The National Bank of Belgium,
a modern central bank at your service
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You have known us for more than 150 years. But do you really know who we are?

For most people, the National Bank of Belgium is the institution which puts money into circulation and prints banknotes: formerly Belgian francs, and nowadays euros. But we do more, much more than that, in the service of the Belgian economy.

We were in the front line for the launch of the single European currency. Together with the European Central Bank and the other central banks in the Eurosystem, we are responsible for our new currency and hence for its purchasing power. In addition to maintaining the stability of the currency, we also help to ensure that the Belgian financial sector runs smoothly. And of course, we are an important centre for research and information.

Guaranteeing stability in a constantly changing world does not mean that we cannot evolve. We are now working in a European context to offer you top-quality services, just as we have been doing for Belgium for more than 150 years.
The National Bank of Belgium, our country’s central bank
The institution that has the privilege of issuing notes and coins is called the central bank because other banks - the commercial banks - must apply to it to obtain banknotes.

Since 1850, the National Bank of Belgium has been the country’s central bank. It provides a public service, at both national and international level. Although the National Bank is a public limited liability company, its activities and the way it operates are dictated by the need to carry out its general-interest missions.

**European context**

Since 1 January 1999, it has been part of the Eurosystem, which comprises the European Central Bank (the ECB, based in Frankfurt) and the central banks of the countries which have adopted the euro. The Eurosystem conducts a single monetary policy, defined by the ECB Governing Council. The six members of the ECB Executive Board and the governors of the national central banks of the euro area countries, including the governor of the National Bank of Belgium, are members of that Council, which is the primary decision-making body of the Eurosystem. The National Bank takes part in preparing and executing the decisions of the Governing Council.

**Main tasks**

Modern central banks put banknotes into circulation, protect purchasing power and ensure the soundness of the financial system.

Those, briefly, are the fundamental tasks of a central bank as we enter the 21st century.

Almost all central banks also perform additional tasks for the benefit of the community. In the case of the National Bank of Belgium, these represent a substantial proportion of its activities. It manages several payment systems, publishes a large number of analyses and studies covering both the economy in general and certain specific sectors, and compiles and analyses most of Belgium’s economic and financial statistics. In addition, the National Bank runs the Central Balance Sheet Office, where all enterprises file their annual accounts, and two central credit registers: the Central Office for Credits to Individuals is the one most familiar to the public. The majority of these tasks are entrusted to the bank by law.

This booklet offers a brief explanation of some of the National Bank’s activities. Part 2 of the Bank’s Annual Report gives an account of these activities over the past year. All the National Bank’s publications are available on its website (www.nbb.be), where more detailed information may also be found.
Governance

The National Bank has always been a limited company with a difference. The pre-eminence of the public interest mission it has had right from the beginning, now anchored in the Treaty of the European Union (Maastricht Treaty), is reflected by a special form of governance, which differs by its very nature and objectives from the corporate governance of a company established under ordinary law.

However, its Organic Law, its own Statutes and EU rules subject the National Bank to strict requirements that are just as exacting as the recommendations of the Belgian corporate governance code. In its dual capacity as a central bank and a listed company, the Bank feels that it is its duty to explain its special status and the way it works. This is why it publishes a governance statement on its website. Since the launch of the euro, central banks have seen their independence strengthened, which, in turn, has raised their accountability for their own actions and decisions.

The composition and operation of the management and supervisory bodies reflect the special characteristics of the National Bank, a company in which the State is involved both as a shareholder and as a sovereign State offering a service of general interest. The governor directs the Bank. He presides over the Board of Directors and the Council of Regency and sees that their decisions are implemented. Apart from the governor, the Board of Directors comprises up to seven directors. The Board runs the institution and defines its policy direction. The governor and the directors each have direct authority over one or more of the Bank’s departments and services.

The Council of Regency is made up of the governor, the directors and ten regents. The regents represent the country’s various socio-economic interests. The Council of Regency discusses general questions relating to the economic situation in Belgium and in the European Union as a whole. It approves the annual accounts and budget, and also determines the distribution of profits. The Board of Censors, for its part, has ten members. Its main job is to supervise preparation and implementation of the budget. Last but not least, the general meeting is not actually an organ of the National Bank and does not have the same powers as shareholders within a company incorporated under ordinary law; these powers are largely in the hands of the Council of Regency, which represents the interests of Belgian society at large. The general meeting nevertheless elects the regents and censors (on the basis of proposals from the country’s main socio-economic organisations and the Finance Minister) and takes note of the administration’s report on the past year’s activities.
Since 1 January 1999, the National Bank has played an active part in defining and implementing monetary policy in the Eurosystem. The basic aim which the Maastricht Treaty assigned to the Eurosystem is to maintain price stability in the euro area.
The Eurosystem's monetary policy is conducted on the basis of two principles: decisions are taken centrally, and their implementation is largely decentralised. The main decisions are taken by the ECB’s Governing Council in accordance with the “one man, one vote” principle. Monetary policy operations are carried out by the national central banks. Banks wishing to obtain credit from the Eurosystem apply to their national central bank.

**The main objective: price stability**

The Member States which signed the Maastricht Treaty share the conviction that a monetary policy which preserves the purchasing power of the currency is the best way of helping to improve the economic outlook and raise the standard of living. Experience has shown that a general, persistent increase in prices (inflation) and falling prices (deflation) are both detrimental, as they distort the information contained in the price system, surreptitiously modifying the real value of contracts and savings, increasing uncertainty and hence impairing the efficient allocation of resources, harming investment and growth. Throughout a national economy, there are millions of prices for millions of different things and, at any given moment, some are going up and some are going down. What really counts is the general average of prices measured by the consumer price index.

To enable the public to judge the ECB’s actions and make it easier for the economic players to predict movements in prices, the ECB Governing Council defined the concept of “price stability“ as a rise in the consumer price index in the euro area of less than but close to 2 p.c. per annum.

The Eurosystem cannot be held responsible for short-term shocks, such as a price rise triggered by the rising cost of raw materials, like oil, on the international markets, but it can be held to account for the trend in prices. Its medium-term policy stance also enables it to produce a gradual, measured response to certain unexpected instances of economic disruption.

**A two-pillar strategy**

The Eurosystem does not have direct control over prices: the process by which the instruments of monetary policy influence prices is a lengthy one. That is why the Eurosystem should not just respond to observed changes in the consumer price index, but has to anticipate developments which could threaten future price stability. This action is based on a detailed examination of all available information, via a “two-pillar” structure: economic analysis and monetary analysis.

The purpose of economic analysis is to identify any short-term and medium-term risks to price stability. It is based on observation of a broad range of variables: price and cost indices (including labour costs), exchange rates, cyclical indicators, budgetary policy information, financial market indicators (such as long-term interest rates), etc. In particular, the ECB Governing Council takes account of the macroeconomic projections produced at regular intervals by the Eurosystem staff.

Monetary analysis provides additional information on the medium- and long-term risks to price stability. It examines the movement in the volume of money in circulation and the credit granted by banks in the euro area.
Operational aspects of monetary policy

The Eurosystem is the “bank of banks” for the euro area, as credit institutions have to obtain from it the liquidity they need to meet the demand for banknotes and to maintain reserves with the national central banks. By adjusting the conditions for granting this liquidity, the Eurosystem influences money market interest rates.

The main instruments used by the Eurosystem are:
1. market operations, where the weekly provision of credit with a one-week maturity plays a key role;
2. fine-tuning operations, through which liquidity is occasionally provided or absorbed;
3. the standing facilities, or “counters” where financial institutions can borrow or deposit funds overnight at pre-announced interest rates.

Monetary policy decisions are taken by the ECB Governing Council. It usually meets every other Thursday in Frankfurt, where it sets the rate at which one-week credit is granted to credit institutions - the main indicator of the Eurosystem’s monetary policy direction.

How do monetary policy decisions influence the economy?

The Eurosystem sets its interest rates and the volume of liquidity which it grants to banks. It thus exerts a decisive influence over very short-term interest rates at which the banks lend and borrow from one another on the money market.

How are prices influenced by this action affecting very short-term money market interest rates? Let us assume, for example, that inflationary pressures are increasing, following an oil price rise and strong expansion of economic activity in a context of high capacity utilisation rates. The central bank must then tighten its monetary policy: it makes money more expensive by raising very short-term interest rates on the money market. The commercial banks will pass on this increase in the rates which they offer their customers.

This rate increase makes borrowing more expensive for both businesses and individuals, curbing the expansion of credit. On the other hand, savings become more attractive when interest rates are higher, and this encourages households to restrain their consumption.

Consequently, raising interest rates will reduce demand for capital goods (equipment, buildings) and consumer goods. To remain competitive and retain their customers, firms will have to cut their prices, or at the very least keep them unchanged. If supply remains stable and demand weakens, inflation will come down.

Conversely, if there is no risk of inflation, the central bank can choose to leave its interest rates unchanged or cut them.

Management of the foreign exchange reserves

The National Bank holds and manages Belgium’s official foreign exchange reserves. They consist of gold, gold claims and foreign currencies. These reserves are managed on behalf of the Belgian economy and are in fact the country’s assets that can be used by the Bank for carrying out its public service, notably when it comes to monetary and exchange rate policy.
Ensuring a sound financial system

Apart from monetary stability, maintaining a financial system which is both efficient and sound is a key aim of any modern central bank.

The challenge lies in allowing the market mechanisms to operate freely while avoiding any major disruption of the financial system which could endanger all sectors of the economy. Financial stability requires three forms of policy: financial supervision, crisis prevention and crisis management.
Financial supervision

There are two aspects to financial supervision. First, there is the supervision of the soundness of individual institutions, known as microprudential supervision; in Belgium, this is the responsibility of the Banking, Finance and Insurance Commission (CBFA). In addition, there is macroprudential supervision, i.e. supervision over the smooth operation of the financial system as a whole and protection against serious crises.

The changing financial landscape in Belgium and in the world is bringing gradual internationalisation and decompartmentalisation of activities. This diversification has been accompanied by a process of concentration which has led to the creation of a small number of large institutions. In this context, it is crucial to prevent and control the systemic risk.

Furthermore, oversight of the securities payment and settlement systems is an essential activity for a central bank. While central banks are best known for issuing banknotes, they are also responsible for ensuring the security of each and every payment for the economy as a whole.

Systemic risk means the risk facing the entire financial system if certain credit institutions fail to meet their obligations towards other institutions. In this connection, we refer to the domino effect: if one institution does not have the necessary funds to pay another institution, that makes it difficult for the latter to meet its own obligations towards a third institution, and so on. One credit institution can therefore bring others down with it if it fails.

Crisis prevention

Prevention is based on a series of rules and standards promoting the secure and efficient operation of the financial system. These rules and standards come from a very wide range of spheres, such as the balance sheet structure of financial institutions, the risk control techniques and instruments, rules on competition and market access, arrangements for the circulation of financial information, or the principles ensuring market transparency and sound governance.

As regards prevention, the rules and standards applicable to financial markets and institutions are mainly laid down at supranational level. A growing number of Belgian laws and regulations applicable to financial institutions and markets implement EU directives or standards drawn up by international institutions, particularly the Basel Committee on banking supervision. The National Bank contributes to this work.
Crisis management

Even if the authorities keep a careful watch over financial markets and institutions, and even if there are appropriate laws and regulations in place, they still have to be prepared for possible financial accidents. The arrangements and structures set up for this purpose fall under the banner of crisis management, the third main aspect of the policy of safeguarding financial stability (alongside supervision and prevention). Central banks have their own particular responsibility in the event of a financial crisis because, as lender of last resort for the national financial system, they have to assess whether or not to grant emergency liquidity assistance to credit institutions in difficulty.

The Financial Stability Committee

The Boards of Directors of the National Bank and the Banking, Finance and Insurance Commission (CBFA) have stepped up their collaboration in the field of prudential supervision. This close cooperation has encouraged the emergence of new synergies and helped bring together teams working on complementary issues.

The Financial Stability Committee (FSC), comprising the Boards of Directors of the NBB and the CBFA, and chaired by the governor of the National Bank, is the cornerstone of financial sector supervision. It examines all questions which concern both the National Bank and the CBFA in the sphere of the stability of the financial system, including the coordination of crisis management.

In addition, the FSC strives to reinforce collaboration between the National Bank’s own teams in charge of payment systems oversight and those of the CBFA.
Banknote issuance

Banknote issuance, a prerogative of the National Bank of Belgium since 1850

Banknotes are the National Bank’s best-known product. Ever since 1850, the National Bank itself had always designed and printed the Belgian banknotes which it put into circulation. All the Belgian banknotes issued by the National Bank since 1944 can still be exchanged at its counters, without any time limit.
Since 2003, the National Bank has shared the right to issue euro banknotes with the other central banks of the Eurosystem, and it puts the euro banknotes into circulation in Belgium. It prints some of the euro banknotes that go into circulation. Specialising in the printing of 50 euro notes, it also produces other secure printed items.

The Belgian euro coins are struck by the Belgian Royal Mint, which falls under the responsibility of the Minister of Finance. Nevertheless, it is the National Bank that takes charge of putting coins into circulation on behalf of the State.

Euro banknotes are made entirely of cotton fibres. They very efficiently combine various security features and are therefore among the most secure in the world. The euro notes comprise a watermark, a security thread, an iridescent stripe and a hologram. In the case of denominations of 50 euro and above, the colour of the ink in certain areas varies if the note is tilted. The banknotes can be recognised by sight, but also by touch. Some parts are printed by copper engraving, giving them a perceptible relief. Euro coins have sophisticated technical characteristics, too, making them difficult to counterfeit.

How are banknotes put into circulation?

The public obtains banknotes from the counters and automatic teller machines operated by the banks. To meet the demand from their customers, the banks obtain supplies from the National Bank via security transport companies. The National Bank therefore has no control over the volume of banknotes in circulation, since that depends on demand for banknotes, which in turn is influenced by various factors such as the economic situation, the public’s preference for certain means of payment, and seasonal variations in household spending.

The banks aim to manage their stock of banknotes with maximum efficiency; that is why they withdraw or deposit banknotes every day at the National Bank. The Belgian central bank has developed a computer application which totally automates the handling and recording of the banknotes. That application has been adopted by other central banks of the Eurosystem. In the past ten years, a highly labour-intensive process - the handling of banknotes - has thus become a high-tech activity.

The banknotes paid in to the National Bank are meticulously counted and examined before being returned to circulation. On average, banknotes return to the National Bank every three to four months. They are checked by computerised sorting machines equipped with electronic sensors which verify the authenticity of the banknotes and their condition. Damaged or dirty banknotes are destroyed and replaced with new ones.

Seriously damaged or partially destroyed banknotes may be presented at the National Bank. Following examination of the notes, the owners are compensated in accordance with the Eurosystem rules.
Other services performed for the community

Interbank payments

Services performed for the State

Economic and financial information
Interbank payments

The National Bank is the focal point for interbank payments in Belgium. All transfers involving two banks are executed via the National Bank. One of the Eurosystem’s main tasks is to ensure the efficiency and security of payment systems. Since the introduction of the single currency, these tasks have acquired a European dimension, as one of the fundamental tasks of the Eurosystem is to promote the smooth operation of payment systems. Belgium is among the most efficient EU countries when it comes to dealing with book-entry and electronic payments. These payments are settled via the National Bank’s IT system. Nowadays, over 99.6 p.c. of transactions are exchanged and settled by automated systems.

The National Bank is actively involved in several payment systems. One of these systems handles relatively small payment amounts, which make up the vast majority of book-entry payments, like transfers, payment card and credit card transactions, standing orders and cheques. The introduction of the euro and the single monetary policy meant that payments needed to be exchanged quickly between the Member States of the Monetary Union, hence the creation of TARGET, a European payment system for exchanging euro-denominated payment orders within the European Union in real time.

Eventually, the Eurosystem wants to make book-entry payments in the euro area as efficient as they are today within the best-performing national payment systems. This is the object of the planned Single Euro Payment Area (SEPA), which above all implies converting national means of payment (bank transfers, standing orders and card payments) into standardised European instruments.

Services performed for the State

The National Bank provides a range of services free of charge for the Federal State. Most notably, it plays the role of State Cashier by handling the Federal State’s revenue and expenditure centrally in the account which the Belgian Treasury holds with the Bank. That account also records the balance of Post Office transactions as well as transactions carried out by the National Bank on behalf of the State in the context of government loan issues and the associated interest payments and redemptions.

The National Bank is effectively involved in issuing government loans and providing the associated financial service. These debt securities and their coupons are mainly repaid via credit institutions, which in turn submit them to the National Bank.

In addition, the National Bank is responsible for the day-to-day management of the Securities Regulation Fund, which performs various tasks relating to the secondary market in public debt securities. By intervening on the Stock Exchange, the Securities Regulation Fund gives individuals a guarantee that their orders for the purchase or sale of government loans will be executed at the right price.
Economic and financial information

The National Bank plays a key role in the collection, analysis and circulation of economic and financial information. That concerns both data relating to the Belgian economy in general, and information concerning individual businesses and economic agents. In addition, the government regularly consults the National Bank on economic and financial questions.

Macroeconomic information

The formulation and implementation of monetary policy and its coordination with other economic policies demand a great deal of preparation in the form of economic and financial analysis and research. The subjects studied by the National Bank are very diverse and include economic activity in Belgium and abroad, the labour market, price, cost and income trends, public finances and the financial markets.

Through its publications, the National Bank informs the public of the results of some of these analyses. Its best known publication is its Annual Report, which offers a full picture of Belgium’s economic and financial situation, reviewed in an international context. More specific studies are published in the Economic Review, the Financial Stability Review and Working Papers.

The National Bank also acts as an economic adviser via the participation of its representatives, as members or experts, in numerous national bodies, such as the High Council of Finance, the High Employment Council and the Central Economic Council.

Unlike other central banks, the National Bank compiles the majority of the national economic and financial statistics. In particular, it draws up the balance of payments, produces banking statistics, consumer and business confidence indicators and - on behalf of the National Accounts Institute - the national and regional accounts and the foreign trade statistics. The National Bank publishes statistics in various forms, and supplies numerous international organisations with the data they require on Belgium.

Microeconomic information

Apart from its work in the fields of statistics and macroeconomic research, the National Bank also holds a very extensive, central collection of microeconomic information since - at the request of the legislature - it runs a Central Balance Sheet Office and central credit registers.

The Central Balance Sheet Office collects the annual accounts of almost all companies active in Belgium, processes them and makes them available to anyone who is interested. On the basis of the data thus collected, the Central Balance Sheet Office publishes sectoral statistics. Since 1996, it has also collected the ‘social balance sheets’ which businesses and associations have to draw up. In addition, it sets up ‘company files’.
The Central Corporate Credit Register records loans of 25,000 euro or more, granted for business purposes by credit institutions established in Belgium. The participating institutions can consult these data, something which makes the central register an important tool for assessing credit risk. Since the beginning of 2005, this central register has exchanged data with the central registers of six other countries (Germany, Austria, Spain, France, Italy and Portugal).

As part of the policy of preventing excess debt, the legislature gave the National Bank the task of recording all consumer credit and mortgage loan contracts concluded for private purposes. That task is entrusted to the Central Office for Credits to Individuals, which records not only instances of payment default, but also current contracts with no payment arrears. Lenders have to consult the central register before granting a new loan. This gives them a fuller picture of the financial commitments of potential borrowers, enabling them to arrive at a more accurate assessment of the credit risk. Of course, consumers have access to the information recorded in their name, and if necessary they can assert their right to have those data corrected.

The data held by the Central Balance Sheet Office and the central credit registers, as well as the statistics which the National Bank compiles on behalf of the National Accounts Institute, can also be used to study branches of activity from a new angle. The National Bank therefore publishes sectoral studies at regular intervals. In this way, it provides statistical data for specialist readers and a wider public.

**Education: a special relationship**

The National Bank is an active partner for the education sector. At academic level, it aims to promote a better understanding of economic mechanisms. In particular, it sets up joint research projects with universities, presenting the findings at international conferences which are held every two years. It also organises specialised macroeconomic seminars and training programmes for young researchers.

The National Bank’s scientific library is one of Belgium’s leading libraries in the field of economics, finance and monetary policy; it contains works which are virtually unobtainable elsewhere.

In 2002, the National Bank’s Museum was totally refurbished, with the history of money as its central theme. Although the Museum is targeted at a broad public, its presentation was designed primarily to cater for the needs of teachers and educational projects.
The active role played by the National Bank in international cooperation is a consequence of its responsibilities as a national monetary authority and a member of the Eurosystem. That cooperation aims above all to guarantee the stability of the international monetary and financial system.
The National Bank takes part in the activities of the International Monetary Fund (IMF), which supervises the economic policy of its member countries. In consultation with the Belgian government authorities, it assists in preparing the positions defended by the Belgian Executive Director of the IMF, who heads a constituency composed of ten countries (Austria, Belarus, Belgium, Hungary, Kazakhstan, Luxembourg, the Czech Republic, Slovakia, Slovenia and Turkey). In addition, the National Bank finances Belgium’s contributions to the capital of the IMF, enabling it to support economic adjustment programmes in member countries experiencing balance of payments problems.

The Bank is also a member of the G10, which is made up of the United States, Japan, Germany, France, the United Kingdom, Italy, Canada, the Netherlands, Belgium and Sweden, a group that Switzerland has subsequently joined, too.

The National Bank is also one of the founding shareholders of the Basel-based Bank for International Settlements (BIS). As well as its job as a “bank for central banks”, this institution plays an important support role for the G10 committees and the Financial Stability Forum, which are responsible for oversight and regulation of the international financial system.

Similarly, the National Bank takes part in the deliberations of the Organisation for Economic Cooperation and Development (OECD), whose thirty members are industrialised countries committed to democracy and the market economy. The OECD is regarded as an important discussion forum.

In addition, the Bank plays an active part in the work carried out in its particular area of competence in expert groups convened by the Council of the European Union or the European Commission. It assists the Belgian State in international negotiations connected with its function as a monetary authority and it advises the government during World Trade Organisation (WTO) talks concerning liberalisation of financial services. Its experts regularly participate in international technical assistance missions in emerging economies or transition countries, mainly those forming part of the Belgian IMF constituency, also offering training and work placements for their representatives.