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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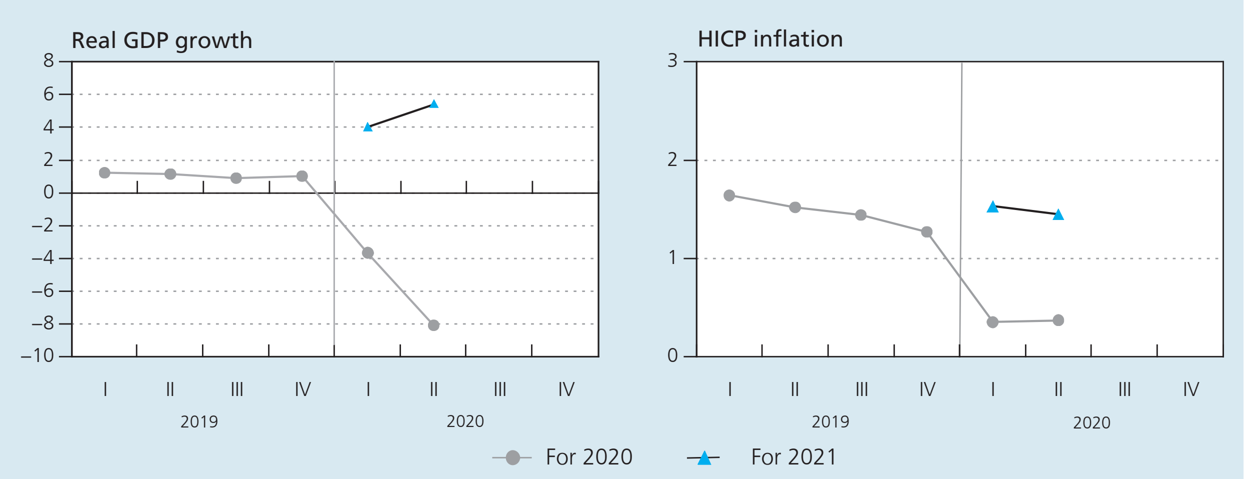
- MACROECONOMIC DEVELOPMENTS: Global economy faces incomplete and uncertain recovery following economic collapse
- SPECIAL TOPIC: Belgian public finances are taking a serious hit from the COVID-19 pandemic
- FINANCIAL MARKETS AND INTEREST RATES: Sovereign bonds yields remain low in an uncertain environment
- TREASURY HIGHLIGHTS: 70 % of the (increased) financing target for 2020 already executed

CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2019	2020p	2021p	2019	2020p	2021p
Real GDP(1)	1.4	-8.1	5.4	1.2	-8.3	5.8
Inflation (HICP)(1)	1.2	0.4	1.5	1.2	0.4	1.2
General government balance(2)	–1.9	–8.6	–4.2	–0.6	–8.1	–2.8
Public debt(2)	98.7	115.6	112.2	86.0	100.5	98.0

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

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS

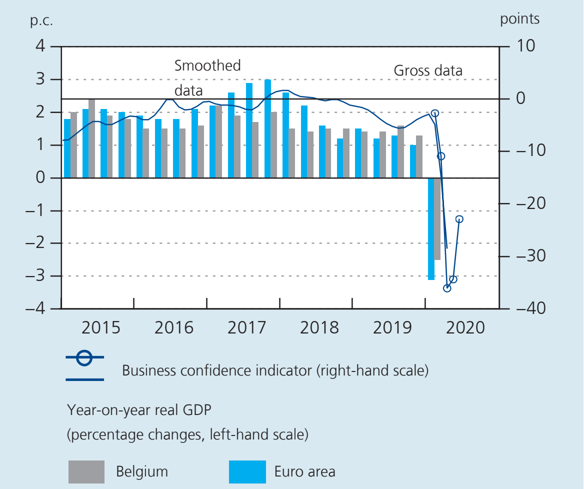
Global economy faces incomplete and uncertain recovery following economic collapse

The first half of this year has brought major economic fall-out from the COVID-19 pandemic and the wide-ranging efforts and lockdown measures to contain its spread. As the virus appears to be receding in many countries and lockdowns are gradually being lifted, economic activity should recover in the second half of the year. However, all international institutions currently see the recovery as being only gradual, incomplete and accompanied by considerable downside risks. World GDP in 2020 is expected to shrink to an unprecedented extent, even more severely than had been observed during the 2008-2009 financial crisis.

In the euro area, real GDP showed a record decline of 3.8 % in the first quarter of 2020, following the stringent containment measures that were implemented in most member states as of mid-March. The lockdown dragged on for a larger number of weeks in the second quarter, which will cause an even more substantial economic decline. Most euro area countries have recently relaxed containment measures so the euro area economy is expected to gradually pick up the pace. As is the case for the world economy, however, the recovery is likely be incomplete. All in all, BPN participants have slashed their 2020 forecasts compared to the March estimate: they now see **the euro area economy shrinking by 8.3 %. In 2021, the economy could pick up by 5.8 %. Euro area inflation is expected to remain moderate, at around 0.4 and 1.2 %** respectively in 2020 and 2021.

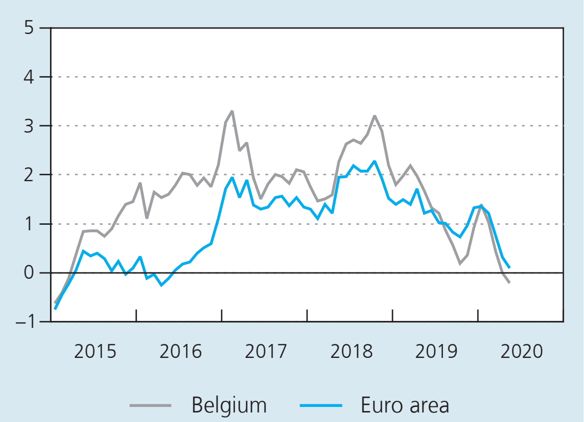
In Belgium, with restaurants and non-essential shops closed for at least seven weeks, the lockdown was relatively stricter than in certain neighbouring countries such as Germany and the Netherlands. Yet, the 3.6 % drop in economic activity in the first quarter was marginally more restrained than in the euro area on average. Surveys conducted within the ERMG framework suggest that most businesses expect to see a lack of demand for some time to come, making the recovery in the post-lockdown phase rather hesitant and uncertain. **BPN participants currently expect GDP in Belgium to drop by 8.1 % this year but to bounce back by slightly over 5 % in 2021**. As in the March estimate, the forecasts displayed a lot of variability as they were compiled at different points in time and may reflect different scenarios regarding the epidemiological outcome and any permanent damage inflicted on the economy.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

The immediate impact of the COVID-19 crisis on the labour market has been cushioned by extensive recourse to the temporary lay-off system. At the peak of the crisis, over 1 million employees benefited from this scheme, albeit on a part-time basis for some. For the self-employed, specific support measures were put in place. However, the labour market situation is expected to worsen substantially in the second half of the year as some temporary lay-offs will morph into regular unemployment. As for inflation, the overall HICP rate stood at -0.2 % in May, pushed down by the oil price plunge. As oil prices have gradually started to rebound, the inflation rate is expected to pick up in the near term. **According to the consensus forecast, inflation in Belgium should come to 0.4 % on average in 2020 and 1.5 % in 2021**.

Public finances are expected to take a massive hit as a result of the COVID-19 crisis, owing to increased health care expenditure and the cost of the support measures taken. Please refer to the Special Topic for more specific details. On average, Belgian Prime News participants see **the government deficit widening substantially to 8.6 % of GDP in 2020**. Although the support measures are largely temporary, the permanent output loss in the economy will also be reflected in the government deficit as it will remain higher than it would have been without the crisis, at **4.2 % of GDP in 2021.** Overall, the BPN consensus forecast for public finances is slightly more optimistic than the forecast by the NBB or the Federal Planning Bureau. BPN participants anticipate a rise in the Belgian public sector debt, from just below 99 % of GDP in 2019 to 112 % in 2021.

SPECIAL TOPIC **Belgian public finances are taking a serious hit from the COVID-19 pandemic**

Governments and central banks have unleashed unprecedented fiscal and monetary stimulus and other support for economies floored by the coronavirus pandemic. In Belgium too, the COVID-19 pandemic is putting a lot of pressure on public finances. According to the medium scenario in the June NBB projections (with cut-off date of 25 May), the general government deficit is expected to rise to some € 46 billion (10.6 % of GDP) in 2020, around € 34.5 billion (8.2 % of GDP) of which can be attributed to the coronavirus crisis. It should be noted that the projections are surrounded by a high level of uncertainty.

The bulk of the coronavirus impact – about two-thirds – can be attributed to automatic stabilisers. Tax revenues and social security contributions are sinking, as their tax bases – labour income, companies' profits and consumption expenditure – are falling. Among non-tax revenues, dividends by state-owned enterprises, in particular from financial institutions, are being cut and some sales revenues, such as from motorway user charges, have temporarily fallen back. On the expenditure side, unemployment benefits are automatically providing income to the rising number of jobless, while social integration allowances are helping those with a very low income.

DISCRETIONARY FISCAL STIMULUS MEASURES TAKEN BY VARIOUS GOVERNMENT LEVELS TO FIGHT THE CORONAVIRUS CRISIS

(€ billion, unless otherwise mentioned)

	Federal government	Regions & Communities	Local authorities	Total	In % of potential GDP	
Health crisis management	1.4	0.6	*p.m.*	2.0	0.4	Impact on budget balance, and public debt
Temporary unemployment	3.4	-	-	3.4	0.7	
Other social benefits and support to households	3.0	0.3	*p.m.*	3.3	0.7	
Consumption taxes	0.3	0.0	*p.m.*	0.3	0.1	
Solvency and support to firms	2.0	3.9	-	5.9	1.2	
Transfers to firms	-	3.2	*p.m.*	3.2		
Taxes	2.0	0.0	*p.m.*	2.0		
Capital injections/subordinated loans	-	0.7	-	0.7		Impact on public debt
Liquidity support (defferal of tax payments, etc)	*p.m.*	*p.m.*	*p.m.*			
Of which, impact on the budget balance	10.2	4.1		14.3	2.9	
p.m. in % of potential GDP	***2.1***	***0.8***		***2.9***		

Sources: FPS Policy and Support, FPS Finance, FPS Employment, Labour and Social Dialogue, Regions and Communities, FPB, NBB.

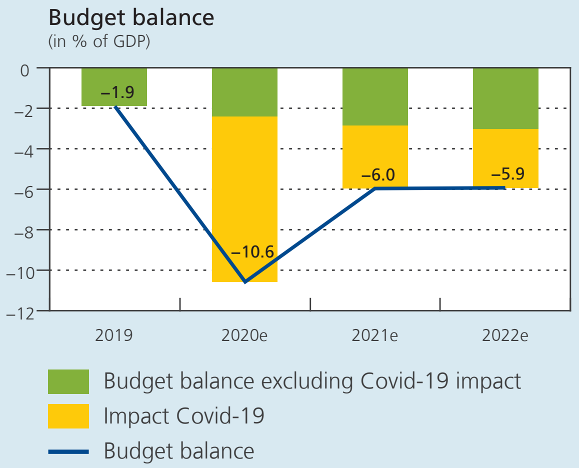
Besides the automatic stabilisers, the various government levels have adopted an impressive set of discretionary fiscal measures, with a currently estimated impact on the budget balance of € 14.3 billion (2.9 % of potential GDP) in 2020. Some € 2 billion relates to managing the health crisis, and primarily comprises the purchase of protecting care material, along with the engagement of contact tracers who should nip potential new outbreaks of the virus in the bud. Almost € 7 billion consists of increased social benefits and other income support to households; mainly the temporary unemployment scheme for workers and a replacement income for the self-employed forced to substantially reduce their business activities. More than € 5 billion of the envelope is targeted directly at firms. The regional governments engaged in important support to – chiefly small – companies forced to close due to the containment measures and companies with substantially reduced turnover. Regions and Communities have also raised subsidies to vulnerable sectors such as creches, service voucher companies, the cultural, sports and youth sector, etc. At the federal level, support to firms in 2020 has primarily focused on tax exemptions, carry-back of losses incurred in 2020 and wage subsidies for firms as they are getting out of the temporary unemployment scheme.

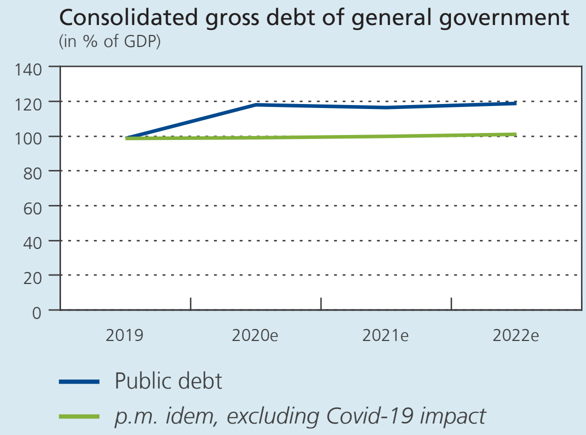
The government also provided liquidity support to firms by granting deferrals of tax payments and social security contributions. Direct support in companies' balance sheets, through capital injections or (subordinated) loans, has been limited so far.

In this context, the debt-to-GDP ratio jumped by almost 20 percentage points, from 98.7 in 2019 to 118.1 in 2020, according to the June NBB projections. The rise is almost entirely explained by the combination of a deficit of 10.6 % of GDP and a strongly negative denominator effect, as nominal GDP dropped by 8.2 %.

In the next two years, the deficit is expected to shrink, although it is likely to remain much higher than expected before the coronavirus crisis. While the discretionary measures, which are mostly of temporary nature, will almost entirely be reversed, the recovery of economic activity is likely to be gradual and incomplete. By 2022, the level of real GDP is expected to remain about 4 % below pre-crisis projections. Consequently, the deficit is not likely to fall significantly below 6 % of GDP before 2022. With no significant improvement in the deficit, to below 3 % of GDP, the debt ratio will remain on an upward path. Given the already high level of public debt, fiscal space for additional fiscal stimulus in the medium term is limited.

BELGIAN PUBLIC FINANCES ARE SERIOUSLY HIT BY THE COVID-19 PANDEMIC





Source: NBB.

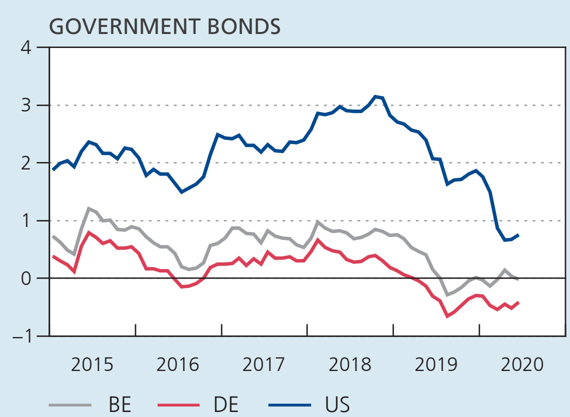
FINANCIAL MARKETS AND INTEREST RATE

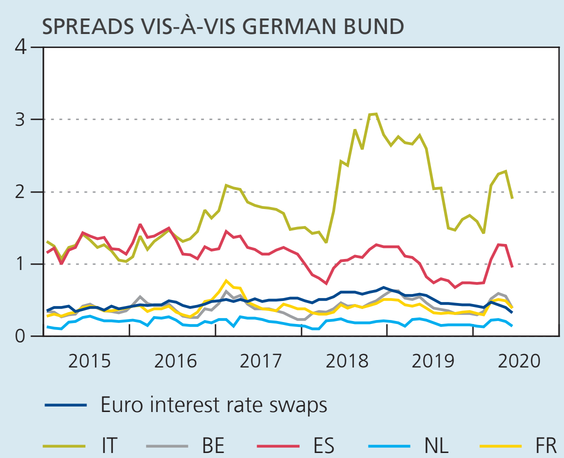
Sovereign bonds yield remain low in an uncertain environment

The COVID-19 outbreak caused an increase in risk aversion, a drop in economic activity and inflation expectations. Against this background, stock markets initially collapsed and faced a burst of volatility. Since late March, they have recovered on the back of strong supporting monetary and fiscal policy measures, a slowdown of the coronavirus epidemic, and a gradual easing of lockdown restrictions. Compared to their respective low points observed in March, the S&P 500 and the Euro Stoxx 50 had gained 40 and 38 % by June 23. However, markets remain sensitive to new economic and epidemiologic data releases. In particular, fears of a second pandemic wave and an uncertain economic recovery are still weighing on stock markets. Commodities have also been affected: oil prices collapsed following the combined impact of weak demand and abundant supply. They later recovered but remained below $ 40 a barrel until mid-June. Gold prices remained high, as safe assets are still in high demand in an uncertain environment.

In this context, the yield on 10-year US government bonds declined over the first quarter and kept falling in April 2020. In total, 10-year US government bonds yield dropped by 12 basis points, from 0.87 % in March to 0.75 % in June. Although German 10-year government bond yields rose by 14 basis points over the same period, they have since settled at relatively low rates by historical standards, at −0.41 %. Belgian 10-year government bond yields were stable at −0.02 % in June.

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





Sources: BIS, Thomson Reuters.
Average over the first 23 days of June 2020.

Over the first quarter, sovereign spreads vis-à-vis Germany have widened with the propagation of the virus, particularly in stressed jurisdictions such as Spain and Italy. They receded slightly over the second quarter, from 2.09 to 1.90 % in Italy, and from 1.06 to 0.95 % in Spain. Belgian sovereign spreads also narrowed by 13 basis points. Supporting monetary policy measures and a new proposal on an EU recovery fund, among other factors, have contributed to prevent larger widening in sovereign spreads. Nevertheless, for some countries, high risk premiums still reflect concerns regarding their debt sustainability and the uncertain duration and magnitude of the crisis.

TREASURY HIGHLIGHTS

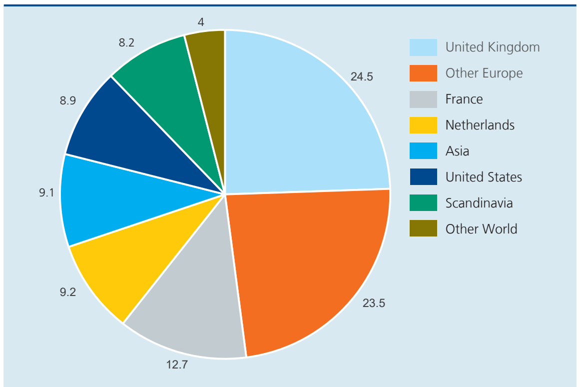
70 % of the (increased) financing target for 2020 already executed

On 16 June, the Belgian Debt Agency updated its 2020 funding plan following a re-examination of the funding needs in the light of the COVID-19 crisis. Gross funding requirements are expected to amount to € 60.35 billion. The Belgian Debt Agency plans to issue **€ 49.00 billion** of medium- and long-term instruments, including **€ 46.50 billion** of **OLOs**. The remainder of the funding would be raised through EMTN and *Schuldscheine* (€ 2.00 billion) and State Notes (€ 0.50 billion).

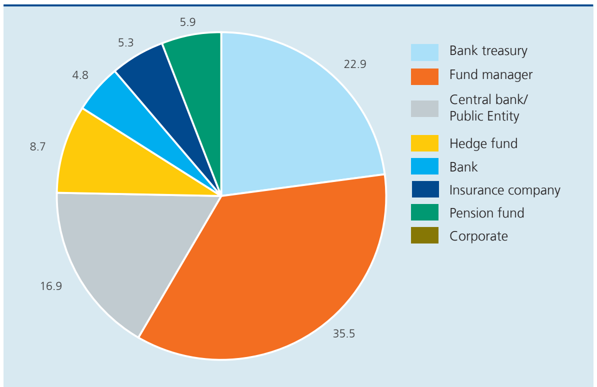
OLO syndication (€ 8.0 billion 7-year benchmark)

On 31 March 2020, the Kingdom of Belgium issued its third new OLO benchmark of the year, opting for a 7-year OLO. The new € 8.0 billion 0.00 % OLO 91 22/10/2027 was priced at a spread of 11 bps over the interpolated mid-swap reference rate, implying a reoffer yield of –0.013 %. Joint bookrunners were Barclays, BNP Paribas Fortis, Crédit Agricole CIB, HSBC and Morgan Stanley.

OLO91 - GEOGRAPHICAL DISTRIBUTION (in %)



OLO91 - DISTRIBUTION BY TYPE (in %)



Three OLO auctions were held in April, May and June resulting in a total of € 9.83 billion worth of funding.

OLO AUCTIONS

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
April 20	OLO 0.90 % 22/06/2029 OLO 1.25 % 22/06/2033 OLO 2.15 % 22/06/2066	OLO 87 OLO 86 OLO 80	1.379 0.548 0.909	0.057 % 0.262 % 0.910 %	1.26 1.85 2.05
Non-competitive tour			*0.386*		
Total April			**3.222**		
May 18	OLO 0.10 % 22/06/2030 OLO 1.00 % 22/06/2031 OLO 1.70 % 22/06/2050	OLO 89 OLO 75 OLO 88	0.846 1.501 0.655	0.024 % 0.096 % 0.728 %	2.83 1.92 1.74
Non-competitive tour			*0.339*		
Total May			**3.341**		
June 22	OLO 0.50% 22/10/2024 OLO 0.10% 22/06/2030 OLO 2.25% 22/06/2057	OLO82 OLO89 OLO83	1.035 1.020 0.662	-0.512% -0.117% 0.644%	1.86 3.08 2.88
Non-competitive tour			*0.552*		
Total June			**3.269**		

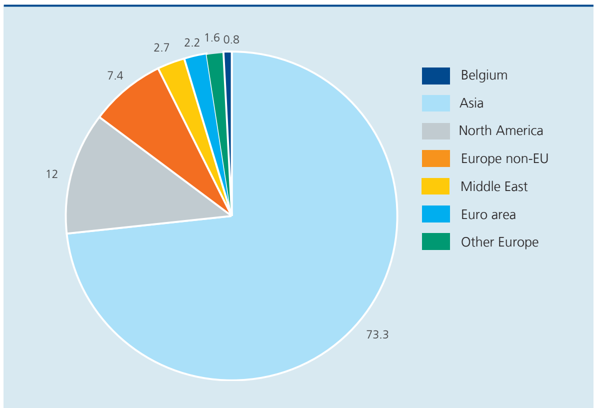
On 15 May, the Belgian Debt Agency issued an additional € 501 million through its second ORI facility.

OPTIONAL REVERSE INQUIRY (ORI, €0.501 BILLION)

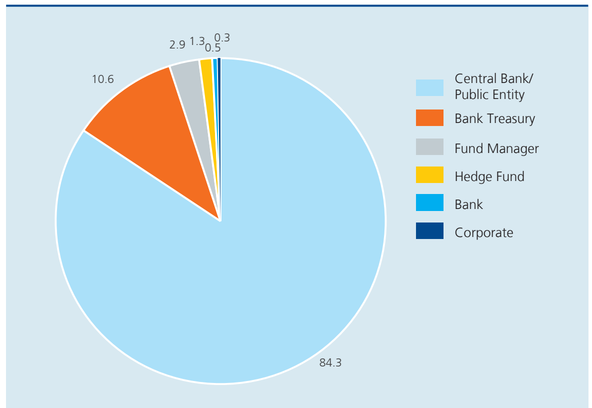
Date	OLO	NR	Issued (€ billion)	Yield
May 15	OLO 1.00 % 22/06/2026 OLO 2.25 % 22/06/2057	OLO 77 OLO 83	0.308 0.193	–0.247% 0.786 %
Total May			**0.501**	

On 19 May, the Kingdom of Belgium issued within the framework of its EMTN programme a new 10-year USD 1.5 billion bond at a spread of mid-swap plus 36 basis points. This new bond matures on 28 May 2030 and pays a coupon of 1.0 %. The issue has been swapped into euro in order to cancel out any currency risk. The Kingdom of Belgium received €1.378 billion, and will pay an interest rate, after swap, of 0.043 %.

EMTN65 - GEOGRAPHICAL DISTRIBUTION (in %)



EMTN65 - DISTRIBUTION BY TYPE (in %)

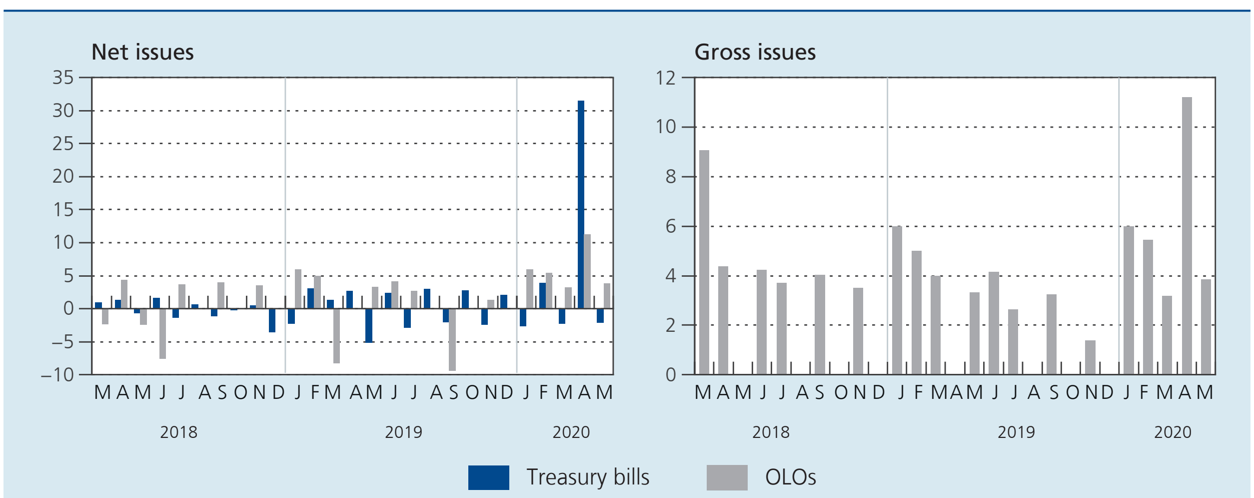


The State Note issue planned for 4 June 2020 has been cancelled.

Belgium has therefore already issued **€ 34.45 billion**, corresponding to 70.3 % of its funding target. In terms of portfolio structure, the average life of the portfolio is now 10.02 years (as of the end of May) and it has an implicit yield of 1.85 %.

GOVERNMENT SECURITIES STATISTICS

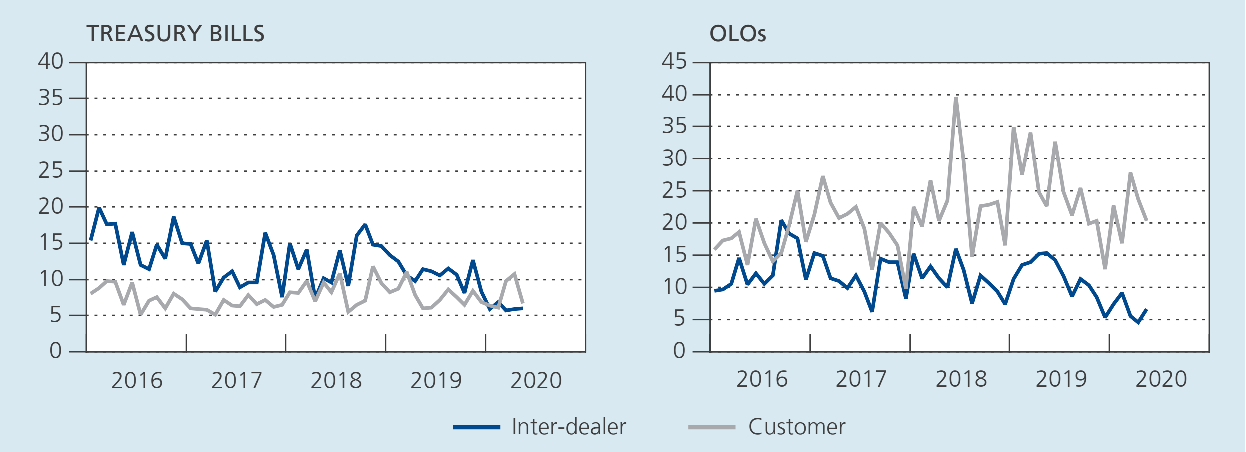
PRIMARY MARKET
(€ billion)



Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER

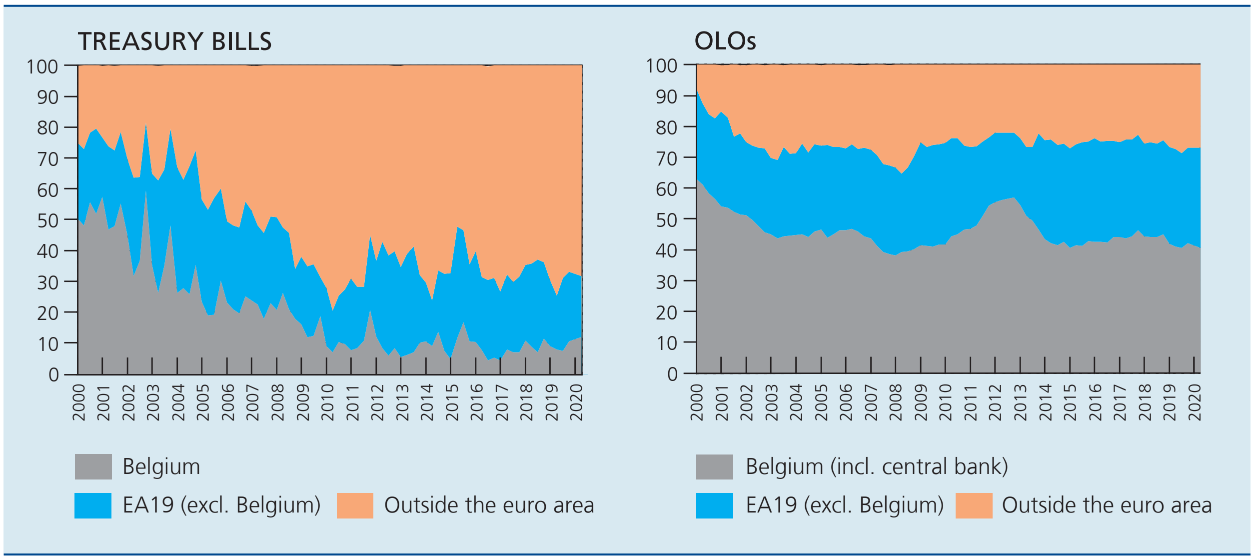
(as reported by primary and recognised dealers to the Treasury, € billion)



Source: Belgian Debt Agency.

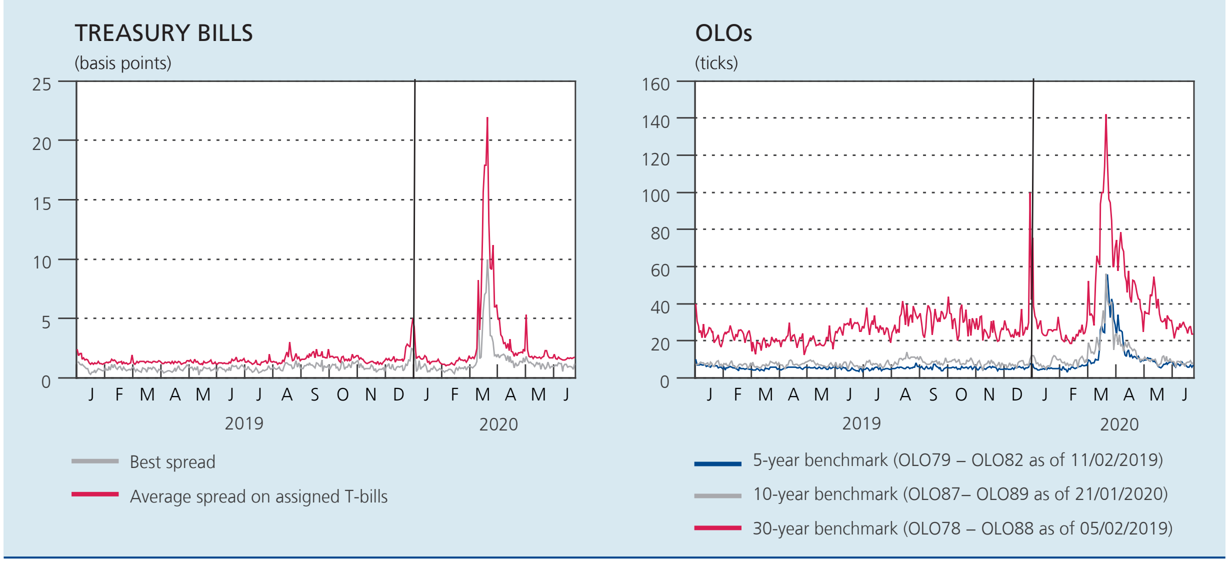
HOLDERSHIP BELGIAN SECURITIES

(in %)



Source: NBB.

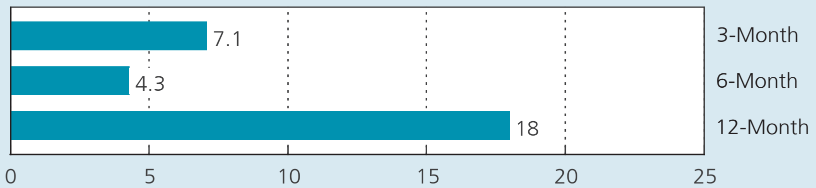
BEST BID/OFFER SPREADS [1]



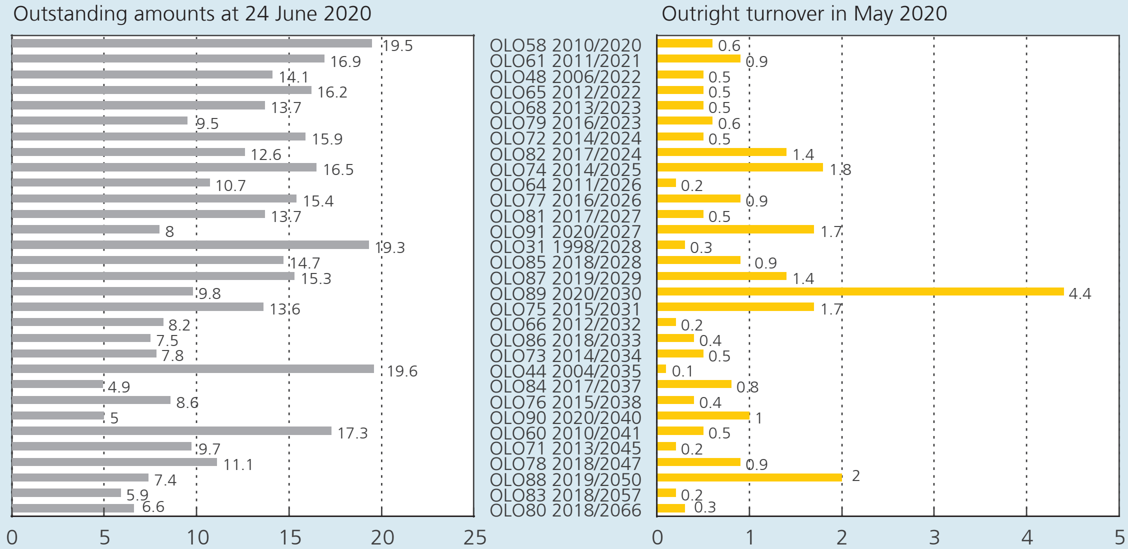
Source: Treasury.
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER
(€ billion)

TREASURY BILLS
Nominal outstanding amounts at the end of May 2020



OLOs
Outstanding amounts at 24 June 2020



Source: Belgian Debt Agency.

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