Belgian Financial Forum

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Les mesures corona visant à soutenir l'économie et les affaires

De coronamaatregelen ter ondersteuning van de economie en van het bedrijfsleven

23.09.2020 – 13.00-14.00 u h

WEBINAR

Alexander De Croo

Max Jadot

Hans Degryse

Corona support measures in Belgium: Evaluation and way forward

Hans Degryse
KU Leuven and CEPR

September 23, 2020

BFF-NBB Webinar
Les mesures corona visant a soutenir l'économie et les affaires.
De coronamaatregelen ter ondersteuning van de economie en van het bedrijfsleven

Covid-19 pandemic leads to unprecedented support policies across the globe

- Belgium relative to other countries (as % of GDP)

	Immediate fiscal impulse	Deferral	Other liquidity /guarantee
Belgium	1.4%	4.8%	21.9%
Denmark	5.5%	7.2%	4.1%
France	4.4%	8.7%	14.2%
Germany	8.3%	7.3%	24.3%
Greece	3.1%	1.2%	2.1%
Hungary	0.4%	8.3%	0.0%
Italy	3.4%	13.2%	32.1%
Netherlands	3.7%	7.9%	3.4%
Portugal	2.5%	11.1%	5.5%
Spain	3.7%	0.8%	9.2%
UK	8.0%	2.3%	15.4%
United States	9.1%	2.6%	2.6%

Source: https://www.bruegel.org/publications/datasets/covid-national-dataset/

- Immediate fiscal impulse: below median
- Deferrals (e.g., defer taxes an social security contributions): average
- Other liquidity provisions/ guarantees: above median

- Looks good (on paper)

First guarantee scheme (Bazooka of March 22, 2020): Evaluation

- €50 billion committed by banking sector, backed by some government guarantees
  - banks as screening mechanism is efficient due to information gathered in bank-borrower relationships
- Two parts: "moratorium" and "liquidity support/government guarantees"

  1) Moratorium (Coordinated debt rescheduling): quite successful

Deze monitor geeft inzicht in de bancaire financieringen aan ondernemingen en particulieren. **11 september 2020**

Particulieren

Betalingsuitstel voor woonkredieten

Aantal dossiers waarvoor betalingsuitstel werd verleend: **121.453**
Totaal onderliggend uitstaand bedrag van de betrokken kredieten: **12,7 miljard euro**
Gemiddeld uitstaand bedrag van het krediet waarvoor uitstel is toegekend: **104.702 euro**

Betalingsuitstel voor consumentenkrediet

Het aantal betalingsuitstellen dat werd toegekend: **7.063**
Totaal onderliggend uitstaand bedrag: **146,6 miljoen euro**

Ondernemingen

Betalingsuitstel voor ondernemingskredieten

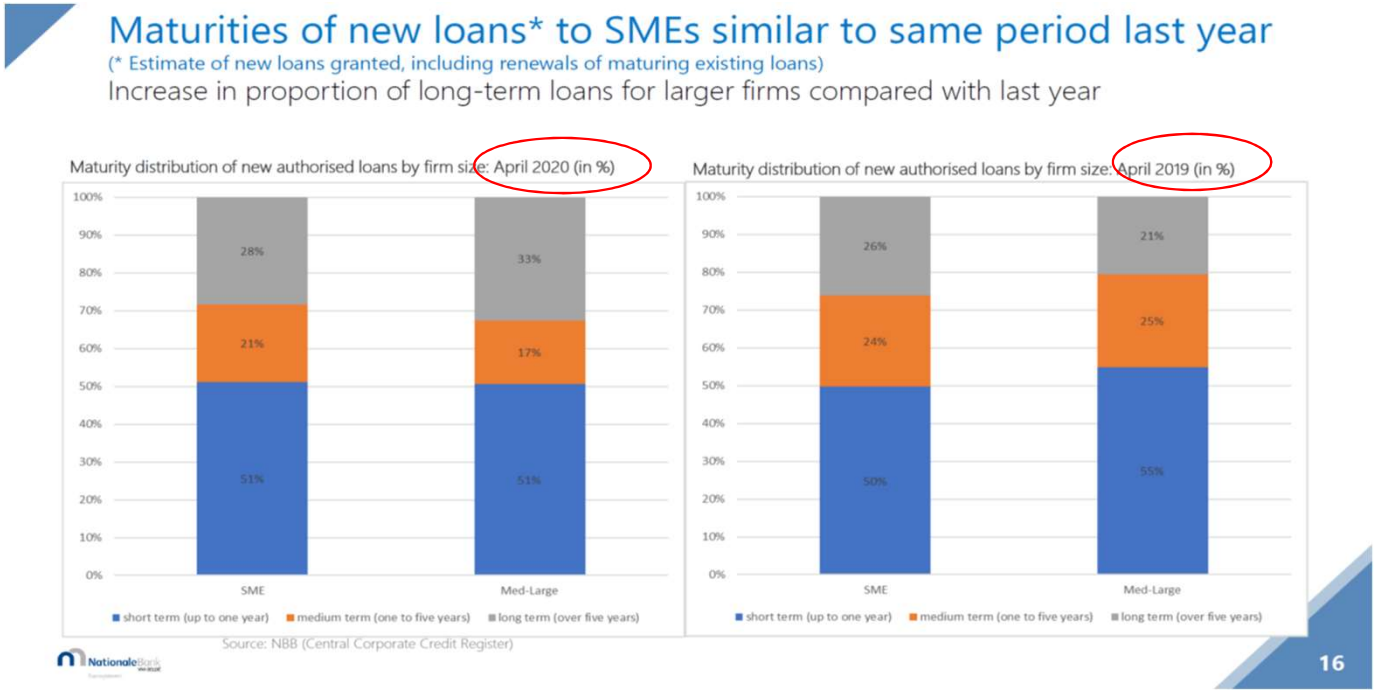
Het aantal betalingsuitstellen dat werd toegekend: **137.211**
Bedrag van de onderliggende exposure: **23,6 miljard euro**
Gemiddeld uitstaand bedrag van het krediet waarvoor uitstel is toegekend: **172.304 euro**
Meer dan **80%** van het aantal betalingsuitstellen wordt toegekend aan KMO's en zelfstandigen

Source: Febelfin coronamonitor

First guarantee scheme (Bazooka): Evaluation

- Two parts:

  2) guarantee scheme for short maturity loans only – not effective



Source: NBB, Presentation to 'Commission Budget et Finances - 24 juin 2020'

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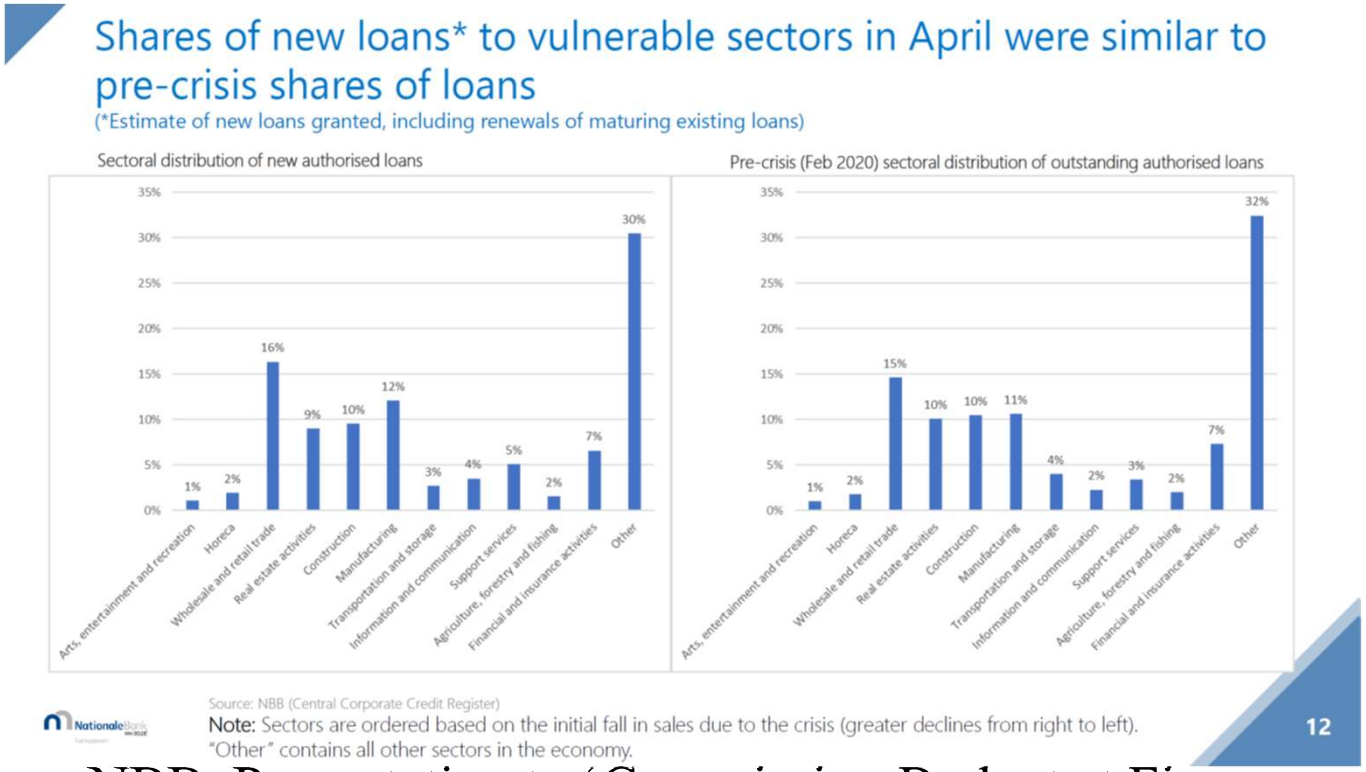

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First guarantee scheme (Bazooka): Evaluation

- Two parts:

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  State guarantee: key message (caveat: not all institutions included)

- Monthly figures indicate that, for April 2020:
  - 78,8% of the monthly loan production was not eligible to the state guarantee, 18,0% was deselected by banks and 3,2% was under state guarantee. Banks are responsible for this classification, which is currently being checked by NBB.
  - The following firm categories had a slightly higher proportion of their new loans under state guarantee:
    - Small enterprises
    - Firms active in crisis-vulnerable sectors
    - Less creditworthy firms

Source: NBB, Presentation to 'Commission Budget et Finances - 24 juin 2020'

First guarantee scheme (Bazooka): Why was "government guarantee" not effective?

- Politicians start from the premise: "Banks have been bailed out during the GFC, so they should help us now"
  - banks are part of the solution, not part of the problem; give banks incentives to participate – they are your friend, not your enemy.

- Unattractive for banks: "tax on interest rate but no insurance"
  - Government guarantee applies at portfolio level, **not at level of individual loan**.
    - Loan officer does not take guarantee into account when deciding on loan
    - Incentives to put only very risky loans into this portfolio.
  - Limited pricing flexibility
- Unattractive to borrowers:
  - Short maturity only – quick repayment

Second Bazooka focuses on SMEs: €10 billion from first scheme

- **Loans from 1 to 3 years**
- Government Guarantee at **loan level**

- Issue: Coexistence with first bazooka?
  - Banks have incentives to grant (longer maturity) loans to SMEs using this second bazooka and not (short term maturity loans) under the first bazooka?

- To my knowledge, no statistics yet in the public domain

Way forward?

- We are in a difficult situation due to uncertainty about duration and exit of covid-19

Table 1 **Real GDP growth rate**
(percentages, adjusted for seasonal and calendar effects)

	Quarter-on-quarter change				Year-on-year change
	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q2
Euro area	0.3	0.0	-3.7	-11.8	-14.7
Germany	0.3	0.0	-2.0	-9.7	-11.3
France	0.2	-0.2	-5.9	-13.8	-18.9
Italy	0.0	-0.2	-5.5	-12.8	-17.7
Spain	0.4	0.4	-5.2	-18.5	-22.1
Netherlands	0.3	0.5	-1.5	-8.5	-9.2
Belgium	0.4	0.5	-3.5	-12.1	-14.4
Austria	-0.2	-0.2	-2.4	-10.4	-12.9
EU	0.4	0.1	-3.3	-11.4	-13.9
UK	0.5	0.0	-2.2	-20.4	-21.7
US	0.6	0.6	-1.3	-9.1	-9.1
JP	0.0	-1.8	-0.6	-7.9	-10.1

Sources: EC, U.S. Department of Commerce, Cabinet Office Japan.

Belgian economic activity is expected to rebound by 8 % in the third quarter of 2020[1]

- Source: NBB, business cycle monitor september 2020

- Governments have a crucial role to play; actions of agents exhibit **strategic complementarities**

Way forward?

- **Debt sustainability? Government debt**

Projections for Belgium: summary of the main results

	2018	2019	2020e	2021e	2022e
Government budget balance (in % of GDP)	-0.8	-1.9	-10.6	-6.0	-5.9
Public debt (in % of GDP)	99.9	98.7	118.1	116.5	119.0

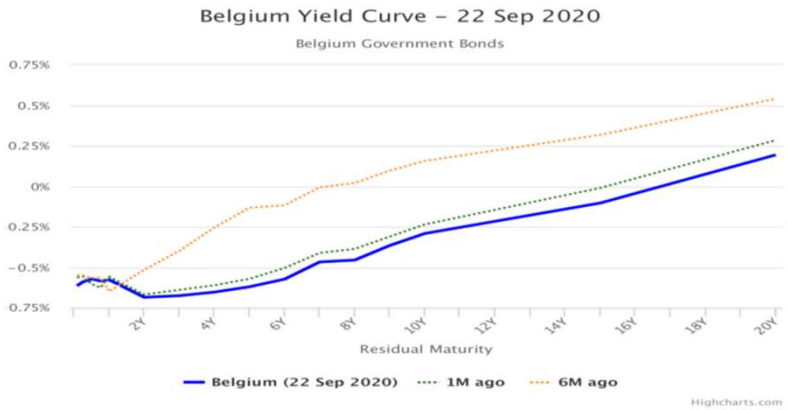
  - Source: NBB, economic projections for Belgium, June 2020
- Is this a problem? Not necessarily (see Baert, Cockx, Heylen and Peersman, 2020), as long as
  - Temporary support measures
  - Interest rate <real gdp growth + inflation

We show that in the current macroeconomic environment, in which nominal interest rates are expected to remain below the sum of real GDP growth and inflation for some time, the rise in government debt due to the Covid-19 recession and fiscal policy responses is feasible without ever having to raise taxes. Specifically, a rise in public debt due to a temporal increase in the deficit automatically vanishes over time. Even when

Way forward?

- **Debt sustainability? Government debt**
  - Temporary support measures:
    - Recurring is often a series of temporary shocks
    - Opens door for other "one-offs": Climate change? Pensions? (politicians and lobby groups have many ideas)
    - Bail out of zombie firms?
    - Issuing debt for productive investments can help
  - Interest rate <real gdp growth + inflation

Interest rate seems to remain low/negative for quite some time due to QE, prospects, inflationary expectations

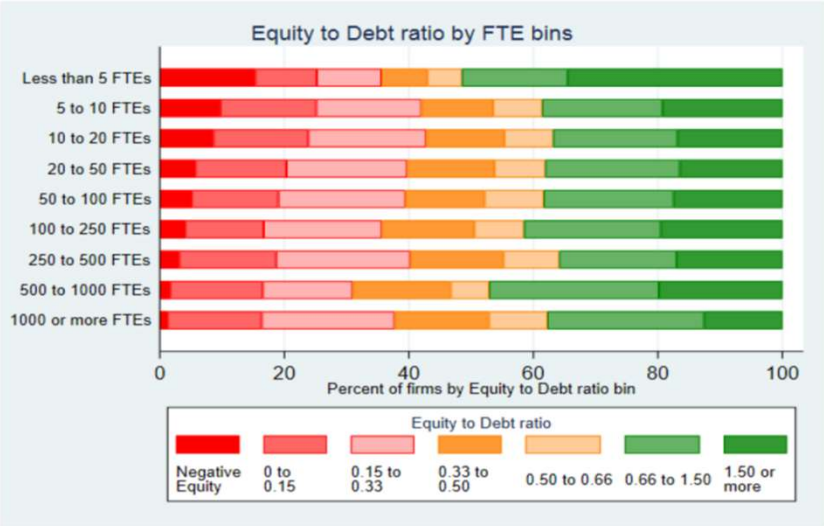


Way forward? From liquidity concerns to solvency concerns

- After liquidity injection, pay attention to solvency of firms

Pre-crisis situation regarding solvency: heterogeneity across firms

Equity-to-debt ratio[1]
(in % of firms[2,3])



- Sectoral breakdown
  - Many sectors in dire liquidity condition are also in difficult solvency position
    - food and beverage service activities;
    - residential care activities;
    - sport and recreation;
    - accommodation;
    - real estate activities;
    - air transport,
    - rental and leasing

Source: NBB.
1 Broad equity is equity including transferred profit/loss from previous years.
2 FTE: full time equivalent.
3 Latest available data from firms' balance sheets (2018 for 85% of the firms, 2019 or 2020 for the rest.

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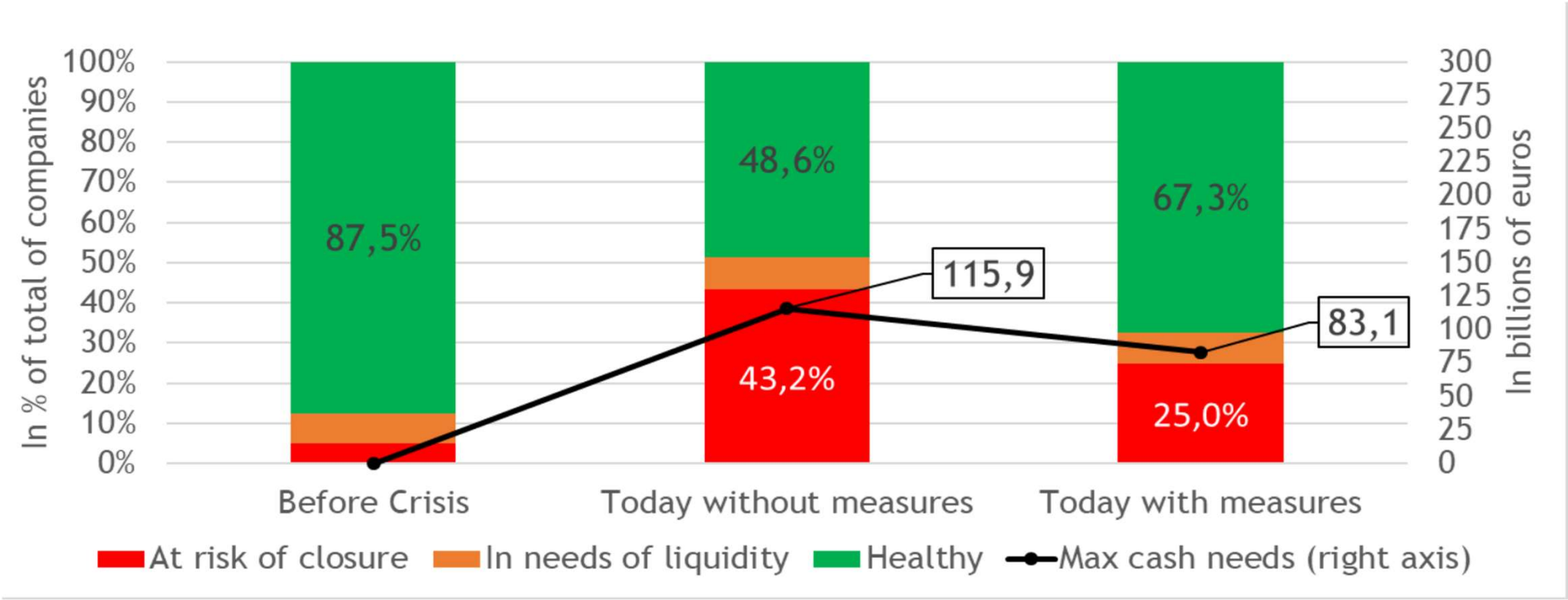
- Source: NBB, Presentation to 'Commission Budget et Finances - 24 juin 2020'

Way forward? From liquidity concerns to solvency concerns



- Source: VBO-Graydon study 09/2020

Way forward? From liquidity concerns to solvency concerns

- How to mitigate solvency problems?
  - Make injecting equity-like instruments attractive
    - Pandemic equity fund:
      - Cash flow injection against a proportionate participation in future gross or net earnings (more details in Boot et al. 2020)
      - Arm's length (far away from lobby groups and politicians)
      - New business model should embrace digitalization and green economy
  - Notional interest deduction, …
- Pay attention to the possible building up of zombie firms and sectors. Creative destruction and change is part of a sound economy.

Way forward? From liquidity concerns to solvency concerns

- Zombification risks? Should we keep all firms alive?
  - The dust is not settled yet – also reflected in heterogenous loan-loss provisions of banks (who knows?)
  - Probably too early to end temporary support
  - Avoid "lobby bailouts" of sectors and firms
    - Viable firm/sector before covid-19 is not necessarily viable afterwards
    - Non-viable firm/sector before covid-19 is not necessarily non-viable afterwards
    - Bailouts should be designed to avoid benefitting existing creditors and shareholders
  - While banks were well-suited for deciding on liquidity support, banks are typically not good in financing big transitions due to "debt overhang / legacy positions /financial regulation"
  - Supervisory framework needs to give banks incentives to "clean their balance sheets" (create bad bank if needed)

Concluding remarks

- Fiscal support and liquidity support was needed, but only partially effective

- Turn focus to solvency of firms and households

- Pay attention to “zombification of the economy”:

KU LEUVEN

Thank you

Hans.Degryse@kuleuven.be
@degryse_hans
https://sites.google.com/site/degrysehans/

Partly based upon

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