax) according to data from July 2023.

Demand for the one-year State Note greatly exceeded that for the second most successful issuance of Belgian State notes. The so-called "Leterme Notes" raised € 5.7 billion when they were issued in the fall of 2011, with maturities ranging from three to eight years. The context for that operation was, however, very different. During the euro area sovereign debt crisis, yields and spreads on Belgian government bonds increased rapidly and strong retail demand simultaneously evidenced households' financing capacity and their confidence in Belgian government debt.

To put these numbers in context, demand for the most recent operation amounts to around 5 % of household deposits (as measured in July 2023). In the first quarter of 2023, Belgian households directly held approximately € 1 billion of Belgian government debt: that exposure will now increase twentyfold. However, with the financial assets of Belgian households totaling over € 1500 billion, domestic government bond holdings remain limited to 1.5 % of their total financial investments. Demand for the Leterme Notes amounted to some 2 % of households' bank deposits at the time, and households' direct exposure to government debt "only" doubled to reach approximately 1 % of their total financial assets.

For Belgian banks, this shift by retail savers to State Notes represents a sizeable outflow of funding. Large buffers of liquid assets help the sector to manage this liquidity shock, even if some banks may have to resort to (at times temporary) remedial actions, such as intra-group liquidity reshuffling or participation in refinancing operations with the central bank. Recourse to additional central bank funding was, however, very limited in this case and was not a cause for concern. And while the loss of cheap deposit funding may weigh on banks' net interest income, the direct impact is expected to remain limited. A higher sensitivity of savers to the interest rate on their savings may, however, have a bigger impact in the period ahead. Nonetheless, the good profitability levels that banks have recently recorded mean they have room to absorb downward pressures on net interest income.

As for the impact on public finances, the yield on a State Note is determined on the basis of the federal government's financing costs for the relevant maturity. A State Note can never have additional funding costs when compared to the Debt Agency's other products. Indeed, the funding costs for this State Note were even somewhat more advantageous given that one third of the issuance was delivered directly through the Agency's website, reducing the fees the Agency pays to intermediaries. In addition, the net effect on 2023 withholding tax revenue is expected to amount to € 60 – € 100 million. Lastly, the spread between Belgian sovereign yields and those of other euro area countries decreased by three to four basis points during the issuance period.

In view of the success of this issuance, the Belgian Debt Agency has decided to scale back its planned issuance of Treasury Certificates by some € 10.2 billion for the remainder of 2023 and to lower its planned OLO [4] issuance by € 2.9 billion (long-term issuance as a whole was reduced by € 2.25 billion). This will still leave the Agency with a structural positive cash position

1 See also the Special Topic in the March 2023 edition of the Belgian Prime News.
2 See https://www.bloomberg.com/news/articles/2023-09-04/belgium-sells-record-22-billion-of-bonds-to-retail-investors, 4 September 2023.
3 The government has announced its intention to reduce the withholding tax applicable to this specific bond.
4 Obligations Linéaires Ordinaires or Linear Ordinary Bonds.

of several billion euros, which will be invested in the interbank and repo markets until the State Note matures. The Agency expects the return on these investments to exceed the financing costs of the note.

It is important to note that this issuance will only slightly influence the structure of Belgian government debt and its risk parameters, which are calculated in net terms (i.e. taking into account the Debt Agency's cash surpluses). As such, the average maturity of federal government debt will remain elevated, and its refinancing risks contained. The Agency has not changed its strategy of mainly issuing long-term debt: indeed, the average maturity of its new OLO issuances in 2023 equates to 17.2 years.

FINANCIAL MARKETS AND INTEREST RATES

Sovereign bond yields rose but spreads remained broadly stable in the euro area

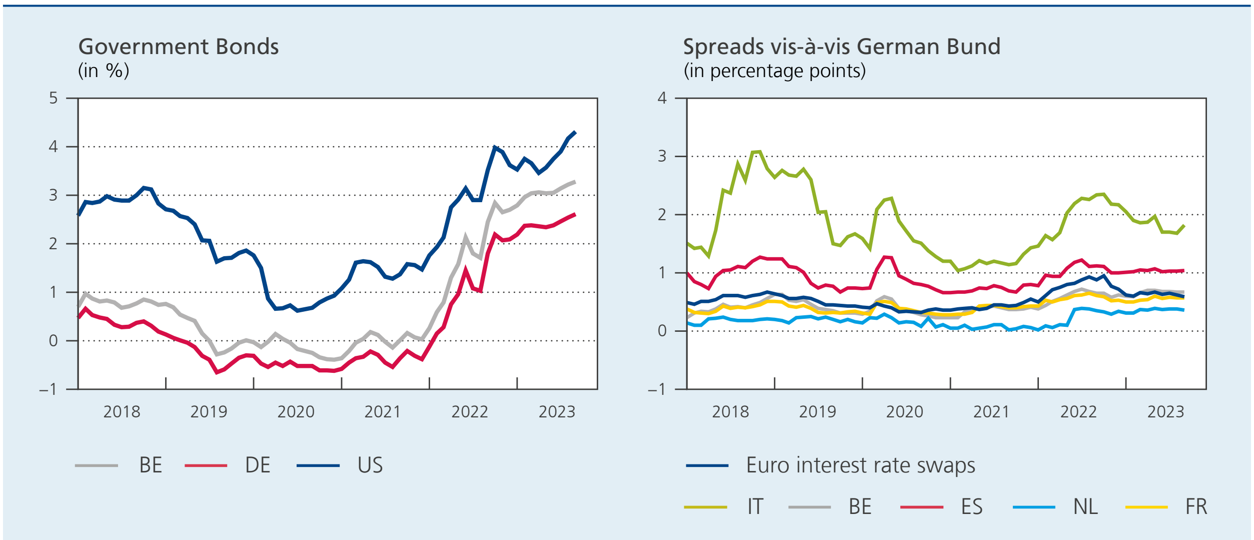
In a context of persistently high inflation, central banks in the US and the euro area have been taking additional steps to bring inflation back to target. The ECB agreed upon two consecutive 25-basis-point interest rate hikes in July and September, with the deposit facility rate now standing at 4 % – money market rates are now close to the highest levels they reached since the launch of the euro. Meanwhile, the Federal Reserve raised its policy rate by 25 basis points in June, but decided in September to maintain the target range for the federal funds rate at 5.25 % - 5.50 %.

Throughout the second quarter of 2023, long-term sovereign bond yields rose in the US and the euro area. The German 10-year sovereign yield was up by 24 basis points, from 2.38 % in June to 2.61 % in September. The Belgian 10-year government bond yield increased by 23 basis points, settling at 3.28 %. Over the same period, the US 10-year bond yield rose by 56 basis points, from 3.75 % in June to 4.31 % in September.

The rise in long-term sovereign yields was accompanied by a high level of day-to-day volatility. The MOVE index, which tracks the movement in US Treasury yield volatility, remained elevated amidst an uncertain inflation outlook. In contrast, volatility remained relatively low on the stock markets. Indeed, the VIX and VSTOXX have been hovering below their historical averages since the beginning of the current quarter.

Even though stock market performances were mixed in the third quarter of 2023, financial markets continued to make an orderly adjustment to tighter financing conditions. Corporate spreads in the US and euro area indicate, for instance, that a soft landing remains possible. However, crude oil prices rose above the $ 90 per barrel mark amid strong summer demand and supply cuts by Saudi Arabia and Russia. The euro also weakened against the dollar, to $ 1.06, as the economic outlook deteriorated in the euro area.

10-YEAR INTEREST RATES
(monthly averages)



Sources: BIS, Thomson Reuters.
Average over the first 25 days for September 2023.

Overall, sovereign spreads remained broadly stable in the euro area in the third quarter of 2023. In Belgium, France and the Netherlands, sovereign spreads vis-à-vis Germany settled at 0.67 %, 0.57 % and 0.36 %, respectively, in September. In contrast, the Italy-Germany bond spread reversed its downward trend and widened by 12 basis points. The Italian spread now stands at 1.82 % amid renewed policy uncertainty.

TREASURY HIGHLIGHTS **90 % of the 2023 funding plan has been raised**

Three OLO auctions (in July, August and September) and one ORI facility (in August) were held, raising a total of € **9.617** billion.

OLO auctions (€ 9.111 billion)

Date	OLO		Issued (€ billion)	Yield	Bid-to-cover
July 24	OLO 3.00% 22/06/2033 OLO 3.30% 22/06/2054 OLO 0.65% 22/06/2071	OLO97 OLO98 OLO93	**1.323** **0.953** **0.924**	3.024 % 3.429 % 2.983 %	1.90 1.53 1.60
Non-competitive subscriptions			***0.000***		
July Total			3.200		
August 21	OLO 0.10% 22/06/2030 OLO 3.00% 22/06/2033	OLO89 OLO97	**1.225** **1.575**	3.034% 3.273%	1.73 1.72
Non-competitive subscriptions			***0.811***		
August Total			3.611		
September 18	OLO 3.00% 22/06/2033 OLO 3.30% 22/06/2054	OLO97 OLO98	**1.311** **0.989**	3.290% 3.745%	1.43 11.6
Non-competitive subscriptions			***0.000***		
September Total			2.300		

Moreover, on 4 August, the Belgian Debt Agency issued an additional € 506 million through its fifth ORI facility. The 1 September ORI facility was not exercised.

ORI (€ 0.506 billion)

Date	OLO		Issued (€ billion)	Yield
August 4	OLO 3.00% 22/06/2034 OLO 2.15% 22/06/2066	OLO73 OLO80	0.200 0.306	3.341% 3.502%
August Total			0.506	

No EMTNs or *Schuldscheine* were issued in the third quarter of 2023.

Total medium- and long-term issuances now amount to € **40.597** billion, corresponding to **90.2** % of the € 45.0 billion updated funding target.

In terms of portfolio structure, the average life of the portfolio was 10.84 years (at the end of August). The implicit yield of the portfolio has increased slightly to 1.75 % (end of August).

One-year State Note

On 4 September, an issuance of one-year State Note, with a maturity date of 4 September 2024 and a 3.30 % coupon, offered during the third State Notes campaign of the year, raised **€ 21.896 billion**, making it the most successful issuance of State Notes ever, by a large margin. It is interesting to note the increase in the share of subscriptions through the Public Debt Ledger. This time, such subscriptions represented almost a third of the total, whereas they accounted for only a fifth in past issuances.

2023 funding plan update

The **2023 gross borrowing requirements** have been revised downwards by € 2.0 billion to **€ 49.07 billion**, mainly as a result of a lower pre-funding estimate for 2024.

In terms of funding, the Debt Agency has lowered its planned 2023 OLO issuance by € 2.90 billion, to € 42.10 billion. The possibility for issuance under the EMTN programme is maintained for now. The planned issuance of medium and long-term State Notes, of which the Debt Agency has already issued € 0.39 billion as of today, has been revised upwards to € 0.90 billion.

As a result of the resounding success of the latest issuance of one-year State Note, the outstanding amount of Treasury Certificates is now expected to decline by € 13.46 billion, whereas previously an increase of € 1.00 billion was expected. The net change in other short-term debt and financial assets will narrow as well and should amount to –€ 4.73 billion. The Treasury's cash reserves will thus structurally increase by around € 9.0 billion.

More information on further issuances in 2023:

1) Short-term instruments

- The Treasury Certificate with a maturity date of 12 September 2024 will not be offered in the auction of 10 October 2023.
- The Treasury Certificate with a maturity date of 7 November 2024 will not be offered in the auctions of 7 November 2023 and 12 December 2023.
- The six-month Treasury certificate will not be reopened before the end of the year. This means that the Treasury certificate with a maturity date of 9 May 2024 will not be offered on 31 October 2023.
- Finally, the Treasury Certificates auctions scheduled for 10 October 2023 and 12 December 2023, along with the planned reopening of the three-month Certificate, have been cancelled.

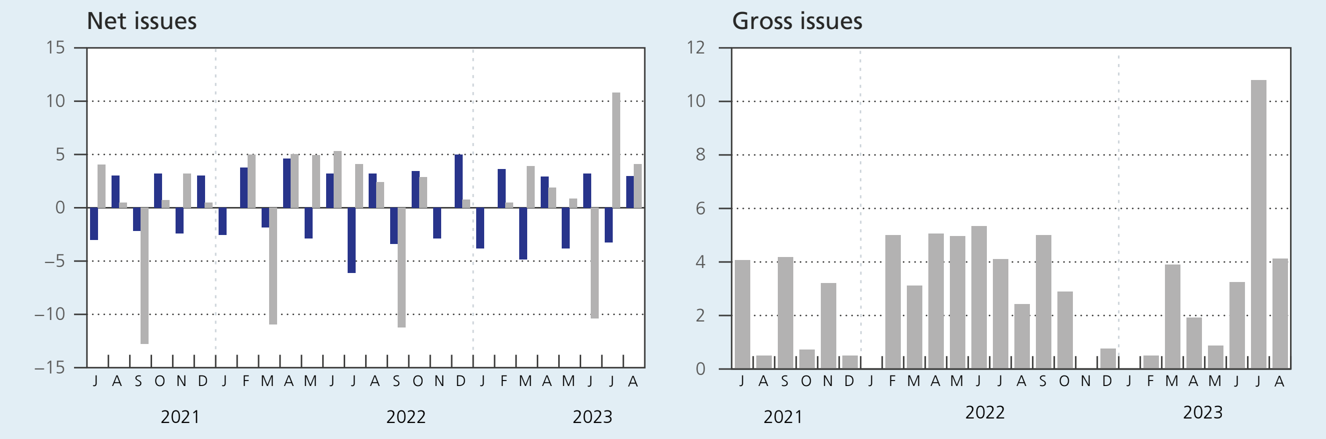
2) Long-term instruments

- The OLO auction scheduled for 20 November 2023 has been cancelled.
- The two last planned ORI windows of 2023 are maintained.

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

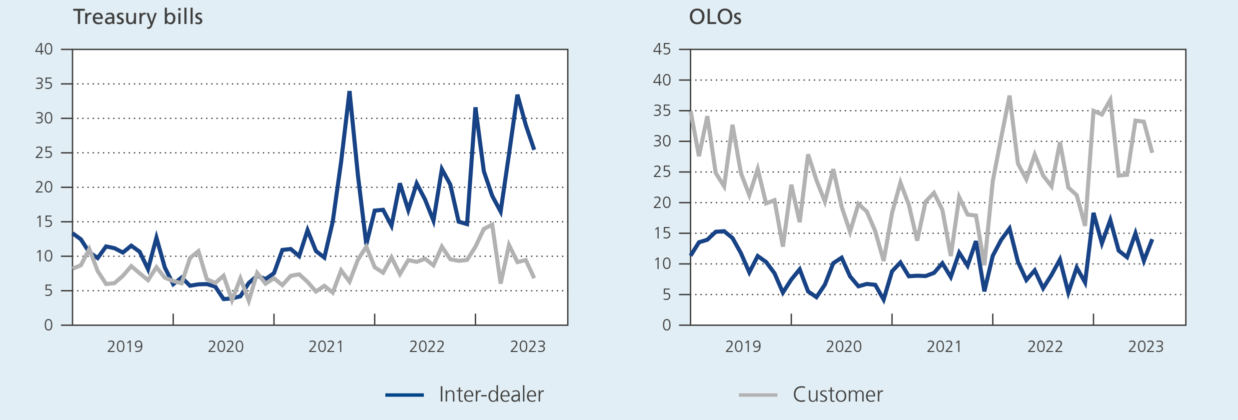
(€ billion)



Source: Belgian Debt Agency.

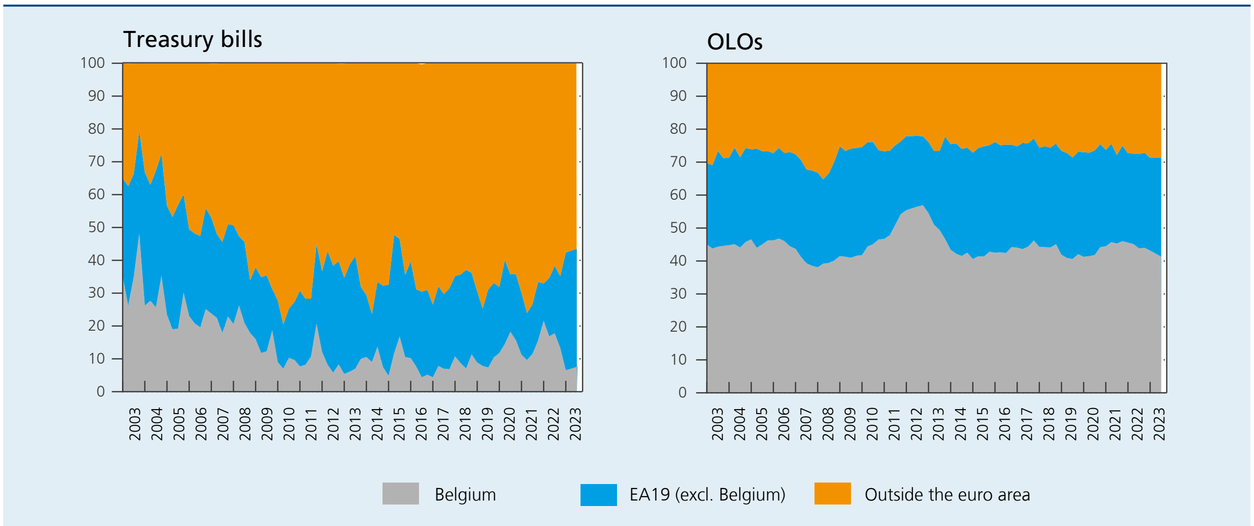
SECONDARY MARKET TURNOVER

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



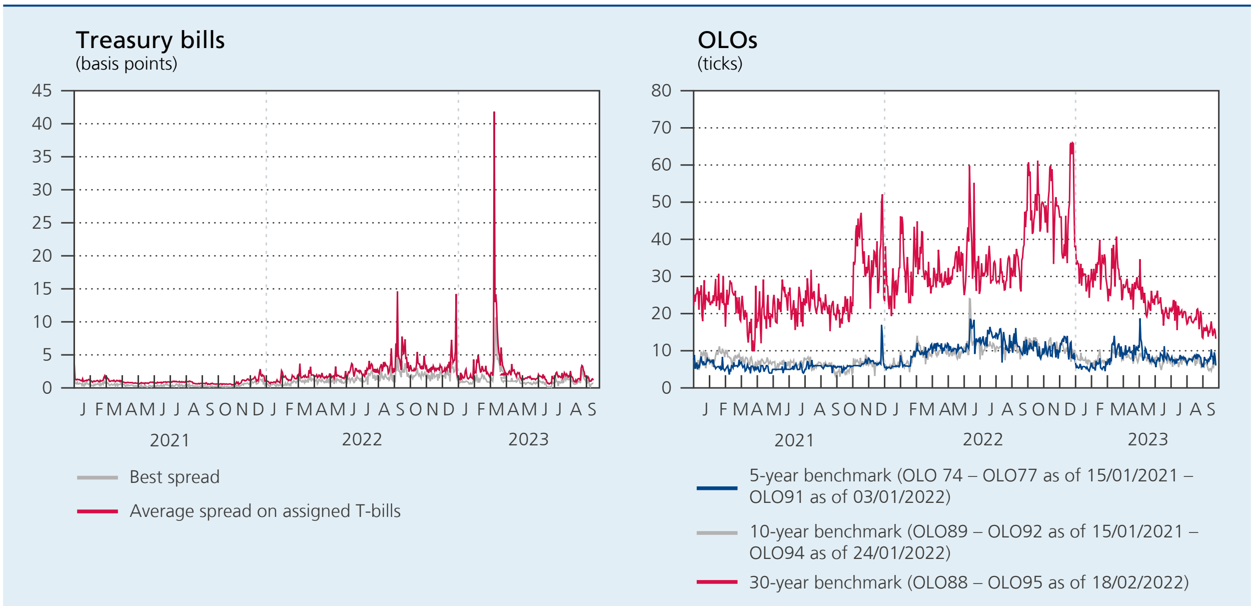
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



Source: NBB.

BEST BID/OFFER SPREADS (1)



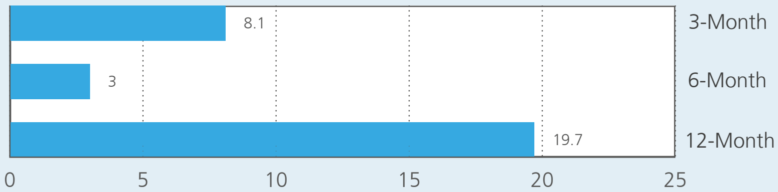
Source: Belgian Debt Agency.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

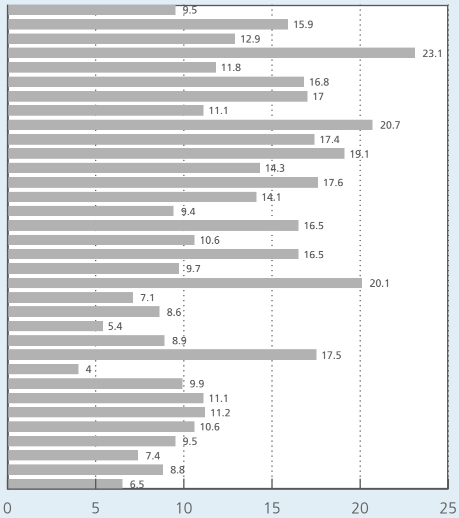
Treasury bills

Nominal outstanding amounts at the end of August 2023

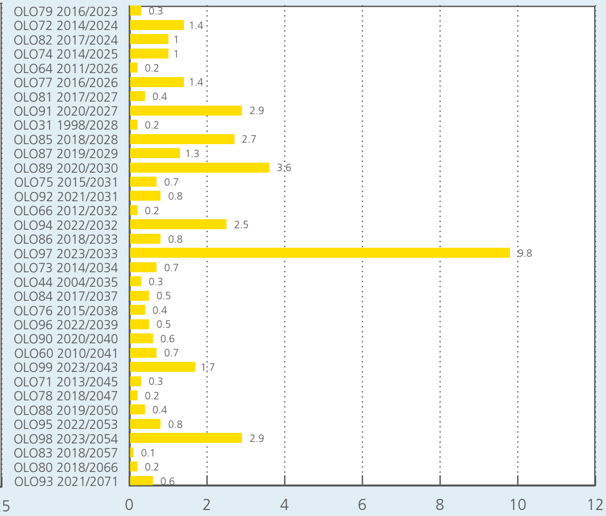


OLOs

Outstanding amounts on 26 September 2023



Outright turnover in August 2023



Source: Belgian Debt Agency.

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