Quarterly decision of the National Bank of Belgium on the countercyclical buffer rate for 2022Q3: 0 %

Pursuant to Art. 5 §2 Annex IV to the Banking Law, the National Bank of Belgium 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 National Bank of Belgium 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 National Bank of Belgium 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 National Bank of Belgium deems relevant to capture cyclical systemic risk.
3. The National Bank of Belgium 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 National Bank of Belgium 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 March 2020, at the beginning of the pandemic, the NBB released the CCyB (then carrying a rate of 0.5%, equivalent to about € 1 billion of CET1 capital) with the aim of providing additional room for Belgian banks to (1) recognise, in a timely and conservative way, potential credit losses, (2) boost lending to the private sector (faced with a liquidity shock) and (3) finance moratoria and other debt restructuring solutions for viable borrowers experiencing temporary or more structural repayment problems of bank loans.
5. At the start of 2022, the need for such support to help banks play their critical role in an economic crisis was significantly less as the economic recovery from the pandemic gathered pace and asset quality indicators further improved. At that time, nominal credit growth indicators also showed

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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.

renewed dynamism that was comparable to the situation in 2019 when the activation of the CCyB was first announced in Belgium. Before the start of the military conflict in Ukraine in late February, macro-financial conditions therefore seemed to suggest the need to consider a re-activation of the CCyB. Yet, very expensive energy and commodities, high inflation, rising interest rates and high volatility in financial markets have injected a lot of uncertainty regarding macro-financial developments since the war began.

6. While uncertainty is expected to remain high in the coming months, more hard data and anecdotal evidence will be available in September as regards the impact of war-related developments. In the absence of any clear signs by September of a material impact of the war in Ukraine on (1) the financial cycle and the dynamism of bank lending to households and non-financial corporations or (2) the credit quality of the loans to these counterparties, the NBB believes that a re-activation of the CCyB will then be fully justified in order to make sure that Belgian banks' have the necessary resilience to fulfil their key functions for the real economy and help borrowers with loan repayment difficulties in the event of a future adverse economic growth scenario and/or downturn in the Belgian real estate market.
7. If the CCyB rate is re-activated in September, it would be fixed at 0.5 %. The implementation period for the banks would nevertheless be reduced to six months (instead of the standard 12 months), a possibility that is explicitly provided for in the EU Capital Requirements Directive under "exceptional circumstances". This means that, if it is triggered again, the CCyB will have to be constituted by banks by 1 April 2023. If necessary, the NBB can of course at any point in time decide to release the CCyB again, as was the case at the beginning of the pandemic.

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	2022 Q1	-0.8
Households	% GDP	2022 Q1	-2.0
Non-financial corporations	% GDP	2022 Q1	1.2
CCyB guide related to preferred credit gap[2]	% RWA	2022 Q1	0.0
Standardised credit-to-GDP gap	% GDP	2021 Q3	-20.8
CCyB guide related to standardized credit gap[2]	% RWA	2021 Q3	0.0
Bank loan growth	y-o-y %	2022 M04	5.4
Households	y-o-y %	2022 M04	5.9
Non-financial corporations	y-o-y %	2022 M04	4.8
p.m. Credit-to-GDP ratio[3]	% GDP	2022 *Q1*	84.1
Non-financial private sector resilience			
Debt-to-GDP ratio	% GDP	2021 Q3	124.4
Households	% GDP	2021 Q3	63.3
Non-financial corporations	% GDP	2021 Q3	61.1
Net financial assets	% GDP	2021 Q4	145.1
Financial and assets markets			
Equity prices, nominal (Euro Stoxx 50)	y-o-y %	2022 M05	-7.8
Price-earnings ratio (Euro Stoxx 50)[4]	–	2022 M05	14.3
House prices, nominal	y-o-y %	2021 Q4	8.0
House prices, real	y-o-y %	2021 Q4	3.3
10-year government bond yield	% points/y	2022 M05	1.58
Bank lending rate on mortgage loans to households	% points/y	2022 M03	1.5
Bank lending rate on loans to non-financial corporations	% points/y	2022 M03	1.6
Banking sector resilience			
CET 1 capital ratio	%	2022 Q1	16.8
Equity-to-total assets ratio	%	2022 Q1	6.9
Loan-to-deposit ratio	%	2022 Q1	88.8
External imbalances			
Current account	% GDP	2021 Q4	-0.4
Net international investment position	% GDP	2021 Q4	57.0
Asset quality			
NPL ratio			
Belgian non-financial corporations	% total loans	2022 Q1	3.3
Belgian households	% total loans	2022 Q1	1.3
Forbearance ratio			
Belgian non-financial corporations	% total loans	2022 Q1	3.8
Belgian households	% total loans	2022 Q1	1.4
Loan loss ratio[5]			
Consolidated, including interbank loans	b.p.	2021	2.4
Non-consolidated, excluding interbank loans	b.p.	2021	10.6

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.

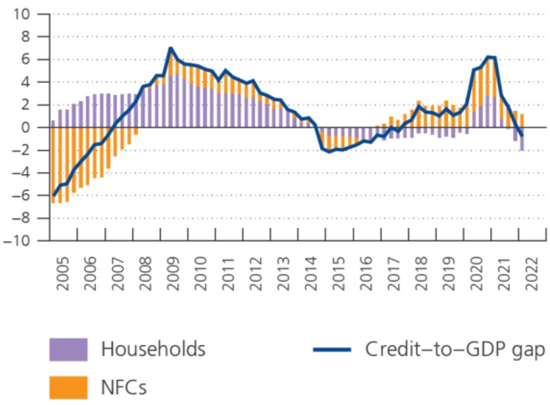
[4] Price earnings (P/E) ratio is a trailing (12 months) P/E ratio.

[5] The loan loss ratio is the net flow of new impairments for credit losses, expressed as a percentage of the total stock of loans (one basis point is one-hundredth of one per cent).

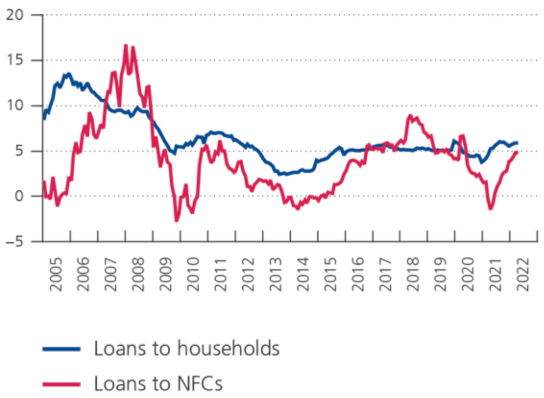
STATISTICAL ANNEX

Credit-to-GDP gap
(quarterly data, % GDP)

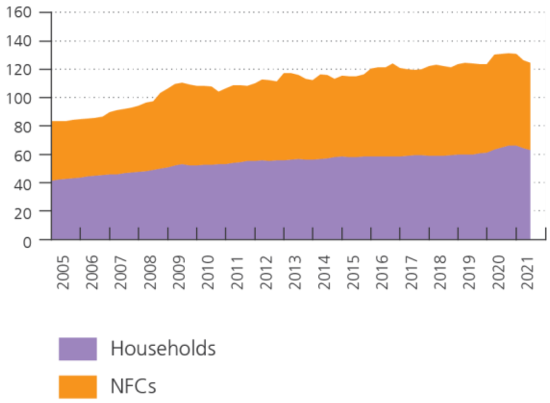
Credit-to-GDP gap: sectoral breakdow
(quarterly data, contributions in % GDP)



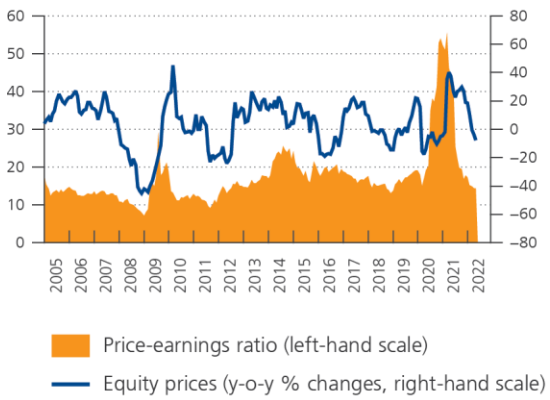
Bank loan growth
(monthly data, y-o-y % changes)



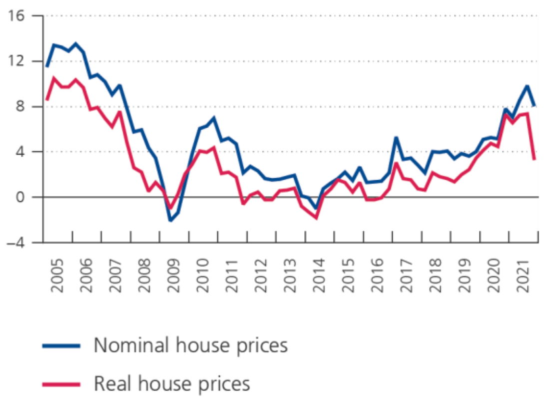
Non-financial private sector debt
(quarterly data, % GDP)



Equity prices
(monthly data, Euro Stoxx 50 index)



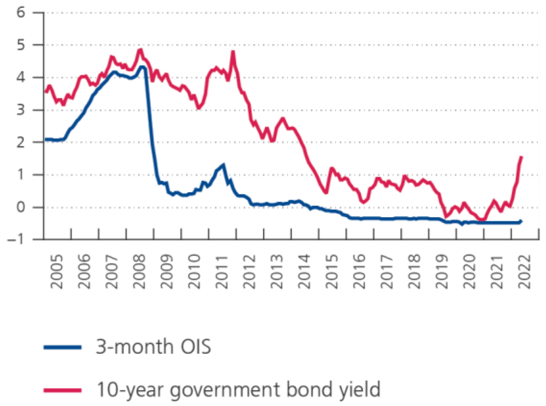
House prices
(quarterly data, y-o-y % changes)



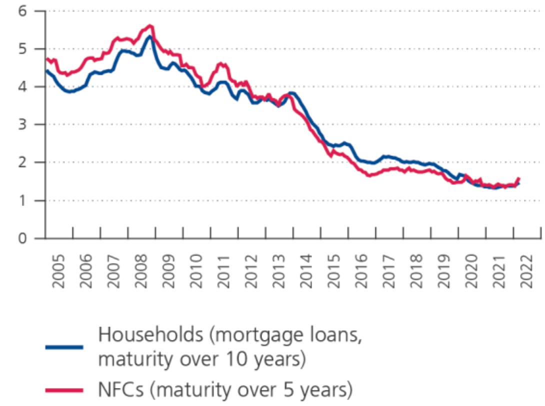
Sources: Thomson Reuters, Refinitiv, NBB.

STATISTICAL ANNEX (cont.)

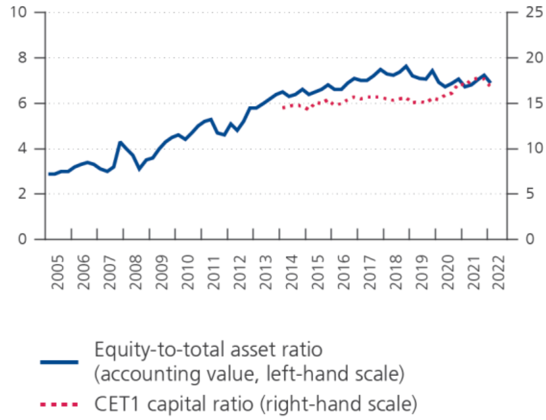
Short- and long-term interest rates
(monthly data, % points per year)



Bank lending rates
(monthly data, % points per year)



Bank solvency
(quarterly data, %)



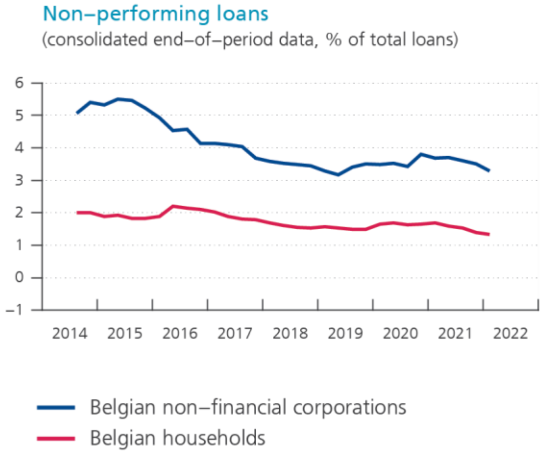
Loan-to-deposit ratio
(quarterly data, %)

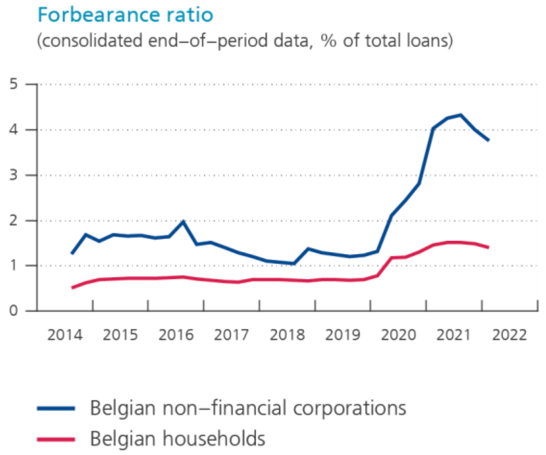
Current account
(quarterly data, % of GDP)

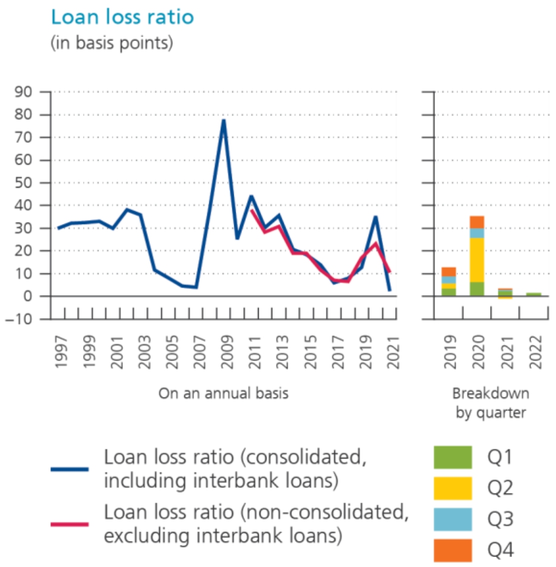
Net international investment position
(quarterly data, % of GDP)

Sources: Thomson Reuters, Refinitiv, NBB.

STATISTICAL ANNEX (cont.)







Sources: Thomson Reuters, Refinitiv, NBB.