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Quarterly publication

BELGIAN DEBT AGENCY

NationalBank OF BELGIUM

Eurosystem

Participating Primary and Recognised Dealers:

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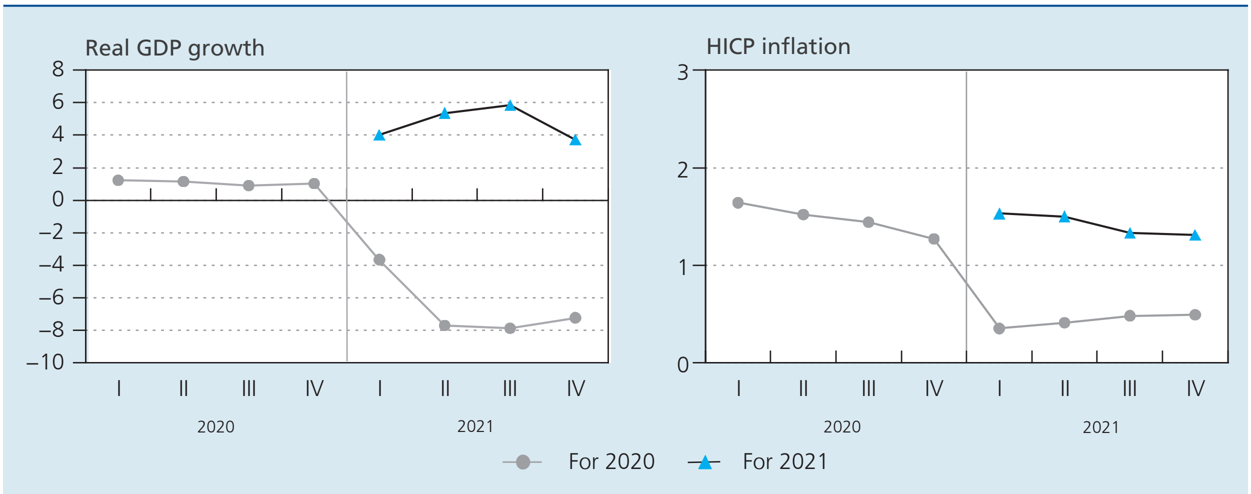
CONSENSUS **Average of participants' forecasts**

	Belgium			Euro area		
	2019	2020p	2021p	2019	2020p	2021p
Real GDP(1)	1.7	-7.2	3.7	1.3	-7.3	4.0
Inflation (HICP)(1)	1.2	0.5	1.3	1.2	0.3	0.9
General government balance(2)	-1.9	-10.3	-6.8	-0.6	-9.2	-6.1
Public debt(2)	98.1	116.0	116.9	85.9	100.5	101.8

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

SUCCESSIVE FORECASTS FOR BELGIUM



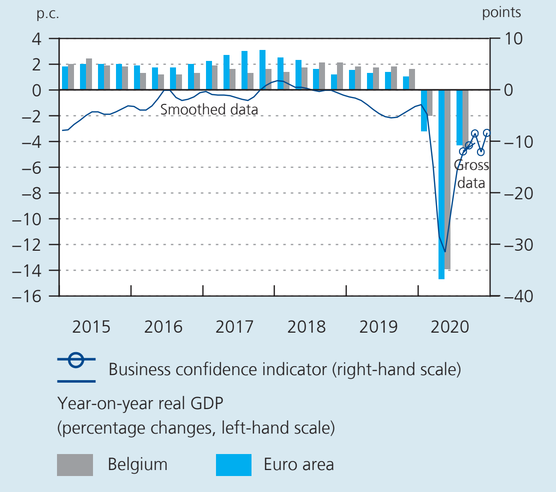
Source: Belgian Prime News.

MACROECONOMIC DEVELOPMENTS **Second COVID-19 lockdown curbs the initial rebound**

The COVID-19 pandemic and the exceptional containment measures taken by many countries to limit the spread of the virus profoundly affected the global economy in the first half of the year. As restrictions were gradually eased, economic activity rebounded quite swiftly from late spring onwards. Unfortunately, as COVID-19 infections flared up again after the summer, in Europe in particular, lockdowns have been reintroduced in several countries and have curbed the initial rebound.

Following a drop of 15% in the first half of 2020, euro area real GDP rebounded quite strongly, by 12.5% in the third quarter of 2020. In the last quarter of the year, economic activity is likely to contract again owing to the recently tightened lockdown restrictions. Due to the carry-over effect, this will be more important for the annual growth figure for 2021 than for 2020. BPN participants have revised their GDP forecasts for next year downwards, whereas those for 2020 have bottomed out. According to the consensus forecast, the **euro area economy is set to shrink by 7.3% this year and grow by 4% in 2021. Euro area inflation is expected to remain moderate, at around 0.3 and 0.9%** respectively in 2020 and 2021.

GDP GROWTH AND BUSINESS CYCLE INDICATOR



Sources: EC, NAI, NBB.

In Belgium too, activity has rebounded from June onwards and GDP grew by more than 11% in the third quarter. According to ad-hoc surveys conducted within the ERMG framework, the direct impact of the second lockdown on firm revenue should be clearly more limited than in spring. On a quarterly basis, Belgian Prime News participants currently expect Belgian GDP to drop by some 3.5% in the fourth quarter, which is slightly more pessimistic than the NBB's recently published Business Cycle Monitor estimate of –1% for 2020 Q4. In annual terms, **BPN participants now expect real GDP in Belgium to drop by 7.2% this year but to bounce back by 3.7% in 2021**.

In response to the crisis, the government broadened and reinforced the temporary lay-off scheme for employees and the bridging rights system for the self-employed. Extensive use of these systems has safeguarded the labour market from the immediate impact of the COVID-19 crisis. So far, domestic employment has fallen by 36 000 units in net terms since the start of the year, which is relatively limited considering the size of the shock on GDP. Inflation has been rather low throughout the year, mostly because energy was, on average, cheaper than last year. **According to the consensus forecast, inflation in Belgium should come to 0.5% on average in 2020 and 1.3% in 2021.**

On 1 October, a new federal government took office, facing important challenges. In 2020, public finances will take a massive hit as a result of the economic downturn, higher 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 more than 10% 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 **6.8% of GDP in 2021. BPN participants anticipate a rise in the Belgian public sector debt, from 98.1% of GDP in 2019 to nearly 117% of GDP in 2021.**

SPECIAL TOPIC **Liquidity and solvency of the Belgian corporate sector in the COVID-19 crisis: a post-first wave assessment** (1)

The COVID-19 pandemic has led to a sharp fall in economic activity in Belgium. Many businesses have been forced to suspend (or radically downscale) their activities due to public health measures, supply chain disruptions, or the slump in demand for their products and services. Despite the fall in turnover, financial commitments (e.g. with respect to suppliers, employees, tax authorities, etc.) largely remain, depleting liquidity buffers of firms. Moreover, the erosion of equity and increased indebtedness risks turning liquidity stress into a solvency problem. To get a better grasp of the economic magnitude of these risks, the NBB has developed – as part of the Economic Risk Management Group's work and in parallel with many other central banks/international policy institutions – an extensive monitoring framework to appraise the liquidity and solvency concerns of Belgian non-financial corporations.

Based on this framework, it is estimated that, due to the pandemic, just over 90% of Belgian non-financial firms experienced a cash drain throughout the March to September 2020 period (meaning they had to dip into their pre-pandemic cash reserves). Without policy support, 20% of firms would have drained their cash reserves up to the point where they had a need for additional liquidity (due to COVID-19). As documented in the left-hand panel of the chart below, support measures taken by the Belgian authorities are shown to have alleviated these liquidity concerns by cushioning the cash drain for 60% of firms and thereby reducing the share of firms with an outright cash deficit from 20% to 15%. A cross-study benchmark of our analysis shows that this share of cash-constrained firms is similar to that of other euro area countries and in particular matches closely that of neighbouring countries (France, the Netherlands).

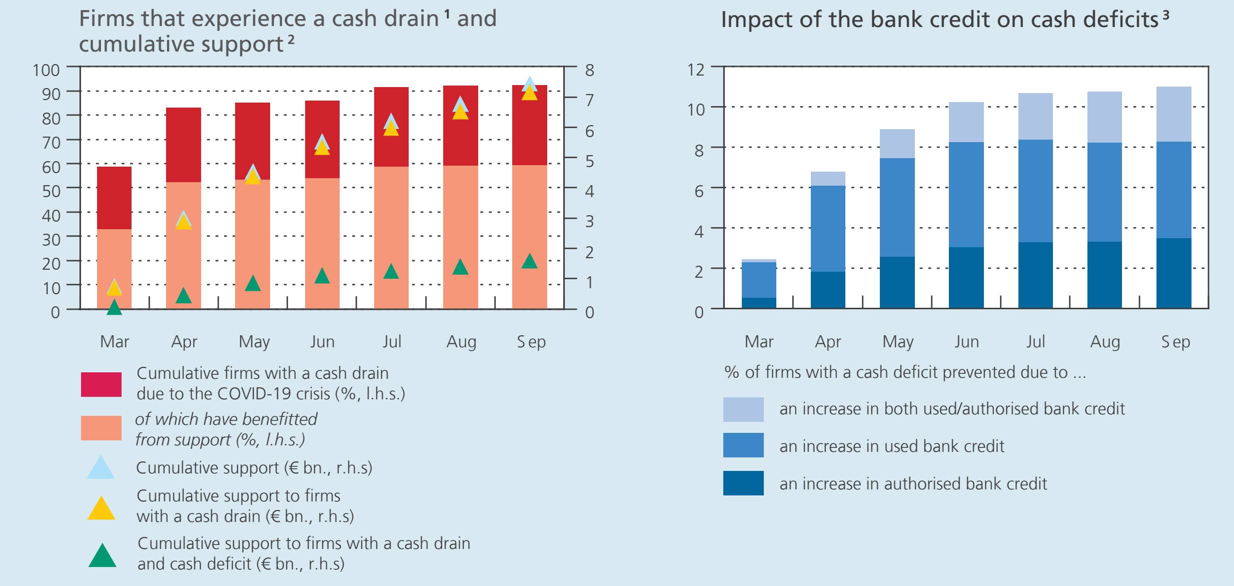
Our analysis indicates that, on average, policy support measures disproportionally attenuated liquidity stress in those sectors that were hit the hardest in the first seven months of the pandemic. Nonetheless, the question remains whether these support measures accrued to the 'right' firms within each sector. More precisely, policy-makers should aim to support firms that (a) are deprived of cash by the pandemic and (b) have business models that are viable after the COVID-19 crisis. The analysis reveals that 8% of nuisance and compensation premiums leak to firms that do not need it, whilst State-guaranteed loans and debt moratoria disproportionately accrue to firms that need cash due to the crisis and are mainly given to profitable and productive firms. On top of debt moratoria and State-guaranteed loans, the Belgian banking sector is found to have played a role in dampening firms' liquidity deficits (right-hand panel of the chart), first through drawdowns of authorised credit lines by mainly large firms and, second, through an expansion of authorised amounts. Nonetheless, the riskiness of Belgian banks' corporate loans did not appear to have risen significantly during the first wave of the pandemic.

Finally, losses caused by the COVID-19 crisis have severely eroded many firms' equity in the most affected sectors. Quantitatively, our results suggest that 21% of all firms would end up with negative equity under the assumption of debt financing of their liquidity needs (at the end of September 2020) . Importantly, even profitable firms with a solid balance sheet prior to the pandemic are not immune to this concern and might spiral into bankruptcy should they not obtain any additional financing.

It is very likely that a large share of Belgian firms will start the recovery period with deleveraging pressures, which can have negative consequences on their ability to carry out investment plans, in turn dragging down productivity and growth. In this context, and in the face of the second wave of the pandemic, the policy focus should gradually shift from safeguarding

(1) High-level summary of an article prepared for the NBB Economic Review. Tielens J., Ch. Piette & O. De Jonghe (2021), "Belgian corporate sector liquidity and solvency in the COVID-19 crisis: a post-first-wave assessment". NBB Economic Review.
(2) In the face of lagged data availability, our results run up to September 2020.

FIRM CASH DRAIN AND THE ROLE OF THE BANKING SECTOR



Sources: NBB, Central Corporate Credit Register.
1 A firm is said to have experienced a cash drain if it had to reduce its pre-pandemic cash position. A firm has a cash deficit if the cash drain is so large such that its cash balance turns negative. The presence of a cash deficit does not mean that the firm is bankrupt. It means that the firm currently has insufficient liquid resources at its disposal to meet its current financial obligations and must resort to payment extensions and/or additional funding.
2 Support measures under consideration are restricted to: (a) financial sector measures, (b) outright transfers and (c) fiscal interventions. The first class of support measures includes a moratorium on debt and State-guaranteed loans. Second, we account for three types of Government transfers: recourse to temporary unemployment, nuisance and compensation premiums. Finally, three types of fiscal measures: higher investment deductibility, a cut in the withholding tax and a tax carry-back regime.
3 An increase in used bank credit implies that the firm exclusively draws within the authorized limits of a credit line taken out before the pandemic authorized amount of credit. An increase in authorised bank credit implies that the firm exclusively draws on new authorised lines that did not exist prior to the pandemic. The hybrid category captures firms that draw both on pre-pandemic authorised lines and also on new authorised lines of credit (combination of the aforementioned categories).

firms' liquidity to maintaining their solvency. The purpose should be to secure debt restructuring where it is appropriate and/or access to any external long-term financing they might need for the continuation of their operations, as well as for their future development. Furthermore, to effectively accompany the recovery phase, current policies in place to ease access to credit should be matched with enhanced instruments for (long-term) equity-type financing. However, in the Belgian context, it is not straightforward to find effective equity instruments, especially for SMEs whose owners are often reluctant to accept external ownership. Alternative financing vehicles and instruments such as long-term subordinated loans can be considered for strengthening viable firms' solvency and enabling them to invest and grow further.

FINANCIAL MARKETS AND INTEREST RATES

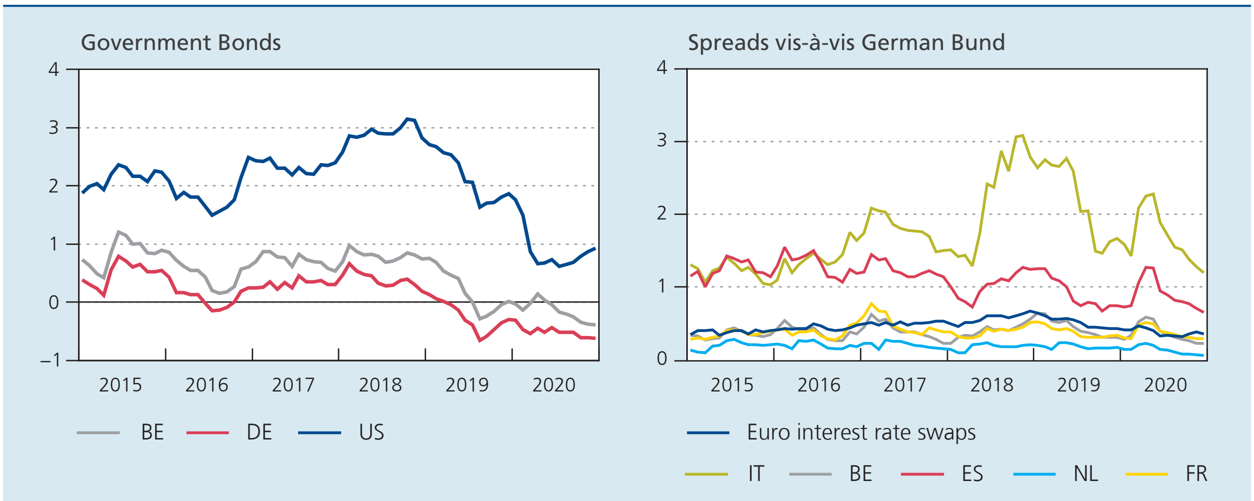
Sovereign bond yields increased in the US but declined further in the euro area

The COVID-19 outbreak in early 2020 triggered an increase in risk aversion and brought strong monetary and fiscal policy responses. In December 2020, the ECB expanded its pandemic emergency purchase programme (PEPP) by € 500 billion. Against this background, sovereign bond yields declined in the euro area over the fourth quarter of the year. German and Belgian 10-year government bond yields dropped by 10 and 14 basis points, to settle at –0.62 and –0.39%, respectively. In contrast, the United States' 10-year government bond yield reversed its downward trend to rise by 25 basis points, from 0.68% in September to 0.93% in December. The rise in the 10-year US government bond yield reflects increasing inflation expectations in the US and an improved risk sentiment. A new fiscal stimulus package in the US, a weaker dollar, and the Fed's new monetary policy strategy, among other factors, contributed to rising inflation expectations in the US.

Following the collapse in the early stages of the pandemic, and the subsequent recovery triggered by supportive fiscal and monetary measures, stock markets recorded important gains over the fourth quarter of 2020 after a set of favourable vaccine trial results were published. However, volatility remained high and markets were affected by the uncertainty surrounding the economic recovery (including the uncertain evolution of the pandemic), the US presidential election, a new round of fiscal stimulus in the US, and the Brexit negotiations. The VIX and VSTOXX indices peaked at 40 and 38% in late October and remained above 20% over the final quarter of the year (with values above 20% generally associated with unstable periods). The euro appreciated further over the fourth quarter, which could reinforce competitiveness and low inflation risks in the euro area. One euro was worth $ 1.22 by the end of the year, compared to $ 1.17 at the end of the third quarter.

While sovereign spreads vis-à-vis Germany initially widened with the COVID-19 outbreak, they have since declined. Over the final quarter of 2020, sovereign spreads continued their downward trend, helped by favourable vaccine trials, fast-tracked vaccination plans and the ECB's PEPP extension. Italian and Spanish spreads tightened by 31 and 14 basis points, to 1.20 and 0.65% respectively. Belgian spreads also fell by 5 basis points, to 0.23%. Consequently, sovereign spreads now stand below their pre-crisis levels.

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



Sources: BIS, Thomson Reuters.

TREASURY HIGHLIGHTS **Funding plan for 2021 announced**

The Belgian Debt Agency has concluded its 2020 funding programme, issuing a total of € 48.501 billion of medium- and long-term debt.

During the fourth quarter of 2020, two OLO auctions were held, with the following results:

Date	OLO	NR	Issued (€ billion)	Yield	Bid-to-cover
October 19	OLO 0.10% 22/06/2030 OLO 1.45% 22/06/2037	OLO 89 OLO 84	1.154 0.649	-0.399% -0.014%	1.71 2.63
Non-competitive subscriptions			*0.000*		
Total October			**1.803**		
November 23	OLO 0.80% 22/06/2025 OLO 1.25% 22/04/2033	OLO 74 OLO 86	0.797 0.697	-0.704% -0.284%	2.82 4.05
Non-competitive subscriptions			*0.000*		
Total August			**1.494**		

Given the advanced stage of funding and the revised funding plan that brought down the annual amount to be issued, both auctions were rather modest in terms of issuance. The November auction resulted in a record low yield of –0.704% for an OLO. Moreover, the strong demand for the Green OLO (OLO 86) was noteworthy.

Finally, two Optional Reverse Inquiries were held. The first one, on 16 October, resulted in the issuance of € 0.325 billion of OLO 4.50% 28/03/2026 (OLO 64) and € 0.180 billion of OLO 2.15% 22/06/2066 (OLO 80). The second one, on 11 December, resulted in the issuance of € 0.350 billion of OLO 0.80% 22/06/2025 (OLO 74) and € 0.150 billion of OLO 1.00% 22/06/2026 (OLO 77).

No EMTNs or Schuldscheine were issued in the fourth quarter of 2020.

In terms of portfolio structure, the average life of the portfolio remains high at 9.72 years (end of December). The implicit cost of the portfolio decreased to 1.66%.

2021 funding plan announced

On December 8, the Belgian Debt Agency published its funding plan for 2021.

The 2021 gross borrowing requirements of the federal government are expected to amount to € 43.61 billion. This represents a reduction of € 7.85 billion compared to the 2020 borrowing requirements, which should come to € 51.46 billion.

In establishing this estimate, the Debt Agency assumed that the 2021 net financing requirements would amount to € 22.77 billion.

Redemptions of medium- and long-term debt should work out at € 15.51 billion. The Belgian Debt Agency plans to buy back bonds maturing in 2022 to the tune of € 4.50 billion. This corresponds to the relatively high amount of redemptions in that year. Finally, the execution of puts and calls on certain instruments could result in borrowing requirements of EUR 0.83 billion.

In 2021, the Belgian Debt Agency plans to issue € 36.41 billion worth of OLOs, a reduction of € 8.09 billion compared to the € 44.50 billion that was expected to be issued in 2020. It plans to launch up to three new OLO fixed-rate benchmarks.

The Debt Agency also expects to issue € 3.00 billion via its EMTN programme or other alternative funding instruments such as Schuldscheine. Another € 4.20 billion of funding would be obtained via the European Union's SURE instrument. On the other hand, the Belgian Debt Agency does not expect to issue any State Notes, given the low interest rate environment.

As for short-term funding, net short-term debt is projected to remain stable over the year. This would mean that the outstanding sum of Treasury Certificates will be € 30.50 billion at year- end 2021.

Next year, both the maximum for the 12-month refinancing and the refixing risk will be kept at their current level, i.e. 17.50%. The maximum for the 60-month refinancing and refixing risk will also remain unchanged at 42.50%. In 2021, the average life of the debt portfolio is required to be higher than 9.25 years, which is 0.25 years more than the applicable limit in 2020.

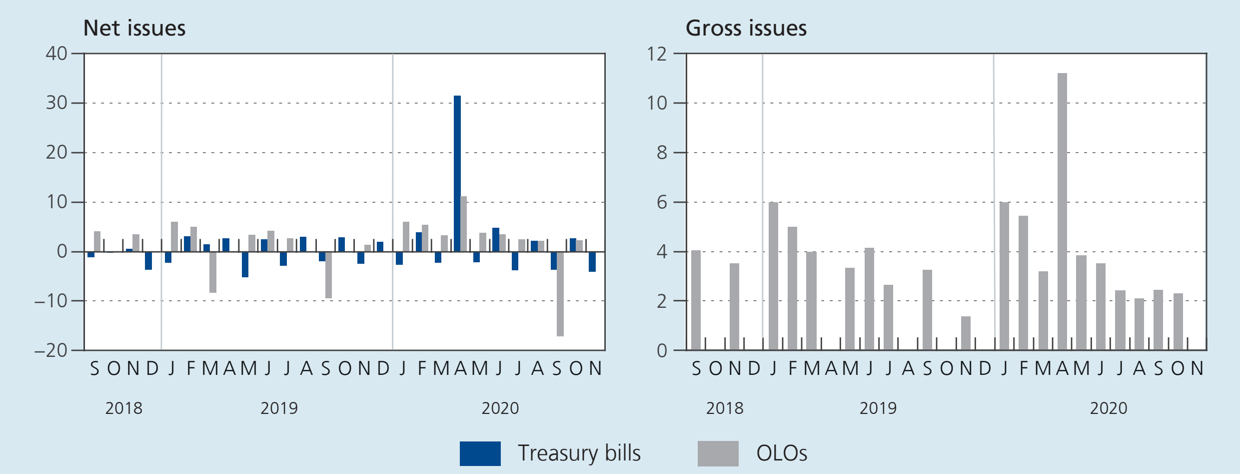
2021 BORROWING REQUIREMENTS

€ billion	2021 plan		*p.m. 2020*	
I. Gross financing requirements		43.61		51.46
1. Net financing requirements:		22.77		31.50
Net financing requirements (stricto sensu):	22.85		31.53	
Participation in/loans to financial institutions and sovereigns:	-0.08		-0.03	
2. Debt maturing		15.51		18.98
Long- and medium-term debt in €:	15.51		18.98	
Long- and medium-term debt in foreign currencies:	0.00		0.00	
3. Planned pre-funding (bonds maturing in subsequent years)		4.50		0.98
Buybacks	4.50		0.98	
4. Other financing requirements (1)		0.83		0.00
II. Funding resources (long- and medium-term)		43.61		48.51
OLOs	36.41		44.50	
Euro Medium-Term Notes/Schuldscheine	3.00		2.01	
Securities for retail investors	0.00		0.00	
Other (2)	4.20		2.00	
III. Net change in short-term foreign currency debt		0.00		0.00
IV. Change in Treasury Certificates stock (3)		0.00		3.00
V. Net change in other short-term debt and financial assets (4)		0.00		-0.05

(1) Including put/call options exercised on bonds or loans and net redemptions of Treasury bonds representing Belgian participation in international organisations.
(2) EU loans (SURE) and net issues of Treasury bonds representing Belgian participation in international organisations.
(3) Expected outstanding stock of Treasury Certificates on 01/01/2021: € 30.50 billion.
(4) This section includes residual financing instruments complementing the reference instruments mentioned in the previous section, including collateral margin changes. A positive figure represents an increase in the stock of residual financing and/or a reduction in financial assets.
Note: figures may not add up to the total because of rounding.

GOVERNMENT SECURITIES STATISTICS

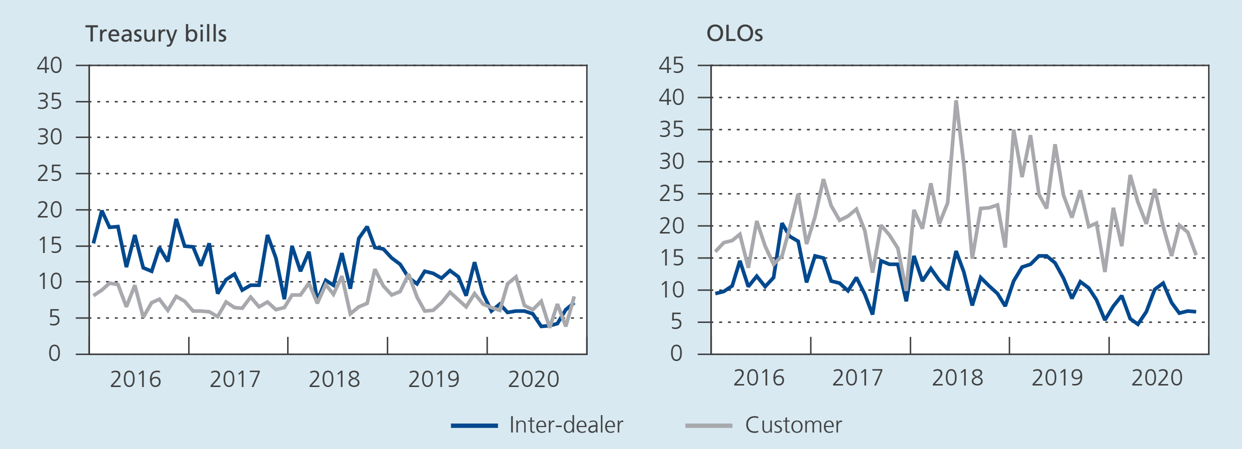
PRIMARY MARKET
(€ billion)



Source: Belgian Debt Agency.

SECONDARY MARKET TURNOVER

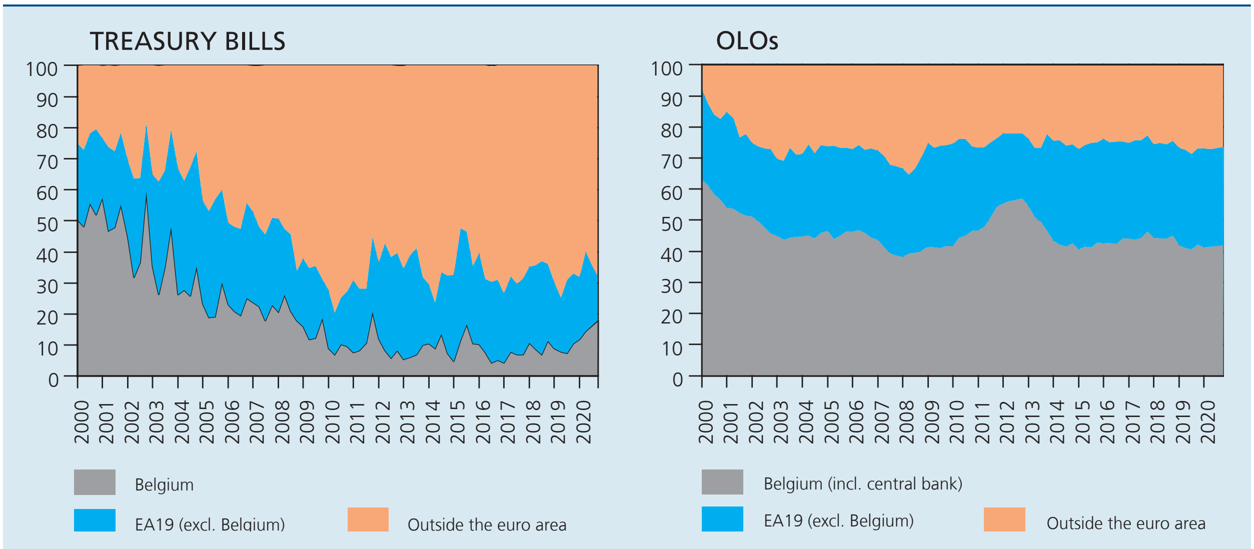
(as reported by primary and recognised dealers to the Treasury, € billion)



Source: Belgian Debt Agency.

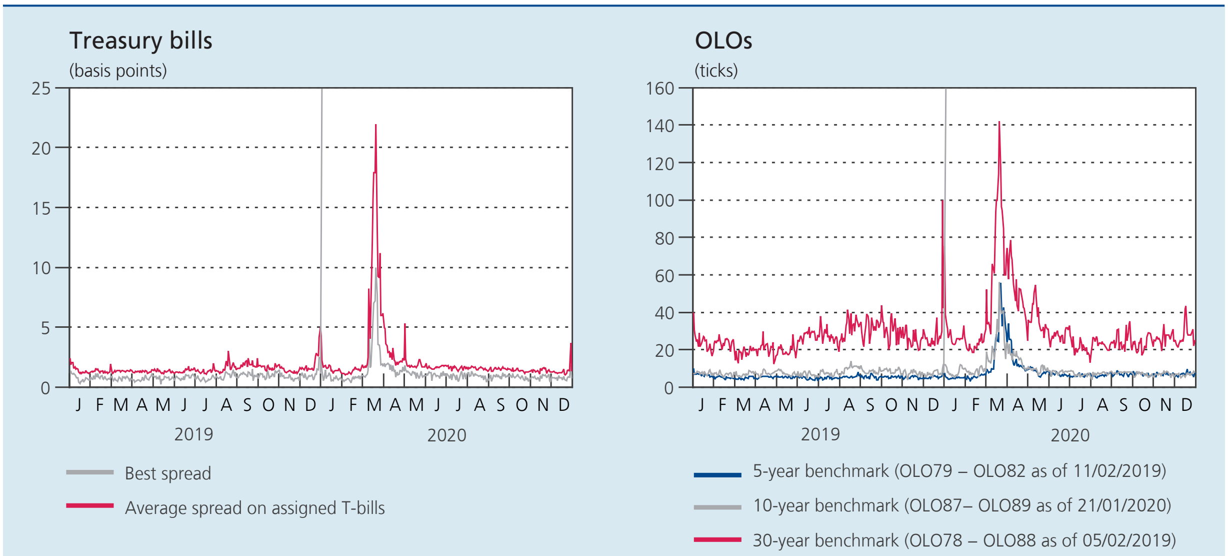
HOLDERSHIP BELGIAN SECURITIES

(in %)



Source: NBB.

BEST BID/OFFER SPREADS [1]

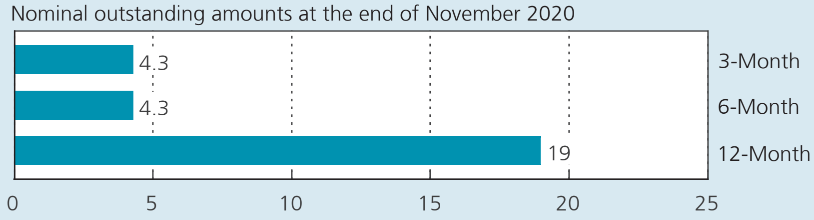


Source: Treasury.

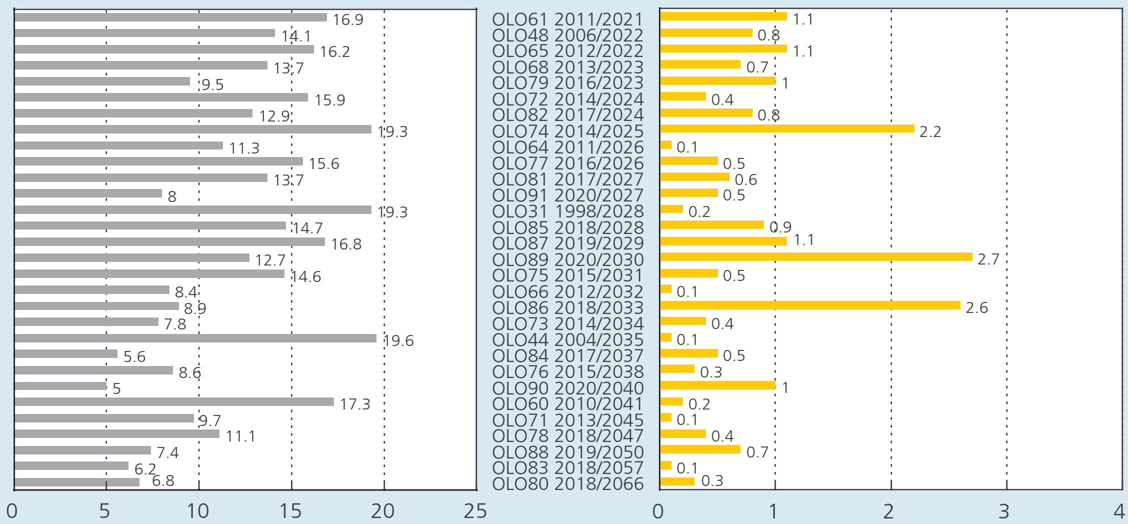
(1) As reported by three electronic platforms (MTS, Broker Tec and BGC eSpeed).

OUTSTANDING AMOUNTS AND TURNOVER
(€ billion)

Treasury bills
Nominal outstanding amounts at the end of November 2020



OLOs
Outstanding amounts at 31 December 2020
Outright turnover in November 2020



Source: Belgian Debt Agency.

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