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Barclays, Belfius Bank, BNP Paribas Fortis, Citigroup, Crédit Agricole CIB, HSBC, ING, KBC Bank, Morgan Stanley, Natixis, NatWest (RBS), Nomura, Société Générale Corporate & Investment Banking

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- TREASURY HIGHLIGHTS : Nearly half of the 2019 funding target already raised

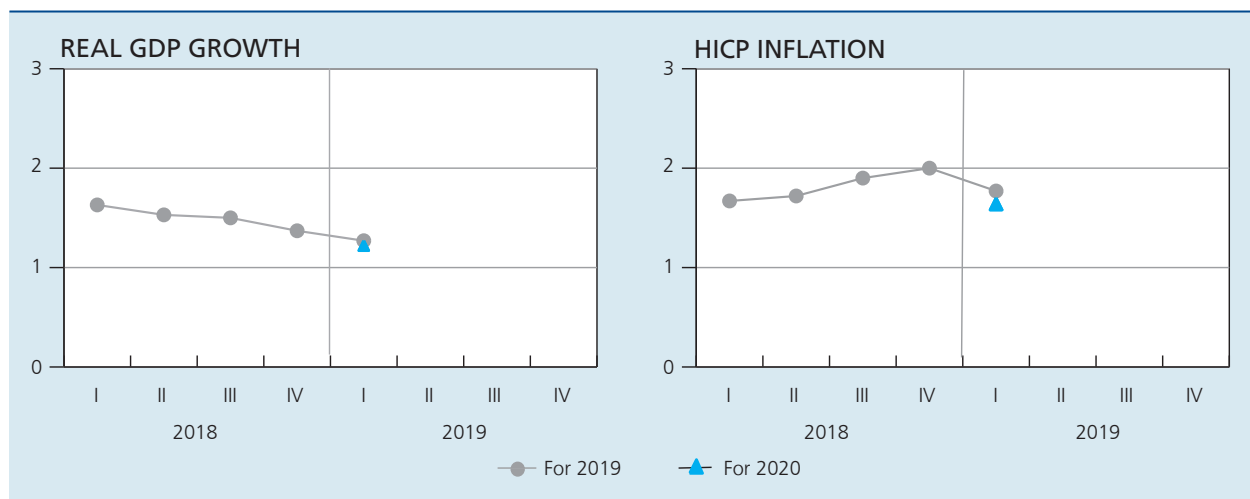
## CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2018	2019p	2020p	2018	2019p	2020p
Real GDP <sup>(1)</sup>	1.4	1.3	1.2	1.8	1.2	1.3
Inflation (HICP) <sup>(1)</sup>	2.3	1.8	1.6	1.7	1.3	1.5
General government balance <sup>(2)</sup>	-0.7	-1.5	-1.5	-0.5	-1.0	-1.0
Public debt <sup>(2)</sup>	102.0	100.8	99.8	85.0	84.6	83.3

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

### SUCCESSIVE FORECASTS FOR BELGIUM



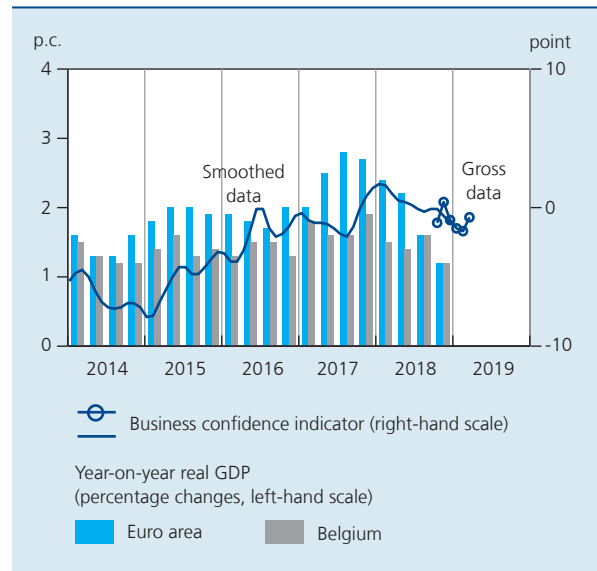
Source: Belgian Prime News.

# MACROECONOMIC DEVELOPMENTS Global economy faces headwinds

Global growth had already slowed somewhat in 2018 and is likely to weaken further in 2019. In advanced economies, the economic cycle is turning as production capacity constraints become more binding and support from trade has dwindled, against the backdrop of increasing protectionism, that may also start to weigh on investment. Global trade growth has been sluggish and actually contracted at the end of 2018. Additional downside risks, such as a disorderly Brexit, could put a further drag on growth.

In the euro area, growth declined further in the second half of the year, with an average quarterly rhythm of less than 0.2%. Two of the euro area's largest economies, Germany and Italy, were considered, respectively, to be on the brink of or already in a technical recession. When the German quarterly growth rate turned negative in Q3, this was partly attributed to a temporary issue with production by certain car manufacturers, following the introduction of new emission testing procedures (WLTP). However, the slowdown in industry was much broader and there was no recovery in Q4, with high-frequency indicators, such as the Purchasing Managers' Index (PMI), still showing no sign of any clear pick-up for the manufacturing industry in Germany, nor for the euro area as a whole. Initially, survey indicators for the services sector plunged as well, but they had recovered mildly by the most recent observation. The latest news has induced BPN participants to revise their expectations for 2019 downwards by 0.4 pp compared to the December estimate: **they currently see the euro area economy growing by only 1.2% in 2019. The BPN growth forecast for 2020 points to 1.3%. Euro area inflation is expected to remain moderate, reaching 1.3% and 1.5% respectively.**

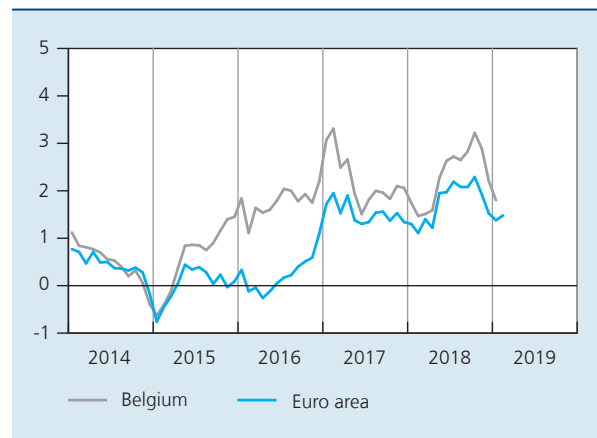
**GDP GROWTH AND BUSINESS CYCLE INDICATOR**



Sources: EC, NAI, NBB.

In Belgium, the economy posted a stable performance throughout last year. Quarterly GDP growth came in at 0.3% in the last quarter of 2018, a pace that was actually similar to that recorded in the first nine months of the year. While Belgian business confidence remains quite resilient so far, consumer confidence has weakened more and is now back at its long-term average. This confidence effect seems to be weighing on private consumption, as it contracted in Q4 for the second consecutive quarter, mainly on account of durable goods, even though this is partly due to volatility in car purchases related to the aforementioned introduction of the WLTP. **On average, BPN participants currently expect growth in Belgium to reach 1.3% in 2019 and 1.2% in 2020, close to the euro area's result.**

**INFLATION (HICP)**  
(annual percentage changes)



Source: EC.

The Belgian labour market remained strong in 2018 and the unemployment rate came down to 5.9% on average, according to the EU labour force survey. Meanwhile, on the nominal side, HICP inflation in Belgium has slowed down, from a peak of 2.9% in November to 2% in February. This downward pattern over the past three months was mainly driven by energy inflation, which moderated significantly since the end of last year. **According to the consensus forecast, inflation in Belgium should amount to 1.8% on average in 2019 and 1.6% in 2020.**

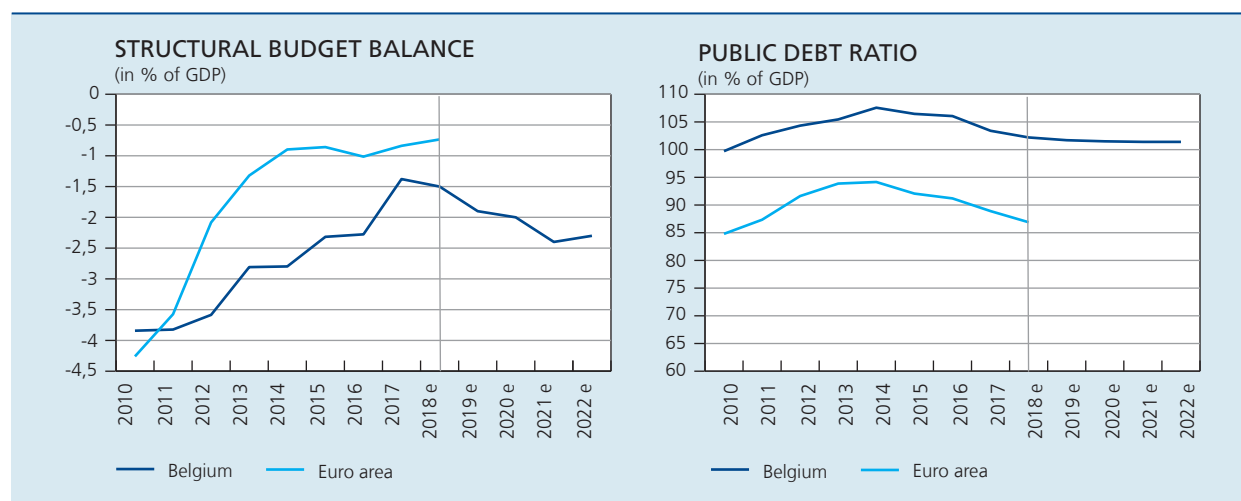
**Belgian Prime News participants expect the government deficit to worsen markedly from an average of 0.7% in 2018 to 1.5% in 2019. It should remain more or less stable in 2020.** As in 2017, the 2018 budget was affected favourably by a strong rise in advance payments on corporation tax, as a result of an increase in the corporate income tax surcharge on insufficient advance payments, which implies an important incentive to frontload tax payments. However, this shift in timing is considered to have only a temporary effect and could explain why the deficit is expected to worsen in 2019. In any case, additional fiscal consolidation efforts would still be required to achieve the medium-term objective of a balanced budget in structural terms. On the basis of their own macro and budgetary forecasts, **the BPN participants anticipate a further slow reduction in the Belgian public sector debt, from 102% of GDP at the end of 2018 to 100.8% in 2019 and 99.8% in 2020.**

## SPECIAL TOPIC Further consolidation efforts necessary to keep public finances on a sustainable path

Over the past year, the world economy and global trade have lost some steam in comparison to 2017. Moreover, several specific risks emerged or intensified throughout 2018 and early 2019, as mentioned in the previous section on macroeconomic developments. This trend was accompanied by a general worsening in sentiment. The Belgian economy, which is small, open and highly integrated into global value chains, is particularly susceptible to external shocks and spillovers.

An environment of heightened global uncertainty should remind public authorities about the need to take appropriate measures to get rid of any existing imbalances and build adequate buffers. While the Belgian public debt ratio has been on a downward path in the last few years, it remains at a high level and clearly above the euro area average. In view of dealing with the moderating economic cycle, as well as with future structural challenges such as population ageing, a further substantial reduction in the public debt is necessary.

### PUBLIC FINANCES IN BELGIUM AND THE EURO AREA



Sources: EC, FPB.

Belgium's structural deficit, obtained by stripping out cyclical and temporary factors, has been brought down considerably since its peak in 2010, albeit less markedly and with more intervals vis-à-vis the average in the euro area. In 2018, fiscal consolidation stalled. The Federal Planning Bureau (FPB), whose projections are in line with those released by the NBB in December 2018, expects a further worsening of the structural budgetary position in the coming years, if policy remains unchanged. Taxation of labour will be cut further, while corporation tax revenue is expected to fall due to lower tax assessments, following the shift towards advance payments that drove up corporation tax revenue in 2017 and 2018. In addition, the modest decline in interest payments is expected to no longer make up for gradually rising social security payments. These projections form the basis of the government's next Stability Programme, to be submitted in April, in which it presents its planned budgetary trajectory until 2022 to the European Commission.

Belgium's trajectory must satisfy the European governance framework, which requires an adjustment path towards its medium-term objective (MTO). In February, the European Commission re-set the minimum MTO for Belgium at a balanced structural budget. The previously applied minimum MTO was a structural deficit of 0.5% of GDP, although the government had set itself the stricter target of a balanced budget. Reaching a balanced structural budget in the medium term should ensure rapid progress towards sustainability, assessed against the need to ensure convergence of the debt ratio towards a prudent level - necessary to rebuild buffers to absorb negative shocks -, with due consideration to the economic and budgetary impact of ageing populations.

To keep Belgium's public finances on a sustainable path, and substantially reduce public debt, the incoming governments, to be formed after the 26 May regional and federal elections, will need to take additional measures to structurally improve the budget balance and to enhance the growth potential.

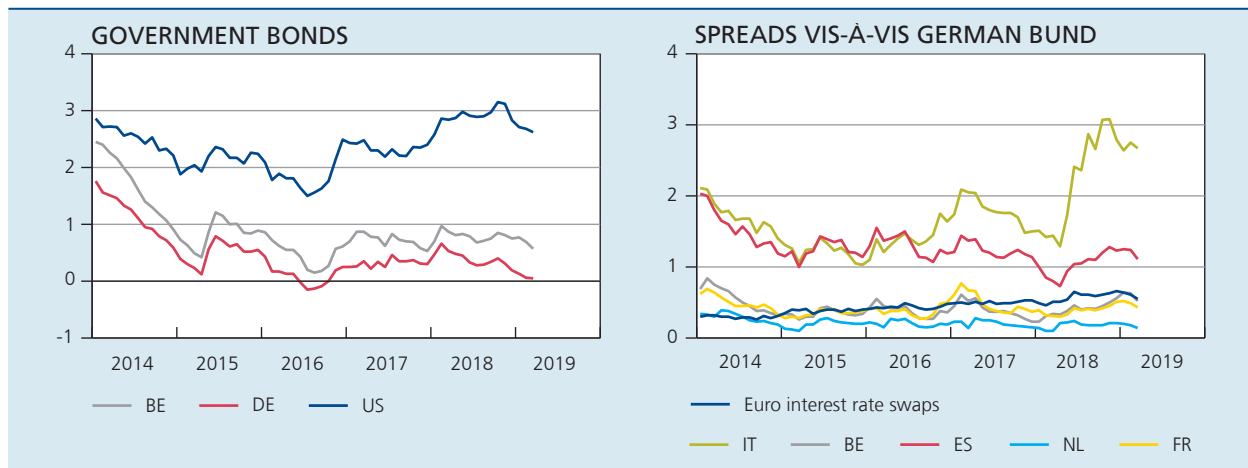
The first quarter of 2019 was marked by a rebound in stock prices. The S&P 500 and the Euro Stoxx 50, for instance, were both up by about 11 %. This rise is in sharp contrast to the substantial losses registered for the year 2018. At the same time, stock market volatility subsided. The one-month VIX and VSTOXX indices of implied volatility dropped respectively by 20 and 11 percentage points to reach 16 % and 13 % by mid-March. However, longer-term volatility indices remained more stable, indicating that financial markets anticipate a potential rise in volatility later this year.

This change in dynamics may partly reflect a revision of expectations regarding monetary policy. In the US specifically, in light of global economic and financial developments and muted inflation pressure, the FOMC announced on 30 January that it will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate. In the euro area, the Governing Council of the ECB announced on 7 March that it expects to leave its key interest rates unchanged at least until the end of 2019 and that it had decided to launch a new series of TLTROs starting in September 2019. The Governing Council indicated that risks surrounding the euro area growth outlook are still tilted to the downside, on account of weakened economic data, persistence of uncertainties related to geopolitical factors, the threat of protectionism and vulnerabilities in emerging markets. These factors also appear to weigh on economic sentiment.

Partly as a result of revised expectations regarding monetary policy, long-term sovereign bond yields continued to decline slightly in the first quarter of 2019. German and US 10-year sovereign yields fell by respectively 15 and 23 basis points to reach 0.04 % and 2.60 %. The US sovereign yield curve remains essentially flat.

Long-term sovereign spreads in the euro area vis-à-vis Germany have tended to remain stable in general. In France, however, with the recent wave of domestic protests fading out, the 10-year spread narrowed by 8 basis points over the first quarter to 43 basis points. In Belgium, the 10-year spread remained broadly stable at 53 basis points. Spreads remain relatively high in some euro area countries, such as Italy and Spain where they respectively stand at 267 and 110 basis points. These spreads might be influenced in the coming weeks by (expectations of) the results of national and European elections.

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



Sources: BIS, Thomson Reuters.  
Average over the first 22 days for March 2019.

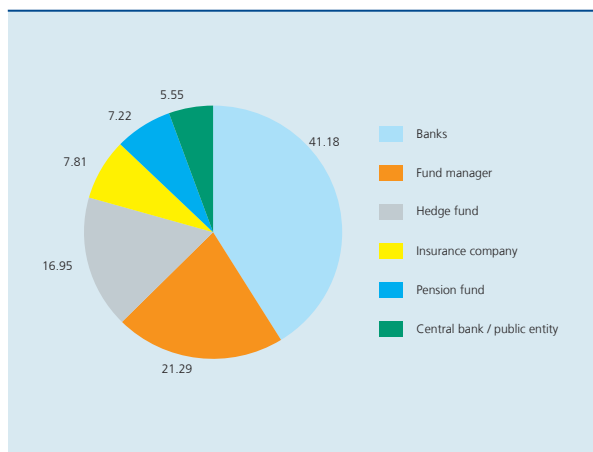
## TREASURY HIGHLIGHTS Nearly half of the 2019 funding target already raised

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 would be raised through EMTN and Schuldscheine (€ 2.00 billion) and State Notes (€ 0.25 billion).

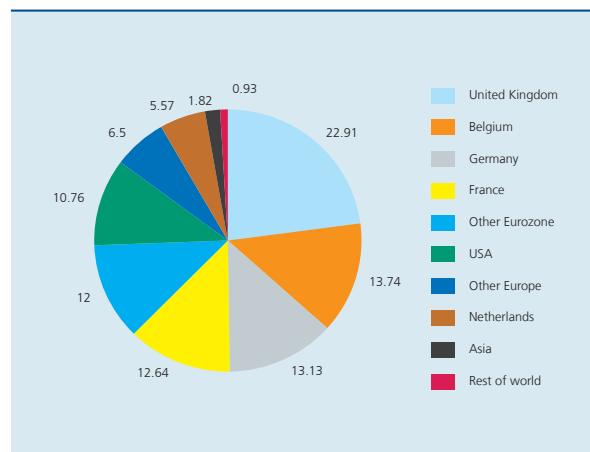
### OLO syndication (€ 6.0 billion 10-year benchmark)

On 8 January 2019, the Kingdom of Belgium issued its first new OLO benchmark of the year, opting for a 10-year OLO, in line with tradition. The new € 6.0 billion 0.90 % OLO 87 22/06/2029 was priced at a spread of -8 bps over the interpolated mid-swap reference rate, implying a re-offer yield of 0.944 %. Joint bookrunners were BNP Paribas Fortis, HSBC, J.P. Morgan and Natixis.

OLO87 — DISTRIBUTION BY TYPE (in %)



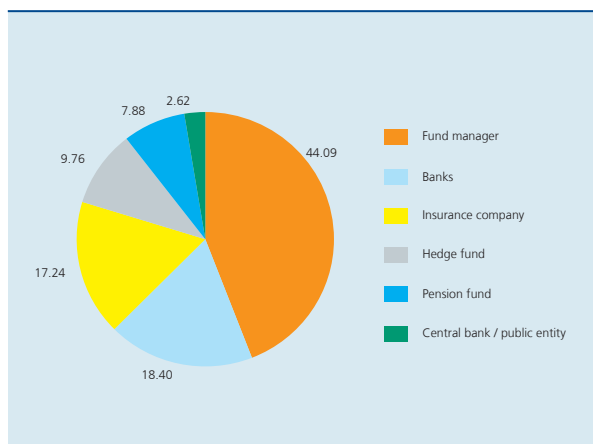
OLO87 — GEOGRAPHICAL DISTRIBUTION (in %)



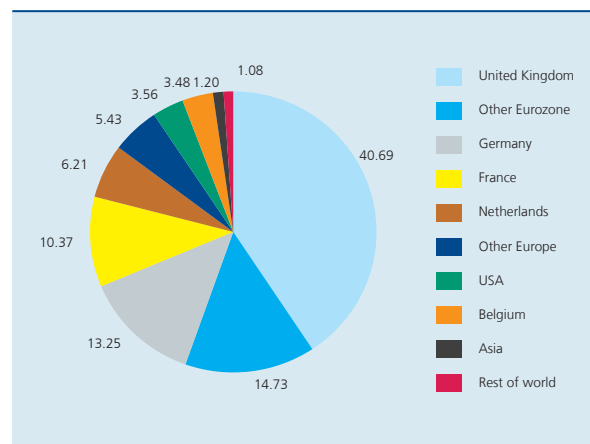
### OLO syndication (€ 5.0 billion 30-year benchmark)

On 29 January, the Kingdom of Belgium launched its second OLO benchmark of the year, the new € 5.0 billion 1.70 % OLO 88 22/06/2050. The transaction priced at m/s-44 bps for a re-offer yield of 1.746 %. Joint lead managers were Barclays, Crédit Agricole CIB, J.P. Morgan, NatWest Markets and Société Générale CIB.

OLO88 — DISTRIBUTION BY TYPE (in %)



OLO88 — GEOGRAPHICAL DISTRIBUTION (in %)



### OLO AUCTIONS (€ 3.983 BILLION)

Date	OLO	NR	Issued (€ Billion)	Yield	Bid to cover
<b>March 18</b>	OLO 0.50 % 22/10/2024	OLO 82	0.756	-0.077 %	1.99
	OLO 0.90 % 22/06/2029	OLO 87	1.291	0.518 %	2.26
	OLO 1.25 % 22/04/2033	OLO 86	0.958	0.868 %	1.75
				<b>0.978</b>	
<i>Non-competitive tour</i>					
<b>Total March</b>			<b>3.983</b>		

So far, there have been no EMTN or Schuldscheine issues this year. The 4 March State Note issuance raised € 4.0 million worth of funding.

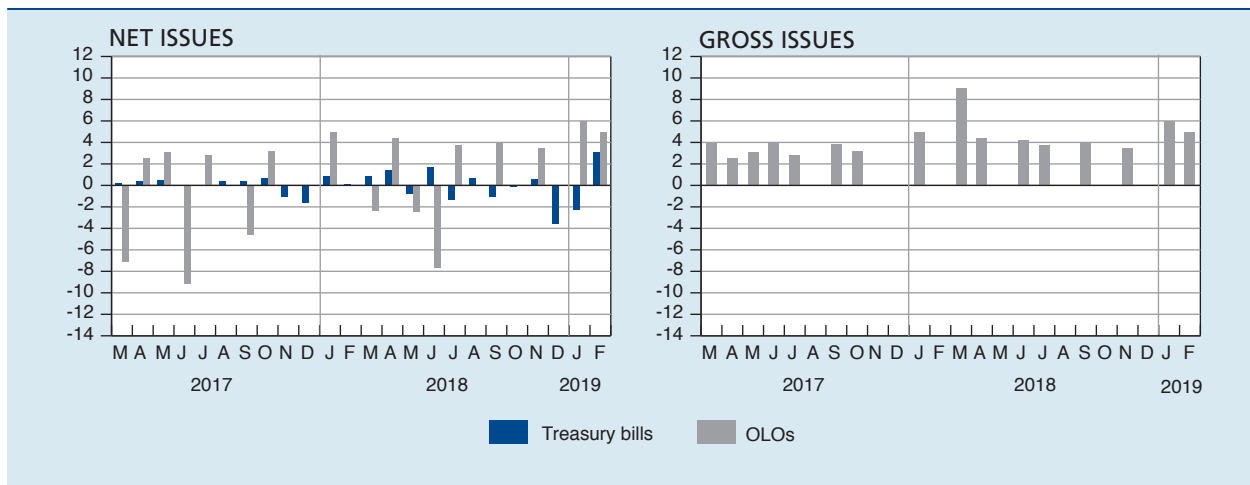
Belgium has therefore already issued **€ 14.98 billion**, corresponding to 49.5 % of its funding target.

In terms of portfolio structure, the average life of the portfolio is now 9.92 years (as of end of February) and it has an implicit yield of 2.13 %.

## GOVERNMENT SECURITIES STATISTICS

### PRIMARY MARKET

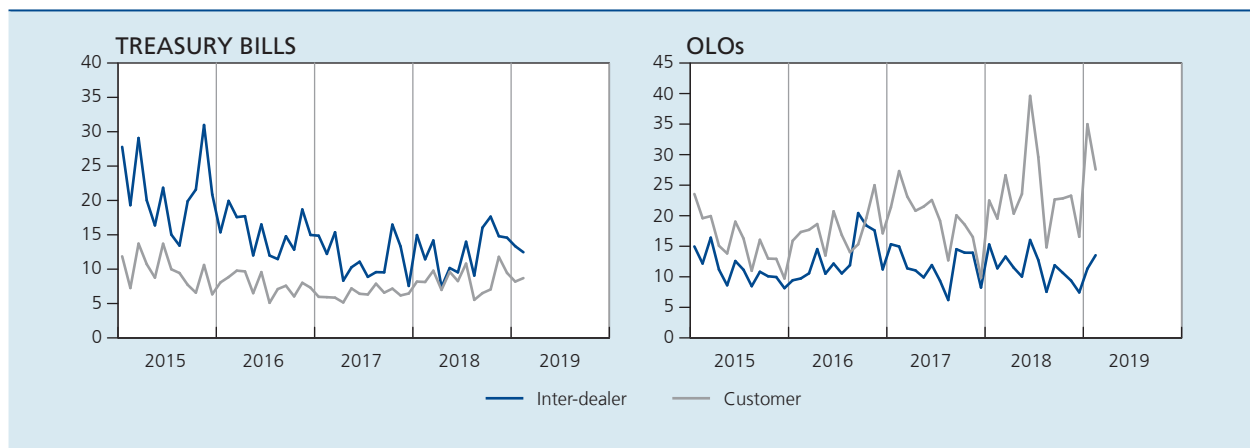
(billions of euros)



Source: Belgian Debt Agency.

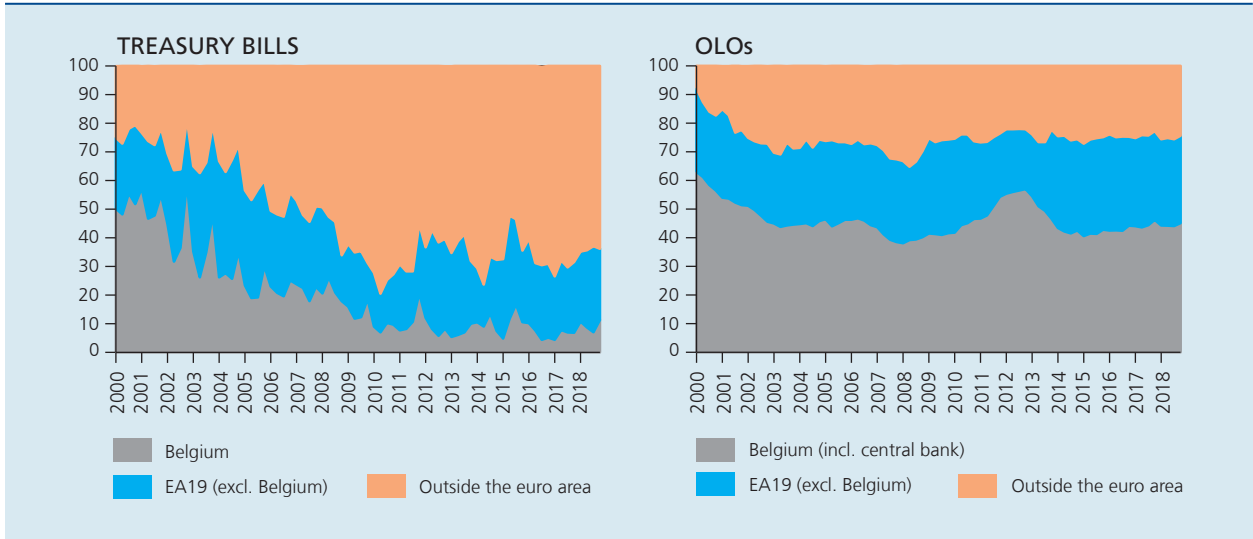
### SECONDARY MARKET TURNOVER

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



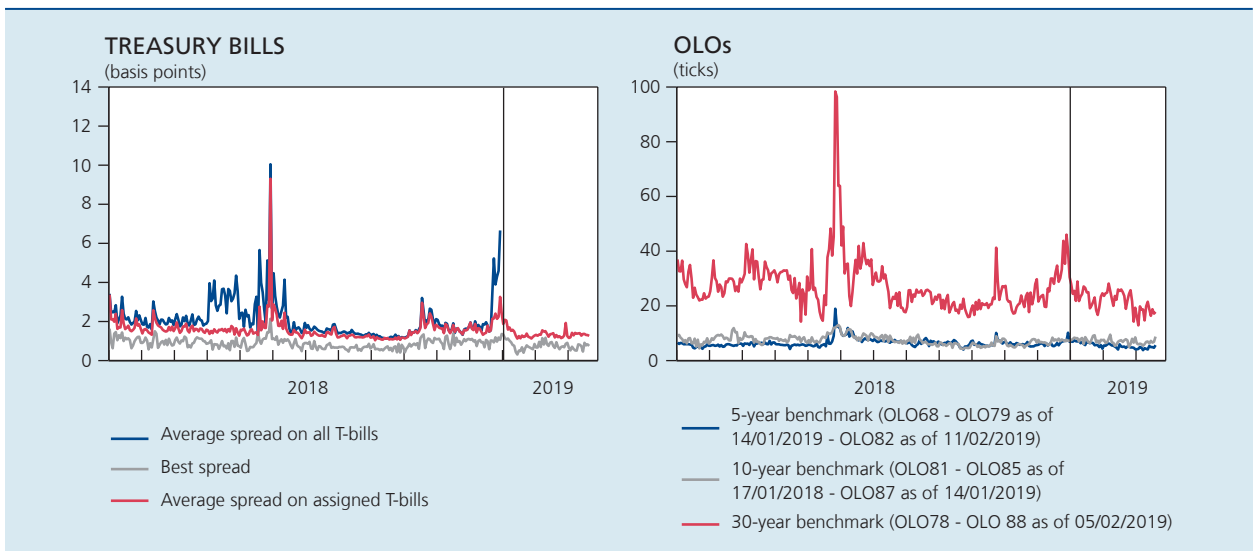
Source: Belgian Debt Agency.

**HOLDERSHIP BELGIAN SECURITIES**  
(in %)



Source: NBB.

**BEST BID/OFFER SPREADS <sup>(1)</sup>**



Source: Treasury.

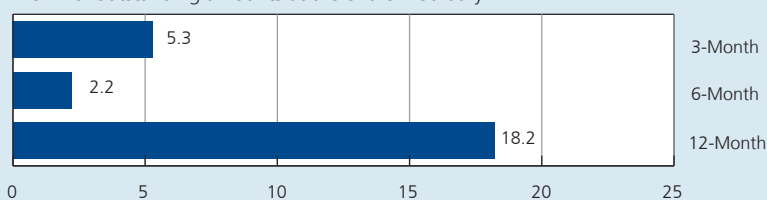
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

## OUTSTANDING AMOUNTS AND TURNOVER

(billions of euros)

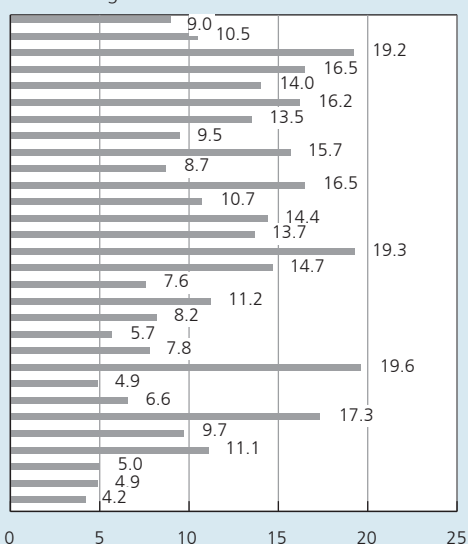
### TREASURY BILLS

Nominal outstanding amounts at the end of February 2019

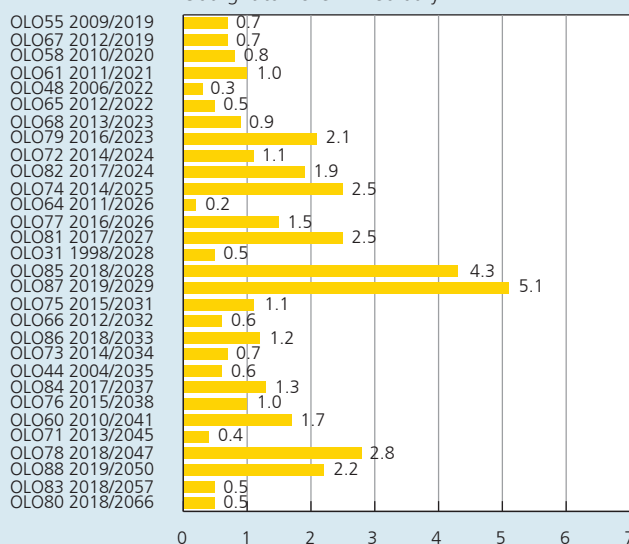


### OLOs

Outstanding amounts at 21 March 2019



Outright turnover in February 2019



Source: Belgian Debt Agency.

## LIST OF CONTACT PERSONS

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General information on the Belgian government's action can be found on the website: [www.belgium.be](http://www.belgium.be).

