

**Quarterly decision of the National Bank of Belgium on the countercyclical buffer rate  
for 2020Q2: 0 %**

**Pursuant to Art. 5 §2 Annex IV to the Banking Law, the National Bank of Belgium has decided to reduce the countercyclical buffer rate for exposures in Belgium to 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.<sup>1</sup> 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.<sup>2</sup> 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. More generally, the analysis for the countercyclical capital buffer forms an integral part of the National Bank of Belgium's overall risk assessment framework, which covers a broad range of threats to the stability of the financial system.
4. The National Bank of Belgium has decided to reduce the countercyclical capital buffer rate for exposures in Belgium to 0 %. As the global economy is now facing significant challenges, the National Bank of Belgium no longer expects the impact of the coronavirus pandemic to be limited to financial markets but is also factoring in that the crisis could also affect the real economy, possibly leading to loan losses on banks' portfolios. Macroprudential action can in case of materialisation of these losses help to mitigate the potential procyclicality of the banking sector that could result from

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<sup>1</sup> "Setting the countercyclical buffer rate in Belgium: a policy strategy".

<sup>2</sup> 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.

such a scenario, and prevent further amplification of adverse shocks. In particular, releasing the CCyB early enough frees up capital buffers that can then be used to absorb any potential loan losses and thus contribute to ensuring financial intermediation services to the real economy and preserving financial stability. In previous communications, the National Bank of Belgium had clearly indicated its readiness to relax the countercyclical buffer requirements in the event of severe and persistent shocks. In the current exceptional circumstances and anticipating potential significant and long-lasting effects on global economic growth, the National Bank of Belgium therefore decided to preventively release the full countercyclical buffer for credit risk exposures to the Belgian private non-financial sector.

5. Based on current projections and risk assessments, the National Bank of Belgium expects not to increase the CCyB for a period of one year. Should there be major deviations from the base projections, the National Bank of Belgium will reassess this indicative period.
6. The decision of the National Bank of Belgium to release the CCyB is based on the anticipation of impacts on loan portfolios. Some of the indicators mentioned in Table 1, including the credit gap as well as bank credit growth rates might be less relevant in the context of the current decision to release the CCyB. In the latter regime, the National Bank of Belgium focuses more on the evolution of credit quality indicators (e.g. NPLs, IFRS9 stage transitions) and override the (potentially procyclical) signals that could follow from the standard indicators mentioned in Table 1.

**Table 1: Key indicators<sup>1</sup>**

Variable	Unit	Latest period	Value
<b>Non-financial private sector credit cycle (resident bank loans)</b>			
<u>Preferred credit-to-GDP gap</u>	% GDP	2019 Q4	2.1
<u>Households</u>	% GDP	2019 Q4	0.1
<u>Non-financial corporations</u>	% GDP	2019 Q4	2.0
<u>CCyB guide related to preferred credit gap<sup>2</sup></u>	% RWA	2019 Q4	0.02%
<u>Standardised credit-to-GDP gap</u>	% GDP	2019 Q3	-18.4
<u>CCyB guide related to standardized credit gap<sup>2</sup></u>	% RWA	2019 Q3	0
<u>Bank loan growth</u>	y-o-y %	2020 M1	5.1
<u>Households</u>	y-o-y %	2020 M1	5.8
<u>Non-financial corporations</u>	y-o-y %	2020 M1	4.1
<i>p.m. Credit-to-GDP ratio<sup>3</sup></i>	% GDP	2019 Q4	83.2
<b>Non-financial private sector resilience</b>			
<u>Debt-to-GDP ratio</u>	% GDP	2019 Q3	124.9
<u>Households</u>	% GDP	2019 Q3	61.1
<u>Non-financial corporations</u>	% GDP	2019 Q3	63.7
<u>Net financial assets</u>	% GDP	2019 Q3	138.6
<b>Financial and assets markets</b>			
<u>Equity prices, nominal (Euro Stoxx 50)</u>	y-o-y %	2020 M02	15.9
<u>Price-earnings ratio (Euro Stoxx 50)<sup>4</sup></u>	–	2020 M02	19.1
<u>House prices, nominal</u>	y-o-y %	2019 Q3	3.6
<u>House prices, real</u>	y-o-y %	2019 Q3	2.3
<u>10-year government bond yield</u>	% points/y	2020 M1	-0.13
<u>Bank lending rate on mortgage loans to households</u>	% points/y	2019 M12	1.6
<u>Bank lending rate on loans to non-financial corporations</u>	% points/y	2019 M12	1.5
<b>Banking sector resilience</b>			
<u>CET 1 capital ratio</u>	%	2019 Q4	15.3
<u>Equity-to-total assets ratio</u>	%	2019 Q4	7.4
<u>Loan-to-deposit ratio</u>	%	2019 Q4	95.9
<b>External imbalances</b>			
<u>Current account</u>	% GDP	2019 Q3	-1.7
<u>Net international investment position</u>	% GDP	2019 Q3	48.9

Sources: Thomson Reuters, NBB.

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

<sup>2</sup> CCyB guides are expressed in percentage of risk-weighted assets.

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

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

# STATISTICAL ANNEX

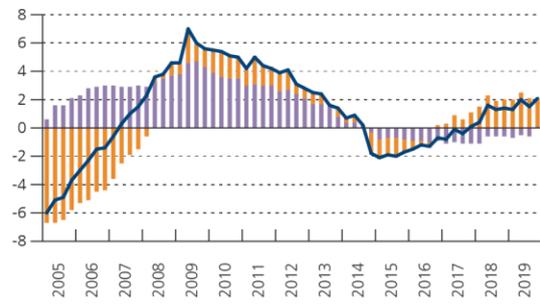
## CREDIT-TO-GDP GAP

(quarterly data, % GDP)



## CREDIT-TO-GDP GAP: SECTORAL BREAKDOWN

(quarterly data, contributions in % GDP)



Households      Credit-to-GDP gap  
NFCs

## BANK LOAN GROWTH

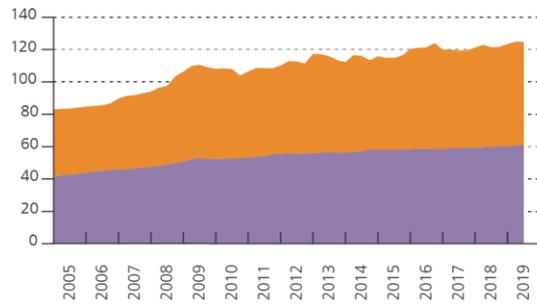
(monthly data, y-o-y % changes)



Loans to households  
Loans to NFCs

## NON-FINANCIAL PRIVATE SECTOR DEBT

(quarterly data, % GDP)



Households  
NFCs

## EQUITY PRICES

(monthly data, Euro Stoxx 50 index)



Price-earnings ratio (left-hand scale)  
Equity prices (y-o-y % changes, right-hand scale)

## HOUSE PRICES

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



Nominal house prices  
Real house prices

Sources: Thomson Reuters, Refinitiv, NBB.

## STATISTICAL ANNEX (cont.)

### SHORT- AND LONG-TERM INTEREST RATES

(monthly data, % points per year)



— 3-month OIS  
— 10-year government bond yield

### BANK LENDING RATES

(monthly data, % points per year)



— Households (mortgage loans, maturity over 10 years)  
— NFCs (maturity over 5 years)

### BANK SOLVENCY

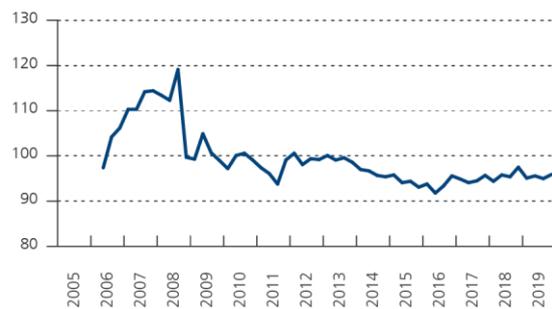
(quarterly data, %)



— Equity-to-total asset ratio (accounting value, left-hand scale)  
- - - CET1 capital ratio (right-hand scale)

### 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.