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: Financial market turmoil implies downside risks for the global outlook
- SPECIAL TOPIC: Transmission of tighter monetary policy to bank retail rates
- FINANCIAL MARKETS AND INTEREST RATES: Volatility increased on sovereign bond markets
- TREASURY HIGHLIGHTS: More than one-third of the 2023 funding plan has already been raised

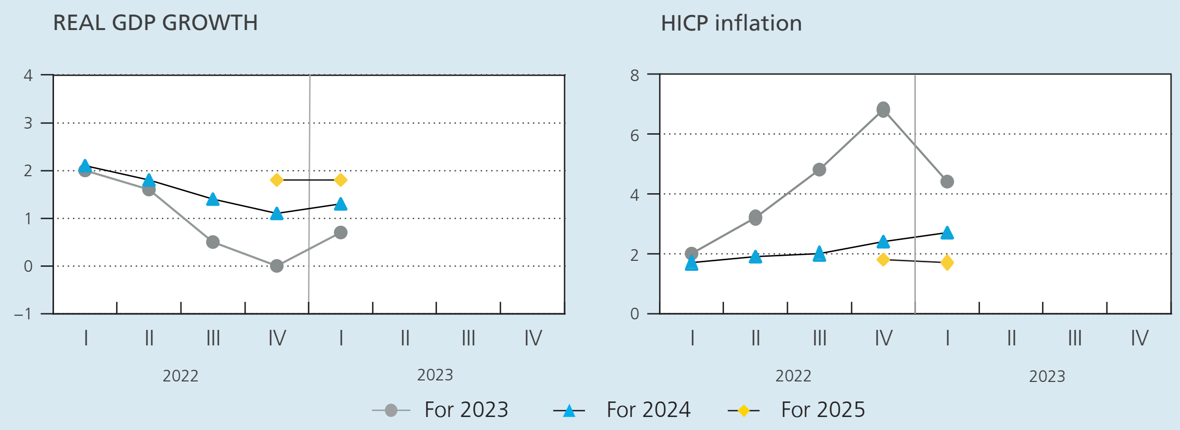
CONSENSUS **Average of participants' forecasts**

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]	3.1	0.7	1.3	1.8	3.5	0.7	1.1	1.5
Inflation (HICP)[1]	10.3	4.4	2.7	1.7	8.4	5.7	2.6	2.1
General government balance[2]	–3.9	–4.8	–4.7	–4.6	–3.5	–3.6	–3.0	–2.6
Public debt[2]	105.0	105.7	106.8	107.6	91.5	92.9	92.1	91.0

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

Financial market turmoil implies downside risks for the global outlook

The global economy ended 2022 on a weaker note, but a number of factors should provide support in 2023. The further dissipation of supply chain constraints, the fall in energy prices and the reopening of the Chinese economy are expected to shore up world growth. On the other hand, tighter financial conditions and especially financial market turmoil (as discussed in the section on financial markets and interest rates) imply downside risks for the outlook. The OECD's March interim report projects that the global economy will grow by 2.6% in 2023 and 2.9% in 2024, i.e. at a slightly slower pace than the rate of 3.3% recorded in 2022.

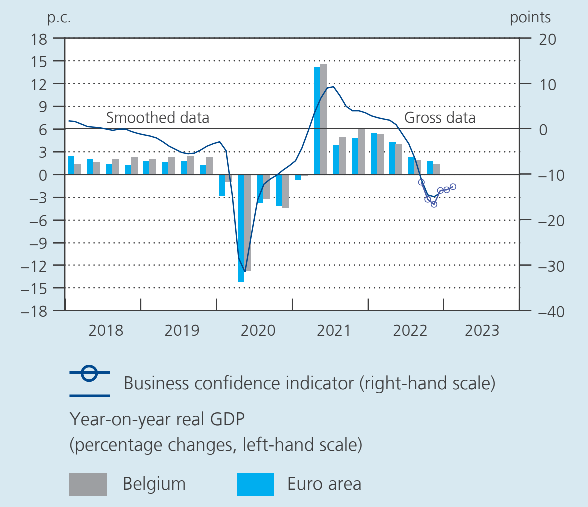
The euro area economy remained more resilient than anticipated in the second half of 2022, although the economy flatlined in the last quarter of the year. With energy prices easing, confidence indicators have edged up again and growth is no longer expected to dip into negative territory. In annual terms, Belgian Prime News participants expect **the euro area economy to grow by 0.7% in 2023. Growth is expected to speed up to 1.1% in 2024 and to 1.5% in 2025.** Compared to the December consensus, the growth outlook has been adjusted upwards for 2023 and somewhat downwards for 2024 and 2025. As for inflation, Belgian Prime News participants have revised their forecast down for 2023. **Euro area inflation is now expected to come in at 5.7% in 2023, down only somewhat from the average rate of 8.4% recorded in 2022.** Participants expect inflation to level off at just above 2% in 2025.

In Belgium, economic activity still expanded by 0.1% in the fourth quarter, once again surprising on the upside. As is the case for the euro area, the short-term outlook has brightened and the Belgian economy is expected to pick up pace at the start of 2023. According to the latest Business Cycle Monitor, economic activity should expand by 0.4% on a quarterly basis in the first quarter. **BPN participants expect real GDP growth in Belgium to reach 0.7% in 2023.** Growth is expected to pick up in 2024 (1.3%) and 2025 (1.8%). Compared to December, the consensus forecasts have been revised upwards for 2023 and 2024, by 0.6 and 0.2 percentage point, respectively.

The Belgian labour market was exceptionally strong in 2022, with about 100 000 jobs created, but employment growth came to a standstill in the last quarter of the year. In recent months, the harmonised unemployment rate edged up somewhat from its historical lows but remains very low, below 6%. Due to the ongoing tightness in the labour market, some labour hoarding is expected, preventing a strong increase in layoffs.

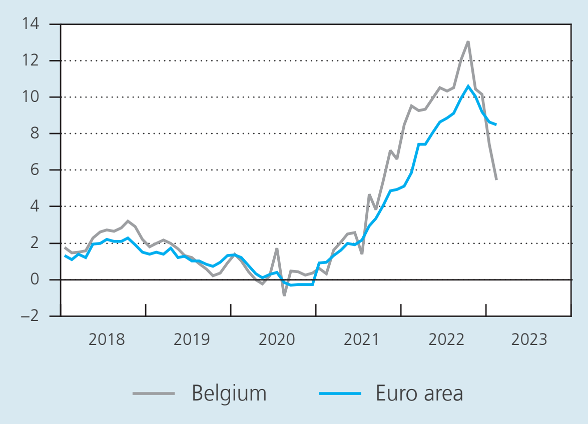
Inflation in Belgium is still high but started to moderate in November. The latest HICP reading, for February, stood at 5.4%. Energy inflation has clearly declined, but core and food inflation were still on the rise. **According to the latest consensus forecast, the headline inflation rate in Belgium is expected to be 4.4% in 2023, down from 10.3% in 2022. It should drop to 2.7% in 2024 and 1.7% in 2025.** This implies a cut compared to the BPN's December consensus of -2.2 percentage points in cumulative terms.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)

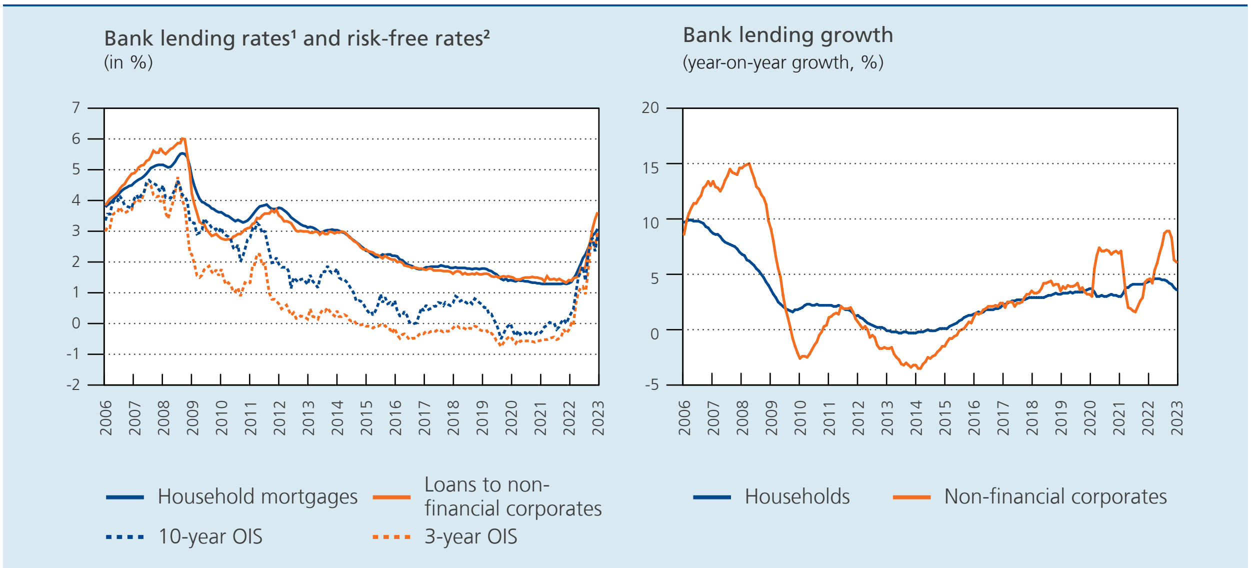


Source: EC.

On the public finance side, temporary measures such as those taken to shore up purchasing power in response to galloping energy prices widened the 2022 budget deficit, while the economic slowdown is expected to weigh on the budget balance in 2023. According to the consensus forecast, Belgium's **budget deficit is expected to widen to nearly 5% of GDP in 2023, after 3.9% in 2022. Participants expect the budget deficit to narrow only slightly after 2023.** Finally, BPN participants expect Belgian public debt to edge upwards further in the coming years, from around 105% of GDP in 2022 to 107.6% of GDP by 2025.

Since the ECB started raising its policy rates in July 2022, rate increases have followed every monetary policy meeting of the Governing Council, resulting in the most aggressive rate-hiking cycle since the start of the Economic and Monetary Union (EMU). Between July 2022 and March 2023, the ECB's deposit facility rate (DFR) was raised by a total of 350 basis points and now stands at 3%. This special topic analyses how this tightening of monetary policy has been transmitted to bank lending and deposit rates, using data up to January 2023. As developments in Belgium have, overall, been quite similar to those in the euro area, the focus here is on transmission in the euro area.

TIGHTER MONETARY POLICY WAS QUICKLY TRANSMITTED TO BANK LENDING RATES



Sources: ECB and Refinitiv.
[1] Rates on new loans.
[2] Risk-free rates are approximated by rates on overnight indexed swaps (OIS).

Thus far, the transmission of tighter monetary policy to bank lending rates has been smooth. While these rates had been declining since the global financial crisis – having fallen to around 1.5% on average for both loans to households and corporates – they have more than doubled over the last year, to 3.1% and 3.6%, respectively, in January 2023 (chart 1, left-hand panel).

More expensive credit contributed to slower bank lending growth (chart 1, right-hand panel). Households have been taking out fewer mortgages, as rising interest rates weigh on their borrowing capacity. In addition, the most recent ECB Bank Lending Survey indicated that demand for mortgage loans had dropped due to worsening housing market prospects. For firms, demand for credit throughout 2022 was driven by a need to finance inventories and working capital, against a backdrop of supply bottlenecks and rising input costs. Demand for credit for investment purposes contributed negatively to growth in business loans, as did the higher interest rate environment more recently. At the same time, banks significantly tightened overall credit standards for both consumer and business loans owing to their perception of heightened risk in relation to the economic outlook and lower risk tolerance.

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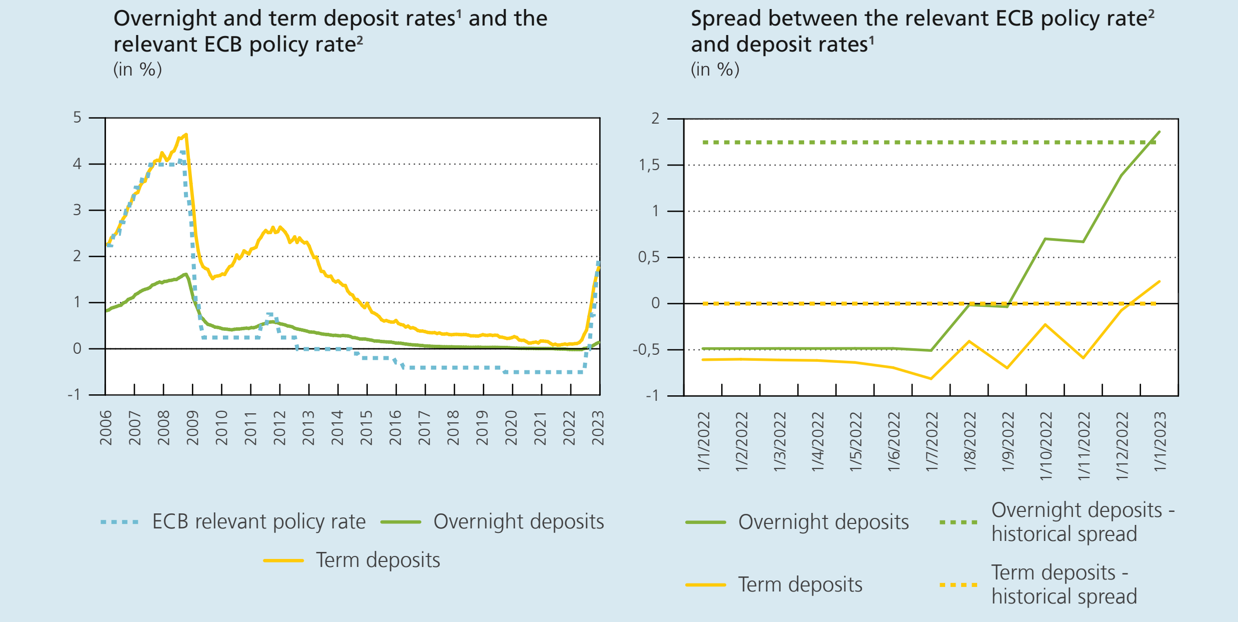
DEPOSIT RATES SHOWED MORE RIGIDITY



Source: ECB.
[1] Average rate on household and firm deposits, weighted based on the respective outstanding stock of deposits.
[2] The ECB main refinancing operations rate until September 2008 and deposit facility rate as from October 2008.

The pass-through of tighter monetary policy to bank deposit rates has been much less substantial. Indeed, interest rates on euro area bank deposits of households and firms have barely budged since the ECB started raising the DFR.

A closer look at the pricing of overnight versus term deposit rates can shed light on what has been going on. First, rates on term deposits have risen much more than those on overnight deposits. While the latter were still below 0.5% in January 2023, term deposit rates have risen to 1.8% on average (chart 2, left-hand panel; 1.6% for households and 2% for firms). However, the stock of term deposits in the euro area is substantially (roughly one-fifth) smaller than the stock of overnight deposits. Overnight deposit rates are typically slower to reflect changes in policy rates because they are passed on to the entire stock of deposits, while, in the case of bank loans and term deposits, interest rate changes are passed on to new volumes only.

Second, it is worth taking a closer look at the spread between euro area bank deposit rates and the DFR. In fact, before the global financial crisis – the only relevant reference period when excluding crises or negative interest rate episodes – the spread between the relevant ECB policy rate and the average rate on euro area overnight bank deposits was around 2% (for both households and firms). During the very low interest rate environment over the past years and given banks' limited ability to pass on negative rates to retail deposits (especially household deposits), this spread significantly narrowed and even turned negative in the past decade. Thus, when the DFR started to rise last year, this spread turned positive again and began to widen, reaching around 2% recently (chart 2, right-hand panel). This suggests that banks have been rebuilding their interest margins at more "normal" levels over the past months and that overnight deposit rates will start to increase more substantially if the DFR is raised further. Apart from the prevailing policy rate environment, several other factors determine bank deposit rates, such as the level of competition for deposits and banks' needs for stable funding sources. Such factors will influence the spread at which deposit rates eventually settle vis-à-vis the policy rate.

Term deposit rates have moved more in tandem with the ECB's relevant policy rate, both in the past and more recently. With term deposit rates clearly above overnight rates in the past months, firms and households have been actively transferring funds from overnight to term deposits. Such shifts were reinforced by the large stock of savings accumulated during the low interest rate period.

In conclusion, while monetary policy normalisation has already resulted in a significant tightening of bank lending conditions, the pass-through of higher policy rates to the remuneration of retail deposits is not yet visible. Following the last Governing Council meeting, President Lagarde indicated that key policy rates would have "more ground to cover" if the baseline inflation outlook were to persist. At the same time, the Governing Council announced that its policy rate decisions would be determined by inter alia the strength of monetary policy transmission and that it is monitoring current market tensions closely and stands ready to respond as necessary to preserve price and financial stability in the euro area.

FINANCIAL MARKETS AND INTEREST RATES

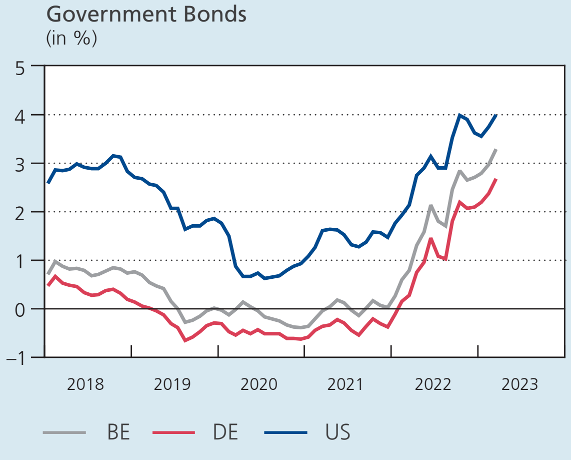
Volatility increased on sovereign bond markets

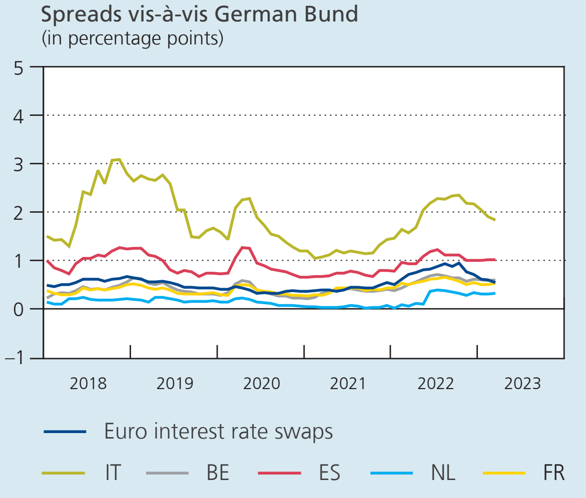
In the first quarter of 2023, central banks took additional steps to bring inflation back to target, although banking sector turmoil cast uncertainty on the economic outlook towards the end of the quarter. The ECB carried out two consecutive 50-basis-point interest rate rises in February and March, bringing the deposit facility rate to 3%. In addition, as previously announced, the ECB stopped reinvesting in full principal payments from maturing securities in its asset purchase programme (APP) portfolio in March 2023. The Fed also raised its policy rates in February and March, but by smaller 25-basis-point increments. The target range for the federal funds rate now stands between 4.75% and 5%. In this context, Belgian and German 10-year government bond yields increased by 36 and 35 basis points, from 2.70% and 2.09%, in December 2022, to 3.06% and 2.44%, in March 2023, respectively. Over the same period, the US 10-year sovereign bond yield rose by 8 basis points, settling at 3.70%.

The international financial environment deteriorated following the collapse of Silicon Valley Bank (SVB) in March. The value of banking stocks fell sharply in both the US and the euro area, and volatility increased on stock and bond markets. Since then, the VIX and VSTOXX indices have remained above their historical averages. Moreover, the MOVE index, which measures volatility on the US Treasuries market, spiked above the level observed during the global financial crisis. The more uncertain environment also had a negative impact on oil prices and corporate spreads. By the end of the first quarter of 2023, oil prices were close to $70 a barrel. On European markets, spot gas prices fell below the €50 per megawatt hour (MWh) mark, to their lowest level since Russia's invasion of Ukraine. The easing of the energy crisis and the relative stance of monetary policy had a favourable impact on the euro. After falling below parity last year, the euro-dollar exchange rate was 1.08 on 24 March.

While the Italy/Germany bond yield spread eased in the first quarter of 2023, sovereign spreads remained broadly stable in the rest of the euro area. The ECB's commitment to countering unwarranted market fragmentation and falling gas prices in Europe helped mitigate the adverse effects of a more uncertain international financial environment. The Italian spread declined by 32 basis points, to 1.85% in March. In Belgium, France and the Netherlands, sovereign spreads settled at 0.62%, 0.56% and 0.37%, respectively.

10-YEAR INTEREST RATES
(monthly averages)





Sources : BIS, Thomson Reuters.
Average over the first 24 days for March 2023.

TREASURY HIGHLIGHTS

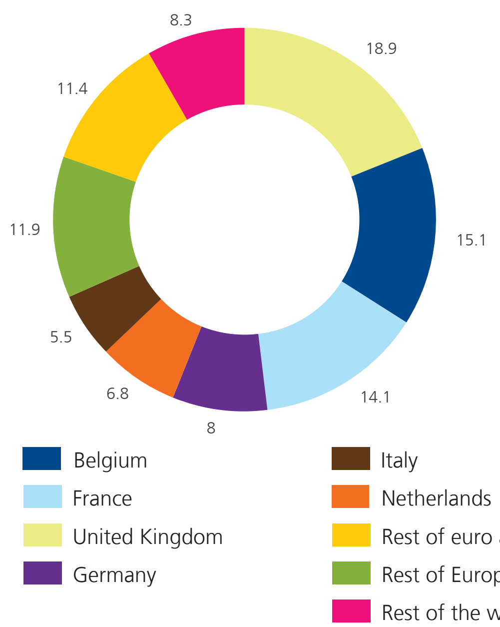
More than one-third of the 2023 funding plan has already been raised

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 funds will be raised through EMTN, Schuldscheine and State Notes (€2.25 billion).

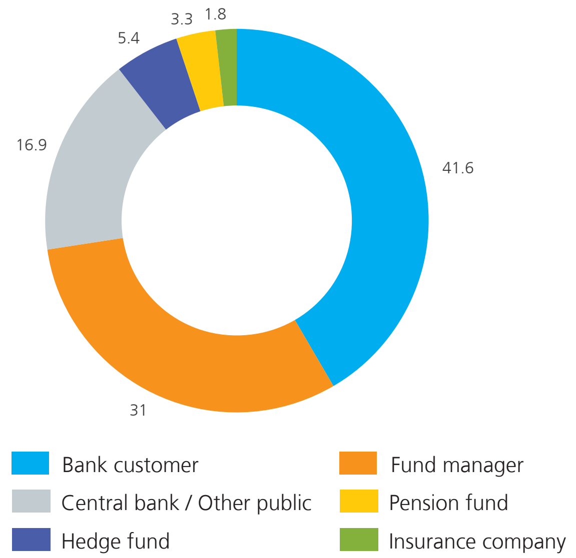
OLO syndication (€7.0 billion, 10-year benchmark)

On 10 January 2023, Belgium issued its first OLO of the year, opting for a 10-year benchmark, in keeping with tradition. The new €7.0 billion 3.00% OLO 97 22/06/2033 issue was priced at a spread of +10 bps, implying a reoffer yield of 3.024%. The joint lead managers were BNP Paribas Fortis, Crédit Agricole CIB, J.P. Morgan, KBC and Natixis.

OLO97 – Geographical distribution
(in %)



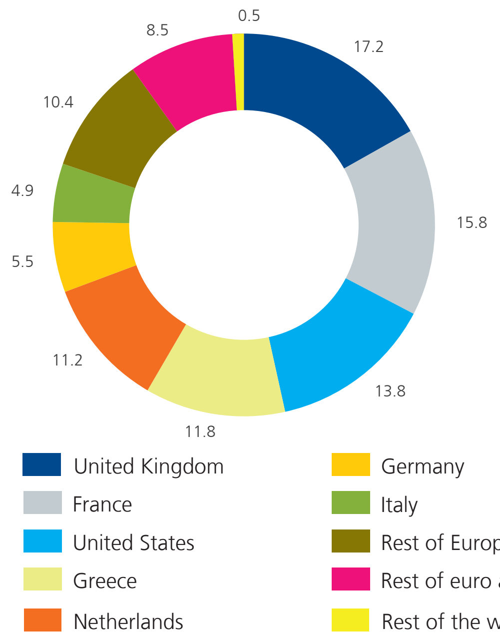
OLO97 – Distribution by type
(in %)



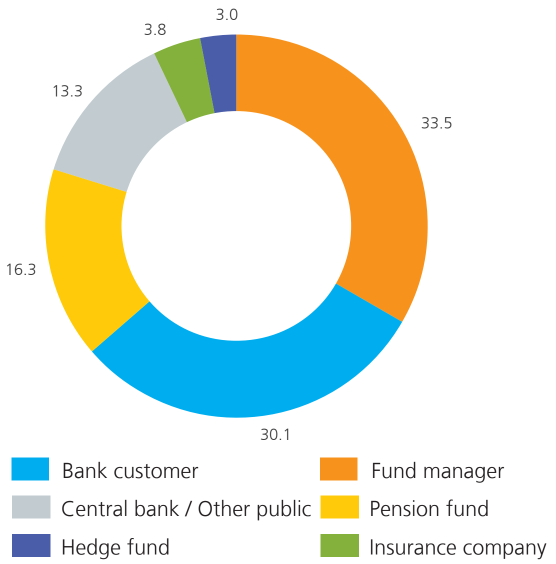
OLO syndication (€5.0 billion, 30-year benchmark)

On 15 February 2023, Belgium issued its second OLO of the year. The €5.0 billion 3.30% OLO 22/06/2054 issue was priced at 8bps over the OLO 95 maturing on 22 June 2053 and provides a re-offer yield of 3.349%. The joint lead managers were BNP Paribas Fortis, Deutsche Bank, J.P. Morgan, Morgan Stanley and Nomura.

OLO98 – Geographical distribution
(in %)



OLO98 – Distribution by type
(in %)



OLO auctions (€3.902 billion)

On 20 March, the Belgian Debt Agency issued €3.902 billion through its first annual auction, tapping the OLO 81 (2027), OLO 97 (2033) and OLO 96 (2039).

Date	OLO		Issued (€ billion)	Yield	Bid-to-cover
20 March	OLO 0.80% 22/06/2027	OLO 81	1.497	2.375%	1.45
	OLO 3.00% 22/06/2033	OLO 97	1.542	2.778%	1.69
	OLO 2.75% 22/04/2039	OLO 96	0.863	3.036%	1.69
Non-competitive subscription			0.000		
March total			3.902		

Moreover, on 3 February, the Belgian Debt Agency issued an additional €0.505 billion through its ORI facilities programme.

ORI (€0.505 billion)

Date	OLO		Issued (€ billion)	Yield
3 February	OLO 4.25% 28/03/2041	OLO 60	0.200	3.041%
	OLO 2.15% 22/06/2066	OLO 80	0.305	2.891%
February total			0.505	

Thus far this year, there have been no issues of EMTN or Schuldscheine.

After returning in 2022, retail notes continue to be offered to Belgian retail investors in 2023. The increasing interest rates enabled the Belgian Debt Agency to collect €262.3 million during the March campaign, more than the €250 million planned for the year in the 2023 funding plan.

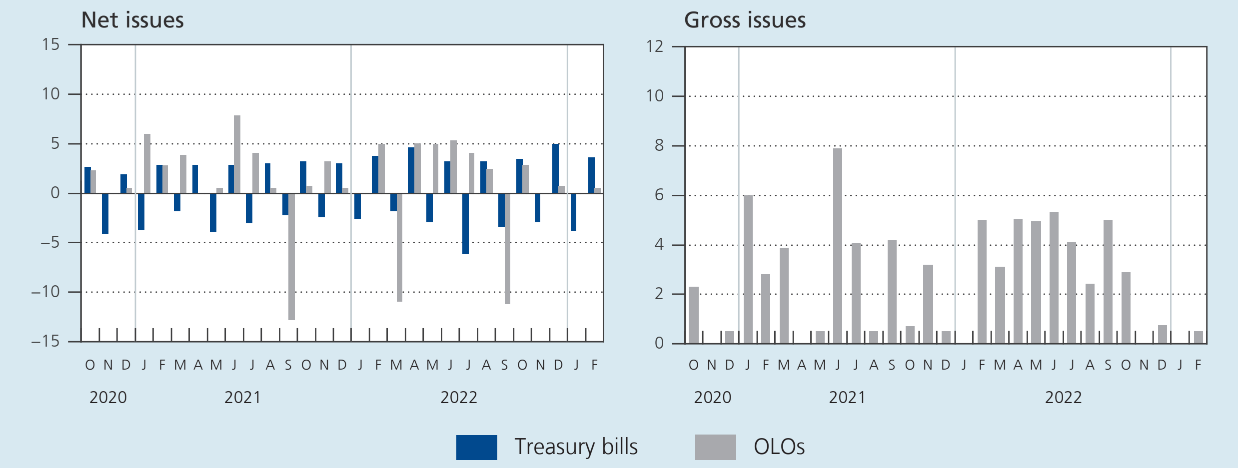
Belgium has therefore already issued **€16.67 billion**, corresponding to 35.3% of its funding target.

In terms of portfolio structure, the average life of the portfolio is now 10.52 years (as of the end of February), and the implicit yield is 1.54%.

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

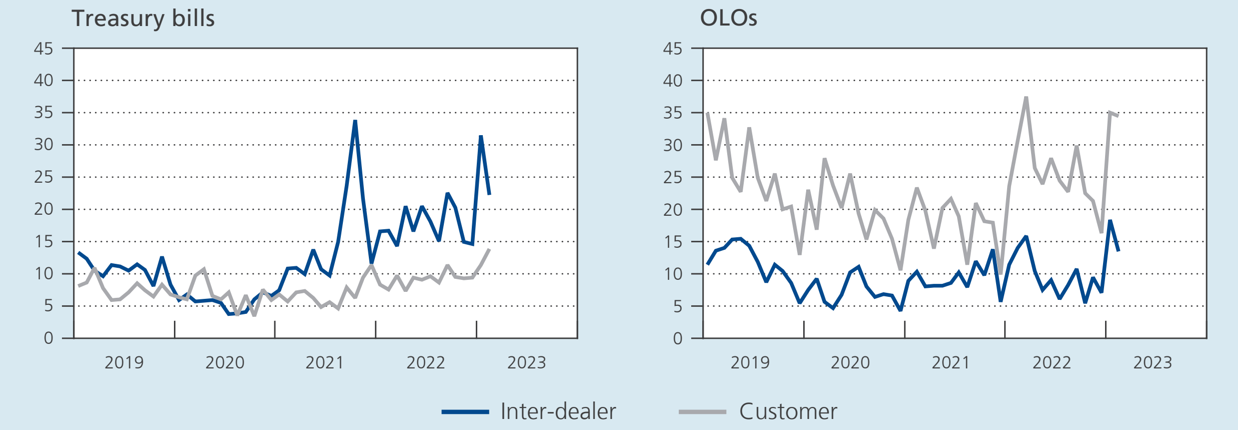
(€ billion)



Source: Belgian Debt Agency.

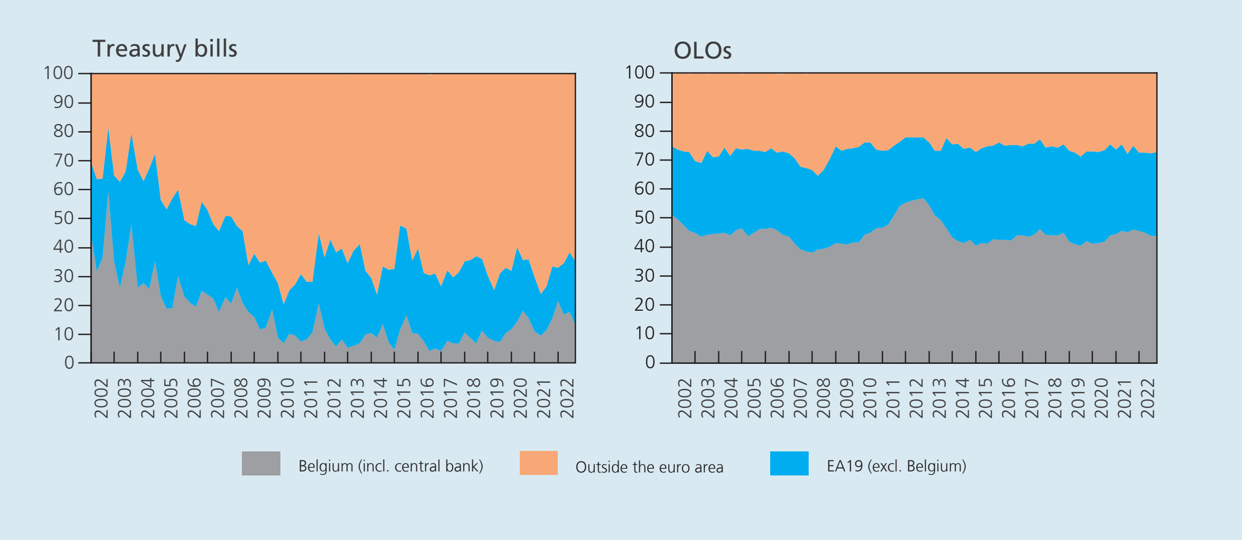
SECONDARY MARKET TURNOVER

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



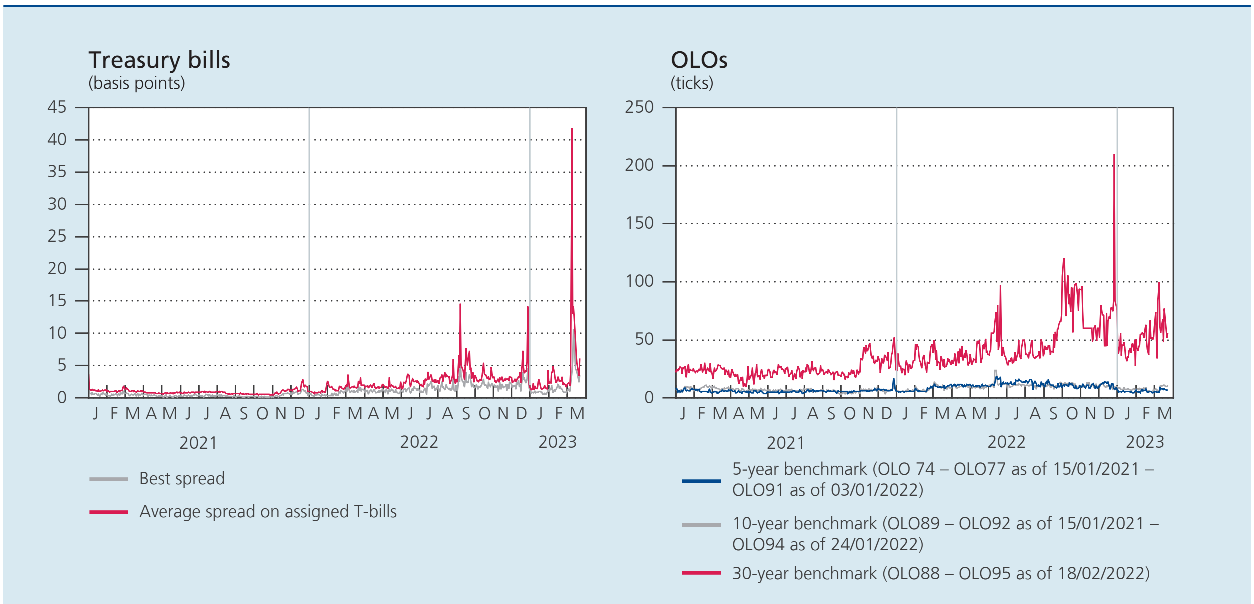
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



Source: NBB.

BEST BID/OFFER SPREADS (1)



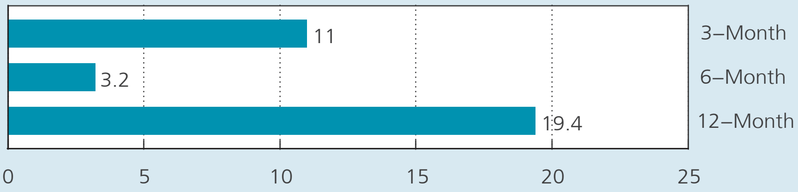
Source: Belgian Debt Agency.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

Treasury bills

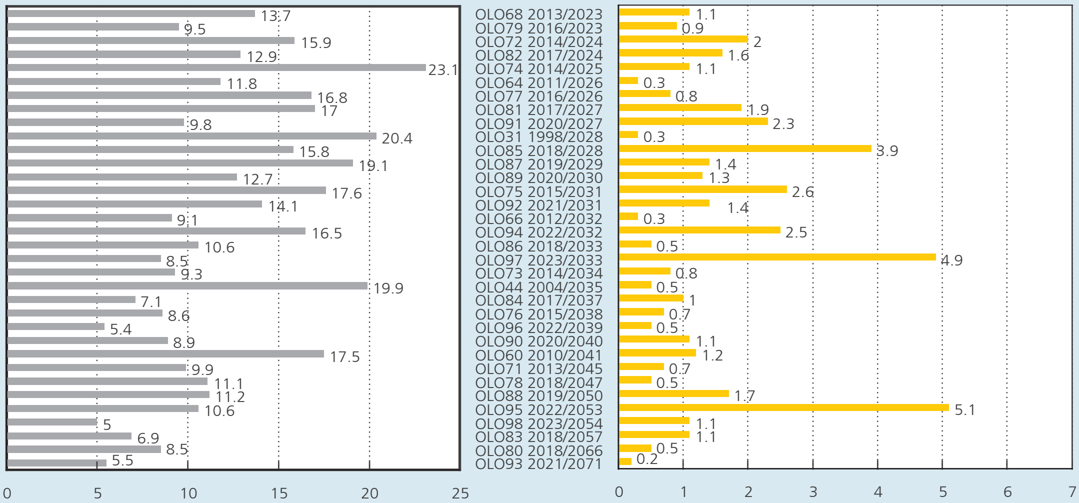
Nominal outstanding amounts at the end of February 2023



OLOs

Outstanding amounts on on 24 March 2023

Outright turnover in February 2023



Source: Belgian Debt Agency.

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