

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 is facing heightened uncertainty
- **FINANCIAL MARKETS AND INTEREST RATES:** Diverging trends: long-term government bond yields rise in the euro area and fall in the US
- **SPECIAL TOPIC:** A struggling manufacturing industry
- **TREASURY HIGHLIGHTS:** Nearly 40% of the 2025 funding plan has been raised

CONSENSUS **Average of participants' forecasts**

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

	<u>Belgium</u>				<u>Euro area</u>			
	2024	2025e	2026e	2027e	2024	2025e	2026e	2027e
Real GDP ¹	1.0	1.0	1.2	1.4	0.9	0.9	1.2	1.3
Inflation (HICP) ¹	4.3	3.2	1.8	1.7	2.4	2.2	1.9	2.0
Government budget balance ²	-4.6	-4.7	-4.8	-4.9	-3.2	-3.0	-2.9	-2.7
Public debt ²	104.4	106.3	108.2	109.2	87.7	89.1	89.7	89.0

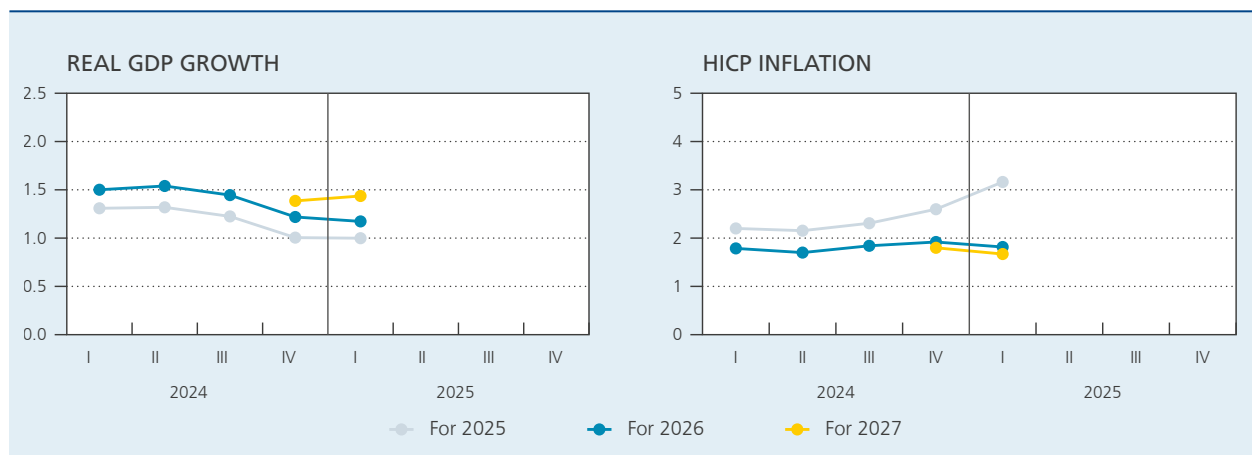
Source: Belgian Prime News.

1 Percentage changes.

2 EDP definition: percentages of GDP.

FORECASTS FOR BELGIUM

(the lines show the evolution since the start of 2024 of the growth and inflation forecasts for the calendar years 2025, 2026 and 2027)



Source: Belgian Prime News.

The world economy remained resilient in 2024, while inflation rates subsided. The global composite PMI indicator slipped at the turn of the year, mainly due to weaker confidence in the services sector. Meanwhile, the global manufacturing PMI showed some signs of improvement, thereby narrowing the two-year long gap with the services sector. Global trade growth exceeded expectations, but this may have been partly due to some frontloading ahead of the US presidential elections held in November 2024. Indeed, recent announcements regarding changes to US trade policy imply headwinds and heightened uncertainty for both global economic activity and global trade. In its March 2025 macroeconomic projections, the ECB slightly revised its outlook for global growth downwards, but it still expects this to remain slightly above 3% in the coming years, with a similar expansion in world trade.

The euro area economy started to recover in 2024 but lost some momentum again towards the end of the year. The conditions remain in place for euro area GDP growth to strengthen over the projection horizon, but persistently high uncertainty could slow down the anticipated recovery. In terms of the annual outlook, Belgian Prime News (BPN) participants expect **euro area real GDP growth to remain constant at 0.9% in 2025**. Annual growth is expected to pick up slightly to 1.2% in 2026 and to 1.3% in 2027. Euro area headline inflation reached 2.4% on average in 2024 and **respondents currently expect inflation to moderate further towards 2% over the projection horizon**.

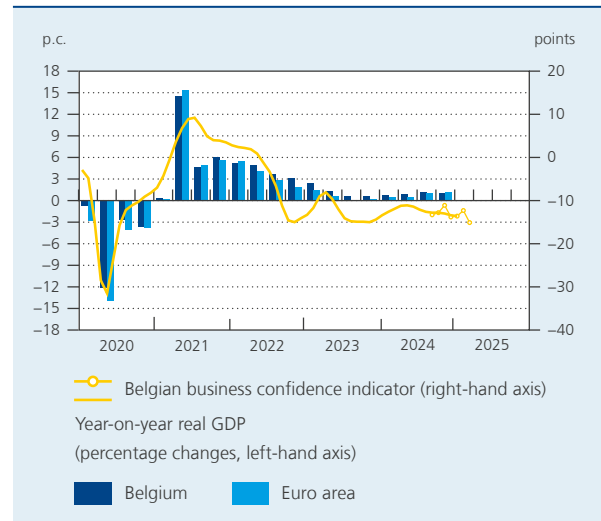
In quarterly terms, Belgian economic growth throughout 2024 quite closely mirrored that of the euro area. Belgian growth came in at 0.2% in the fourth quarter and, according to the March issue of the NBB's Business Cycle Monitor, a similar pace can be expected for the first quarter of 2025. **BPN respondents expect annual real GDP growth in Belgium to amount to 1% in 2025. For 2026 and 2027, they foresee real GDP growth of 1.2% and 1.4%, respectively.** For both Belgium and the euro area, the new March consensus forecasts for economic growth match the consensus of December quite closely.

Developments in the Belgian labour market have been somewhat subdued lately, with very modest job creation observed since the end of 2022. Market sectors were in fact shedding jobs for several quarters, but the beginnings of a change to that trend appeared towards the end of 2024. Nevertheless, going forward, job creation is expected to be moderate and more or less keep pace with the expansion of the active population. As a result, the harmonised unemployment rate remains very low and is projected to stay below 6% in the coming years, with the labour market staying reasonably tight.

The headline inflation rate in Belgium remains more elevated than that of the euro area. A higher sensitivity to market prices for energy, the statistical treatment of energy-related fiscal measures and higher food inflation are the main factors behind this. **According to the latest BPN consensus forecast, the headline inflation rate in Belgium is expected to average 3.2% in 2025, down from an average 4.3% in 2024.** This has been revised upwards compared to the December consensus. Respondents expect the inflation rate to decline further in subsequent years, reaching 1.8% and 1.7% in 2026 and 2027, respectively.

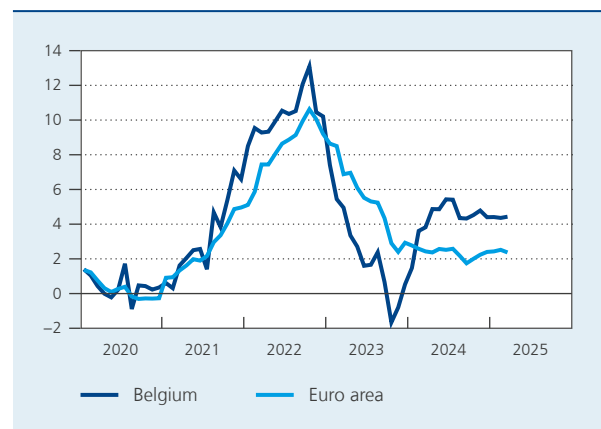
On 31 January 2025, a federal government agreement was concluded between five parties following the June 2024 elections. The new federal government is planning to make significant budget cuts in order to bring down the deficit. Nonetheless, BPN participants currently expect the budget deficit to remain elevated throughout the projection period, at just below 5% of GDP. In addition, they see Belgian public debt creeping up further, from around 104% of GDP in 2024 to 109% of GDP by 2027.

GDP GROWTH AND BUSINESS CONFIDENCE



Sources: EC, NAI, NBB.

INFLATION (HICP) (annual percentage change)



Source: EC.

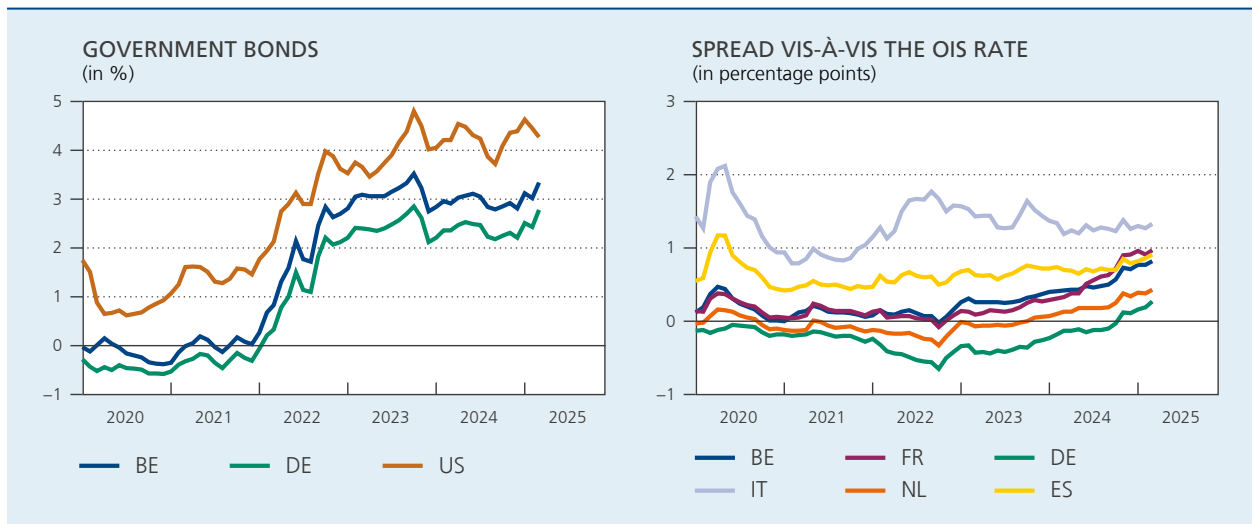
Over the course of the first quarter of 2025, the euro area disinflation process continued in line with ECB/Eurosystem staff projections, with headline and core inflation expected to average 2.3% and 2.2%, respectively, in 2025. The ECB cut interest rates by 25 basis points in January and then again in March, bringing the deposit facility rate down to 2.5%. At its most recent meeting, the Governing Council also emphasised that monetary policy is becoming meaningfully less restrictive. Financial markets have subsequently trimmed down their expectations for further rate cuts this year. In the US, the Federal Reserve left the target range of the federal funds rate unchanged, at 4.25-4.50%, in both January and March, and decided to slow the pace of its continuing reduction of Treasury holdings in order to ensure a smooth transition to the long-term level of the Fed’s balance sheet and limit the possibility of tensions on the money markets. The Fed revised its outlook for the US economy, projecting lower growth and higher inflation, and pointing to a moderation in consumer spending, heightened uncertainty and faster wage growth.

Despite the cuts to the ECB’s policy rates, long-term government bond yields rose in the euro area in the first quarter of the year. The uptick was supported by looser fiscal spending plans than initially expected, in part due to heightened defence expenditure, which suggest an increase in sovereign debt issuance. Sovereign yields notably increased across the euro area following the unveiling of Germany’s defence and infrastructure spending plans on 4 March, and by the end of the first quarter, Belgian and German ten-year government bond yields had reached 3.34% and 2.78%, respectively. In contrast, the US ten-year sovereign bond yield decreased by 13 basis points, to 4.27%, in March, amid concerns over weaker economic growth.

The first quarter of 2025 also saw an increase in euro area sovereign yield-OIS spreads, on the back of economic uncertainty and an expected increase in public indebtedness. The German spread widened by 15 basis points, reaching 0.27% in March – its highest level since 2010. The Belgian spread increased by 12 basis points and stabilised at 0.82%, whereas the French and Italian spreads increased to a lesser degree, ending the first quarter at 0.97% and 1.33%, respectively. Despite these rises, euro area sovereign spreads themselves did not diverge significantly, indicating a low level of fragmentation on sovereign bond markets.

10-YEAR INTEREST RATES

(monthly averages)

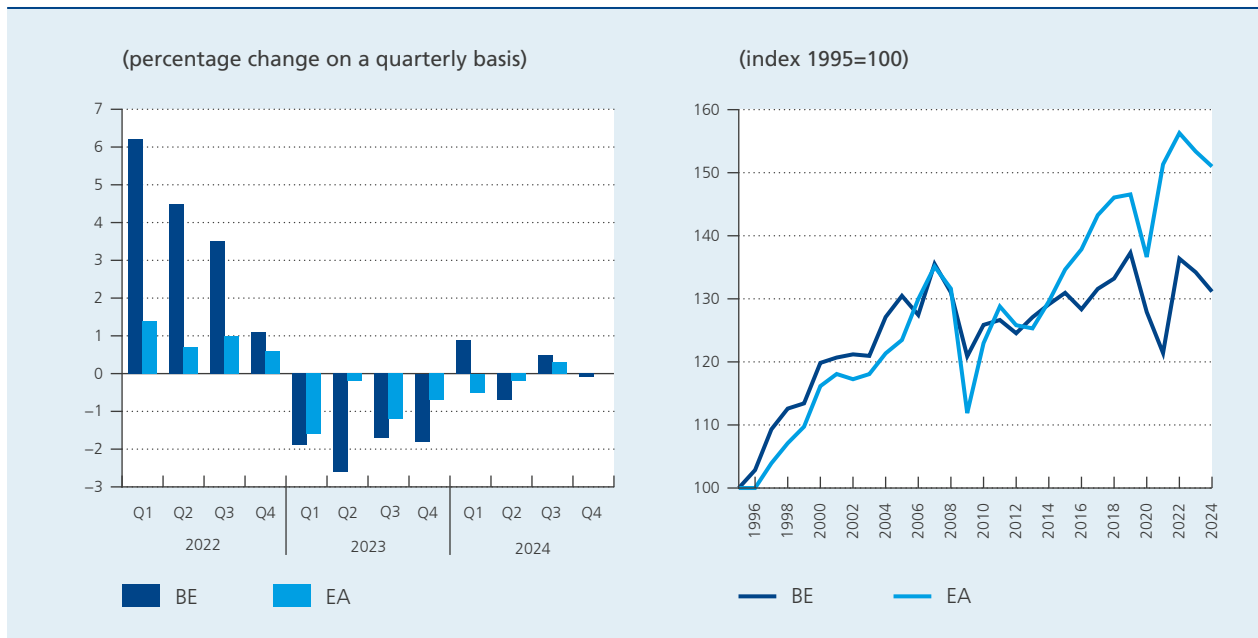


Sources: LSEG Data & Analytics. Average over the first 24 days for March 2025.

Uncertainty over tariffs and growing fears of a US recession contributed to high volatility on stock and bond markets. For instance, the VIX and VSTOXX indices – which measure implicit stock market volatility – spiked at 28 and 27 points, respectively, in early-March, and have since hovered above their historical averages. The MOVE index for bond price volatility also went up, reflecting higher uncertainty on US treasury markets. Policy uncertainty, in particular related to trade, put pressure on US stock markets, with the S&P500 losing all its post-election gains. In contrast, European stocks drew support from discussions over increased fiscal spending. European equities thus outperformed their US counterparts, with the Stoxx 600 Europe up 8% in the first quarter of 2025. The euro appreciated against the dollar, trading at \$ 1.08 at the end of March, compared with \$ 1.03 at the end of December. Weaker US growth prospects were also reflected in wider high-yield corporate spreads.

Real growth in value added in Belgium’s manufacturing industry has, on a quarterly basis, been declining since 2022, and as of the start of 2023, has generally been negative. Manufacturing activity has thus been contracting since 2023. From a longer-term perspective, real value added in the Belgian manufacturing industry is now barely higher than it was a decade ago.

REAL VALUE ADDED IN THE MANUFACTURING INDUSTRY



Sources : Eurostat, NAI, NBB.

The euro area has enjoyed markedly stronger growth in manufacturing activity than Belgium since around 2014, but a similar trend can be seen there. Euro area manufacturing activity has also declined recently, but still remains above its pre-pandemic levels.

The more pronounced decline in Belgium is reflected across a very wide range of industry subsectors. Belgium has been doing worse than the average of the five largest euro area countries (Spain, Germany, France, Italy and the Netherlands) in almost all manufacturing subsectors since 2019,¹ with the clear exception of the pharmaceutical subsector.

The downturn in manufacturing is worrying, given that it is the most productive sector, has the highest investment rate and also the highest share of R&D investment. It is therefore crucial to securing potential growth. Moreover, from a strategic point of view, it may be useful to safeguard the domestic production of certain critical goods (e.g. food, energy) (Van Gompel, 2024).

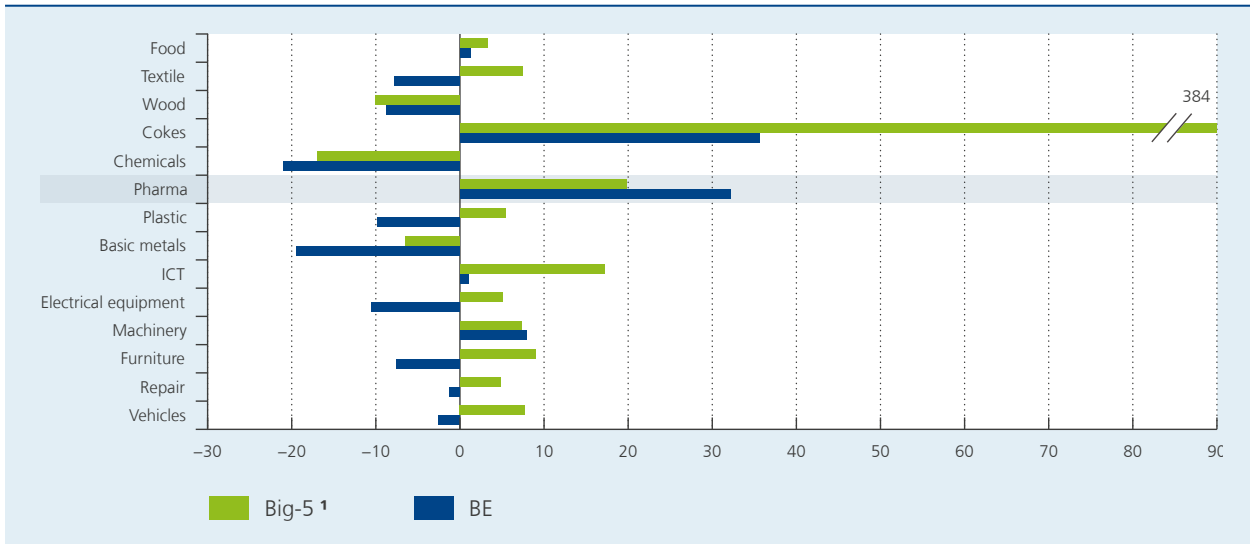
The weak performance of manufacturing can be attributed to several factors. Firstly, energy prices, which hit unprecedented peaks in 2022, but which are, even in normal times, structurally higher in Europe than in other parts of the world, notably the United States.²

Secondly, high inflation in 2021 and 2022, which resulted from rising energy prices among other things, recently led to higher wage costs for Belgian companies through the automatic wage indexation mechanism. The cost competitiveness of Belgian companies therefore worsened compared to that of its neighbours. The wage gap with these countries, accumulated over time, looked to have narrowed somewhat in 2024, but the National Bank’s autumn forecasts suggest that it still won’t be entirely eliminated by 2027.³

Moreover, the Belgian economy has for several years been characterised by a tight labour market, accompanied by shortages of skilled labour, which is also the case in manufacturing, where the vacancy rate in mid-2024 was still around 3%. In the euro area as a whole, the overall vacancy rate has recently fluctuated around 2.5%, and was less than 2% in the manufacturing industry.

1 We present the average of these four countries here because they largely determine euro area activity, and recent statistics for the euro area were not available in such detail.
 2 Please refer to Chapter 6 of the NBB Report 2023.
 3 See, for example, Figure 4 in the Economic Projections for Belgium – Autumn 2024.

CHANGE IN REAL VALUE ADDED SINCE 2019
(percentage change in real value added between 2019 and 2022)



Source: Eurostat.
 Note: subsectors followed by an asterisk * are considered (partially) to be energy-intensive sectors.
 (1) Due to unavailability of EA data for all subsectors, this graph shows the average percentage change in the subsectors of the five largest EA countries (ES, DE, FR, IT, NL).

Other, more structural factors also affect Belgian competitiveness. The business landscape is insufficiently dynamic, with too little creative destruction and limited labour mobility. Interviews conducted with business leaders for the NBB Business Echo also reveal concerns about protracted permit-granting procedures, inconsistent regulation, an excessive administrative burden, and significant compliance costs. [Mario Draghi's 2024 report](#) on EU competitiveness also states the latter is hampered by a heavy and ever-growing regulatory burden. He duly appeals for a reduction in the administrative burden; a call heeded by the new European Commission when it presented its [Competitiveness Compass](#) in January 2025.

Looking ahead to (the rest of) 2025, Belgian manufacturing activity should rebound as global trade continues to recover ⁴ and as Belgium's wage gap with its neighbour countries narrows. However, the wage gap will not be entirely eliminated in the short term and other competitiveness issues (e.g. energy costs, the regulatory burden) are likely to persist for the time being.

Furthermore, the future course of economic activity, and by extension, manufacturing production, will also be characterised by structural challenges, such as digitalisation, the transition to a carbon-free economy and geopolitical shifts. The future of the manufacturing industry will therefore also depend on the extent to which innovation and flexibility are embraced and embedded.

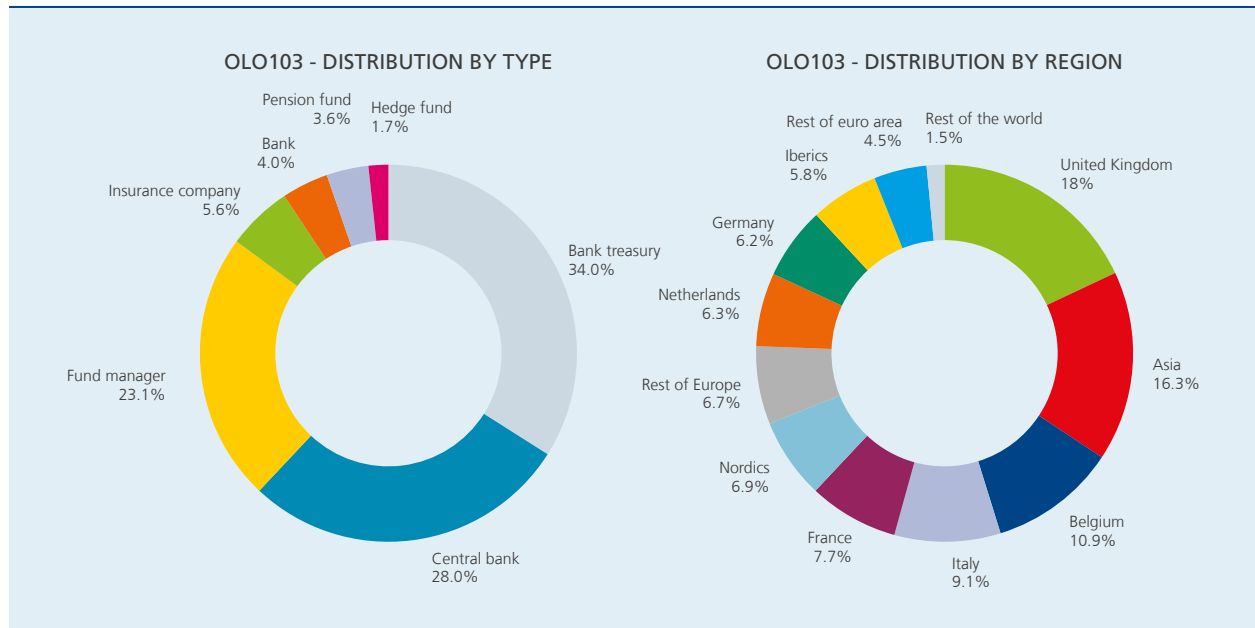
⁴ Recent US trade policies imply headwinds to global trade and global growth.

TREASURY HIGHLIGHTS **Nearly 40% of the 2025 funding plan has been raised**

The Belgian Debt Agency plans to issue **€44.31 billion** worth of medium and long-term instruments in 2025, including **€42.00 billion** in OLOs. The remaining funding will be raised through EMTN, Schuldscheine and State Notes.

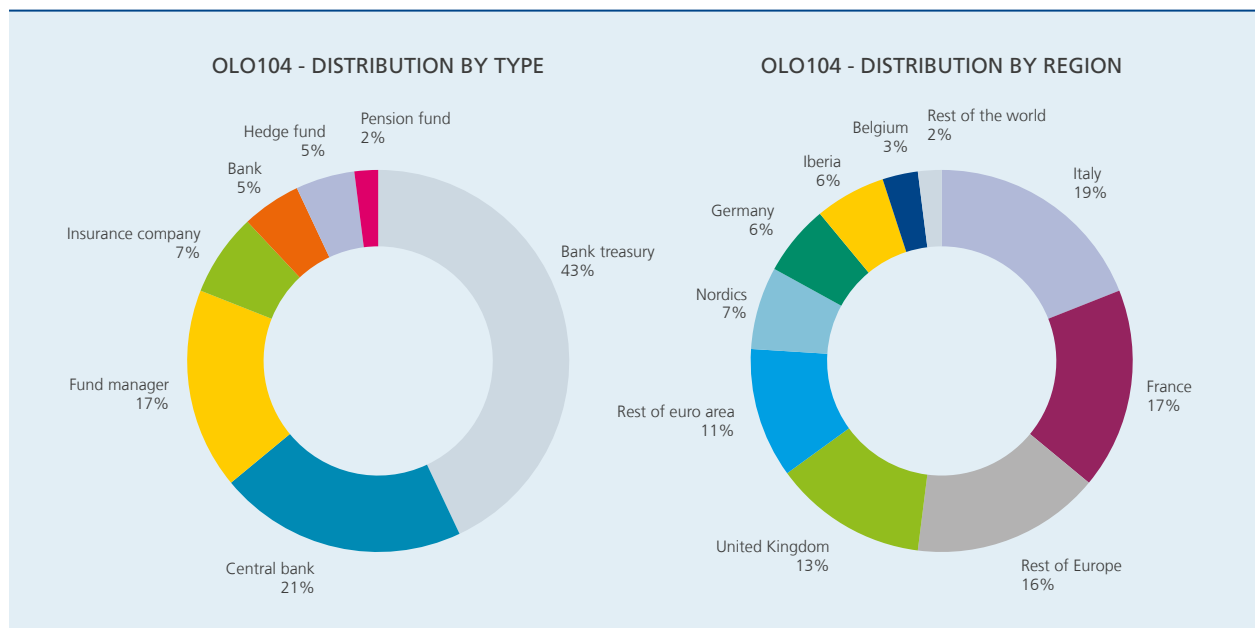
OLO syndication (€7.0 billion 10-year benchmark)

On 7 January 2025, Belgium issued its first new OLO benchmark of the year, opting for a 10-year maturity, in line with tradition. The new €7.0 billion 3.10% OLO 103 22/06/2035 was priced at a spread of +66 bps over the mid-swap reference rate, implying a reoffer yield of 3.141%. The joint lead managers were BNP Paribas Fortis, Crédit Agricole CIB, HSBC, J.P. Morgan and Morgan Stanley.



OLO syndication (€5.0 billion 17-year benchmark)

On 4 March 2025, Belgium launched its second OLO benchmark of the year, the new €5.0 billion 3.45% OLO 101 22/06/2042. The issuance was priced at 8bps over the OLO 90 maturing on 22 June 2040, implying a reoffer yield of 3.497%. The joint lead managers were BNP Paribas Fortis, Crédit Agricole CIB, Deutsche Bank, HSBC and Morgan Stanley.



OLO auctions (€3.880 billion)

On 24 February, the Belgian Debt Agency issued €3.880 billion through its first annual auction, tapping the OLO 102 (2029), OLO 73 (2034) and OLO 76 (2038).

Date	OLO		Issued (€ billion)	Yield	Bid-to-cover
24 February	OLO 2.70 % 22/10/2029 OLO 3.00 % 22/06/2034 OLO 1.90 % 22/06/2038	OLO 102 OLO 73 OLO 76	0.711 1.280 1.054	2.482 % 2.932 % 3.237 %	2.32 2.44 2.38
Non-competitive subscriptions			0.835		
February total			3.880		

ORI (€1.009 billion)

In addition, the Belgian Debt Agency issued a further €1.009 billion through its ORI facilities program, on 7 February and 7 March.

Date	OLO		Issued (€ billion)	Yield
7 February	OLO 5.00 % 28/03/2035 OLO 1.90 % 22/06/2038	OLO 44 OLO 76	0.276 0.233	2.907 % 3.120 %
February total			0.509	
7 March	OLO 3.00 % 22/06/2033 OLO 2.85 % 22/10/2034	OLO 97 OLO 100	0.300 0.200	3.182 % 3.319 %
March total			0.500	

To date, there have been no EMTN or Schuldscheine issues this year.

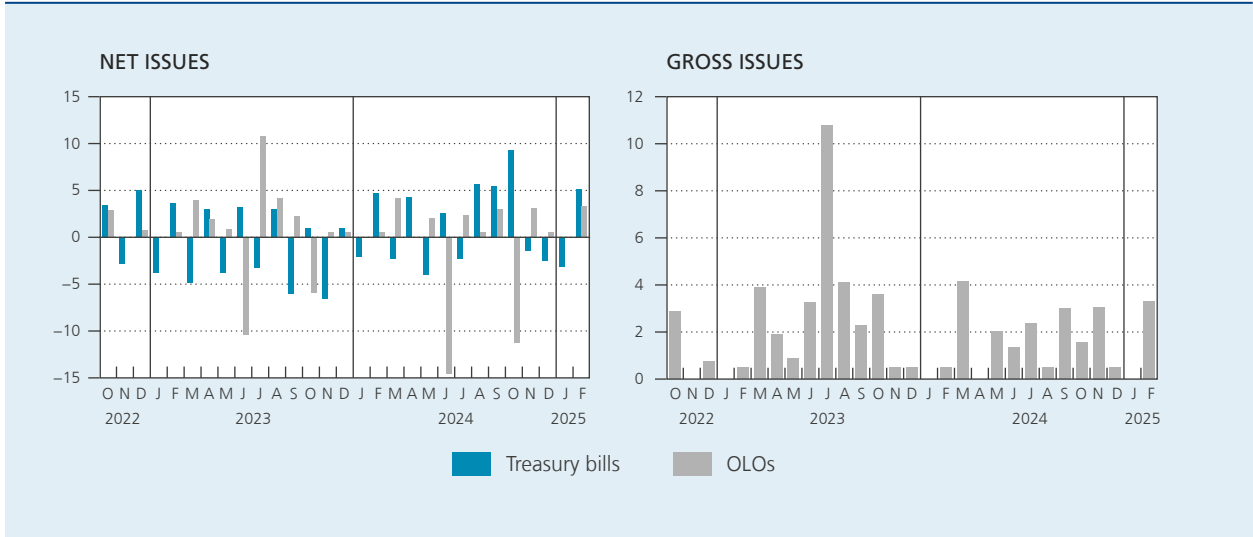
During its first campaign of 2025, the Agency put forward a one-year State Note and a ten-year State Note. The March campaign raised €140.0 million in total: €121.3 million from the one-year State Note and €18.8 million from the ten-year issuance.

Belgium has therefore already issued **€16.91 billion**, corresponding to 38.2% of its long-term funding target.

In terms of portfolio structure, the average life of the portfolio is now 10.40 years (as of the end of February) and the implicit yield is 1.95%.

GOVERNMENT SECURITIES STATISTICS

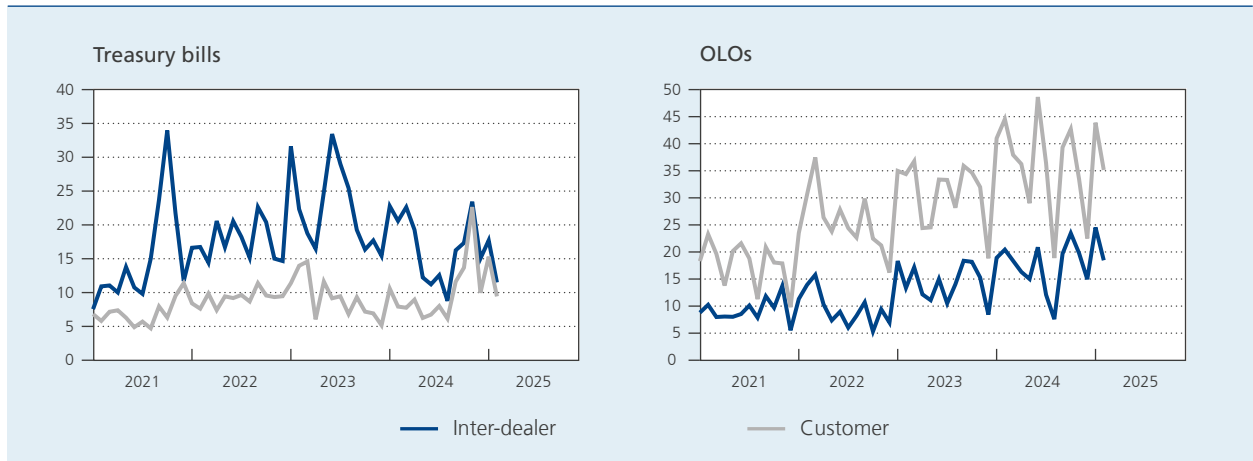
PRIMARY MARKET (€ billion)



Source: Belgian Debt Agency.

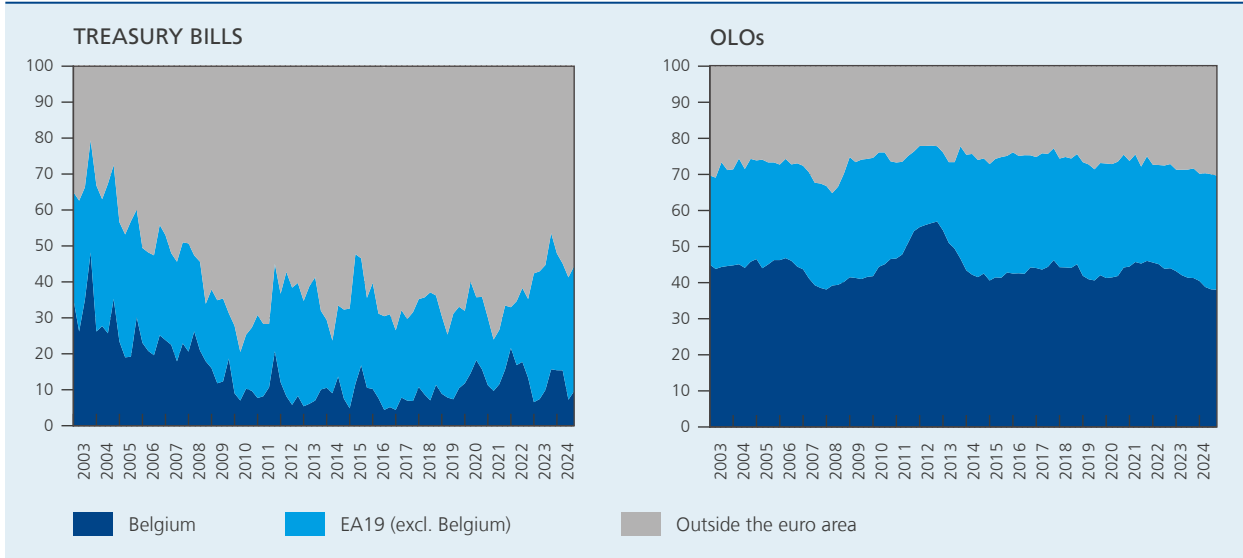
SECONDARY MARKET TURNOVER

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



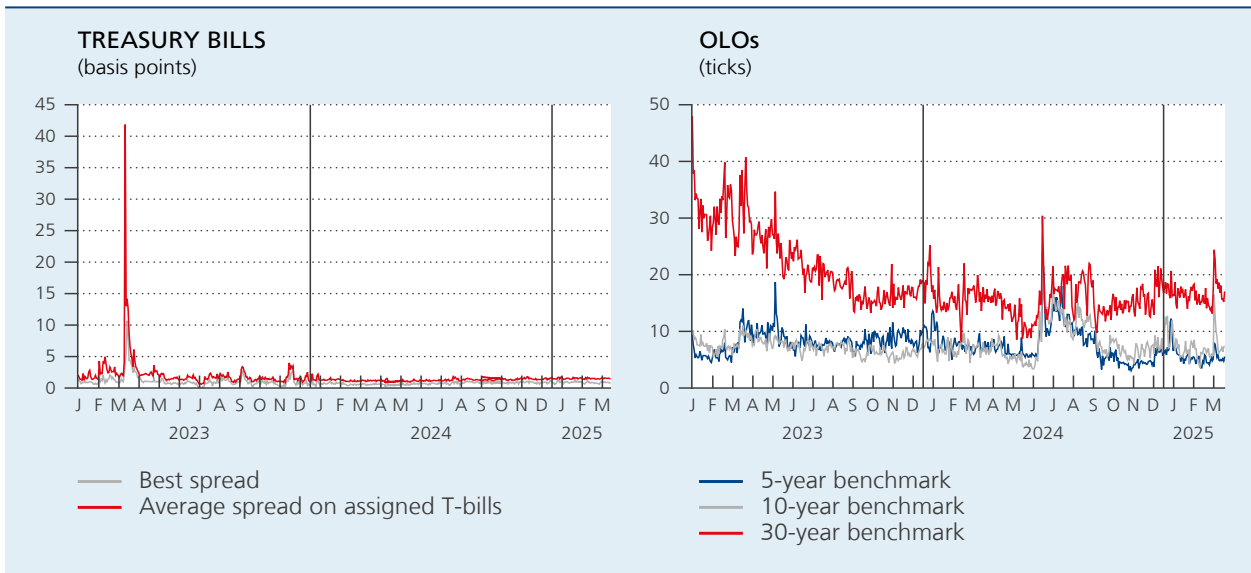
Source: Belgian Debt Agency.

HOLDERSHIP OF BELGIAN SECURITIES
(in %)



Source: NBB.

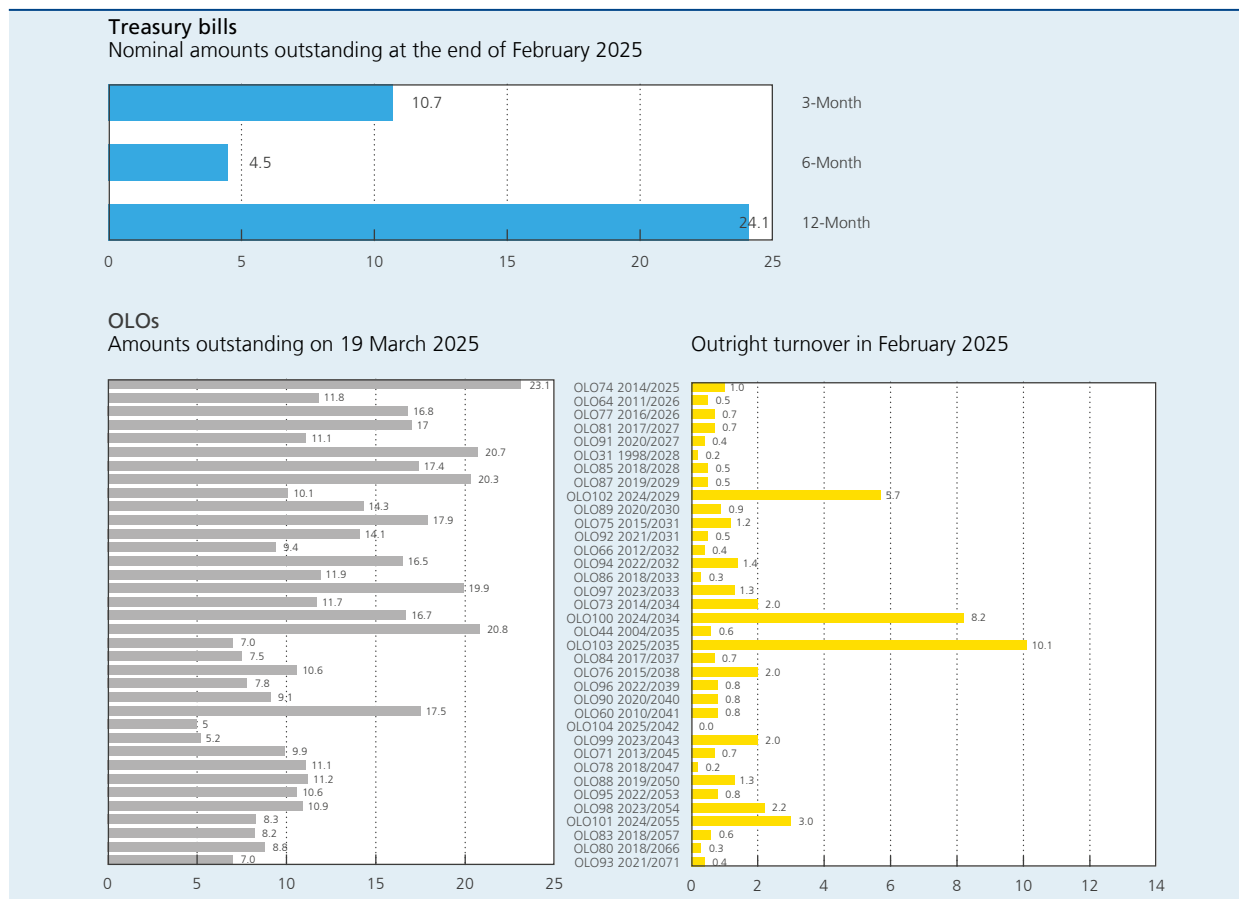
BEST BID/OFFER SPREADS ¹



Source: Belgian Debt Agency.

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

OUTSTANDING AMOUNTS AND TURNOVER (€ billion)



Source: Belgian Debt Agency.

LIST OF CONTACT PERSONS

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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
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This publication is also available at www.nbb.be.

Information on the Belgian government debt can be found on the Debt Agency's website, www.debtagency.be.

General information on the Belgian government can be found at www.belgium.be.

