

**Quarterly decision of the National Bank of Belgium on the countercyclical buffer rate
for 2022Q2: 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) increase 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. In the quarters that followed the release of the CCyB, the Belgian banking sector booked a significant amount of credit provisions (€ 3.1 billion in 2020), granted a large amount of moratoria (reaching a peak level of respectively 6% and 13 % of loans to Belgian households and non-financial corporations in September 2020) and offered debt restructuring to viable but over-

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.

indebted non-financial corporations (with a forbearance ratio for NFC loans quadrupling from 1% before the pandemic to currently 4 %).

5. Over the first weeks of 2022, the need for such a support to help banks fulfill their critical role in an economic crisis seemed to have reduced significantly.
6. At the same time, credit growth indicators showed a renewed dynamism that was comparable to the situation in 2019 when the activation of the CCyB was first announced in Belgium. This would have called for a reactivation of the CCyB in the near future. Yet, given the current uncertainty regarding macro-financial developments, the NBB currently adopts a wait-and-see approach.
7. Based on aforementioned elements including the economic and financial fall-out of the war in Ukraine, the NBB has decided to maintain the CCyB rate at 0% for 2022 Q2 and will assess whether a reactivation of the countercyclical buffer in the third quarter is a realistic policy orientation.

Table 1: Key indicators¹

Variable	Unit	Latest period	Value
Non-financial private sector credit cycle (resident bank loans)			
<u>Preferred credit-to-GDP gap</u>	% GDP	2021 Q4	0.6
<u>Households</u>	% GDP	2021 Q4	-1.0
<u>Non-financial corporations</u>	% GDP	2021 Q4	1.5
<u>CCyB guide related to preferred credit gap²</u>	% RWA	2021 Q4	0.0
<u>Standardised credit-to-GDP gap</u>	% GDP	2021 Q3	-20.7
<u>CCyB guide related to standardized credit gap²</u>	% RWA	2021 Q3	0.0
<u>Bank loan growth</u>	y-o-y %	2021 M12	5.0
<u>Households</u>	y-o-y %	2021 M12	5.5
<u>Non-financial corporations</u>	y-o-y %	2021 M12	4.3
<u>p.m. Credit-to-GDP ratio³</u>	% GDP	2021 Q4	85.3
Non-financial private sector resilience			
<u>Debt-to-GDP ratio</u>	% GDP	2021 Q3	124.4
<u>Households</u>	% GDP	2021 Q3	63.3
<u>Non-financial corporations</u>	% GDP	2021 Q3	61.1
<u>Net financial assets</u>	% GDP	2021 Q3	143.5
Financial and assets markets			
<u>Equity prices, nominal (Euro Stoxx 50)</u>	y-o-y %	2022 M01	18.4
<u>Price-earnings ratio (Euro Stoxx 50)⁴</u>	–	2022 M01	17.8
<u>House prices, nominal</u>	y-o-y %	2021 Q3	9.9
<u>House prices, real</u>	y-o-y %	2021 Q3	7.5
<u>10-year government bond yield</u>	% points/y	2022 M01	0.26
<u>Bank lending rate on mortgage loans to households</u>	% points/y	2021 M11	1.4
<u>Bank lending rate on loans to non-financial corporations</u>	% points/y	2021 M11	1.4
Banking sector resilience			
<u>CET 1 capital ratio</u>	%	2021 Q3	17.7
<u>Equity-to-total assets ratio</u>	%	2021 Q3	7.0
<u>Loan-to-deposit ratio</u>	%	2021 Q3	88.7
External imbalances			
<u>Current account</u>	% GDP	2021 Q3	2.2
<u>Net international investment position</u>	% GDP	2021 Q3	53.7

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.

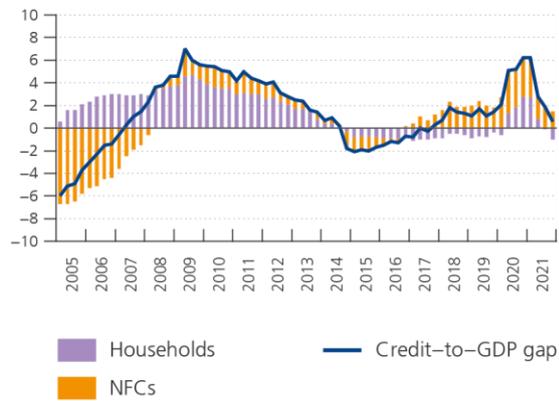
⁴ Price earnings (P/E) ratio is a trailing (12 months) P/E ratio.

STATISTICAL ANNEX

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



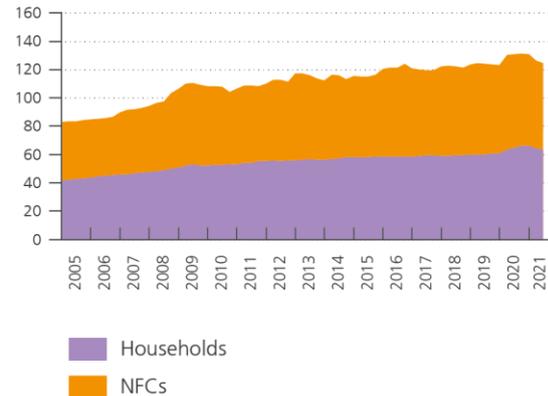
Credit-to-GDP gap: sectoral breakdown
(quarterly data, contributions in % GDP)



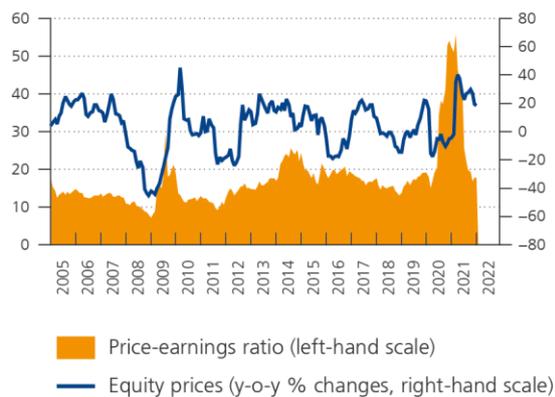
Bank loan growth
(monthly data, y-o-y % changes)



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



Equity prices
(monthly data, Euro Stoxx 50 index)



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

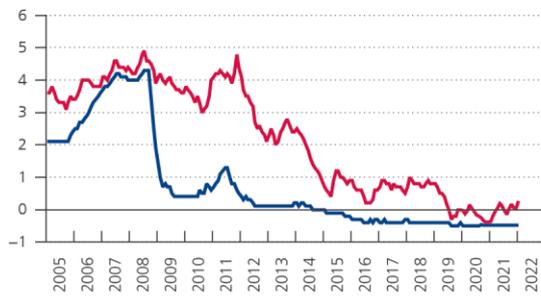


Sources: Thomson Reuters, Refinitiv, NBB.

STATISTICAL ANNEX (cont.)

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

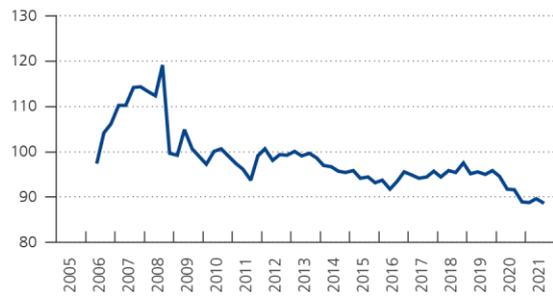
(quarterly data, %)



— 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.