Quarterly decision of the National Bank of Belgium on the countercyclical buffer rate for 2023Q3: 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. In 2022 and the first half of 2023, amidst high uncertainty caused by a potential energy crisis, turning credit and real estate cycles and turbulence in the US and Swiss banking sectors, the NBB decided to maintain the CCyB at 0% to ensure that Belgian banks had full flexibility to use their ample available capital to raise credit provisions in a pro-active way and to support the real economy. This uncertainty has since dissipated to a significant extent. Moreover, the downturn in the Belgian credit and real estate cycles has been quite orderly so far, not in the least due to the moderate lengthening of mortgage maturities (welcomed by the NBB) which has helped offset the negative impact of higher interest rates on the affordability of new mortgage loans.

[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.

5. Against this backdrop, the NBB will consider re-activating the CCyB for the quarter starting on 1 October 2023 based on an analysis weighing the costs of procyclicality against the benefits of heightened resilience of the Belgian banking system to potential losses. The pass-through of tighter financial conditions to the real economy is a gradual process, one that is still ongoing. Banks therefore remain exposed to unexpected losses from the materialisation of risks that remained below the water line when interest rates were low, credit and liquidity conditions ample and asset prices high. As banks' credit risk provisions for expected losses have fallen back to levels seen before the pandemic, re-activation of the CCyB would increase their resilience to potentially higher than expected losses.
6. CCyB decisions are revisited each quarter, in accordance with European regulations and the NBB's macroprudential powers under the 2014 Banking Act..

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	2023 Q1	-3.3
Households	% GDP	2023 Q1	-3.6
Non-financial corporations	% GDP	2023 Q1	0.3
CCyB guide related to preferred credit gap[2]	% RWA	2023 Q1	0.0
Standardised credit-to-GDP gap	% GDP	2022 Q4	-30.0
CCyB guide related to standardized credit gap[2]	% RWA	2022 Q4	0.0
Bank loan growth	y-o-y %	2023 M04	4.5
Households	y-o-y %	2023 M04	4.2
Non-financial corporations	y-o-y %	2023 M04	5.1
p.m. Credit-to-GDP ratio[3]	*% GDP*	*2023 Q1*	*82.2*
Non-financial private sector resilience			
Debt-to-GDP ratio	% GDP	2022 Q4	118.5
Households	% GDP	2022 Q4	60.7
Non-financial corporations	% GDP	2022 Q4	57.8
Net financial assets	% GDP	2022 Q4	128.5
Financial and assets markets			
Equity prices, nominal (Euro Stoxx 50)	y-o-y %	2023 M05	17.0
Price-earnings ratio (Euro Stoxx 50)[4]	–	2023 M05	13.9
House prices, nominal	y-o-y %	2022 Q3	6.3
House prices, real	y-o-y %	2022 Q3	-2.7
10-year government bond yield	% points/y	2023 M05	3.0
Bank lending rate on mortgage loans to households	% points/y	2023 M03	3.2
Bank lending rate on loans to non-financial corporations	% points/y	2023 M03	3.9
Banking sector resilience			
CET 1 capital ratio	%	2023 Q1	17.0
Equity-to-total assets ratio	%	2023 Q1	7.0
Loan-to-deposit ratio	%	2023 Q1	93.2
External imbalances			
Current account	% GDP	2022 Q4	-3.6
Net international investment position	% GDP	2022 Q4	53.9
Asset quality			
NPL ratio			
Belgian non-financial corporations	% total loans	2023 Q1	3.21
Belgian households	% total loans	2023 Q1	1.19
Forbearance ratio			
Belgian non-financial corporations	% total loans	2023 Q1	2.69
Belgian households	% total loans	2023 Q1	1.31
Loan loss ratio[5]			
Consolidated, including interbank loans	b.p.	2022	9.8
Non-consolidated, excluding interbank loans	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.

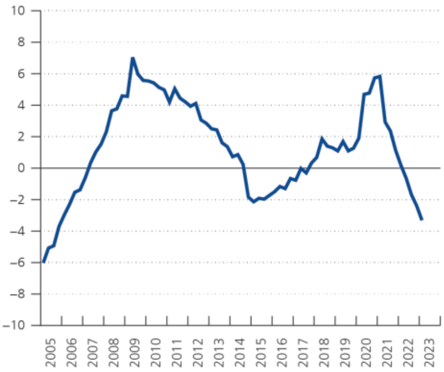
[3] Outstanding amounts of loans granted by resident monetary financial institutions to households and non-financial corporations, including those securitized, in percentage of GDP.

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

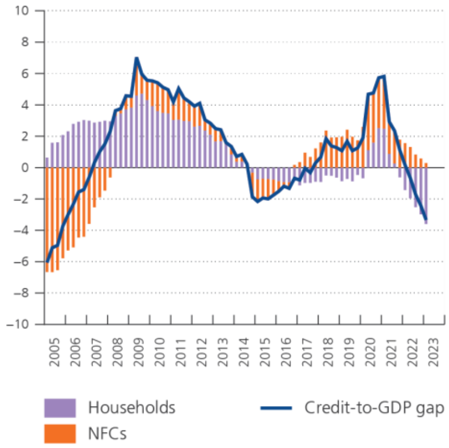
[5] The loan loss ratio is the net flow of new impairments for credit losses, expressed as a percentage of the total stock of loans (one basis point is one-hundredth of one per cent).

STATISTICAL ANNEX

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

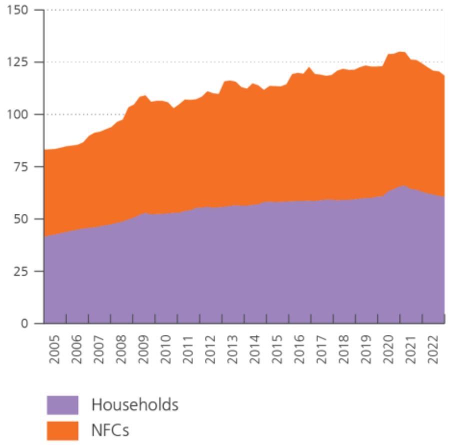


Credit-to-GDP gap: sectoral breakdow
(quarterly data, contributions in % GDP)

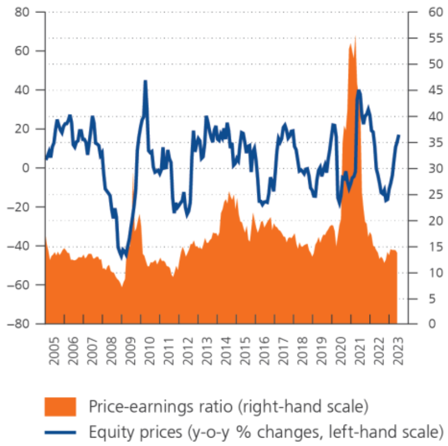


Bank loan growth
(monthly data, y-o-y % changes)

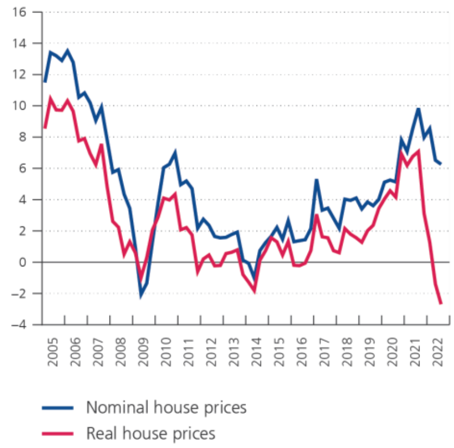
Non-financial private sector debt
(quarterly data, % GDP)



Equity prices
(monthly data, Euro Stoxx 50 index)



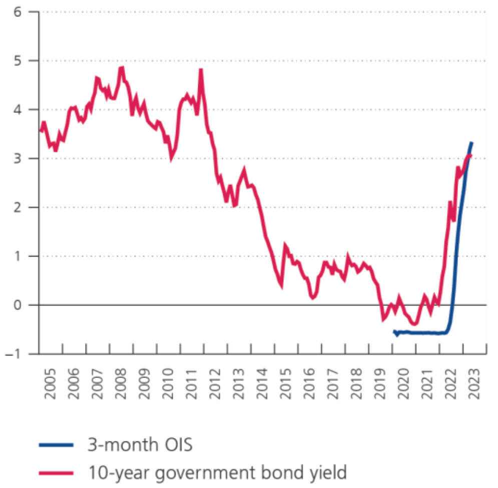
House prices
(quarterly data, y-o-y % changes)



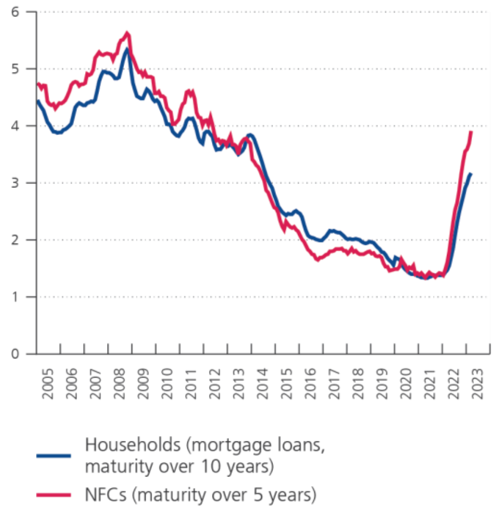
Sources: Thomson Reuters, Refinitiv, NBB.

STATISTICAL ANNEX (cont.)

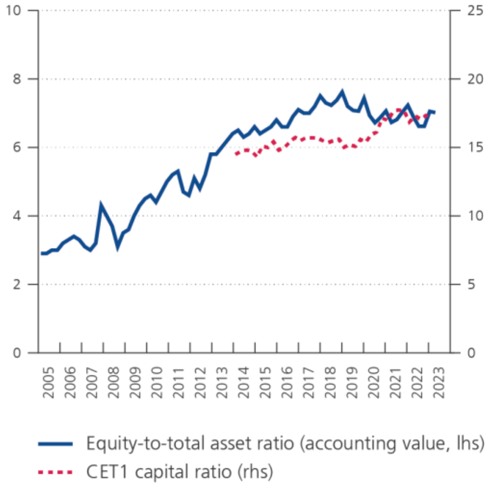
Short- and long-term interest rates
(monthly data, % points per year)



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

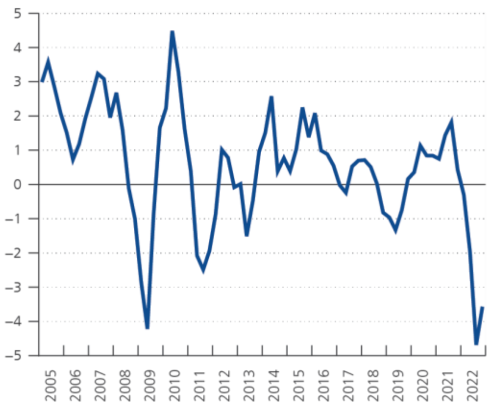


Bank solvency
(quarterly data, %)

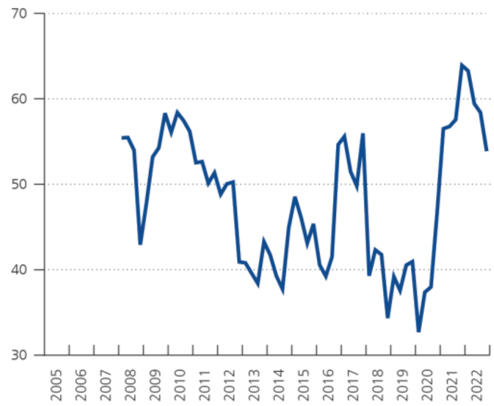


Loan-to-deposit ratio
(quarterly data, %)

Current account
(quarterly data, % of GDP)



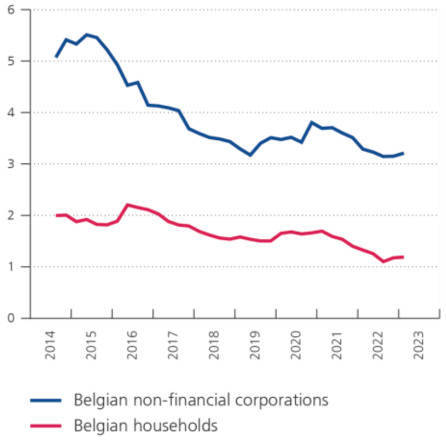
Net international investment position
(quarterly data, % of GDP)



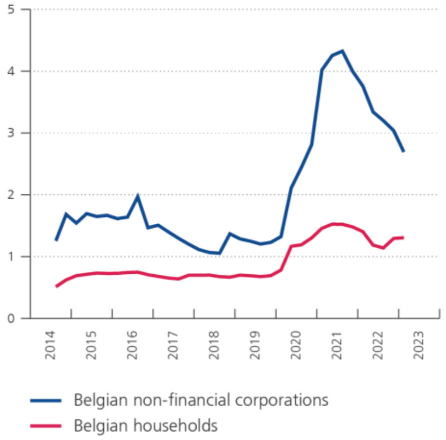
Sources: Thomson Reuters, Refinitiv, NBB.

STATISTICAL ANNEX (cont.)

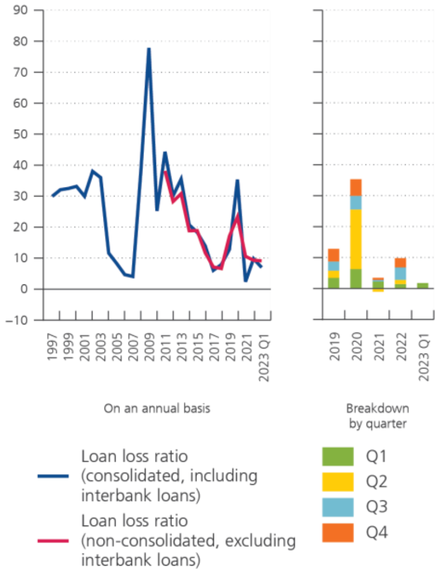
Non-performing loans
(consolidated end-of-period data, % of total loans)



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



Loan loss ratio
(in basis points)



Sources: NBB.