BELGIAN PRIME NEWS
Quarterly publication

BELGIAN DEBT AGENCY

NationalBank OF BELGIUM
Eurosystem

Participating Primary and Recognised Dealers:

Barclays, Belfius Bank, BNP Paribas Fortis, Citigroup, Crédit Agricole CIB, HSBC, KBC Bank, Morgan Stanley, Natixis, NatWest (RBS), Nomura, Société Générale Corporate & Investment Banking

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Please note that, in light of the current (rapidly-changing) situation, data and forecasts mentioned in this publication may quickly become outdated.

- MACROECONOMIC DEVELOPMENTS: Covid-19 pandemic threatens global economic outlook
- SPECIAL TOPIC: Measures taken to mitigate the economic impact of the Covid-19 outbreak on the Belgian economy
- FINANCIAL MARKETS AND INTEREST RATES: Sovereign bond yields have fallen further in Germany and in the US as the coronavirus spreads
- TREASURY HIGHLIGHTS: Additional funding needs related to Covid-19 crisis

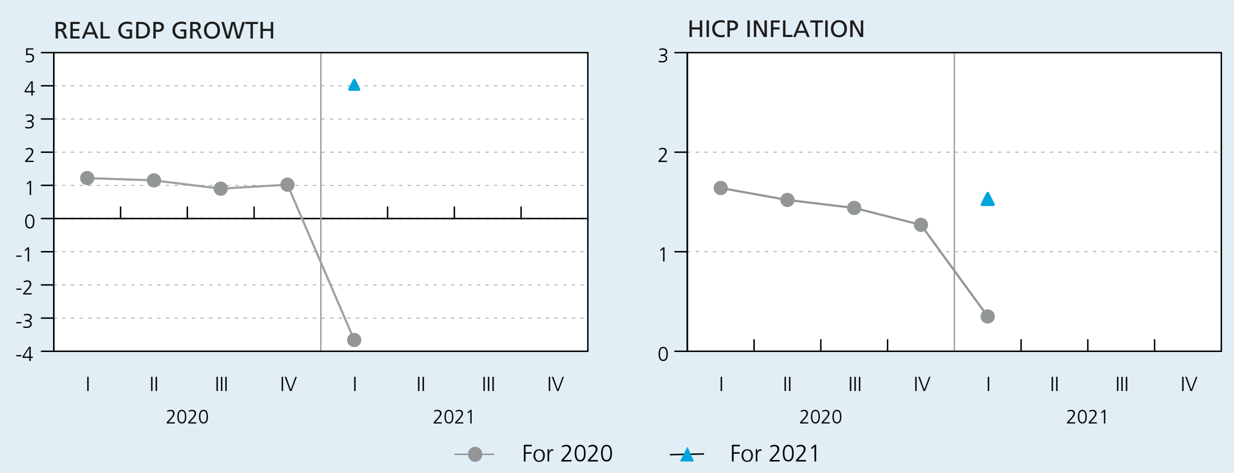
CONSENSUS Average of participants' forecasts

Please note that the average was calculated on the basis of participants' forecasts gathered between 19 and 29 March and excludes the NBB's forecast. The most recent growth forecasts for 2020 were the most pessimistic.

	Belgium			Euro area		
	2019	2020p	2021p	2019	2020p	2021p
Real GDP(1)	1.4	-3.7	4.0	1.2	-5.2	4.3
Inflation (HICP)(1)	1.2	0.4	1.5	1.2	0.2	1.4
General government balance(2)	-1.7	-4.5	-3.0	-0.7	-3.5	-2.1
Public debt(2)	99.1	103.8	103.6	84.5	86.8	87.1

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

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS

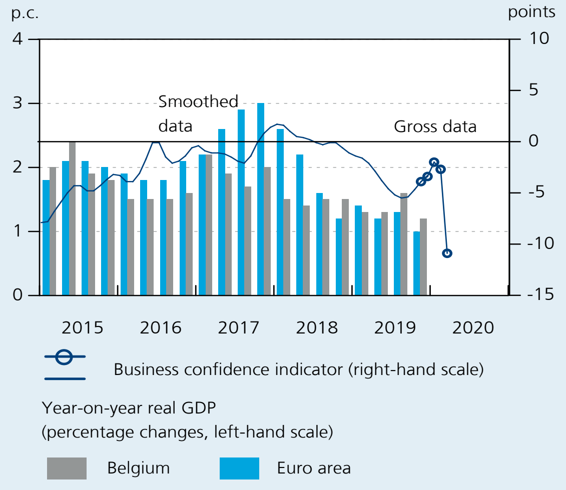
Covid-19 pandemic threatens global economic outlook

Uncertainty about the global economic outlook had already been running high in the course of 2019, but the start of the new year has brought a new, far more important source of risk: the outbreak of the coronavirus (Covid-19). As Covid-19 gradually spread from China to the rest of the world, it was officially labelled a pandemic by the World Health Organisation. Meanwhile, wide-ranging efforts and measures that aim to contain the spread of the disease are causing significant economic disruption. The eventual impact of Covid-19 on the global economy is uncertain but likely to be massive. In an early-March scenario consisting of a long-lasting and intensive Covid-19 outbreak, the OECD saw a potential downward impact on global GDP growth of about 1.5 percentage point.

Economic activity in the euro area was already sluggish and had virtually stagnated in the last quarter, with annual growth in 2019 coming in at 1.2 %, considerably below the pace recorded in 2018. In 2020, the containment measures related to the Covid-19 outbreak in the different member states are likely to weigh considerably on growth, at least in the first part of the year. As the outbreak within the euro area only started to emerge in late February, data reflecting a possible impact are still scarce. However, high-frequency euro area indicators for March already dropped to unprecedented lows. All in all, BPN participants have cut their forecasts from the December estimate: they now see the euro area economy shrinking by 5.2 % in 2020 and growing again by 4.3 % in 2021. Euro area inflation is expected to remain moderate, at 0.2 % this year and 1.4 % in 2021.

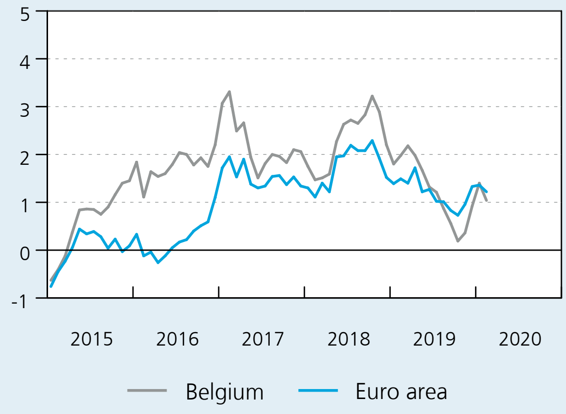
In Belgium, activity still grew by 0.4 % in the fourth quarter, which put annual GDP growth at 1.4 % for 2019 as a whole. This implies that the Belgian economy remained surprisingly robust, compared to the growth rates recorded in the euro area and most of the neighbouring countries. This resilience seems to be mainly attributable to the relative resilience of the manufacturing industry, as its composition is geared towards branches that are less correlated with the business cycle, such as pharmaceuticals, and, in addition, manufacturing companies seem to have outperformed their peers in the euro area. However, the Covid-19 virus containment measures (in particular, the closing of restaurants and non-essential shops) will also affect the Belgian economy. Please refer to the Special Topic. BPN participants currently expect GDP in Belgium to drop by 3.7 % this year and to record an increase of 4 % in 2021. It should be stressed again that the average, as for the euro area, consists of participants' forecasts gathered between 19 and 29 March. These forecasts displayed quite a lot of variability as they were made at different points in time and may reflect different scenarios.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

The Belgian unemployment rate reached 5.4 % on an annual basis in 2019, which is historically low. Considering the tightness of the labour market, employers may be reluctant to let their staff go just yet, even when faced with supply or demand issues resulting from the Covid-19 crisis. Moreover, in order to avoid an increase in the number of layoffs, the National Employment Office acknowledges Covid-19 as a reason for granting temporary unemployment. By 23 March, over 1 million workers in Belgium were already (partly or completely) affected by this regime. As for inflation, the overall HICP rate stood at 1.0 % in February. Price pressures could be expected to moderate in the near term, following the oil price plunge in early March. According to the consensus forecast, inflation in Belgium should come to 0.4 % on average in 2020 and 1.5 % in 2021.

Belgian Prime News participants expect the government deficit to widen substantially in the following years. The deficit is projected to reach 4.5 % of GDP in 2020 and 3 % of GDP in 2021. While the previously anticipated budget deficit already left Belgium far from its medium-term objective of a balanced budget in structural terms by 2021, the increased health care expenditure and support measures taken in response to the Covid-19 outbreak are likely to take an additional toll on governments' budgets. BPN participants anticipate a rise in the Belgian public sector debt, from just below 100 % of GDP in 2019 to 103.6 % in 2021.

SPECIAL TOPIC Measures taken to mitigate the economic impact of the Covid-19 outbreak on the Belgian economy

As of mid-February, the coronavirus (Covid-19) outbreak that had started in China, also spread to Europe. The first confirmation of infected patients in Belgium came in by early March and infections have gradually risen since. On 13 March, the World Health Organisation even labelled Europe as the new epicentre of the Covid-19 pandemic.

By now, it has become clear that the virus and, more particularly, the severe containment measures taken by many governments in order to slow down the spread are likely to take a huge toll on world economic growth, at least in the first half of the year. The Belgian economy will be no exception here and the revision of the Belgian Prime News consensus since December (with the GDP growth forecast for 2020 being slashed by nearly 5 pp.) may already provide a preliminary assessment of the impact [1].

Transmission of economic impact of the Covid-19 outbreak

Besides an impact via disturbed or interrupted supply chains and declining foreign demand (including in the tourist industry), the Belgian economy is most likely to feel the impact of the Covid-19 crisis via:

- Hampered domestic activity by containment measures

  The containment measures taken by the Belgian authorities include the temporary but mandatory closure of non-essential shops, which is undeniably putting a strain on the added value they generate, even if some restaurants have resorted to providing take-away services and most shops are trying to revert their customers to online channels. The precise impact on these different industries will be difficult to gauge, but anecdotal evidence gathered so far suggests that it could be massive. In response to a survey conducted by Voka, three-quarters of the 1 500 Flemish surveyed firms indicated that they had already witnessed a decline in turnover. For about 20 % of polled firms, turnover actually declined by over 50 % [2]. Similar results are reported by UWE for Walloon firms. An aggregation of their results shows that Belgian firms are currently seeing some 30 to 40 % of their turnover cut.

- Slowdown in domestic demand via income effect

  The number of Belgian employees being put on a temporary unemployment regime is rising rapidly: the surge in incoming applications following the announcement of the containment and lockdown measures seems to be far bigger than during any week of the 2008-2009 financial crisis. Temporary unemployment does carry some income effects, considering that the people concerned receive only 70 % of their average wage that is capped at a gross salary of € 2 750. Hence, consumers' spending may not only be constrained by the fact that they cannot physically go to restaurants or certain shops, but also by the fact that their disposable income is reduced.

These effects may be further amplified through confidence effects or feedback through the financial sector. On 12 March, the ECB announced a number of measures to ensure that its directly supervised banks can continue to fulfil their role in funding the real economy. In this regard, the NBB has also decided to relax its earlier decision on the countercyclical buffer requirements [3].

Governments announce measures to mitigate the economic impact of Covid-19

While regional governments had already been installed following the elections of May 2019, negotiations to form a new Federal Government were still ongoing when the Covid-19 crisis broke loose. In order to deal with the impact of coronavirus on Belgium's health system and economy, the Federal Government has recently been granted temporary special powers, while it continues working as a minority administration.

The authorities are consulting with several experts to deal with the Covid-19 issues, both of sanitary and economic nature. In the case of the latter, the newly created Economic Risk Management Group, co-chaired by the Governor of the National Bank, Pierre Wunsch, and Dr Piet Vanthemsche, is tasked with mapping the economic consequences of the pandemic in order to counter them.

To deal with the economic impact of Covid-19, several measures have been adopted since the beginning of March, by federal and regional authorities. In order to somewhat alleviate the immediate costs associated with the containment measures, all regional governments have announced a nuisance premium for companies and the self-employed hit by a complete or partial closure. The Federal Government announced the use of temporary unemployment due to force majeure and a replacement income for the self-employed. In addition, employers and self-employed will be allowed to delay the payment of social security contributions and certain taxes.

[1] It should also be noted that Belgian Prime News participants currently expect a strong recovery to follow the initial economic damage, resulting in an uptick in growth in 2021.
[2] Please refer to https://www.voka.be/nieuws/nu-al-minstens-40-miljard-euro-schade-coronacrisis-wordt-drie-keer-zo-erg-als-financiele-0 (only available in Dutch).
[3] Please refer to the press statement released on March 11 via the NBB's website.

Public authorities and the Belgian banking and insurance sector have taken initiatives to preserve liquidity for companies, the self-employed as well as for individuals that are hit by the financial consequences of Covid-19. The financial sector will provide payment deferrals for loans in case of repayment issues and the insurance sector will assure that struggling customers remain permanently covered. The federal government will activate a guarantee scheme, for a total amount of € 50 billion, for all new loans and credit lines with a maximum duration of 12 months, which banks provide to viable non-financial businesses and the self-employed. For companies and self-employed people that need bridging loans, guarantees will be supplied by regional agencies (i.e. Fonds Bruxellois de Garantie, Participatiemaatschappij Vlaanderen, Sowalfin, Socamut and SRIW).

Circumstances in terms of the sanitary situation and the quarantine rules, but also in terms of the economic situation and the measures decided by different authorities, are subject to change on a daily basis.

FINANCIAL MARKETS AND INTEREST RATE

Sovereign bond yields have fallen further in Germany and in the US as the coronavirus spreads

German 10-year yields dropped by 25 basis points, to settle at -0.55 % in March. The decline in the US was more pronounced: the 10-year yield fell by 97 basis points to 0.90 %, breaching the 1 % threshold for the first time in history. In Belgium, the 10-year declined by one basis point to -0.01 % in March.

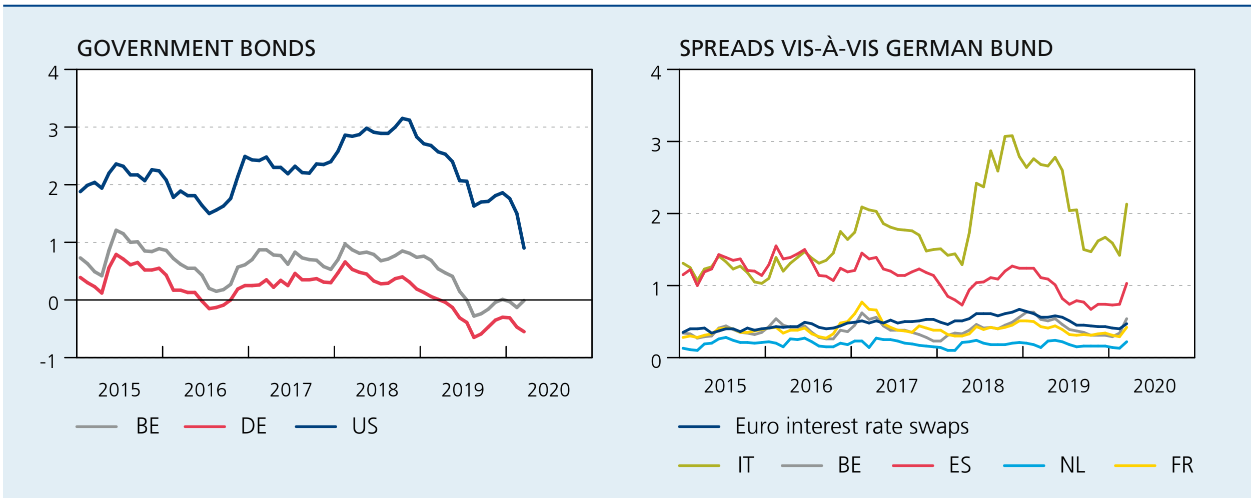
Sovereign 10-year yields fell in the context of heightened uncertainty and weaker growth forecasts related to the coronavirus (Covid-19). The spread of Covid-19 prompted strong monetary and fiscal policy responses. The Federal Reserve cut its target range for the federal funds rate twice in March, by 50 and 100 basis points, respectively. Its range now stands between 0 and 0.25 %. It is worth noting that these cuts occurred between scheduled meetings, a move last seen during the global financial crisis. Moreover, the Fed announced new asset purchases initially worth $ 700 billion. The Fed later relaxed this limit and introduced new measures to support credit to firms and households.

The ECB kept its target rates unchanged but eased its conditions for targeted longer-term refinancing operations (TLTRO III) and stepped up its net asset purchases by € 120 billion until the end of the year. Moreover, the ECB recently launched an additional Pandemic Emergency Purchase Programme (PEPP) worth € 750 billion. The PEPP will be implemented with a high degree of flexibility and will include commercial paper from non-financial corporations. Major central banks also announced coordinated action to lengthen the maturity and lower the price of US dollar liquidity swap lines.

While demand for safe and liquid assets such as sovereign bonds, gold and safe-haven currencies such as the Japanese yen and the Swiss franc increased, stock prices collapsed. By 27 March, the S&P500 and the Euro Stoxx 50 had lost 25 and 29 % of their values compared to their respective peaks observed in mid-February. Financial markets also experienced a surge in volatility, with the VIX and VSTOXX peaking at 81 and 86 % in mid-March (values below 20% are generally associated with stable periods).

The stress observed on the stock markets is also reflected in sovereign bond spreads in the euro area. In Italy and Spain,

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



Sources: BIS, Thomson Reuters.
Average over the first 27 days for March 2020.

the worst hit by Covid-19, the 10-year spread vis-à-vis Germany widened by 46 and 29 basis points over the first quarter of 2020, to settle at 2.13 % and 1.03 %, respectively. The Belgian spread also widened by 24 basis points over the same period. A similar trend is observed for corporate spreads, which reflects increasing pressure on corporate income in the Covid-19 environment.

TREASURY HIGHLIGHTS

Additional funding needs related to Covid-19 crisis

Additional funding in 2020

In response to the anticipated increase in funding needs caused by the Covid-19 crisis, the Belgian Debt Agency has taken a number of decisions related to both its long- and short-term funding in 2020.

First of all, it intends to issue a new syndicated medium-term benchmark bond. This will be the third benchmark of 2020, following the successful launch of a new 10-year (OLO89) and 20-year (OLO90) benchmark earlier this year. Second, the Debt Agency is stepping up the number of OLO auctions by also holding auctions on the penultimate Monday of May, August and October. Optional Reverse Inquiry auctions will still be possible in these months. Third, as of today, the Belgian Debt Agency has stopped buying back OLOs maturing in 2022. Finally, the Debt Agency will increase the targeted issuance in the Treasury Certificate auctions, and it will issue the medium-term Treasury Certificate line in those auctions for which currently only one line would normally be auctioned.

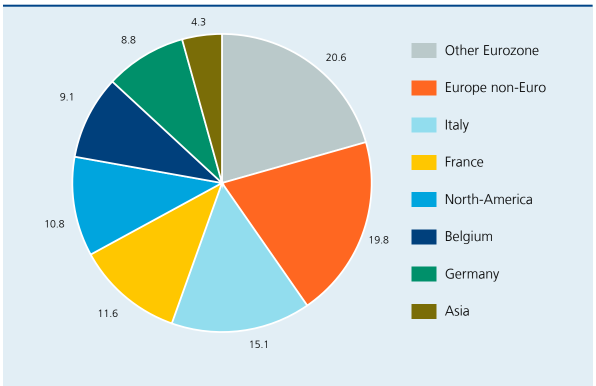
The Agency intends to publish the updated 2020 financing requirements and funding plan as soon as possible, once the revised budgetary estimates for 2020 are established [1].

Funding operations in the first quarter of 2020

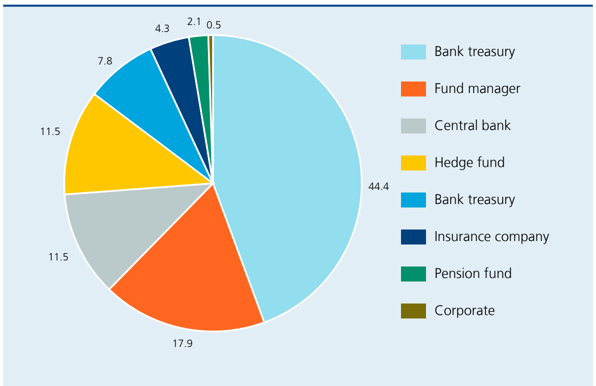
OLO syndication (€ 6.0 billion 10-year benchmark)

On 15 January 2020, the Kingdom of Belgium issued its first new OLO benchmark of the year and it opted for a 10-year OLO, in line with tradition. The new € 6.0 billion 0.10 % OLO 89 22/06/2030 was priced at a spread of -7 bps over the interpolated mid-swap reference rate, implying a re-offer yield of 0.113 %. Joint bookrunners were BNP Paribas Fortis, Crédit Agricole CIB, J.P. Morgan, KBC and NatWest Markets.

OLO89 — GEOGRAPHICAL DISTRIBUTION (in %)

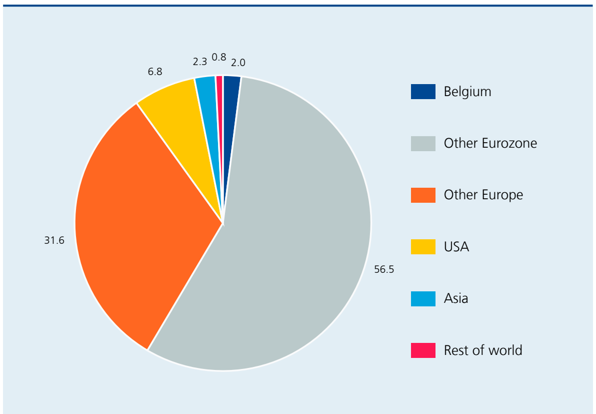


OLO89 — DISTRIBUTION BY TYPE (in %)

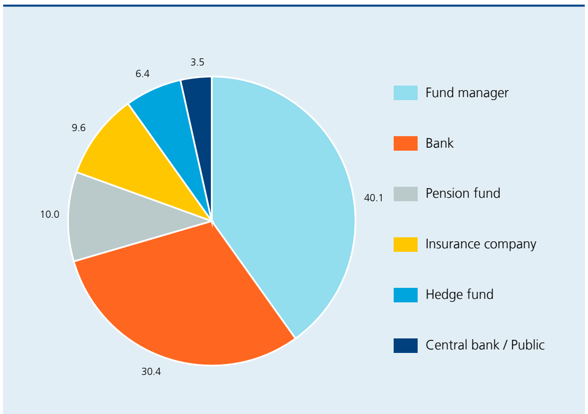


OLO syndication (€ 5.0 billion 20-year benchmark)

OLO90 — GEOGRAPHICAL DISTRIBUTION (in %)



OLO90 — DISTRIBUTION BY TYPE (in %)



[1] Please refer to the Belgian Debt Agency's website for follow-up.

On 18 February, the Kingdom of Belgium launched its second OLO benchmark of the year, the new € 5.0 billion 0.40 % OLO 90 22/06/2040. The transaction priced at m/s+11 bps for a re-offer yield of 0.430 %. Joint Lead Managers were Citi, J.P. Morgan, Natixis, Nomura and Société Générale CIB.

On 23 March, the Belgian Debt Agency issued € 2.98 billion through its first annual auction, tapping on the OLO 82 (2024), OLO 89 (2030) and OLO 88 (2050).

OLO AUCTIONS (€ 2.982 BILLION)

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
March 23	OLO 0.50 % 22/10/2024 OLO 0.10 % 22/06/2030 OLO 1.70 % 22/06/2050	OLO 82 OLO 89 OLO 88	0.711 1.764 0.507	-0.235 % 0.128 % 0.706 %	1.46 1.33 1.96
Non-competitive tour					
Total March			2.982		

Moreover, on 14 February, the Belgian Debt Agency issued an additional € 437 million through its first ORI facility.

ORI (€ 0.437 BILLION)

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
February 14	OLO 2.25 % 22/06/2057 OLO 2.15 % 22/06/2066	OLO 83 OLO 80	0.186 0.251	0.732 % 0.794 %	
Total February			0.437		

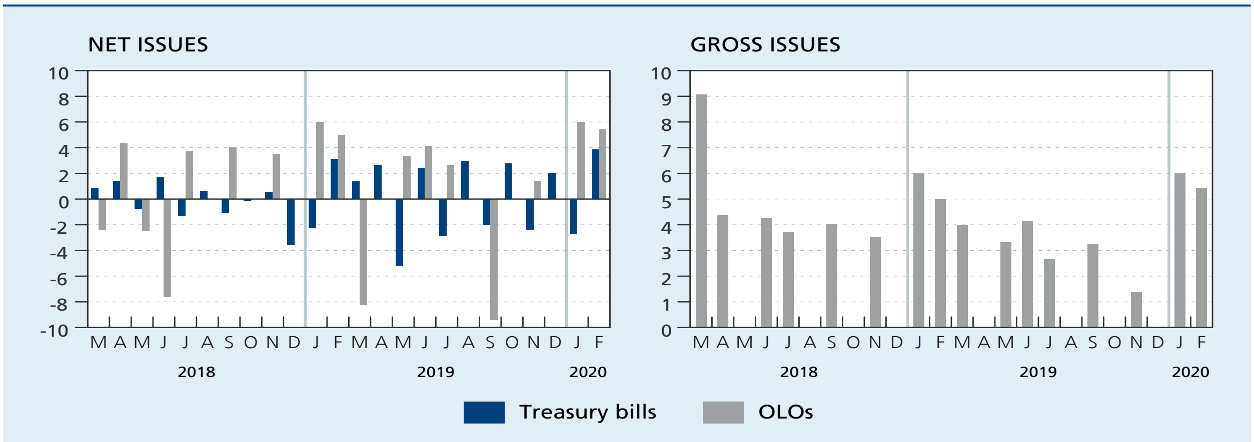
So far, € 100 million have been issued through a private Schuldschein. There have been no EMTN or State Note issues.

Belgium has therefore already issued € 14.52 billion, corresponding to 48.4 % of its initial funding target of € 30.00 billion mentioned in the funding plan that was adopted in December 2019.

In terms of portfolio structure, the average life of the portfolio is now 10.04 years (as of end of February) and it has an implicit yield of 1.94 %.

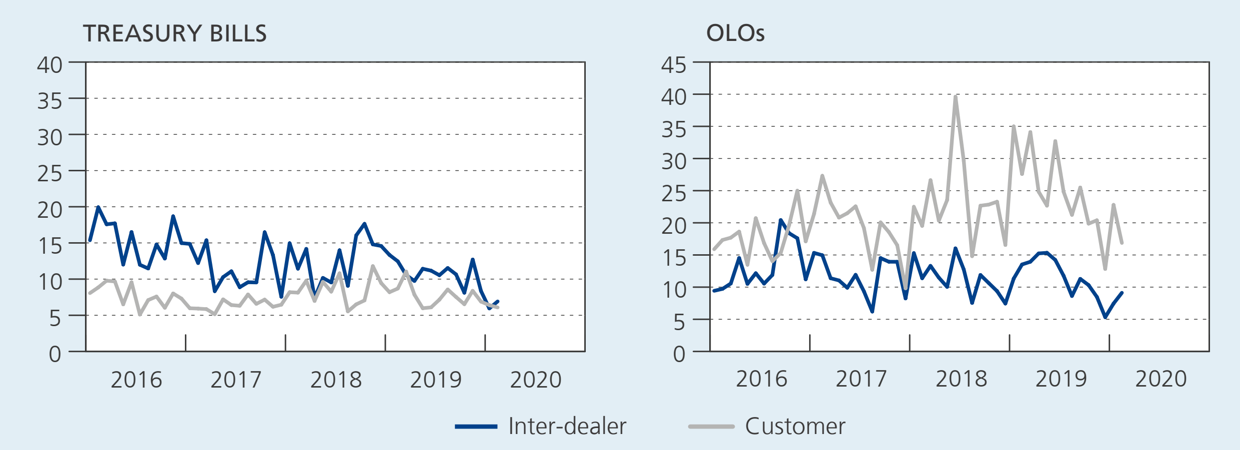
GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET
(€ billion)



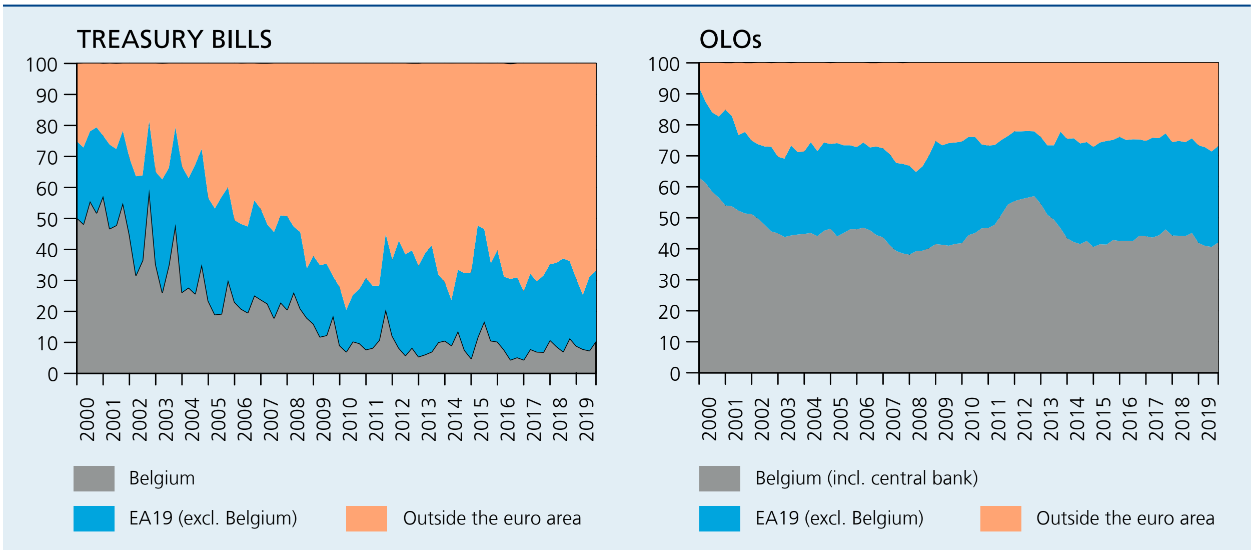
Source: Belgian Debt Agency.

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



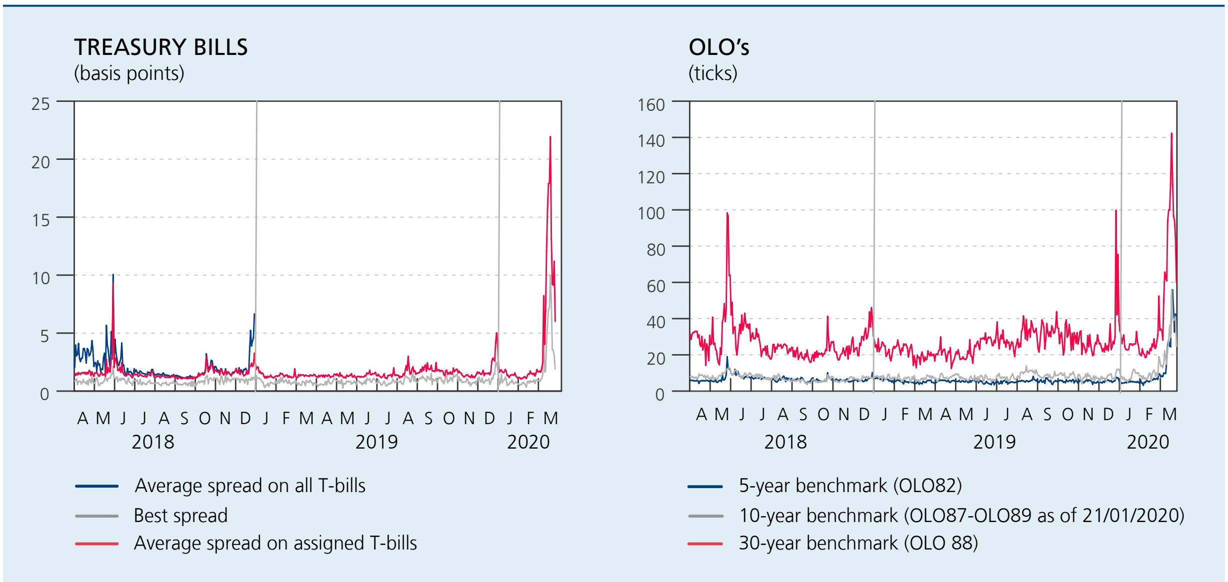
Source: Belgian Debt Agency.

HOLDERSHIP BELGIAN SECURITIES
(in %)



Source: NBB.

BEST BID/OFFER SPREADS (1)



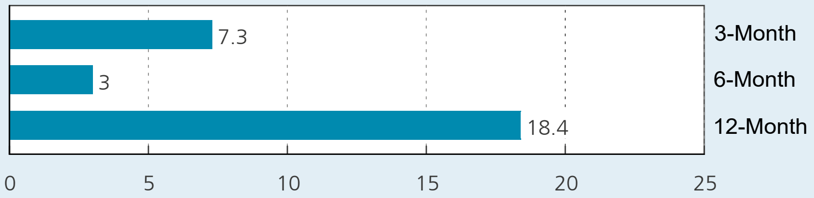
Source: Treasury.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER

(€ billion)

TREASURY BILLS

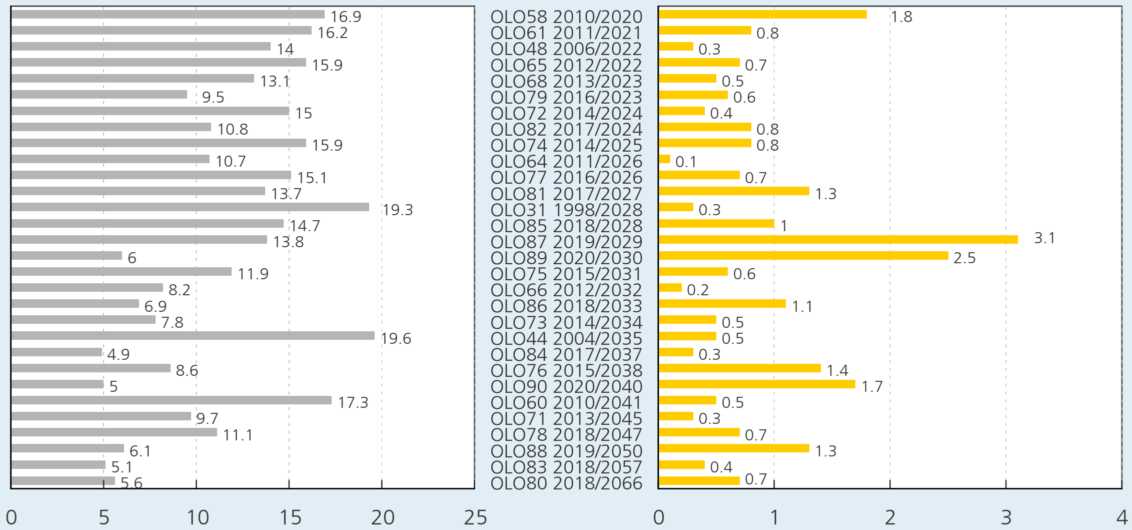
Nominal outstanding amounts at the end of February 2020



OLOs

Outstanding amounts at 19 March 2020

Outright turnover in February 2020



Source: Belgian Debt Agency.

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