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° 94 January 2022 Last update: 13 January 2022 Next issue: March 2022

- MACROECONOMIC DEVELOPMENTS: The global economy faces increasingly challenging headwinds
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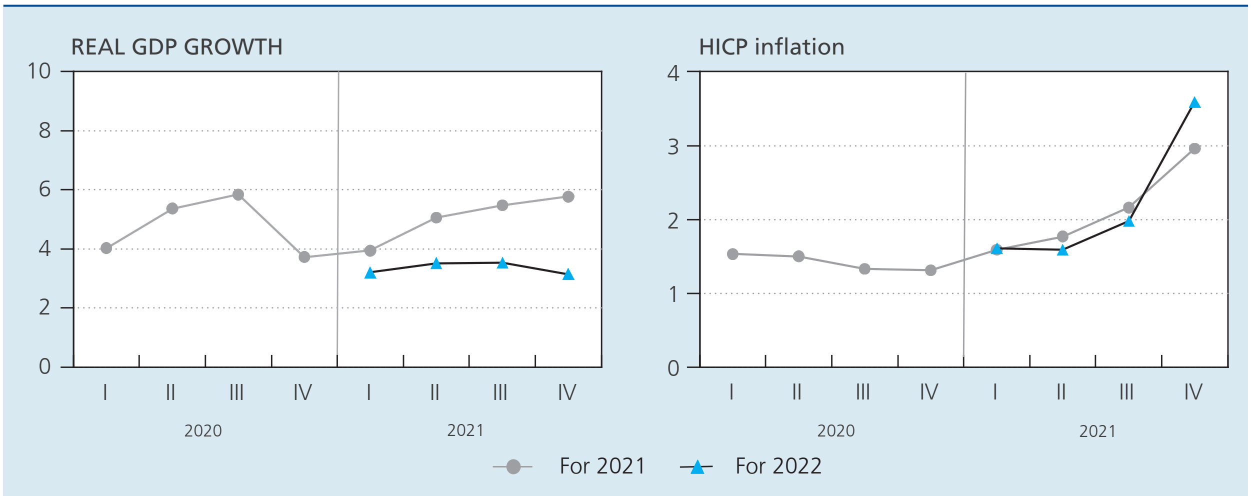
- FINANCIAL MARKETS AND INTEREST RATES: European sovereign bond yields remain low as ECB gradually slows the pace of net asset purchases
- TREASURY HIGHLIGHTS: 2022 funding plan announced

CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2020	2021p	2022p	2020	2021p	2022p
Real GDP[(1)]	–5.7	6.1	3.2	–6.4	5.1	4.1
Inflation (HICP)[(1)]	0.4	3.0	3.6	0.3	2.5	2.7
General government balance[(2)]	–9.1	–6.6	–4.8	–7.2	–6.7	–4.0
Public debt[(2)]	112.8	110.7	109.7	97.3	100.0	98.3

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

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS

The global economy faces increasingly challenging headwinds

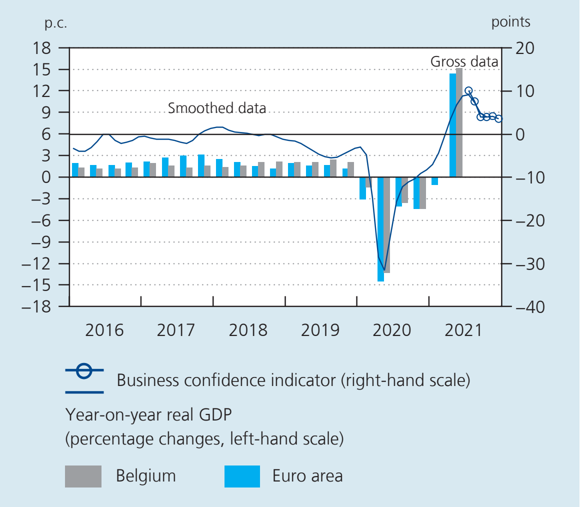
Global activity and trade lost momentum in the second half of 2021, as they were affected by the emergence or intensification of several headwinds such as supply bottlenecks, cost pressures or health concerns. As these elements are assumed or expected to gradually unwind in the course of 2022, the outlook remains favourable, although clouded with downside risks.

The euro area economy's rebound continued over the summer, with real GDP increasing by 2.2 %, bringing economic activity back to close to its pre-crisis level. According to the Eurosystem's most recent projections, however, real GDP growth should turn out considerably weaker in the near term. Indeed, general confidence indicators have weakened since the third quarter, whereas indicators related to supply bottlenecks remain worrying. Belgian Prime News participants now see the **euro area economy growing by 5.1 % in 2021 and 4.1 % in 2022.** Compared to the September edition, the growth outlook for 2022 has been adjusted downwards. Following the recent uptick in inflation rates, Belgian Prime News participants' inflation forecasts have been further revised upwards, with **euro area inflation now expected to come in at 2.5 and 2.7 %** respectively in 2021 and 2022.

In Belgium, economic activity has already returned to above its pre-crisis level in the third quarter, following strong GDP growth of 2 % according to the most recent statistics, i.e. somewhat better than the initial flash estimate of 1.8 %. It is likely that the growth rate in the third quarter was still boosted by an important carry-over effect from the second quarter, when the coronavirus restrictions were gradually relaxed. Growth is expected to moderate strongly in the fourth quarter, at around 0.2 % according to the NBB's recently published Business Cycle Monitor. In annual terms, **BPN participants expect real GDP growth in Belgium to reach 6.1 % this year but to drop to 3.2 % in 2022.**

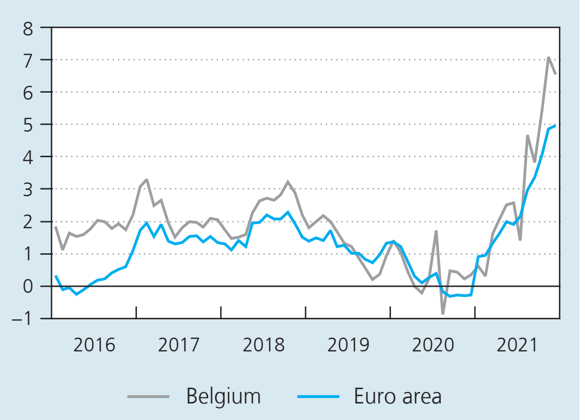
Meanwhile, policy support continues to cushion the hit to the labour market and certain measures are currently being extended until the end of March 2022. Job creation has been quite buoyant recently and the labour market has returned to its pre-crisis level much sooner than expected, at least in terms of numbers of people in work. Furthermore, demand for labour remains very high as the job vacancy rate has risen further to as much as 4.7 % in the third quarter, against 2.6 % in the euro area. The inflation rate shot up to a hefty 7.1 % in November as a result of soaring energy prices and only slightly moderated in December. **According to the consensus forecast, inflation in Belgium should work out at 3 % for the year 2021 and reach 3.6 % in 2022.** This implies a clear upward revision from the September BPN consensus, of more than 1 percentage point on average.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

Following a government deficit of 9.1 % of GDP in 2020, the 2021 budget deficit is expected to shrink due to the strong economic recovery and the partial unwinding of the temporary COVID-19-related support measures. However, this was partly offset by the implementation of recovery plans – in addition to the ex ante budget neutral recovery initiatives centred around the Recovery and Resilience Plan – as well as by support funds to repair the damage caused by the summer floods. According to the consensus forecast, Belgium's **budget deficit should come to 6.6 % of GDP for the year 2021 and improve further to 4.8 % of GDP in 2022.** BPN participants expect the Belgian government debt to edge downwards somewhat in the coming two years, from 112.8 % of GDP in 2020 to just below 110 % of GDP in 2022.

SPECIAL TOPIC **Surging prices lead to unprecedented labour cost growth as of 2022 via the indexation mechanisms**

Inflation at its highest since HICP measurement began

By November 2021, headline inflation in Belgium (7.1 %) had reached the highest level ever observed since the start of the HICP index compilation back in 1996. For the euro area, the highest level so far (5.0 %) was reached in December, according to the flash estimate. The other period with very high rates of inflation was 2008. A peak was observed in July that year (5.9 % in Belgium and 4.1 % in the euro area) but the rates were markedly lower than the level seen recently.

Energy has been responsible for the lion’s share of those price hikes. In November, this component contributed over 5 percentage points to the inflation rate of 7.1 %. The high energy inflation in 2021 comes from two factors. First, there is a base effect. Mostly due to the COVID-19 crisis, oil prices dropped significantly in the first half of 2020, which at that time resulted in negative energy inflation rates and dampened total inflation. The subsequent recovery brought oil prices back to the pre-crisis level in the spring of 2021, which boosted energy inflation in the first half of the year. Second, in the second half of the year, oil prices rose even further and electricity and gas prices started to skyrocket. The most spectacular increase was in gas prices and resulted from the interplay of several factors: booming demand from Asia and an inelastic energy supply, seasonal demand that lasted longer than usual in Europe, the resulting lower-than-usual stocks for gas, increasing European carbon prices (under the Emission Trading System) that pushed up the cost of electricity generation and that in turn boosted demand for gas (as gas power stations became relatively more attractive than coal for producing electricity), etc.

It is not only energy inflation that is on the rise. Prices of some non-energy industrial goods have been rising, as a result of higher input costs due to severe worldwide supply problems. The delivery delays for new cars, for instance, have pushed up prices of second-hand vehicles. Also, more locally, services prices have been increasing due to the re-opening of the economy. For example, hairdressers, restaurants, cafés and bars had to shut down their activities during the successive lockdowns and incurred some serious losses that they compensated, at least partially, when re-opening. The cost of health and safety measures imposed for operating in a safe environment (social distancing, disinfection gels and sprays, etc.) has also been passed on to consumer prices. Together, services and non-energy industrial goods form the components of core inflation. These factors, however, account for less of the increase in total (headline) inflation than the energy inflation.

All in all, the inflation hike is expected to be temporary

Based on the futures recorded at the time of the NBB’s December projections, electricity and gas prices should drop from spring 2022 onwards [1]. After that, prices should continue to decline gradually up to the end of the projection horizon. Along with the declining path of the Eurosystem assumption of the Brent oil price, energy inflation should fall into negative territory in 2023 and 2024 and push down total inflation. It should be noted that Belgian (energy) inflation is more sensitive to changes in wholesale energy prices, for several reasons. For instance, the very low excise duties on heating oil in Belgium lead to a more substantial pass-through of crude oil prices to consumer prices. Also, the share of variable contracts for electricity and gas in Belgium is larger than in the neighbouring countries or the euro area. These elements largely explain why headline inflation in Belgium peaks at a higher level than the euro area rate, but also moderates more significantly once energy prices are assumed to drop again. In 2023 and 2024, Belgian inflation is expected to amount to some 1.2 %, while euro area inflation should remain a tad higher, at 1.8 %.

Inflation passes through to wages automatically in Belgium through a wage indexation system based on the health index [2]. In the private sector, the pass-through happens on average with some time lag as different indexation mechanisms apply (once a year, every quarter, based on a threshold index being exceeded, etc.) while, in the public sector, wages increase two months after a threshold index is passed by a 2 % increment.

Based on the most recent NBB forecasts, hourly labour costs in the private sector are expected to rise by 4.5 % in 2022 [3], largely as a result of the indexation component which accounts for 4.2 %. This is the highest expected increase in hourly labour cost growth since 1996. As a result, services prices [4] in particular should be affected upwards by so-called second-round effects of the inflation-rate-adjusted wage costs, keeping core inflation high up to well into 2022. According to the NBB’s December forecasts, underlying price pressures should gradually ease as of the second half of 2022. This is conditional on the expected decline in energy prices and the assumption that supply chain bottlenecks will have largely dissipated by then, which would lower pipeline price pressures for input costs.

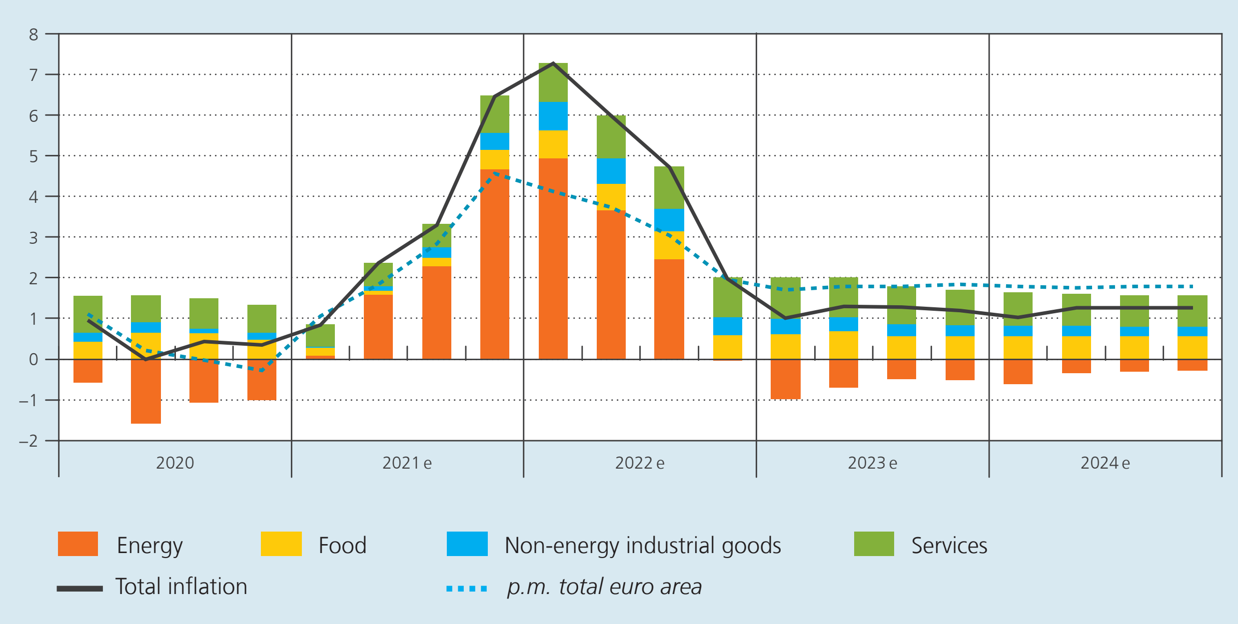
1 According to the more recent futures (first days of January 2022), the expected evolution has changed somewhat. Throughout the whole year 2022, gas prices would remain at a higher level than assumed during the December forecast, to drop strongly only as of April 2023 to a similar level as assumed during the December forecast.

2 The health index is derived from the national consumer price index, excluding alcoholic beverages, tobacco products and motor fuels, but including electricity, gas and heating oil prices.

3 This is according to the broad concept, not the national accounts concept, which takes into account the effect of wage subsidies and reductions for target groups which better reflects the true labour cost for employers. More details on the labour cost projection can be found in the article on the NBB’s December projections.

4 The share of the wage cost is the largest for the production of services (compared to the other components food, energy, or non-energy industrial goods).

DECEMBER 2021 INFLATION PROJECTION FOR BELGIUM AND BREAKDOWN INTO MAIN COMPONENTS



Sources: Eurostat, ECB, NBB.

Automatic index-linking aims at maintaining household purchasing power

The purchasing power of households is relatively well preserved, owing to the aforementioned automatic indexation mechanism (which also applies to social benefits). Given that gas, electricity and heating oil are included in the health index, the benchmark for indexation is rising significantly. Thus, household disposable income largely keeps pace with the current price increases, although this happens with some delay, as explained above. Still, compared to the "average household", the most vulnerable families typically spend a larger portion of their income on these utility costs, so they are less protected by the indexation system. For them, some specific dedicated action, such as the extension of the social tariff, or the reduction of energy bills, has been taken.

Low risk for a wage-price spiral, but vigilance on cost competitiveness is needed

Although automatic wage indexation provides a good protection of household purchasing power, it could pose a risk to our country's competitiveness. While high inflation is passed through to wages in Belgium rapidly due to the automatic wage indexation, this is not the case in the three neighbouring countries. Social partners in France, Germany and the Netherlands have to negotiate on nominal wage growth which means that inflation pass-through takes more time and is more gradual. The increase in hourly labour cost growth in the three neighbouring countries is therefore expected to be significantly lower in 2022 than in Belgium. However, hourly labour cost growth in the neighbouring countries should pick up more strongly in the period 2023-2024, reflecting the time needed to re-negotiate wages.

As wages are adjusted faster in our country, the core inflation rate is projected to rise earlier than in the three neighbouring countries. In Belgium, the peak is set to be reached in 2022, whereas in Germany, for instance, the core inflation projection gradually goes up until the end of the projection horizon. The risk of an uncontrolled wage-price spiral is considered to be low, for two reasons. First, the (wage) cost pressures are typically absorbed partially by firms' profit margins. That is, wage costs fluctuate much more than core inflation does. Second, the 1996 Law on Competitiveness and Employment is designed to prevent a derailment from Belgian wage costs with respect to those in the three main neighbouring countries. The revision of the Law in 2017 added a correction term to the calculation of the maximum available wage margin which limits the margin for real wage increases in Belgium in case a wage gap with the three neighbouring countries remains or opens up. This clause should ensure that the potential loss of competitiveness in 2022 in terms of hourly labour costs will be compensated over the period 2023-2024 through a limitation of the available room for real wage rises in Belgium.

FINANCIAL MARKETS AND INTEREST RATES

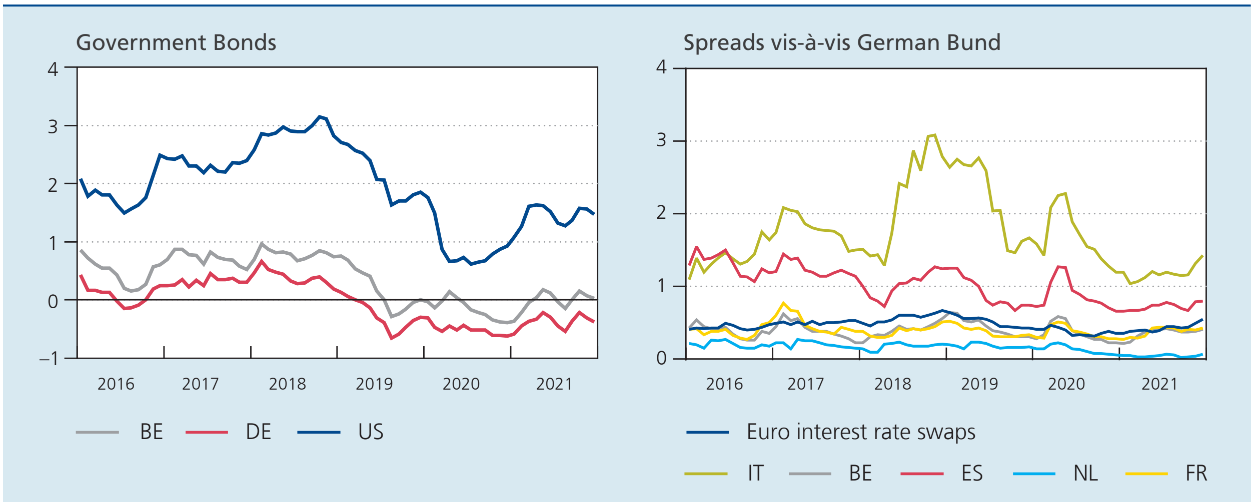
European sovereign bond yields remain low as ECB gradually slows the pace of net asset purchases

In December, the ECB announced that it will be slowing the pace of its net asset purchases. The ECB is planning to discontinue net purchases under its Pandemic Emergency Purchase Programme (PEPP) in March 2022. However, the ECB extended its PEPP's reinvestment horizon, and it will also continue net purchases under its Asset Purchase Programme (APP) to smooth the impact on markets. In the US, the Fed plans to end net asset purchases in March 2022 and now expects to gradually start raising interest rates in the course of 2022. While the yield on short-term US government bonds increased substantially over the final quarter of 2021, long-term yields were also driven by the uncertain evolution of the pandemic. The US and Belgian 10-year government bond yields were up by 9 and 2 basis points, from 1.37 and 0.01 % in September to 1.47 and 0.03 % in December. Over the same period, the German 10-year government bond yield fell by 2 basis points, to settle at –0.38 %.

Financial markets remained affected by the uncertainty surrounding the pandemic and the inflation outlook. The combined effect of a new wave of coronavirus, the discovery and spread of the Omicron variant, and high inflation rates in the US and euro area pushed up the volatility indices. For instance, the VIX and VSTOXX temporarily spiked above 30. Over the final quarter of 2021, oil prices initially rose above $ 85 a barrel before reversing their gains as demand prospects darkened with a tightening of health and safety measures and the spread of the Omicron variant. In Europe, supply disruptions caused a surge in gas prices, adding further pressures to the recovery and inflation. In the context of anticipated policy rate rises next year in the US, the euro depreciated against the dollar. By the end of the year, one dollar was worth € 1.13.

Over the fourth quarter of 2021, sovereign spreads vis-à-vis German Bunds widened in some countries over fears for fiscal sustainability in the event of an increase in funding costs. Italian and Spanish spreads rose by 29 and 11 basis points, to 1.43 and 0.80 % respectively. However, sovereign spreads (and yields) remain low by historical standards, supported by the ECB's commitment to preserving favourable financing conditions and preventing market fragmentation. In Belgium, France, and the Netherlands, sovereign spreads increased marginally, by 4, 3 and 4 basis points, respectively.

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



Sources : BIS, Thomson Reuters.

TREASURY HIGHLIGHTS **2022 funding plan announced**

The Belgian Debt Agency has concluded its 2021 funding programme, issuing a total of € 43.575 billion of medium- and long-term debt.

During the fourth quarter of 2021, only one OLO auction was held, with the following result:

OLO auctions (€ 3.200 billion)

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
November 22	OLO 1.00 % 22/06/2031 OLO 0.40 % 22/06/2040 OLO 0.65 % 22/06/2071	OLO 75 OLO 90 OLO 93	1.531 1.134 0.585	–0.080 % 0.490 % 0.948 %	1.58 1.23 1.28
Non-competitive subscriptions			0.000		
Total November			3.200		

Moreover, two Optional Reverse Inquiries were held.

ORI (€ 1.012 billion)

Date	OLO	NR	Issued (€ billion)	Yield	
October 8	OLO 4.50 % 28/03/2026 OLO 3.00 % 22/06/2034	OLO64 OLO73	0.285 0.223	–0.539 % 0.308 %	
Total October			0.508		
December 17	OLO 0.80 % 22/06/2027 OLO 5.50 % 28/03/2028	OLO81 OLO31	0.137 0.367	–0.443 % –0.465 %	
Total December			0.504		

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

In terms of portfolio structure, the average life of the portfolio remains high at 10.08 years (as at end of December). The implicit cost of the portfolio is down to 1.43 %.

2022 funding plan announced

The Belgian Debt Agency expects the 2022 gross borrowing requirements of the federal government to amount to € 48.28 billion. This represents an increase of € 7.59 billion compared to the 2021 borrowing requirements, which are expected to come to € 40.69 billion. In establishing this estimate, the Debt Agency assumed that the 2022 net financing requirements would amount to € 18.34 billion, which is less than in 2021.

March and September redemptions of medium- and long-term debt will be substantially higher at € 27.59 billion. The Belgian Debt Agency plans to buy back bonds maturing in 2023 to the tune of € 1.89 billion. Finally, the execution of puts and calls on certain instruments could result in borrowing requirements of € 0.50 billion.

In 2022, the Belgian Debt Agency plans to issue € 41.20 billion worth of OLOs, an increase of nearly € 2 billion compared to the € 39.23 billion that were issued in 2021. It plans to launch up to three new OLO fixed-rate benchmarks.

The Debt Agency also expects to issue € 3.00 billion via its EMTN programme or other alternative funding instruments such as Schuldscheine. No contribution from EU funding is expected for 2022. Finally, the Belgian Debt Agency does not expect to issue any State Notes, given the low interest rate environment.

As for short-term funding, net short-term debt is projected to increase by € 4.08 billion over the year. This would mean that the outstanding sum of Treasury Certificates will be € 31.93 billion at year end 2022.

In 2022, both the maximum for the 12-month refinancing and the refixing risk will be kept at their current level, i.e. 17.50 %. The maximum for the 60-month refinancing and refixing risk will also remain unchanged at 42.50 %. The average life of the debt portfolio should be higher than 9.25 years, which is the same limit than in 2021

2022 Financing plan

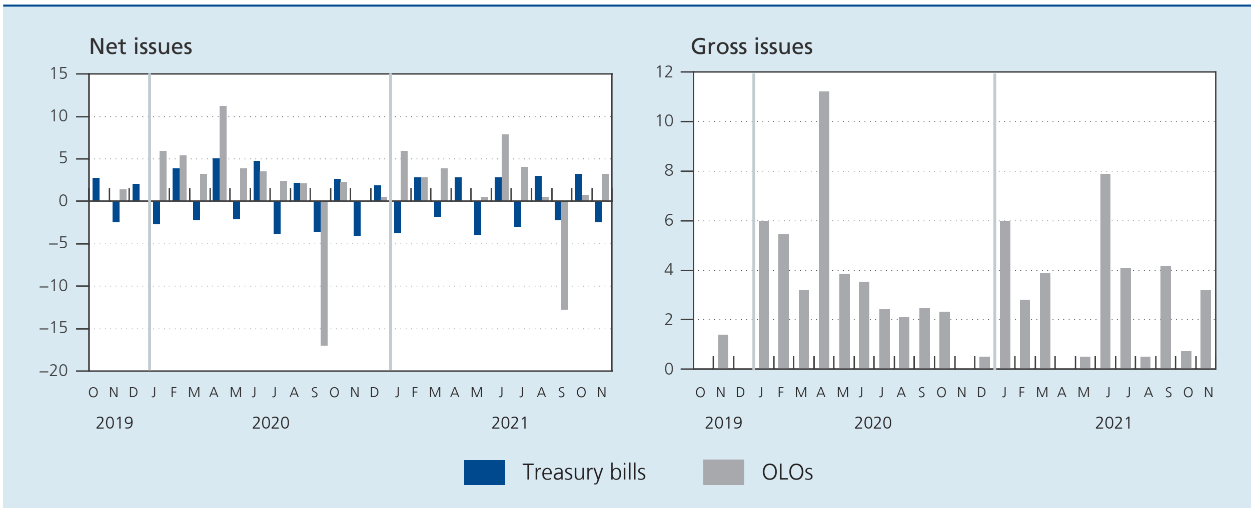
€ billion [1]	2022 plan	2021 plan - Achieved as of December 31st, 2021
1. Gross financing requirements 2022	48.28	40.69
1.1. Net financing requirements	18.35	22.48
– Net financing requirements (stricto sensu)	18.44	22.55
– Participation in/loans to financial institutions and sovereigns	–0.10	–0.08
1.2. Debt maturing in 2022	27.59	15.63
– Long and medium term debt in euro	27.59	15.63
– Long and medium term in foreign currencies	0.00	0.00
1.3. Planned pre-funding (bonds maturing in 2023 and later)	1.84	2.41
– Buy backs	1.84	2.41
1.4. Other financing requirements [2]	0.50	0.18
2. Funding resources 2022 (long and medium term)	44.20	43.58
– OLOs	41.20	39.23
– Euro Medium Term Notes/Schuldscheine	3.00	0.13
– Securities for retail investors	0.00	0.00
– Other [3]	0.00	4.21
3. Net change in short-term foreign currency debt	0.00	0.00
4. Change in Treasury Certificates stock [4]	2.00	0.67
5. Net change in other short-term debt and financial assets [5]	2.08	–3.56

(1) Figures may not sum up to the total because of rounding.
(2) Including put/call options exercised on bonds and net redemptions of the Treasury bonds representing Belgian participation in international organisations.
(3) Including EU funding via SURE and net issues of Treasury bonds representing Belgian participation in international organisations.
(4) Outstanding stock of Treasury Certificates on 01/01/2022 : 30.1 billion euro.
(5) This section includes residual financing instruments complementing the reference instruments mentioned in the previous section, including collateral margin changes. A positive figure represents an increase in the stock of residual financing and/or a reduction in financial assets.

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

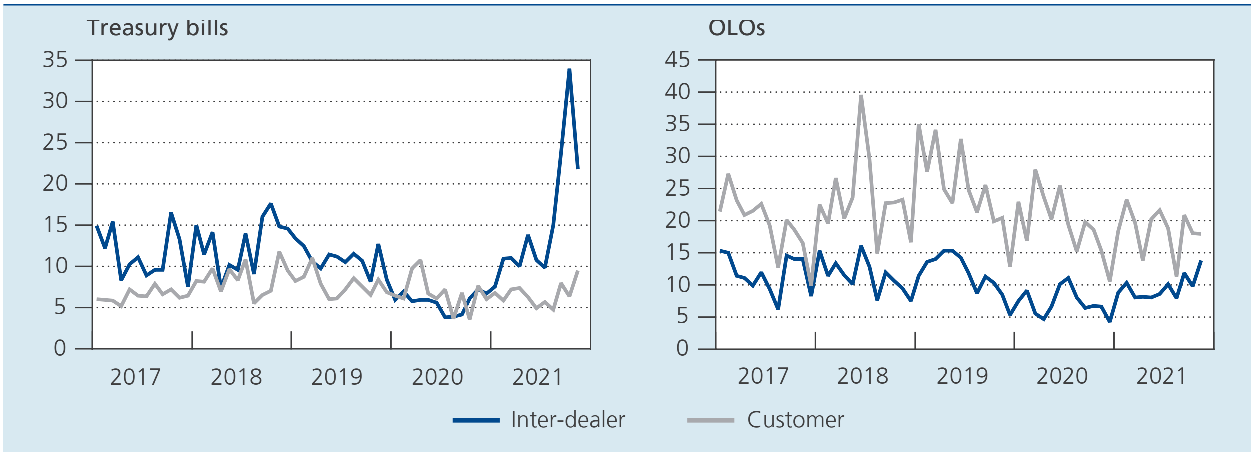
(€ billion)



Source: Belgian Debt Agency.

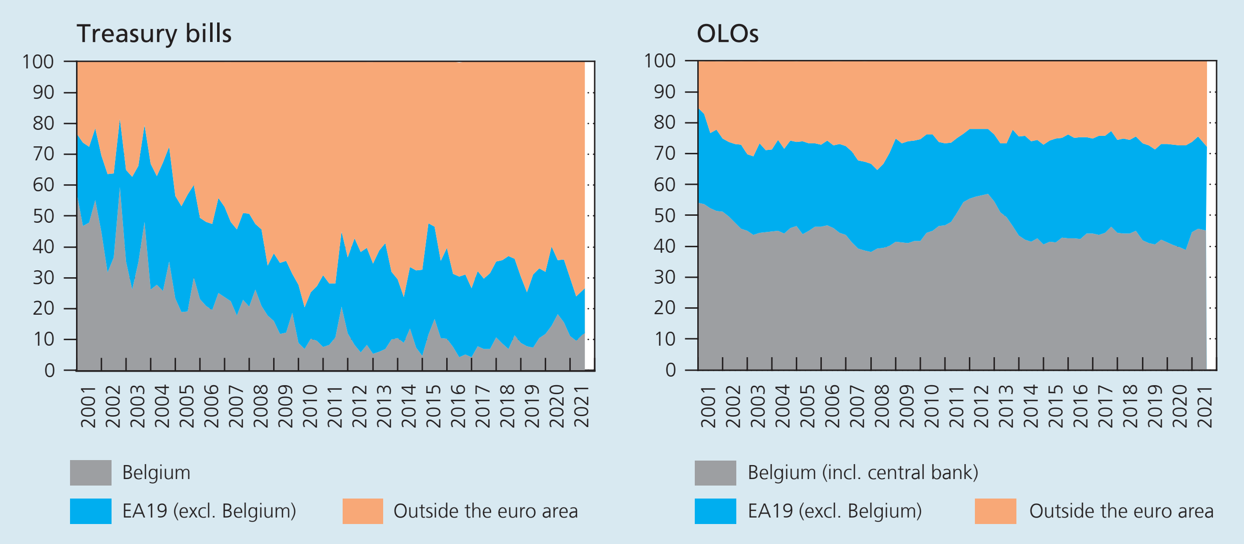
SECONDARY MARKET TURNOVER

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



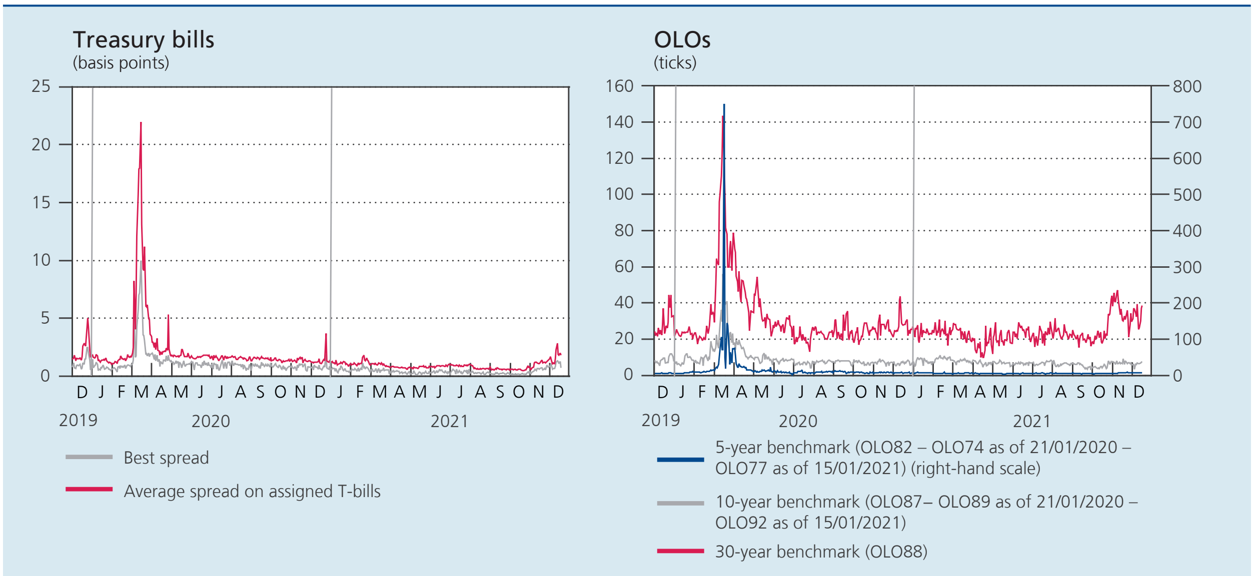
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



Source: NBB.

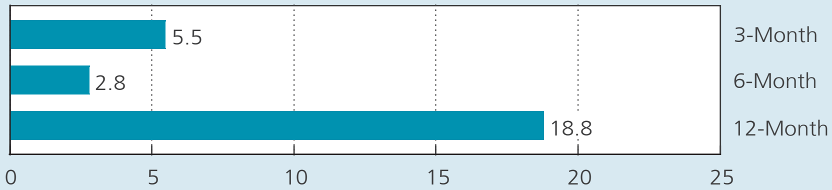
BEST BID/OFFER SPREADS (1)



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

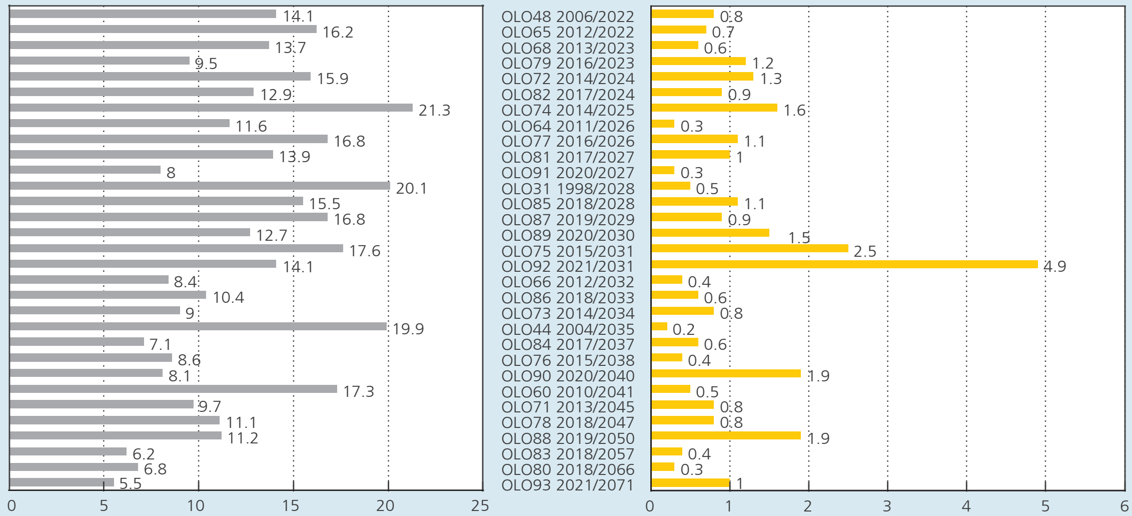
OUTSTANDING AMOUNTS AND TURNOVER
(€ billion)

Treasury bills
Nominal outstanding amounts at the end of November 2021



OLOs
Outstanding amounts at 24 December 2021

Outright turnover in November 2021



Source: Belgian Debt Agency.

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Published by: National Bank of Belgium (NBB).
Sources: NBB, unless otherwise stated.
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