BELGIAN PRIME NEWS

Quarterly publication

BELGIAN DEBT AGENCY

NationalBank OF BELGIUM

Eurosystem

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

N° 92 June 2021 Last update: 30 June 2021 Next issue: September 2021

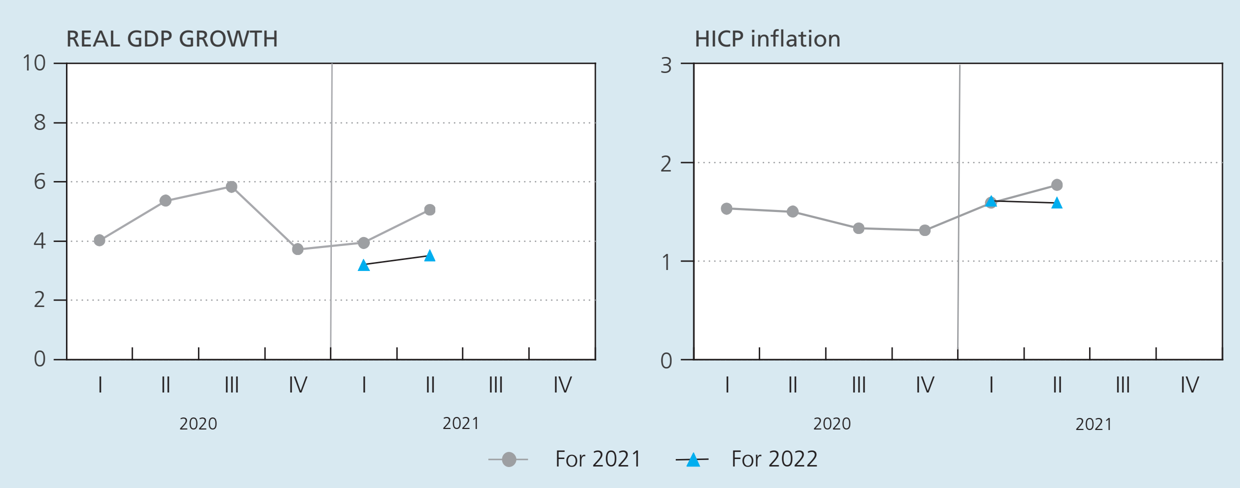
- MACROECONOMIC DEVELOPMENTS: Economic recovery boosted by progress in vaccination campaign
- SPECIAL TOPIC: The Belgian Recovery and Resilience Plan lays the foundations for a transition to more sustainable growth
- FINANCIAL MARKETS AND INTEREST RATES: Global sovereign bond yield rise halted amidst perception of temporary increase in inflation
- TREASURY HIGHLIGHTS: Two-thirds of the financing target for 2021 already executed

CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2020	2021p	2022p	2020	2021p	2022p
Real GDP(1)	–6.3	5.1	3.5	–6.8	4.5	4.4
Inflation (HICP)(1)	0.4	1.8	1.6	0.3	1.9	1.3
General government balance(2)	–9.4	–6.9	–4.8	–7.2	–7.3	–4.1
Public debt(2)	114.1	114.3	114.1	98.1	101.3	100.7

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

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS

Economic recovery boosted by progress in vaccination campaign

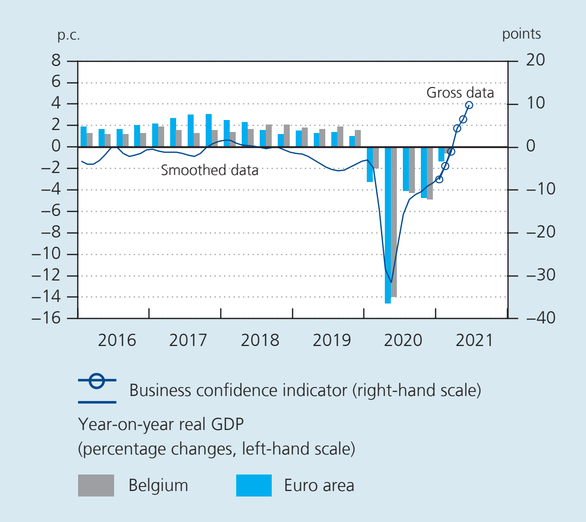
The global economy is expected to rebound strongly this year, with annual growth rates cited by international organisations near or even above 6 %. While the COVID-19 pandemic has intensified in certain emerging market economies, notably India, vaccination campaigns have progressed well in the advanced countries and most containment measures are gradually being lifted. Meanwhile, supply-side constraints are emerging, with demand recovering faster than supply in some sectors. These constraints have already resulted in shortages of intermediate inputs (such as microchips), as well as lengthening delivery times and upward pressure on (commodity) prices.

The euro area economy is taking a bit longer to recover from the pandemic: GDP declined in the past two quarters, leaving the level of activity still some 5 % below its pre-crisis level. However, short-term indicators point to a rebound in the second quarter of 2021 and an acceleration over the summer, as more restrictions are being relaxed. The more buoyant outlook for the global economy will have its spillovers onto the euro area as well. As a result, the consensus forecast has become more optimistic than in March and Belgian Prime News participants now see the **euro area economy growing by 4.5 % in 2021 and 4.4 % in 2022**. Inflation forecasts are slightly up too, with **euro area inflation now expected to come in at 1.9 and 1.3 %** respectively in 2021 and 2022.

In Belgium, economic activity continued to surprise on the upside in the first quarter of the year, even though some businesses, such as those active in hospitality or events, were still closed and the health and hygiene measures remained in place. Still, consumers and businesses seem to have found a way to learn to live with the pandemic and the containment measures, as the NBB's confidence indicators are skyrocketing (above the pre-crisis level). GDP actually expanded by 1 % in 2021Q1 and the NBB's recently published Business Cycle Monitor puts growth even a little higher in the second quarter, at 1.3 %. In annual terms, **BPN participants expect real GDP in Belgium to rebound strongly by over 5 % this year and to grow further by 3.5 % in 2022**. This implies a clear upward revision compared to the March consensus.

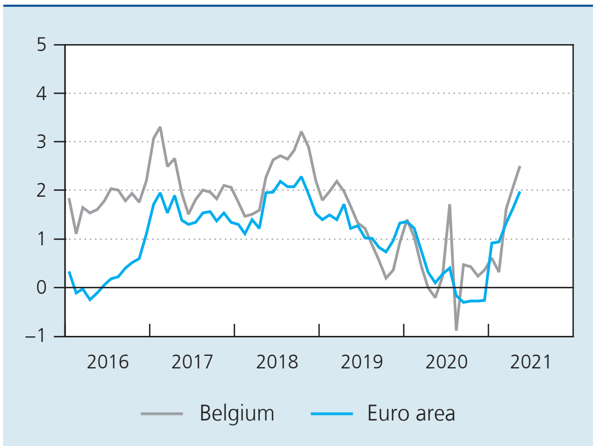
Meanwhile, policy support continues to cushion the hit to the labour market and is currently scheduled to continue doing so until the end of September. At that point, the economy is expected to be in full swing again, which should allow most of the temporarily unemployed workers to return to regular employment, also considering that labour demand is already back to its previous highs. Inflation stood at 2.5 % in May, up from 2.1 % in April, with the uptick largely reflecting a rise in energy prices of nearly 20 % compared to May last year. **According to the consensus forecast, inflation in Belgium should come to 1.8 % on average in 2021 and 1.6 % in 2022.**

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

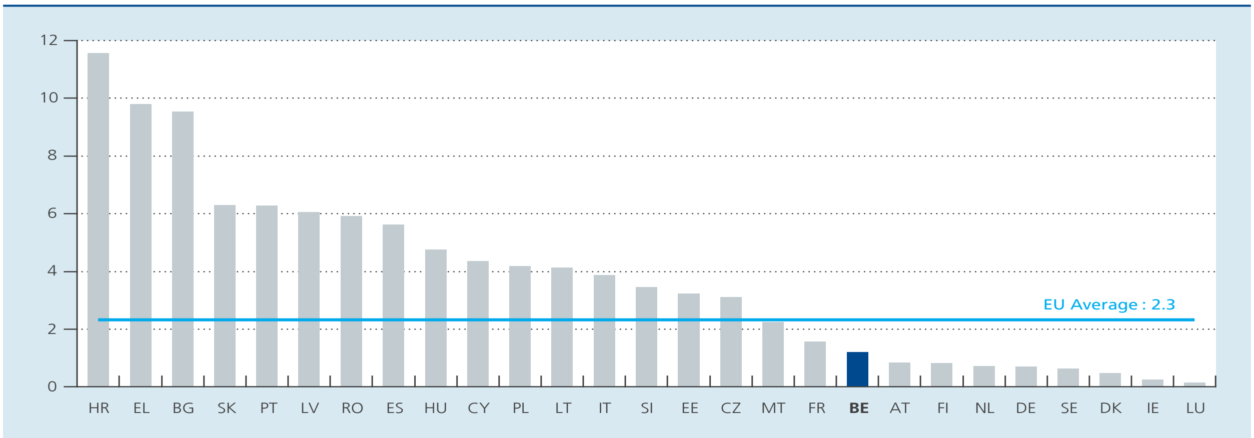
This year, the government deficit continues to be burdened by the COVID-19 support measures for individuals and businesses. In addition to the ex-ante budget-neutral recovery initiatives centred around the Recovery and Resilience Plan, submitted in the context of the Next Generation EU recovery instrument, 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 **6.9 % and 4.8 % of GDP in 2021 and 2022. BPN participants anticipate a stabilisation in the Belgian public sector debt in the coming two years, around some 114 % of GDP.**

The Belgian Recovery and Resilience Plan lays the foundations for a transition to more sustainable growth

At the end of April, Belgium submitted its national Recovery and Resilience Plan to the European Commission in the context of the European Recovery and Resilience Facility (RRF). This facility is the centrepiece of the Next Generation EU recovery package, approved by the European Council in July 2020, and provides financing through grants and loans to help Member States emerge from the coronavirus crisis. It supports both public investment and structural reforms with a firm focus on the green and digital transition of the economy. The facility shows enhanced solidarity towards the lower-income countries and the Member States hit hardest by COVID-19, such as Spain and Italy. The RRF grants allocated to Belgium are relatively limited and amount to € 5.9 billion or 1.2 % of GDP over the period 2021-2026 (1).

The national Recovery and Resilience Plans (RRP) set out the public investment projects and reforms that Member States are planning to implement with their RRF grants and loans. A positive evaluation of the Plan by the European Commission is needed to effectively receive financing. It will assess the submitted Plans making use of a rating system taking into account a set of different criteria, the most important of which are compliance with the Commission's country-specific recommendations on the budgetary situation and the contribution to a green and digital transformation. On 23 June 2021, the Commission approved Belgium's Plan.

COUNTRIES IN SOUTHERN AND EASTERN EUROPE TO RECEIVE RELATIVELY LARGER PROPORTION OF RRF GRANTS
(in % of GDP)



Source: EC.

The Belgian Recovery and Resilience Plan

The Belgian RRP incorporates a set of very diverse projects submitted by the federal and regional authorities. The Plan is structured around six strategic pillars, each of which has several components and contains different investment projects and structural reforms. Projects in the plan cover the entire lifetime of the RRF until 2026.

Investment projects

The proposed investment projects largely focus on the green and digital transition of the Belgian economy. To foster the green transition, Belgian authorities want to launch investment projects worth more than € 2 billion under the "climate and sustainability" axis. The main focus here will be the renovation of public buildings. Additionally, projects under the "mobility" axis contribute to a modal shift towards a greener transport system, among others by improving the cycling and walking infrastructure.

In order to speed up the digital transformation of the Belgian economy, the proposed investment projects will mainly focus on the digitisation of public services, cybersecurity and on new technologies including the development of very high-speed fibre-optic networks.

(1) Belgium is currently not planning to use any loans from the RRF. Loans are of particular interest for countries with sovereign borrowing costs above the expected cost of the RRF loans.

Table 1 The Belgian Recovery and Resilience Plan is structured around 6 strategic pillars
(in € million, in % of total between brackets)

Pillar 1: Climate, sustainability and innovation	**2020**	*(34%)*	**Pillar 4: Social and inclusiveness**	**834**	*(14%)*
1.1. Renovation of buildings	1012	*(17%)*	4.1. Education 2.0.	442	*(7%)*
1.2. Emerging energy technologies	608	*(10%)*	4.2. Training and employment for vulnerable groups	165	*(3%)*
1.3. Climate and environment	400	*(7%)*	4.3. Social infrastructure	227	*(4%)*
Pillar 2: Digital transformation	**763**	*(13%)*	**Pillar 5: Economy of the future and productivity**	**1008**	*(17%)*
2.1. Cibersecurity	79	*(1%)*	5.1. Supporting economic activity	440	*(7%)*
2.2. Public administration	585	*(10%)*	5.2. Training and labour market	371	*(6%)*
2.3. Optic fiber, 5G and new technology	99	*(2%)*	5.3. Circular economy	198	*(3%)*
Pillar 3: Mobility	**1292**	*(22%)*	**Pillar 6: Public finances**	**8**	*(0%)*
3.1. Cycling and walking infrastructure	411	*(7%)*	6.1. Spending reviews	8	*(0%)*
3.2. Modal shift	672	*(11%)*			
3.3. Greening road transport	209	*(4%)*	**RRF grants**	**5925**	*(100%)*

Source: Belgian Recovery and Resilience Plan.

Structural reforms

The suggested structural reforms in the Plan are the key element in addressing the challenges identified in the country-specific recommendations. Significant positive effects on economic activity can be expected from these reforms, if they are implemented. Among others, to stimulate employment and to further reduce the labour tax wedge, a comprehensive labour tax reform and pension reforms are proposed. Other important structural reforms contribute to greener taxation, lifelong learning and a more efficient "e"-government.

Macro-economic and budgetary impact

The Belgian Federal Planning Bureau (2) has analysed both the macroeconomic and budgetary impact of the proposed investment projects of the Plan (3). In the short to medium term, when taking into account only aggregate demand effects, the impact of the RRP on Belgian GDP is limited to 0.14 % of GDP on average over the period 2021-2026. The increase in economic activity partly originates from a rise in employment but also partly from a rise in productivity per person. In the long term, when also taking into account supply-side effects, GDP is expected to be 0.22 % above its baseline level by 2030. The positive impact on GDP eventually fades over time as the investment impetus is temporary.

The general government budget balance is expected to improve slightly in the short to medium term on account of feedback effects, since the RRP is *ex ante* budget neutral (4). The public debt ratio is expected to fall by almost one percentage point by 2040, due to the budget balance improvement and the denominator effect from the rise in nominal GDP.

Although the estimated impact of the RRP appears relatively low, one needs to consider that the total amount of grants received is also limited to 0.2 % of GDP on average per year over the period 2021-2026. Moreover, the macroeconomic analysis does not take account of the expected positive dynamic effects from the proposed structural reforms and the potential positive impact from foreign RRPs. So, the macroeconomic analysis could be interpreted as a lower bound of the impact of the Belgian RRP.

Table 2 Macroeconomic and budgetary impact of Belgian RRP
(% change compared to the baseline scenario, unless otherwise specified)

	Short-medium term	Long term	
	2021-2026 (1)	2030	2040
GDP (volume)	0.14	0.22	0.14
Employment	0.05	0.04	0.02
Gross public debt (in % GDP)	−0.51 (2)	−0.61	−0.95

Source: Federal planning Bureau (2021).
(1) Arithmetic average.
(2) For gross public debt, the value of 2026 is taken.

In summary, the RRF can be considered as a good instrument to boost potential growth via public (support to) investment, especially in those countries where fiscal space is limited. Moreover, the evaluation criteria for receiving the grants will encourage governments to put into place important structural reforms, from which the largest positive impact on welfare can be expected.

(2) See Federal Planning Bureau (2021), "Macroeconomic and fiscal effects of the draft National Recovery and Resilience Plan", Report 12401.
(3) The macroeconomic impact of the structural reforms is not considered as it is very difficult to quantity its impact via analytical models.
(4) Although Belgian RRP is ex-ante budget-neutral, there will be an impact on Belgian public finances from repayment of EU debt as the EU will borrow on the capital markets to finance RRF. Repayment of the borrowing will take place over a long time horizon from 2027 until 2058 and it will be covered by increased gross national income-based contributions by Member States and new EU own resources. The resulting macro and budgetary impact of this debt repayment is not taken into account in the analysis.

FINANCIAL MARKETS AND INTEREST RATES

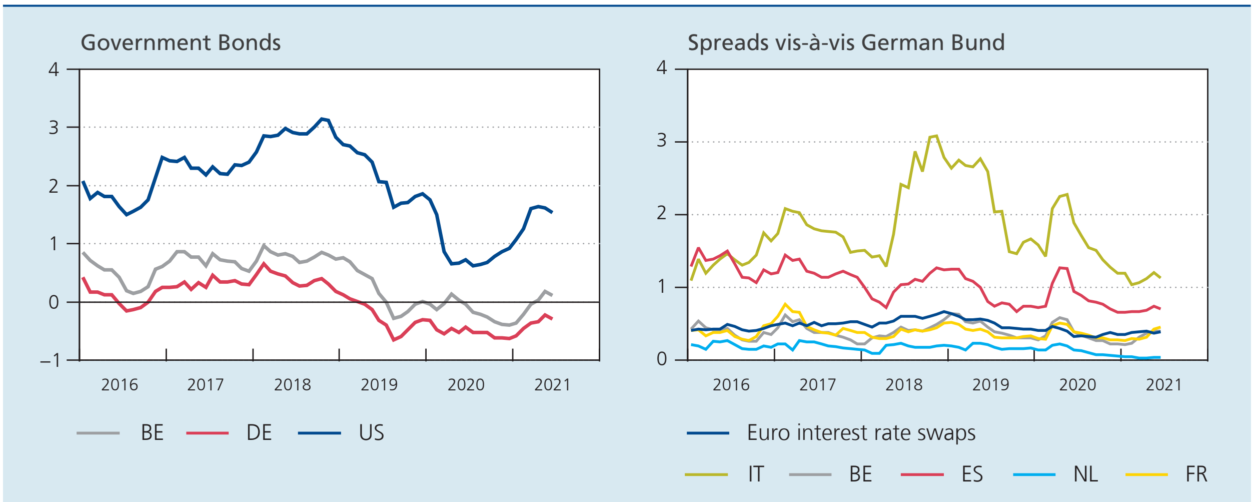
Global sovereign bond yield rise halted amidst perception of temporary increase in inflation

Over the first quarter of 2021, the expected recovery from the COVID-19 pandemic fuelled inflation expectations and government bond yields in both the US and the euro area. While US interest rates were up strongly in the first quarter of 2021, spillovers to the euro area were initially limited by a slower recovery there. More recently, the Fed signalled that policy rates might rise sooner than previously anticipated. Markets and policymakers now view the increase in inflation as temporary. In this context, the US 10-year government bond yield declined by 9 basis points, from 1.61% in March 2021, to 1.53% in June. In contrast, German and Belgian 10-year government bond yields rose by 7 and 16 basis points over the second quarter of 2021, to settle at –0.29 and 0.12%, respectively. As economic prospects finally brightened, yields increased in the euro area, even though the ECB's renewed commitments to preserve favourable financing conditions and subdued inflation expectations contributed to mitigate the rise in the yields.

The gradual reopening of economies, the vaccine roll-out and continued policy support contributed to the good performance of the stock and corporate bond markets. While volatility measures such as the VIX and VSTOXX generally remained below their historical averages, some temporary spikes were associated with the uncertain inflation outlook. The recovery has also supported commodity prices, with oil prices standing above $ 70 a barrel (compared to $ 60 before the COVID-19 outbreak). The dollar appreciated against the euro after the Fed's FOMC meeting in June, reversing a trend over April and May. One euro is now worth $ 1.19.

Sovereign spreads vis-à-vis Germany initially widened with the COVID-19 outbreak and subsequently declined to stabilise close to their pre-crisis levels. However, sovereign spreads spiked temporarily in May 2021, as the euro area recovery triggered the possibility of an earlier than expected normalisation of monetary policy. Over the second quarter of 2021, Belgian, Italian, and Spanish spreads widened slightly by 8, 8, and 4 basis points, to 0.41, 1.15, and 0.71% respectively.

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



Sources: BIS, Thomson Reuters. Average over the first 25 days for June 2021.

TREASURY HIGHLIGHTS

Two-thirds of the financing target for 2021 already executed

The results of the two syndications and the two first auctions earlier this year were already published in the March issue. Two other OLO auctions have since been held (in May and June), resulting in a total of € 7.9 billion worth of funding being raised:

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
May 31	OLO 0.80% 22/06/2025 OLO 0.00% 22/10/2031 OLO 1.70% 22/06/2050	OLO 74 OLO 92 OLO 88	**0.980** **1.875** **1.229**	–0.539% 0.144% 0.949%	2.21 1.70 1.58
Non-competitive subscriptions			**0.682**		
Total May			**4.084**		

June 28	OLO 0.00% 22/10/2031 OLO 1.25% 22/04/2033 OLO 1.70% 22/06/2050	OLO 92 OLO 86 OLO 88	1.928 0.590 1.273	0.136% 0.195% 0.937%	1.05 2.75 1.29
Non-competitive subscriptions			Not yet known		
Total June			3.791		

Moreover, on 7 May, the Belgian Debt Agency issued an additional € 502 million through its second ORI facility, and € 50 million through its EMTN programme on 12 May.

ORI (€ 0.502 billion)

Date	OLO	NR	Issued (€ billion)	Yield	
May 7	OLO 0.80% 22/06/2025 OLO 3.00% 22/06/2034	OLO 74 OLO 73	0.307 0.195	0.000% 0.307%	
Total May			0.502		

EMTN (€ 0.050 billion)

Date	OLO	NR	Issued (€ billion)	Yield	
May 12	EMTN 1.17% 12/05/2121	EMTN 69	0.050	0.000%	
Total May			0.050		

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

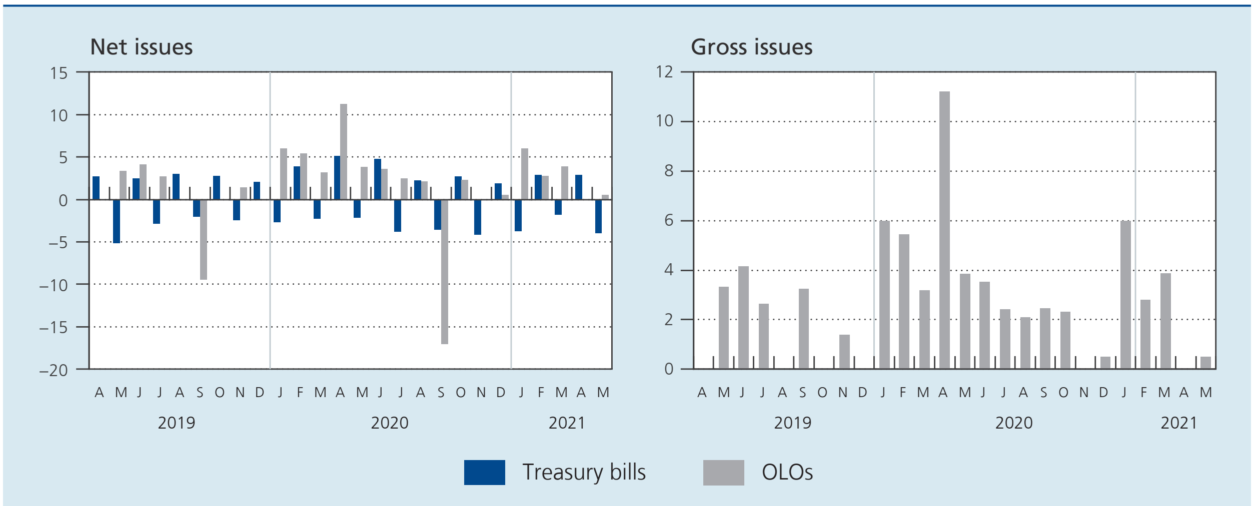
However, Belgium received a fourth and fifth tranche of SURE funding from the EU on 23 March 2021 for a total amount of € 2.20 billion (nominal). The EU provided a € 1.3 billion 5-year loan maturing on 04/03/2026 at a cost of –0.488%, and a € 0.9 billion 25-year loan maturing on 02/05/2046 at a cost of 0.476 %. Next to those amounts dedicated to the federal level, Belgium also received, on 18 May, € 1.997 billion mainly intended for the Regions and Communities.

Belgium has therefore already raised € 30.41 billion, corresponding to 69.7% of its funding target.

In terms of portfolio structure, the average life of the portfolio is now 10.18 years (as of end of May) and it has an implicit yield of 1.61%.

GOVERNMENT SECURITIES STATISTICS

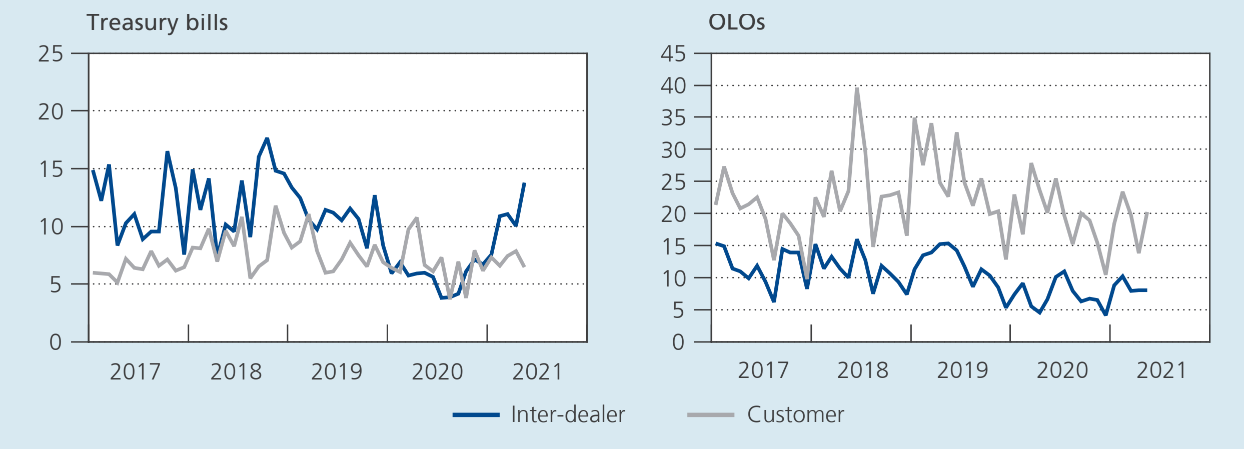
PRIMARY MARKET
(€ billion)



Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER

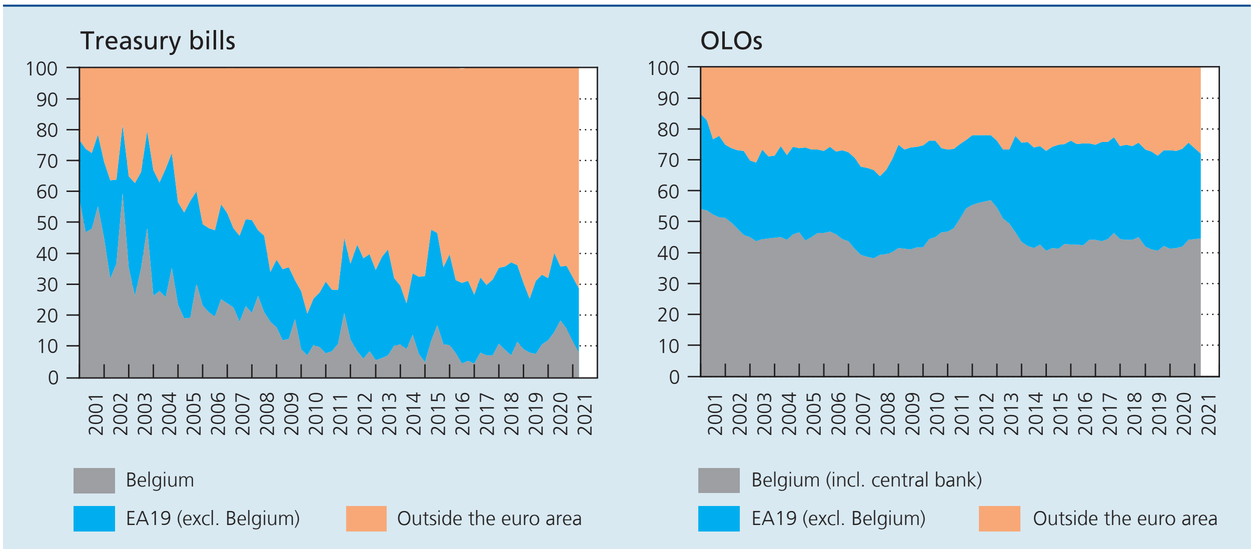
(as reported by primary and recognised dealers to the Treasury, € billion)



Source: Belgian Debt Agency.

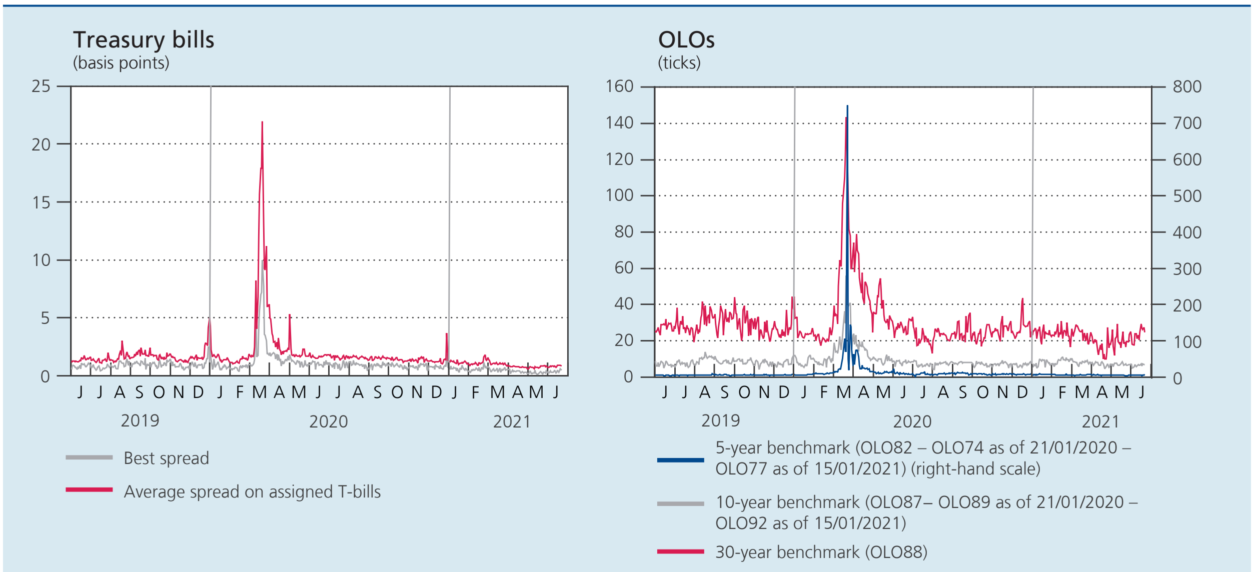
HOLDERSHIP BELGIAN SECURITIES

(in %)



Source: NBB.

BEST BID/OFFER SPREADS [1]



Source: Treasury.

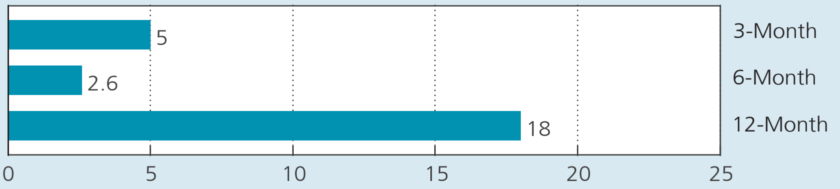
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

Treasury bills

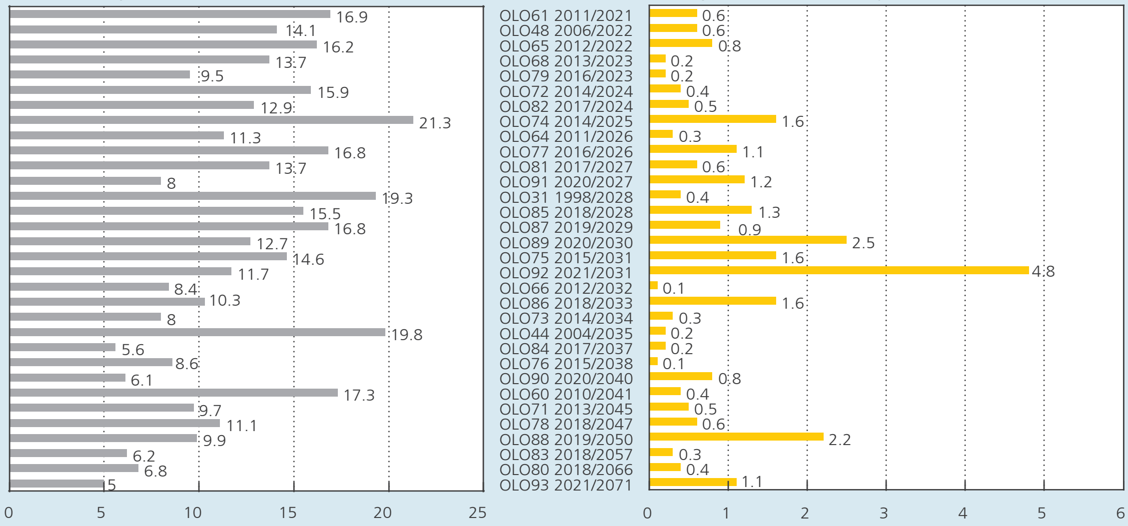
Nominal outstanding amounts at the end of May 2021



OLOs

Outstanding amounts at 30 June 2021

Outright turnover in May 2021



Source: Belgian Debt Agency.

LIST OF CONTACT PERSONS

PARTICIPATING INSTITUTIONS	TECHNICAL EDITORS	TELEPHONE	E-MAIL
Belgian Debt Agency	Mr Jean Deboutte	+32 2 574 72 79	jean.deboutte@debtagency.be
Barclays	Mr François Cabau	+44 20 3134 3592	francois.cabau@barclays.com
Belfius Bank	Ms Catherine Danse	+32 2 222 71 13	catherine.cd.danse@belfius.be
BNP Paribas Fortis	Mr Philippe Gijsels	+32 2 565 16 37	philippe.gijsels@bnpparibasfortis.com
	Mr Arne Maes	+32 2 312 12 10	arne.maes@bnpparibasfortis.com
Citigroup	Mr Guillaume Menuet	+44 20 7986 3281	guillaume.menuet@citi.com
Crédit Agricole CIB	Mr Louis Harreau		louis.harreau@ca-cib.com
	Mr Pierre Benadjaoud	+33 1 43 23 97 36	pierre.benadjaoud@credit-agricole-sa.fr
Deutsche Bank	Mr Marc de Muizon	+44 20 75 47 76 35	marc.de-muizon@db.com
HSBC	Mr Olivier Vigna	+33 1 40 70 32 66	olivier.vigna@hsbc.fr
KBC Bank	Mr Peter Wuyts	+32 2 417 32 35	peter.wuyts@kbc.be
	Mr Hans Dewachter	+32 2 429 80 08	hans.dewachter@kbc.be
Morgan Stanley	Mr Jacob Nell	+44 20 7425 7494	jacob.nell@morganstanley.com
Natixis	Mr Jean-Christophe Machado		jeanchristophe.machado@natixis.com
NatWest (RBS)	Mr Giovanni Zanni		giovanni.zanni@natwestmarkets.com
Nomura	Mr Marco Brancolini	+44 20 7102 0724	marco.brancolini@nomura.com
Société Générale Corp. & Inv. Banking	Mr Michel Martinez	+33 1 42 13 34 21	michel.martinez@sgcib.com
	Mr Yvan Mamalet	+44 20 7762 5665	yvan.mamalet@sgcib.com

GENERAL INFORMATION

National Bank of Belgium	Mr Jef Boeckx	+32 2 221 43 27	jef.boeckx@nbb.be

Published by: National Bank of Belgium (NBB).
Sources: NBB, unless otherwise stated.
This publication is also available on the website: www.nbb.be.
Information on the Belgian government debt can be found on the Treasury website: www.debtagency.be.
General information on the Belgian government's action can be found on the website: www.belgium.be.