

Benelux – 3Q21

Belgium, Netherlands and Luxembourg Macroeconomic Outlook Report

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Management Solutions

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Index



1. General Outlook

4



2. International overview

6



3. Benelux macroeconomic overview

10



4. Banking Sector: General Overview

20



5. Appendix

27

1. General outlook

Benelux Macroeconomic overview

All economies in the region started their respective recoveries during the first quarter, accelerated sharply in the second quarter of the year, and slowed down during the third quarter of the year. However, Luxembourg recorded a recovery in the last quarter of 2020, after the government implemented early and effective containment measures. When it comes to inflation, all of the three economies followed raising worldwide trend and stood relatively close to the European average. On the labour market side, countries faced a slight reduction of their respective unemployment levels, standing well bellow the European average.

Benelux Macroeconomic overview

INDICATOR	3Q20	4Q20	1Q21	2Q21	3Q21	2021	2022
GDP							
BELGIUM	-3.60	-4.40	0.00	15.10	4.00	6.09	3.19
NETHERLANDS	-2.60	-2.90	-2.40	10.40	5.00	4.33	3.24
LUXEMBOURG	-0.02	0.70	5.60	12.60	5.30	6.48	3.69
EMU	-4.05	-4.38	-1.23	14.32	3.85	5.17	4.32
CPI							
BELGIUM	0.82	0.55	0.54	1.44	2.62	2.87	3.33
NETHERLANDS	1.17	1.00	1.77	2.00	2.17	2.39	3.06
LUXEMBOURG	0.74	0.55	1.26	2.27	2.48	3.15	2.88
EMU	-0.30	-0.30	1.30	1.90	3.40	2.41	2.68
UNEMPLOYMENT							
BELGIUM	6.23	5.87	6.63	6.33	6.30	6.29	6.58
NETHERLANDS	4.50	4.07	3.57	3.30	3.13	3.37	3.53
LUXEMBOURG	6.44	6.30	6.24	5.88	5.55	5.78	5.32
EMU	8.59	8.13	8.04	7.77	7.38	7.70	7.24

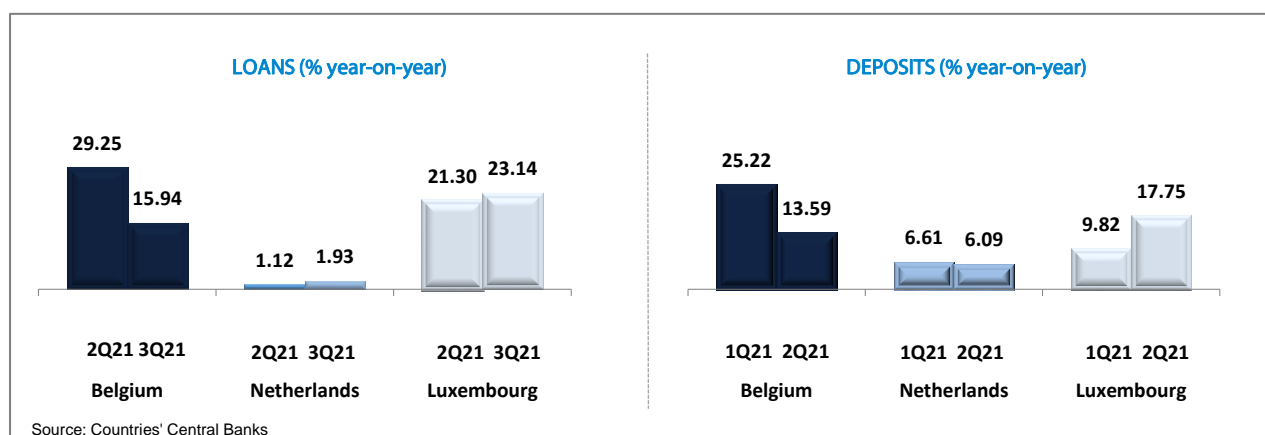
Source: Countries' Central Banks and ECB.

- Belgium:** The economic activity y/y growth rate of Belgium declined significantly during the third quarter of 2021. Supply problems, high energy prices and the resurgence of the pandemic led to a slowdown in Belgian economic activity.
- Netherlands:** The y/y growth rate of the GDP of the Netherlands considerably decreased when compared to 2Q21. However, due to the vaccination programme, GDP is expected to surpass its pre-pandemic level in the fourth quarter of 2021.
- Luxembourg:** The economic activity of Luxembourg decelerated with respect to the previous quarter. However, the Luxembourg recovery followed a more gradual trend than the European average.
- Following the global trend, Belgium recorded a higher inflation rate than in 2Q21, as a result of disruptions in global supply shifts, together with labor shortages and a significant increase in energy prices.
- Despite worldwide inflation, during the third quarter of the year, inflation in the Netherlands rose moderately. CPI in the Netherlands stood below the European average.
- Due to global inflationary pressure, Luxembourg's inflation rose compared to 2Q21. Its inflation was below the European average.
- Concerning the labour market, the unemployment rate of Belgium stood bellow the European average. The labour market has been resilient so far, not least thanks to supportive government measures such as short-term work schemes.
- The unemployment rate decreased when compared to 2Q21. The employment decrease was expected to be higher, nevertheless, due to the government's generous support policy and the shorter duration of the current crisis, it was contained.
- Regarding unemployment, supporting measures allowed unemployment reduction in the third quarter of 2021. The labour market recovery is solid, both for permanent positions and for younger workers. Most Covid-19-related restrictions were lifted in July, and shop footfall picked up modestly in the third quarter after the holidays

Banking sector

During the third quarter of 2021, the y/y growth rate of loans in Belgium decreased down to 15.94%, whereas in the Netherlands and Luxembourg increased with respect to the previous quarter, up to 1.93% and 23.14%, respectively. On the other hand, during this period, Belgium and Netherlands recorded decreases in their year-on-year growth rates of deposits, down to a 13.59% and a 6.09% rate correspondingly, while Luxembourg rose up to 17.75%.

Banking sector



- ▶ **Belgium:** During the third quarter of the year, the y/y growth rate of loans granted in Belgium recorded a decrease of 13.30 p.p., down to a 15.94% rate.
- ▶ **Netherlands:** The y/y growth rate of total loans in the Netherlands accelerated by 0.81 p.p. relative to the one of the previous quarter, up to a positive rate of 1.93%.
- ▶ **Luxembourg:** The y/y growth rate of total loans granted in Luxembourg accelerated by 1.84 p.p. when compared to the second quarter of 2021, registering a rate of 23.14% during the third quarter of 2021. Luxembourg registered the highest y/y growth rate of loans among the Benelux countries.
- ▶ **Belgium:** During the third quarter, Belgium registered a decline of 11.63 p.p. in the y/y growth rate of deposits compared to the previous quarter, down to a 13.59% rate.
- ▶ **Netherlands:** During the third quarter of 2021, deposits in the Dutch economy experienced a deceleration of 0.51 p.p. in their y/y growth rate with respect to the previous quarter, down to a 6.09% rate.
- ▶ **Luxembourg:** The total deposits y/y growth rate of Luxembourg registered an acceleration of 7.49 p.p. in the third quarter of 2021 relative to the previous one, up to a 17.75% rate, the highest among the three countries.

2. International Overview

LatAm

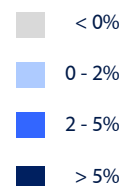
During the third quarter of 2021, all the countries analysed continued with their economic recovery after the acceleration experienced in the second quarter of the year. This was mainly due to the progress in vaccination, although growth rates were reduced compared to the previous quarter. The unemployment rates registered a decrease compared to the previous quarter, although they remained above the levels before the pandemic, and inflation rates increased in most countries.

Macroeconomic Overview

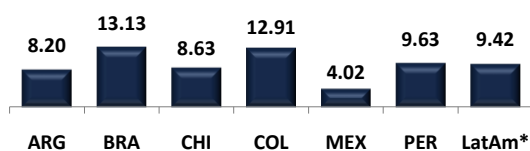
- ▶ During the third quarter of 2021, the economic recovery was consolidated in the countries studied, all of which achieved a positive year-on-year GDP growth rate. However, all reduced their year-on-year growth rate compared to the previous quarter. Peru was the country whose year-on-year growth rate decreased the most, declining by 30.43 p.p., although it should be noted that its growth in the second quarter had been the most pronounced (41.88%). Chile was the country that reduced its rate the least compared to the previous quarter, falling by only 0.16 p.p. to 17.34%, which was the highest rate of the group.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) has improved its forecasts for the Latin American economy in 2021, placing the region's growth at 5.90%. In addition, growth of 2.90% is expected for 2022. This is mainly due to the progress in global immunization that has been developing during the third quarter of 2021. However, according to the IFM, this expansion will not be enough to return to pre-Covid levels in the medium term since the persistent social impacts and the damaged labour market after the crisis will continue to hamper the recovery. In its December update, the OECD improved its forecasts from September for Argentina and lowered them for Brazil and Mexico for 2021. In addition, it placed the year-on-year GDP growth of these three countries for 2022 below the OECD average.
- ▶ As for inflation, all the countries studied registered increases in their inflation rate compared to the previous quarter except Mexico, which lowered its index to 5.80%. Colombia was the country with the lowest inflation rate, at 4.31%. Meanwhile, Argentina was the country that experienced the highest growth in its inflation rate compared to 2Q21, increasing by 2.33 p.p. up to a rate of 50.73%, registering the highest inflation rate of this group of countries again.
- ▶ During the third quarter of 2021, the labour market continued to recover from the economic consequences of the pandemic. Most countries recorded falls in their unemployment rate compared to 2Q21, although they are still far from their pre-Covid levels. In this context, Brazil was positioned as the country with the highest unemployment rate, with a figure of 13.13%. On the other hand, Mexico recorded the lowest unemployment rate of the countries studied, at 4.02%.
- ▶ With regards to their rating, all Latin American countries maintained their ratings constant in the third quarter of the year except for Peru, which fell from a Fitch rating of BBB+ to BBB during this period. This rating considers that, despite the country having a good credit quality and an adequate capacity to meet its financial obligations, this capacity could be affected by exposure to adverse economic conditions.
- ▶ With regard to economic policies, the introduction of additional stimulus is more limited than during the previous year, facing tightening global financial conditions and rising inflation. Thus, despite the effectiveness of the policies already promoted, the public accounts of these countries have deteriorated, leading to public debt increases of up to 75.4% of regional GDP at the end of the third quarter. According to the World Bank, Latin America has been the hardest hit region by the pandemic, most countries in the region will not be able to fully reverse the 6.7% contraction of their GDP in 2020 in the near future.
- ▶ All the countries analysed, except Argentina and Brazil, increased their pace of lending compared to the previous quarter. Mexico continued to register the lowest year-on-year growth, with a contraction of -1.94%. Regarding deposits, all countries stood at a positive year-on-year growth during the period, although half of them, Argentina, Brazil and Peru, decreased their rate compared to the previous quarter. Chile showed the largest increase in its rate, after an acceleration of 6.48 p.p. compared to 2Q21.



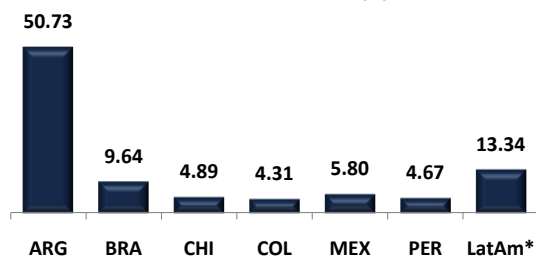
GDP 3Q21 (% year-on-year growth rate)



UNEMPLOYMENT RATE 3Q21 (%)

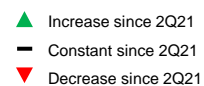


INFLATION RATE 3Q21 (%)

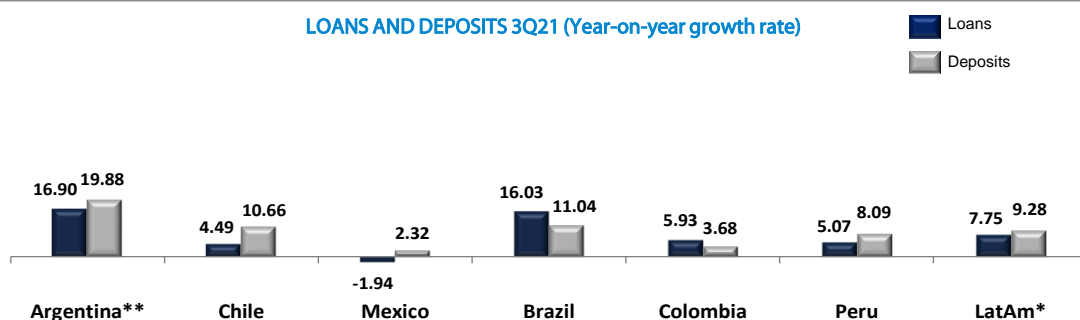


LONG TERM RATINGS 3Q21

	MOODY'S		S&P		FITCH	
Argentina	Ca	—	CCC+	—	CCC	—
Brazil	Ba2	—	BB-	—	BB-	—
Chile	A1	—	A	—	A-	—
Colombia	Baa2	—	BB+	—	BB+	—
Mexico	Baa1	—	BBB	—	BBB-	—
Peru	Baa1	—	BBB+	—	BBB	▼



LOANS AND DEPOSITS 3Q21 (Year-on-year growth rate)



*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.

**Most updated figures available at the date of the release correspond to 2Q21.

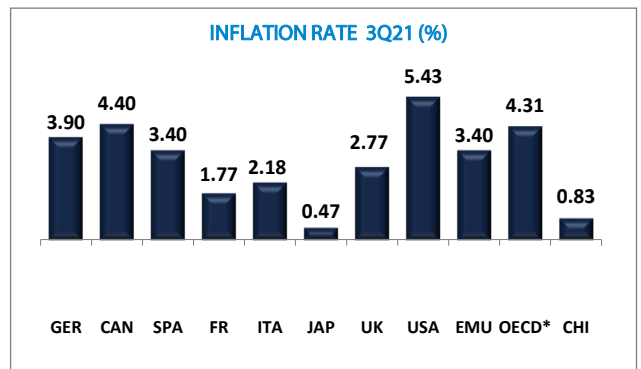
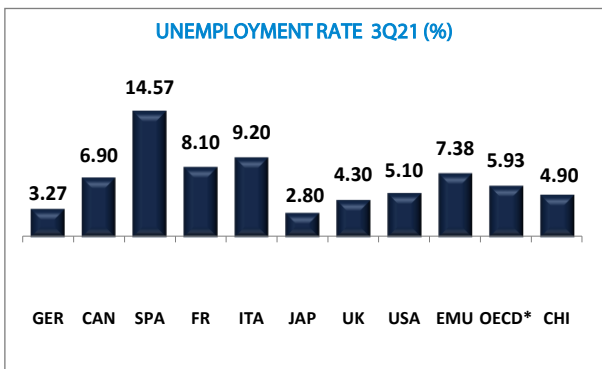
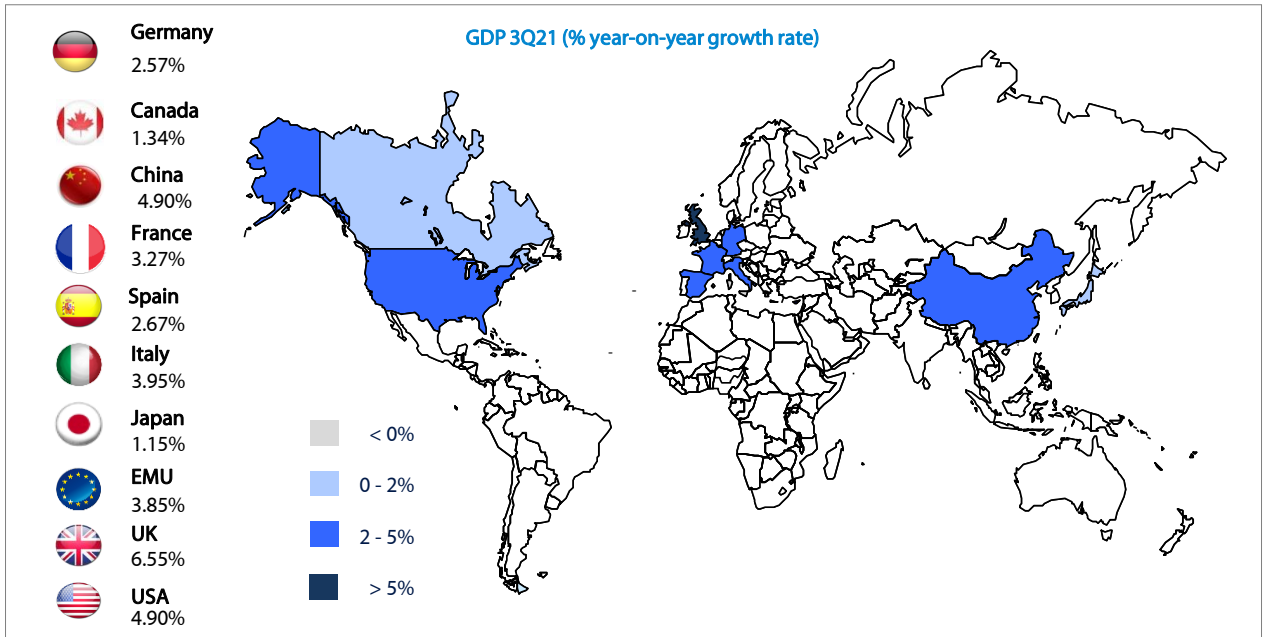
2. International Overview

OECD & China

The recovery of economic activity in OECD countries continued in the third quarter of 2021. Advances in the vaccination process meant that the GDP growth rate of these countries remained in positive values. However, a downward revision of the OECD's future growth forecasts was carried out, especially for 2022, due to the increase in Covid-19 cases.

Macroeconomic Overview

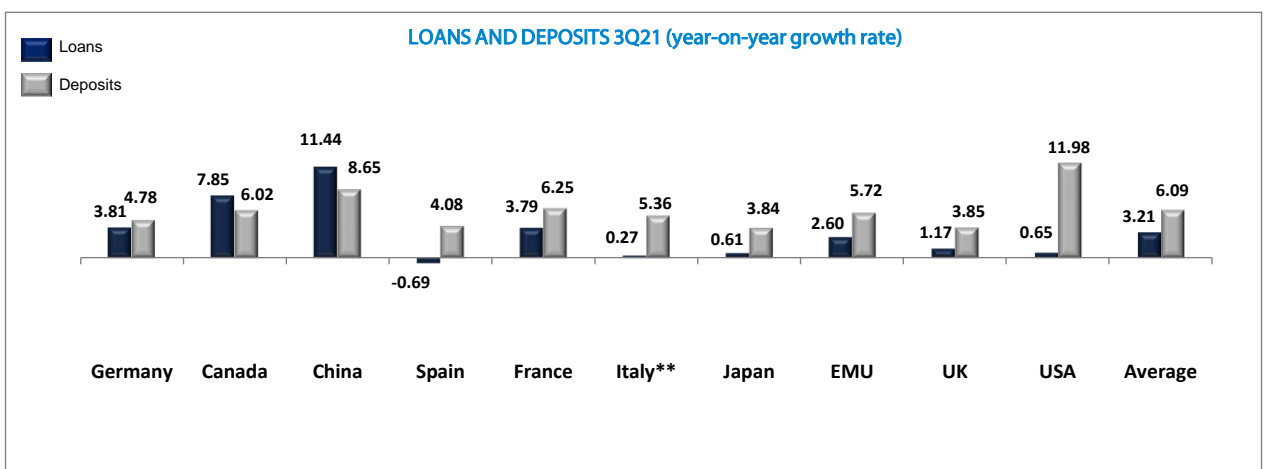
- ▶ In the third quarter of 2021, the Eurozone continued to recover with a positive year-on-year GDP growth rate (3.85%), although lower than that of the last quarter, which registered a more pronounced year-on-year acceleration (14.38%). Consequently, the OECD December forecasts have announced expected year-on-year GDP growth for 2021 and 2022 to be of 5.17% and 4.32%, respectively, slightly lowered from its September forecasts. However, the European Commission expects a positive evolution of the economy marked by an effective strategy of containment of the virus and progress with vaccines, with most member states reaching pre-pandemic GDP levels by the end of 2021. Among the countries analysed in the region, all registered positive year-on-year GDP growth rates during the third quarter of the year, highlighting those of France and Italy which were the highest (3.27% and 3.95%, respectively).
- ▶ The United States consolidated its recovery of economic activity in this period with another positive year-on-year GDP growth rate of 4.90%, although it also experienced a decrease of 7.30 p.p. compared to 2Q21. The OECD reduced its forecasts in its December publication, expecting a growth of the US economy of 5.56% in 2021 and 3.73% in 2022. Meanwhile, the United Kingdom recorded the largest decline in GDP during this period compared to the previous quarter, although it remained at a positive rate of 6.55%. Consequently, the OECD estimates growth of 6.92% by 2021 and 4.75% by 2022. These forecasts were also lower than those of September, especially that of 2022, which stood at 5.22%.
- ▶ China also recorded a lower GDP growth rate during the third quarter compared to 2Q21, declining by 12.13 p.p. to a rate of 4.90%, the same as the one obtained in 3Q20. In its December forecasts, the OECD estimates growth of 8.15% and 5.06% for 2021 and 2022, respectively. Japan recorded the only increase in the GDP rate compared to 2Q21, which rose by 0.65 p.p. to 1.15%. In turn, the OECD estimates a growth of its GDP of 1.84% and 3.41% for 2021 and 2022.
- ▶ Regarding international trade, the G20 recorded a stagnation in merchandise trade, although it remained at high levels due to rising commodity prices. High shipping costs coupled with increased international mobility have meant faster growth in international trade of services, where exports approached pre-Covid levels. The Regional Comprehensive Economic Partnership (RCEP), which will enter into force on January 1, 2022, will have the potential to spur investment and boost economic recovery among the countries of the Association of Southeast Asian Nations (ASEAN). On the other hand, the ratification of the CAI agreement between the EU and China remains paralyzed since May 2021 due to lack of consensus and recent political tensions.
- ▶ Year-on-year inflation growth in 3Q21 increased in all economies studied in the report compared to 3Q20 except for China, which was also the only country that decreased its rate compared to 2Q21. The EMU registered an acceleration of 3.70 p.p. compared to the same period last year. On the other hand, the labour market continued to improve during this period, with all the countries analysed, except for China, registering lower unemployment rates than in the same quarter of the previous year. Compared to 2Q21, all countries except France and Canada experienced falls in their unemployment rates.
- ▶ The only country analysed to change any of its ratings was Italy, which went up from a Fitch BBB- rating to BBB.
- ▶ Regarding the economic policies of the different countries, it seems that the shared objective of the Fed and the ECB to keep interest rates close to 0.00% will not be maintained in the coming months. While the ECB has reiterated its intention to keep interest rates stable and continue with the PEPP, the Fed expects interest rates to rise up to three times during 2022.
- ▶ During this period, year-on-year credit growth compared to 3Q20 decelerated in all countries except Germany and Canada, with China being the country with the highest growth rate (11.44%). As for deposits, they decreased for all countries compared to 3Q20. France recorded the second highest year-on-year growth rate (6.25%) behind China (8.65%).



LONG TERM RATINGS 3Q21

	MOODY'S	S&P	Fitch	
Germany	Aaa -	AAA -	AAA -	
Canada	Aaa -	AAA -	AA+ -	
China	A1 -	A+ -	A+ -	
Spain	Baa1 -	A -	A- -	
France	Aa2 -	AA -	AA -	
Italy	Baa3 -	BBB -	BBB ▲	
Japan	A1 -	A+ -	A -	
UK	Aa3 -	AA -	AA- -	
USA	Aaa -	AA+ -	AAA -	

▲ Increase since 2Q21
 - Constant since 2Q21
 ▼ Decrease since 2Q21



*OECD aggregate data for 3Q21

**Latest available data at publication date corresponds to 2Q21

3. Macroeconomic view

Belgium

The Belgian economy has recovered much faster than expected from the initial Covid-19 restrictions and has already reached its pre-pandemic level. Nevertheless, glitches with supply bottlenecks, high energy prices, resurgence of the pandemic is leading the Belgium economic activity into a clear slowdown. The economy will barely grow until the spring of 2022.

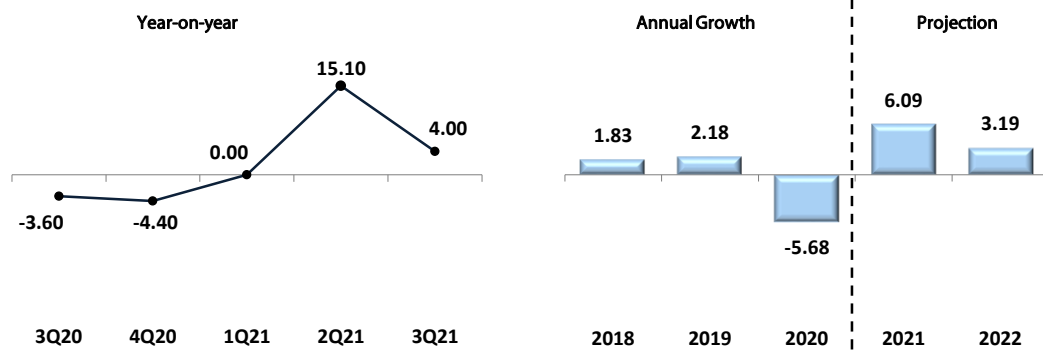
MAIN MACROECONOMICS INDICATORS (Interannual growth %)

INDICATOR	3Q20	4Q20	1Q21	2Q21	3Q21	2021	2022
GDP	-3.60	-4.40	0.00	15.10	4.00	6.09	3.19
DOMESTIC DEMAND							
PRIVATE CONSUMPTION	-3.00	-10.10	-3.50	14.40	3.70	5.72	6.58
GOVERNMENT CONSUMPTION	1.60	-0.80	0.60	4.80	4.40	1.98	-0.54
GROSS CAPITAL FORMATION	-4.60	-1.40	3.70	27.80	7.40	10.80	3.43
EXTERNAL DEMAND							
EXPORTS	-6.10	-3.20	-0.30	21.00	10.30	10.47	5.06
IMPORTS	-5.70	-3.90	-1.60	20.10	9.70	10.00	5.98
INFLATION							
CPI	0.82	0.55	0.54	1.44	2.62	2.87	3.33
LABOUR MARKET							
UNEMPLOYMENT	6.23	5.87	6.63	6.33	6.30	6.29	6.58
EMPLOYMENT	-0.43	-0.22	0.36	1.85	2.38	1.34	0.17

Source: National Bank of Belgium, OECD forecast.

- As a consequence of the exponential growth in the vaccine campaign where more than half of the population received the first dose by the end of June, the economic activity in Belgium registered a significant increase. Nevertheless, the resurgence of Covid-19 restrictions throughout 3Q21 lead to a slowdown in its GDP rate, compared to the previous quarter, of 11.10 p.p. down to a 4.00% rate. On the other hand it showed an improvement when compared to the same quarter of the previous year as the immunisation against the virus has increased due to the vaccination campaign all over 2021.
- According to the National Bank of Belgium, the third quarter economic growth was higher than expected. Nevertheless, the increment of Covid-19 cases in the euro zone brought back tighter policies in terms of working-from-home and consumption in restaurants which effectively bans the unvaccinated. In addition, nightlife venues were closed again and large-scale indoor and certain outdoor events were cancelled. The increasing infection rate also leads to a higher number of workers on sick leave or in quarantine, which puts strains on production in many firms. Therefore, the service and manufacture sector as well as consumption have suffered a decline in their activity affecting Belgium's GDP.
- Private consumption had a similar variation performance regarding the GDP, as it is a key component for the recovery of the economic growth. Investment also declined although many companies have invested in information technology and digitalisation.
- After a deep contraction in the first half of 2020, exports and imports are projected to recover quickly as global trade recovers and reflecting Belgium's position as a trade hub.

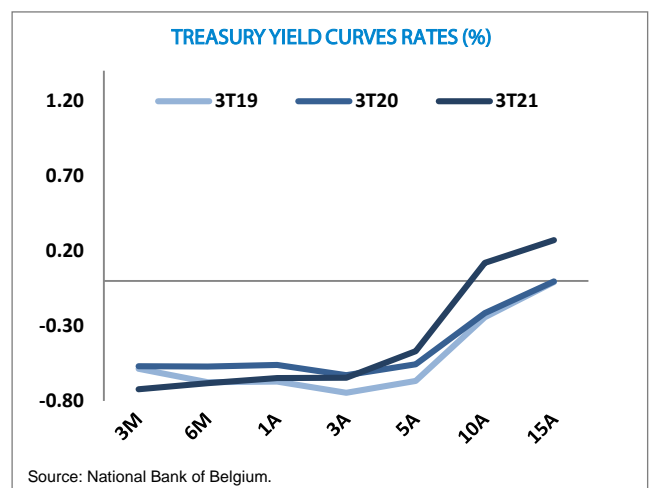
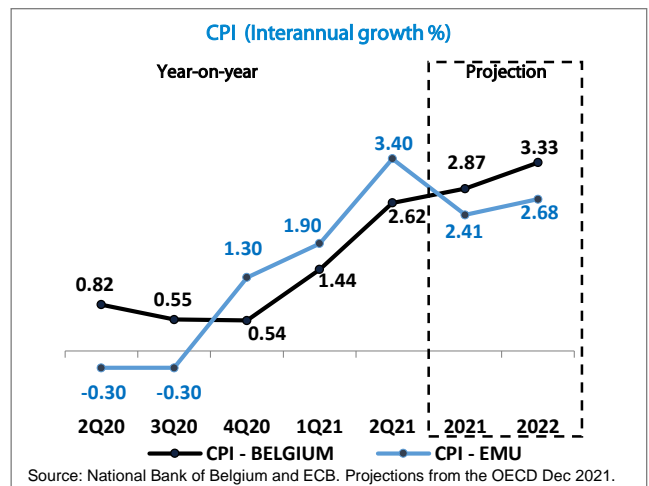
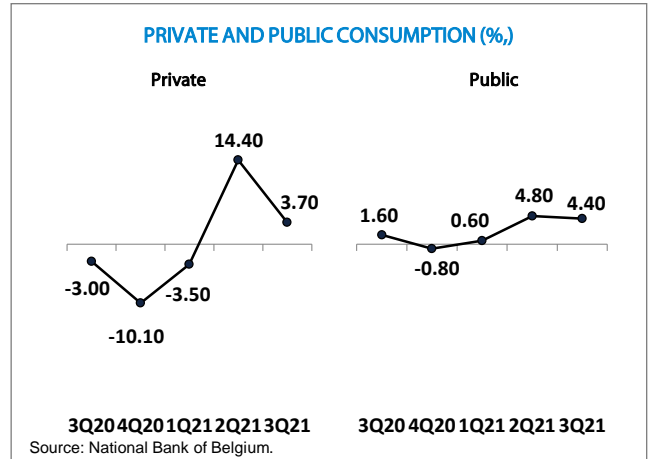
GDP annual and interannual growth (%)



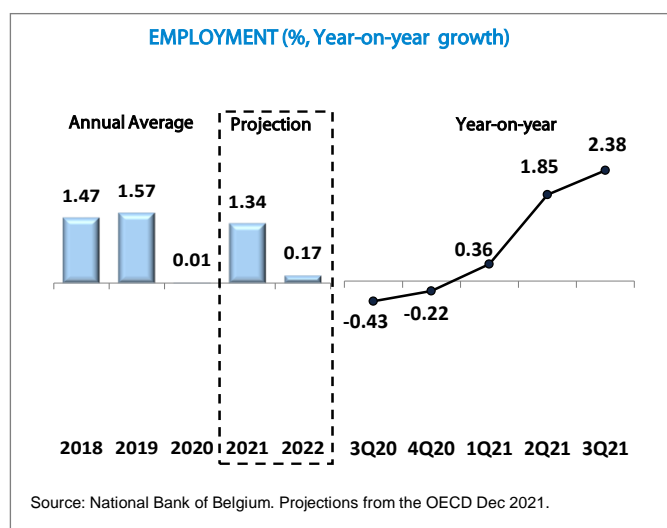
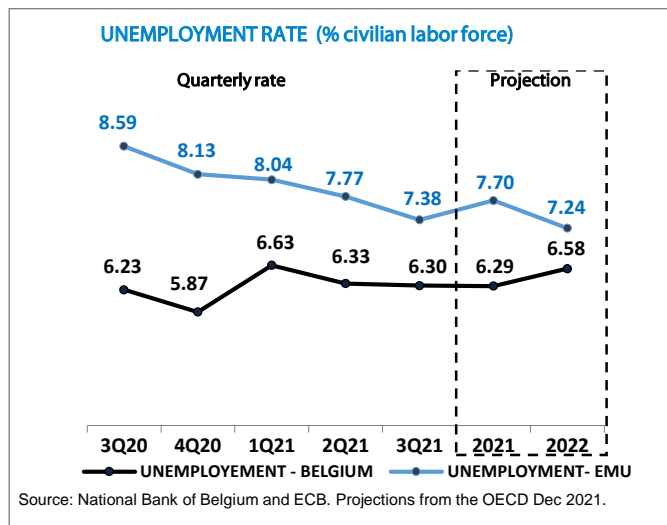
Source: National Bank of Belgium. Projections from the OECD Dec 2021

In the third quarter of 2021, private consumption recorded a considerable decrease in its y/y growth rate compared to the previous quarter. On the other hand, the inflation rate rose significantly, standing at 2.62% rate in 3Q21, following inflationary projections. Regarding bond yields, short and medium run yields remained negative while long term yields envision positive rates.

- During the third quarter of the year, private consumption recorded a slowdown in its recovery after its significant acceleration in 2Q21, declining by 10.70 p.p. from the previous quarter. It presented a growth rate of 3.70% year-on-year in 3Q21.
- The OECD forecast for private consumption predicts a year-over-year growth rate of 5.72% for 2021. Moreover, it expects private consumption to further recover in 2022, growing at a 6.58% rate. These results come alongside accumulated savings derived from pandemic restrictions.
- Public consumption grew at almost the same rate as in 2Q21. Public consumption registered a y/y growth rate of 4.40% in 3Q21. During 2021, this pattern is expected to hold as the Belgium government undertakes its National Recovery and Resilience Plan, with government consumption falling in 2022 due to the disappearance of Covid-19 related expenses.
- In the third quarter of 2021, Belgium registered an inflation rate of 2.62%, which was 1.18 p.p. above the rate recorded in the previous quarter. The CPI in Belgium was lower than the EU average inflation rate in the third quarter of 2021 (3.40%).
- According to the National Bank of Belgium, the high inflation in 2021 is mainly due to the rising of oil prices and the spectacular increase in gas caused by the booming demand from Asia and an inelastic energy supply, and the heating season in the previous winter that lasted longer than usual in Europe. Projections from the OECD forecast inflation to increase during 2021, up to a 2.87% rate, and to later increase in 2022, up to a 3.33%
- In 3Q21, all bond yields of the Belgian sovereign debt, with the exception of bonds with a 10-year and 15-year maturity, stood at negative levels, following the same tendency as in the previous quarters.
- When it comes to the third quarter of 2020, bond yields registered decreases for all maturities with the exemption of bonds with a 5Y, 10Y and 15Y maturity. Short-term maturities recorded higher decreases than medium-run ones when compared to 3Q20.



Regarding the labour market, during the third quarter of 2021, the unemployment rate slightly decelerated compared to the previous quarter, down to a 6.30% rate. However, in year-on-year terms, unemployment increased. Concerning the y/y growth rate of employment, it stood at 2.38% in the third quarter of 2021, following its increasing trend as restrictions eased alongside a generous expansionary fiscal policy.



- During the third quarter of 2021, the unemployment rate decreased by 0.03 p.p. when compared to the previous quarter, down to a 6.33% rate. Moreover, unemployment levels remained below the European average in the last year, with the EMU average standing at 7.38% in 3Q21.
- According to the National Bank of Belgium, despite the fact the labour market is improving, in terms of gender labour market participation, women have been particularly affected by the crisis. Even though they are increasingly active in the labour market, they still bear the brunt of domestic tasks.
- According to the predictions of the OECD, unemployment is expected to progressively decrease in 2021, reaching a 6.29% rate, and slightly increase in the following year, rising up to a 6.58% rate.
- Regarding the y/y employment growth rate, it accelerated by 0.53 p.p. when compared to the previous quarter, up to 2.38%.
- The OECD expects employment to register positive levels in 2021, with an annual growth rate of 1.34%, declining in 2022 to 0.17%.
- According to the National Bank of Belgium, the labour market has been resilient so far, not least thanks to supportive government measures such as short-term work schemes. Employment growth should remain very strong until spring. The unemployment rate continues to decline and should be one percentage point below the pre-crisis level in 2024.
- In the labour market, the post-crisis recovery is mainly seen in the gradual decline in the use of temporary employment, as well as in the transitional rights of the self-employed.

Netherlands

The Dutch economy will grow robustly in 2021, nevertheless since the growth of the second quarter was significantly high, in 3Q21 the GDP rate decreased when compared to the previous quarter. The principal variants which compose dutch economy had a similar performance.

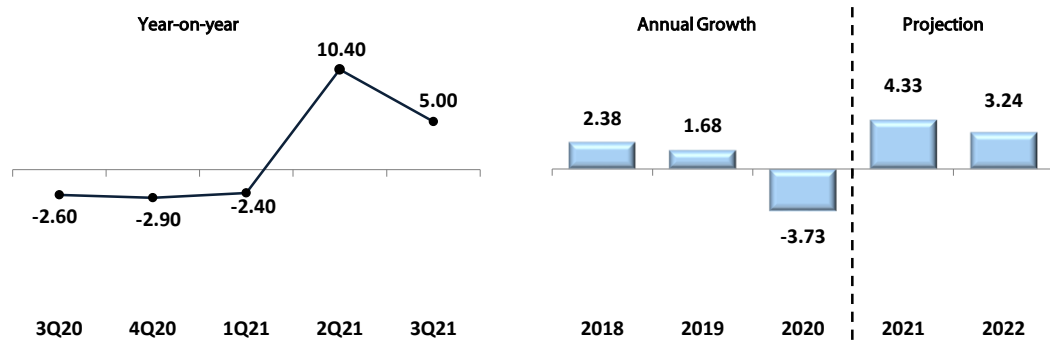
MAIN MACROECONOMICS INDICATORS (Interannual growth %)

INDICATOR	3Q20	4Q20	1Q21	2Q21	3Q21	2021	2022
GDP	-2.60	-2.90	-2.40	10.40	5.00	4.33	3.24
DOMESTIC DEMAND							
PRIVATE CONSUMPTION	-5.10	-7.10	-8.20	10.00	5.00	2.82	4.89
GOVERNMENT CONSUMPTION	3.60	2.60	1.30	8.70	2.20	4.10	1.34
GROSS CAPITAL FORMATION	-6.50	-2.80	-0.40	9.60	2.30	2.30	1.96
EXTERNAL DEMAND							
EXPORTS	-5.00	-3.40	-1.60	14.10	7.20	6.85	5.10
IMPORTS	-6.60	-4.30	-2.90	10.80	6.00	5.19	5.48
INFLATION							
CPI	1.17	1.00	1.77	2.00	2.17	2.39	3.06
LABOUR MARKET							
UNEMPLOYMENT	4.50	4.07	3.57	3.30	3.13	3.37	3.53
EMPLOYMENT	-0.39	-0.97	-1.49	2.68	2.54	1.29	1.16

Source: Statistics CBS. Projections from the OECD Dec 2021.

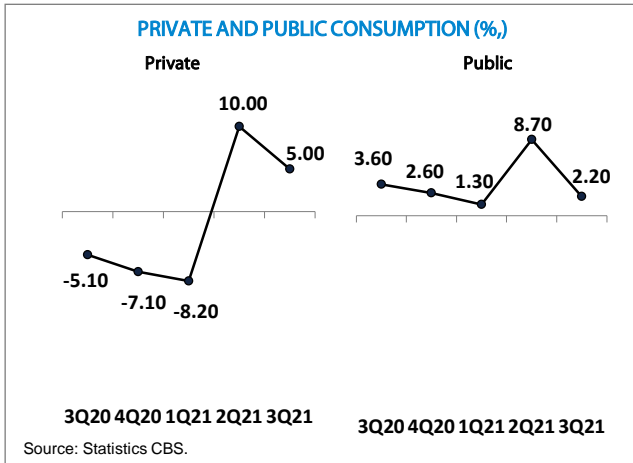
- As a result of the effective immunisation against the virus, the Dutch economy continued its rapid recovery with a significant 12.80 p.p. GDP increase in 2Q21 with respect to the previous quarter. However, the recovery was not as significant in the third quarter of 2021, as the year-on-year GDP growth rate declined by 5.40 p.p. to 5.00%. However, due to the vaccination programme, GDP is expected to surpass its pre-pandemic level in the fourth quarter of 2021.
- According to the OECD, the main Covid-19 fiscal support measures ended at the end of September 2021. However, some of the credit and loan schemes remain available to businesses until the end of 2021, but spending on support measures is expected to end in 2022. Public spending on climate measures will increase, including on renewable energy and other technologies that reduce CO2 emissions, energy infrastructure and the implementation of existing Climate Agreement agreements.
- Consumption will continue to drive growth, driven by some households, especially higher-income households, drawing on savings accumulated during the pandemic. However, rising pension premiums will dampen overall private consumption growth.
- Due to supply bottlenecks, resilient domestic demand and base effects, annual headline inflation is expected to remain elevated at around 3.7% in early 2022, before gradually easing as supply chain problems disappear and domestic demand stabilizes. Cautious wage settlements in the wake of the Covid-19 crisis are expected to dampen wage growth, limiting the impact of labour costs on inflation in 2021 and 2022. Business investment will recover more slowly due to lingering uncertainty.

GDP annual and interannual growth (%)



Source: Statistics CBS. Projections from the OECD Dec 2021.

In the third quarter of 2021, private consumption recorded a considerable decrease in its y/y growth rate compared to the previous quarter, down to a 5.00% rate. On the other hand, the inflation rate increased, and recorded a 2.17% rate in 3Q21, thus following inflationary world trend. Regarding bond yields, all bond yields remained negative with the exemption of 15 year maturities which stood at 0.12%.



During the third quarter of the year, private consumption continued to recover after its slowdown in 2Q20 due to the persistence of the Covid-19 restrictions, reaching a growth rate of 5.00% year-on-year in 3Q21, although it declined by 5.00 p.p. from the previous quarter. Private consumption will drive growth as household saving rates continue to normalise after rising sharply at the beginning of the pandemic.

The OECD predicts a year-over-year growth rate of 2.82% for 2021, as a result of households dealing with an increase in pension premiums and rising unemployment. OECD expects private consumption to delay the recover until 2022, growing at a 4.89% rate.

When it comes to the government consumption, it increased up to 8.70% in 2Q21, before declining exponentially in 3Q21 down to 2.20%. However the Dutch government targets for 2021 to boost economic activity while giving incentives to investment. Fiscal support is expected to soften over time as European funds are implemented.

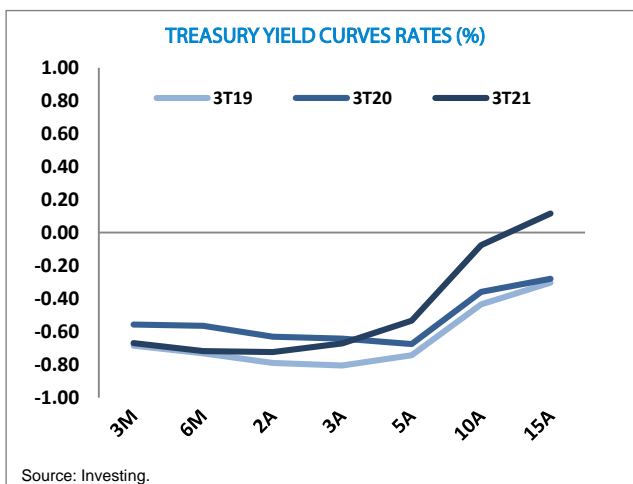
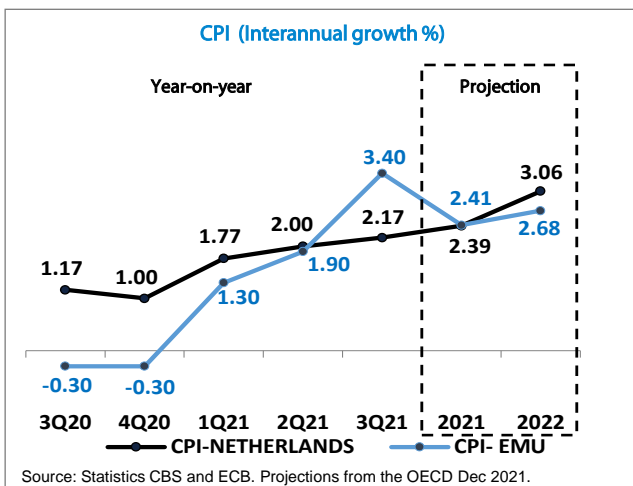
In the third quarter of 2021, Belgium registered an inflation rate of 2.17%, which was 0.17 p.p. above the rate recorded in the previous quarter and was lower than in EMU (3.40%).

The OECD expects inflation to stand at a 2.39% rate in 2021 and at 3.06% in 2022. Disruption in supply changes alongside increasing energy prices are the main reasons behind worldwide inflation.

In 3Q21, all bond yields of the Dutch sovereign debt, with the exception of bonds with a 15-year maturity, stood at negative levels, following the same tendency as in the previous quarters.

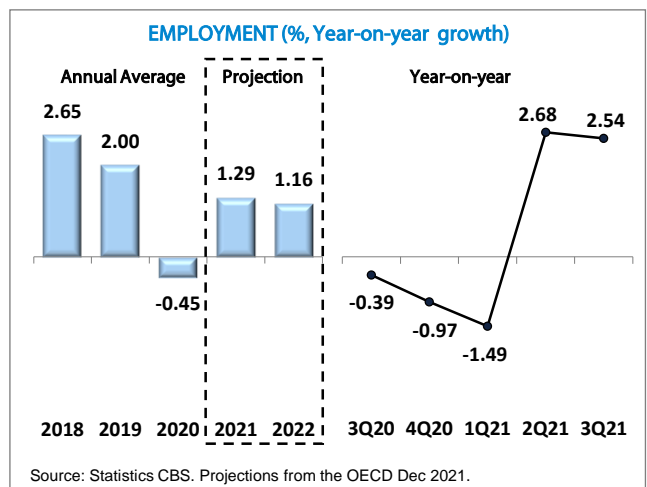
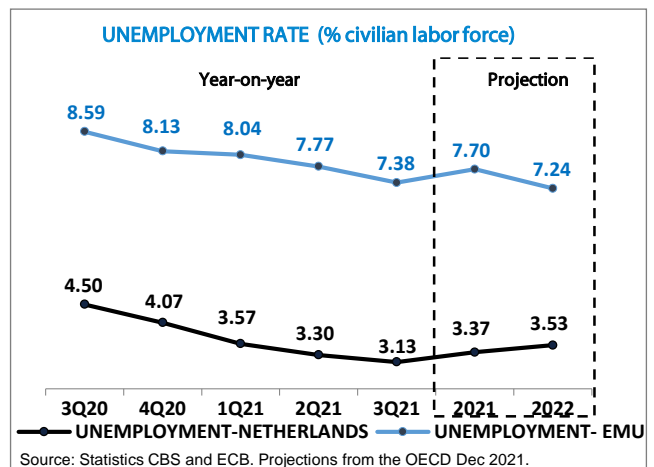
Compared to the third quarter of 2019, bond yields experienced increases for all maturities.

Compared to the third quarter of 2020, bond yields suffered declines for all maturities with the exemption of bonds with a 5Y, 10Y and 15Y maturity. The highest increase was registered in 15Y when compared to 3Q20, rising by 0.40 p.p..



Regarding the labour market, during the third quarter of 2021, the unemployment rate slightly decreased compared to the previous quarter, down to a 3.13% rate. Besides, in year-on-year terms, unemployment decrease was even higher facing a 1.37 p.p. fall. Concerning the y/y growth rate of employment, it stood at 2.54% in the third quarter of 2021, confirming the end of its previous negative trend as restrictions eased.

- During the third quarter of 2021, the unemployment rate decreased by 0.17 p.p. when compared to the previous quarter, down to a 3.13% rate. Moreover, unemployment levels remained below the European average in the last year, with the EMU average standing at 7.38% in 3Q21.
- According to the DNB, support measures are scaled back after the third quarter of 2021, employment will initially decline slightly, only to pick up significantly over the course of 2022. At the same time, labour supply will temporarily show additional expansion, as job search opportunities improve. As a result, unemployment will grow from 3.6% on average in 2021 to 4.5% in 2022. As the economy recovers further, however, unemployment should fall back to 4.1% in 2023.
- However, the OECD predicts a decrease in unemployment rates for both 2021 and 2022, up to a 3.37% rate and a 3.53% rate, respectively.
- Both DNB and OECD forecasts remain well below the EU average.
- Regarding the y/y employment growth rate, it decelerated by 0.14 p.p. when compared to the previous quarter, standing at 2.54%, the second positive rate after four consecutive quarters of negative employment growth rates.
- The OECD predicts employment to remain roughly flat in 2021, with an annual growth rate of 1.29%, and to slightly decrease in 2022, falling down to a 1.16% rate.
- According to the DNB, the decline in employment in 2021 will be much smaller than expected six months ago. Moreover, it is also more subdued than during the financial crisis of 2009 (-0.8%) or the sovereign debt crisis of 2012 (-1.1%). This is largely due to the government's generous policy support and the shorter duration of the current crisis.



Luxembourg

The Luxembourg economy performed relatively well in 2020. As a result, real GDP reached its pre-crisis level by the fourth quarter of 2020. However, sustained recovery strengthened throughout first three quarters of 2021 registering a notable recovery in the first half of the year.

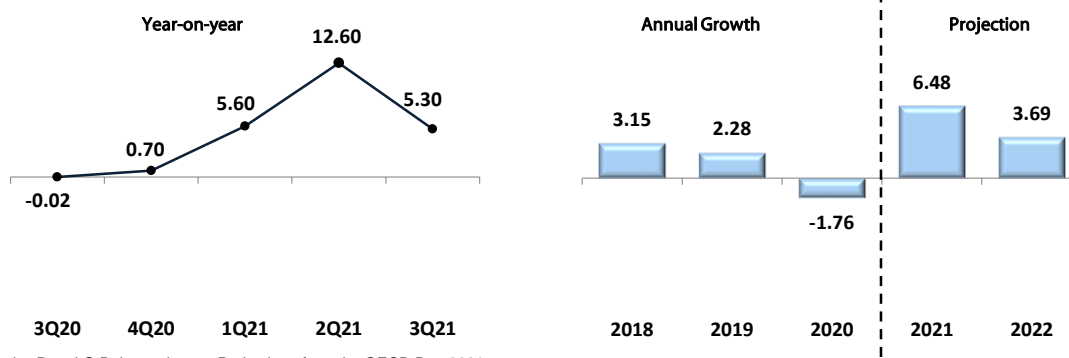
MAIN MACROECONOMICS INDICATORS (Interannual growth %)

INDICATOR	3Q20	4Q20	1Q21	2Q21	3Q21	2021	2022
GDP	-0.02	0.70	5.60	12.60	5.30	6.48	3.69
DOMESTIC DEMAND							
PRIVATE CONSUMPTION	-1.20	-5.40	-0.30	15.00	3.50	3.16	6.04
GOVERNMENT CONSUMPTION	7.40	7.30	4.40	6.00	3.30	3.49	2.89
GROSS CAPITAL FORMATION	8.90	-1.60	7.20	28.10	-5.90	11.50	5.24
EXTERNAL DEMAND							
EXPORTS	0.90	5.00	8.80	13.50	8.00	10.82	3.43
IMPORTS	2.70	5.40	8.70	15.90	6.70	10.25	4.07
INFLATION							
CPI	0.74	0.55	1.26	2.27	2.48	3.15	2.88
LABOUR MARKET							
UNEMPLOYMENT	6.44	6.30	6.24	5.88	5.55	5.78	5.32
EMPLOYMENT	1.99	1.25	1.67	3.06	2.61	2.13	2.45

Source: Statistics Portal G.D. Luxembourg. Projections from the OECD Dec 2021.

- ▶ As a result of the end of the second lockdown, the Luxembourg economy began its recovery in 4Q20 with respect to the previous quarter. Gradually, the economic activity reached substantial levels of growth in 2Q21, reaching 12.60%. For the third quarter of 2021 the economic activity showed an improvement on a year-to-year basis, however it decreased compared to the previous quarter 7.30 p.p., down to a 5.30% GDP rate.
- ▶ According to the OECD, the main drivers of the recovery have been: investment, which has increased during 2021 due to higher investor confidence, along with stronger consumption, which supports growth even as financial and business services activity normalises. The global immunisation programme has had a significant positive impact for the economy. Although the recovery of the economy has been uneven, and policy support should remain flexible for companies exposed to tourism and global supply disruptions. Bankruptcy reforms should facilitate early restructuring.
- ▶ Regarding the labor market, despite healthy job creation prior to the Covid-19 crisis, structural unemployment remained high. Although additional jobs were created and the unemployment rate stabilized at 5.55% in 3Q21, the proportion of job seekers increased significantly since the onset of the crisis.
- ▶ On the external sector, GDP was also supported by the relatively strong performance of the country's international trade in financial services, rising since the second quarter of 2020. Nevertheless, during 3Q21 exports and imports registered decreases compared to the previous quarter. It should be noted, the introduction of new international taxation rules may pose a risk to the outlook for Luxembourg's economy.

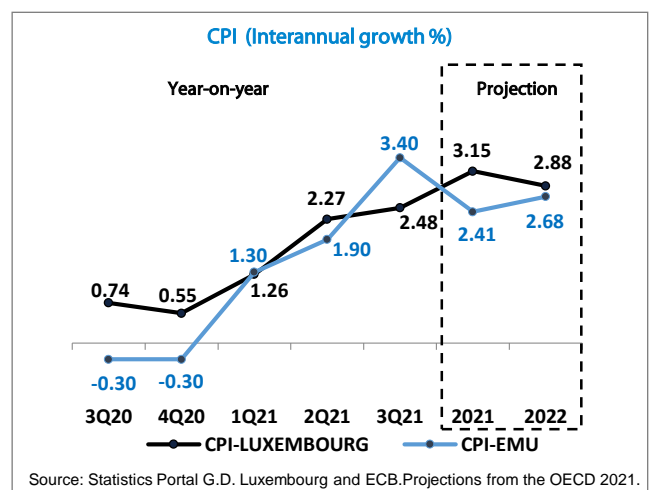
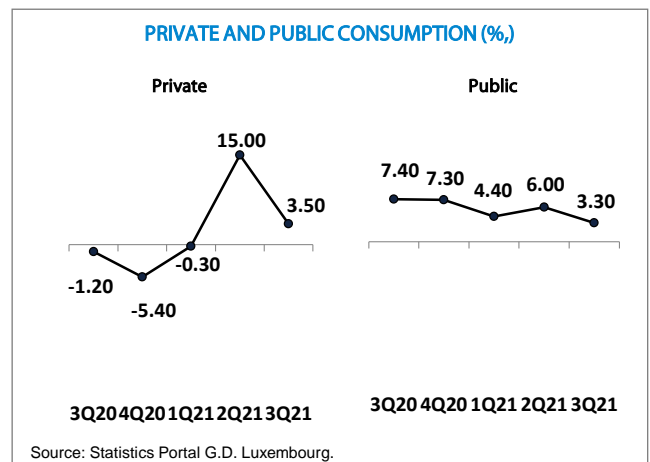
GDP annual and interannual growth (%)



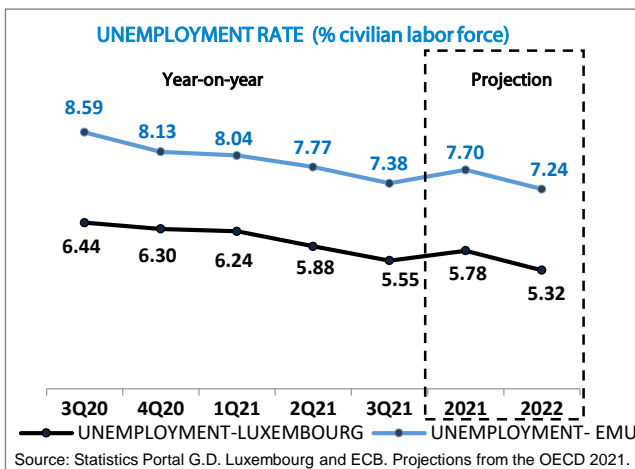
Source: Statistics Portal G.D. Luxembourg. Projections from the OECD Dec 2021.

In the third quarter of 2021, private consumption recorded a decrease in its y/y growth rate compared to the previous quarter, standing at a 3.50% rate. Moreover, public consumption growth declined compared with the previous quarter. The inflation rate progressively rose, standing at 2.48% rate in 3Q21 following inflationary world trend. Regarding bond yields, all bond yields remained negative with the exemption of 10Y and 15Y maturities which stood at 0.12%.

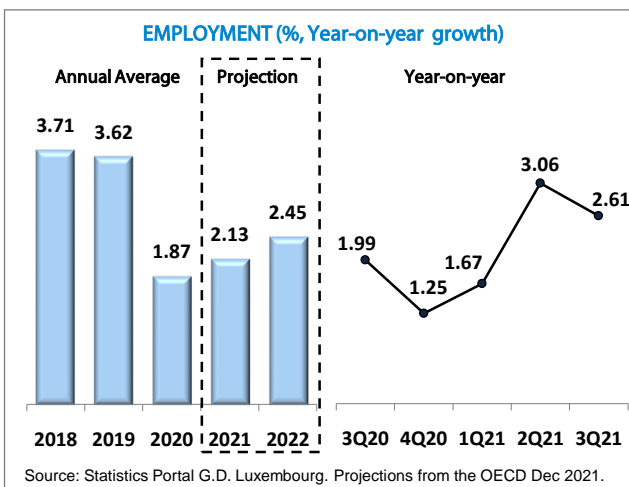
- During the third quarter of the year, private consumption consolidated its recovery after its prolonged slowdown since 1Q20, reaching a growth rate of 3.50% year-on-year, although declining by 11.50 p.p. compared to the previous quarter.
- The OECD forecast for private consumption predicts a year-over-year growth rate of 3.16% for 2021. Economic recovery is expected to be driven by a rebound in private consumption and investment from their low 2020 levels. Moreover, it expects private consumption to expand the recovery in 2022, growing at a 6.04% rate.
- Public consumption continued to show a positive rate, although it decreased by 2.70 p.p. compared to the previous quarter, registering a growth of 3.30%. The government's response to the crisis included income support to households, supplemented by liquidity and funding for short-time work schemes and more generous parental and sick leave. Reduced-time wage subsidies were extended to businesses struggling with severe flooding in July this year and shortages of building materials.
- In the third quarter of 2021, Luxembourg registered an inflation rate of 2.48%, which was 0.21 p.p. above the rate recorded in the previous quarter. Inflation in Luxembourg was below the EMU average (3.40%), after a significant increase of the average compared to the previous quarter.
- The OECD expects inflation to stand at a 3.15% rate in 2021 and a 2.89% in 2022. In 2021, the expected increase is supported by higher oil prices and the introduction of a carbon tax. Core inflation is forecast to rise steadily as growth remains high and spare capacity declines, and as a tight labour market raises cost pressures against a backdrop of strong demand.
- Moreover, house prices continue to grow at double-digit rates, despite the introduction of loan-to-value limits, as structural factors limiting supply are interacting with high savings and exceptionally low interest rates.

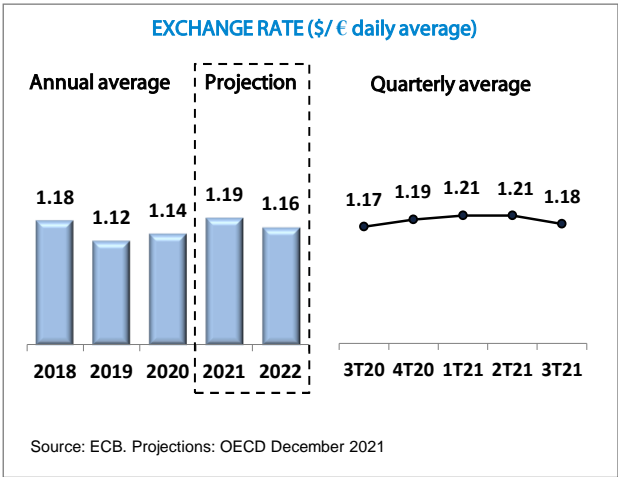


Regarding the labour market, during the third quarter of 2021, the unemployment rate slightly decreased compared to the previous quarter, down to a 5.55% rate. Besides, in year-over-year terms, unemployment decrease was even higher. Moreover, OECD forecasts predict a decrease in the unemployment rate in 2022. Concerning the y/y growth rate of employment, it stood at 2.61% in the third quarter of 2021.



- During the third quarter of 2021, the unemployment rate decreased by 0.34 p.p. when compared to the previous quarter, down to a 5.55% rate. Moreover, unemployment levels remained below the European average in the last year, with the EMU average standing at 7.38% in 3Q21.
- However, the OECD envisions an increase in unemployment rates for 2021, up to a 5.78% rate and a later decrease in 2022, down to a 5.32% rate.
- In the same line, the European Commission argued that, despite the positive impact on employment of the short-term work scheme of the government, the economy is projected to continue a steady growth path in 2022 and 2023, leading to a decrease in unemployment.
- Regarding the y/y employment growth rate, it decelerated by 0.45 p.p. when compared to the previous quarter, standing at 2.61%, pursuing its recovery trend to roughly pre-Covid levels.
- Nevertheless, the OECD predicts employment to fall in 2021, with an annual growth rate of 2.13%, and to slightly increase in 2022, rising up to a 2.45% rate.
- According to the OECD, the labour market recovery is solid, both for permanent positions and for younger workers. Vacancies continue to increase. Most Covid-19-related restrictions were lifted in July, and shop footfall picked up modestly in the third quarter after the holidays. Bankruptcies have started to increase, but remain contained.





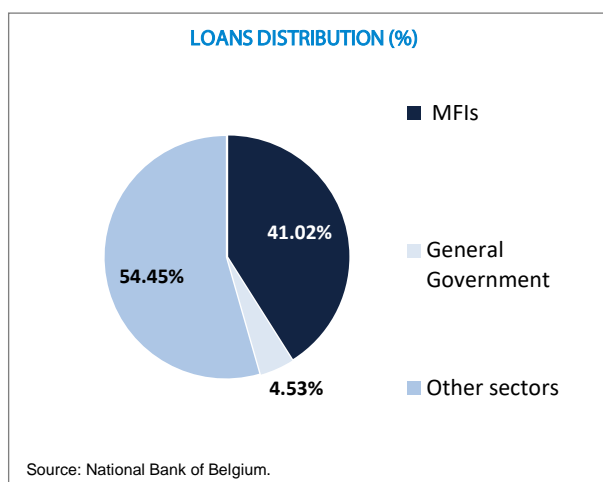
- ▶ During the third quarter of 2021, the euro was depreciated against the US dollar when compared to the previous quarter. Therefore, the average quarterly exchange rate stood at 1.18 \$/€.
- ▶ However, relative to the same quarter of the previous year, the quarterly average exchange rate of the euro increased by 0.01 \$/€ .
- ▶ The OECD expects the annual average dollar/euro exchange rate to stand at 1.19 \$/€ for 2021 and slightly lower for 2022 standing at 1.16 \$/€ , with the US dollar depreciating against the euro with respect to 2020.

4. Banking sector: general overview

Belgium - Loans

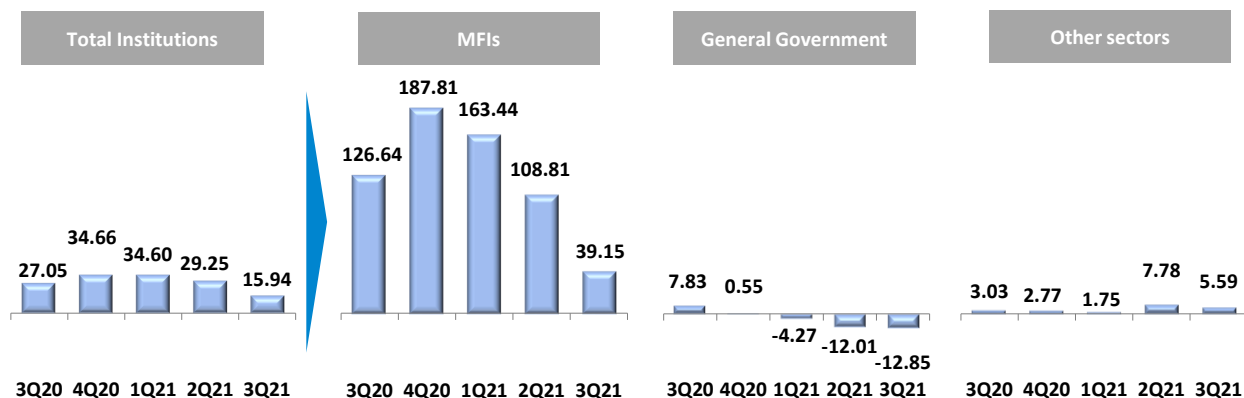
During the third quarter of the year, the y/y growth rate of the total loans granted in Belgium decelerated when compared to the previous quarter, down to a 15.94% rate. This behaviour was motivated by the fall in the y/y growth rate of loans to all sectors. Loans to MFIs experienced the largest decline and loans to the General Government recording the lowest and only negative rate.

- During the third quarter of 2021, total loans registered a decrease of 13.30 p.p. with respect to the previous quarter in their y/y growth rate, down to a 15.94% rate.
- The growth rate of loans granted to MFIs fell by 69.67 p.p. compared to the previous quarter, down to 39.15%.
- In turn, loans to the General Government recorded a decline in their y/y growth rate of 0.84 p.p., registering a rate of -12.85%.
- The y/y growth rate of loans to other sectors declined, recording a 5.59% rate after a 2.19 p.p. decrease.



- Regarding the distribution of total loans during the third quarter of the year, loans to other sectors accounted for the largest share of loans, with a 54.45%, after recording an increase in their share of 0.44 p.p. compared to the previous quarter.
- The share of loans to MFIs over total loans decreased by 0.42 p.p., representing 41.02% of total loans.
- On the other hand, loans to the General Government suffered a decrease in their share over total loans, down to a 4.53% after a 0.02 p.p. decrease.

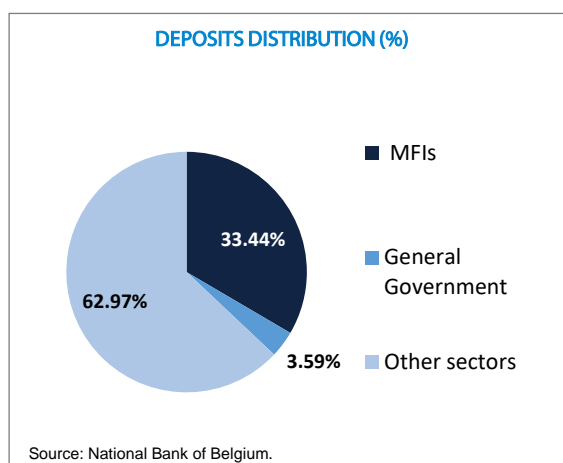
LOANS AND LEASES (% Year-on-year)



Source: National Bank of Belgium.

Belgium - Deposits

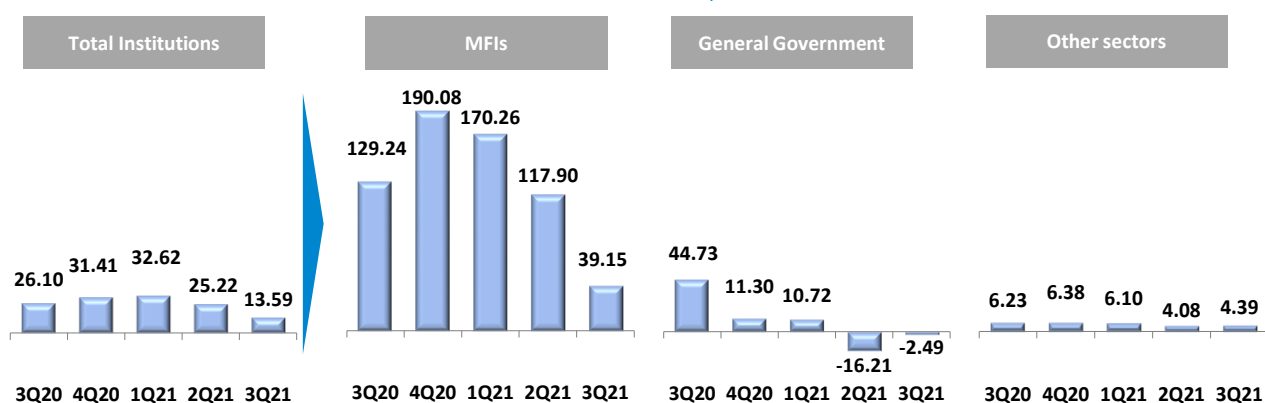
During the third quarter of 2021, total deposits in Belgium decreased their y/y growth rate by 11.63 p.p. relative to 2Q21, reaching a rate of 13.59%. On the other hand, the growth rate of deposits from all sectors increased, except for deposits from MFIs, which registered the largest variation.



- ▶ In the third quarter of 2021, the total deposits y/y growth rate reached 13.59%, which represented a significant decrease of 11.63 p.p. when compared to the previous quarter.
- ▶ Moreover, the y/y growth rate of deposits of MFIs experienced the largest fall of 78.75 p.p. relative to the second quarter of 2021. Nevertheless, it stood as the sector with the highest growth rate at 39.15%.
- ▶ In turn, the y/y growth rate of deposits of the General Government increased by 13.72 p.p., recording a -2.49% rate.
- ▶ Regarding the deposits of other sectors, they registered a smaller rise of 0.30 p.p. in their y/y growth rate, up to a 4.39% rate.

- ▶ Regarding the distribution of deposits during the third quarter of the year, other sectors deposits represented the largest share of deposits with a 62.97%, despite a fall in their share of 0.04 p.p. relative to the previous quarter.
- ▶ MFIs maintained the second largest share, with the deposits of these institutions accounting for 33.44% of total loans, after a decrease of 0.36 p.p..
- ▶ Regarding deposits of the General Government, their share slightly increased with respect to the second quarter of 2021, with deposits of the General Government representing 3.59% of the total deposits of Belgium.

DEPOSITS (% Year-on-year)

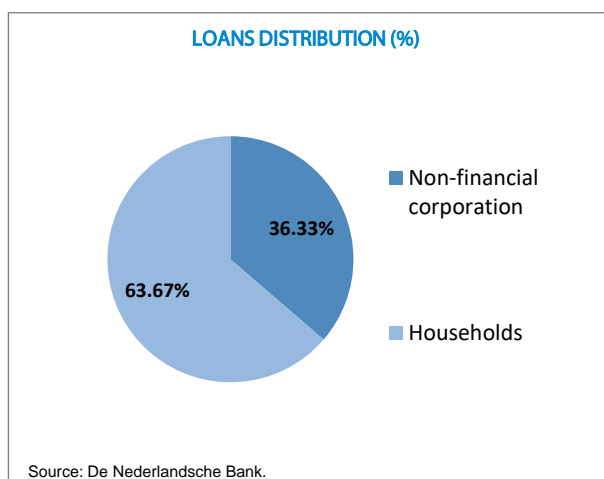


Source: National Bank of Belgium.

Netherlands - Loans

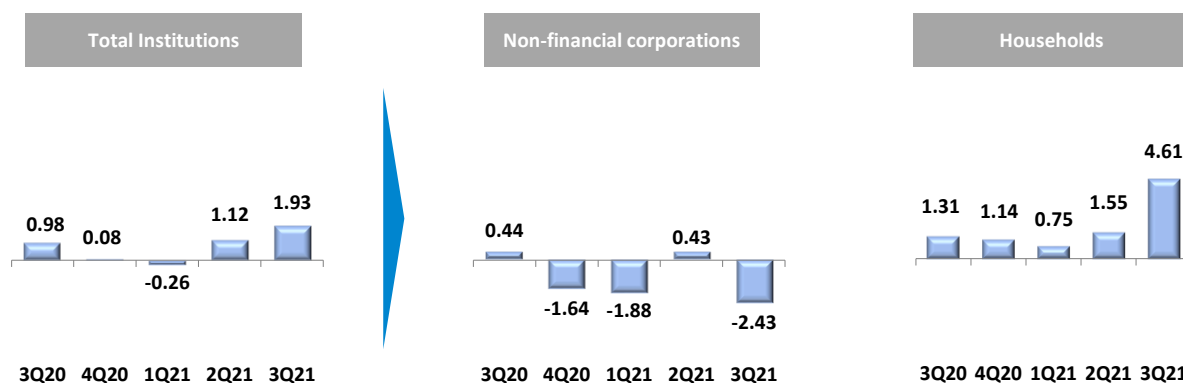
In the third quarter of 2021, the y/y growth rate of loans in the Netherlands experienced an increase of 0.81 p.p. relative to the previous quarter, recording a positive y/y growth rate of 1.93%. This was due to the acceleration of the y/y growth rate of loans to households. Loans to households represented 63.67% of total loans, while loans to non-financial corporations accounted for the remaining 36.33%.

- ▶ During the third quarter of the year, total Dutch loans recorded an increase of 0.81 p.p. in their y/y growth rate with respect to the previous quarter, standing at a positive rate of 1.93%. Moreover, relative to the same quarter of the previous year, the y/y growth rate of loans rose by 0.96 p.p..
- ▶ This performance was driven by the rise in the year-on-year growth rate of loans to households.
- ▶ Year-on-year growth in loans to non-financial corporations declined by 2.86 p.p. to a rate of -2.43%, returning to its negative trend that started in the last quarter of 2020, which was reversed in the previous quarter.



- ▶ In turn, loans to households experienced a significant rise, as its y/y growth rate accelerated by 3.06 p.p., registering a 4.61% rate. This increase was caused by the rise in the y/y growth rate of loans to households' purchase, up to 3.53%, and the increase in consumer credit and other loans which rose by 33.51 p.p. up to a rate of 21.80%.
- ▶ Regarding the distribution of loans in the third quarter of the year, loans to households represented 63.67% of total loans, after an increase in their share of 1.53 p.p. when compared to the previous quarter.
- ▶ As far as loans to non-financial corporations are concerned, they declined their share over total loans down to 36.33%, following a decrease of 1.53 p.p. relative to the second quarter of 2021.

LOANS AND LEASES (% Year-on-year)

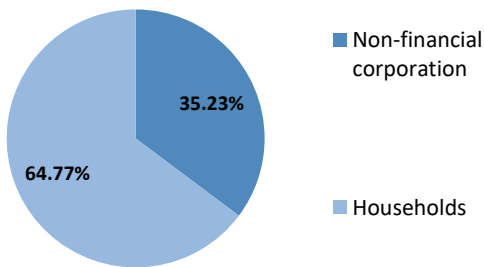


Source: De Nederlandsche Bank.

Netherlands - Deposits

The y/y growth rate of Dutch deposits stood at a 6.09% rate in the third quarter of 2021, after recording a decrease of 0.51 p.p. when compared to the previous quarter. In the contrary, the y/y growth rate of households deposits accelerated relative to 2Q21, up to a 8.55% rate. Additionally, deposits of non-financial corporations decreased, recording a 1.86% growth rate.

DEPOSITS DISTRIBUTION (%)



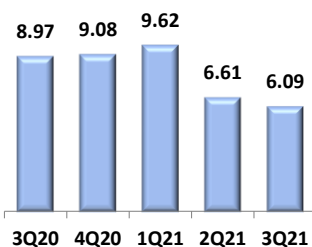
Source: De Nederlandsche Bank.

- ▶ In the third quarter of 2021, total deposits in the Dutch economy experienced a deceleration of 0.51 p.p. in their y/y growth rate compared to the previous quarter, recording a 6.09% rate.
- ▶ This behaviour was driven by the decrease in the y/y growth rate of deposits of non-financial corporations, which fell by 2.09 p.p., down to a 1.86% rate.
- ▶ It should be noted that the decline in the y/y growth rate of non-financial corporations was the result of the decrease in overnight deposits (-1.28 p.p.) and deposits redeemable at notice (-4.19 p.p.), whereas the y/y growth rate of deposits with an agreed maturity also fell by 6.34 p.p..

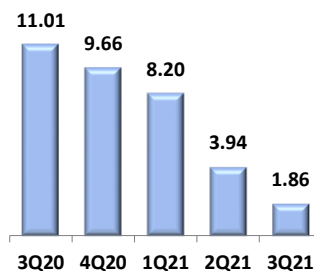
- ▶ In turn, deposits of households registered an acceleration of 0.41 p.p. in their y/y growth rate relative to 2Q21, up to a 8.55% rate. This increment was caused by the increase in the y/y growth rate of all types of deposits of households unlike deposits redeemable at notice, with overnight deposits experiencing the largest rise compared to the previous quarter (5.69 p.p.).
- ▶ As far as the distribution of deposits in the third quarter of 2021 is concerned, deposits of households increased their share over total deposits by 0.32 p.p., representing 64.77% of total deposits. The remaining 35.23% of deposits corresponded to non-financial corporations.

DEPOSITS (% Year-on-year)

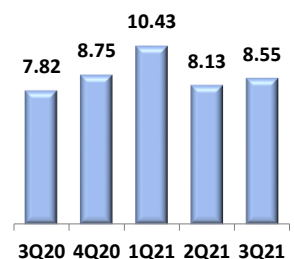
Total Institutions



Non-financial corporations



Households

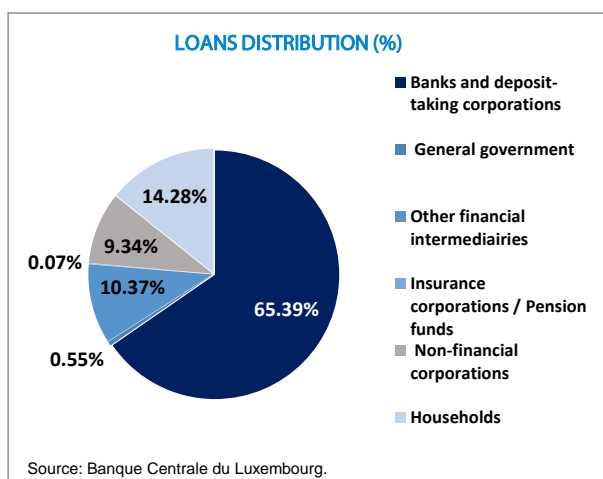


Source: De Nederlandsche Bank.

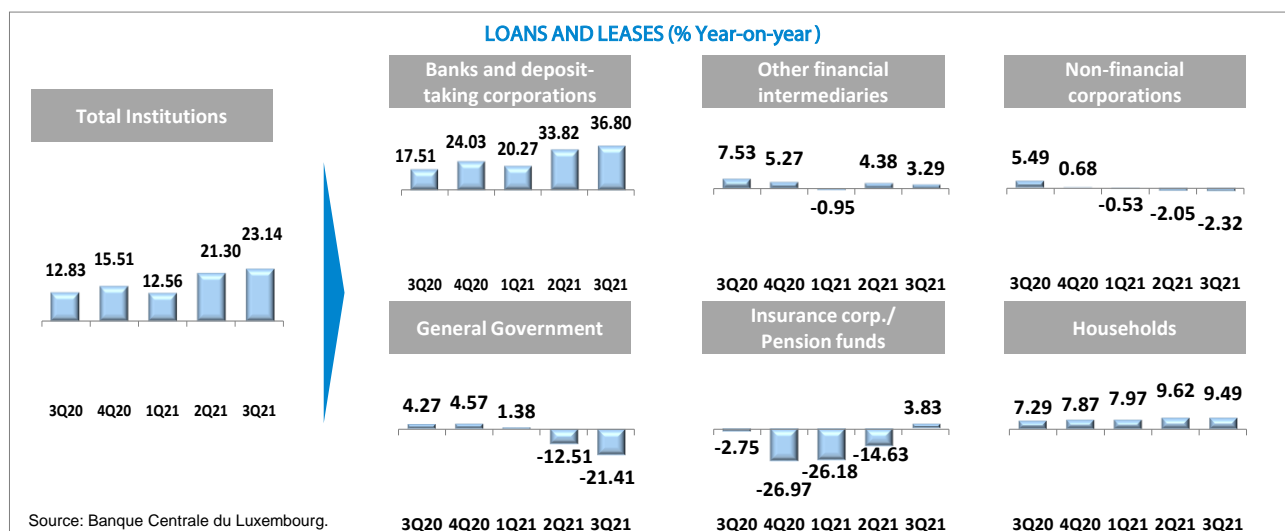
Luxembourg - Loans

The financial system of Luxembourg recorded a significant increase of 1.84 p.p. in its loans y/y growth rate, up to 23.14%. This performance was mainly driven by the increments experienced in the y/y growth rates of loans to banks and deposit-taking corporations and loans to insurance corporations.

- During the third quarter of 2021, the y/y growth rate of total loans rose by 1.84 p.p. with respect to the previous quarter, up to a 23.14% rate.
- This behaviour was motivated by the rise in the y/y growth rate of loans to banks and deposit-taking corporations (2.98 p.p.), and loans to the insurance corporations (18.46 p.p.).
- In turn, decreases were recorded by loans to other financial intermediaries (-1.09 p.p.) and loans to non-profit institutions (-0.12 p.p.). Moreover, the y/y growth rate of loans to general government and non-financial corporations, decelerated by 8.91 p.p. and 0.27 p.p., respectively, both standing in negative values.

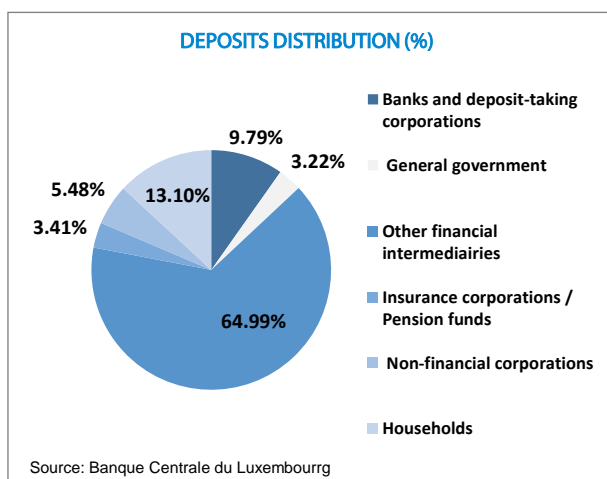


- Regarding the distribution of loans in 3Q21, banks and deposit-taking corporations recorded the largest share (65.39%), followed by households (14.28%) and other financial intermediaries (10.37%). Loans to non-financial corporations represented 9.34% of total loans, whereas the remaining share corresponded to loans to the general government (0.55%) and loans to insurance corporations and pension funds (0.07%).



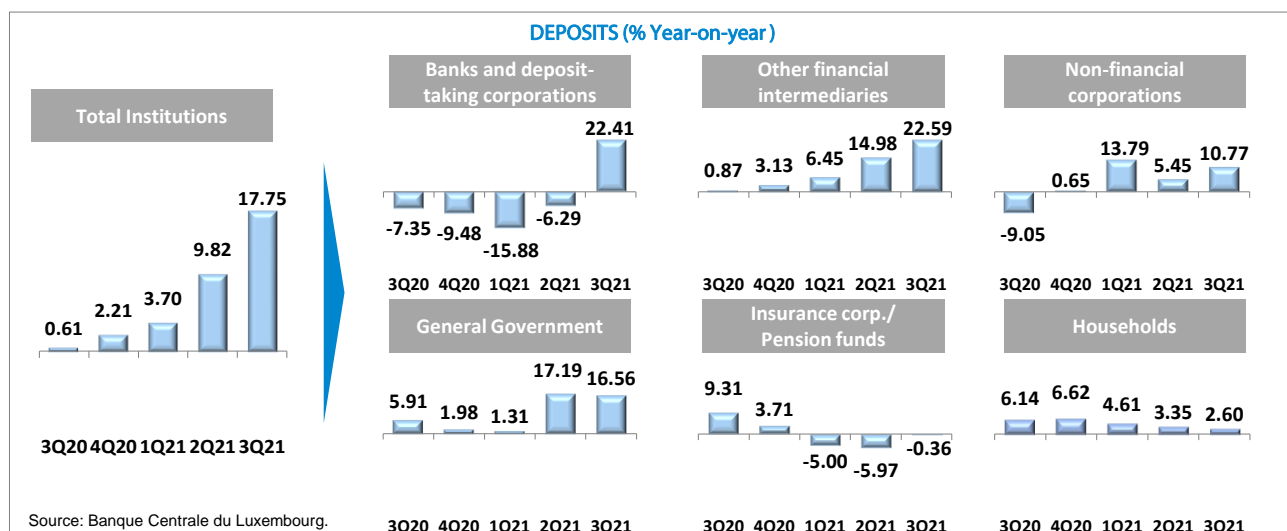
Luxembourg - Deposits

The y/y growth rate of deposits of the financial system of Luxembourg recorded a 7.94 p.p. acceleration in the third quarter of 2021 compared with the previous one, up to a 17.75% rate. This behaviour was mainly driven by the rise in the y/y growth rate of banks and deposits-taking corporations, deposits of other financial intermediaries, deposits of insurance corporations and deposits of non-financial corporations. The largest share of total deposits corresponded to other financial intermediaries (64.99%).



- ▶ Total deposits within the Luxembourgish financial system experienced a significant increase in their y/y growth rate of 7.94 p.p. relative to the previous quarter, up to a 17.75% rate in the third quarter of 2021.
- ▶ This increment was driven by the increases in the y/y growth rates of deposits of other financial intermediaries (7.60 p.p.), banks and deposits-taking corporations (28.70 p.p.), of insurance corporations (5.61 p.p.) and of non-financial corporations (5.33 p.p.), up to a 22.59%, 22.41%, -0.36% and a 10.77% rate, respectively.
- ▶ In turn, deposits of general government and households deposits recorded the largest declined in their y/y growth rate (-0.63 p.p.) and (-0.75 p.p.) respectively.

- ▶ Regarding the distribution of loans in the third quarter of the year, other financial intermediaries remained as the sector with the largest share, with a 64.99% of total deposits, followed by households (13.10%), and banks and deposit-taking corporations (9.79%). In turn, non-financial corporations, insurance corporations and pension funds, and general government deposits represented 5.48%, 3.41% and 3.22%, respectively.





MACROECONOMIC OVERVIEW

- Banque Centrale du Luxembourg:
<http://www.bcl.lu/en/index.html>
- BBVA Research:
<http://www.bbvaresearch.com/KETD/ketd/esp/index.jsp>
- De Nederlandsche Bank:
<https://www.dnb.nl/>
- European Central Bank:
<http://www.ecb.int/ecb/html/index.es.html>
- International Monetary Fund (IMF):
<http://www.imf.org>
- Investing
<https://es.investing.com/>
- National Bank of Belgium:
<https://www.nbb.be/en>
- National Bank of Belgium Online Statistics:
<https://stat.nbb.be/Index.aspx>
- Organisation for Economic Co-operation and Development, OECD:
<http://www.oecd.org/home/>
- Statistics Netherlands (CBS):
<https://www.cbs.nl/>
- Statistics Portal Grand Duchy of Luxembourg:
<https://statistiques.public.lu/en/index.html>
- World Bank:
www.worldbank.org
- Central Bank of the Republic of Argentina:
www.bcra.gov.ar
- Central Bank of Chile:
www.bcentral.cl
- Central Bank of Brasil:
www.bcb.gov.br
- National Administrative Department of Statistics of Colombia (DANE):
<http://www.dane.gov.co/>
- Bank of the Republic of Colombia:
<http://www.banrep.gov.co/>
- Central Reserve Bank of Peru:
www.bcrp.gob.pe

GLOSSARY

- ▶ **CAI:** Comprehensive Agreement on Investment between the People's Republic of China and the European Union.
- ▶ **CET 1:** Common Equity Tier 1 capital is the highest quality of regulatory capital, as it absorbs losses immediately when they occur.
- ▶ **CPI:** Consumer Price Index measures the evolution of the average cost of the basket of goods and services representative of household final consumption.
- ▶ **Efficiency Ratio:** $(\text{Non-interest expense} - \text{amortization of intangible assets}) / (\text{net interest income} + \text{non-interest income})$.
- ▶ **EMU:** The Economic and Monetary Union.
- ▶ **GDP:** Gross Domestic Product is the total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.
- ▶ **IMF:** International Monetary Fund.
- ▶ **LTD ratio:** Loans to deposits is a ratio used to assess the liquidity of a bank by comparing its total loans to its total deposits over a given period of time.
- ▶ **OECD:** Organisation for Economic Co-operation and Development.
- ▶ **Operating Expense:** Total non-interest expense.
- ▶ **PEPP:** The ECB's pandemic emergency purchase programme (PEPP) is a non-standard monetary policy measure initiated in March 2020 to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the coronavirus (Covid-19) outbreak.
- ▶ **p.p.:** percentage points.
- ▶ **Return On Equity (ROE):** $\text{Net Income} / \text{equity}$.
- ▶ **Return On Assets (ROA):** $\text{Net income} / \text{average total assets}$.



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Javier Calvo Martín

Partner of Management Solutions

Javier.Calvo.Martin@mssgermany.com.de

Manuel Ángel Guzmán Caba

Partner of Management Solutions

manuel.guzman@managementsolutions.com

Management Solutions

Tel: (+34) 91 183 08 00

Fax: (+34) 91 183 09 00

www.managementsolutions.com

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