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- **MACROECONOMIC DEVELOPMENTS:** The global economy is set to continue its recovery, but likely to face some (supply) challenges
- **SPECIAL TOPIC:** Interregional transfers via the federal government and social security
- **FINANCIAL MARKETS AND INTEREST RATES:** Global sovereign bond yields declined over the summer but have since picked up
- **TREASURY HIGHLIGHTS:** The execution of the 2021 funding plan is well on track

CONSENSUS

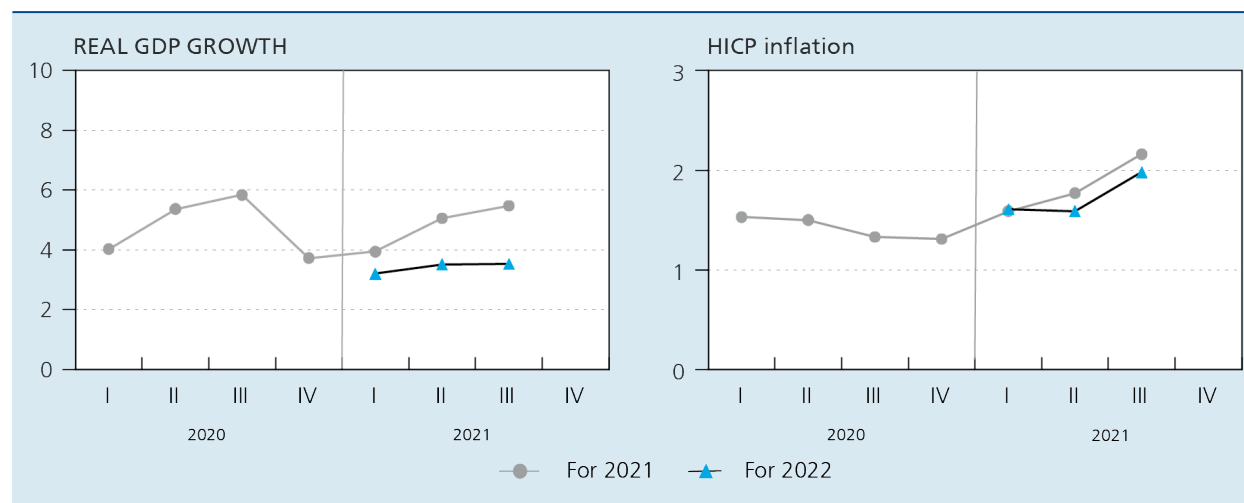
Average of participants' forecasts

	Belgium			Euro area		
	2020	2021p	2022p	2020	2021p	2022p
Real GDP ⁽¹⁾	-6.3	5.5	3.5	-6.3	5.1	4.5
Inflation (HICP) ⁽¹⁾	0.4	2.2	2.0	0.3	2.1	1.7
General government balance ⁽²⁾	-9.4	-6.7	-4.5	-7.3	-7.4	-4.0
Public debt ⁽²⁾	114.1	111.5	110.9	98.0	101.4	99.2

(1) Percentage changes.

(2) EDP definition; percentages of GDP.

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

The global economy is set to continue its recovery, but likely to face some (supply) challenges

So far, the global economy has rebounded strongly and global output has already gained some 2 % on top of its pre-crisis level. The outlook remains favourable, with most international institutions expecting at least 6 % annual GDP growth in 2021. However, downside risks originating from the health situation cannot entirely be excluded yet, following the spread of the more infectious Delta variant, while supply risks are also increasingly coming to the fore and could possibly put a brake on industrial output.

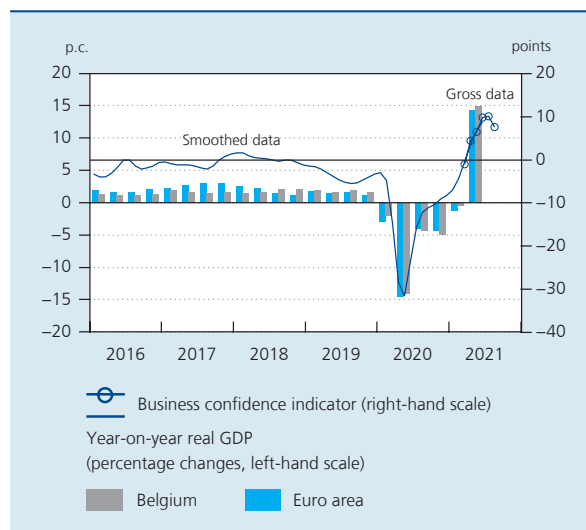
The euro area economy posted a strong rebound in the second quarter, after having shrunk in the previous two quarters. This leaves the level of activity some 3 % below its pre-crisis level. According to the ECB's most recent staff projections, however, that gap should be closed by the end of the year. Indeed, with confidence indicators at high levels and the remaining restrictive health measures being gradually loosened, the euro area economy is expected to see an ongoing economic revival in the second half of the year. The consensus forecast has slightly improved since June: Belgian Prime News participants now see the **euro area economy growing by 5.1 % in 2021 and 4.5 % in 2022**. Following the recent uptick in inflation rates, Belgian Prime News participants' inflation forecasts are up, with **euro area inflation now expected to come in at 2.1 and 1.7 % respectively in 2021 and 2022**.

In Belgium, economic activity continued to surprise on the upside in the second quarter of the year, with GDP growth coming in at 1.7 % according to the most recent statistics, well over the initial flash estimate of 1.4 %. The start of the second quarter was still affected by more stringent restrictions, so growth is even expected to climb a little higher in the third quarter, at 1.8 % according to the NBB's recently published Business Cycle Monitor. In annual terms, **BPN participants expect real GDP in Belgium to rebound strongly by 5.5 % this year and to grow further by 3.5 % in 2022**.

Meanwhile, policy support continues to cushion the hit to the labour market and is currently foreseen to continue doing so until the end of the year. In recent months, the system of temporary unemployment has become less intensively used, but there was no corresponding rise in regular unemployment, suggesting that most of the affected workers have been able to return to the labour market. In fact, demand for labour is very high again and labour shortages are resurfacing in some industries. Inflation stood at 4.7 % in August. Even though this figure is partly driven up by the unusual timing of the sales last year, inflation can still be considered on the rise, following the uptick in energy prices. **According to the consensus forecast, inflation in Belgium should amount to at least 2 % in 2021 and 2022**. This implies a clear upward revision compared to the June BPN consensus, of 0.4 percentage point on average.

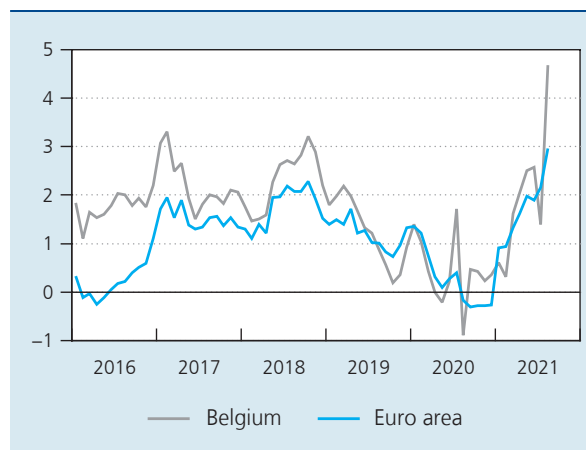
This year, the government deficit continues to be burdened by the COVID-19 support measures for individuals and businesses. In addition to the ex-ante budget-neutral recovery initiatives centred around the Recovery and Resilience Plan, submitted in the context of the Next Generation EU recovery instrument, regional authorities are unleashing supplementary recovery initiatives that weigh on their budget balances. According to the consensus forecast, Belgium's budget deficit should amount to **6.7 % and 4.5 % of GDP in 2021 and 2022**. BPN participants expect the **Belgian public sector debt to edge down somewhat in the coming two years, from just over 114 % of GDP in 2020 to 110.9 % of GDP in 2022**.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

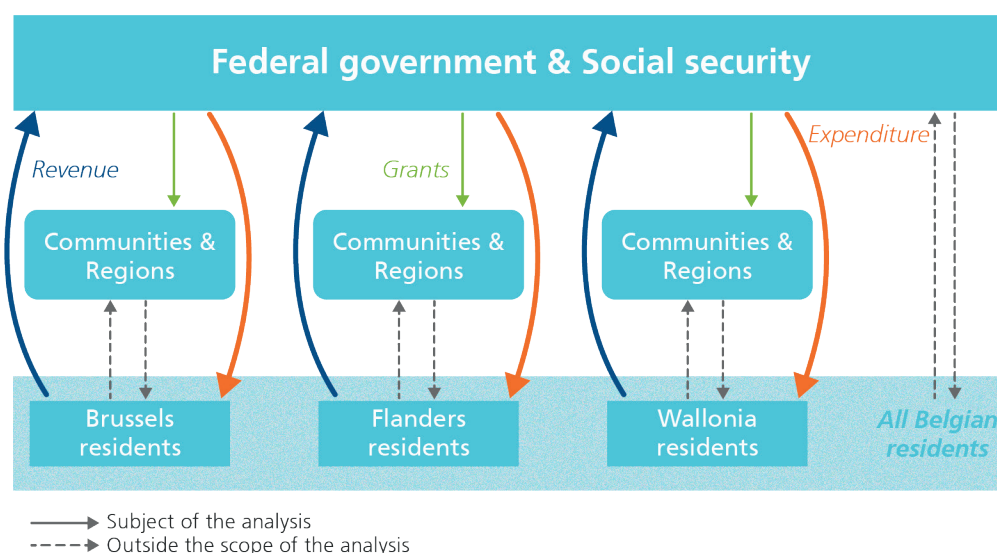
INFLATION (HICP) (annual percentage changes)



Source: EC.

The revenue and expenditure of the federal government and social security give rise to numerous transactions with households and businesses: taxes, social contributions, pensions, health care, etc. Among other things, these flows fulfil objectives concerning solidarity between individuals. Examined from a geographical angle, they imply interregional transfers since the amounts levied and paid out per capita in a given Region differ from the national average.

CONCEPTUAL FRAMEWORK



Flanders and Brussels contribute to interregional transfers, to the benefit of Wallonia

Consolidation of the flows implicitly generated via federal-level revenue, expenditure and grants provides an overview of redistribution between the Regions. In 2019, Flanders made a net contribution of around € 6.2 billion to these transfers. Brussels was likewise a net contributor, to the tune of around € 900 million. These transfers benefited Wallonia, which therefore implicitly received € 7.1 billion in that year. In per capita terms, the contributions of Flanders and Brussels were similar, at € 900 and € 800 respectively. On average, Walloon residents received around € 1 900 via the redistribution steered by the federal government and social security.

These interregional transfers arise from drawing up and implementing a budget with provision for the collection of revenue and the allocation of expenditure, which is central to public policy. By this means, governments redistribute resources among economic agents in order to achieve certain aims, including solidarity objectives. Since the federal rules apply in the same way everywhere, differences between one Region and another logically reflect variations in the structure and profile of the resident households and businesses. In fact, the three Belgian Regions feature significant demographic and socio-economic disparities.

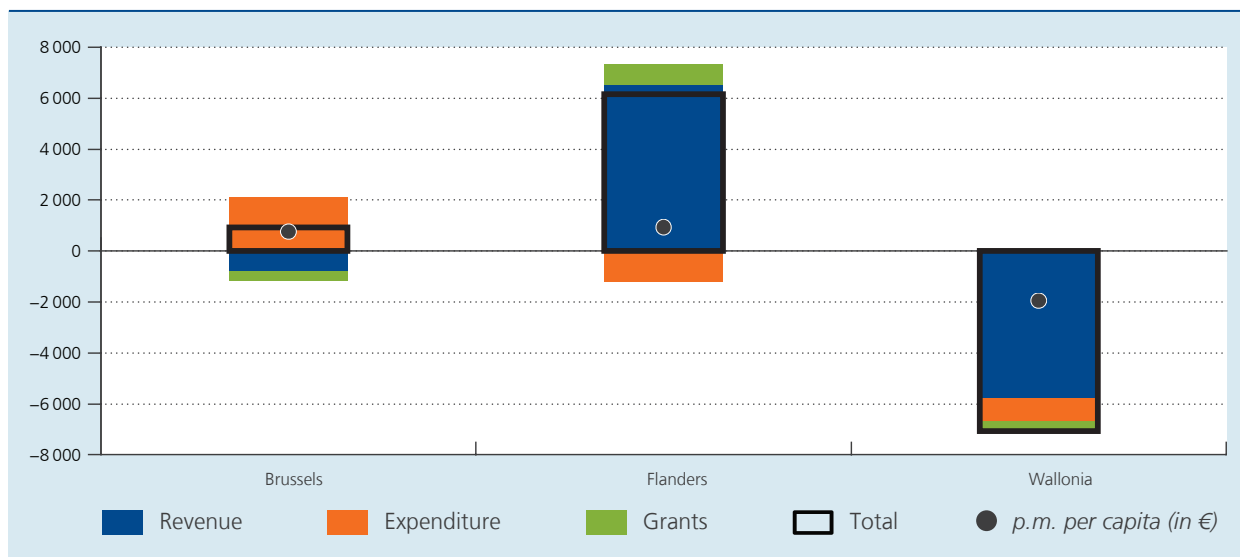
Demographic and socio-economic specificities are at the origin of these flows

The Brussels-Capital Region has a rather specific age pyramid: the proportion of people aged 65 and over is significantly lower than in the rest of the country. As a result, Brussels is a net contributor to age-related federal expenditure, mainly on pensions and health care. On the pensions front in particular, Brussels is clearly in a unique position, combining a smaller proportion of elderly people with a lower average pension. As this is the largest budget item in social security, the corresponding interregional transfers are logically sizeable. Flanders' net beneficiary position in terms of expenditure is also due to the opposite demographic specificity: a higher proportion of pensioners, who generate higher expenditure in terms of both pensions and health care.

(1) The full study is available at: <https://www.nbb.be/en/articles/interregional-transfers-federal-government-and-social-security>

OVERVIEW OF INTERREGIONAL TRANSFERS

(2019, in € million unless otherwise stated ¹⁾)



Sources : NAI, NBB.

⁽¹⁾ Transfers are computed as the difference between the per capita expenditure, revenue or grants in one Region and the Belgian average, multiplied by the population of that Region. A positive figure indicates a transfer from the Region concerned while a negative figure indicates a transfer to that Region.

As far as the labour market is concerned, Flanders is distinguished by a higher activity rate, but also, within this labour force, by a very low unemployment rate, and therefore by a much higher employment rate. The Flemish Region is therefore a net contributor when it comes to unemployment benefits. Social assistance benefits, including the living wage, give rise to interregional transfers of the same order.

The different dynamics at work in the labour market also have an impact on tax and parafiscal revenues. This is due to the average per capita primary income, which is an approximation of the base on which both personal income tax and social security contributions (personal and employer) are calculated. This ratio is significantly higher for residents of Flanders. This logically translates into a per capita contribution by the Flemish Region for personal income tax and social contributions that is higher than the national average. As far as these revenues are concerned, Flanders can thus be considered as a net contributor to interregional transfers, which benefit the Walloon and Brussels-Capital Regions.

Interregional transfers are comparatively moderate in Belgium, and are on a downward trend

The evolution of interregional transfers since 1995 shows that, irrespective of cyclical variations, their size has tended to diminish over the years. This downward trend is explained mainly by expenditure related to population ageing. The Flemish contribution to pensions and health care thus turned negative in 2003 and has been falling ever since.

It is also relevant to compare interregional transfers in Belgium with those in other EU countries. In comparison, these transfers are rather small in Belgium. For example, the Walloon Region is less of a beneficiary of national solidarity than the North of the Netherlands or Saxony-Anhalt in Germany. In the other direction, the Flemish Region's transfers differ less from the national average than the Hamburg Region, the West of the Netherlands or the Ile-de-France Region.

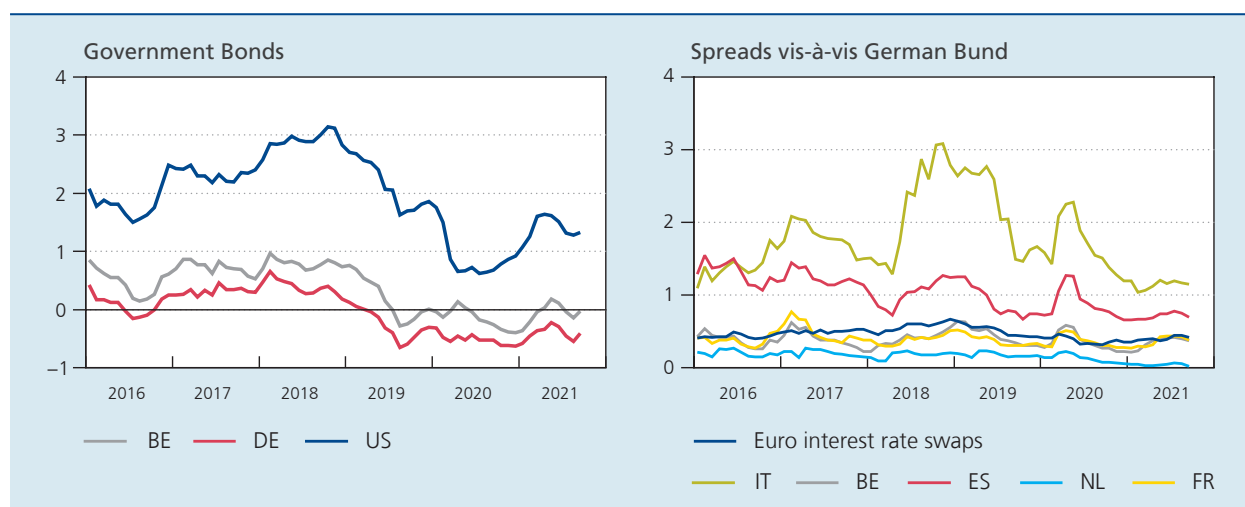
Global sovereign bond yields declined over the summer but have since picked up

Over the third quarter of 2021, the US 10-year government bond yield declined by 18 basis points, from 1.52 % in June to 1.34 % in September. Similarly, German and Belgian 10-year government bond yields fell by 10 and 13 basis points, to settle at -0.38 and -0.01 %, respectively. This quarterly drop in sovereign bond yields masks some volatility at monthly (or daily) frequencies. While yields declined over the summer, they picked up again recently, as markets focused on the inflation outlook and its implication for monetary policy. In September, the ECB Governing Council announced that it would slow the pace of its asset purchases under its pandemic emergency purchase programme (PEPP) and the Fed signalled that it could gradually start tapering soon.

The economic recovery from the pandemic and continued policy support initially sustained stock markets. However, financial markets were also affected by the spread of the Delta variant, supply-side bottlenecks, slowing global economic growth, the inflation outlook, and uncertainties related to the timing of monetary policy normalisation. While volatility measures such as the VIX and VSTOXX generally remained below their historical averages, some temporary spikes were associated with inflation fears and the spread of the Delta variant. More recently, fears about the highly indebted Chinese property giant Evergrande has led to a fall in stock prices in the US and in the euro area, and to an increase in volatility. The VIX and VSTOXX peaked at 25 and 26 %, respectively. Oil prices have been hovering around \$ 70 a barrel.

Over the third quarter of 2021, sovereign spreads vis-à-vis Germany remained broadly stable, supported by the ECB's commitment to preserving favourable financing conditions. Belgian, Italian and Spanish spreads narrowed slightly by 3, 2, and 4 basis points, to 0.38, 1.14, and 0.69 % respectively.

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



Sources: BIS, Thomson Reuters. Average over the first 27 days for September 2021.

TREASURY HIGHLIGHTS

The execution of the 2021 funding plan is well on track

Two OLO auctions were held in July and September, resulting in a total of € 6.603 billion of funding being raised.

OLO auctions

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
26 July	OLO 1.00 % 22/06/2031 OLO 3.00 % 22/06/2034 OLO 0.40 % 22/06/2040	OLO75 OLO73 OLO90	1.419 0.842 0.840	-0.187 % 0.024 % 0.387 %	1.49 1.44 1.68
<i>Non-competitive subscriptions</i>			0.000		
Total July			3.101		
27 September	OLO 0.00 % 22/10/2031 OLO 1.45 % 22/06/2037 OLO 1.70 % 22/06/2050	OLO92 OLO84 OLO88	1.482 1.243 0.777	0.100 % 0.444 % 0.879 %	1.62 1.40 1.57
<i>Non-competitive subscriptions</i>			0.000		
Total July			3.502		

Moreover, on 8 August, the Belgian Debt Agency issued an additional € 500 million through its third ORI facility.

ORI (€ 0.500 billion)

Date	OLO	NR	Issued (€ billion)	Yield	
8 August	OLO 5.50 % 28/03/2028 OLO 5.00 % 28/03/2035	OLO31 OLO44	0.400 0.100	-0.591 % -0.002 %	
Total May			0.500		

No EMTNs or *Schuldscheine* were issued in the third quarter of 2021.

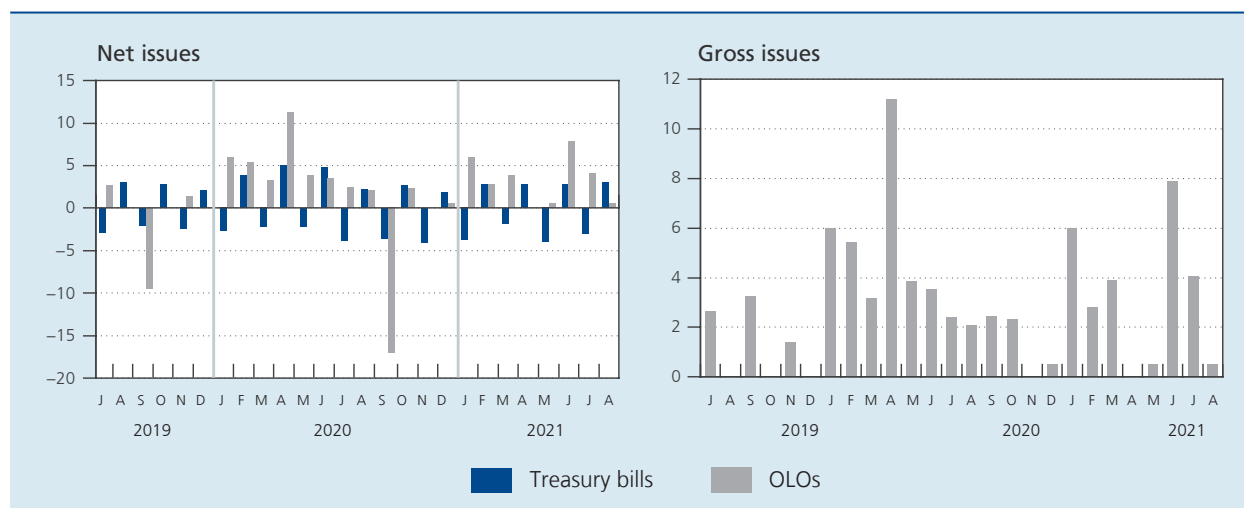
Total issuance now amounts to € 38.477 billion, corresponding to 88.23 % of its € 43.61 billion funding target.

In terms of portfolio structure, the average life of the portfolio was 10.22 years (end of August). The implicit yield of the portfolio has further declined to 1.56 % (end of August).

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

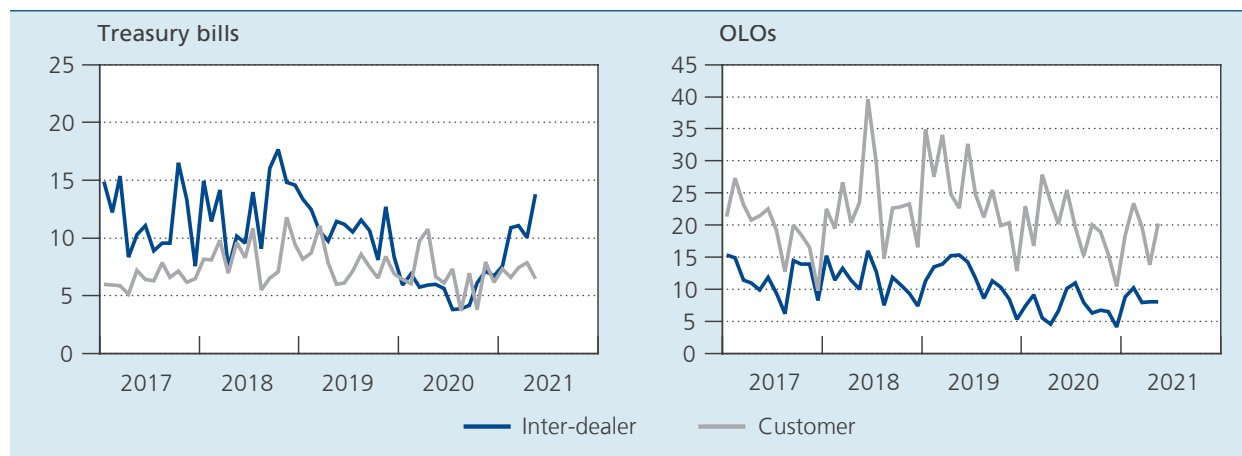
(€ billion)



Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER

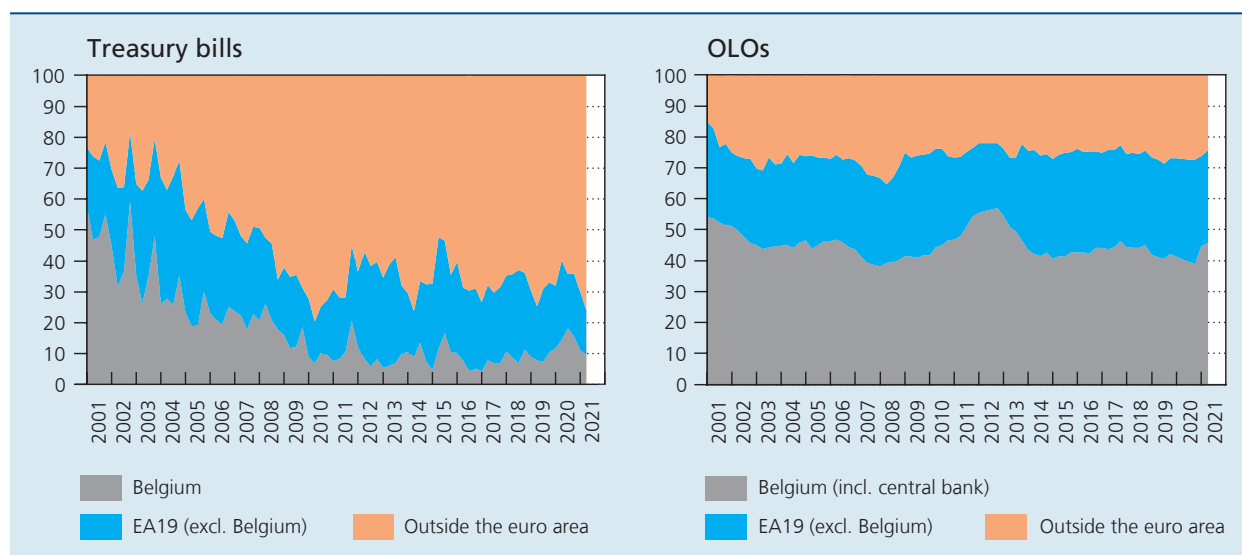
(as reported by primary and recognised dealers to the Treasury, € billion)



Source: Belgian Debt Agency.

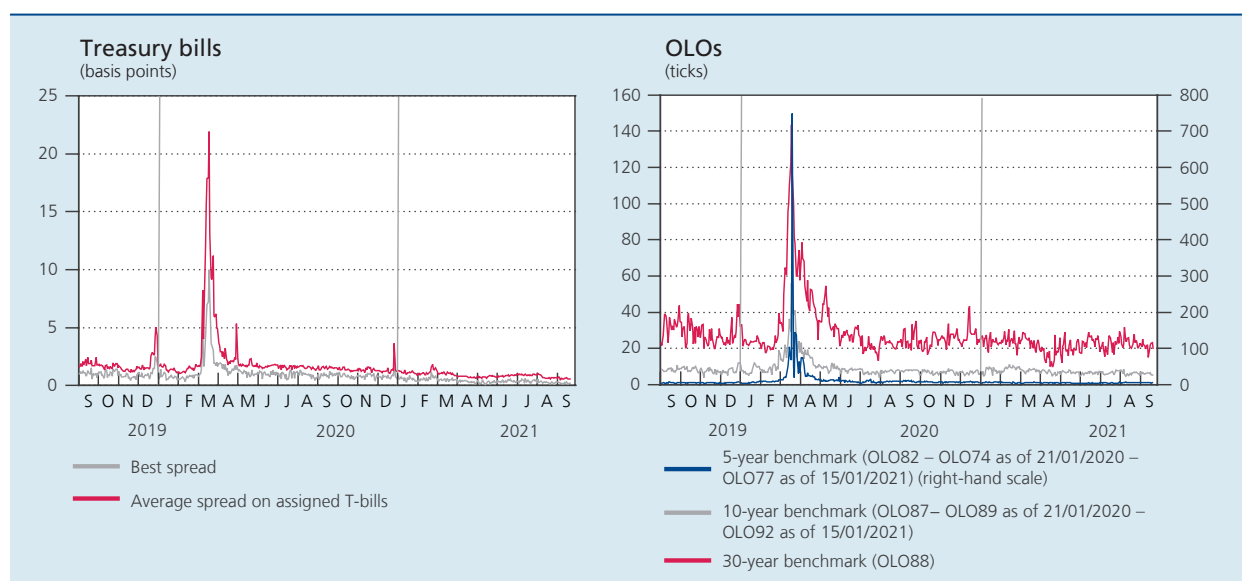
HOLDERSHIP BELGIAN SECURITIES

(in %)



Source: NBB.

BEST BID/OFFER SPREADS ⁽¹⁾



Source: Treasury.

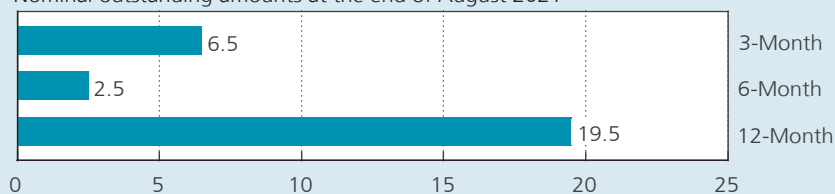
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

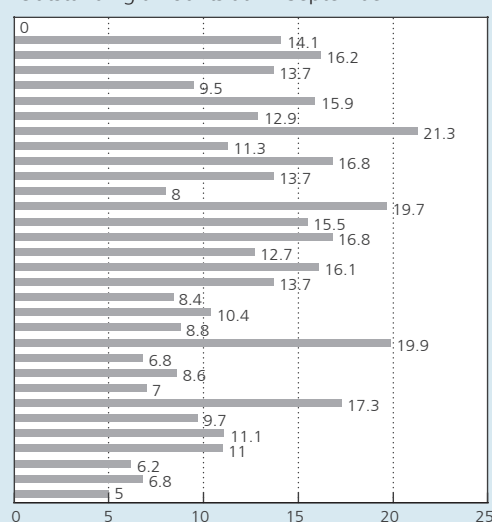
Treasury bills

Nominal outstanding amounts at the end of August 2021

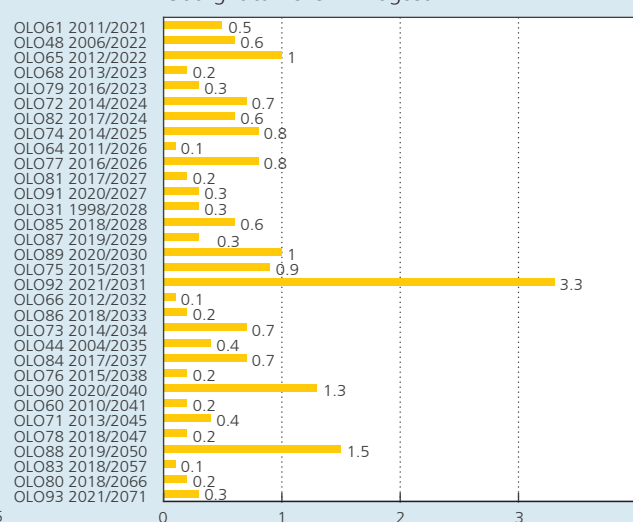


OLOs

Outstanding amounts at 29 September 2021



Outright turnover in August 2021



Source: Belgian Debt Agency.

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Deutsche Bank
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KBC Bank

Morgan Stanley
Natixis
NatWest (RBS)
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