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: The global economy got off to a strong start in early 2024
- FINANCIAL MARKETS AND INTEREST RATES: Sovereign bond yields and spreads increased in the second quarter of 2024
- SPECIAL TOPIC: Budgetary challenges in the wake of the June 2024 elections
- TREASURY HIGHLIGHTS: 70 % of the funding target has already been raised

CONSENSUS **Average of participants' forecasts**

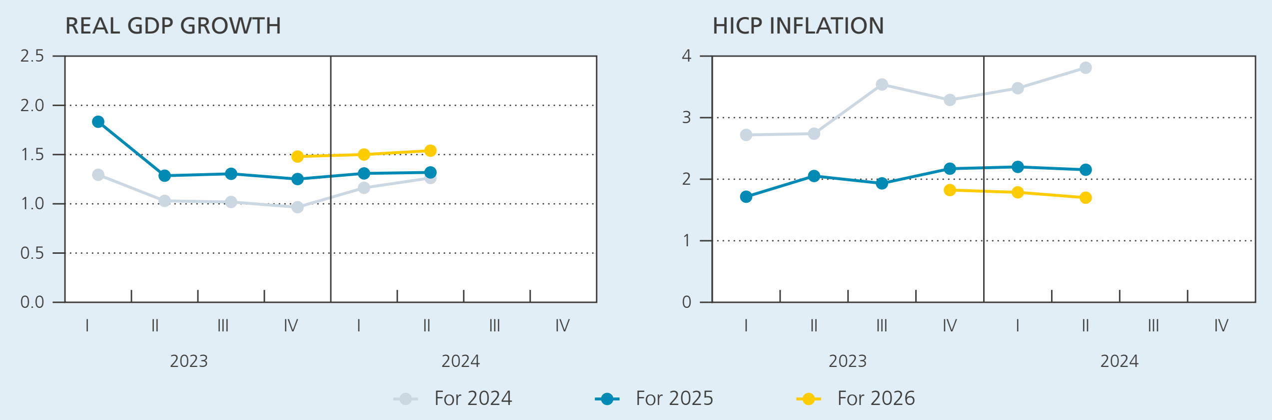
A spreadsheet available on the NBB's website provides more information on the individual forecasts.

	Belgium				Euro area			
	2023	2024e	2025e	2026e	2023	2024e	2025e	2026e
Real GDP[1]	1.4	1.3	1.3	1.5	0.6	0.7	1.3	1.3
Inflation (HICP)[1]	2.3	3.8	2.2	1.7	5.4	2.4	2.0	2.0
Government budget balance[2]	−4.2	−4.6	−4.8	−4.5	−3.6	−3.0	−2.7	−2.5
Public debt[2]	105.2	106.0	107.1	108.3	88.5	89.4	89.1	89.0

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

FORECASTS FOR BELGIUM

(the lines show the evolution since the start of 2023 of the growth and inflation forecasts for the calendar years 2024, 2025 and 2026)



Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS

The global economy got off to a strong start in early 2024

The global economy performed strongly in the first quarter (Q1) of 2024 and international trade flows showed the initial signs of recovery. According to Eurosystem forecasts, the world economy (excluding the euro area) is projected to grow by just over 3 % in the coming years, with global trade expected to expand at a similar pace.

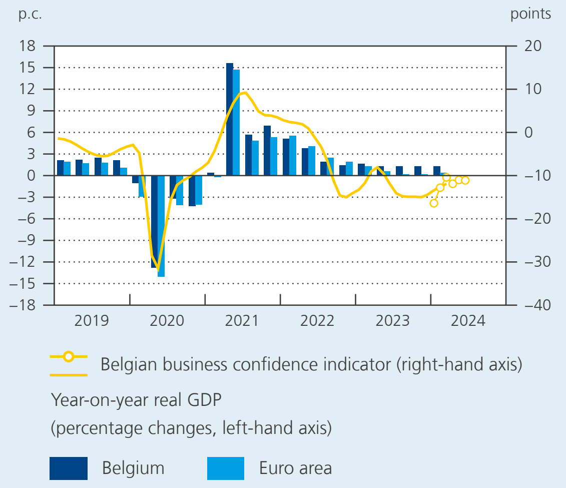
With a 0.3 % quarter-on-quarter increase in activity in 2024 Q1, economic growth in the euro area surprised on the upside and was clearly in positive territory again after five consecutive quarters of near-stagnation. In terms of the annual outlook, Belgian Prime News (BPN) participants expect the **euro area economy to grow by a mere 0.7 % in 2024. Annual growth is only expected to return to cruising speed in 2025 and 2026, when it should reach approximately 1.3 %.** The June consensus forecasts is reasonably analogous with that of March, while marginally more upbeat with respect to the outlook for 2024 as a whole (reflecting the positive surprise in Q1). As revealed by the detailed data published in annex to this issue of BPN, participants now express a significant degree of uncertainty concerning 2025, as reflected in a relatively wide array of individual forecasts, ranging from 0.9 % to 1.5 %. **Participants currently expect euro area inflation to come in at 2.4 % in 2024** – down from the average rate of 5.4 % recorded in 2023 – and to reach 2 % on average in 2025 and 2026.

Quarter-on-quarter results for Belgian economic growth in the first quarter of the year also came in at 0.3 %. According to the June NBB Business Cycle Monitor, growth could pick up slightly and edge up towards 0.4 % in the second quarter of this year. **BPN participants see real GDP growth in Belgium reaching 1.3 % in 2024. As for the years ahead, BPN participants expect real GDP growth to amount to 1.3 % in 2025 and 1.5 % in 2026.**

The Belgian labour market moderated more than expected at the end of last year, and labour productivity surged. Job creation picked up somewhat again at the start of 2024 and productivity growth is expected to normalise. The harmonised unemployment rate remains very low and is foreseen to stay below 6 % in the coming years, with the labour market remaining tight.

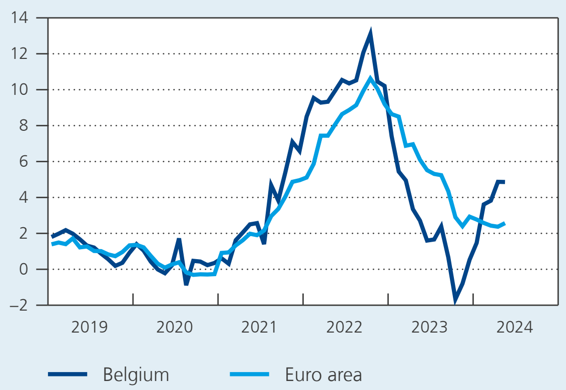
As anticipated, Belgian headline inflation increased early this year due to base effects in energy inflation, inter alia, but the peak should now be behind us. In May, inflation came in at 4.9 %, stable compared to April, but it is expected to moderate again in the second half of the year. **According to the latest BPN consensus forecast, the headline inflation rate in Belgium is expected to average around 3.8 % in 2024, before dropping back to 2.2 % in 2025 and to 1.7 % in 2026.**

GDP GROWTH AND BUSINESS CONFIDENCE



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

With regard to the public finances, BPN participants expect the budget deficit to remain high after 2023, at 4.6 % of GDP in 2024 and similar rates in the next years. They estimate that Belgian public debt will edge upwards in the coming years, rising from around 105 % of GDP in 2023 to 108 % of GDP by 2026.

FINANCIAL MARKETS AND INTEREST RATES

Sovereign bond yields and spreads increased in the second quarter of 2024

Although the inflation rate in the euro area fluctuated above target in the second quarter of 2024, the outlook for inflation does point at convergence towards the ECB's target. Against that background, the ECB decided to lower its key interest rates by 25 basis points. The deposit facility rate now stands at 3.75 % and policy rates will be kept sufficiently restrictive for as long as necessary to ensure that inflation returns to the two per cent medium-term target in a timely manner. For its part, the Federal Reserve decided to maintain the target range for the federal funds rate at 5.25 % - 5.50 % and signalled its intention to cut rates once before the end of the year.

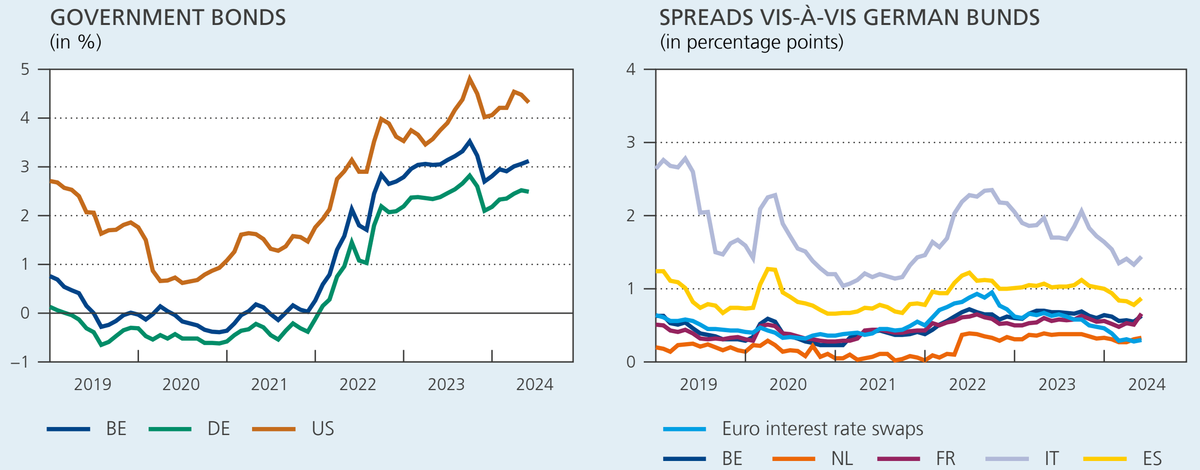
Market participants factored in later and fewer policy rate cuts in 2024, in both the euro area and the US. Over the course of the second quarter of 2024, Belgian and German ten-year government bond yields increased by 21 and 14 basis points, respectively, from 2.91 % and 2.35 % in March to 3.12 % and 2.49 % in June. Over the same period, the US ten-year sovereign bond yield rose by 11 basis points, settling at 4.32 %.

The rise in long-term government bond yields was accompanied by a high degree of volatility in bond markets. The MOVE index, which tracks the volatility of US Treasury yields, peaked in April amid renewed inflation fears in the US. The seemingly smooth rise in euro area interest rates at monthly frequency also masks day-to-day volatility. For example, volatility increased in June following the announcement of snap parliamentary elections in France.

Asset markets were mixed amid geopolitical and inflation risks. The S&P 500 was bolstered by technology sector stocks and gained 4 % in the second quarter of 2024. In contrast, the Stoxx 50 Europe slipped by 3 %. Indices of stock market volatility in the US and the euro area – measured by the VIX and VSTOXX – oscillated below their historical averages but rose temporarily in April. In the euro area, it also peaked in June. In that same month, euro area corporate spreads ticked up, and the euro depreciated against the dollar, reaching € 1 to $ 1.07 on 26 June.

Sovereign spreads vis-à-vis German Bunds widened at the end of the second quarter of 2024 in the euro area. This trend was especially pronounced in France, where the spread rose by 18 basis points, from 48 basis points in March, to 66 basis points in June, on average. In Belgium, Italy, and the Netherlands, sovereign spreads also increased slightly. On June 26, the French spread stood at 76 basis points, above the 64 basis points observed in Belgium.

10-YEAR INTEREST RATES
(monthly averages)



Sources: BIS, Thomson Reuters. Average over the first 26 days for June 2024 (19 days for Spain and the US).

On 9 June, federal, regional and European elections were held in Belgium. The various domestic governments that are being formed following these elections will have to take substantive consolidation measures to return the country's public finances to a sustainable path.

Public finances are on an unsustainable path over the medium term. With an overall deficit of more than 4 % of GDP and debt of 105 % of GDP in 2023, fiscal consolidation is imperative. According to the latest economic projections of the National Bank of Belgium, the deficit is expected to widen to 5.5 % of GDP in 2026. Consequently, public debt is on an upward trajectory and is projected to exceed 110 % of GDP in 2026, assuming unchanged policies.

The debt ratio will continue to rise despite the interest rate-growth differential (r-g) remaining relatively favourable. This is because the primary deficit is high and is expected to increase further, mainly due to growing current spending linked to population ageing (i.e. pensions and health care expenditures). The favourable contribution of the interest rate-growth differential is uncertain over the medium term. The long-term interest rate (the ten-year OLO rate) for Belgian public debt was 0 %, on average, in 2021 and is currently just above 3 %. The yield curve points to the ten-year interest rate increasing to 3.8 % in 2031, which is above current projections for nominal potential GDP growth.

It is important that the public deficit be swiftly brought down to below 3 % of GDP and that public debt be placed on a downward path. In the stability programme presented by Belgium to the European Commission in April 2024, the country's various governments set out an indicative fiscal trajectory that would bring the deficit to below 3 % of GDP in 2026 and steer the debt ratio downwards. Substantial efforts will be required to achieve the objectives of the stability programme: with an expected deficit of 5.5 % of GDP in 2026, meeting the target deficit of 3 % of GDP that year will require savings of 2.5 % of GDP.

On 19 June, the European Commission proposed to open an excessive deficit procedure (EDP) against Belgium. In the European Semester Spring Package 2024, the Commission noted that Belgium's budget deficit had exceeded the reference value of 3 % of GDP in 2023 and is projected to do so again in 2024 and 2025. As these excessive deficits were deemed not to be limited, temporary or exceptional, the Commission considered that Belgium had not met the EDP deficit criterion [1] and consequently proposed the initiation of this procedure. The implication is that Belgium's public finances will now be subject to increased scrutiny.

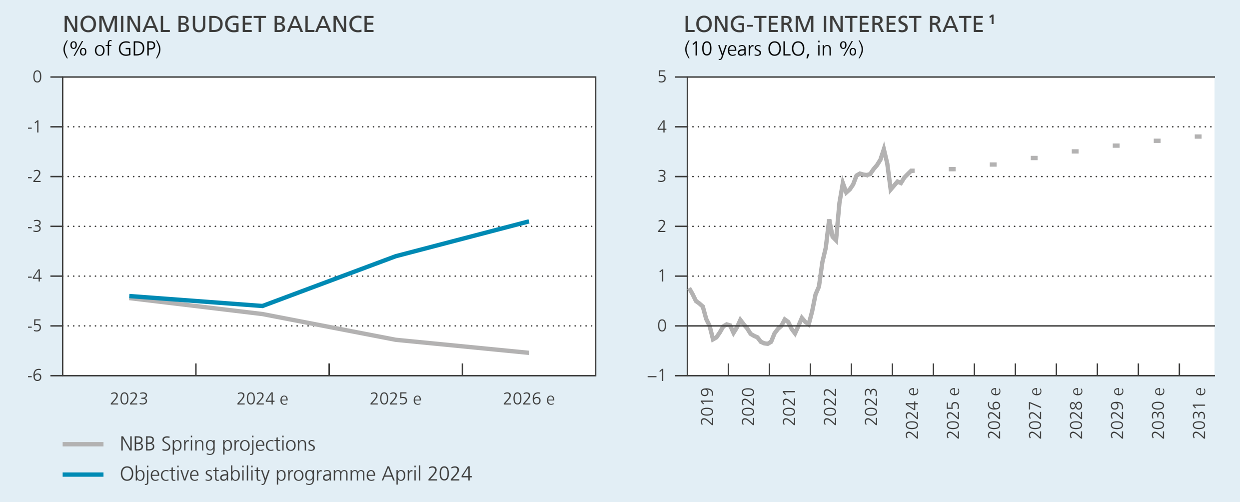
The Commission recommends, among other measures, that Belgium limits growth in expenditure in 2025. The aim is to set general government debt on a plausible downward trajectory over the medium term and steer the general government deficit down towards the 3 % of GDP reference value. Belgian governments are also expected to address the anticipated increase in expenditure related to population ageing, including by making the long-term care system more cost-effective. In addition, the European Commission has advised Belgium to reform its tax and social benefits systems and to strengthen incentives to work by shifting the tax burden away from labour and reviewing the design of benefits.

These recommendations fall under the new European fiscal framework (Stability and Growth Pact), in place since April 2024. National medium-term fiscal structural plans (MTFSPs) covering four or five years (depending on the legislative term of each Member State, five years for Belgium) are the cornerstone of the new framework and replace the national stability, reform and convergence programmes used prior to the reform. In their MTFSPs, Member States commit to budgetary objectives as well as reforms and investment targets. The fiscal trajectory set out in each plan remains unchanged for the entire timeframe covered. Belgium must submit its plan by 20 September 2024, unless there will be an agreement with the Commission to extend that deadline by a reasonable period.

The coordination of fiscal policy between the different levels of government in Belgium is not satisfactory. Since the implementation of the cooperation agreement of 13 December 2013, the country's governments have never managed to agree on a common budgetary target or on how it should be allocated across the different levels of government. Successful fiscal consolidation will require cooperation between all levels of government to ensure the sustainability of the country's public finances in the future. Indeed, with the exception of the Flemish Community, the debt ratio of all governments in Belgium is expected to increase assuming unchanged policies. Belgium would therefore benefit from a binding, domestic Stability and Growth Pact.

1 For more detailed information, see Report from the Commission (19.06.2024) (europa.eu)

NOMINAL BUDGET BALANCE AND LONG-TERM INTEREST RATES



Sources: FPS BOSA, NBB.
¹ Market expectations between 9 and 20 June 2024.

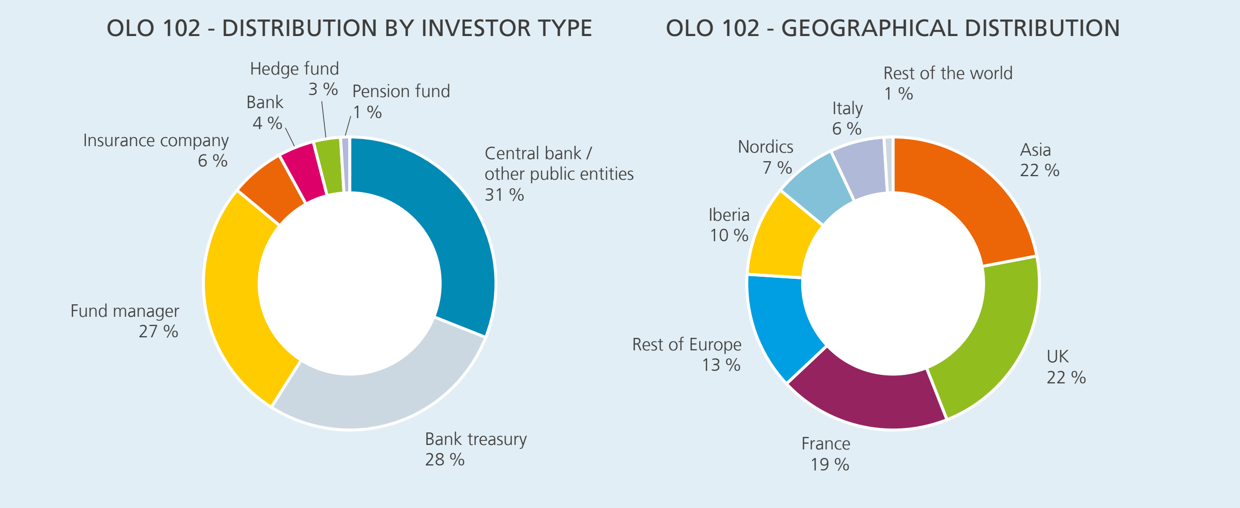
TREASURY HIGHLIGHTS **70 % of the funding target has already been raised**

The Belgian Debt Agency plans to issue **€ 45.00 billion** worth of medium and long-term instruments in 2024, including **€ 41.00 billion in OLOs**. The remaining funding will be raised through EMTN, Schuldscheine and State Notes (€ 4.00 billion).

Since the end of March 2024, the Belgian Debt Agency has carried out the following funding transactions.

OLO syndication (€ 7 billion 5-year benchmark)

On 9 April 2024, Belgium issued its third new 2024 OLO benchmark, this time with a maturity of five years. The € 7.0 billion 2.70 % OLO 102 22/10/2029 was priced at a spread of 1 bp below mid-swaps, implying a reoffer yield of 2.711 %. Joint Lead Managers were BNP Paribas Fortis, Crédit Agricole, J.P. Morgan, NatWest Markets and Société Générale.



On 27 May and 17 June, the Belgian Debt Agency raised € 5.016 billion through two auctions.

OLO auctions (€ 5.016 billion)

Date	OLO		Issued (€ billion)	Yield	Bid-to-cover
27 May	OLO 2.85 % 22/10/2034 OLO 3.50 % 22/06/2055	OLO100 OLO101	1.498 1.005	3.098 % 3.541 %	1.55 1.56
Non-competitive subscriptions			*0.000*		
Total			2.503		
17 June	OLO 2.70 % 22/10/2029 OLO 2.85 % 22/10/2034	OLO102 OLO100	1.155 1.351	2.822 % 3.059 %	1.42 1.42
Non-competitive subscriptions			*0.007*		
Total			2.513		

Moreover, the Belgian Debt Agency raised an additional € 0.507 billion through an ORI auction on 3 May.

ORI (€ 0.507 billion)

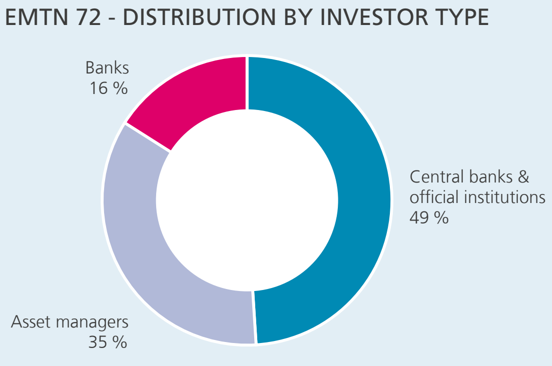
Date	OLO		Issued (€ billion)	Yield
3 May	OLO 2.25 % 22/06/2057 OLO 0.65 % 22/06/2071	OLO83 OLO93	0.157 0.350	3.430 % 2.953 %
Total			0.507	

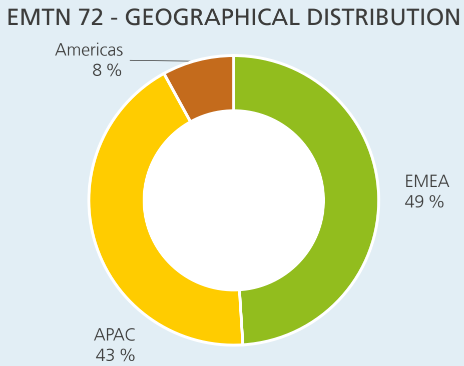
EMTN (€ 1.202 billion)

Date	EMTN		Issued (€ billion)	Yield
2 April 3 April	EMTN 3.630 % 02/04/2029 EMTN 4.875 % 10/06/2055	EMTN71 EMTN72	0.041 1.162	0.000 % 1.118 %
Total			1.202	

In the framework of its EMTN programme, Belgium issued a new 30-year USD 1.25 billion bond on 3 April, at a spread of 39bps over the 30-year US Treasury bond maturing on 15 February 2054 (CT30). The new Belgian bond matures on 10 June 2055 and pays a coupon of 4.875 %.

The issuance was swapped into euro in order to cancel out currency risk. Belgium received € 1.162 billion and will pay an interest rate, after swap, of 4.918 %.





There were no Schuldscheine issues in the second quarter of 2024.

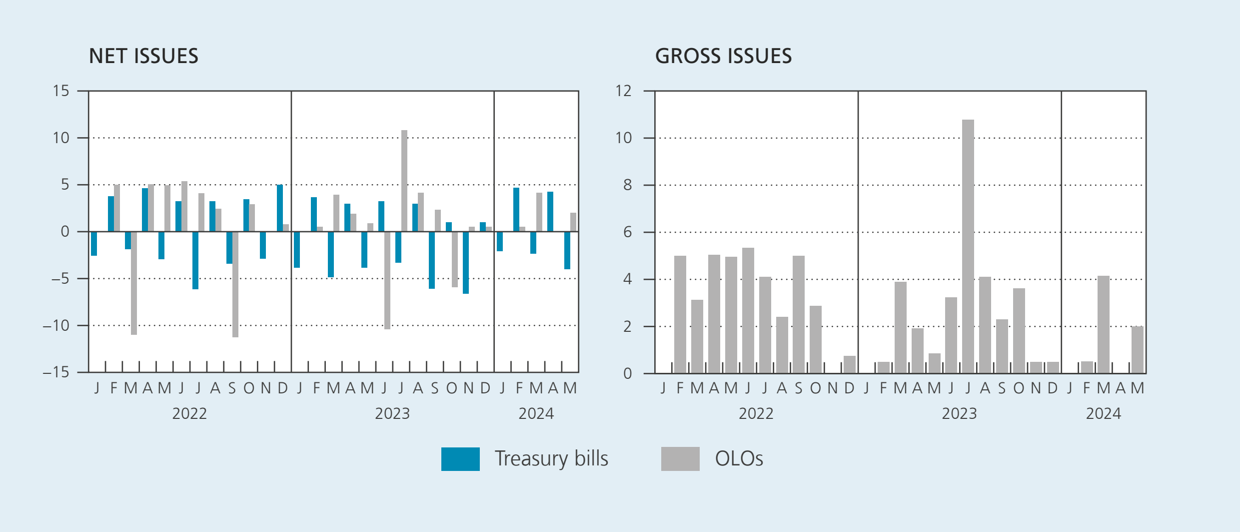
On 4 June, retail notes (State Notes) were offered for the second time in 2024. The Agency issued another one-year State Note, together with an eight-year State Note. The offering raised € 482.5 million: € 472.4 million from the one-year note and € 10.1 million from the eight-year note.

Belgium has therefore already raised **€ 31.54 billion**, corresponding to 70.1 % of its funding target.

In terms of portfolio structure, the average life of the portfolio is now 10.76 years (as of the end of May) and the implicit yield is 1.94 %.

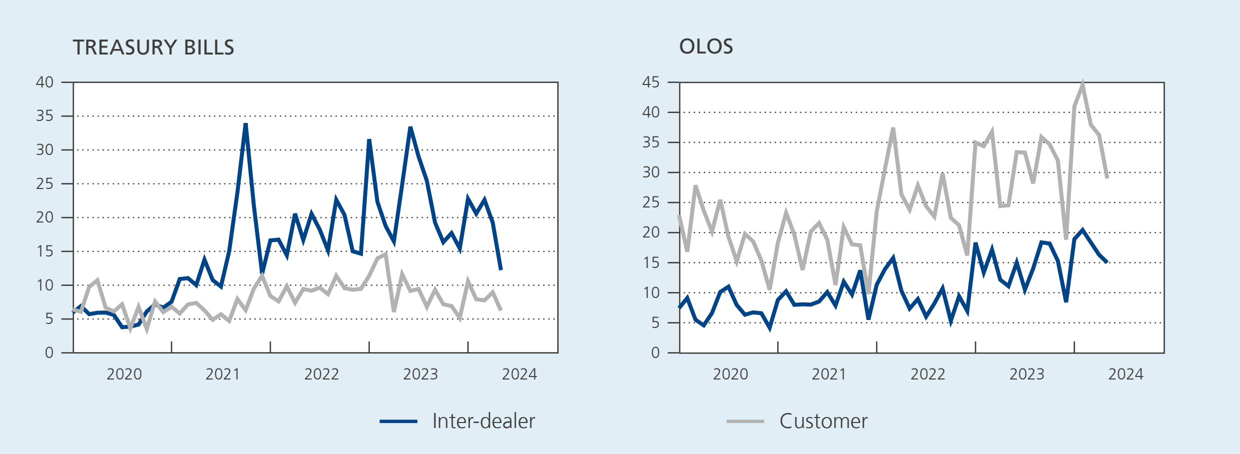
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(€ billion)



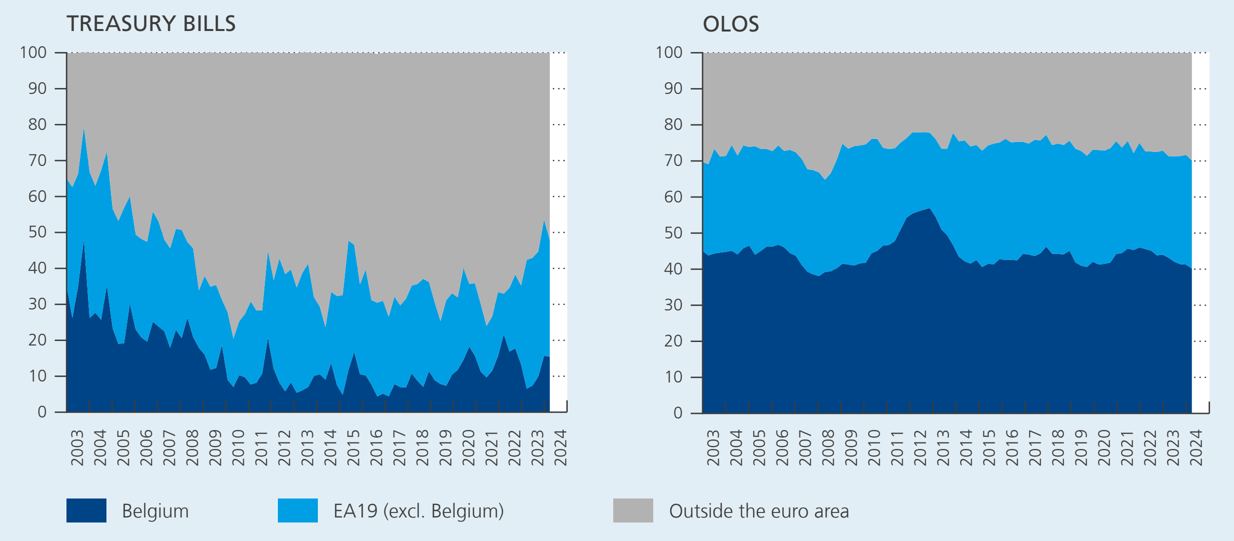
Source: Belgian Debt Agency.

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



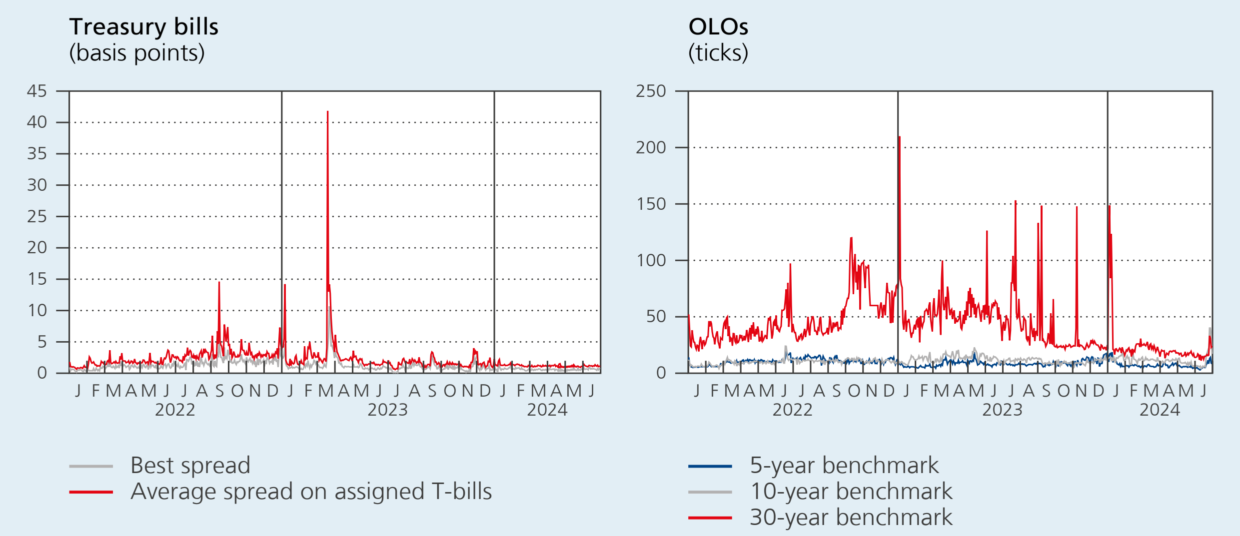
Source: Belgian Debt Agency.

HOLDERSHIP OF BELGIAN SECURITIES
(in %)



Source: NBB.

BEST BID/OFFER SPREADS [1]



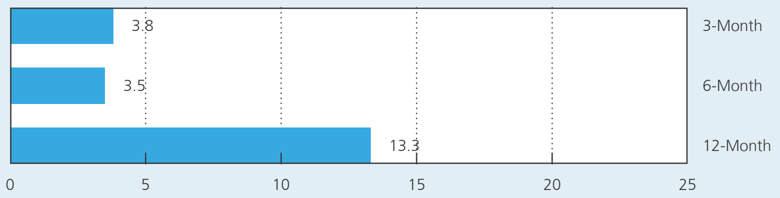
Source: Belgian Debt Agency
[1] As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

Treasury bills

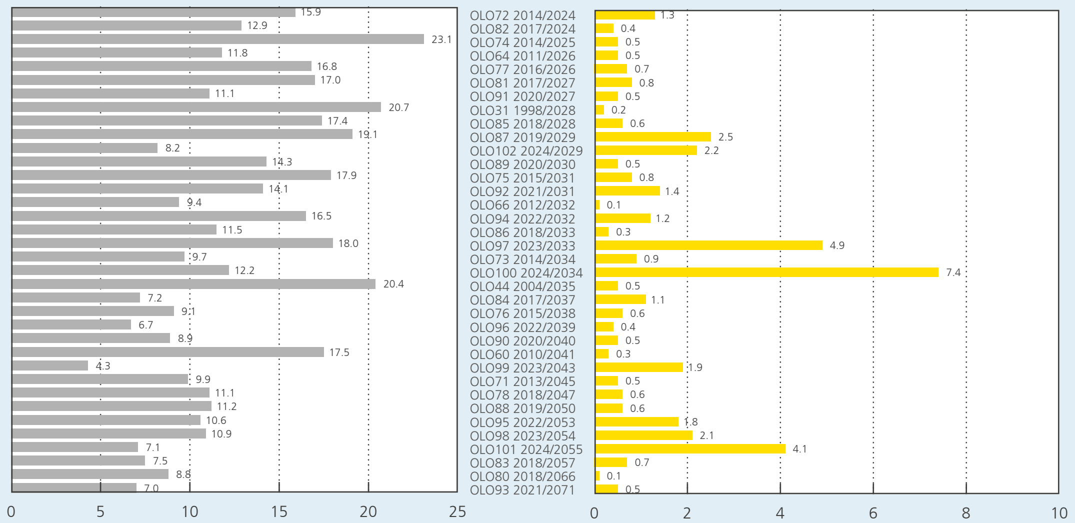
Nominal amounts outstanding at the end of May 2024



OLOs

Amounts outstanding on 19 June 2024

Outright turnover in May 2024



Source: Belgian Debt Agency.

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