Quarterly decision of the National Bank of Belgium on the countercyclical buffer rate for 2020Q4: 0 %

Pursuant to Art. 5 §2 Annex IV to the Banking Law, the National Bank of Belgium (NBB) has decided to keep the countercyclical buffer rate for exposures in Belgium at 0 %.

Justification

1. The countercyclical capital buffer is a macroprudential instrument designed to mitigate cyclical systemic risks and to counter pro-cyclicality in lending. Its objective is to support the sustainable provision of credit through the cycle by strengthening the resilience of banks. In particular, capital buffers are imposed whenever there is an increase in cyclical systemic risks (i.e. with excessive growth in lending), so that these additional requirements can be relaxed when the cycle turns and the risks start to decline. If risks emerge – in a situation of financial stress for instance – a decision can be taken to release the buffer instantly in order to give the banks some extra breathing space and thus put them in a better position to absorb losses and keep up their level of lending when the economic and financial environment is vulnerable. The countercyclical buffer rate, expressed as a percentage of banks' risk-weighted assets, is generally between 0 and 2.5 %, but can be set higher when justified by the underlying risk. It should be noted that the countercyclical capital buffer is only one of the macroprudential instruments available to the NBB for achieving its mission of contributing to the stability of the financial system.
2. Pursuant to Article 5 of Annex IV to the Law of 25 April 2014 on the legal status and supervision of credit institutions, the NBB sets each quarter the countercyclical buffer rate applicable to credit exposures to counterparties located on Belgian territory on the basis of one or more reference indicators that reflect the credit cycle and the risks stemming from excessive credit growth in Belgium, and that account for the specific elements of the national economy. These indicators shall include the deviation of the credit-to-GDP ratio from its long-term trend (the credit-to-GDP gap), accounting for the change in volumes of credit granted on Belgian territory and the evolution of Belgian GDP, the recommendations issued by the ESRB, and any other variable that the NBB deems relevant to capture cyclical systemic risk.
3. The NBB sets the countercyclical buffer rate pursuant to its policy strategy regarding the countercyclical capital buffer published on 28 December 2015.[1] In line with the Basel III framework and the ESRB Recommendation of 18 June 2014 on guidance for setting countercyclical buffer rates, the quarterly decision on the countercyclical buffer rate is partially based on a 'buffer guide' derived from the credit-to-GDP gap.[2] Given the specific features of the domestic financial system and statistical properties of the credit series monitored, the NBB sets the credit-to-GDP variable on the basis of resident bank loans. The quarterly decision on the countercyclical buffer rate also takes into account additional macrofinancial indicators, including broader credit measures.
4. In anticipation to significant and potential long-lasting effects on domestic and global economic growth due to the Covid-19 pandemic, the NBB decided in March 2020, pursuant to its macroprudential powers laid down by the Belgian Banking Law of 2014, to decrease the countercyclical buffer for credit risk exposures to the Belgian private non-financial sector to 0%. The decision of the NBB to release the CCyB was based on the anticipation of impacts on loan portfolios.
5. In the context of the current release regime of the CCyB, some of the indicators mentioned in Table 1, including the credit gap as well as bank credit growth rates, appear less relevant. For the current and forthcoming CCyB decisions, the NBB focuses more on the evolution of credit quality indicators (e.g. NPLs, IFRS9 stage transitions). These credit quality indicators currently signal a persistence

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1 "Setting the countercyclical buffer rate in Belgium: a policy strategy".

2 The buffer guide is the result of the credit-to-GDP gap being mapped into a benchmark buffer rate, as specified in the ESRB Recommendation of 18 June 2014 on guidance for setting countercyclical buffer rates. The benchmark buffer rate equals 0 % for credit-to-GDP gap levels up to 2 percentage points. When the credit-to-GDP gap exceeds 2 percentage points, the benchmark buffer rate increases linearly, reaching its maximum level of 2.5 % for credit-to-GDP gap levels of 10 percentage points and higher.

of the crisis. Hence, the NBB currently overrides the signals that follow from the standard indicators. Despite the high observed level of credit-to-GDP gap, the NBB will thus keep the countercyclical buffer rate unchanged at 0%. The high level of the credit-to-GDP gap can to a large extent be attributed to the strong contraction in GDP and hence does not signal an acceleration of the credit cycle.

6. Based on current projections and risk assessments, the NBB expects not to increase the CCyB at least until 2021 Q3 (in line with previous notifications). Should there be major deviations from the baseline projections, the NBB will reassess this indicative period.

Table 1: Key indicators[1]

Variable	Unit	Latest period	Value
Non-financial private sector credit cycle (resident bank loans)			
Preferred credit-to-GDP gap	% GDP	2020 Q2	6.5
Households	% GDP	2020 Q2	2.3
Non-financial corporations	% GDP	2020 Q2	4.2
CCyB guide related to preferred credit gap[2]	% RWA	2020 Q2	1.4
Standardised credit-to-GDP gap	% GDP	2020 Q1	-15.0
CCyB guide related to standardized credit gap[2]	% RWA	2020 Q1	0
Bank loan growth	y-o-y %	2020 M7	3.8
Households	y-o-y %	2020 M7	4.4
Non-financial corporations	y-o-y %	2020 M7	2.8
p.m. Credit-to-GDP ratio[3]	*% GDP*	*2020 Q2*	*88.7*
Non-financial private sector resilience			
Debt-to-GDP ratio	% GDP	2020 Q1	125.2
Households	% GDP	2020 Q1	62.5
Non-financial corporations	% GDP	2020 Q1	62.7
Net financial assets	% GDP	2020 Q1	132.3
Financial and assets markets			
Equity prices, nominal (Euro Stoxx 50)	y-o-y %	2020 M7	-5.5
Price-earnings ratio (Euro Stoxx 50)[4]	–	2020 M7	34.8
House prices, nominal	y-o-y %	2020 Q1	5.2
House prices, real	y-o-y %	2020 Q1	4.2
10-year government bond yield	% points/y	2020 M7	-0.17
Bank lending rate on mortgage loans to households	% points/y	2020 M6	1.5
Bank lending rate on loans to non-financial corporations	% points/y	2020 M6	1.6
Banking sector resilience			
CET 1 capital ratio	%	2020 Q2	15.9
Equity-to-total assets ratio	%	2020 Q2	6.7
Loan-to-deposit ratio	%	2020 Q2	91.8
External imbalances			
Current account	% GDP	2020 Q1	-0.7
Net international investment position	% GDP	2020 Q1	38.6

Sources: Thomson Reuters, NBB.

1 Monthly averages for daily data. Data are shown end of quarter (March, June, September, December) or for the latest month available.

2 CCyB guides are expressed in percentage of risk-weighted assets.

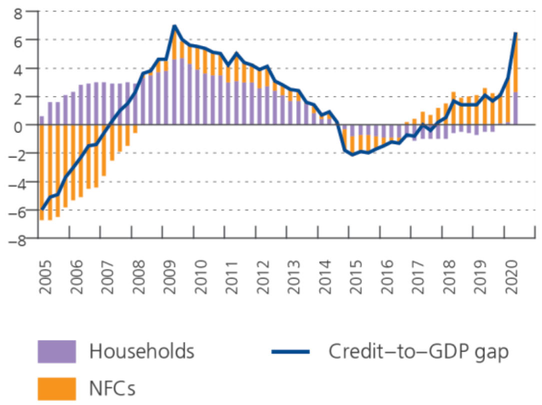
3 Outstanding amounts of loans granted by resident monetary financial institutions to households and non-financial corporations, including those securitized, in percentage of GDP.

4 Price earnings (P/E) ratio is a trailing (12 months) P/E ratio.

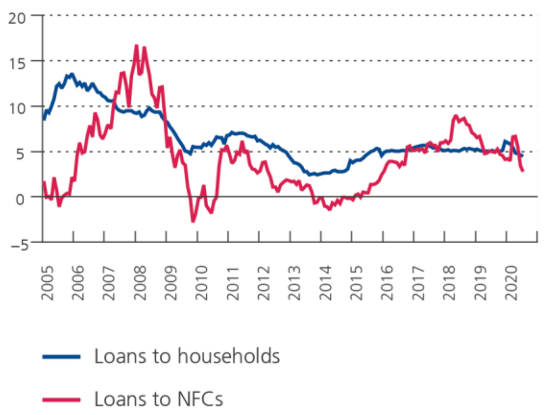
STATISTICAL ANNEX

CREDIT–TO–GDP GAP
(quarterly data, % GDP)

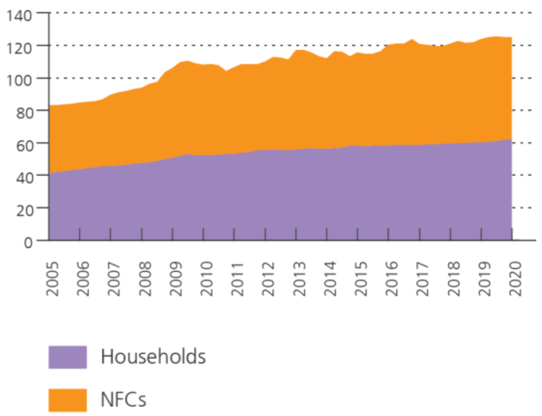
CREDIT–TO–GDP GAP: SECTORAL BREAKDOWN
(quarterly data, contributions in % GDP)



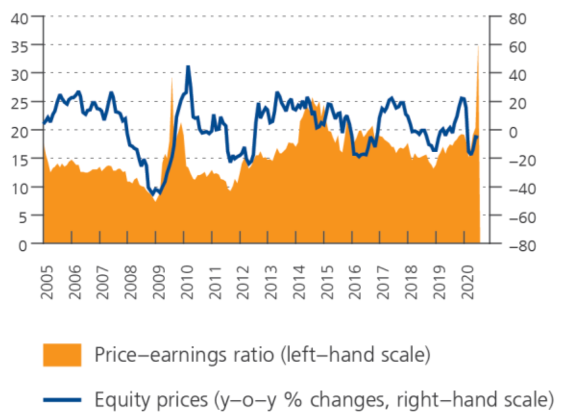
BANK LOAN GROWTH
(monthly data, y–o–y % changes)



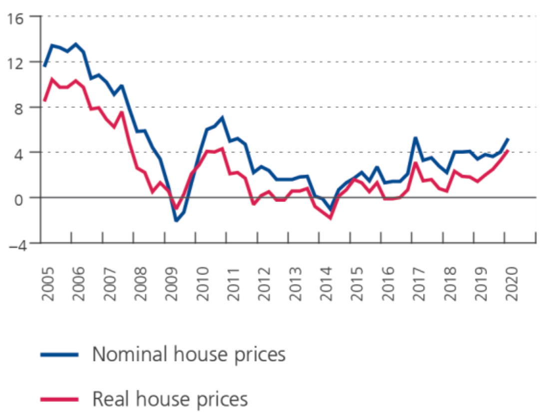
NON–FINANCIAL PRIVATE SECTOR DEBT
(quarterly data, % GDP)



EQUITY PRICES
(monthly data, Euro Stoxx 50 index)

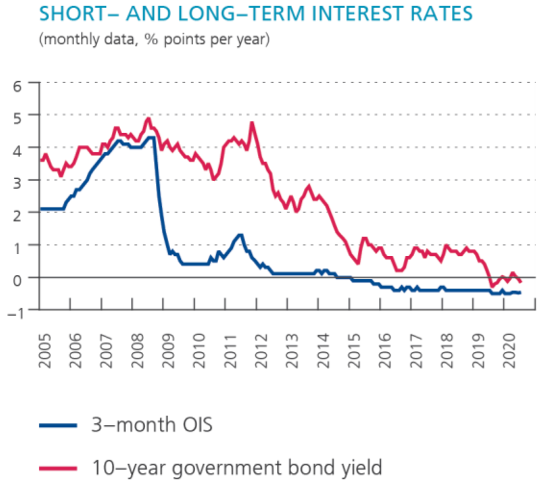


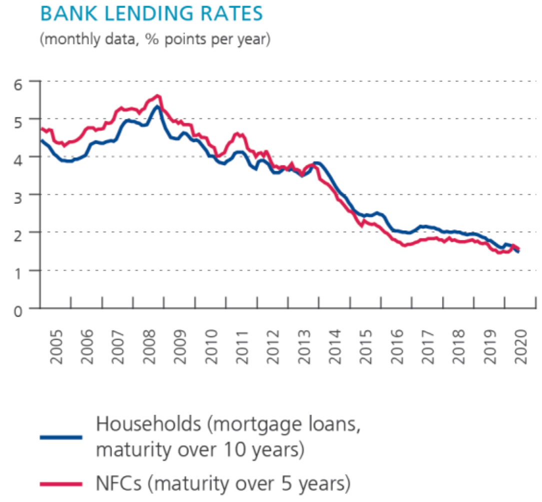
HOUSE PRICES
(quarterly data, y–o–y % changes)

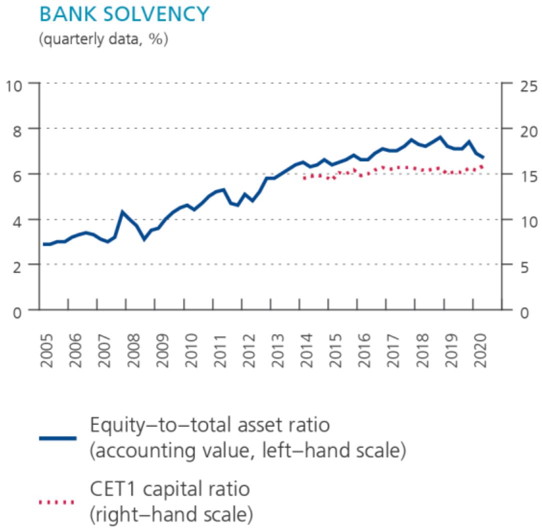


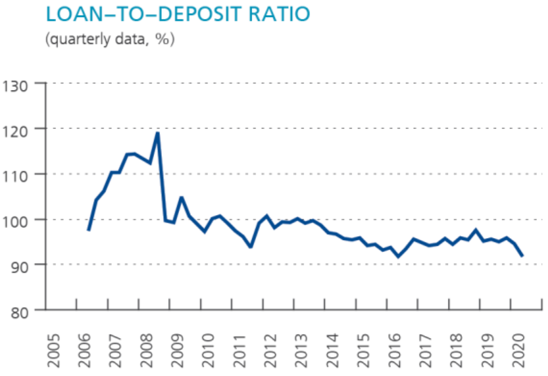
Sources: Thomson Reuters, Refinitiv, NBB.

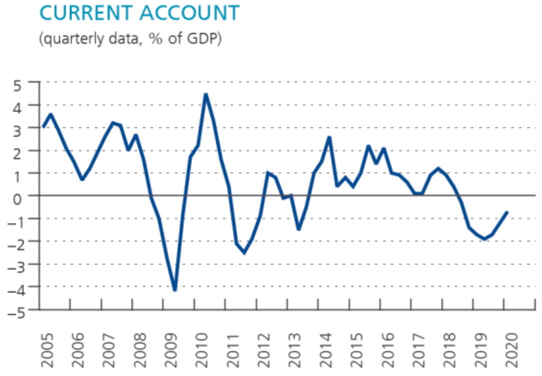
STATISTICAL ANNEX (cont.)

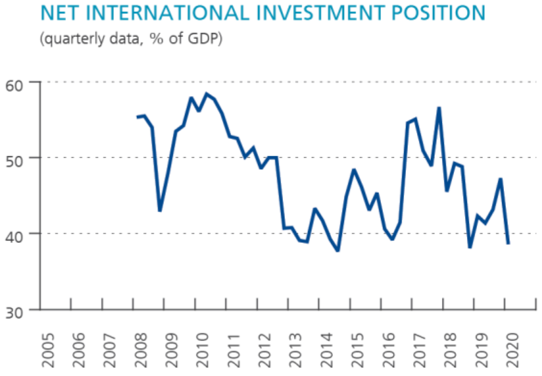












Sources: Thomson Reuters, Refinitiv, NBB.