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

N° 89 September 2020 Last update: 29 September 2020 Next issue: January 2021

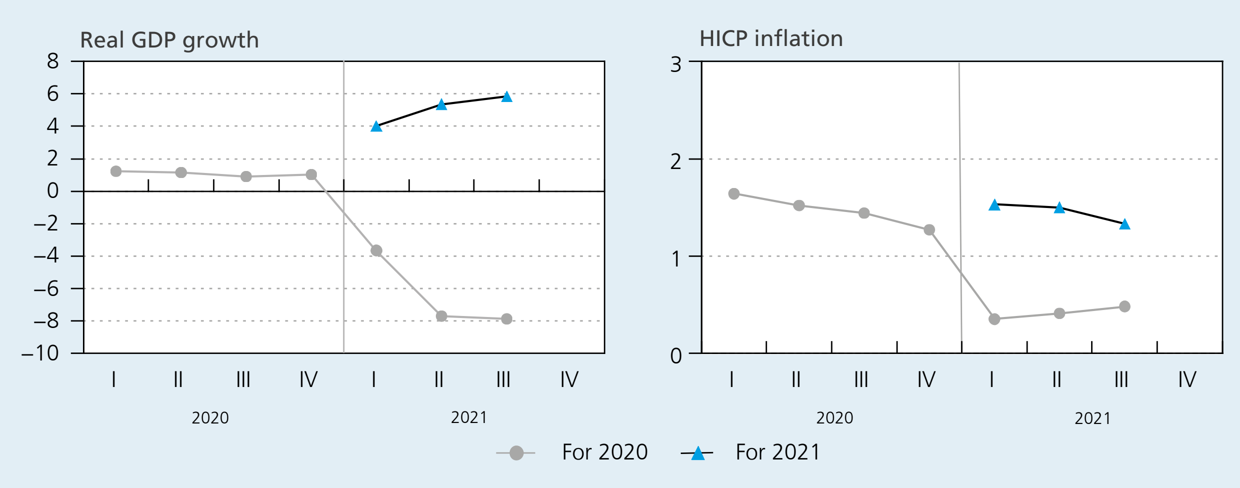
- MACROECONOMIC DEVELOPMENTS: Huge uncertainties are curbing the post-lockdown recovery
- SPECIAL TOPIC: Belgian banking sector in good shape to cope with the crisis
- FINANCIAL MARKETS AND INTEREST RATES: Sovereign bond yields remain low in an uncertain environment
- TREASURY HIGHLIGHTS: Belgian Debt Agency's funding programme proceeds smoothly

CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2019	2020p	2021p	2019	2020p	2021p
Real GDP(1)	1.4	-7.9	5.8	1.2	-7.6	5.7
Inflation (HICP)(1)	1.2	0.5	1.3	1.2	0.3	1.0
General government balance(2)	-1.9	-9.9	-5.4	-0.6	-9.2	-4.6
Public debt(2)	98.7	114.9	113.4	86.0	103.3	102.1

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

SUCCESSIVE FORECASTS FOR BELGIUM



Source: Belgian Prime News.

Huge uncertainties are curbing the post-lockdown recovery

In Belgium, as in the euro area and the rest of the world, the COVID-19 pandemic led to a sharp and deep drop in economic activity in the first half of 2020. Early statistics suggest that the decline in GDP was slightly less pronounced than initially feared. However, it is unprecedented in magnitude, reaching almost 15 % year-on-year in the second quarter in both Belgium and the euro area. Moreover, the recovery is still slow and subject to major uncertainty, mainly linked to a rise in coronavirus infections over the last few weeks.

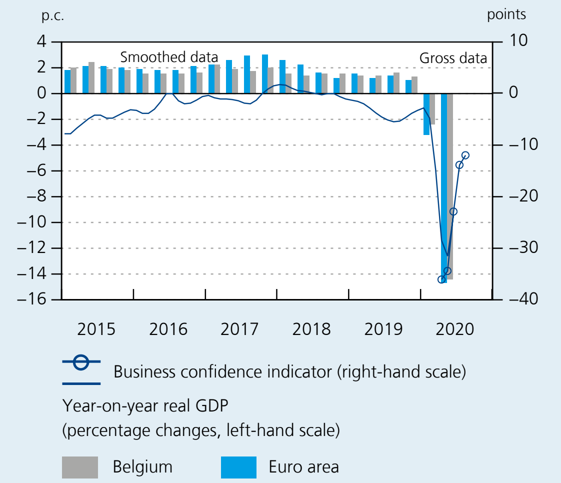
In the euro area, real GDP showed a record decline of 3.7 % in the first quarter of 2020 and 11.8 % in the second quarter, following the strict containment measures implemented in most Member States as of mid-March. Those measures have been gradually relaxed since June, although local or sector-specific restrictions may again be imposed pending upon the development of the pandemic. All in all, after having been slashed in the previous round, BPN participants' GDP forecasts have bottomed out: they now see the **euro area economy shrinking by 7.6 % this year. In 2021, the economy could pick up by 5.7 %. Euro area inflation is expected to remain moderate, at around 0.3 and 1.0 %** respectively in 2020 and 2021.

In Belgium as well, activity has rebounded from June onwards. However, the pace of the recovery is still surrounded by great uncertainty and is unequal across sectors. In particular, the hospitality and event sectors continue to suffer huge turnover losses. According to ad-hoc surveys conducted within the ERMG framework, most businesses expect to see slack demand up to next year, which will continue to weigh on employment and investment. **BPN participants currently expect GDP in Belgium to drop by 7.9 % this year but to bounce back by 5.8 % in 2021**.

The immediate impact of the COVID-19 crisis on the labour market has been cushioned by extensive recourse to the temporary lay-off system for employees and a similar system for the self-employed. However, as the recovery will remain incomplete, more permanent damage could be inflicted on the economy through a wave of bankruptcies and a peak in unemployment. As for inflation, readings have been distorted by the postponement of seasonal sales from July to August. Overall, HICP inflation has been pushed down by the low oil prices in recent months. **According to the consensus forecast, inflation in Belgium should come to 0.5 % on average in 2020 and 1.3 % in 2021**.

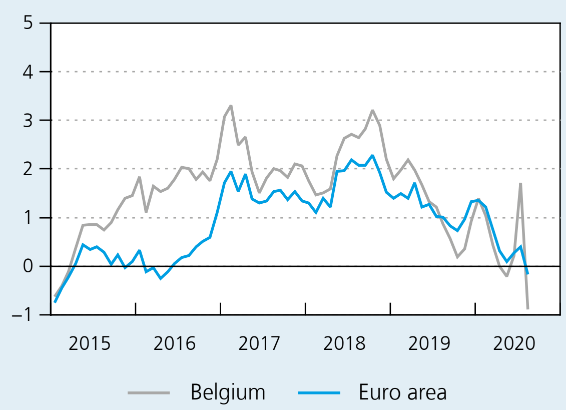
In 2020, public finances are feeling the full impact of the economic downturn, as well as increased health spending and support measures for individuals and businesses to tackle the effects of the pandemic. Belgian Prime News participants see **the government deficit widening substantially to 9.9 % of GDP in 2020**. Although the support measures are largely temporary, the permanent output loss in the economy will also be reflected in the budget deficit as it will remain higher than it would have been without the crisis, at **5.4 % of GDP in 2021. BPN participants anticipate a rise in the Belgian public sector debt, from just below 99 % of GDP in 2019 to 113.4 % in 2021**.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

INFLATION (HICP)
(annual percentage changes)



Source: EC.

While the Belgian banking sector will suffer credit losses as a result of the COVID crisis, it is sufficiently resilient to absorb this shock and fulfil its critical financial intermediation function in the Belgian economy. Banks maintained ample lending to domestic residents in the early months of the crisis. Loans to Belgian non-financial corporations grew particularly strongly in March and April when corporations drew on existing credit lines. Loans to households rebounded quickly after a temporary dip related to social distancing measures for shops and property visits. This resilience of the credit intermediation function is a key factor in the transmission of various monetary and fiscal support measures for the private sector and it follows from the robust capital and liquidity position that the Belgian banks have built up since the global financial crisis.

Banks' solvency and liquidity indicators remained strong in the first half of 2020, providing large buffers for dealing with shocks and losses going forward. The average common equity Tier 1 ratio came to 15.9 % in June 2020, up from 15.6 % at the end of 2019. The liquidity coverage ratio rose to 158 % as the large uptake of loans under the ECB's TLTRO III programme was mainly used to boost the liquid asset buffer.

The crisis has had a bigger impact on their income statement but the bottom-line result has remained positive (€ 1 billion), thus avoiding an immediate impact on banks' capital. Return on equity declined to 2.8% in the first half (versus 8.5 % in the same period of 2019) as banks booked large provisions for credit losses that they expect to incur in the context of the COVID crisis. New impairments and provisions amounted to € 2.1 billion, compared to € 0.5 billion in the first half of 2019.

Main components of Belgian banks' income statement (€ billion)

	2016	2017	2018	2019	H1 2019	H1 2020
Net interest income	14.8	14.1	14.4	14.6	7.2	7.2
Non-interest income	7.6	8.9	8.3	8.5	4.3	3.6
Operating expenses (-)	13.1	13.4	13.9	13.7	7.3	7.2
Impairments and provisions (-)	1.8	0.7	0.8	1.3	0.5	2.1
Taxes and extraordinary profit or loss (-)	1.6	2.6	2.0	1.7	0.7	0.4
Net profit or loss (bottom-line result)	5.8	6.0	5.6	6.1	3.0	1.0

Source: NBB.

Loan defaults remain low for now but are expected to increase in the near future. The deterioration of credit quality in the private sector does not yet show up in the ratio of non-performing loans, which remained stable in the first half of the year (at 2.1 % on average for domestic and foreign loan exposures). Fiscal income-support measures and banks' moratoria on debt repayments by households and non-financial corporations affected by lockdown measures have undoubtedly helped to keep actual default levels low since March, but probably only temporarily for some loans. Banks' loan classification (according to IFRS 9) and the above-mentioned provisions show that banks are preparing for higher credit losses in the corporate sector, based on the assumption that corporate bankruptcies will rise, especially in those sectors most affected by the social distancing measures. Asset quality indicators for household loans remain good so far and there are at present no signs of any significant downturn in the residential real estate market.

The loan loss ratio (which gives the net flow of new provisions for credit losses, expressed as a percentage of the stock of total loans) **increased** from 13 basis points for the full year 2019 to 25 basis points already for the first 6 months of 2020. It remains well below the peak of the global financial crisis but the development of the pandemic and the strength of the economic recovery remain uncertain at this point so further (potentially significant) increases in the ratio cannot be ruled out.

All in all, banks thus seem to be gearing up for a significant rise in non-performing loans but this has so far not affected their resilience or ability to perform their key financial intermediation function in the Belgian economy. Credit losses are expected to gradually materialise in the near future, especially when the measures to support households and non-financial corporations, such as the moratoria on debt repayments, come to an end. While the profitability of the Belgian banking sector is thus expected to remain under pressure in the next few quarters, this should not impair the ability of our banks to continue financing the real economy and preserve their strong solvency and liquidity position in the baseline scenario of a gradual though protracted economic recovery.

To ensure that banks remain able to maintain their financial intermediation function, even in a more severe scenario, **prudential authorities have taken a set of measures.** At microprudential level, banks have been allowed to use part of the capital and liquidity buffers built up in preceding years. At macroprudential level, the NBB released the full countercyclical buffer (CCyB), increasing capital management buffers and generating additional room for banks to meet credit demand and, where necessary, to absorb losses. Based on current projections and risk assessments, the NBB does not expect to increase the CCyB at least until 2021 Q3. Although there are at present no signs of any significant increase in the imbalances or tensions on the real estate market, the Bank stands ready to release the macroprudential capital buffers created for real estate risks (on the basis of Article 458 of the Capital Requirements Regulation) if risks in the real estate markets were to materialise and lead to a substantial rise in non-performing loans, among other things. NBB supervisory expectations, related to the loan-to-value ratios of new mortgage production for example, remain in force as it is still a crucial prudential instrument mitigating the further build-up of credit risks in banks' mortgage portfolios.

FINANCIAL MARKETS AND INTEREST RATES

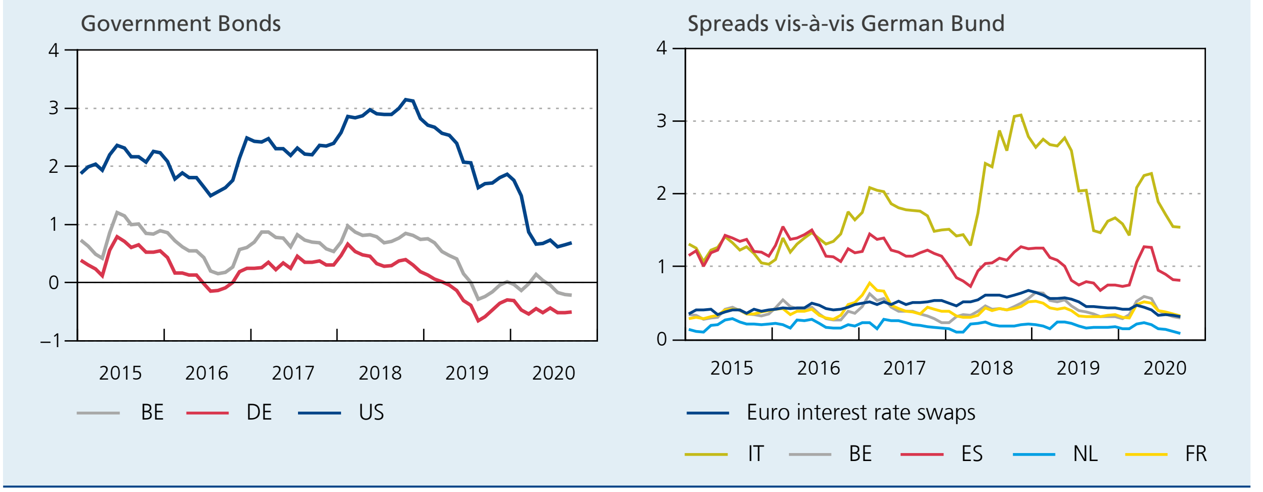
Sovereign bond yields remain low in an uncertain environment

The COVID-19 outbreak triggered an increase in risk aversion and brought strong monetary and fiscal policy responses. Since the beginning of the crisis, sovereign bond yields have fallen in the US and remained low or negative in the euro area. Over the third quarter of 2020, the United States' 10-year government bond yield dropped by a further 5 basis points, from 0.73 % in June to 0.68 % in September. German and Belgian 10-year government bond yields also declined by 8 and 19 basis points, to settle at –0.51 and –0.23 %, respectively.

Following the stock market collapse in the early stages of the pandemic, and the subsequent recovery triggered by supportive fiscal and monetary measures, markets stabilised over the third quarter in the euro area. However, stock markets remain affected by the uncertainty surrounding the economic recovery (including the uncertain evolution of the pandemic), Brexit negotiations, and the US elections and trade dispute. Although volatility declined over the third quarter, the VIX and VSTOXX indices remained at 25 and 22 % respectively in mid-September (with values above 20 % generally associated with unstable periods). US stock indices outperformed their European counterparts, helped by a relatively larger weight of tech stocks – especially before the recent tech stock price correction – and a weak dollar. The euro appreciated over the third quarter, which could bring competitiveness and low inflation risks in the euro area. One euro was worth $ 1.19 by mid-September, compared to $ 1.12 at the end of the second quarter.

While sovereign spreads vis-à-vis Germany widened over the first quarter of 2020, they have since declined. In Italy and Spain, spreads fell by 35 and 14 basis points over the third quarter, to 1.54 and 0.81 % respectively. Belgian spreads also fell by 11 basis points, to 0.28 %. Consequently, sovereign spreads now stand close to their pre-crisis levels. Supporting monetary policy measures and an agreement on the EU pandemic recovery fund, among other factors, have contributed to the narrowing of spreads.

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



Sources: BIS, Thomson Reuters.
Average over the first 23 days for September 2020.

TREASURY HIGHLIGHTS **Belgian Debt Agency's funding programme proceeds smoothly**

Three OLO auctions were held in July, August and September resulting in a total of € 6.46 billion worth of funding.

OLO auctions

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
July 27	OLO 0.80% 22/06/2025 OLO 0.90% 22/06/2029	OLO 74 OLO 87	0.805 1.203	-0.547% -0.280%	2.24 2.27
Non-competitive round			*0.492*		
Total July			**2.500**		
August 24	OLO 0.90% 22/06/2029	OLO89	1.519	-0.229%	1.79
Non-competitive round			*0.000*		
Total August			**1.519**		
September 21	OLO 0.80% 22/06/2025 OLO 1.00% 22/06/2031 OLO 1.25% 22/04/2033	OLO74 OLO75 OLO86	0.600 0.805 0.608	-0.633% -0.230% -0.165%	3.00 1.98 3.00
Non-competitive round			*0.432*		
Total September			**2.445**		

Moreover, on 14 August, the Belgian Debt Agency issued an additional € 501 million through its third ORI (Optional Reverse Inquiry) facility.

ORI

Date	OLO	NR	Issued (€ billion)	Yield
August 14	OLO 4.50% 28/03/2026 OLO 4.00% 28/03/2032	OLO64 OLO66	**0.301** **0.200**	-0.438% 0.000%
Total August			**0.501**	

Finally, during the third quarter of 2020, the Belgian Debt Agency issued three different EMTNs for a total amount of € 520 million

EMTN

Date	OLO	NR	Issued (€ billion)	Yield
July 7 July 23 September 24	EMTN 0.675% 07/07/2080 EMTN 0.458% 23/07/2079 EMTN 0.558% 24/09/2077	EMTN66 EMTN67 EMTN68	**0.250** **0.150** **0.120**	0.686% 0.679% 0.568%
Total August			**0.520**	

The total issuance now amounts to € **42.20** billion, corresponding to **86.1** % of its € 49.00 billion funding target.

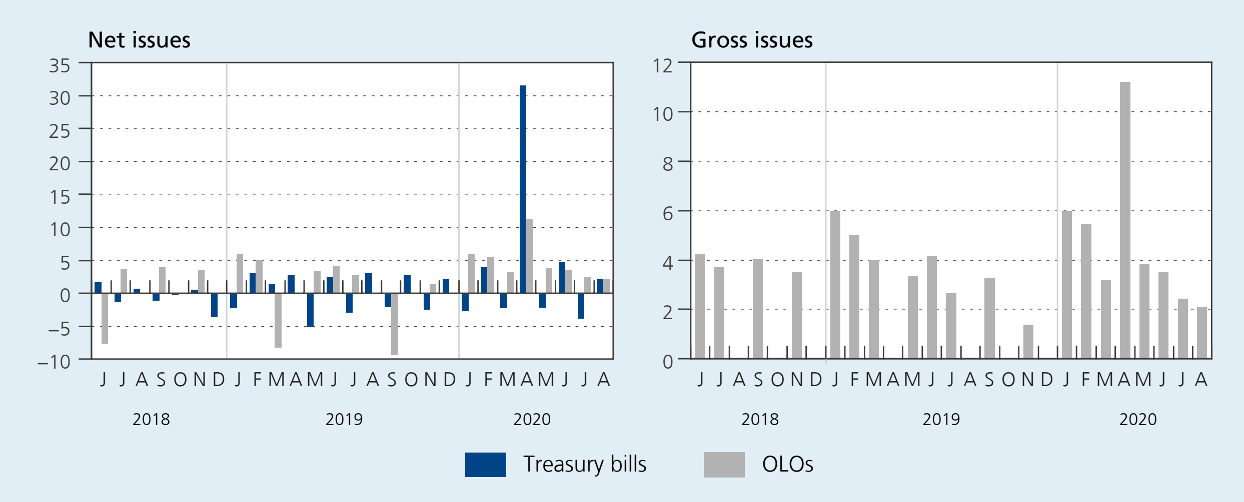
In terms of portfolio structure, the average life of the portfolio now stands at 10.20 years (as of end of August). The implicit yield of the portfolio has further declined to 1.81 % (end of August).

With respect to the green OLO, the Belgian Debt Agency has published its Allocation Report for 2019. The Impact Report will be published later this year.

GOVERNMENT SECURITIES STATISTICS

PRIMARY MARKET

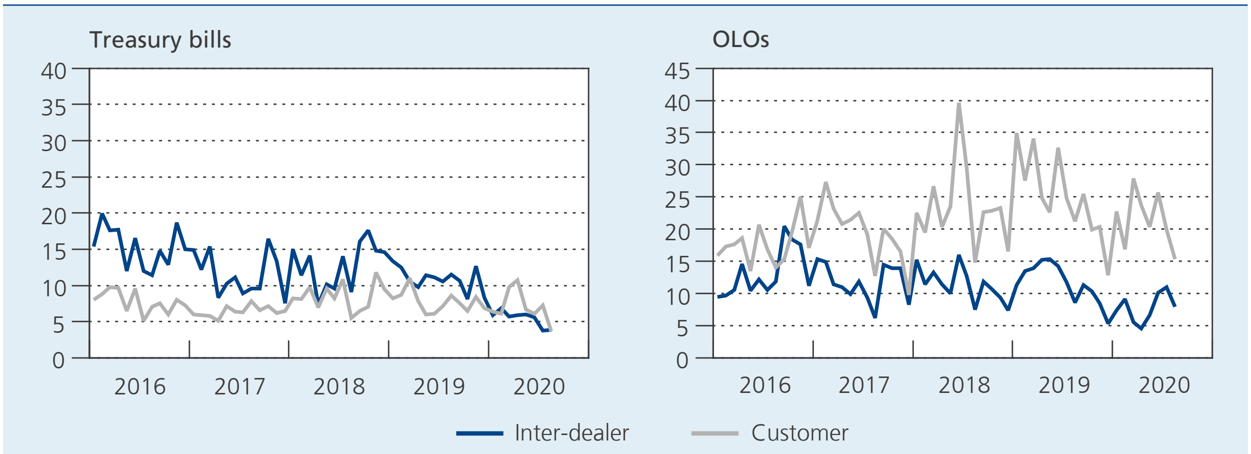
(€ billion)



Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER

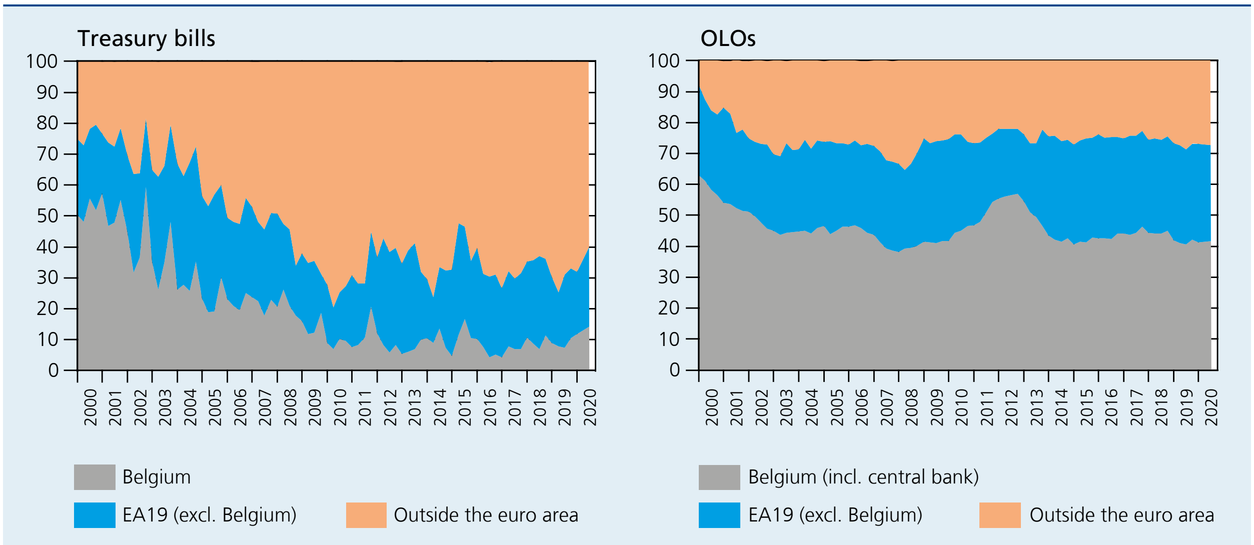
(as reported by primary and recognised dealers to the Treasury, € billion)



Source: Belgian Debt Agency.

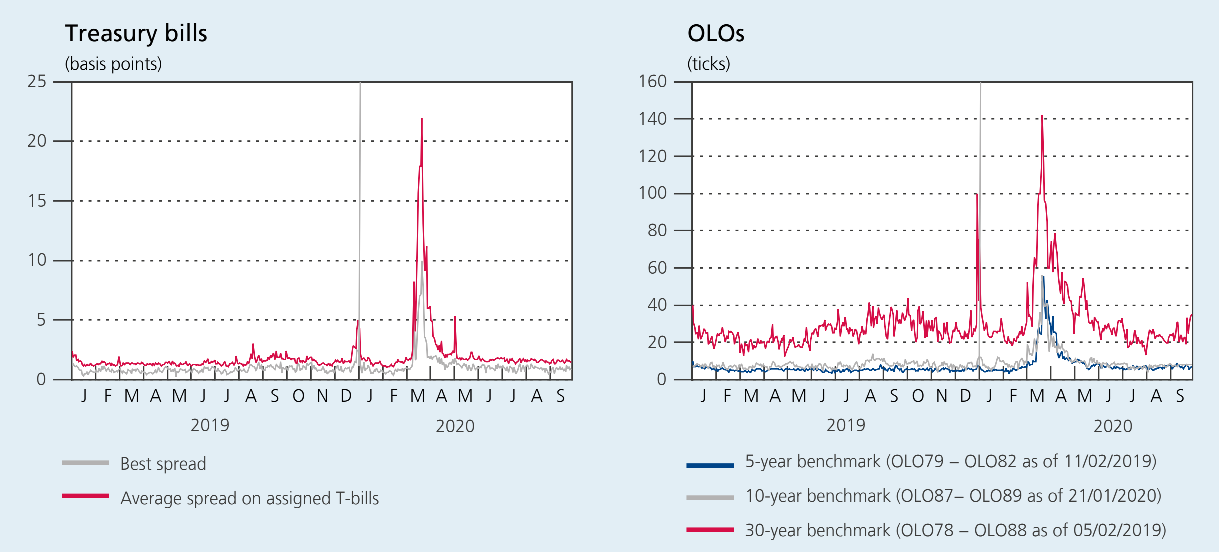
HOLDERSHIP BELGIAN SECURITIES

(in %)



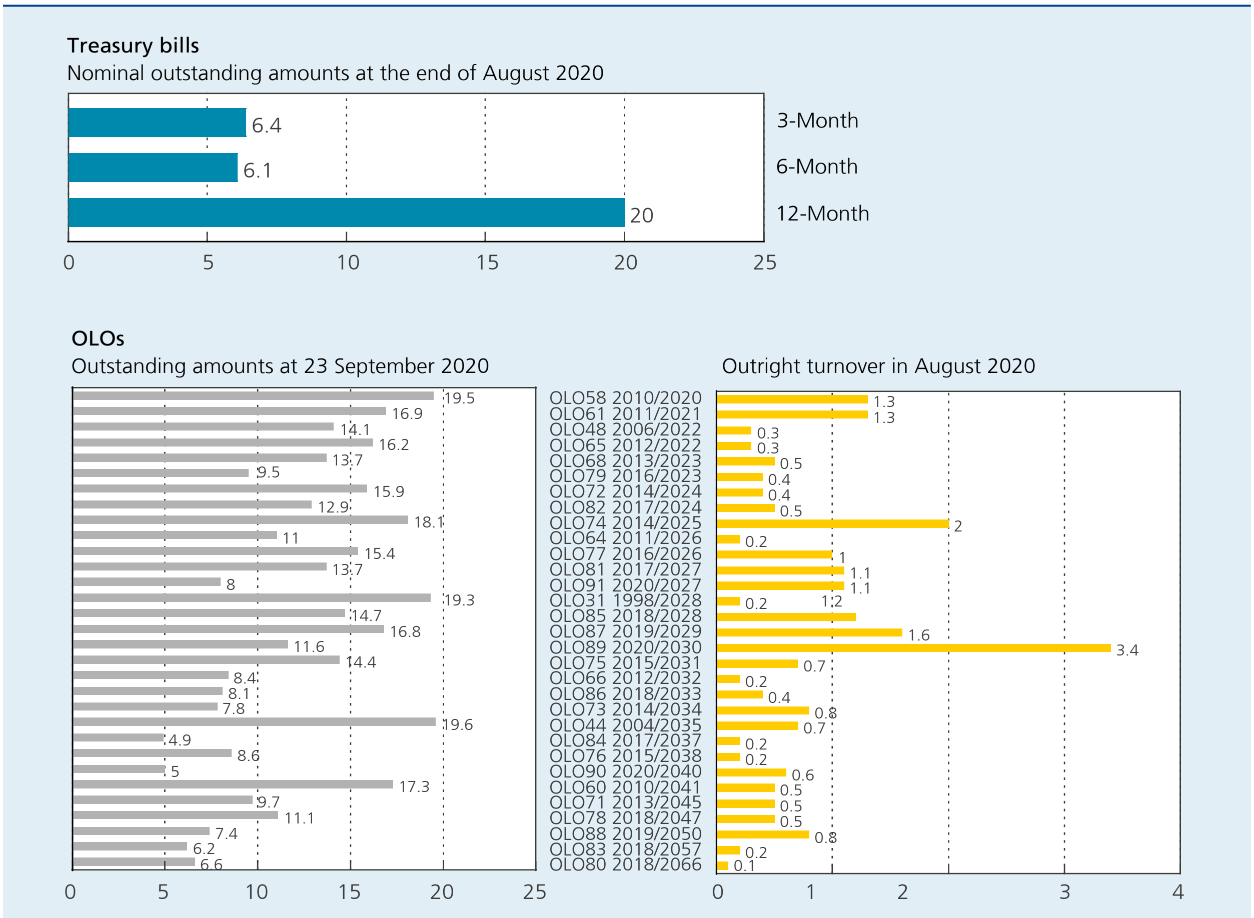
Source: NBB.

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)



Source : Belgian Debt Agency.

LIST OF CONTACT PERSONS

PARTICIPATING INSTITUTIONS	TECHNICAL EDITORS	TELEPHONE	E-MAIL
Belgian Debt Agency	Mr Jean Deboutte	+32 2 574 72 79	jean.deboutte@debtagency.be
Barclays	Mr François Cabau	+44 20 3134 3592	francois.cabau@barclays.com
Belfius Bank	Ms Catherine Danse	+32 2 222 71 13	catherine.cd.danse@belfius.be
BNP Paribas Fortis	Mr Philippe Gijsels	+32 2 565 16 37	philippe.gijsels@bnpparibasfortis.com
	Mr Arne Maes	+32 2 312 12 10	arne.maes@bnpparibasfortis.com
Citigroup	Mr Guillaume Menuet	+44 20 7986 3281	guillaume.menuet@citi.com
Crédit Agricole CIB	Mr Louis Harreau		louis.harreau@ca-cib.com
	Mr Pierre Benadjaoud	+33 1 43 23 97 36	pierre.benadjaoud@credit-agricole-sa.fr
HSBC	Mr Olivier Vigna	+33 1 40 70 32 66	olivier.vigna@hsbc.fr
KBC Bank	Mr Peter Wuyts	+32 2 417 32 35	peter.wuyts@kbc.be
	Mr Jan Van Hove	+32 2 429 59 50	chiefeconomist@kbc.be
Morgan Stanley	Mr João Almeida	+44 20 7425 6838	joao.almeida@morganstanley.com
Natixis	Mr Jean-Christophe Machado		jeanchristophe.machado@natixis.com
NatWest (RBS)	Ms Oriane Parmentier	+44 20 3361 1743	oriane.parmentier@natwestmarkets.com
Nomura	Mr Marco Brancolini	+44 20 7102 0724	marco.brancolini@nomura.com
Société Générale Corp. & Inv. Banking	Mr Michel Martinez	+33 1 42 13 34 21	michel.martinez@sgcib.com
	Mr Yvan Mamalet	+44 20 7762 5665	yvan.mamalet@sgcib.com
GENERAL INFORMATION			
National Bank of Belgium	Mr Luc Dresse	+32 2 221 20 39	luc.dresse@nbb.be

Published by: National Bank of Belgium (NBB).
Sources: NBB, unless otherwise stated.
This publication is also available on the website: www.nbb.be.
Information on the Belgian government debt can be found on the Treasury website: www.debtagency.be.
General information on the Belgian government's action can be found on the website: www.belgium.be.