PRESS RELEASE

Market release by the National Bank of Belgium

Context

The National Bank of Belgium ("the Bank") has duly noted the letter from Mr Klaas Knot, president of the Dutch central bank, De Nederlandsche Bank (DNB), to Ms Sigrid Kaag, the Dutch finance minister, on the subject of the DNB’s capital position, posted yesterday on the DNB’s website.¹ The Bank is aware that this letter may raise questions about the potential impact of the developments mentioned therein, in particular monetary policy shifts, on its own annual results.

Recent monetary policy developments, more specifically the European Central Bank's (ECB) consecutive interest rate hikes of 50 and 75 basis points, respectively, will adversely affect the financial results of central banks in the Eurosystem. The Bank has pointed out this risk in its corporate reports, most recently its Corporate Report 2021.²

In this context, the Bank wishes to call attention to its tasks as a national central bank in the Eurosystem whose primary mission is to maintain price stability. In this regard, the Bank participates in the implementation of monetary policy centrally determined by the Governing Council of the European Central Bank. The performance of these public interest tasks entails financial risks which are liable to lead to losses.

Based on its most recent risk scenarios, the Bank expects to end financial year 2022 with a loss. Moreover, the risk assessment indicates that losses will continue to mount in the coming financial years.

This is due in part to revaluation of the Bank's investment portfolios. However, the main contributing factor is the rising cost of financing monetary policy portfolios: interest expenses on the deposits held by credit institutions with the Bank have increased, against the low yields at which the mostly long-term - securities in those portfolios were acquired.³

The aforementioned risk scenarios are still subject to various uncertainties, including the possibility of further monetary policy shifts  and market fluctuations, so that the Bank is unable at this time to predict with sufficient reliability the impact these developments will have on its results on the balance sheet date (31 December 2022). Nor can it be determined at this stage whether the dividend for financial year 2022 will be affected.

The impact will become clearer in the coming months, and the Bank will communicate on this subject at the appropriate time, when more concrete information can be provided.

³ This is explained as follows in the Bank’s Corporate Report 2021: “Owing to the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), the counterpart to an increasing proportion of the assets on the Bank’s balance sheet is no longer banknotes but other liabilities such as the current accounts of credit institutions and the deposit facility, remunerated at a pre-determined (positive or negative) short-term interest rate. That increases the longer-term interest rate risk”.
⁴ The ECB Governing Council has indicated that it expects interest rates to be raised further. Future decisions on interest rates will continue to be data-dependent and follow a meeting-by-meeting approach. For more information, visit https://www.ecb.europa.eu/press/pressconf/2022/html/ecb.is220908-cd8363c58e.en.html.
Explanation

For years, the Bank has considered the possibility of loss scenarios brought on by an interest rate hike.\(^5\) For example, the Bank’s Corporate Report 2021 states as follows:

_The growing volume and the composition of the balance sheet, in particular the APP and the PEPP, imply the risk of seeing the Bank’s results coming under pressure, especially in the event of a rise in interest rates. In such conditions, the Bank is maintaining its reserve policy at 50% of the profits for the year for as long as the period of non-conventional monetary measures persists._ (…)\(^5\)

With this in mind, the Bank modified its reserve policy in 2016\(^6\) and has set aside 50% of its profit every year since. Indeed, the Bank’s reserves act as a financial buffer in the event of losses. In keeping with the aforementioned policy, a negative result for the financial year\(^7\) is first charged to the available reserve, which currently stands at €4.76 billion. If necessary, any excess can be covered by the reserve fund, which currently stands at €2.65 billion.\(^8\) These buffers will have to be used for the first time at the end of this year to absorb the expected loss. At this time, it is not clear how large the loss will be and whether it will impact dividend distribution.

Set out below are the general principles governing the Bank’s dividend policy since 2009.

The Bank’s dividend consists of two components, namely a fixed (or base) dividend of €1.5 per share and a variable dividend amounting to 50% of the net return on the statutory portfolio, provided there is sufficient profit. The statutory portfolio consists of assets that form a counterpart to the reserve fund and the available reserve.

The fixed dividend is covered by the available reserve and the reserve fund, even when full-year earnings are negative.

The variable dividend is covered by the available reserve, unless a drawdown from the latter results in a level of reserves deemed insufficient to cover the estimated risks. Priority is given to ensuring the financial soundness and independence of the Bank.

Given current developments and the fact that various factors remain uncertain, it is not possible at this stage to determine whether the level of reserves will be sufficient to cover the estimated risks on the balance sheet date (31 December 2022). Consequently, the distribution of a variable dividend for financial year 2022 is uncertain at this time. This is all the more true for financial years 2023 and 2024.

The Bank is closely monitoring the situation and will inform the market when the impact of these developments on its annual results and, possibly, its dividend distribution becomes clearer.

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\(^5\) On the last balance sheet date (31 December 2021), the lower limit of the financial risks to which the Bank was exposed was estimated at €5.8 billion.


\(^7\) It should be recalled that the results for the financial year form a first buffer for the absorption of losses.

\(^8\) It should be noted that the reserve fund also consists of €324.79 million in depreciation accounts. These are not included in the calculation of the Bank’s total financial buffers, which consequently amount to €7.08 billion.