

Participating Primary and Recognised Dealers:

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

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- MACROECONOMIC DEVELOPMENTS : The vaccine rollout will prove crucial for brighter economic prospects
- SPECIAL TOPIC : Sovereign yields have risen on the back of better US growth prospects
- FINANCIAL MARKETS AND INTEREST RATES : Financial market conditions favourable amid uncertainties
- TREASURY HIGHLIGHTS : Large investor demand for Belgian long-term bonds

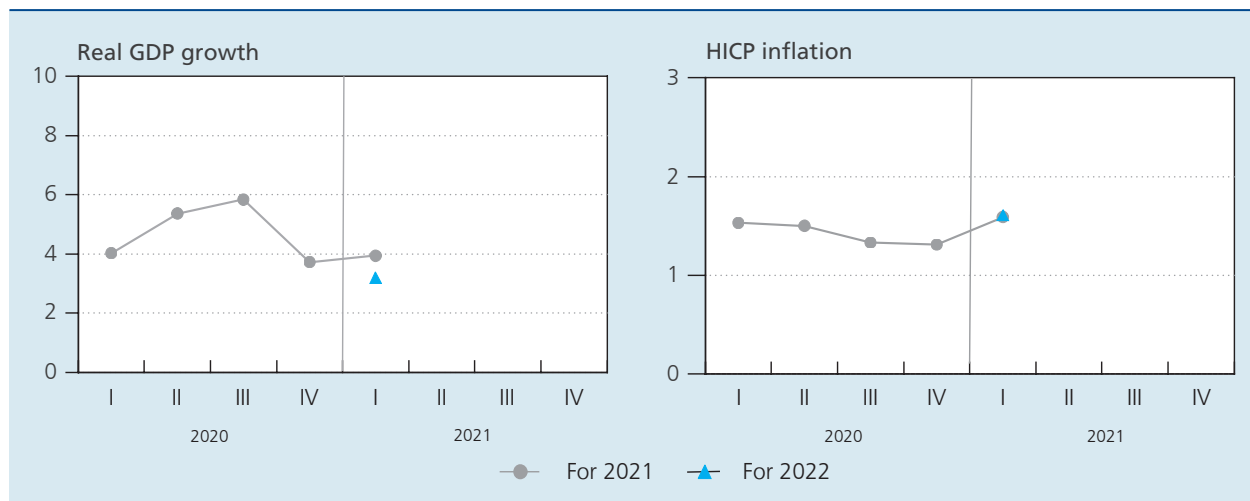
CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2020	2021p	2022p	2020	2021p	2022p
Real GDP ⁽¹⁾	-6.3	3.9	3.2	-6.6	4.2	3.9
Inflation (HICP) ⁽¹⁾	0.4	1.6	1.6	0.3	1.7	1.2
General government balance ⁽²⁾	-10.1	-7.0	-5.7	-7.2	-6.5	-4.1
Public debt ⁽²⁾	115.1	116.6	117.2	96.9	101.6	101.7

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

One year ago, the COVID-19 virus gradually spread from China to the rest of the world and was officially labelled a pandemic by the World Health Organisation. Many countries have since imposed strict containment measures and have been unable to completely lift them. This has resulted in an unprecedented recession, with global GDP dropping nearly 3.5% in 2020. As for 2021, the global economic outlook has improved but it is largely dependent on the successful deployment of vaccines across the world.

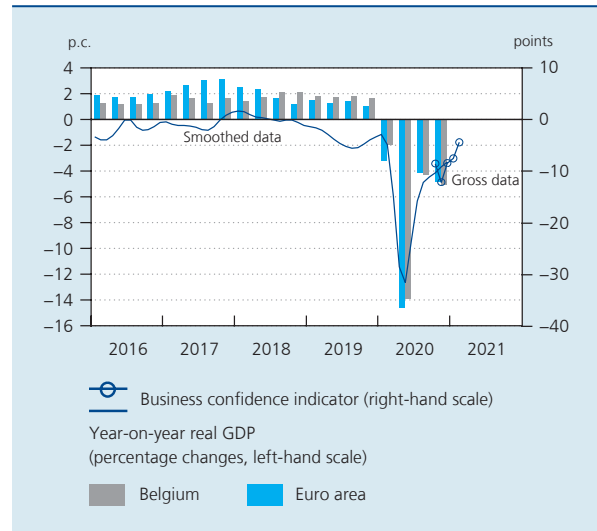
The euro area saw activity plunging 6.6% in 2020 and suffered from renewed virus outbreaks in the last quarter of the year, although the downward impact from the containment measures was not as substantial as in the springtime. Economic activity contracted by a mere 0.7% in Q4, outperforming expectations. This generates an important carryover effect for the annual growth figure for 2021, which has consequently been revised upwards by BPN participants. According to the consensus forecast, **the euro area economy is set to grow by some 4% in 2021 and 2022**. Inflation expectations have risen, but mostly for the near term as **euro area inflation is expected to come in at 1.7 and 1.2% respectively in 2021 and 2022**.

In Belgium, economic activity also surprised on the upside in the fourth quarter, showing a minor drop of 0.1% according to the National Accounts Institute. Although certain businesses were forced to close for a large part of this quarter, the economy as a whole was subject to fewer constraints than in the spring: more shops remained open and the construction and manufacturing industries have mostly remained fully operational this time round. Also, businesses seem to have been somewhat better prepared than in the spring to offset some of the losses from the closure of brick-and-mortar shops via e-commerce, take-away concepts and distance sales. For 2021Q1, the NBB's recently published Business Cycle Monitor puts forward a quarterly estimate of 0.5%. In annual terms, **BPN participants now expect real GDP in Belgium to rebound by 3.9% this year and to grow further by 3.2% in 2022**.

Meanwhile, policy support continues to cushion the hit to the labour market. Domestic employment only shrank by 0.1% on average in 2020, representing a loss of 22 000 jobs in net terms from the start of the year. Inflation stood at 0.3% in February 2021, compared to 0.6% in January. Although energy prices have been rising recently, headline inflation was dampened by the effect of the prolonging of the sales period up to 15 February. **According to the consensus forecast, inflation in Belgium should come to 1.6% on average in 2021 and 2022**.

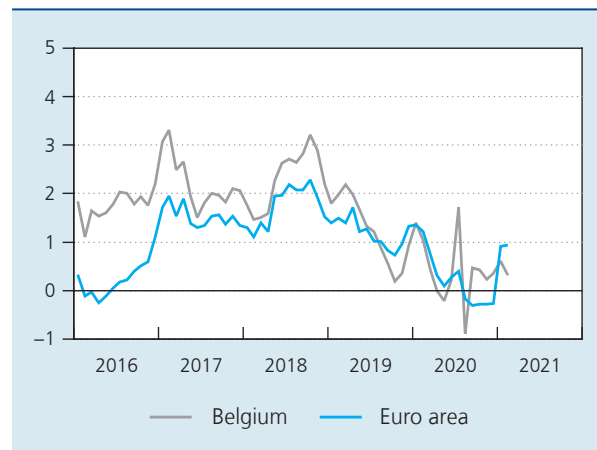
In 2020, the government deficit widened substantially as a result of the economic downturn, higher spending and support measures for individuals and businesses. Although these support measures are largely temporary, the permanent output loss in the economy will also be reflected in the budget deficit as it will be subsiding only gradually from 10.1% of GDP in 2020 to **7% and 5.7% of GDP in 2021 and 2022**. **BPN participants anticipate a slight rise in the Belgian public sector debt, from some 115% of GDP in 2020 to just over 117% of GDP in 2022**.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP) (annual percentage changes)



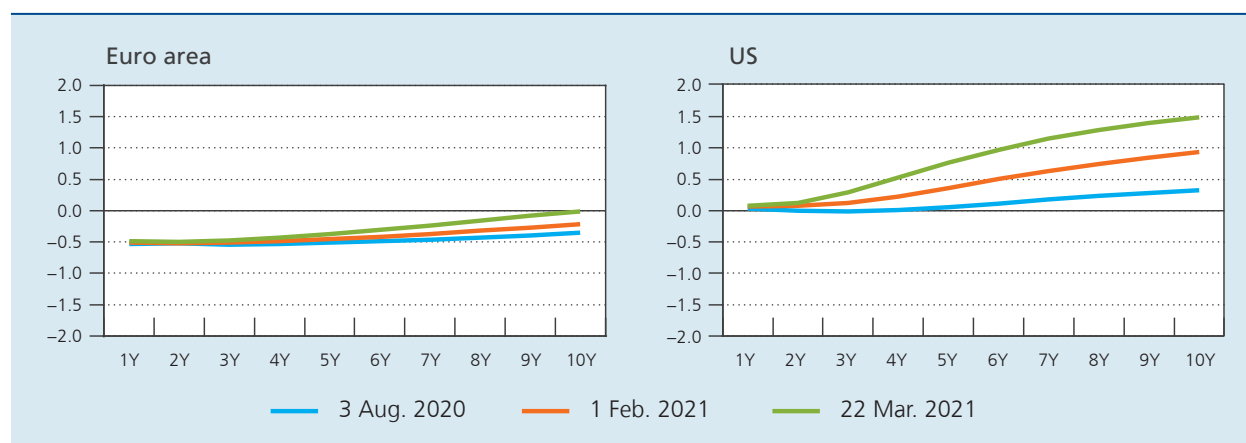
Source: EC.

SPECIAL TOPIC Sovereign yields have risen on the back of better US growth prospects

A significant increase in sovereign bond yields has been the main point of attention on global financial markets over the last few weeks. The trend started in the US, but subsequently spilled over to other advanced economies. The upward trend in US sovereign yields is not a recent phenomenon, however. After their initial decline following strong policy measures in the wake of the COVID-19 outbreak, yields on US Treasury securities have been trending upwards since the summer. Since August, the yield on 10-year US Treasuries has gone up by more than 110 bps.

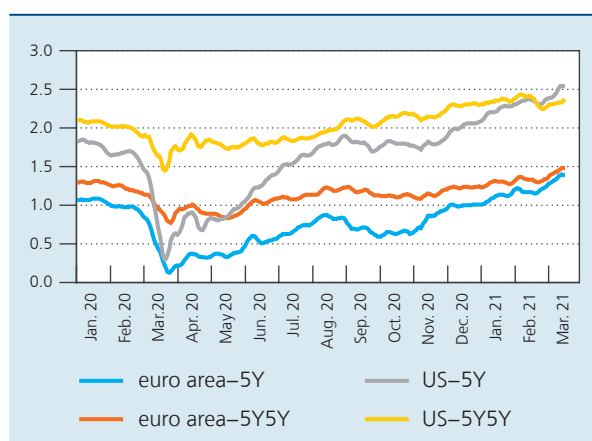
More recently, this trend has been accelerating. Better growth prospects, in the context of the agreement on the Biden stimulus plan and progress in vaccine roll-outs, have been pushing up yields on US government bonds, especially at the longer end of the maturity curve. Developments since February have accounted for an increase of about 60 bps in the 10-year USD OIS rate, which is currently trading at new post-pandemic highs, at around 1.5%. Increasing inflation expectations had been the main factor driving up yields since the summer, by now exceeding 2%. However, market expectations about an advanced tightening in monetary policy, to prevent inflation from rising further, seem to have been driving yields more recently, with real rates going up more strongly since February. At the March 17 meeting of the Federal Open Market Committee, Federal Reserve Chairman Jerome Powell signalled no intention of adjusting its policy to counter recent increases in longer-term Treasury yields, stressing that financial conditions are still accommodative.

RISK-FREE RATES¹ IN THE EURO AREA AND THE US (%)



Source: Refinitiv.
¹ Overnight index swap rates.

MARKET-BASED INFLATION EXPECTATIONS¹ IN THE EURO AREA AND THE US (%; 5-day moving averages)



Source: Refinitiv.
¹ Inflation-linked swap rates.

These recent movements in US yields have also started to spill over to other advanced economies globally. In the euro area, the 10-year OIS rate has risen by some 20 bps since February. But, compared to the US, fears of a forced tightening in monetary policy have played a much more limited role in driving up yields in the euro area. Real rates in the euro area have only moved up to a limited extent over the past weeks, and have even continued falling at shorter maturities, where the ECB's measures seem to firmly anchor nominal risk-free rates at low levels, while market-based inflation compensation – though still significantly below the ECB's target – is going up.

Nevertheless, with government borrowing costs used as a benchmark for pricing bank loans to firms and households, any increase in yields risks trickling through to the economy and thus resulting in a tightening of financing conditions across all economic sectors. Against that background and given the ECB's commitment to preserve favourable financing conditions during the pandemic crisis period, the ECB Governing Council decided, on 11 March, to significantly step up the pace of its

PEPP purchases over the next quarter. The Governing Council judged that a “sizeable and persistent” increase in market rates would unduly tighten financing conditions “when left unchecked”, given the still-subdued inflation outlook. Following the ECB’s announcement, the upward trend in euro area sovereign bonds yields has halted.

All in all, to the extent that rising sovereign yields reflect an improving economic outlook and the prospect of reflation, policy-makers could judge them as being benign. On the other hand, an increase in nominal yields that would go hand in hand with lower inflation expectations and, thus, a more pronounced tightening in real yields, will be closely monitored by policy-makers. Indeed, the ECB will use its instruments flexibly to avoid a premature tightening of financing conditions that could derail the recovery before it is on a sustainable path.

FINANCIAL MARKETS AND INTEREST RATES

Financial market conditions favourable amid uncertainties

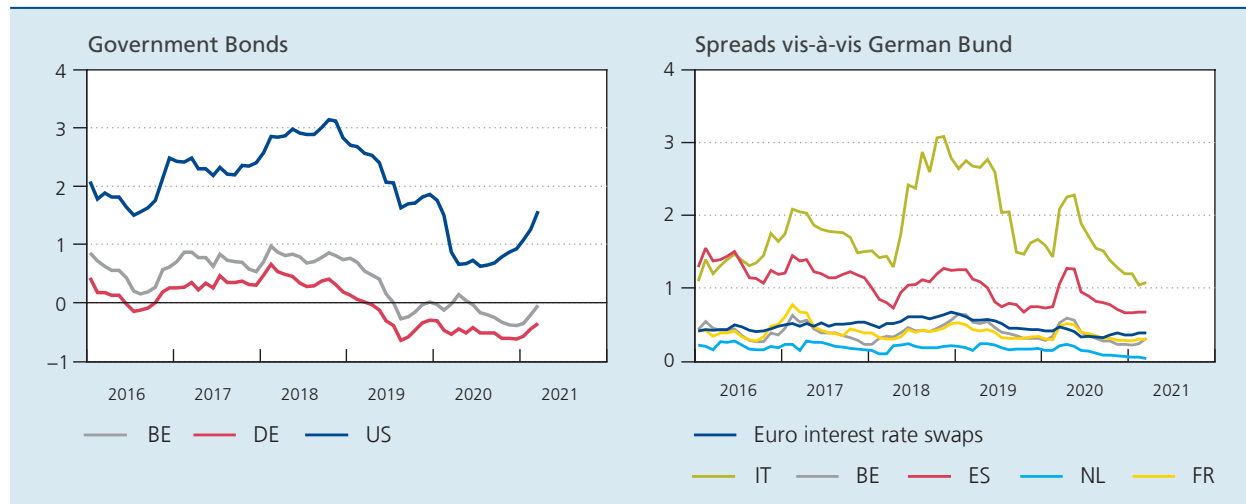
In the context of upward pressures on yields recently (see Special topic), the US 10-year government bond yield increased by 65 basis points, from 0.93% in December 2020, to 1.58% in March 2021. The reflation trade in the US has spilled over to European markets where government bond yields broke their downward trend. Over the first quarter of 2021, German and Belgian 10-year government bond yields rose by 26 and 35 basis points, to settle at -0.36 and -0.04%, respectively.

The expected economic recovery worldwide also contributed to the good performance of the stock market. However, increasing inflation expectations (and a more uncertain path for inflation), the US bond sell-off episodes, and the GameStop stock saga caused temporary spikes in volatility indices. Volatility has gradually eased since then, and VIX and VSTOXX now stand close to 20% (their historical averages). The expected rise in demand (together with supply factors) has also supported commodity markets. Oil prices are now hovering around \$ 60 a barrel, close to their pre-pandemic level.

While sovereign spreads vis-à-vis Germany initially widened with the COVID-19 outbreak, they have since declined. Despite ongoing challenges, such as restrictions on economic activity and a slow vaccine roll-out in the euro area, sovereign spreads stabilised close to their pre-crisis levels, helped by the ECB renewed commitment to keep favourable financing conditions. Over the first quarter of 2021, Belgian and Spanish spreads widened slightly by 9 and 2 basis points, to 0.32 and 0.68% respectively¹. Italian spreads, which also followed domestic political developments, narrowed by 12 basis points, to 1.08%. As far as Belgium is concerned, the still low, and even negative, sovereign yields, in combination with the extension of the average maturity of the sovereign debt portfolio over the last decade, helps shield it from any possible further pressure on sovereign yields.

¹ For Belgium, part of this increase is due to a technical issue, with the reference for the 10-year Belgian sovereign bond yield having changed in February. As the new benchmark bond has a longer maturity, its yield is about 10 bps higher than the previous reference bond.

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



Sources: BIS, Thomson Reuters. Average over the first 23 days for March 2021.

TREASURY HIGHLIGHTS **Large investor demand for Belgian long-term bonds**

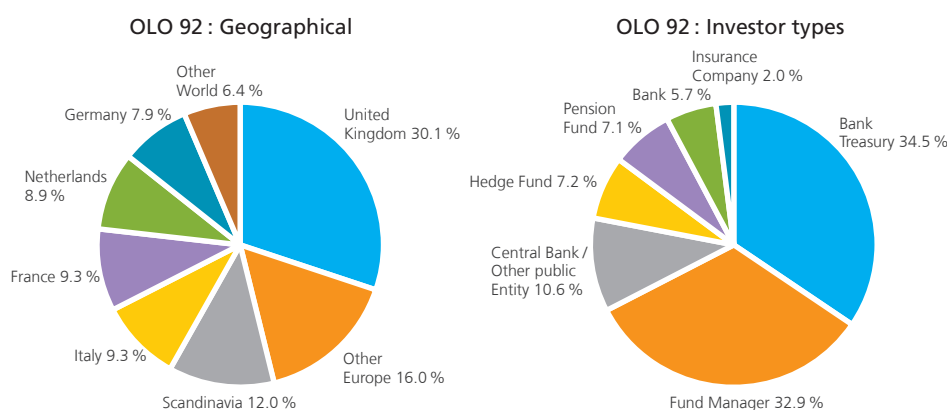
In the first quarter of 2021, the Belgian Debt Agency took advantage of the favourable funding environment to make a quick start with its borrowing programme. As a result, it has already raised € 18.81 billion, equivalent to 43.11 % of its 2021 total planned funding (€ 43.61 billion).

OLO 92 syndication (€ 6.0 billion 0.00% new 10-year benchmark)

On 12 January 2021, the Kingdom of Belgium issued its first new OLO benchmark of the year (a traditional 10-year OLO).

The new € 6.0 billion 0.00% OLO 92 22/10/2031 was priced at a spread of –7 bps over the interpolated mid-swap reference rate, implying a reoffer yield of –0.216%. This is the lowest yield ever seen in an OLO syndication. It implied a limited new issue concession of only 1.5 bp. With 240 investors and total orders in excess of € 50 billion, the order book was the largest one ever for a 10-year syndicated offering.

Joint bookrunners were BNP Paribas Fortis, Citi, J.P. Morgan, Natixis and Société Générale.

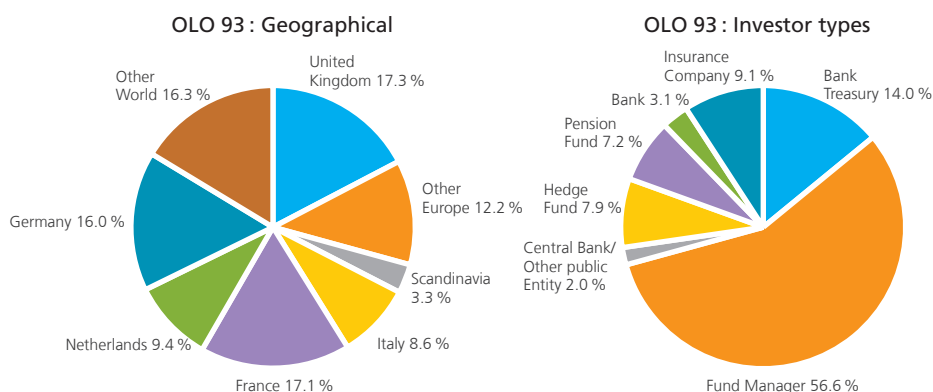


OLO 93 syndication (€ 5.0 billion 0.65% new 50-year benchmark)

On 2 February 2021, the Kingdom of Belgium issued its second new OLO benchmark of the year. It opted for an ultra-long OLO of 50 year, and it was only the second time in history that such a long-dated OLO had been issued.

The new € 5.0 billion 0.65% OLO 93 22/06/2071 was priced at a spread of +7 bps over the 22/06/2066 OLO80, implying a reoffer yield of 0.69% and a small new issue premium of 2 bp. With 280 investors and total orders in excess of € 53 billion, the order book was the largest one ever seen for a long-end (10-year+) syndicated bond offering.

Joint bookrunners were BNP Paribas Fortis, Credit Agricole CIB, J.P. Morgan, Morgan Stanley, Natwest Markets and Nomura.



OLO auctions (€ 5.31 billion)

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
February 22	OLO 0.80 % 22/06/2025 OLO 0.80 % 22/06/2028 OLO 1.25 % 22/04/2033	OLO 74 OLO 85 OLO 86	0.755 0.803 0.751	-0.568 % -0.322 % 0.053 %	2.21 2.19 2.46
<i>Non-competitive subscriptions</i>			0.000		
Total February			2.309		
March 22	OLO 1.00 % 22/06/2026 OLO 0.00 % 22/10/2031 OLO 0.40 % 22/06/2040	OLO 77 OLO 92 OLO 90	0.627 1.485 0.890	-0.538 % -0.013 % 0.495 %	3.29 1.90 1.64
<i>Non-competitive subscriptions</i>			Not yet known		
Total March			3.002		

Moreover, on 5 February, the Belgian Debt Agency issued an additional € 495 million through its ORI facility.

ORI (€ 0.495 billion)

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
February 5	OLO 1.00 % 22/06/2026 OLO 5.00 % 28/03/2035	OLO 77 OLO 44	0.350 0.145	-0.56 % -0.03 %	
Total			0.495		

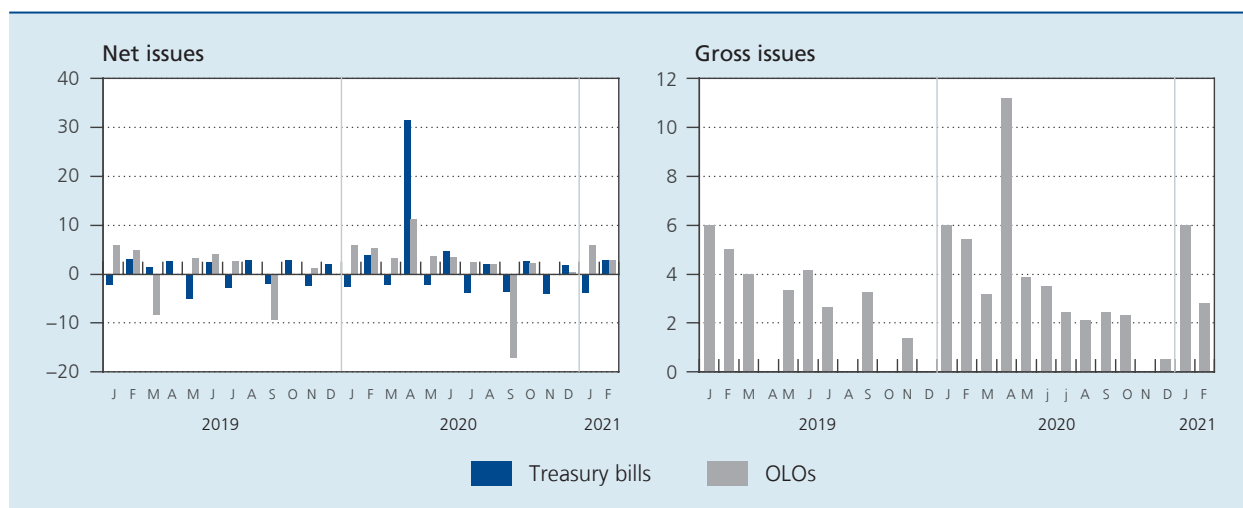
There have been no EMTN, *Schuldscheine* or State Notes issues so far.

However, Belgium received a second and third tranche of SURE funding from the EU on 2 February 2021 for a total amount of € 2.00 billion (nominal) and € 2.08 billion (cash). The EU provided a € 0.7 billion 7-year loan maturing on 02/06/2028 at a cost of -0.497 %, and a € 1.3 billion 30-year loan maturing on 04/11/2050 at a cost of 0.134 %. With this, Belgium has already received € 4.2 billion from the SURE package of € 7.8 billion, € 6.2 billion of which will be used for federal government measures. Moreover, Belgium has applied for € 0.394 billion of extra SURE financial assistance, but this amount will be transferred entirely to the Regions and Communities.

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

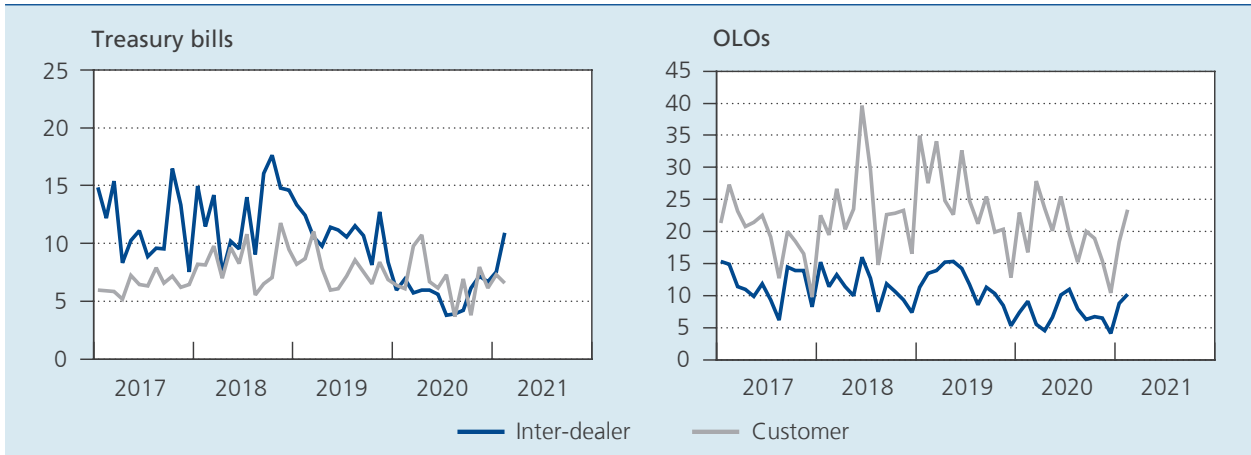
(€ billion)



Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER

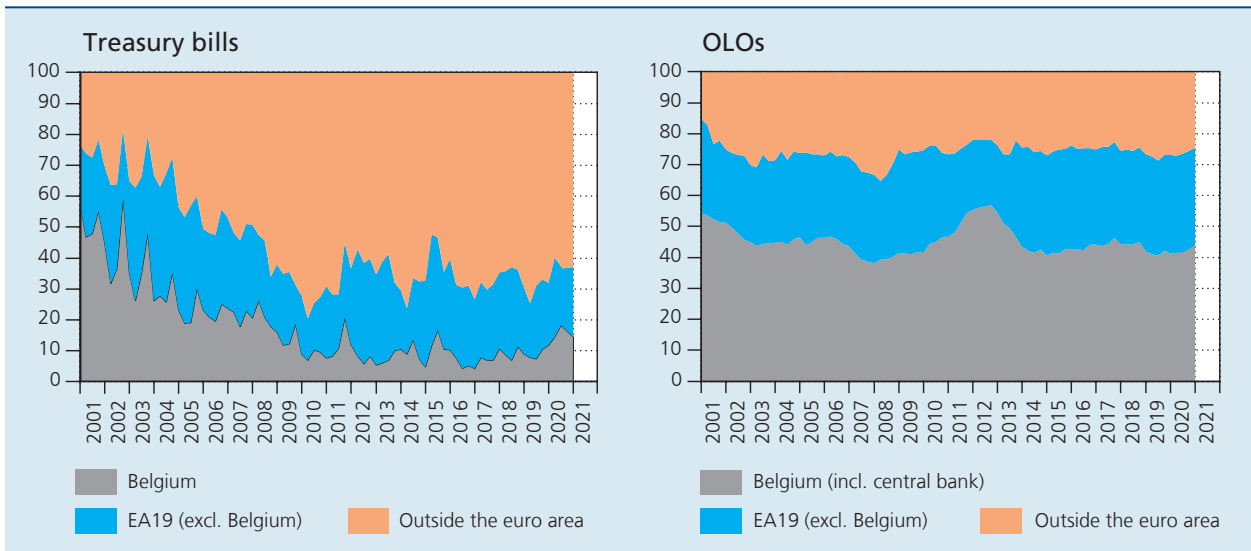
(as reported by primary and recognised dealers to the Treasury, € billion)



Source: Belgian Debt Agency.

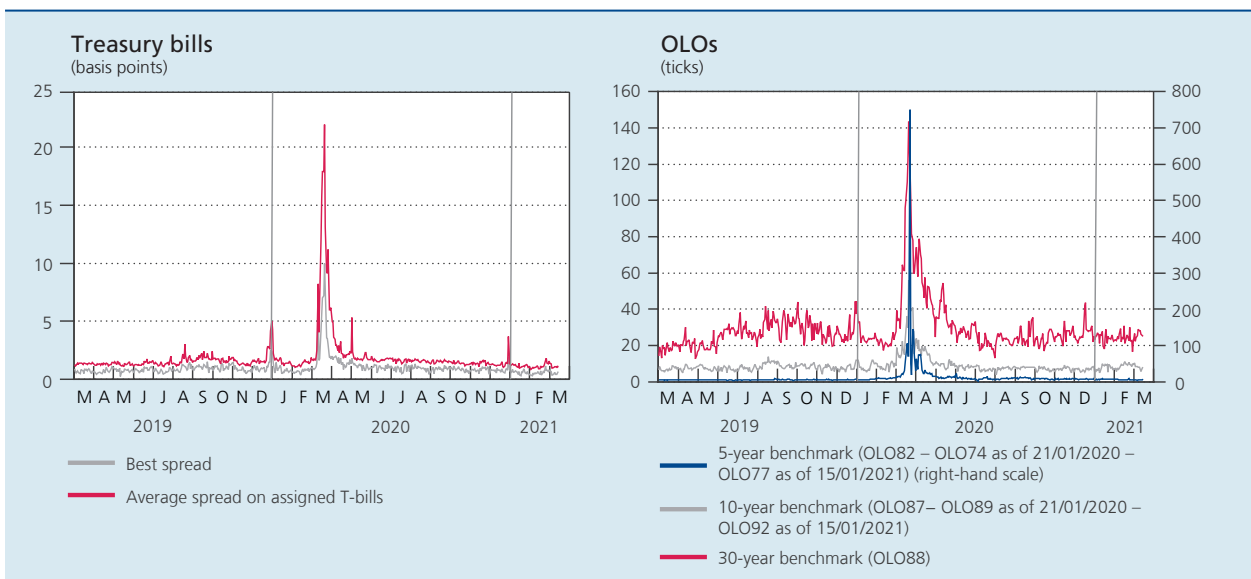
HOLDERSHIP BELGIAN SECURITIES

(in %)



Source: NBB.

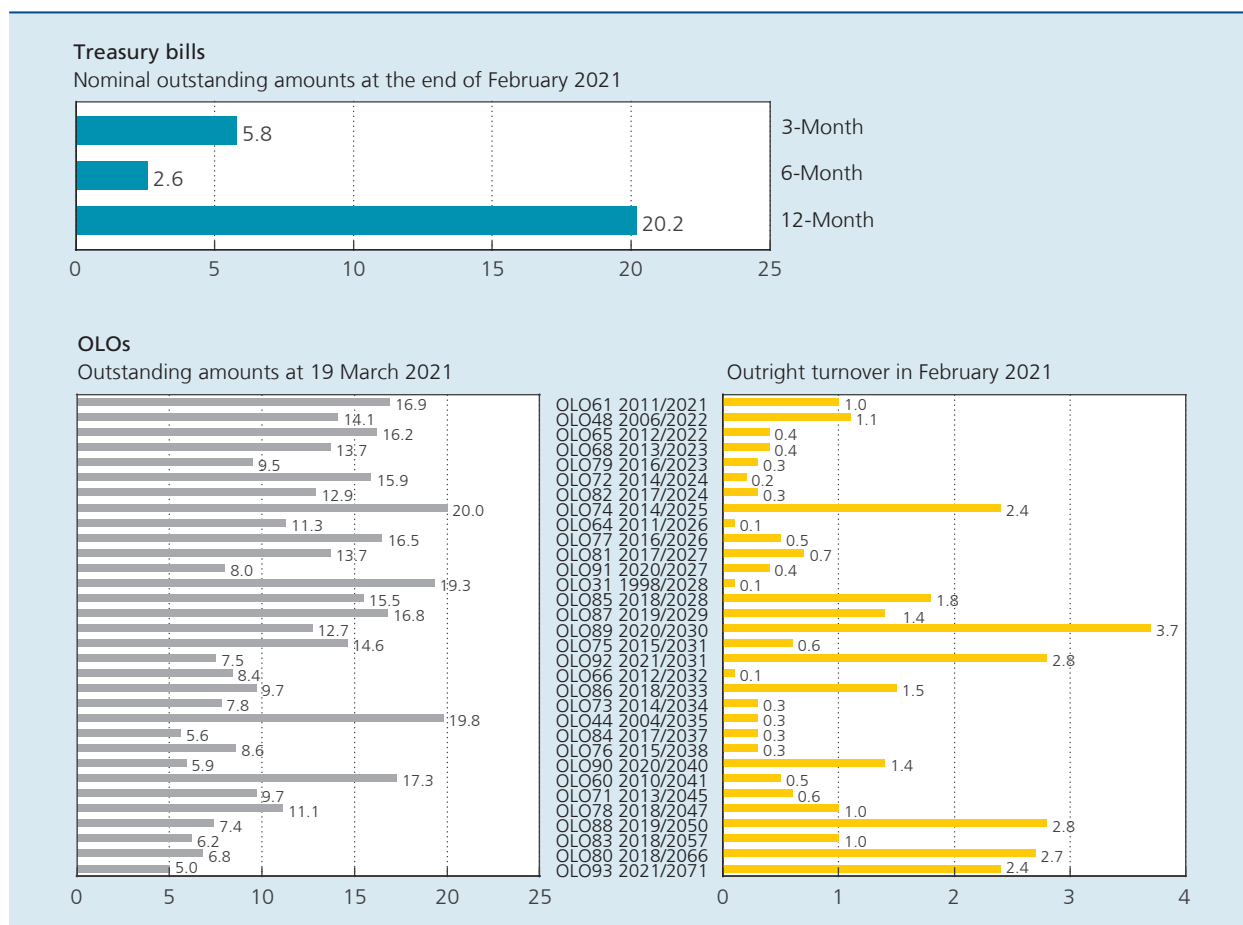
BEST BID/OFFER SPREADS ⁽¹⁾



Source: Treasury.

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

OUTSTANDING AMOUNTS AND TURNOVER
(€ billion)



Source: Belgian Debt Agency.

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Belfius Bank
BNP Paribas Fortis
Citigroup
Crédit Agricole CIB
HSBC
KBC Bank
Morgan Stanley
Natixis
NatWest (RBS)
Nomura
Société Générale Corp. & Inv. Banking

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