

**Quarterly decision of the National Bank of Belgium on the countercyclical buffer rate
for 2023Q2: 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.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. To ensure that Belgian banks continue to have full flexibility to use their ample available capital to raise credit provisions in a pro-active way and to support the real economy, the NBB decided on 28 March 2023 to maintain the countercyclical capital buffer (CCyB) rate at 0% for the second quarter of 2023. The amount of capital of around € 1 billion provided to Belgian banks by the NBB's decision in September 2022 to not activate the CCyB — at a time when the financial, credit and real estate cycles were starting to turn — should thus continue to be used to (i) maintain credit to households and non-financial corporations, without an undue procyclical tightening of credit conditions; (ii) offer debt restructuring solutions to clients with temporary or more structural loan repayment problems and this in a pro-active way; (iii) increase credit risk provisions, where necessary, in light of a

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.

potential materialisation of risks on assets accumulated during the low interest rate environment and in the upward phase of the credit cycle.

5. The National Bank of Belgium's CCyB decision was based on a thorough assessment of all relevant data. The Belgian banks proved very resilient to the recent events in the US and Swiss banking sectors and they had no significant exposures to the institutions that required support. The most recent developments should nevertheless serve as a timely reminder for Belgian banks that periods of tightening financial conditions often go hand in hand with a materialisation of risks that remained below the water line when interest rates were low, credit and liquidity conditions ample and asset prices high. Belgian banks therefore need to remain very vigilant for losses in the current downward phase of the financial, credit and real estate cycles and beware of not exacerbating this downturn by a procyclical tightening of credit conditions in response to the most recent events.
6. In the current macro-financial context, the NBB also requests financial institutions to remain cautious in their decisions regarding dividends and other types of profit distributions and to base these decisions on a conservative forward assessment of their capital and provisioning needs in light of potential macroeconomic developments. This is all the more necessary at a moment when the cost of equity and of other capital instruments, such as AT1-bonds, is expected to remain high for some time in response to the most recent developments.
7. The NBB will continue to closely monitor Belgian banks' use of the capital room provided by the current CCyB decision to support credit volumes and credit conditions, offer debt restructuring to assist debtors and raise the level of credit risk provisions for potential future credit losses.

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	2022 Q4	-2.8
<u>Households</u>	% GDP	2022 Q4	-3.2
<u>Non-financial corporations</u>	% GDP	2022 Q4	0.4
<u>CCyB guide related to preferred credit gap²</u>	% RWA	2022 Q4	0.0
<u>Standardised credit-to-GDP gap</u>	% GDP	2022 Q3	-27.4
<u>CCyB guide related to standardized credit gap²</u>	% RWA	2022 Q3	0.0
<u>Bank loan growth</u>	y-o-y %	2023 M01	5.3
<u>Households</u>	y-o-y %	2023 M01	5.2
<u>Non-financial corporations</u>	y-o-y %	2023 M01	5.5
<i>p.m. Credit-to-GDP ratio³</i>	% GDP	2022 Q4	82.6
Non-financial private sector resilience			
<u>Debt-to-GDP ratio</u>	% GDP	2022 Q3	118.3
<u>Households</u>	% GDP	2022 Q3	60.6
<u>Non-financial corporations</u>	% GDP	2022 Q3	57.7
<u>Net financial assets</u>	% GDP	2022 Q3	137.1
Financial and assets markets			
<u>Equity prices, nominal (Euro Stoxx 50)</u>	y-o-y %	2023 M02	3.8
<u>Price-earnings ratio (Euro Stoxx 50)⁴</u>	–	2023 M02	14.6
<u>House prices, nominal</u>	y-o-y %	2022 Q3	6.3
<u>House prices, real</u>	y-o-y %	2022 Q3	-2.7
<u>10-year government bond yield</u>	% points/y	2023 M02	3.0
<u>Bank lending rate on mortgage loans to households</u>	% points/y	2023 M01	3.0
<u>Bank lending rate on loans to non-financial corporations</u>	% points/y	2023 M01	3.6
Banking sector resilience			
<u>CET 1 capital ratio</u>	%	2022 Q4	17.3
<u>Equity-to-total assets ratio</u>	%	2022 Q4	7.1
<u>Loan-to-deposit ratio</u>	%	2022 Q4	92.0
External imbalances			
<u>Current account</u>	% GDP	2022 Q3	-4.1
<u>Net international investment position</u>	% GDP	2022 Q3	58.8
Asset quality			
<u>NPL ratio</u>			
<u>Belgian non-financial corporations</u>	% total loans	2022 Q4	3.15
<u>Belgian households</u>	% total loans	2022 Q4	1.18
<u>Forbearance ratio</u>			
<u>Belgian non-financial corporations</u>	% total loans	2022 Q4	3.04
<u>Belgian households</u>	% total loans	2022 Q4	1.29
<u>Loan loss ratio⁵</u>			
<u>Consolidated, including interbank loans</u>	b.p.	2022	9.8
<u>Non-consolidated, excluding interbank loans</u>	b.p.	2022	9.3

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.

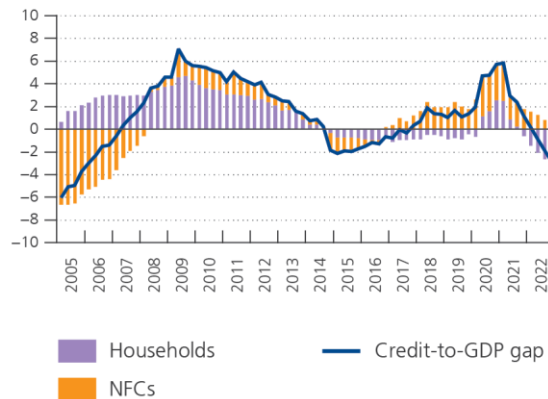
⁵ The loan loss ratio is the net flow of new impairments for credit losses, expressed as a percentage of the total stock of loans (one basis point is one-hundredth of one per cent).

STATISTICAL ANNEX

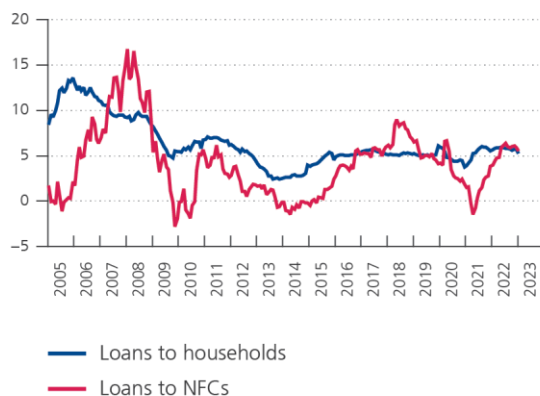
Credit-to-GDP gap
(quarterly data, % GDP)



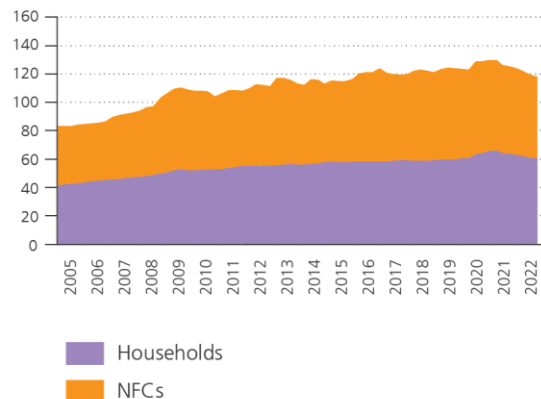
Credit-to-GDP gap: sectoral breakdown
(quarterly data, contributions in % GDP)



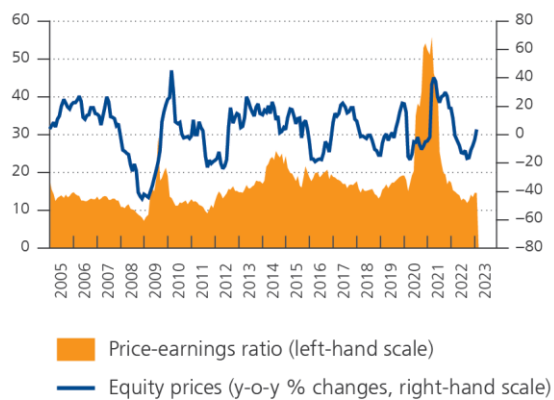
Bank loan growth
(monthly data, y-o-y % changes)



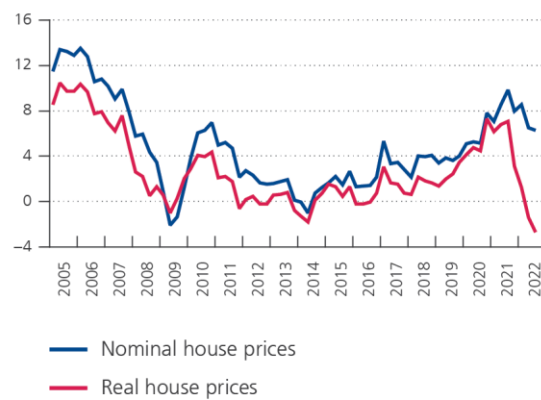
Non-financial private sector debt
(quarterly data, % GDP)



Equity prices
(monthly data, Euro Stoxx 50 index)



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

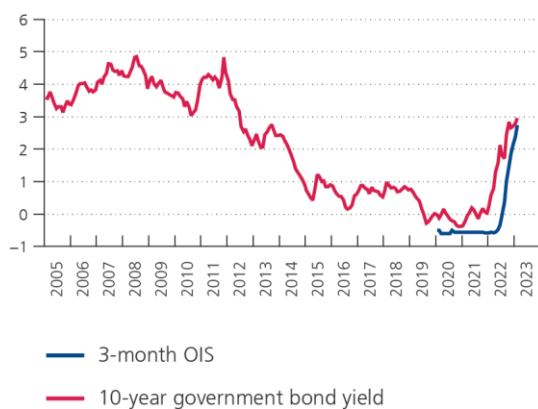


Sources: Thomson Reuters, Refinitiv, NBB.

STATISTICAL ANNEX (cont.)

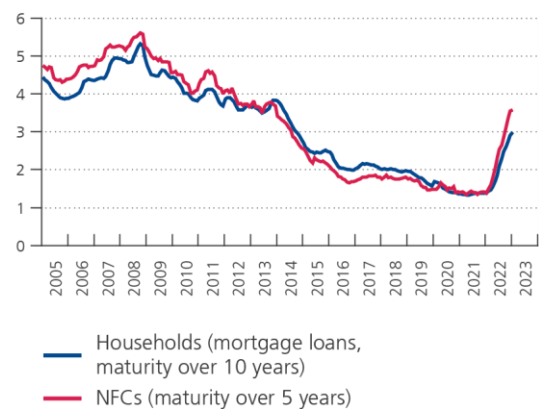
Short- and long-term interest rates

(monthly data, % points per year)



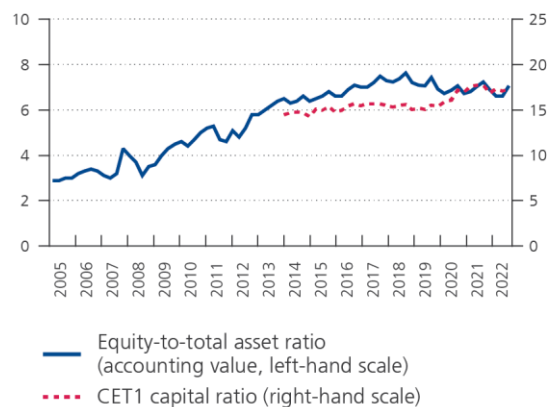
Bank lending rates

(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)

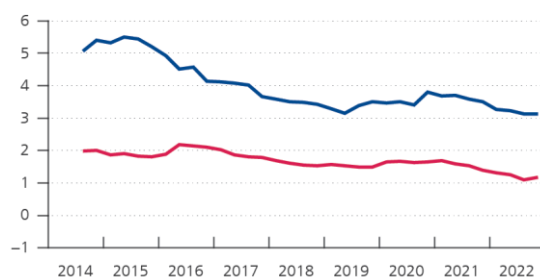


Sources: Thomson Reuters, Refinitiv, NBB.

STATISTICAL ANNEX (cont.)

Non-performing loans

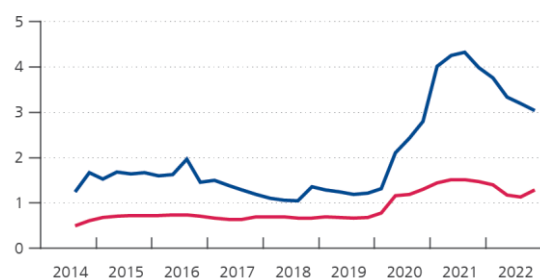
(consolidated end-of-period data, % of total loans)



— Belgian non-financial corporations
— Belgian households

Forbearance ratio

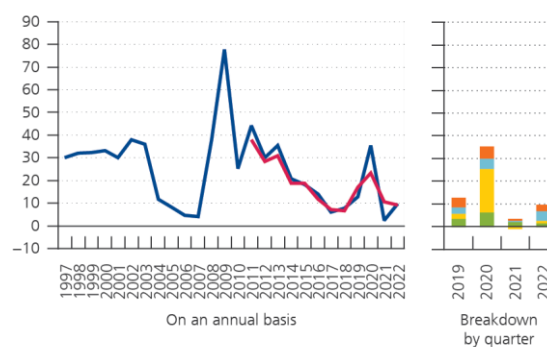
(consolidated end-of-period data, % of total loans)



— Belgian non-financial corporations
— Belgian households

Loan loss ratio

(in basis points)



— Loan loss ratio (consolidated, including interbank loans)
— Loan loss ratio (non-consolidated, excluding interbank loans)

■ Q1
■ Q2
■ Q3
■ Q4

Sources: NBB.