Participating Primary and Recognised Dealers:

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

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- MACROECONOMIC DEVELOPMENTS: Surging prices are taking their toll
- SPECIAL TOPIC: The Belgian financial sector is robust and able to meet present-day challenges
- FINANCIAL MARKETS AND INTEREST RATES: Higher sovereign bond yields and spreads in the context of high inflation and tighter monetary policies
- TREASURY HIGHLIGHTS: Over 60 % of the funding target has been executed

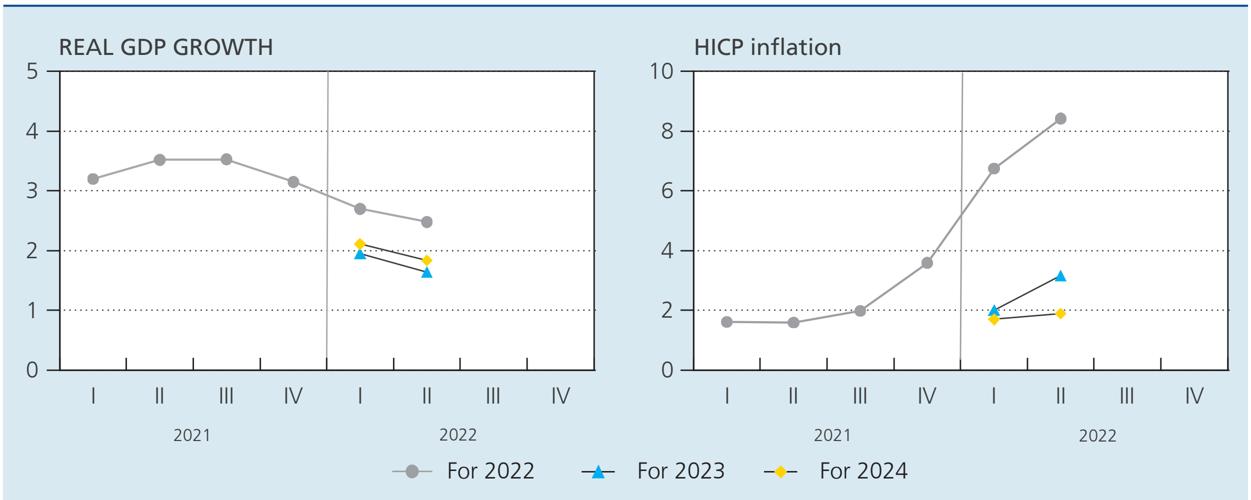
CONSENSUS **Average of participants' forecasts**

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

	Belgium				Euro area			
	2021	2022p	2023p	2024p	2021	2022p	2023p	2024p
Real GDP[(1)]	6.2	2.5	1.6	1.8	5.4	2.7	1.7	2.0
Inflation (HICP)[(1)]	3.2	8.4	3.2	1.9	2.6	7.4	3.5	1.9
General government balance[(2)]	–5.5	–4.6	–4.2	–4.3	–5.1	–4.4	–3.2	–2.7
Public debt[(2)]	108.2	105.7	106.3	106.4	95.6	96.5	95.1	94.0

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

SUCCESSIVE FORECASTS FOR BELGIUM



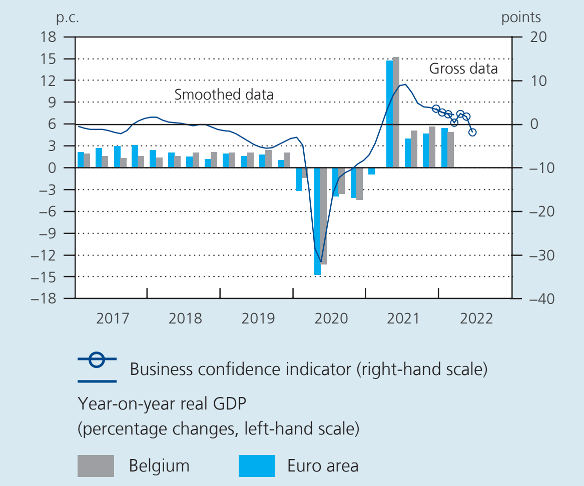
Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS **Surging prices are taking their toll**

The war in Ukraine and the Western financial and trade sanctions against Russia, coupled with the severe lockdowns imposed in certain industrial and logistical hubs in China in an attempt to bring down rising numbers of COVID-19 infections, have re-intensified global supply chain woes and added upward price pressures to an already high-inflation environment. With high inflation numbers eroding purchasing power and weighing on consumer spending, the economic outlook for the world economy in 2022 and 2023 is now clearly less favourable than before the conflict in Ukraine.

The euro area economy grew by 0.6 % at the start of the year, but this was predominantly due to double-digit growth recorded in Ireland [1], whereas growth in the big-four countries did not exceed 0.3 %. The euro area economy is expected to continue growing, albeit rather slowly in the second quarter of the year, as high inflation and uncertainty temporarily weigh on activity. Growth should pick up towards the end of this year as economic headwinds fade. Belgian Prime News participants see the **euro area economy growing by 2.7 % in 2022, by 1.7 % in 2023 and 2 % in 2024**. Compared to the March consensus, the growth outlook has been revised downwards slightly, by at least half a percentage point in 2022 and 2023. On the other hand, Belgian Prime News participants' inflation forecasts have been revised upwards even further, with **euro area inflation now expected to come in at well over 7 % on average in 2022**. BPN participants expect inflation to come down, but the decline is projected to be more moderate than envisaged in March, to 3.5 % in 2023 and 1.9 % in 2024.

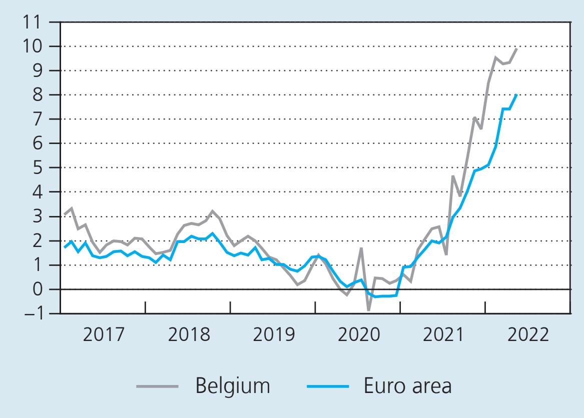
GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

In Belgium, economic activity expanded by 0.5 % in the first quarter, broadly in line with the estimate in the NBB's previous Business Cycle Monitor. However, the economy is expected to temporarily grind to a halt in the second quarter, according to the latest Business Cycle Monitor; the headwinds coming from the Ukraine war and surging prices are likely to be offset less by the post-pandemic recovery in the services sector. **BPN participants expect real GDP growth in Belgium to reach 2.5 % this year and 1.7 % on average in the next few years.** The consensus forecast was revised downwards a little for the entire projection horizon by −0.3 pp on average each year.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

The Belgian labour market continued to surprise on the upside. In the first quarter of 2022, domestic employment grew by 0.6 % on a quarterly basis, i.e. more strongly than growth in activity itself, adding another 30 000 people to the labour market. The unemployment rate has been hovering at just above 5.5 % since the start of the year, which is quite close to the lows reached just prior to the outbreak of the coronavirus crisis.

Inflation, too, has exceeded expectations, with the latest reading for the HICP rate for Belgium coming in at just below 10 % in May. The rise in headline inflation mostly stems from soaring energy prices, even though core inflation is on the rise too. **According to the consensus forecast, inflation in Belgium should work out at 8.4 % for the year 2022 and come down to 3.2 % in 2023 and 1.9 % in 2024**. This implies a further upward revision from the March BPN consensus of 3 pp in cumulative terms.

On the public finances side, temporary measures such as those taken to support purchasing power in response to the spike in energy prices weigh on the 2022 budget deficit. According to the consensus forecast, Belgium's **budget deficit should work out at 4.6 % of GDP in 2022 and improve only mildly to 4.2 % in 2023 and 4.3 % in 2024**. BPN participants expect the Belgian government debt to edge downwards only very marginally in the coming years, from around 108 % of GDP in 2021 to 106 % of GDP in 2024.

1 Ireland's statistics are often distorted due to the specific treatment of flows of multinationals. The figure of 0.6 % growth may therefore overstate the strength of underlying domestic activity in the euro area.

SPECIAL TOPIC **The Belgian financial sector is robust and able to meet present-day challenges**

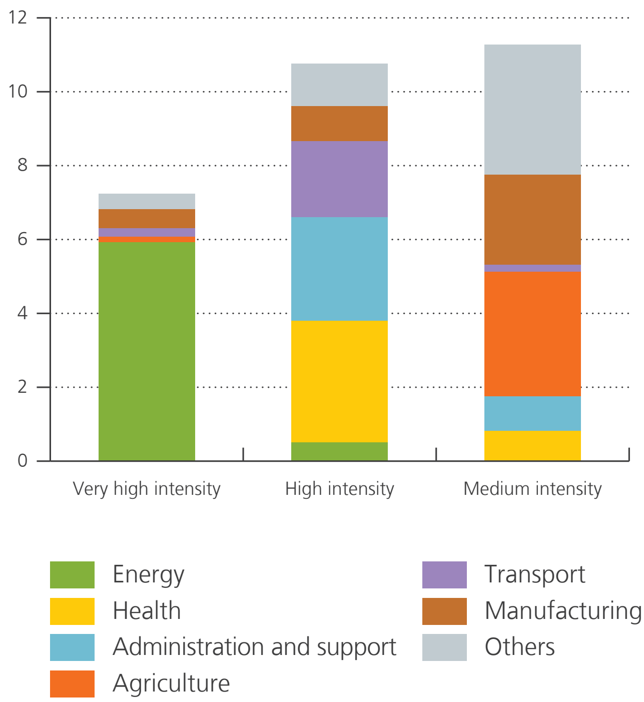
The National Bank of Belgium published its Macroprudential Report and Financial Stability Report on 7 June 2022. The reports look at the macroprudential policy followed over the last year, analyse the financial position of the Belgian banking and insurance sectors and review recent developments in the markets that are important for financial stability, such as the residential and commercial real estate markets. The consequences of the war in Ukraine and the rise in energy and commodity prices for businesses, households and the financial sector are of course also at the centre of the analysis.

Potentially significant risks for financial stability

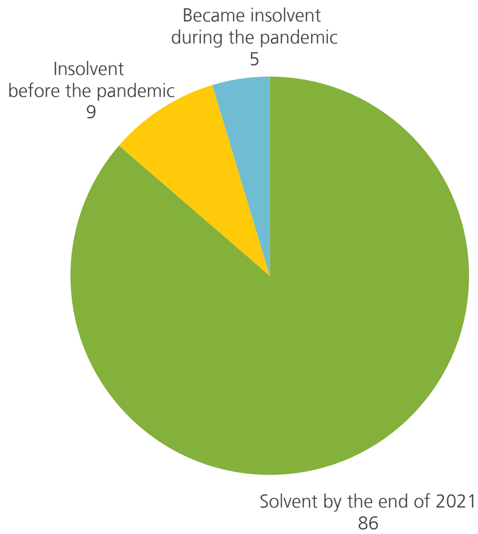
The Belgian financial sector has very limited direct exposure to counterparties in the conflict region or with direct links to this region. But second-round effects such as market corrections and a rise in volatility on financial markets, a reduction in economic growth and a rise in (energy) inflation could have a significant impact on financial stability. That in turn may lead to a deterioration in Belgian banks' credit portfolio quality. Although the extent of this impact – like the final impact on economic growth and inflation – cannot be measured precisely at this stage, it is expected to affect some economic agents more than others, and particularly more energy-intensive companies or households whose property has a low energy performance rating.

IMPACT OF THE COST INCREASE ON LOANS TO COMPANIES

Belgian banks' exposure to companies with medium to very high energy consumption [1]
(in € billion)



Share of companies with potential solvency problems [2]
(in %)



Source: NBB.
1 According to the share of energy in their intermediate consumption (excluding wages): > 5 % (medium), > 10 % (high) and > 20 % (very high).
2 A company is considerd insolvent if it debt/asset ratio is greater than 1.

The potential increase in repayment difficulties and a possible fall in value of some real estate assets could also heighten the vulnerabilities on the Belgian residential property market, against a backdrop of a rapid and marked rise in interest rates. Up until now, the mortgage market has remained dynamic, with record volumes of loans granted to young borrowers. The margins set by the Bank's recommendations for granting loans with a high loan-to-value ratio have not been completely used up, which means that there is sufficient room for manoeuvre for the mortgage market to remain accessible for solvent first-time buyers.

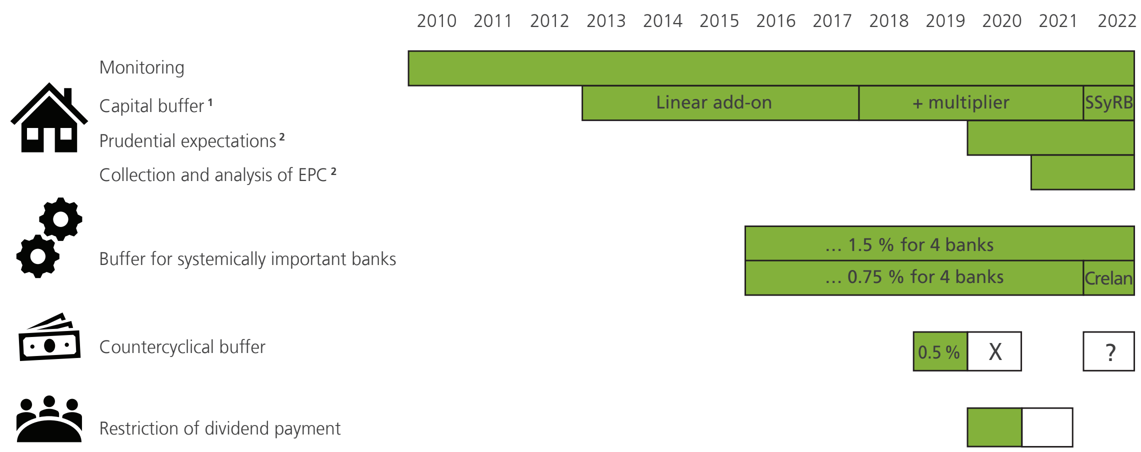
A solid Belgian financial sector, in a good position to support the real economy

The Belgian financial sector has not come out any weaker from the COVID-19 pandemic and still had a solid solvency position with a CET1 ratio of 17.6 % at the end of 2021, which is well above the average in the euro area (15.8 %). It is therefore able to withstand potentially significant shocks. The financial sector must be ready, if necessary, to conservatively book loan loss provisions to account for potentially substantial second-round effects, but also to proactively and bilaterally offer tailor-made solutions to borrowers faced with liquidity or repayment problems on existing loans. Such action was observed during the COVID-19 crisis and this should be repeated, if need be, even in the absence of a harmonised framework governing, for example, moratoria on loan repayments.

Macroprudential policy at a crossroads

At the beginning of 2022, macroprudential policy was preparing to shift from the crisis mode it entered at the start of the pandemic to go back to a more conventional mode, notably characterised by the gradual build-up of capital buffers. Russia's invasion of Ukraine interrupted this planned return to normality, especially in view of the potentially significant second-round effects of the conflict for the quality of the assets held by the financial sector.

The Bank's macroprudential policy



Source: NBB.
1 All loans.
2 New loans.

The Bank's recommendations on new mortgage credit continued to be well followed in 2021. That helped to reduce the risk profile of loan portfolios while maintaining access to home loans for borrowers. In addition, the Bank stands ready to release the macroprudential capital buffer built up specifically to cover real estate risks should any signs emerge of a substantial increase in repayment difficulties for mortgage borrowers. This buffer should then help find solutions for customers facing repayment difficulties.

In early 2022, it looked as though conditions might be ripe for the reactivation of the countercyclical buffer. This temporary capital buffer, which is built up during the upward phase of the credit cycle in order to generate sufficient absorption capacity to enable banks to cover (potential) credit losses in the downward phase of the cycle, was released at the beginning of the pandemic. The Bank is taking a cautious approach whilst it gains a clearer picture of the impact of macroeconomic developments both as regards the lending dynamics and credit quality.

Energy performance, rising interest rates and resurgence of cyber risks

The recent and current context underlines the importance of taking into account the risks for the financial sector associated with the energy performance of buildings, especially in terms of collateral for new loans granted. Extra efforts are needed from lenders to collect EPC data.

In view of the strong rise in interest rates, it is also important for Belgian financial institutions to take different potential interest rate scenarios closely into consideration in the future, not least as regards depositor behaviour, in the banking sector, and potential early surrender of insurance contracts in the insurance companies' case.

Last but not least, even though no major cyber security incidents were reported in the first few months of 2022, the Belgian financial sector needs to remain very vigilant about cyber threats.

FINANCIAL MARKETS AND INTEREST RATES

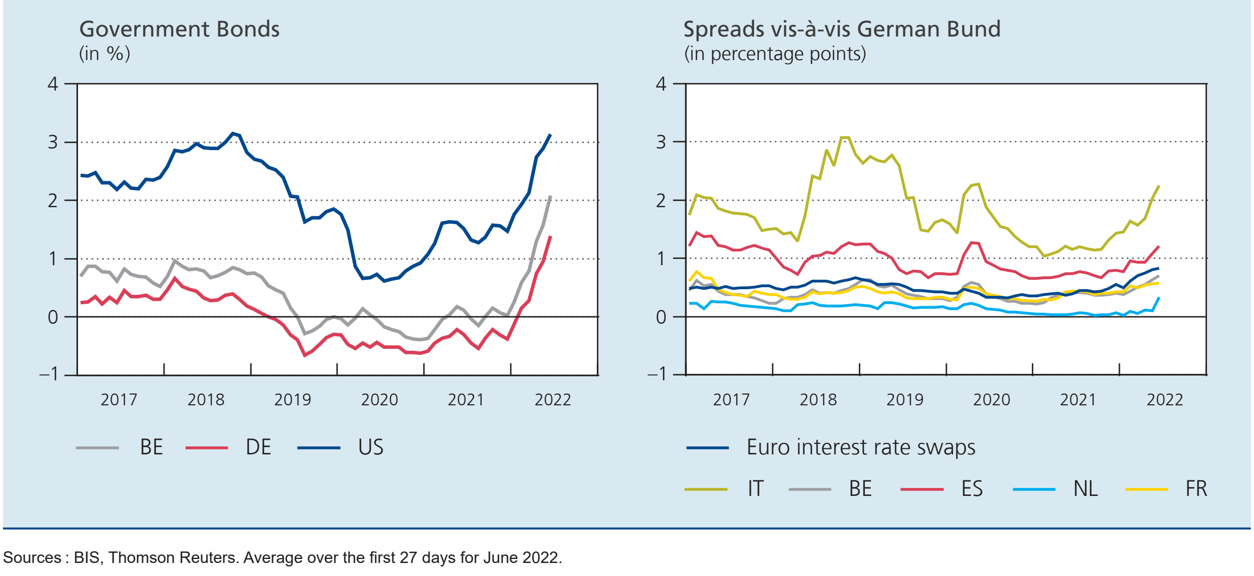
Higher sovereign bond yields and spreads in the context of high inflation and tighter monetary policies

Over the course of the second quarter of 2022, central banks announced additional measures to combat high inflation. The Fed raised the target range for the federal funds rate twice, by 50 basis points in May and by 75 basis points in June. The Fed also started reducing its holdings of Treasuries and agency mortgage-backed securities. The ECB kept its key interest rates unchanged but took further steps towards normalising its monetary policy. The ECB announced that it would stop net asset purchases under its asset purchase programme on 1 July this year and intends to raise rates at its next meeting. In this context, the US 10-year sovereign bond yield rose by 102 basis points, from 2.13 % in March to 3.15 % in June. Over the same period, the Belgian and German 10-year government bond yields were up by 132 and 115 basis points, to settle at 2.12 and 1.43 %, respectively.

Uncertainty surrounding the inflation outlook and weaker growth prospects contributed to high volatility on stock and bond markets. For instance, the VIX and VSTOXX spiked at 34 and 36 respectively in May and have since remained well above their historical average. In June, the Euro Stoxx 50 and the S&P 500 entered bear market, having lost more than 20 % of their values compared to their previous peaks in January. High-yield corporate spreads edged upwards in the US and euro area, reflecting the weaker global growth prospects. High commodity prices, persisting supply-side bottlenecks (stemming from Russia's invasion of Ukraine and lockdowns in China), and strong demand following the pandemic all contributed to higher inflation rates in the US and Europe. Oil prices now stand at $ 124 a barrel. The current monetary conjuncture means that the euro depreciated against the dollar and is now worth $ 1.06, against $ 1.11 at the end of March.

In the context of rising funding costs and monetary policy normalisation in the euro area, sovereign spreads vis-à-vis German Bunds widened in some highly indebted countries. Over the course of the second quarter of 2022, Italian and Spanish spreads rose by 65 and 26 basis points, to 2.22 and 1.20 % respectively. On 15 June, the ECB held an ad hoc meeting to discuss market developments and decided to apply flexibility in upcoming PEPP reinvestments and to accelerate the design of a new anti-fragmentation instrument. That has prevented any further increase in the spreads. In Belgium, France and the Netherlands, sovereign spreads have widened by 17, 13 and 23 basis points, respectively.

10-YEAR INTEREST RATES
(monthly averages)



Sources : BIS, Thomson Reuters. Average over the first 27 days for June 2022.

TREASURY HIGHLIGHTS **Over 60 % of the funding target has been executed**

The results of the two syndications and the two first auctions earlier this year were already given in the March issue of Belgian Prime News. In addition, three OLO auctions were held (in April, May and June), resulting in a total of € 13.84 billion of funding :

OLO auctions (€ 13.838 billion)

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cov-er
April 25	OLO 0.80 % 22/06/2027 OLO 0.35 % 22/06/2032 OLO 1.40 % 22/06/2053	OLO 81 OLO 94 OLO 95	1.372 1.542 0.900	0.865 % 1.412 % 1.912 %	1.52 1.80 1.87
Non-competitive subscriptions			0.754		
Total March			**4.568**		
May 23	OLO 0.80 % 22/06/2025 OLO 0.35 % 22/06/2032 OLO 2.15 % 22/06/2066	OLO 74 OLO 94 OLO 80	1.258 1.757 0.792	0.665 % 1.569 % 2.118 %	1.81 1.64 1.74
Non-competitive subscriptions			0.602		
Total May			**4.409**		
June 20	OLO 0.90 % 22/06/2029 OLO 0.35 % 22/06/2032 OLO 1.40 % 22/06/2053	OLO 87 OLO 94 OLO 95	1.092 1.073 1.536	1.903 % 2.295 % 2.801 %	1.55 2.61 1.38
Non-competitive subscriptions			1.160		
Total June			**4.861**		

Moreover, the Belgian Debt Agency issued an additional € 1.514 billion through its ORI facilities programme, in April, May and June.

ORI (€ 1.514 billion)

Date	OLO	NR	Issued (€ billion)	Yield	
April 1	OLO 4.00 % 28/03/2032 OLO 2.25 % 22/06/2057	OLO 66 OLO 83	0.262 0.268	0.951 % 1.585 %	
Total April			**0.530**		
May 6	OLO 4.50 % 28/03/2026 OLO 5.50 % 28/03/2038	OLO 64 OLO 31	0.228 0.276	0.738 % 1.011 %	
Total May			**0.504**		
June 3	OLO 4.00 % 28/03/2032	OLO 66	0.480	1.765 %	
Total June			**0.480**		

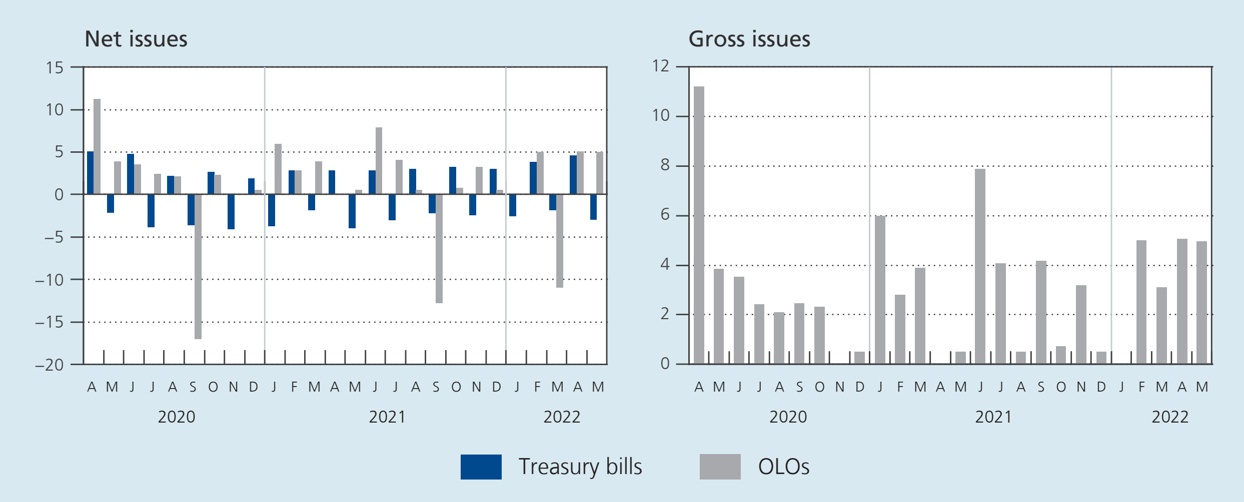
There have been no EMTN or Schuldscheine issues so far. However, the Debt Agency issued State Notes for the first time since March 2019 on 4 June 2022 : this raised € 40 million.

Belgium has therefore already raised € 28.51 billion, corresponding to 64.5 % of its funding target.

In terms of portfolio structure, the average life of the portfolio is now 10.37 years (as of end of May) and it has an implicit yield of 1.33 %.

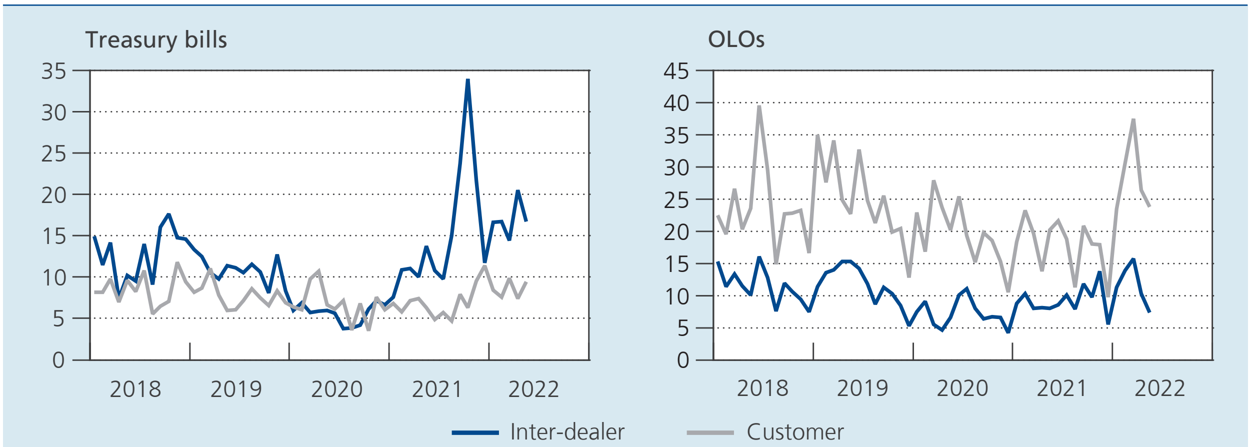
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(€ billion)



Source : Belgian Debt Agency.

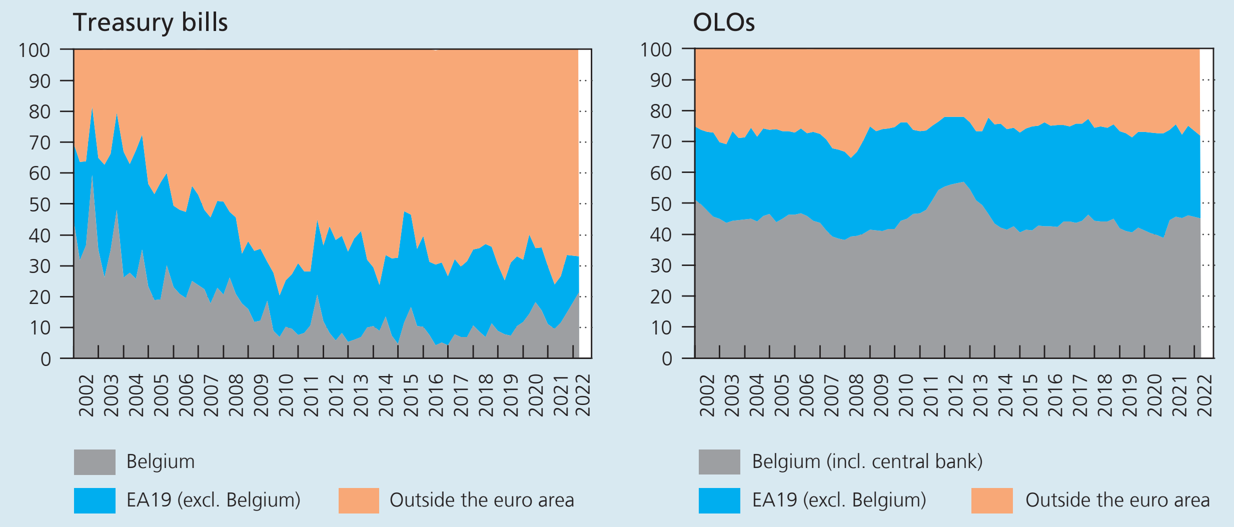
SECONDARY MARKET TURNOVER
(as reported by primary and recognised dealers to the Treasury, € billion)



Source : Belgian Debt Agency.

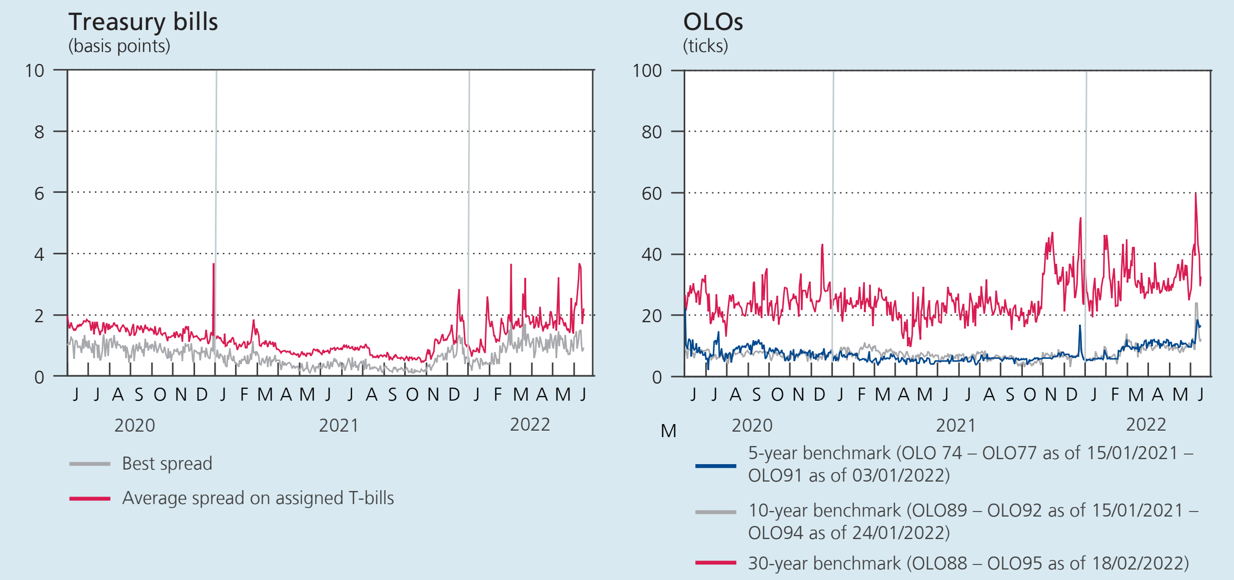
HOLDERSHIP BELGIAN SECURITIES

(in %)



Source: NBB.

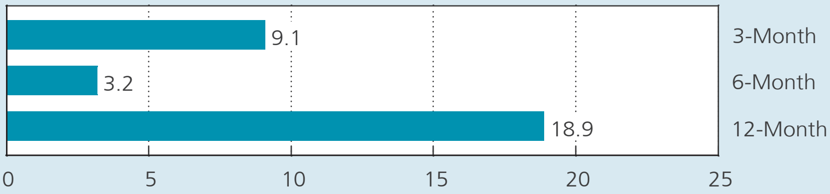
BEST BID/OFFER SPREADS [1]



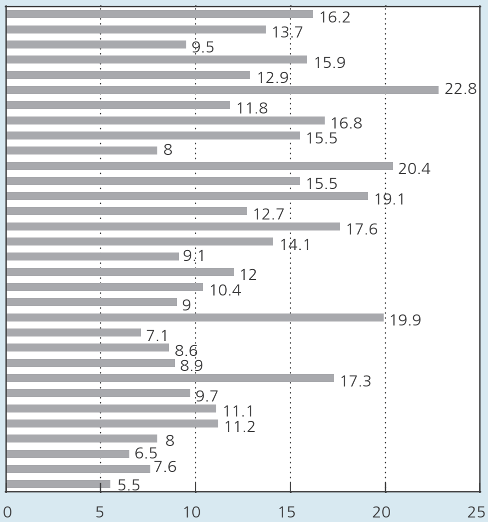
Source: Treasury.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER
(€ billion)

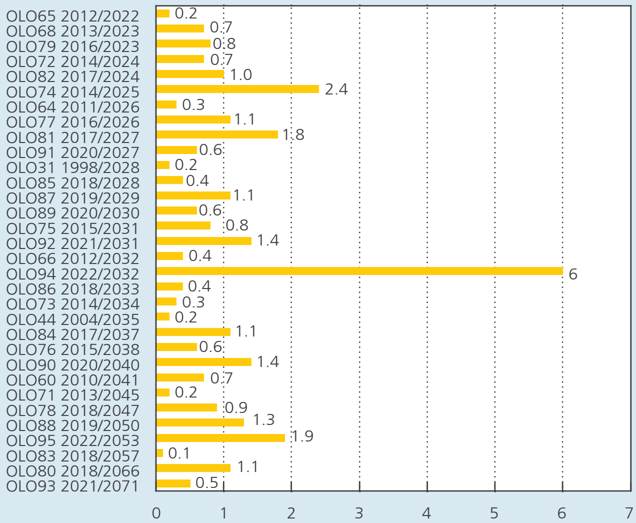
Treasury bills
Nominal outstanding amounts at the end of May 2022



OLOs
Outstanding amounts on 27 June 2022



Outright turnover in May 2022



Source: Belgian Debt Agency.

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