Financial Stability Report 2025



175 years

National Bank OF BELGIUM

Eurosystem

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Macroprudential Report

Introduction

The National Bank of Belgium was officially designated as the macroprudential authority for Belgium by the Act of 25 April 2014. In this capacity, the Bank closely monitors developments in the financial sector and focuses in particular on detecting risks that could jeopardise the stability of the financial system. When such systemic risks arise, the Bank is authorised to adopt the macroprudential measures necessary to prevent their aggravation and to reduce the financial sector's vulnerability and exposure to these risks. These measures can be of different kinds and take the form, in particular, of the imposition of additional capital requirements having regard to changes in the financial cycle, specific exposures of the financial sector or the systemic nature of certain institutions. The main aim of these various measures is to increase the resilience of the financial sector. They may also seek to orientate the lending policies of financial institutions, in which case the main objective is to prevent the emergence of new risks. In addition to adopting such measures, the Bank may also issue recommendations to other authorities empowered to implement certain provisions. On an annual basis, the Bank issues a Macroprudential Report, explaining how it has fulfilled its role as guarantor of the stability of the financial system.

This Macroprudential Report provides an overview of the Bank's macroprudential policy and places it in the current macroeconomic and macrofinancial context. Developments specific to the Belgian financial sector and operating environment are examined in detail in the Financial Stability Overview.

The first section provides an overview of the main focus areas for financial stability and examines the resilience shown by the financial sector in recent years. The second section focuses on macroprudential policy in Belgium. The third section addresses a number of additional points for attention relevant to financial stability. In particular, it covers the positions adopted by the Bank in two current discussions concerning the prudential framework in the broad sense and identifies certain risks linked to the geopolitical context. The final section sets out the conclusion and includes a series of recommendations.

1. Points for attention to ensure financial stability and financial sector resilience

1.1 Overview of the main points for attention

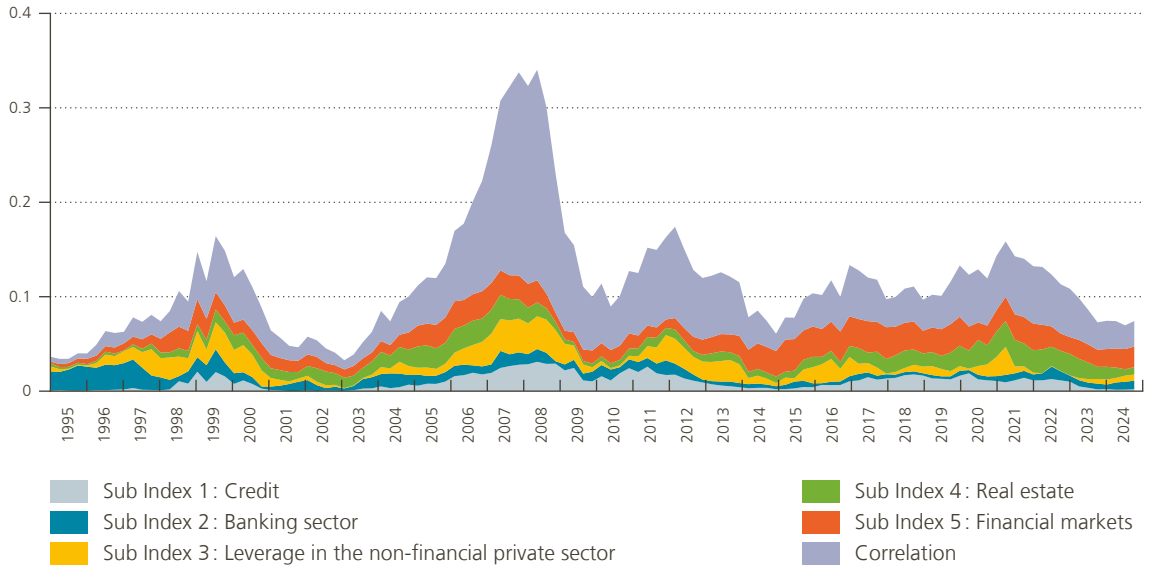
In recent years, the Belgian economy has demonstrated great resilience. A soft landing materialised, with inflation returning towards the level sought by monetary policy with no major impact on, for example, corporate bankruptcies – although certain pockets of risk remain – or the unemployment rate. Year-on-year, economic activity grew by around 1% in 2024.

Against the backdrop of rapid and abrupt monetary policy tightening in 2022 and 2023, there was a marked but orderly slowdown in the financial, credit and residential property cycles. The Bank's Financial

Conditions Index (FCI) is a composite indicator of domestic financial conditions which aggregates five dimensions of financial risk: credit developments, the property market, private sector debt, the banking sector and financial market conditions. Recent trends in the FCI show that the financial cycle in Belgium stabilised in 2024, after having slowed from 2021 onwards and especially – albeit in an orderly fashion – since 2022.

Figure 1

Belgian Financial Conditions Index (FCI)



Source: NBB.

The rapid exit from a period of low interest rates in 2022 posed a major challenge for the Belgian financial sector. Belgian banks and insurance companies were generally successful in managing the risks associated with this profound change in their operating environment, in particular interest rate risk. For banks, the main concern was to ensure that interest flows on the assets and liabilities sides of their balance sheets were consistent and to maintain a sufficient level of profitability. In this context, a notable episode was the recapture, in one form or another, of the €22 billion, largely drawn from regulated savings accounts, that was invested in the one-year State note in September 2023. Insurers, for their part, were able to cope with the steep change in the interest rate curve, thanks in particular to a good balance between the sensitivity of their assets and liabilities to interest rate fluctuations.

However, the commercial property market continues to require heightened vigilance. Although smaller than its exposure to the residential segment, the Belgian financial sector's exposure to commercial property is significant. Despite the easing of monetary policy that began in 2024, there are as yet no clear signs of recovery in the commercial property market. The Bank therefore continues to stress that, given the existence of pockets of risk in this market, it is important for lenders to keep a watchful eye on their credit risk associated with this sector. For borrowers facing temporary financial difficulties, banks should continue to apply adequate credit strategies, including – where appropriate – debt rescheduling, taking into account the specific circumstances of each borrower. These strategies may also include maintaining a sufficient supply of credit. For insurance companies, the main point for attention concerns the conservative valuation of their direct and indirect exposures to the commercial property market.

The operating environment of Belgian financial institutions is of course characterised by a very high degree of uncertainty. The direct and indirect impact of geopolitical tensions and economic policies pursued in different parts of the world is difficult to assess with precision. In this context, an important factor for financial stability will be maintaining the sustainability of public debt and, consequently, market confidence in the solvency of governments against a backdrop of new and rapidly evolving financing requirements. The euro area sovereign debt crisis of 2010-2012 demonstrated that stable public finances are the bedrock of national financial stability.

1.2 Importance of maintaining a sound financial sector

In an uncertain environment, the financial sector once again posted good, albeit not exceptional, results in 2024. The Belgian banking sector reported a net profit of € 9 billion in 2024, equating to a return on equity of 11.5%. The results of the Belgian insurance sector were also good, with net income of around €3 billion, corresponding to a return on equity of around 13%.

The good results recorded in recent years have bolstered the solvency of Belgian banks and insurance companies. The CET1 ratio of Belgian banks, a key indicator of solvency, averaged 15% at the end of 2024, well above the minimum requirements. Moreover, Belgian banks have significant buffers that can be mobilised in the unlikely event of intense liquidity pressures. The liquidity coverage ratio of Belgian banks – which indicates whether a bank has sufficient high-quality liquid assets to cover "stressed" outflows of funds for a period of 30 days in a crisis – was more than 150% on average at the end of 2024, well above the required 100%. In the insurance sector, the solvency capital requirement (SCR) ratio stood at 201% at the end of 2024, twice the required regulatory level.

Various macroprudential measures (see section 2) aim to support the resilience of financial institutions so that they can continue to fulfil their key functions in the economy, even in adverse scenarios. However, institutions need to exercise caution and, in such exceptional circumstances, ensure sufficient leeway to deal with unexpected shocks.

2. Macroprudential policy

In 2024, the Bank effectively implemented the macroprudential policy measures announced in 2023. These measures are being maintained in 2025.

2.1 Property market and mortgage lending

Although still well above the European average, annual growth in mortgage lending fell sharply in 2023 as a result of the rise in mortgage interest rates. However, it began to rise again as from mid-2024. By the end of February 2025, growth in mortgage lending to Belgian households had reached 2.6%, up from 1.8% at the end of July 2024. At the same time, the volume of new transactions on the secondary market also increased as from the fourth quarter of 2024, while residential property prices were relatively stable, confirming that the renewed dynamism of the Belgian residential property market was gradual.

Against a backdrop of rising mortgage rates, mortgage lending was supported in 2022 and 2023 by a moderate lengthening of the maturities for new loans, thereby preserving the borrowing capacity of young homebuyers, a development welcomed by the Bank. In 2024, the share of new mortgages with a term of more than 20 years held steady.

In 2024, the financial sector continued to abide by the Bank's prudential expectations for new Belgian mortgage loans. These recommendations, introduced in 2020, [1] led to an improvement in the average credit quality of new

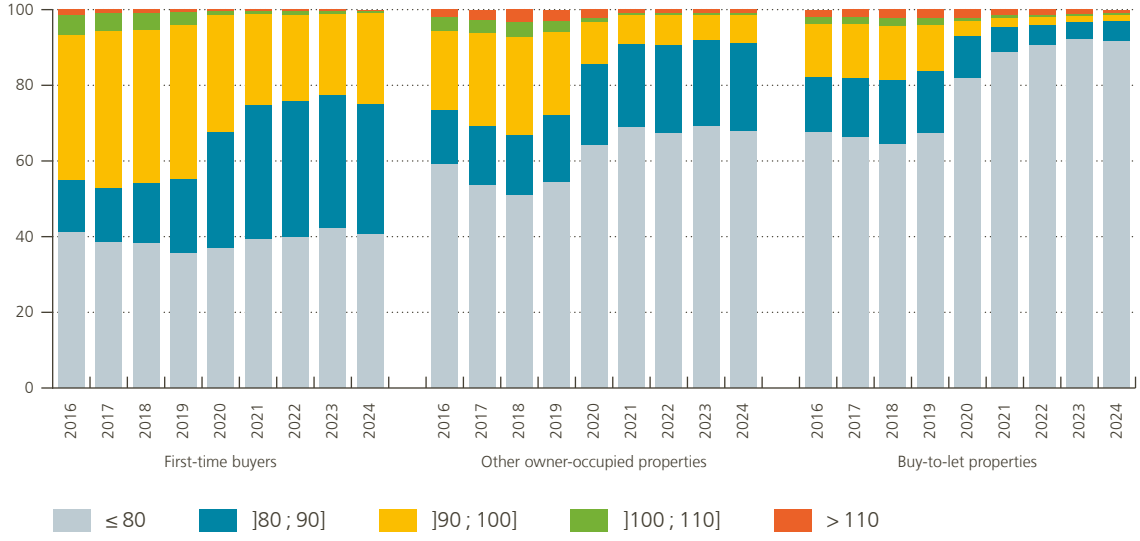
1 Circular NBB_2019_27 - Expectations of the Belgian macroprudential authority on internal management of Belgian mortgage credit standards.

mortgages, mainly by reducing the proportion of loans with a high loan-to-value ratio (see Figure 2). The Bank's recommendations are intended to be flexible and not to limit access to the mortgage market for creditworthy borrowers, particularly young people. This second objective has also been achieved, as there has been no decline in the percentage of young borrowers for recently originated mortgages. This finding reflects, among other things, the sufficient leeway afforded to lenders by the recommendations, particularly with regard to the granting of loans with a high loan-to-value ratio to first-time homebuyers. The Bank is therefore maintaining its prudential expectations for new mortgage loans.

Figure 2

The Bank's prudential expectations for new mortgage loans

Breakdown of new mortgage loans by loan-to-value ratio, per sub-segment (percentage)



Source: NBB.

Good adherence to the Bank's recommendations led to a downward adjustment of the capital buffer required by the Bank to cover risks in the residential property market. This buffer was introduced in 2013 having regard to the banking sector's substantial exposure to this market in the form of mortgage loans. This downward revision, announced in August 2023, became effective on 1 April 2024. The buffer amounted to approximately €1.4 billion at the end of 2024. As indicated in the past, the Bank is prepared to release this macroprudential capital buffer in the event of, for example, a substantial worsening of payment difficulties on the part of mortgagors.

The Bank also continues to pay close attention to the energy efficiency of property exposures in the Belgian financial sector. Further to the monitoring of compliance with its 2020 recommendations, [1] the Bank recently noted that a significant proportion of loans for energy-intensive properties are intended – least in part – for an energy renovation, which can help limit the so-called transition risk associated with such properties (for more information, see Section B.5.2 of the Bank's Annual Report 2024).

1 Circular NBB_2020_45 - Collection and reporting of information on the energy efficiency of property exposures.

2.2 Countercyclical capital buffer

Unsurprisingly, the rise in interest rates observed from mid-2022 weighed on annual growth in business lending, which fell from 6.4% at the end of July 2022 to 3.8% at the end of 2023. Since then, the growth rate has risen slightly, reaching 4.6% at the end of February 2025, well above the average for the euro area.

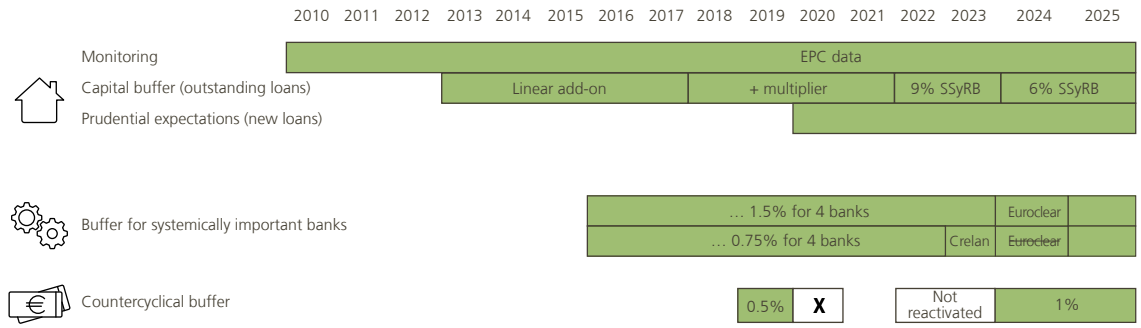
In August 2023, the Bank announced reactivation of the countercyclical capital buffer in order to increase the resilience of the financial sector. With interest rates higher than in the past, the Bank estimated at the time that financial institutions could be exposed to greater than expected losses. In 2024, the Bank confirmed its 2023 decision, which led to the effective constitution of an additional buffer of around €2.5 billion, corresponding to a countercyclical buffer rate of 1%. In the first quarter of 2025, the Bank maintained the countercyclical buffer at 1%, believing that heightened resilience was still warranted.[1] The Bank indeed believes that several sectors of activity are still experiencing difficulties following the substantial rise in interest rates observed since the beginning of 2022, while the macro-financial environment remains vulnerable to the fallout from major geopolitical events and the associated uncertainty. As is the case with the buffer for risks in the residential mortgage market, the Bank may, if it deems necessary, release the countercyclical capital buffer.

2.3 Capital buffer for national systemically important institutions

As a macroprudential authority, the Bank also imposes specific capital requirements on so-called national systemically important financial institutions in order to increase their resilience, given the high economic and social costs their failure would entail. Eight banks are included on the list of such institutions, which is published annually. The level of the buffer depends on the size of the bank: it amounts to 0.75% of risk-weighted assets for three banks and 1.5% for the other five. These buffers, which have been introduced gradually since 2016, are relatively large: by the end of 2024, they totalled more than €6 billion.

Figure 3

The Bank's macroprudential policy



Source: NBB.

2.4 Non-bank financial intermediation

With regard to non-bank financial intermediation, the Bank continues to support initiatives aimed at strengthening the resilience of the financial sector as a whole. In particular, it has supported in the past the recommendations of the Financial Stability Board aimed at increasing the resilience of the non-bank financial

1 NBB, Quarterly decision of the National Bank of Belgium on the countercyclical buffer rate for Q2 2025, 28 March 2025.

intermediation sector, particularly with regard to liquidity risk management. This message also appears from the report on non-bank financial intermediation in Belgium published jointly by the Bank and the FSMA in January 2025.[1] The report emphasises that although the risks associated with this sector in Belgium are considered limited, certain vulnerabilities need to be addressed, as evidenced by recent events and incidents in other countries.

3. Other points for attention

In addition to aspects covered directly by the Bank's macroprudential policy, a number of other developments constitute (potential) points for attention in the area of financial stability. Recent discussions have focused on the need to simplify the supervisory framework for financial institutions in Europe and on the European Commission's savings and investments union (SIU). These two projects must be accompanied by adequate guarantees in terms of maintaining financial stability. Furthermore, the current geopolitical environment could have consequences for international cooperation on matters relating to financial stability and highlights the importance of the operational resilience of the European financial sector. Finally, this section discusses the applicability of the Belgian framework for allocating the costs of natural disasters and the creation of a European framework to combat money laundering.

3.1 Simplification and burden reduction

In recent years, a wide range of regulations have been introduced for the financial sector. On the one hand, these have drawn on lessons learned from past crises and strengthened supervision, where necessary, in order to address the weaknesses that contributed to the malfunctioning of the financial system. In particular, this has led to a considerable and welcome increase in the capital and liquidity buffers that financial institutions are required to build up in order to absorb shocks. As a result, the financial system is much better equipped than it once was to perform its essential functions and form part of the solution, even in adverse situations. On the other hand, the regulatory framework had to be adapted to structural changes in the financial system, such as the increasing digitalisation of financial services and new forms of risk to financial stability, such as IT and cyber risks as well as those posed by climate change. The complexity of the financial sector required the development of an appropriate regulatory framework covering all vulnerabilities that could jeopardise the stability of the system.

While they have greatly improved the resilience of the sector, these essential new regulations have also led to heavier administrative and reporting burdens in the financial sector. After a period of intense regulatory output, these burdens need to be re-examined. Where administrative and reporting burdens in the financial sector are disproportionate to the objective pursued, be that to strengthen the resilience of financial institutions to shocks or achieve another social purpose, regulators should consider whether and how they can be reduced or adjusted. The Bank will assist in this assessment in areas falling within its remit. Insofar as much of this burden is determined at the European level, this exercise will have to be carried out at this level as well and address the supervisory process as a whole.

However, there are two clear red lines that should not be crossed. First, simplification should not lead to a reduction in the financial sector's level of resilience, in terms of both solvency and liquidity. The (fully fledged) requirements of the Basel III regulatory standards – which entered into force on 1 January 2025 – constitute the reference point in this respect. Second, compliance with the Basel standards should be maintained. These two safeguards should be preserved, even if uncertainty remains regarding application of the standards, primarily in the United States.

1 NBB and FSMA, Update on asset management and non-bank financial intermediation in Belgium, January 2025.

In this context, greater harmonisation of the macroprudential framework may be envisaged to a certain extent, provided this is justified for purposes of financial stability. However, the national nature of macroprudential measures should be borne in mind. It is therefore crucial that national macroprudential authorities continue to benefit from the necessary room to manoeuvre so as to be able to deal as effectively as possible with threats to financial stability arising from the specificities of their financial sector and markets.

3.2 Savings and investments union

The Draghi report, published in September 2024, identified – among the various challenges facing the European economy – the need for a substantial increase in investment to stimulate economic growth and productivity in Europe. The European Commission and the ECB have estimated these investment needs at between €750 and €800 billion per year.

A significant proportion of these investments can be financed by the banking sector through collected savings. However, certain more innovative, and therefore riskier, investments require venture capital financing which cannot be provided (entirely) by the banking sector.

While a private equity market exists in the EU with, among others, non-European players operating with funds provided in part by European investors, the internal market for financial services needs to be deepened. The European Commission's proposed savings and investments union is intended to help Europe strengthen its competitiveness and autonomy, finance the European Green Deal and digital strategy, and offer savers and investors a wider range of investments and financing at more attractive terms.

Of the proposals advanced, greater harmonisation of insolvency rules could undoubtedly remove some of the barriers that currently prevent more extensive mobilisation of savings to fund European investments. However, the gains that could be made in this area as a result, for example, of the introduction of unified supervision of European financial markets or strong integration of market infrastructures are much less obvious. The proof of this is that European financial infrastructures have solidly withstood past crises, despite the absence of a single regulator. It should also be noted that the European market for international central securities depositories (ICSDs) is highly concentrated as there are only two operators, meaning there can be no question of fragmentation. To make a difference on the ground, it is therefore necessary to focus the roll-out of the capital markets union on other areas. In this context, the Bank supports measures to promote securitisation in the EU and to encourage investment by insurance companies in the equity and corporate bond markets.

The greater diversification of financial intermediation in Europe will nevertheless require the supervisory authorities to ensure that such intermediation is sustainable and does not jeopardise financial stability. As progress is made in this area, supervisors will need to be alert to the possible transfer of transformation risks from banks to non-banks. They will also need to verify that the latter carry out intermediation activities in a sustainable manner, building up sufficient reserves to absorb shocks and avoiding the excessive use of financial leverage, so as not to jeopardise financial stability.

3.3 International cooperation in the area of financial stability

The current geopolitical context raises a number of questions as to the future of international cooperation on matters relating to financial stability.

The role of international institutions in defining standards applicable to financial institutions in the world's major financial centres could be called into question. Such standards are crucial in order to maintain a robust international financial system and avoid a race to the bottom, while ensuring a level playing field between the institutions concerned.

In a world that is becoming increasingly multipolar and transactional, it may also no longer be possible to manage future financial crises using the previously applicable collaborative framework.

3.4 Digital operational resilience of the financial sector

Having regard to the increasing digitalisation of the financial sector, the current geopolitical environment has brought to the fore the importance of strong digital operational resilience in the sector.

IT and cyber risks represent an ever-growing challenge to the operational resilience, performance and stability of the financial system. Cyber threats are constantly evolving and becoming increasingly sophisticated. Keeping up with the rapid evolution of these threats and ensuring the tools and expertise needed to adequately protect their assets and deal with a range of extreme but plausible scenarios represent major challenges for financial entities. The CrowdStrike incident on 19 July 2024 is an interesting example of how an error by a single service provider can lead to large-scale disruption of the economy, including the financial sector.

Assessing and promoting the management of IT and cyber risks is therefore a major focus area for the supervisory authorities. Of the various measures taken, the Bank has notably worked to ensure the proper implementation of the European Digital Operational Resilience Act (DORA), whose provisions have applied since January 2025 to a wide range of financial entities, including central securities depositories, credit institutions, insurance and reinsurance companies, stockbroking firms, payment institutions and electronic money institutions.

3.5 Applicability of the Belgian framework for allocating the costs of natural disasters

The applicability of the statutory framework to allocate the costs of damage arising from natural disasters in Belgium remains an important point for attention for the insurance industry and for financial stability. In Belgium, the July 2021 floods exposed the difficulties inherent in applying the current statutory framework, with insurance companies ultimately paying out more than double the statutory ceiling, at the request of the regions. The law on coverage for natural disasters was subsequently amended in 2023, but there is still uncertainty as to how the system would be applied in practice should the ceiling be again exceeded due to an extreme weather event.

Given that Belgian insurance companies cede to international reinsurers the largest financial losses resulting from natural disasters, the prevailing uncertainty as to the applicability of the current statutory framework could encourage reinsurance companies to scale back their activity on the Belgian market. There is therefore a risk that insurance companies will no longer be able to offer coverage against fire and natural disasters or will be able to do so only in return for considerably higher premiums.

At present, however, there are no major signs of such a protection gap. The provision of insurance products to all economic agents is a key role of the financial sector and a determining factor in financial stability. It is therefore essential to finalise the statutory framework on the coverage of natural disasters, which will include strengthening the current public-private partnership.

3.6 Introduction of a European framework to combat money laundering

A new European supervisory framework to combat money laundering and terrorist financing was introduced in 2024. For the first time, fundamental anti-money laundering obligations will become directly applicable in all Member States starting in mid-2027.

The creation of a European Anti-Money Laundering Authority (AMLA) is an essential part of this new framework. This authority will serve as the linchpin of the integrated supervisory system, in which national supervisory authorities will continue to play an important role. From 1 January 2028, AMLA will directly supervise up to 40 financial institutions that present a high risk of money laundering and are active in at least six Member

States. The national authorities will remain responsible for supervising other financial institutions, with AMLA ensuring considerable indirect supervision. Among other things, it will also be responsible for further developing anti-money laundering policy. The national supervisory authorities, including the Bank, will be involved in this process through representation on AMLA's Executive Board.

The new supervisory framework aims to more efficiently fight within the EU money laundering and terrorist financing, which mainly occur across national borders. In addition, it is intended to prevent misuse of the financial system for criminal purposes which could harm its reputation and ultimately threaten financial stability.

4. Conclusion and recommendations

The Belgian financial sector is robust and has posted good results in recent years. Belgian banks and insurance companies successfully navigated the exit from the low interest rate environment that prevailed until 2022. Since then, the Belgian economy has also demonstrated resilience, with an orderly correction in the financial, credit and housing cycles. A number of risks to financial stability have therefore diminished recently. Nonetheless, points for attention remain. The commercial property market, for example, continues to require heightened vigilance. In addition, the operating environment of Belgian financial institutions is characterised by a high degree of uncertainty. Various macroprudential measures taken by the Bank aim to support the resilience of financial institutions so that they can continue to perform their key functions in the economy and ensure financial stability, even in unfavourable scenarios. In the current uncertain environment, however, it is important that institutions themselves exercise caution and maintain sufficient room to manoeuvre in order to deal with unexpected shocks.

The euro area sovereign bond markets have reacted in a fairly orderly fashion thus far to recent geopolitical developments. However, governments should not take this for granted at a time when both uncertainty and public debt are high and additional spending is needed to strengthen Europe's sovereignty and security. In the current context, a major risk to financial stability is a loss of investor confidence in the sustainability of the public finances of certain countries, triggering disorderly developments in sovereign bond yields. Such tensions on the sovereign bond markets could then rapidly spill over to financing conditions for banks, households and businesses, thereby jeopardising financial stability. The euro area sovereign debt crisis of 2010-2012 demonstrated that the stability of public finances is the bedrock of national financial stability.

Finally, history shows that a solid regulatory and prudential framework is a necessary condition for resilient banking and non-banking financial institutions and maintenance of the essential financial services they provide when major shocks occur. Regulation and supervision of the financial sector were considerably strengthened after the global financial crisis of 2007-2009. One of the key lessons learned was the need for financial institutions to have adequate capital and liquidity buffers. These lessons should continue to guide policymaking going forward. The unwise deregulation seen during President Trump's first term played a key role in the failure of a number of US regional banks in the first half of 2023. Should the second Trump administration continue to pursue deregulation, there could be calls in Europe to restore a level playing field. It would then be tempting to weaken regulation and supervision in the EU as well, in the hope of boosting growth and competitiveness. However, such a policy shift could have serious consequences for the stability of the financial system and could therefore, in the event of a crisis, severely jeopardise economic growth. In order to preserve the resilience of the EU's financial system in the current period of high uncertainty, it is therefore necessary to maintain the robust regulation and rigorous supervision that supported the European economy through recent crises (the pandemic, the energy crisis, turbulence in the US and Swiss banking sectors). In addition, a selective tightening of the European supervisory framework for non-banks remains essential. It will then be possible to develop the capital markets union on a solid foundation, reconciling the objective of more efficient financial intermediation in Europe with financial stability. This does not prevent the Bank from actively supporting policies to explore, at national and European levels, ways to simplify the regulatory and prudential framework and reduce administrative and reporting burdens in order to facilitate compliance.

Annex

Annex 1

Macroprudential measures introduced by the National Bank of Belgium

Measure	Institutions subject to the measure	Description of the measure	Statutory basis
Capital requirements (Tier 1 capital)			
Countercyclical capital buffer	All credit institutions incorporated under Belgian law	Capital requirement corresponding to each institution's average countercyclical capital buffer rate multiplied by its total risk-weighted assets. The macroprudential authority in each jurisdiction periodically sets a countercyclical buffer rate, generally between 0% and 2.5% (varying by increments of 0.25%) but possibly higher if justified by the underlying risk. In Belgium, at 1 May 2025, the countercyclical buffer rate was 1%. Each credit institution is required to calculate an average countercyclical buffer rate based on (1) the countercyclical buffer rates set in each jurisdiction and (2) its share of credit exposure in each jurisdiction. The average capital buffer rate thus calculated is then applied to the institution's total risk-weighted assets .	Royal Decree approving the Regulation of 4 July 2023 of the National Bank of Belgium
Sectoral systemic risk buffer	Credit institutions using internal models to calculate the risk-weighted assets for their portfolios of mortgage loans to individual borrowers backed by residential property located in Belgium	Capital requirement corresponding to the capital buffer rate multiplied by total risk-weighted assets of the portfolios of mortgage loans to individuals backed by residential property located in Belgium. At 1 May 2025, the sectoral systemic buffer rate was 6%.	Royal Decree approving the Regulation of 4 July 2023 of the National Bank of Belgium
Buffer for national systemically important institutions	Credit institutions or banking groups identified by the National Bank as being of systemic importance at national level	Capital requirement corresponding to the capital buffer rate multiplied by total risk-weighted assets. As at 1 May 2025, the following buffer rates applied: ■ 1.5% for the following institutions: KBC Group, BNP Paribas Fortis, Euroclear Holding, ING Belgium, Belfius Bank. ■ 0.75% for the following institutions: The Bank of New York Mellon, Investeringsmaatschappij Argenta, Crelan. Subsidiaries of the abovementioned institutions that are also considered systemically important at national level are subject to the same capital buffer rate.	Royal Decree approving the Regulation of 13 June 2023 of the National Bank of Belgium

Source: NBB.

Annex 1 (continued)

Macroprudential measures introduced by the National Bank of Belgium

<table>
<tr><th>Measure</th><th>Institutions subject to the measure</th><th>Description of the measure</th><th>Statutory basis</th></tr>
<tr><td colspan="4">The Bank's prudential expectations</td></tr>
<tr><td>Prudential expectations for new Belgian mortgage loans</td><td>Credit institutions and insurance companies active on the Belgian residential property market</td><td>The Bank has issued expectations regarding the criteria for the origination of new mortgage loans in Belgium. These expectations apply to all credit institutions and insurance companies active on the Belgian mortgage market. The Bank asks the main players on this market to confirm on an annual basis, by means of a special report, that they comply with the prudential expectations or, where appropriate, to justify their non-compliance ("comply or explain"), demonstrating the sound and prudent nature of their lending policy.

The expectations relate to the percentage of new loans with a high loan-to-value ratio and to pockets of risk (a combination of several risk factors). They define a reference threshold as well as a tolerance limit, i.e. the percentage of originated loans exceeding this threshold that is tolerated. The threshold and tolerance limit vary depending on the type of loan. For example, for the LTV ratio, the reference threshold and tolerance limit are higher (less stringent) for loans for owner-occupied properties than for loans for buy-to-let properties.

These expectations have been applicable since 1 January 2020.

<table>
<tr><th></th><th>Type of loan</th><th>Threshold</th><th>Tolerance margin (authorised origination above the threshold)</th></tr>
<tr><td>LTV limit</td><td>Loan for a buy-to-let property

Loan for an owner-occupied property</td><td>80%

90%</td><td>10%
(with 0% > 90%)

First-time buyers: 35%
(of which up to 5% > 100%)

Other: 20%
(with 0% > 100%</td></tr>
<tr><td>Limit for pockets of risk</td><td>Total loans</td><td>LTV > 90% and DSTI > 50%

LTV > 90% and DTI > 9</td><td>5%

5%</td></tr>
</table>

LTV (loan-to-value) ratio: ratio between the amount of the mortgage loan and the value of the property being financed.

DSTI (debt-service-to-income) ratio: a measure of the amount of monthly debt service payments relative to the borrower's monthly disposable income.

DTI (debt-to-income) ratio: total debt divided by the annual disposable income of the borrower.</td><td>Circular NBB_2019_27 / Expectations of the Belgian macroprudential authority on internal management of Belgian mortgage credit standards</td></tr>
</table>

Source: NBB.

Financial Stability Overview

This Financial Stability Overview focuses specifically on the stability of the Belgian financial system while referring the reader to the Bank's Annual Report 2024 for information on related topics such as sustainable economic growth and sound public finances. It assesses the potential materialisation of adverse shocks (risk triggers) and the potential impact thereof on the financial system (risk exposure) as well as the latter's ability to deal with them (resilience).

It is not sufficient to simply monitor and assess risks, however. History has shown that a robust regulatory and prudential framework is a pre-condition to ensure that the bank and non-bank financial systems are resilient and that the critical services they provide are not impaired by major adverse shocks. Regulation and supervision of the financial sector were therefore significantly strengthened after the global financial crisis of 2007-2009. One of the main lessons learned at the time was that financial institutions should hold sufficiently high capital and liquidity buffers. Box 1 recalls the key functions of the financial system and provides a broad definition of financial stability.

As the performance and resilience of financial institutions are affected by developments in the financial, credit and real estate markets and overall economic conditions, the first section of this overview discusses the main trends in – and potential risks to – the financial sector's operating environment. Sections 2 and 3 then review developments in the banking and insurance sector, with analyses of balance sheets, risk exposures, profitability, solvency and liquidity. The final section focuses on non-bank financial intermediation and decentralised finance.

The Bank's macroprudential policies, which aim to mitigate the risks to financial stability, are discussed in more detail in the Macroprudential Report published together with this Financial Stability Overview. The Macroprudential Report summarises the macroprudential policy stance and a number of key aspects related to prudential regulation and microprudential supervision previously touched on in the Annual Report. One of the main messages is that the lessons learned from the global financial crisis on the importance of sufficient capital and liquidity buffers should continue to guide policymaking going forward.

Unwise deregulation during President Trump's first term played a key role in the failure of a number of US regional banks in the first half of 2023. Should the second Trump administration decide to pursue this policy, voices could be raised in Europe calling for the re-establishment of a level playing field. It would then be tempting to weaken regulation and supervision in the EU, too, in the hope of stimulating growth and competitiveness. However, such a policy shift would have profound implications for the stability of the financial system and increase the probability of crises with a strong impact on economic growth.

In order to safeguard the resilience of the EU financial system, it is therefore important to preserve the robust regulation and rigorous supervision that supported the European economy through recent crises. In addition, a selective tightening of the supervisory framework for non-banks remains essential. The consultation launched by the European Commission in 2024 on the adequacy of macroprudential policies for non-bank financial intermediation should be followed up with regulatory measures and a strengthening of the supervisory framework for certain segments of the non-bank financial sector. It will then be possible to develop the savings and investments union on a solid foundation, reconciling the objective of more efficient financial intermediation with financial stability.

BOX 1

Key functions of the financial system and the definition of financial stability

Financial stability can be defined as a state in which the financial system is able to provide its key services to other sectors of the economy while being sufficiently resilient to cope with adverse shocks. The table below summarises these critical functions and the main instruments used by the sector to provide them. They include the execution of payment transactions, the intermediation of funds between savers and borrowers, and the insurance or sharing of risks. Money in all its forms is the main instrument used to provide payment services, while financial assets (equity and debt instruments), insurance products and derivatives are those used for financial intermediation and risk-sharing. The table also highlights two additional (ancillary) functions of the financial system. The first of these is price discovery which refers to the setting of essential prices, such as interest rates and risk and insurance premiums, as a by-product of financial intermediation and risk-sharing. The second relates to the key role played by the financial system in mitigating the adverse selection and moral hazard problems that arise between agents engaged in financial intermediation or risk-sharing transactions.

<table>
<tr><th>Key function</th><th>Instrument</th><th colspan="2">Ancillary function</th></tr>
<tr><td>Payments</td><td>Money</td><td colspan="2"></td></tr>
<tr><td rowspan="2">Financial intermediation</td><td rowspan="2">Financial assets</td><td>Risk-free interest rate</td><td rowspan="3">Mitigation of adverse selection and moral hazard problems</td></tr>
<tr><td rowspan="2">Risk and insurance premiums</td></tr>
<tr><td rowspan="2">Risk-sharing and management</td><td>(Equity and debt instruments)</td></tr>
<tr><td>Insurance products and derivatives</td><td>Price discovery</td><td>Management of asymmetric information</td></tr>
</table>

These key functions can be provided by either financial markets or financial institutions. Financial markets allow direct intermediation between savers and borrowers (the primary market) and provide liquidity by facilitating the sale of assets, such as equities or bonds, to other investors (the secondary market). Financial intermediaries, for their part, use their balance sheets to execute payments for clients and intermediate funds between savers and borrowers, often assuming a share of the risk in return for remuneration. Banks, for example, offer savers secure and liquid savings products, such as deposits, and use the deposited funds to grant long-term risk-bearing loans to households and businesses. This maturity transformation generates an interest margin. However, by offering savers and investors instruments that best meet their preferences, banks expose themselves to liquidity, interest rate and credit risk. These transformation risks are not confined to the banking sector, as illustrated by the role played by the shadow banking system in the global financial crisis or the "dash for cash" in March 2020.

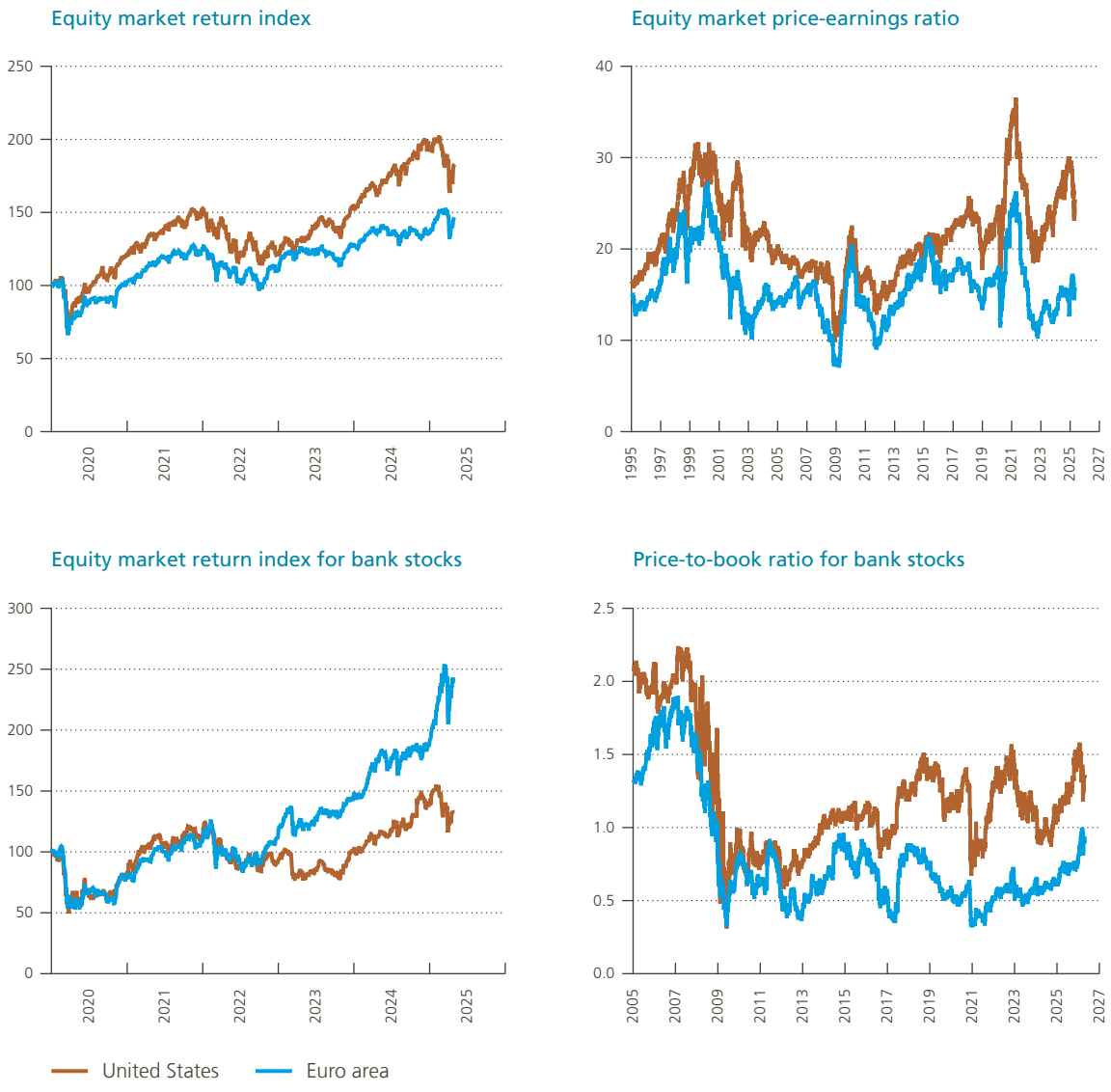
A holistic assessment of financial stability also requires an analysis of the challenges faced by the financial system when fulfilling its key functions in the real economy. One example is the insurance of losses arising from natural disasters. In the event of a higher incidence of such disasters, insurers could decide or even have no choice but to reduce the extent of their coverage. While this would contribute to the stability of the insurance sector (less risk exposure), it would come at the cost of the provision of a critical service to the rest of the economy. The monitoring of potential insurance protection gaps thus also forms part of a broad assessment of financial stability.

1. Operating environment

The global equity markets were characterised by substantial turbulence at the time of finalising this report, following the announcement by President Trump on 2 April 2025 of new US tariffs (Figure 1). In the days that followed this announcement, the US and euro area stock markets fell by a total of 12% and 11%, respectively, bringing the peak-to-trough decline since the presidential election on 4 November 2024 to 19% in the US and 14% in the euro area. The large losses in the first days of April were followed by a partial recovery, but substantial uncertainty remains, as reflected for example in measures of implied volatility such as the VIX. At the end of April, the US and EU stock market return indexes were 9% and 4% below the historic highs reached in the first quarter of the year. Nonetheless, despite this turbulence, the markets generally continued to function in an orderly

Figure 1

Equity markets[1]



Source: LSEG Data & Analytics.

1 Datastream return indices in local currency.

manner as the risks and economic impact of higher tariffs and the prospect of a global trade war were priced in. Investors also lowered their expectations for corporate earnings in response to potentially significant disruptions in the fine web of international trade flows and complex cross-border supply chains that have become the hallmark of the world economy. A deterioration in the underlying fundamentals was thus certainly one of the main drivers of the correction of the stock market indices and the decline in price-to-earnings ratios. In the US, equity market valuations were moreover very rich to start with, especially in some technology-related sectors. That being said, market movements were amplified by investor deleveraging. Hedge funds, for example, are reported to have liquidated some of their positions following margin calls from their prime brokers as volatility increased.

Fluctuations in the share prices of US and euro area banks were even more pronounced (bottom graphs in Figure 1) than those observed in the markets as a whole, dropping by around 15% in the first days of April and with a total peak-to-trough decline since 4 November 2024 of 25% in the US and 31% in the euro area. This correction followed a short period during which the stock market valuations of euro area banks rose very strongly, as reflected in their share prices and price-to-book ratios. At the end of April, euro area bank share prices were indeed still 27% higher than at the end of 2024, while US bank share prices were 4% lower. After languishing at levels well below one, especially during the long period of very low (and even negative) interest rates, the price-to-book ratio for euro area banks gradually climbed towards one in the first quarter of 2025, before briefly falling back in April. At the end of April, this ratio stood at 0.9, well above the average of 0.7 recorded for 2024 as a whole, although strong differences between individual banks remain. A ratio below one means that investors believe banks destroy value by offering a return on equity below their cost of equity. Investor concerns regarding the long-term profitability of euro area banks could be driven by several factors. One of these is the level, and especially the shape, of the euro area yield curve in recent years. The gradual increase in the price-to-book ratio in the first quarter of 2025 indeed coincided with the return of an upward-sloping yield curve after many years of either very low (if not negative) interest rates or a flat or inverted term structure. However, this is most likely not the sole explanation for the persistence of the ratio below one and the emergence of a large price-to-book gap between US and euro area banks since the euro area debt crisis almost 15 years ago. More structural factors probably play a role as well, such as the high reliance of euro area banks on classical financial intermediation activities or the persistence of excess banking capacity and cost inefficiencies in certain segments. One potential benefit of the development of the savings and investments union could thus be additional opportunities for euro area banks to recalibrate their business model and reduce their reliance on net interest income as their main source of revenue. As long as this is still the case, however, interest rate fluctuations (Figure 2) will remain a key driver of banks' financial performance.

Monetary policy rates are the benchmark for short-term interest rates. These showed large, rapid changes over the last three years. In the euro area, starting from 0.5% in the period between September 2019 and July 2022, the deposit facility rate was increased 10 times in succession, by a total of 450 basis points, to 4% between September 2023 and June 2024. Since then, a partial easing of this monetary tightening has taken place through a series of interest rate cuts of 25 basis points each. At the end of April 2025, the ECB deposit facility rate stood at 2.25%.

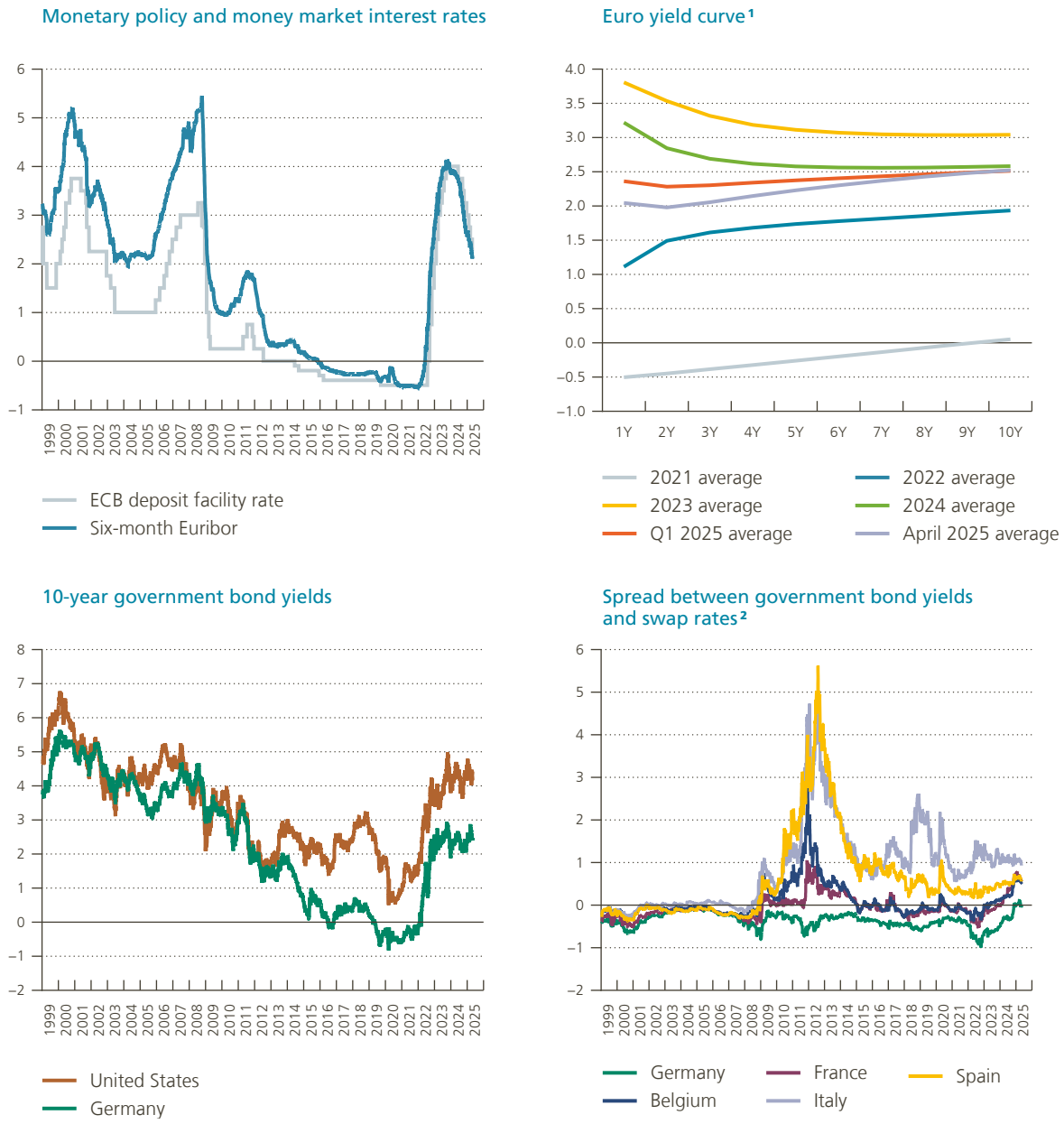
The exit from the low interest rate environment in 2022 was also reflected in significant increases in medium- and long-term interest rates. The interest rate on the fixed leg of new interest rate swaps is frequently used to measure these rates. In this type of contract, the counterparties agree to exchange cash flows based on a notional amount and fixed and floating interest rates for a set period (which can be very long), with one party paying the fixed rate and the other the floating rate. The floating rate can be an overnight interest rate or another interbank rate with a short maturity (up to six months). The fixed rate on such swaps is generally considered a good proxy for the so-called risk-free interest rate for longer tenors. The reason for this is that these contracts entail only the exchange of interest payments between the counterparties involved (not the notional amount of the contract), with the present or market value of these cash flows generally secured by high-quality collateral. The counterparty risk in such operations is thus assumed to be very low. As interest rate swaps allow the taking of interest positions without the need to hold fixed-income instruments, they weigh less on the balance sheet for financial intermediaries than investments in bonds.

Figure 2 illustrates recent developments in the euro swap yield curve for maturities ranging from one to 10 years. The level of these swap rates at any point in time reflects many factors, including market participants' expectations of monetary policy rates and long-term inflation expectations, time-varying term premia required by investors to hold long-term fixed-income assets (duration risk) and the overall balance between savings and borrowings in the currency to which the swap contract refers. Starting from mostly negative rates in 2021, euro short-,

Figure 2

Monetary policy, yield curve and sovereign bond markets

(as a %)



Source: LSEG Data & Analytics.

1 Yield curve based on swaps with a six-month floating interest rate.

2 Spread between 10-year government bond yields and 10-year swaps with a six-month floating interest rate. The data shown are based on a moving average of five trading days.

medium- and long-term swap rates rose strongly in 2022 and 2023, especially at the shorter end of the curve, leading to a strongly inverted term structure in 2023. In the course of 2024, in line with the easing of monetary policy, the yield curve shifted down again and became less inverse. In the first quarter of 2025, short-term rates continued to decline while long-term rates rose. This contributed to a gradual return of an upward slope to the yield curve towards the end of the quarter. This steepening of the yield curve continued in April 2025.

The bottom graphs in Figure 2 zoom in on 10-year German and US sovereign bonds – which are considered proxies for the risk-free interest rates in their respective currency zones – and the spread between sovereign bond yields and swap rates in a number of euro area countries, including Germany. The sovereign bond yields shown are derived from secondary market prices. In order to obtain these yields, the investor has to buy the bonds and hold them on its balance sheet until maturity. However, as sovereign bonds are considered to present low credit risk, the purchase can largely be financed through a securities financing transaction (such as a repo). Such transactions can also be used to build up (potentially very large) leveraged positions, by re-using the funding thus obtained to purchase additional securities until the balance sheet or other constraints (such as a repo haircut) cap the positions and leverage that can be taken on. Leveraged positions play a key role in a number of investment strategies involving US Treasuries, including so-called basis trades (arbitrage between futures and cash bonds), off- versus on-the-run trades (arbitrage taking advantage of the premium investors pay for recently issued on-the-run Treasuries) and swap spread trades (exploiting the spread between government bond yields and swap spreads). The unwinding of some of these relative value trades, including due to margin calls in securities financing transactions, contributed to the turbulence observed in the US Treasuries market in April. While the markets continued to function in a more or less orderly fashion, there was a risk of recurrence of the "dash for cash" seen in March 2020, when the Federal Reserve had to intervene to avoid further market disruption. These developments, among other reasons, were reportedly behind President Trump's decision to pause for a period of 90 days the tariffs announced on 2 April, thereby calming the markets. Nonetheless, there are lingering concerns regarding the traditional safe haven status of the US dollar and US Treasuries on the global financial markets, against a backdrop of major geo-political upheaval, reflecting fears that recent developments could be the harbinger of new turbulence and potentially significant structural changes in the *primus inter pares* role of the US dollar and financial markets in the eyes of global investors.

Figure 2 illustrates that while US yields have traded at levels well above German yields since 2013, there has historically been a relatively high degree of co-movement between the two, with this correlation varying over time. In both markets, the exit from the period of low interest rates was associated with a quite rapid rise in long-term rates to their highest levels in at least 10 years.

The German 10-year sovereign bond yield has fluctuated between 2% and 3% since 2022 and generally traded in the upper half of this range in the first four months of 2025. This was accompanied by a significant increase in the spread between German 10-year sovereign bonds and 10-year euro swap rates. For swaps with a six-month floating rate, this spread amounted to –1% in October 2022 – the lowest level since the creation of the euro in 1999 – but rose to more than 0.1% in March 2025. Several factors contributed to this very significant increase. One is changes in the ECB's bond purchase programmes as part of quantitative easing during the low interest rate period. Central bank purchases of German bonds initially pushed German 10-year government bond yields well below the corresponding swap rates due to the growing scarcity of German bonds on the market. This scarcity premium started to reverse as the ECB's quantitative easing programmes came to end and the Eurosystem scaled back its re-investment of maturing bonds. The premiums on German sovereign bonds relative to swap rates then started to normalise. In the first quarter of 2025, the spread between German sovereign bonds and the 10-year swap rate rose to levels not seen since the introduction of the euro in 1999, especially following the decision by the German parliament to lift the constitutional debt brake, taken against the backdrop of major geopolitical uncertainty after the US presidential election in November 2024 and EU strategies to bolster European sovereignty and security, including through a significant increase in public spending on defence. As credit default swap spreads for German government debt remained low and stable, the higher risk premium for German sovereign bonds relative to swaps does not appear to have been driven by investor concerns over the creditworthiness of the German government.

The rise in the sovereign-swap spread in Germany (as well as in France and Belgium) mainly seems to reflect market anticipation of significantly higher sovereign borrowing in the near future, which could require an additional premium to attract the marginal investor.

While the euro area sovereign bond markets have reacted in a quite orderly way to recent geopolitical developments and the April turbulence in the US Treasuries market, governments should not take this stability for granted given the numerous prevailing uncertainties, already high public debt levels and the additional spending needed to bolster sovereignty and security. In the current context, a major risk to financial stability is a loss of confidence by investors in the sustainability of public finances in certain countries, triggering a disorderly increase in sovereign bond yields. Such tensions in the sovereign bond markets could quickly spill over to the financing conditions of domestic banks, households and businesses, thereby undermining financial stability. The close link between the sustainability of public debt and national financial stability was at the heart of the 2010-2012 euro area sovereign debt crisis.

Thus far, spill-overs from sovereign bond yields to the financing conditions of other sectors remain contained, while the average interest expense on public and private sector debt continues to benefit from fixed-rate debts originated during the low interest rate period (see for example chapter 4 of the Annual Report for more information on the implicit interest rate applicable on Belgian general government debt). This beneficial legacy of the low interest rate period is very visible in the average interest expense on Belgian household debt. A large volume of new fixed-rate mortgage loans was originated during the low interest rate period which was also characterised by high refinancing activity. Refinancing is inexpensive in Belgium as the associated fees are capped by law at three months' interest on the outstanding capital. Many households thus locked in historically low debt servicing costs before interest rates started to rise. Starting from a low level, the average interest rate on loans to households rose from 1.8% in 2022 to 2.5% in February 2025.

The average interest rate paid by Belgian non-financial corporations on outstanding loans is more sensitive to changes in market rates. This relatively strong pass-through is due to the substantial proportion of revolving credit agreements or other types of variable-rate credit lines in such lending. The average interest rate on business loans rose from 1.6% in June 2022 to 3.7% over the first nine months of 2024. Since then, it has come down somewhat and stood at 3.4% in February 2025.

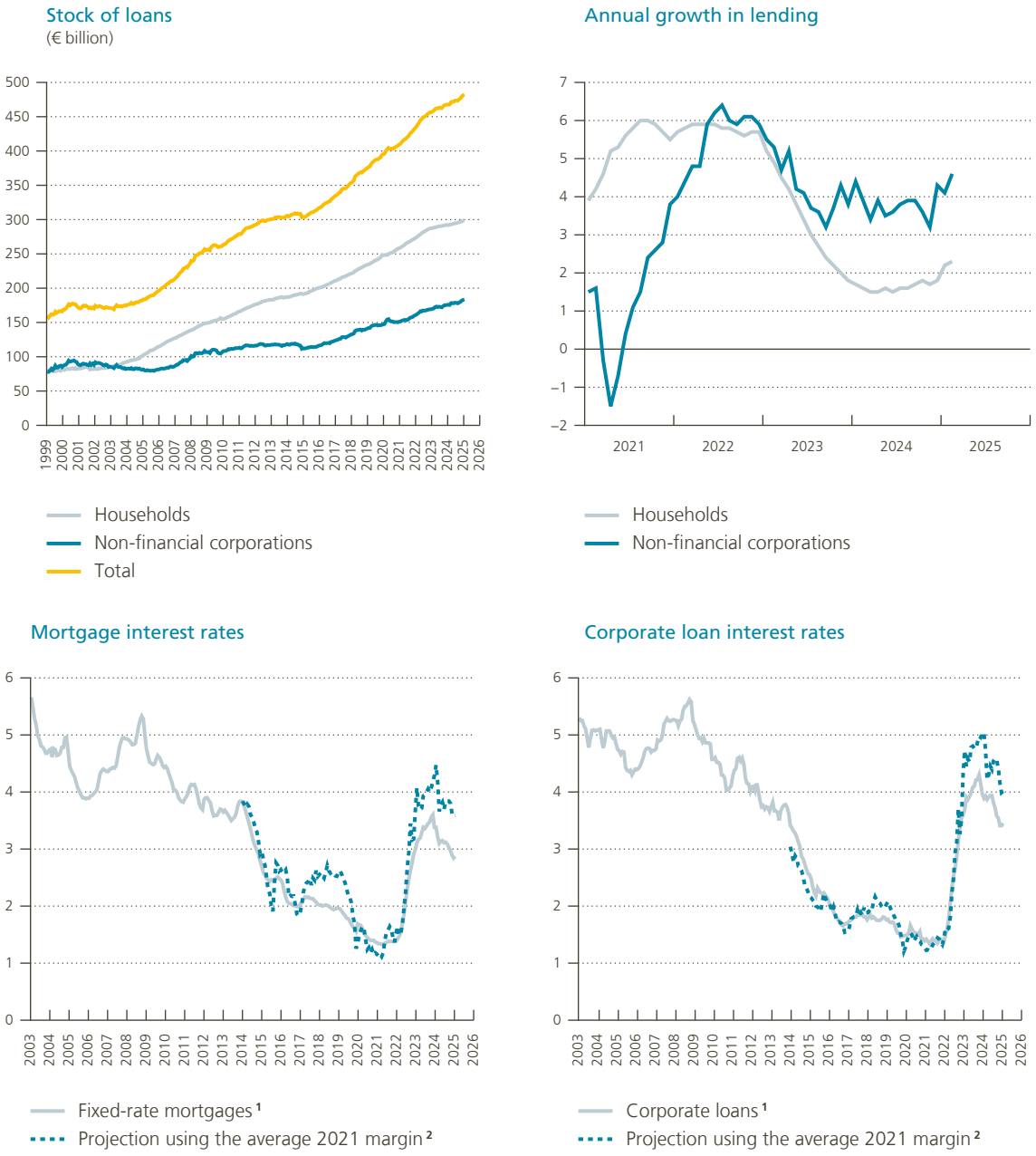
Interest rates on new household and business loans have of course fully reflected the higher interest rate environment since 2022 and are now significantly higher than during the low-rate period. However, this quite abrupt transition to higher borrowing costs went hand in hand with a very orderly and smooth downturn in the credit cycle after several years of dynamic bank lending to domestic households and non-financial corporations, due to the low cost of borrowing (Figure 3). Given the tightening of monetary policy, a certain slowdown in bank lending was of course intended and expected, but the dip remained contained overall, with the annual loan growth rate declining from around 6% in mid-2022 to around 2% and 4% on average since the second half of 2023, for loans to households and non-financial corporations, respectively. In Belgium, bank lending to both sectors thus continued to grow in nominal terms throughout the period of monetary tightening, in contrast to developments in some other euro area countries. Competition in the lending market also remained intense over the past three years, as evidenced by the fact that interest rates on new bank loans did not increase as much as could be expected based on developments in swap rates (see the bottom graphs in Figure 3). This confirms that the slowdown in credit growth primarily reflected lower demand for credit as opposed to tighter bank lending conditions.

In the second half of 2024 and the first few months of 2025, there was a clear recovery in household demand for mortgage loans, which contributed to the most recent acceleration in the bank lending rate to households shown in Figure 3. Housing affordability improved as lower mortgage rates, rising disposable income and almost flat house price growth partially reversed the increase in the repayment burden for new mortgage loans resulting from the higher cost of borrowing (see also chapter 5 of the Annual Report). During the period of high mortgage rates, housing affordability for would-be buyers was nevertheless supported by a greater

Figure 3

Bank lending to Belgian households and non-financial corporations

(as a %, unless otherwise stated)



Source: NBB, LSEG Data & Analytics.

1 As per the MIR interest rate survey for new origination during the month in question (for new mortgage loans with a rate fixed for at least 10 years and new corporate loans with a rate fixed for at least five years).

2 Projections based on swap rates with a similar maturity and the average commercial margin applicable to this category of loan in 2021.

offering of new mortgage loans with long maturities. This helped offset, to a certain extent, the impact of higher interest rates on household borrowing capacity. The share of new mortgages granted to first-time buyers with a maturity of more than 20 years was 72% in 2023 and 70% in 2024, compared with only 59% in 2021. In turn, longer maturities helped contain the proportion of mortgages to first-time homebuyers with a debt service ratio in excess of 40%. This share rose only slightly, from 27% in 2021 to 33% in 2023 and 32% in 2024, indicating that longer maturities helped partially offset the impact of higher mortgage rates on the average cost of servicing a new loan.

Household mortgage conditions also continued to be shaped by the Bank's prudential expectations, designed to limit the origination of high-risk loans (see also the Macroprudential Report). Introduced in January 2020, these expectations urge lenders to restrict, among other things, the proportion of loans with a high loan-to-value (LTV) ratio, i.e. those for which the amount of the loan exceeds 90% of the value of the property – if intended for owner-occupation – or 80% for buy-to-let properties. Tolerance limits, which are wider for first-time buyers, allow the applicable LTV ratio to be exceeded in certain cases. As a result of these expectations, the percentage of new mortgages originated by Belgian banks with an LTV ratio above 90% fell from 33% in 2019 to 19% in 2020 and to 14% in 2021. It has remained close to this level since then and stood at 16% in 2024. Over this period, new mortgages for first-time homebuyers and other owner-occupied properties remained strongly within the tolerance limits provided for by the prudential expectations. In 2024, 25% of new loans granted to first-time buyers had an LTV ratio in excess of 90%, whereas the tolerance limit set by the Bank is 35%. In the case of loans to non-first-time buyers for owner-occupied properties, 9% of new mortgages exceeded the 90% LTV ratio, whereas the tolerance limit for this type of loan is 20%.

Figure 4 confirms that slower growth in bank lending and high nominal GDP growth contributed to a further decline in the aggregate debt ratio of both Belgian households and non-financial corporations.

After peaking at more than 66% of GDP at the start of 2021, the debt ratio of Belgian households gradually fell back to 57.4% of GDP in the last quarter of 2024 – the lowest level since the third quarter of 2014. The debt ratio is thus following the trend observed in the euro area as a whole, where it currently stands at around 50%. Belgian household debt remains relatively high in historical terms and is above the euro area average, while previously having been significantly lower. However, the risks are mitigated by the high value of household financial assets and the fact that a majority of mortgage loans are fixed rate, thereby insulating debt servicing costs from fluctuations in market rates. Moreover, the servicing burden of fixed-rate loans contracted before the inflationary surge in 2022 has fallen strongly thanks to the sharp rise in nominal income as a result of, among other factors, automatic wage indexation. Together with the introduction of the Bank's prudential expectations in 2020, this significant decrease in the effective debt servicing burden has led to a strong improvement in the mortgage stock risk profile. This is also reflected in the historically low non-performing loan ratio for Belgian mortgages, which remained close to 1% in 2024 (see Table B8 in the Annex).

The debt ratio of Belgian non-financial corporations has fallen to levels not seen for many years. The most useful metric looks at consolidated debt excluding intragroup loans and currently stands at 59% of GDP, the lowest level since 2015. The other measures displayed in Figure 4 indicate higher debt levels (due to the inclusion of intra-sector and intra-group loans) but a much more pronounced decline, to levels not seen in almost twenty years.

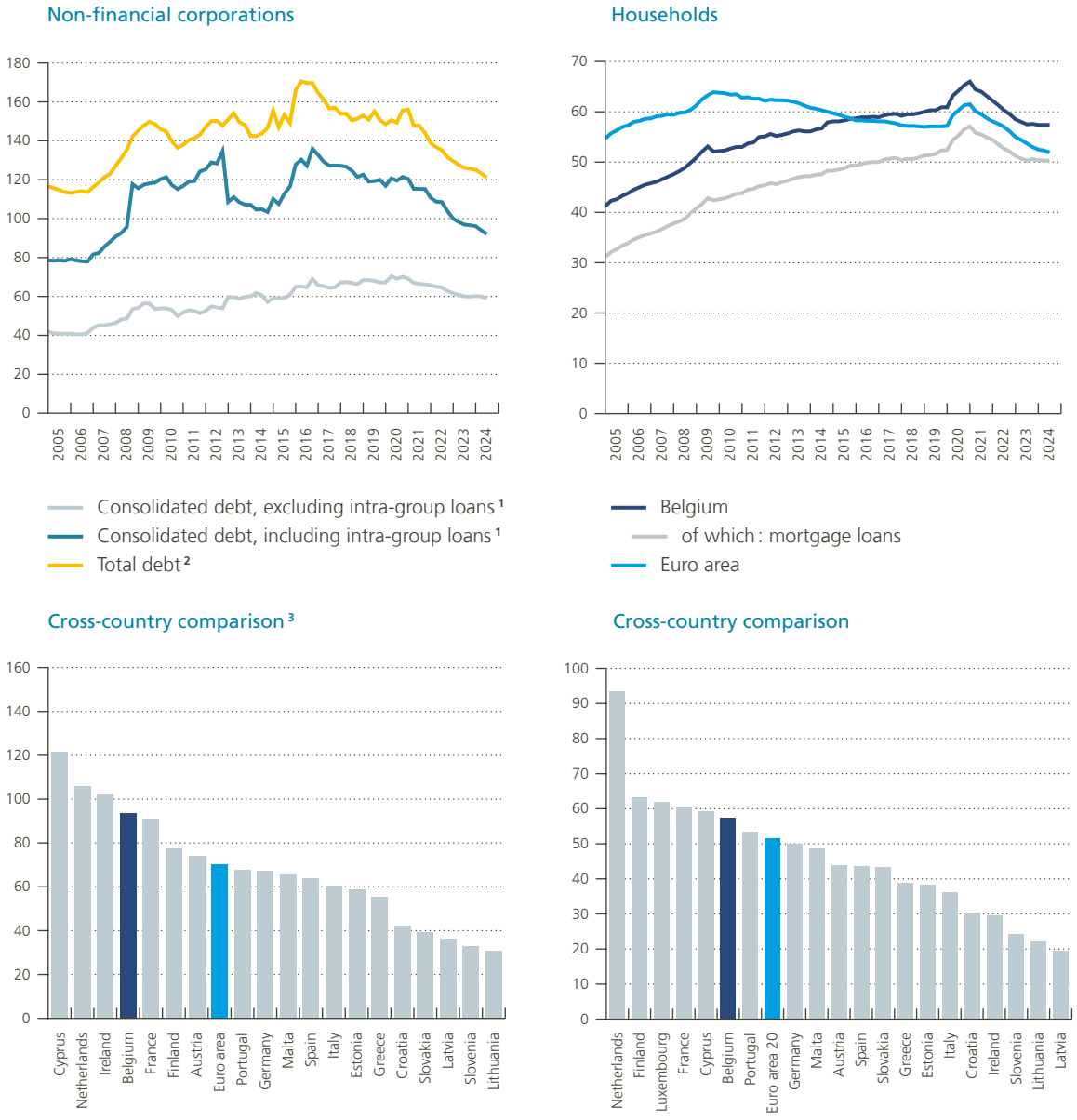
This shift in the debt ratio of Belgian firms has been accompanied by a general improvement in their financial position in recent years (see also chapter 5 of the Annual Report). Looking at the debt ratios of individual firms, as per annual accounts filed with the Central Balance Sheet Office, the median value has fallen over the past few years, from 56% in 2020 to 54% in 2023. The liquidity position of firms has also improved. In 2023, the median value of the narrow liquidity ratio was 1.3. In other words, half of Belgian firms had liquidity reserves at least 1.3 times their current payment obligations; this considerably mitigates insolvency risks.

Strong corporate balance sheets have contributed to financial stability, but pockets of vulnerabilities remain. This is particularly the case in the hospitality sector, where the bankruptcy rate is still higher than average. However, the situation in the sector improved somewhat in 2024, after several difficult years. More recently, the number of bankruptcies also rose sharply in the retail, construction and real estate sectors. In the construction and real estate sectors, 1.8% of VAT-registered entities were affected in 2024, compared with 1.5% for the

Figure 4

Debt of Belgian households and non-financial corporations

(as a % of GDP)



Sources: ECB, NBB.

1 Loans granted by the non-resident non-banking sector and by captive financial institutions.

2 Including loans provided by resident non-financial corporations to other resident non-financial corporations.

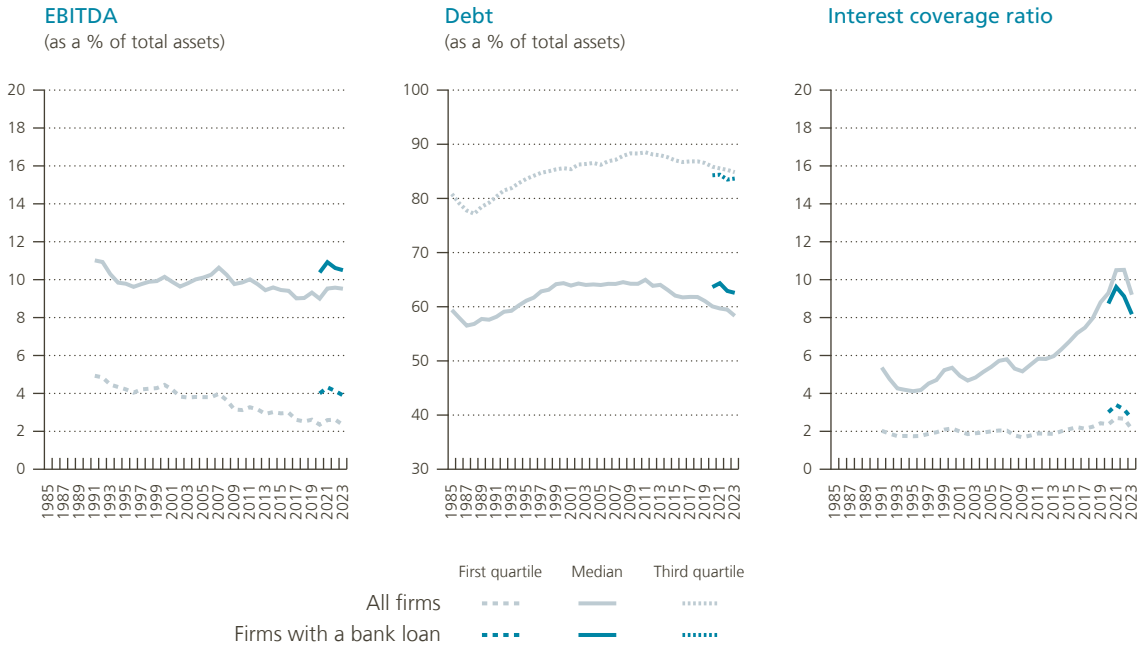
3 Luxembourg is excluded from the chart due to the high volatility of its quarterly debt ratio series.

same period in 2023. The increase in bankruptcies in the construction sector seems to be driven not only by the slowdown in building activity but also by the repeal in Flanders of the basic management skills requirement effective 1 January 2019. While this measure facilitated the entry of new firms, it seems to have led to a significant increase in the number of nonviable businesses.

Given the significant exposure of the Belgian financial sector to firms active in the construction and real estate sectors, Figure 5 illustrates recent trends in three financial ratios and their distribution across firms in these sectors, distinguishing between developments relating to the entire population and those pertaining to the subset of firms benefiting from a bank loan (as recorded in the Corporate Credit Register). For each financial ratio, the figure indicates the value of the median firm and the weakest quartile. A first conclusion which can be drawn is that the sector is very heterogenous, regardless of the ratio used, with a pronounced difference between the median and worst quartile observations. This confirms that the sector has a significant sub-segment of weaker firms which are vulnerable to adverse shocks and highlights that developments within the weakest firms are not necessarily representative of the general health of the sector. Looking at the median values, a second conclusion is that indebtedness and the interest coverage ratio improved in the years preceding the recent slowdown on the real estate market, providing a buffer to deal with the less favourable market conditions that have prevailed since interest rates began to rise. The median interest coverage ratio, for example, remains historically high after its most recent decline with annual cash flow (EBITDA) close to nine times the level of financial charges in 2023. A third conclusion which appears from Figure 5 is that firms with a bank loan generally score slightly better than the sector as a whole. For these firms as well, however, a quarter have relatively weak profitability (as proxied by the ratio between EBITDA and total assets), high indebtedness and/or a relatively weak interest coverage ratio.

Figure 5

Financial ratios of Belgian construction and real estate firms[1]



Source: Central Balance Sheet Office, Corporate Credit Register and NBB calculations.

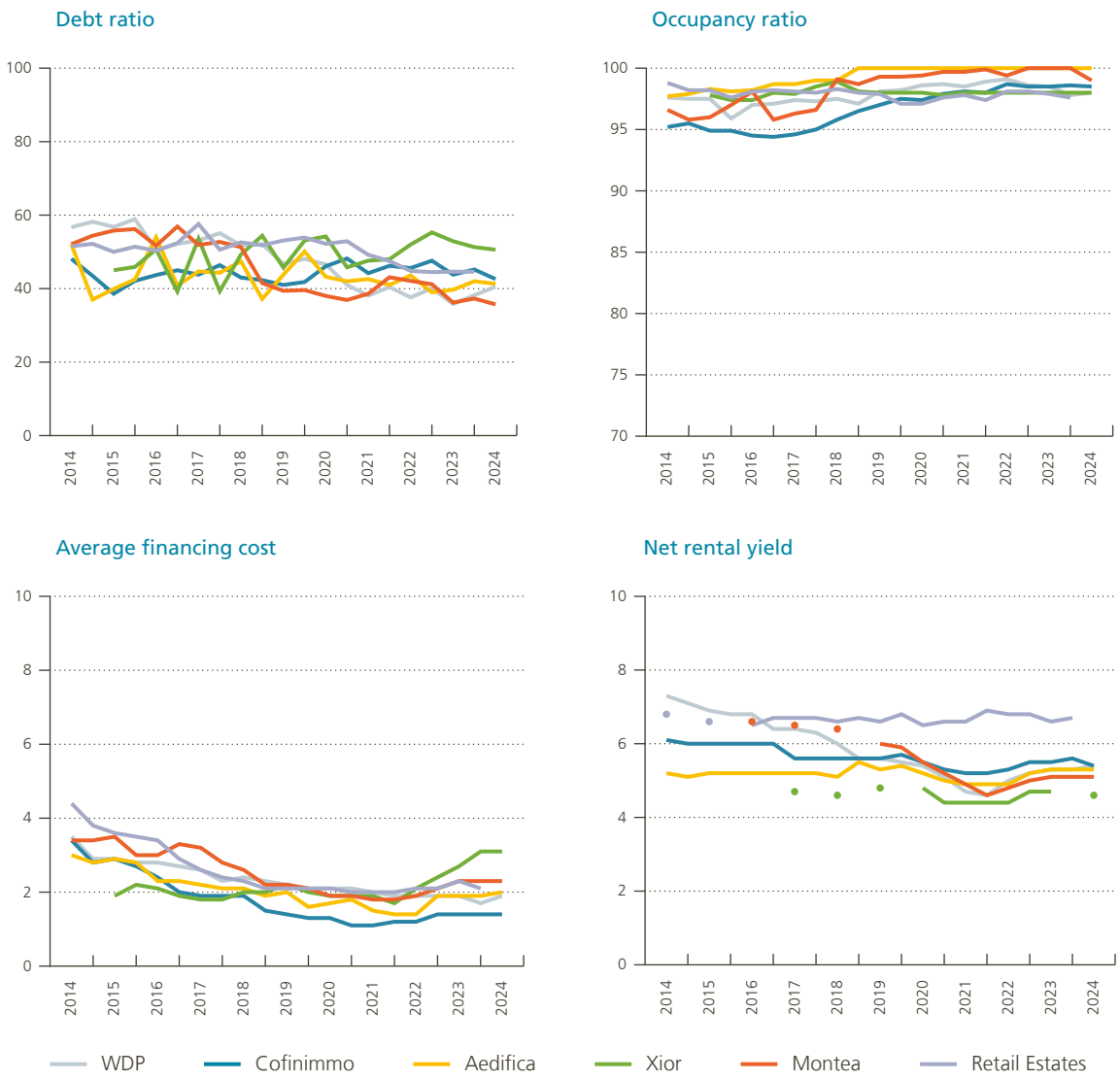
1 The analysis covers firms included in the NACE sectors for construction and real estate activities. EBITDA stands for earnings before interest, taxes, depreciation and amortisation. The interest-coverage ratio is the ratio between EBITDA and financial charges. Debt includes financial, intragroup and commercial debts.

Figure 6 complements Figure 5 by showing selected financial and operating ratios for Belgian real estate investment trusts (REITs), a group not covered by Figure 5. Belgian REITs are a key player on the Belgian commercial real estate (CRE) market. Their CRE exposure is almost exclusively in the form of investments in real property; the fair value of their assets remained close to €33 billion in 2024. REITs are subject to specific rules. For instance, they must take the form of a closed-end structure whose shares are listed on the Belgian stock exchange and are subject to a statutory limitation on their (consolidated) debt ratio to 65% and an obligation to prepare a financial plan to remain below this ceiling when the debt ratio exceeds 50%. REITs therefore focused on strengthening their balance sheets in 2023 and 2024, in order to keep their debt ratio under control as higher interest rates lowered the market value of their assets. They thus adopted a more cautious investment approach

Figure 6

Key operating and financial ratios for the six largest Belgian REITs

(as a %)



Source: Annual and half-yearly reports of Belgian REITs.

and downsized their portfolio while strengthening their capital through optional dividends, contributions in kind and (private) capital increases. The upper left-hand graph in Figure 6 shows in this regard that, with one exception, the six largest REITs, accounting for more than 80% of the sector's portfolio, had a debt ratio of less than 50% at the end of 2024. Debt servicing costs are another channel through which REITs felt the impact of higher interest rates. While a large portion of their bank loans have a variable interest rate, REITs traditionally hedge their interest rate risk to a high degree and over several years. As a result, the increase in their average debt servicing cost, including hedges, remained limited in 2023 and 2024, as illustrated by the lower left-hand graph in Figure 6. REITs also continued to report solid operational performance over the past year. High occupancy rates, combined with rent indexation, contributed to growth in rental income and an increase in rental yield (right-hand graphs in Figure 6). The spread between the latter and the average financing cost therefore remained fairly large and stable.

2. Banking sector

Trends in the financial aggregates of the Belgian banking sector reflect to a large extent developments at the four largest credit institutions which account for roughly four-fifths of the total assets and liabilities shown in Figure 7. There are nonetheless many common factors between these four large banks and small and medium-sized savings banks. Both groups have a business model focused mainly on classical deposit-taking and lending activities for the Belgian market and select foreign markets where some larger banks are present through local subsidiaries. This international reach of certain Belgian banks is captured in the supervisory data used for the analysis set out in this section, which is based on consolidated supervisory data supplemented with comparable unconsolidated data for banks that do not report consolidated accounts. Unconsolidated data have been added as from the last quarter of 2024 to the aggregates used in this report. Although they concern a limited number of smaller credit institutions and their weight in the total aggregates is immaterial, they are included for the sake of completeness. Due to the specificities of their business model, financial market infrastructures fall outside the scope of this report (see the Financial Market Infrastructures and Payment Services Report for more information).

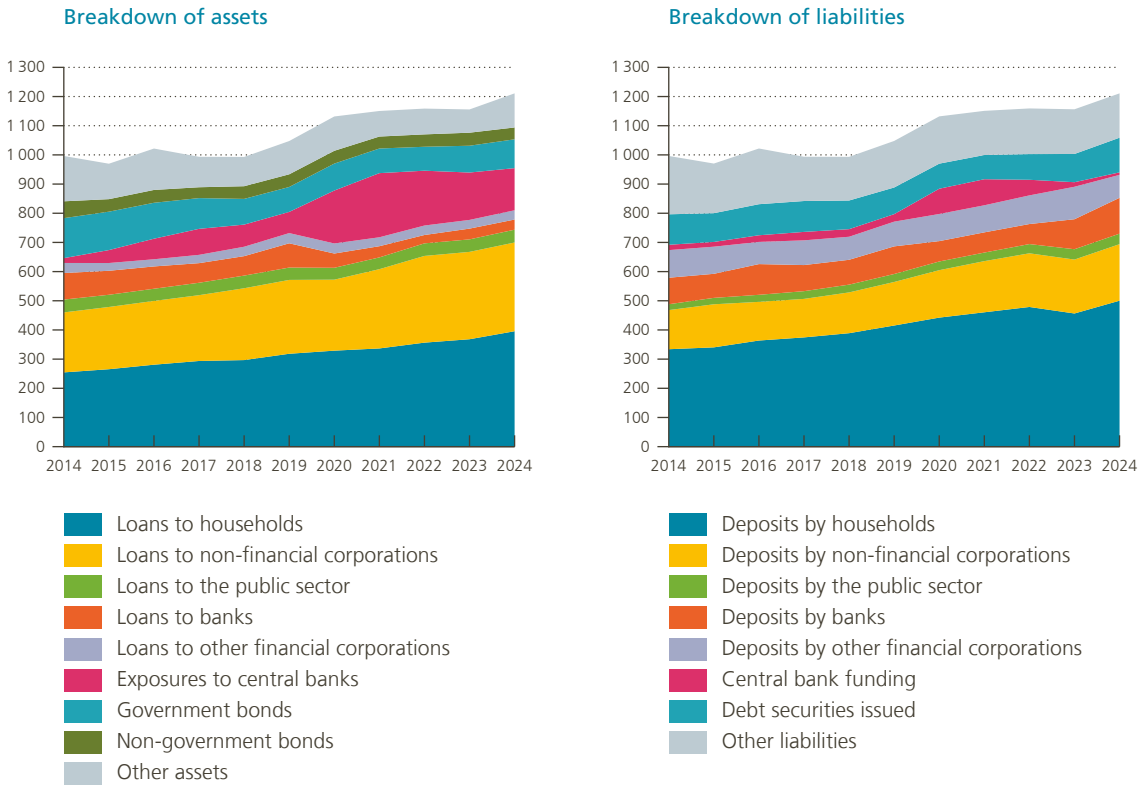
Due to their business model, deposits by and loans to households and non-financial corporations traditionally account for a substantial share of Belgian banks' assets and liabilities. At the end of 2024, these represented €694 billion (57%) and €700 billion (58%), respectively, of the sector's balance sheet (equivalent to €1211 billion). Other balance sheet items tend to be more volatile and can also be influenced by the monetary policy stance, for which the banking sector is a key transmission channel.

During the period of low inflation, the ECB injected large amounts of liquidity into the euro area banking system through so-called targeted longer-term refinancing operations (TLTROs) – offering banks long-term funding at attractive conditions to stimulate bank lending to the real economy – and purchases of debt instruments. The counterpart on the Eurosystem's balance sheet to these loans to banks and bond portfolios are the reserves (deposits) held by commercial banks with central banks, the amount of which is determined by the conduct of ECB monetary policy. While the TLTROs were reimbursed as they reached maturity (Figure B19 in the Annex), the large bond purchases by the Eurosystem are still contributing to the ample liquidity in the euro area banking sector, given their remaining term to maturity. The legacy of these operations is clearly evident in the asset composition of the Belgian banking sector. On the liabilities side, the funding previously obtained through TLTROs has in part been replaced by an increase in funding from other banks. The level of these interbank deposits is higher than Belgian banks' interbank exposure on the assets aside, meaning the Belgian banking sector is a net borrower from other banks. The cost of this funding is the interbank interest rate which is very similar to the ECB deposit facility rate. On the assets side, the composition of liquid assets continues to be characterised by a relatively high share of central bank reserves at the expense of interbank deposits and investments in government bonds, which used to account for a higher relative share before the ECB began injecting large amounts of central bank reserves in the euro area banking system (Figure B21 in the

Figure 7

Balance sheet structure of the Belgian banking sector[1]

(consolidated data, in € billion)



Source: NBB.

1 Financial market infrastructure banks are excluded due to the specificities of their business model.

Annex). As the ECB continues to gradually withdraw excess reserves from the system, investment in government bonds and lending on the interbank markets are likely to grow again to make up for the reduction in holdings of central bank reserves, a process that started after the reimbursement of TLTROs.

Figure 7 also shows transactions with other financial institutions (OFIs), which form part of the non-bank financial sector (see also section 4). On the assets side, loans to OFIs have remained stable in the past few years at around €30 billion or less than 2.5% of total assets. Data from the Corporate Credit Register, which mainly capture lending to domestic OFIs, show that this exposure concerns primarily term loans to leasing, factoring and consumer credit companies. Lending to private finance and private equity firms appears limited, echoing the finding that these companies do not make extensive use of bank financing for their operations in Belgium (see the special feature on the Belgian private finance market in the joint NBB-FSMA report on non-bank financial intermediation in Belgium, published in January 2025). With close to €80 billion in deposits on the liabilities side, the role of OFIs in bank financing is somewhat larger, but limited to 6.5% of the balance sheet. This funding is more or less equally distributed between domestic and foreign OFIs, with the latter including a significant share of OFIs in Luxembourg. More than half of these deposits are sight deposits, some of which may consist of cash collateral posted with banks in the context of derivatives transactions, for example, as CCPs are part of the OFI sector.

Both sides of the balance sheet feature large volumes of debt securities. These fixed-income securities play an important role in liquidity management as bonds meeting certain eligibility criteria can be included in the liquidity buffer used to calculate the liquidity coverage ratio (see below), while those on the liabilities side can be used to attract long-term financing. With a value of €119 billion or 10% of the balance sheet at the end of 2024, debt securities are indeed an important source of funding. Such securities can take many forms, include both senior and junior bonds (the latter in the context of MREL requirements as well) and be secured with collateral (such as covered bonds) or not. Belgian banks also regularly carry out securitisation operations (see Box 2 for more information). Debt securities on the assets side consist of government and corporate bonds (Figure B3 in the Annex). Corporate bond holdings have held steady in recent years, ranging from €40 billion to €45 billion, with securitisations amounting to slightly less than €4 billion at the end of 2024. The size of the government bond portfolio has been more volatile. These holdings declined from around €120 billion in 2014 to €80 billion in 2018, before rising again to €99 billion in 2024. Almost two-thirds of this amount is invested in AAA or AA bonds.

BOX 2

Origination of and investment in securitisation transactions by Belgian banks

The establishment of a savings and investments union is a key objective of the new European Commission. To further this strategic objective, the Commission is focusing, among other things, on reviving the securitisation market to improve the availability of credit and investment opportunities for savers. The idea is to build on the progress made thus far on the capital markets union. One important step in this direction was the introduction in 2019 of a framework for simple, transparent and standardised (STS) securitisations as part of the Securitisation Regulation. Initially, this framework applied only to traditional securitisations, but it was extended to synthetic securitisations in 2021. The STS framework is intended to increase investor confidence, thereby expanding the financing options available to banks and deepening capital markets.

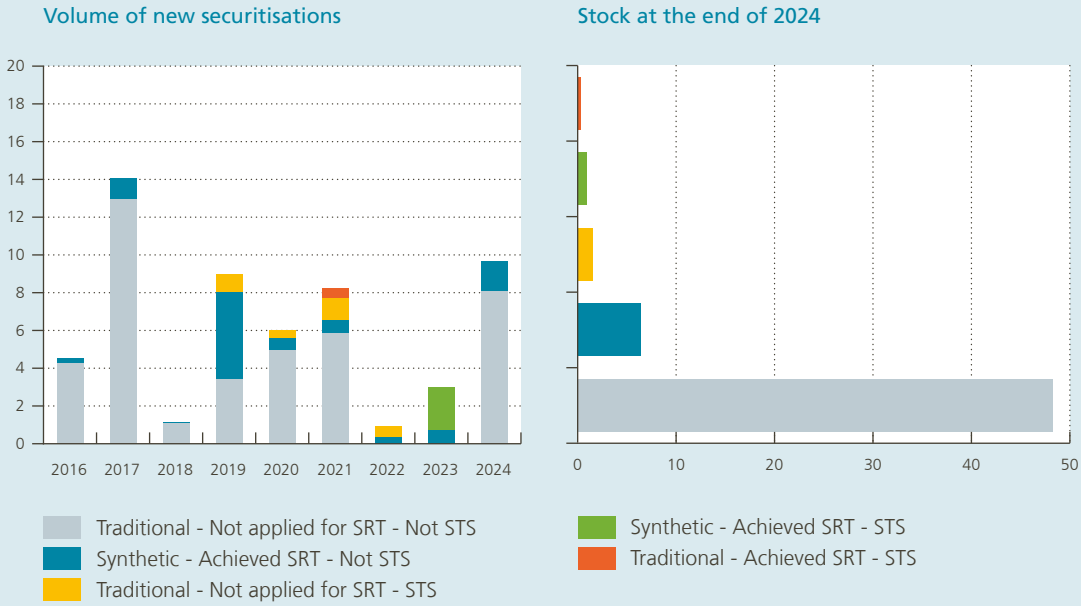
In recent years, securitisation volumes in Europe have mainly been driven by operations that meet the criteria for a significant risk transfer (SRT). The SRT framework allows banks to reduce their credit risk exposure by transferring the risk of a loan portfolio to investors, thereby lowering their risk-weighted assets.

A key distinction is between synthetic and traditional securitisations. In synthetic securitisations, which dominate the SRT market in Europe, the loan portfolio is divided into tranches (as is also the case in traditional securitisations), but it remains on the originator's balance sheet. The originating bank purchases credit protection from a third party to insure against losses in a specific tranche, allowing for capital relief on the insured tranche if SRT is demonstrated to the regulator. By contrast, in traditional (true-sale) securitisations, the loan portfolio is moved off balance sheet and sold to a bankruptcy remote vehicle. While traditional securitisations also allow for capital relief, they are mainly used in Europe for funding or collateral purposes.

Between 2016 and 2024, Belgian banks originated €6 billion on average in securitisation transactions per year. These transactions were primarily of two types: traditional non-STS securitisations where banks do not apply for SRT and synthetic securitisations with SRT. While synthetic securitisations are originated by

Securitisation transactions originated by Belgian banks

(consolidated data, in € billion)



Source: NBB.

only a few Belgian banks, traditional securitisations are originated by several Belgian banks. In terms of the underlying assets, traditional securitisations are predominantly backed by residential mortgages and loans to SMEs, while synthetic securitisations primarily involve loans to corporates and trade receivables.

At the end of 2024, Belgian banks had around €57 billion in originated securitisations outstanding, the majority of which consisted of traditional securitisations without SRT retained on balance sheet by the originating banks.

When acting as investors, Belgian banks invest solely in traditional securitisations. Securities obtained from investing in traditional securitisations may qualify as high-quality liquid assets and serve as collateral for central bank operations, as opposed to the more complex instruments (credit-linked notes or derivatives) used in synthetic securitisations.

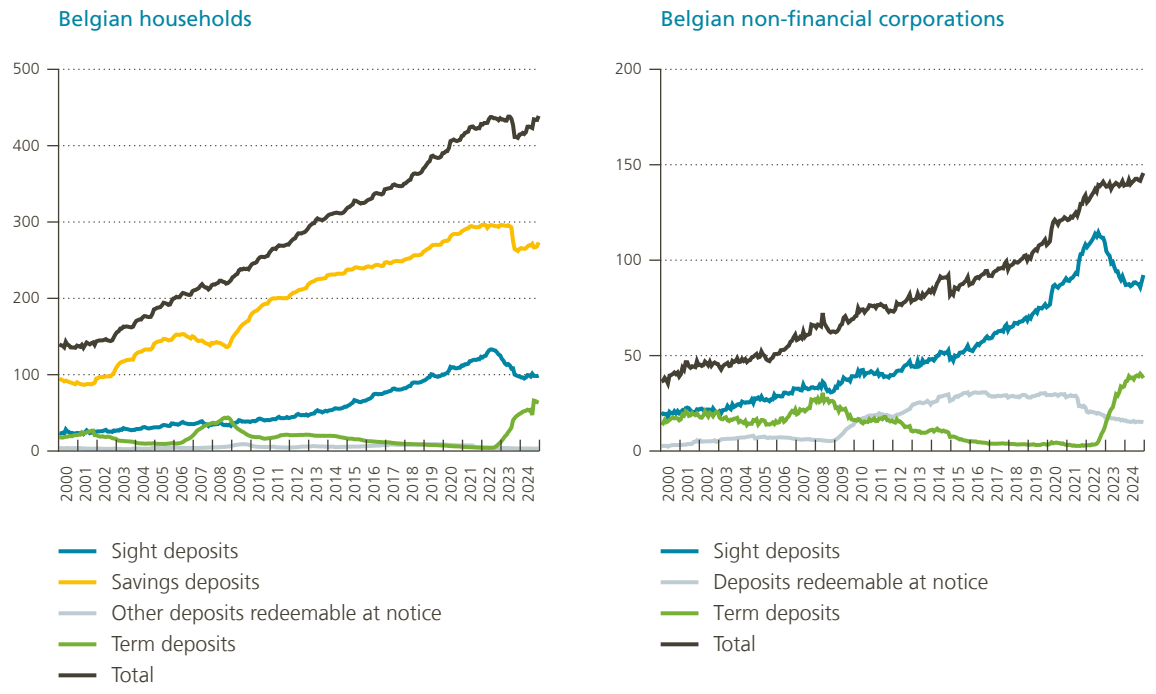
Based on the number of outstanding transactions at the end of 2024, there is slightly more investment in non-STS securitisations (151 transactions) than in STS securitisations (107 transactions). In both categories, the investments predominantly concern securitisations for which the underlying assets are residential mortgages or consumer credit. A smaller share consists of securitisations backed by corporate loans or trade receivables, which usually do not qualify as STS securitisations. At the end of 2024, the total investment by Belgian banks in securitisations amounted to almost €4 billion.

A notable development on the liabilities side of the Belgian banking sector's balance sheet in 2023 and 2024 was driven by the issuance of a one-year State note targeted at retail investors in the third quarter of 2023 and the maturity of this note a year later. By issuing a risk-free investment product with a short maturity, similar to a regulated savings account, the Belgian finance minister and the Federal Debt Agency had three objectives: to stimulate competition for savings and thus push up bank deposit rates; to send a positive signal to the financial markets about Belgians' ability to save; and, finally, to offer households a safe and attractive short-term investment option. The State note indeed offered an attractive yield, at a time when the transmission of the rise in interest rates on the capital markets to the rates offered on savings deposits by Belgian banks remained slow. The gross coupon of 3.30%, combined with a reduction in the withholding tax applicable to the bond, translated into a yield of 2.81% after tax for retail investors. The response from households to the new State note was enormous – with more than 500 000 savers subscribing for a total amount of almost €22 billion in the third quarter of 2023. This led to an unexpectedly large outflow of household deposits from banks' balance sheets, equivalent to 6% of the stock of these deposits (Figure 8). Banks were able to manage this outflow, which could be absorbed by their liquidity buffers, but the loss of a considerable volume of stable retail deposits nevertheless constituted a material development for their funding base, interest margin and profitability. It also ushered in a period of increased competition on the savings market. As the State note neared maturity in September 2024, banks made efforts to try to recapture as much of the soon-to-be-released funds as possible. This competition was mainly focused on a number of products and was particularly fierce for customers willing to switch banks. Liquid deposits, such as regulated savings accounts, benefited less from this beefed-up rivalry than products such as term accounts and savings certificates, for which the funds invested are unavailable for a fixed period of time. Such segmentation was possible because the different types of products offered are

Figure 8

Bank deposits of Belgian households and non-financial corporations

(non-consolidated end-of-period data, in € billion)



Source: NBB.

not perfect substitutes. This heightened competition nevertheless enabled almost all of the €22 billion to be recaptured by the commercial banking sector, while generating (limited) transfers of savings from one institution to another and contributing to a further increase in household term deposits.

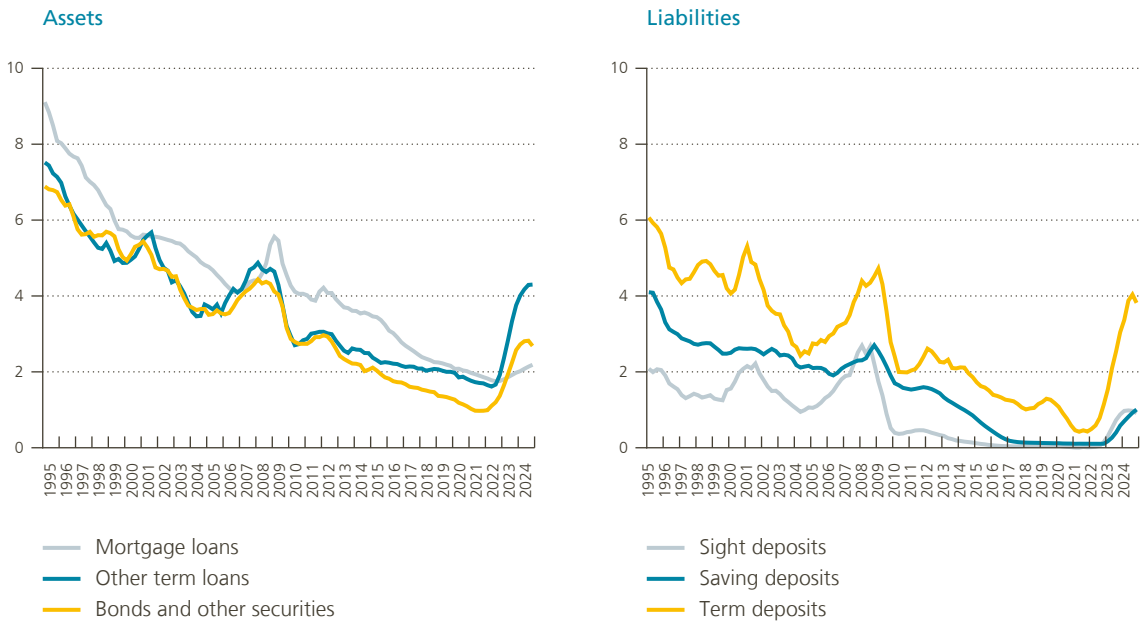
Figure 9 shows the change in the average interest rate earned or paid by banks on a series of assets and liabilities. On the assets side, the average interest rate on Belgian banks' bond and business loan portfolios rose significantly starting in mid-2022, while pass-through of the higher interest rate environment to the average interest rate earned by banks on their mortgage portfolios – which are dominated by loans with a fixed rate for the entire term – was limited and very gradual. On the liabilities side, a similar dichotomy can be observed with respect to the average interest rate paid by banks on term deposits versus the slower pass-through of higher market rates to household and corporate sight and savings deposits.

The transformation of short-term deposits into long-term loans is the main source of income for Belgian banks thanks to the positive difference between the average interest rate received on loans and that paid on deposits. However, this maturity transformation also exposes banks to interest rate risk. To manage this risk, banks try to match the interest rate sensitivity of their assets with that of their liabilities and use hedging instruments, where necessary, to offset the remaining imbalances. In doing so, they take into account the specific repricing characteristics of different assets and liabilities. Loan and bond portfolios, with typically long maturities, reprice only gradually as maturing assets with low yields are replaced with higher-yield ones. For sight and savings accounts (so-called non-maturity deposits), however, an increase in deposit rates is immediately applicable to the entire stock. Management of the interest rate risk inherent in these non-maturity deposits requires banks

Figure 9

Average interest rate on the stock of certain assets and liabilities [1]

(non-consolidated data, as a %)



Sources: ECB, NBB.

1 Average interest rates (implied yields) are calculated as the ratio between the 12-month cumulative flows of interest effectively received and paid and the average volume of the corresponding assets or liabilities over the same period. These are assets and liabilities from "customers", including households, non-financial corporations, governments and other financial corporations (excluding financial institutions and central banks).

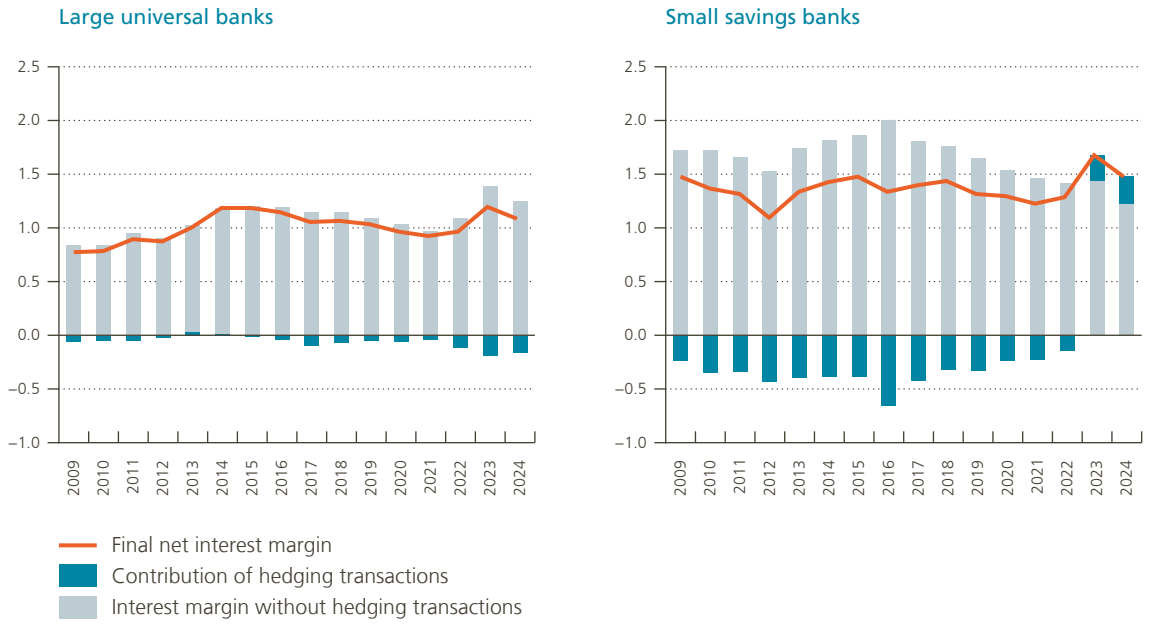
to estimate in advance, to the best of their abilities, the response of customers to changes in market interest rates. In the past, little or no interest was paid on a large share of sight deposits, while interest rates on savings accounts generally followed market rates gradually and with a certain delay, regardless of whether they were rising or falling. Banks use these historical trends in the stability and remuneration of deposits to, for example, model how interest rates on regulated savings accounts gradually reflect a permanent 1% rise/fall in the yield curve. These characteristics, and the interest rate risk modelling of sight and savings deposits, also determine the financing possibilities for fixed-rate assets without excessive (and, therefore, risky) reliance on interest rate derivatives. Today, about three-quarters of Belgian mortgages have a fixed rate for their entire term.

By balancing asset and liability positions that reprice at around the same time (so-called "repricing buckets"), banks can minimise their net exposure to interest rate fluctuations. In this context, interest rate derivatives are frequently used to reduce gaps in certain repricing buckets, using payer or receiver swaps depending on whether the gap is due to an excess of assets or of liabilities in a particular bucket. These hedging operations play an important role in the management of interest rate risk arising from long-term fixed-rate assets, such as mortgages. Figure 10 shows that interest rate derivatives were particularly important for Belgian savings banks during the most recent period of rising interest rates. Savings banks hold mainly (net) payer swap positions. In this type of swap, the bank pays a long-term fixed interest rate to the derivative counterparty and receives a floating short-term rate in return. Such a hedging position was costly for the interest margin of savings banks when interest rates were low, as the long-term fixed rate paid was higher than the short-term rate received (with the latter even negative for some time). However, these swaps contributed positively to savings' banks net interest income in 2023 and 2024 and offset, as intended, the downward pressure on their interest margin resulting from the narrowing gap between deposit rates and the very slow-paced rise in average rates on

Figure 10

Net interest margin[1]

(non-consolidated data, as a %)



Source: NBB.

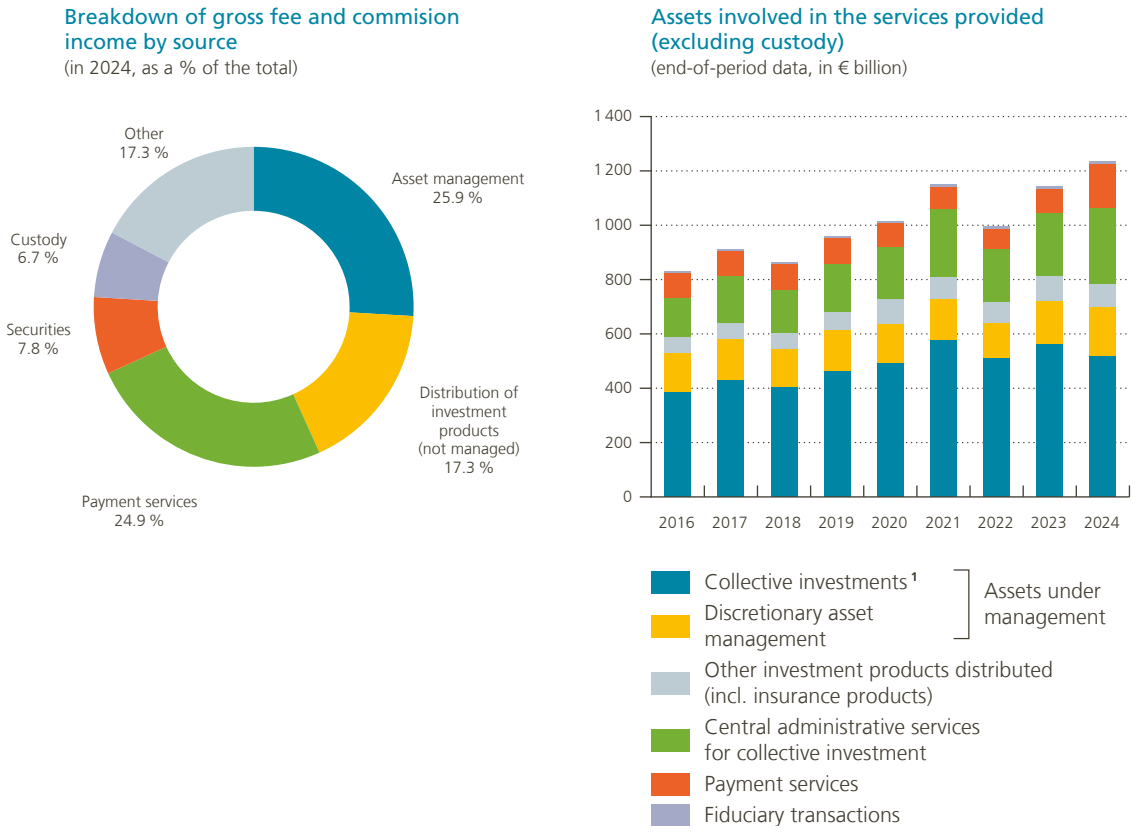
1 The interest margin is the ratio between net interest income for the last four quarters and average total assets over the same period.

mortgage loan portfolios. Nonetheless, as net interest income on payer swaps is mainly determined by short-term rates, a further decline in these interest rates in line with monetary policy rates could lead to a reduction in this component of the interest margin for savings banks in the coming quarters. Large universal banks have a more diversified mix of payer and receiver swap positions, as their asset and liability structure is also more diversified, hence providing more opportunities for matching assets and liabilities in the various repricing buckets (the so-called natural hedge) without having to use interest rate derivatives to close repricing gaps. This more diversified composition of assets and liabilities (the composition effect) also explains why large universal banks have a lower net interest margin overall (due to greater wholesale deposit and lending activities on which the interest margin is low).

While net interest margins declined in 2024 for both universal banks and savings banks, they remain at a level well above those seen during the low interest rate period. The interest margin, defined as the ratio between net interest income and total assets, started to decline in 2016 for both groups of banks but was more pronounced for savings banks. This was mainly due to the low – and for some instruments even negative – interest rates. During the low interest rate environment, rates on liabilities, such as retail customer deposits, reached a floor of 0% (0.11% for Belgian regulated savings deposits), while interest rates on assets continued to decline and even turned negative. The negative impact on net interest income, measured in euros, of this narrowing spread between the average yield on assets and liabilities was nevertheless offset by a very positive volume effect

Figure 11

Breakdown of gross fee and commission income by source and assets involved in the services provided



Source: NBB.

1 Collective investment products either managed by banks (and their subsidiaries) themselves or sourced from other parties and distributed to their clients.

during the low interest rate period, thanks to strong growth in bank lending to households and non-financial corporations, fuelled by historically low interest rates. Higher interest rates as from 2022 reversed this trend. While leading to a significant slowdown in lending growth (lower volumes), higher interest rates allowed banks to restore the spread between the average yield on their assets and liabilities, with a strong contribution by payer swaps in the case of savings banks. As a result, the net interest margin rose in 2023, to 1.2% for large universal banks and to 1.7% for savings banks. By 2024, it had already fallen somewhat, to 1.1% for large universal banks and to 1.5% for savings banks but remains well above the levels seen during the low interest rate period.

Another important source of income is fees and commissions. In 2024, net fee and commission income accounted for one-fifth of total operating income for large universal banks and one-tenth for savings banks. The two most important sources of fee and commission income are asset management and payment services (Figure 11). Together, these account for more than one-half of gross fee and commission income, a share that is rising. While in 2016 payment services represented 16% of fee and commission income, this share rose to 25% in 2024. For asset management, the share increased from 17% to 26%. The value of the assets involved in asset management services also rose, from €531 billion in 2016 to €701 billion in 2024 (see the joint NBB-FSMA report published in January for more information on the asset management industry in Belgium).

Net interest income nevertheless remains by far the main source of income for Belgian banks. In 2024, it accounted for almost three-quarters of the total operating income of savings banks and around two-thirds of that of large universal banks. The lower reliance of large universal banks on net interest income is one reason why they performed much better than savings banks in terms of profitability and cost efficiency during the period of low interest rates (Figure 12). Between 2016 and 2020, savings banks saw a significant decrease in their return on equity, with a low point of 3.3% in 2020 that coincided with the start of the pandemic and a period of very low interest rates. Large universal banks were able to manage this better, but also hit a low point in 2020, when additional credit risk provisions contributed to a decline in return on equity to 5.9%. When interest rates started to rise, banks' return on equity rose as well. In 2023, the return on equity enjoyed by large universal banks reached its highest point, at 12.5%. For savings banks, it hit 8.1%. As interest rates fell, the return on equity decreased as well. In 2024, the return on equity amounted to 11.9% and 7.6% for large universal banks and savings banks, respectively. While lower than the numbers seen in 2023, these returns are still substantially higher than those recorded between 2016 and 2022.

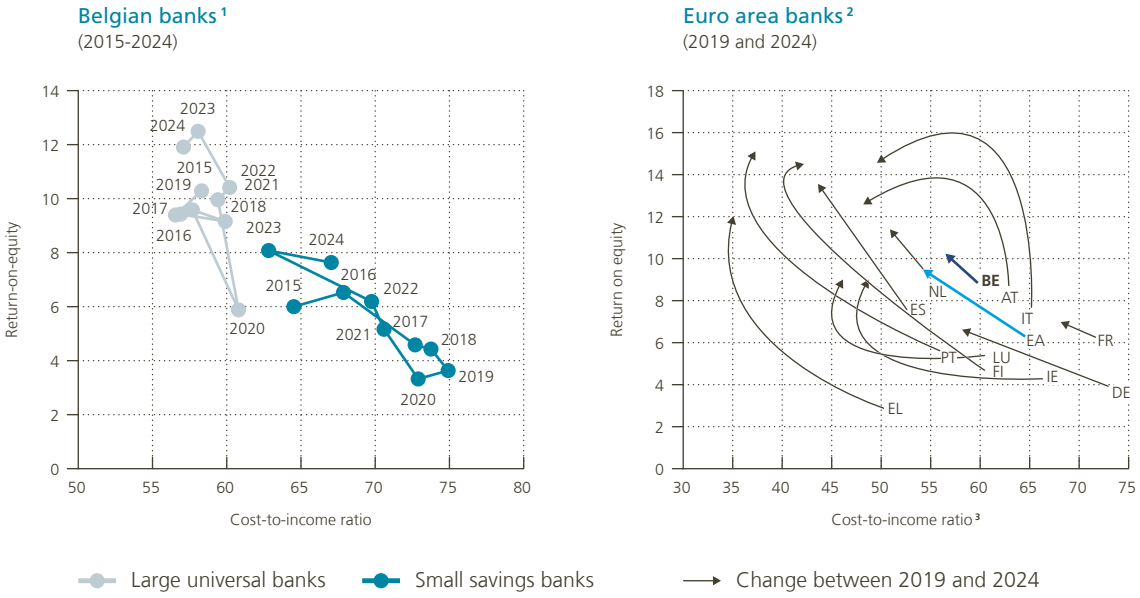
Like the return on equity, the cost-to-income ratio tends to vary between savings banks and large universal banks. In short, savings banks have a systematically higher cost-to-income ratio than large universal banks. This may be linked to the advantages larger banks have when it comes to exploiting economies of scale and in developing and using cost-saving digital technologies. As shown in the left-hand graph in Figure 12, large universal banks thus generally outperform savings banks based on their return on equity and cost-to-income ratio. This performance gap was especially large during the period of low interest rates, but narrowed after 2022 as savings banks significantly improved their profitability and cost efficiency, reflecting a significant increase in their net interest income. This also signalled a return to sustainable profitability of core financial intermediation activities for savings banks, easing the pressures weighing on their business model during the period of low interest rates.

The right-hand graph in Figure 12 shows an international comparison of the return on equity and cost-to-income ratio. The graph illustrates the change in both ratios between 2019 and 2024 for different euro area countries and for the euro area as a whole. In 2019, the Belgian banking industry was among the top performers in the euro area in terms of return on equity; its cost-to-income ratio was also better than the euro area average. In 2024, however, many national banking sectors, especially those with a high volume of variable-rate loans on their balance sheets, outperformed the Belgian banking sector, although both ratios also improved for Belgian banks compared with 2019 and their return on equity even remained slightly higher than the euro area average (9.8%). The less profitable French and German banking sectors have a large weight in the euro area average. The fact that changes in the two metrics between 2019 and 2024 are less pronounced in Belgium than in

Figure 12

Profitability and cost efficiency of Belgian and euro area banks

(as a %)



Sources: ECB, NBB.

1 Excluding infrastructure banks and banks specialising in private banking.

2 Annualised data for the first three quarters of 2019 and 2024.

3 The scope of the expenses included in this harmonised calculation of the cost-to-income ratio for euro area banks differs slightly from the definition used to calculate the Belgian cost-to-income ratio in the left-hand graph.

many other countries reflects the high share of fixed-rate loans in Belgium: in many other European countries, variable-rate loans are more common. Income from variable-rate loans increases in tandem with the interest rate, thus boosting banks' profit margins when interest rates are high. However, when interest rates are low, variable-rate loans weigh on profitability and drive down the return on equity.

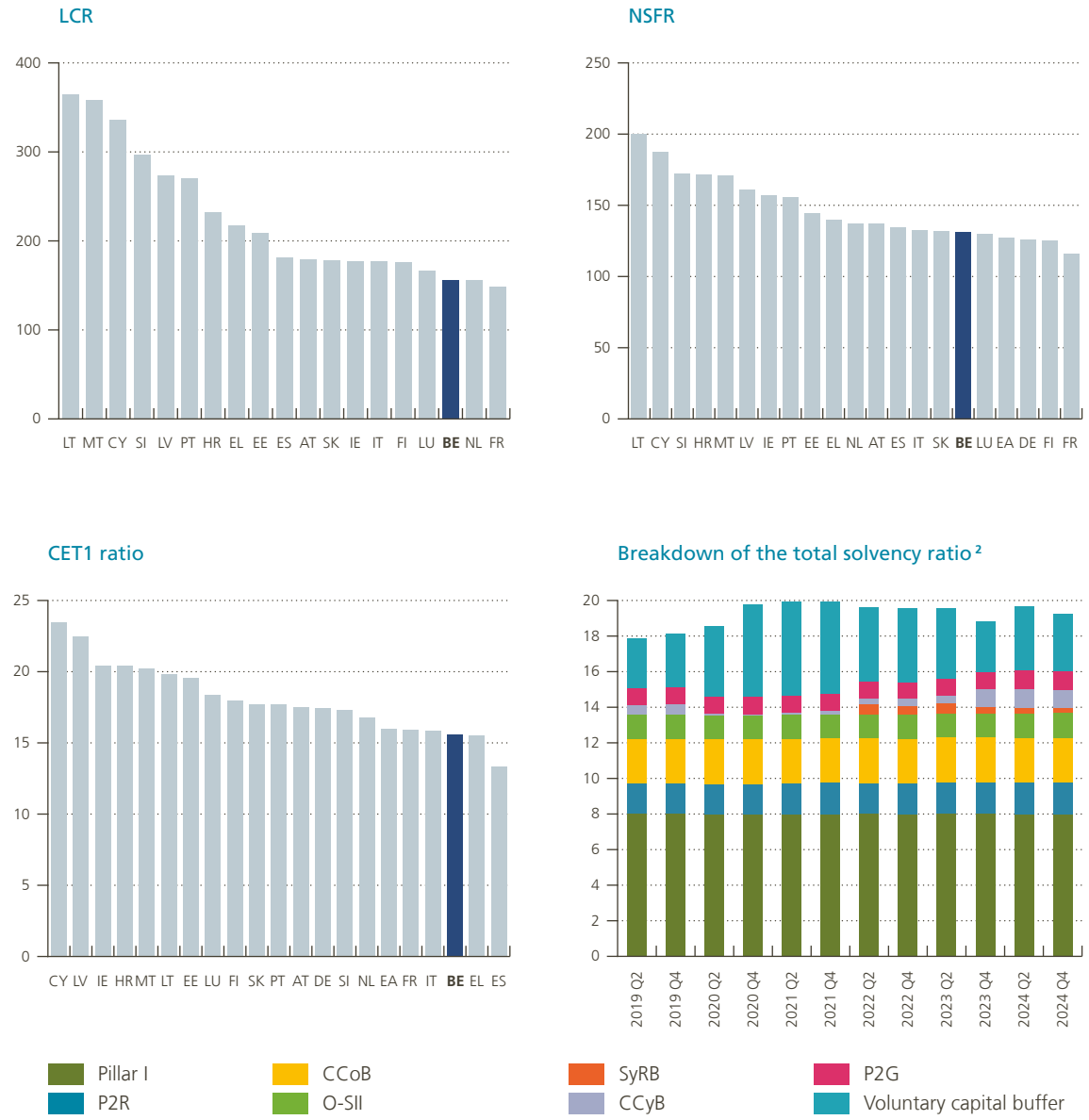
With a net profit of €9 billion and a return on equity of 11.5% for 2024, the Belgian banking sector reported good, albeit not excessive, profitability in 2024. This result can be explained by low credit losses, higher non-interest income and a moderate fall in net interest income (see Table B14 and Figure B15 in the Annex). A credit institution must offer a return on equity that corresponds to market expectations in order to maintain adequate access to the capital markets and allow it, if necessary, to carry out a capital increase. Such a return also ensures that shareholders will support the organic growth of the institution's balance sheet in line with the demand for credit in the economy. Insufficient profitability or losses weaken the financial position of banks and can ultimately undermine the confidence of depositors and other creditors. Sufficiently high capital and liquidity buffers to absorb adverse shocks are also key to maintaining depositor and creditor confidence (Figure 13).

The upper graphs in Figure 13 show the regulatory liquidity ratios for the banking sector in euro area countries. The minimum requirement for both ratios is 100%. The liquidity coverage ratio (LCR) provides information on a bank's liquidity position from a short-term perspective and is defined as the ratio between the stock of high-quality liquid (unencumbered) assets and simulated net cash outflows in a hypothetical 30-day stress scenario. The net stable funding ratio (NSFR) takes a longer-term view and provides information on whether banks have sufficient long-term funding to finance their illiquid assets over a one-year horizon. It is the ratio between a

Figure 13

Solvency and liquidity[1]

(as a %)



Source: ECB Consolidated Banking Data and NBB.

1 The liquidity and solvency ratios used for the international comparison are based on the financial position at the end of September 2024.

2 The components of the capital stack (see Table 1 for more information) are shown in the quarter of the related decision.

bank's available stable funding sources – for example capital or retail deposits – and the required stable funding for the financing of loans and debt securities, for instance. At the end of 2024, the LCR (155%) and NSFR (129%) of the Belgian banking sector remained well above the minimum required level of 100% and close to those recorded by the banking sector in neighbouring countries. More information on the liquidity ratios of Belgian banks can be found in Table B20 and Figures B21 and B22 in the Annex.

The bottom graphs in Figure 13 focus on regulatory solvency ratios. In contrast to the liquidity ratios, there is no uniform minimum requirement that can be summarised in a single figure applicable to all individual banks. While many aspects of banks' capital requirements are harmonised, the regulatory capital framework includes a number of bank-specific requirements for the minimum capital they are required to hold, depending on the institution's risk profile. The individual risk profile also influences the level of risk-weighted assets, with the latter serving as the denominator of regulatory capital ratios in risk-weighted frameworks.

The bottom left-hand graph in Figure 13 shows the CET1 ratio of the banking sector in euro area countries at the end of September 2024. This ratio is higher than the minimum capital requirement as banks hold higher levels of CET1 capital. The cross-country differences can thus be attributed to variations in the minimum capital requirement and/or in the size of management buffers, i.e. the amount of CET1 capital above the required minimum, in the respective national banking sectors. Table B23 in the Annex provides more details on the composition of the Belgian banking sector's regulatory capital and risk-weighted assets (RWA) and the corresponding risk-weighted capital ratios. It highlights amongst other things that, as a % of RWA, increases in additional Tier 1 and 2 capital in 2024 compensated for a relatively slow increase in CET1 capital over the course of that year. While the total solvency capital ratio declined only slightly from 19.6% at the end of 2023 to 19.2% at the end of 2024, the CET1 ratio dropped from 16.7% to 15.0% (or from 15.9% at the end of 2023 if the sample of credit institutions used for the calculations is kept the same), in large part due to a significant change in the consolidation scope of a major credit institution.

The bottom right-hand graph in Figure 13 provides insight into the total capital held by Belgian banks and the level and composition of minimum regulatory capital requirements over the period 2019-2024. Definitions for the various items that make up the so-called "capital stack" can be found in Table 1. As the graph focuses on the breakdown of total regulatory capital, the microprudential Pillar 1 requirement is equal to 8% of risk-weighted assets (or "total risk exposure amount" according to the formal terminology) in this case (see Table 1 for more information). The other microprudential components of the capital stack are the capital conservation buffer (CCoB) and the Pillar 2 components (P2R and P2G). The macroprudential capital buffers are the counter-cyclical capital buffer (CCyB), the systemic risk buffer (SyRB) and the buffers for systemically important institutions (O-SII and G-SII, although the latter category is not applicable in Belgium as no Belgian bank is considered a global systemically important institution).

The development over time of the Belgian banking sector's capital stack clearly shows that certain components have been very stable since 2019 as they are set at a fixed level (Pillar 1 and CCoB) or their calibration has not changed much, if at all, over this period (P2R, P2G and O-SII). The other components, all of which are macroprudential in nature, varied more strongly. These include buffers activated by the macroprudential authorities in countries where Belgian banks operate. Most of the required macroprudential buffers listed are, however, the result of decisions taken by the Bank as the macroprudential authority for Belgium.

The CCyB was activated in Belgium for the first time in 2019, but released at the start of the pandemic in March 2020. In the third quarter of 2023, the Bank decided to re-activate this buffer based on an analysis that weighed the costs of procyclicality against the benefits of the heightened resilience of the Belgian banking system to potential losses. As shown in section 1, the re-activation of the CCyB did not lead to a procyclical tightening of credit conditions by banks: this was indeed an issue to which the Bank was particularly attentive in the quarters preceding the decision to re-activate the buffer. In 2022 and the first half of 2023, amidst the high uncertainty caused by a potential energy crisis, shifting credit and real estate cycles, and turbulence in the US and Swiss banking sectors, the Bank decided to maintain the CCyB at 0%. This was done to ensure that Belgian banks had full flexibility to use the ample capital at their disposal to raise credit risk provisions in a proactive manner and to support the real economy. By the third quarter of 2023, this uncertainty had, to a significant extent, dissipated, with the downturn in the credit and residential real estate cycles proceeding in a very orderly fashion. At the same time, Belgian banks' provisions for (expected) credit losses had dropped back to pre-pandemic levels, providing less assurance against potential losses in corporate loan portfolios. By raising the CCyB in 2024 in two steps — to around €1.2 billion as of 1 April 2024 (a CCyB rate of 0.5%) and €2.5 billion

Table 1

Components of the capital stack

Pillar 1 requirements. There are three risk-based Pillar 1 capital requirements. They are set as a percentage of three different capital measures: Common Equity Tier 1 (CET1) capital, Tier 1 capital and total capital (TC). To determine these capital requirements, each capital measure is compared to the Total Risk Exposure Amount (TREA). The Pillar 1 minimum requirements for these capital measures are set at 4.5%, 6% and 8%, respectively. In addition to Pillar 1, institutions are subject to a Pillar 2 requirement (P2R), a combined buffer requirement (CBR) and Pillar 2 guidance (P2G).	
The **combined buffer requirement** (CBR) is the sum of the following buffers:	
Capital conservation buffer (CCoB)	This is intended to ensure that firms build up capital buffers outside any periods of stress and is designed to avoid breaches of minimum capital requirements. This buffer can then be drawn upon when losses are incurred. The CCoB is set at 2.5% of TREA and is applicable to all institutions.
Countercyclical capital buffer (CCyB)	This buffer is designed to counter procyclicality in the financial system. When cyclical systemic risk is judged to be increasing, institutions should accumulate capital to create buffers that strengthen the resilience of the banking sector during periods of stress when losses materialise. This will help maintain the supply of credit to the economy and dampen the downswing of the financial cycle. The CCyB is set by the competent or designated authority in each jurisdiction. The CCyB applicable to an institution is calculated as the sum of each credit exposure weighted by the CCyB rate defined by the Member State in which the exposure is located. It generally ranges from 0% to 2.5% of TREA but can exceed 2.5% in certain circumstances.
G-SII buffer	This is a buffer that addresses systemic importance at the global level. The level of the buffer is mainly determined by the systemic importance score of the global systemically important institution/banks (G-SII/G-SIB). The lowest category has a buffer requirement of 1% of TREA, which increases by gradients of 0.5% for each G-SII sub-category.
O-SII buffer	This is a buffer that addresses the systemic importance of other systemically important institutions (O-SII) at the national banking sector level. The O-SII buffer requirement can be up to 3% of TREA and is set by the competent or designated authority in each jurisdiction.
Systemic risk buffer (SyRB)	This is a buffer set by the competent or designated authority that aims to address systemic risks not covered by the Capital Requirements Regulation or by the CCyB or G-SII/O-SII buffers. The level of the SyRB may vary by institution or set of institutions as well as across subsets of exposures. The SyRB can be implemented on a sector-specific basis, such as to target exposures secured by residential real estate.
Additional Pillar 2 components	
Pillar 2 requirement (P2R)	This is a mandatory capital requirement that can be set by competent authorities on top of the Pillar 1 minimum capital requirement and below the CBR. P2R serves to capture risks, aside from those pertaining to excessive leverage, which are insufficiently or not captured by the Pillar 1 capital requirements.
Pillar 2 guidance (P2G)	This is a buffer on top of the CBR which, unlike the P2R, is not legally binding, as it only reflects supervisory expectations. P2G indicates the level of capital that institutions should maintain to be able to withstand periods of financial stress from a solvency perspective. It is communicated to an institution by its competent authority, which calculates P2G after applying supervisory stress tests.

Sources: EBA, Stacking orders and capital buffers, 15 July 2024, and NBB.

since 1 October 2024 (a CCyB rate of 1%) — the macroprudential authority built in an additional guarantee for the Belgian banking sector's resilience to potentially higher-than-expected losses. Several corporate sectors continue to face headwinds following the substantial increase in interest rates since the beginning of 2022, especially the real estate sector. At the same time, the macro-financial environment is vulnerable to spillovers from major geopolitical developments and the associated uncertainty, which could also affect the quality of banks' loan portfolios. Should there be an unexpected and large increase in credit losses, the CCyB can be (partially) released, if necessary, to help banks absorb the shock in an orderly way.

The Belgian banking sector's capital stack also includes a systemic risk buffer. This is a buffer for banks that calculate their minimum capital requirements for Belgian mortgage loans with the help of internal models. These internal models are used to calculate the risk weights that banks should apply to their mortgage loan exposures in order to determine their risk-weighted assets (RWA) and thus the level of capital they should maintain. The risk weight calculation depends on several risk drivers such as the probability of default and the loss given default. In order to calculate these parameters, Belgian banks calibrate their models using historical credit loss data. Given that the time span covered by the historical dataset does not include a crisis period – on the contrary, it includes a period during which the Belgian residential real estate market enjoyed rather buoyant conditions

– the risk weights calculated by internal models tend to be low (10% on average) and lower than in most other countries. In view of the possibility that the risk weights resulting from internal ratings-based (IRB) models could be insufficient to capture the potential losses banks could incur in stressed market conditions, Belgian banks using these models for Belgian mortgages have been subject to a macroprudential capital buffer since the end of 2013 to enhance their resilience. Until 2021, the Bank based the imposition of this buffer on Article 458 CRR, which increased the denominator (RWA) of the capital ratio shown in Figure 13 (see Figure B23 in the Annex for data on the RWA component). This is why this "buffer" does not appear in the capital stack shown on the graph. In 2022, further to revision of the CRR which created the possibility to introduce so-called sectoral systemic risk buffers, this capital buffer was transformed into a sectoral systemic risk buffer. Given the high level of compliance with the Bank's prudential expectations for Belgian mortgage loans, the Bank assessed in 2023 that this buffer could be lowered from 9% (the rate applied as from 2022) to 6% as of 1 April 2024. The total amount of the sectoral systemic risk buffer subsequently declined from around €2 billion to approximately €1.4 billion at the end of 2024. This buffer can also be released immediately, if necessary, to help banks absorb shocks in an orderly way.

Figure 13 also shows that Belgian banks hold a sizeable management buffer above the minimum required level. This voluntary capital buffer amounted to around 3% of RWA in 2019 and increased very strongly during the pandemic due to the dividend restrictions imposed on banks by the prudential authorities during this period, in order to safeguard their resilience. When these restrictions were lifted, banks resumed distributing capital to their shareholders. At the end of 2024, the management buffer had returned to around 3% of RWA, equivalent to around €15 billion. Although not considered a regulatory buffer, the management buffer constitutes an additional (and first-line) bulwark against unexpected losses, such as those caused by a significant increase in defaults in bank loan portfolios.

The credit risk exposure of Belgian banks is mainly concentrated in Belgium, as shown in Figure B2 in the Annex. Exposure to domestic loans and debt securities amounted to €600 billion at the end of 2024, or more than 60% of the total exposure shown in Figure B2. Comparatively speaking, this exposure has grown significantly in recent years, as exposure to residents of other euro area countries and exposure to the rest of the world have not increased in absolute terms over the past 15 years, with the relative share of each falling to slightly less than one-fifth of the total. These non-Belgian exposures are mainly concentrated in the Czech Republic, France, Luxembourg, the Netherlands, the UK and Germany. Exposure to US loans and debt securities amounted to €12 billion at the end of 2024 and was mainly concentrated in the US public sector (€6 billion) and claims on US non-financial corporations (corporate bonds or loans, €4 billion).

Figure 14 shows that the asset quality of the Belgian banking sector's loan portfolios has remained strong, even though a very slight deterioration could be observed over the past year in some segments. Starting with a backward-looking indicator, the overall non-performing loan (NPL) ratio was still very low by historical standards at the end of 2024 (1.8%), up slightly from the levels seen at the end of 2023 (1.6%) and 2022 (1.5%). The breakdowns provided in Tables B8 and B11 and in Figure B10 in the Annex show that there were divergent developments across sectors and types of loans, yet no specific subsegment saw a strong increase or decrease in the NPL ratio, with the exception of loans for commercial real estate and consumer credit. For loans to non-financial corporations collateralised by CRE, the NPL ratio rose moderately from 2.8% at the end of 2023 to 3.3% at the end of 2024. The increase in the NPL ratio for domestic loans collateralised by CRE, from 3.1% to 3.4%, was less pronounced. The NPL ratio for domestic consumer loans amounts to 5.4% but these loans represent a small share of Belgian banks loans to households (6%). The NPL ratio for domestic mortgage loans was stable at around 1%.

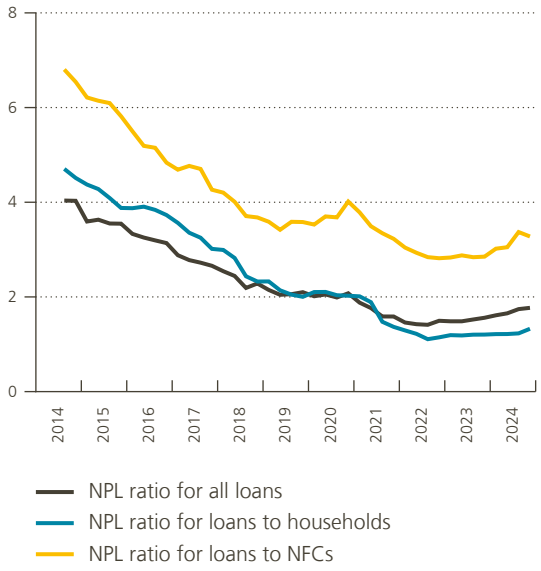
The upper right-hand graph in Figure 14 shows the breakdown of loans to households and non-financial corporations (NFCs) by IFRS impairment stage, a more forward-looking indicator of asset quality. A distinction is made here between stage 2 and stage 3 loans. When a loan is originated, expected credit losses (ECLs) resulting from possible default events within the next twelve months are recognised. This is stage 1. If the lender observes a significant increase in credit risk, the loan should be classified as stage 2, with the recognition of lifetime ECLs. If the credit risk increases to the point where the loan is considered credit-impaired, it will be moved to stage

Figure 14

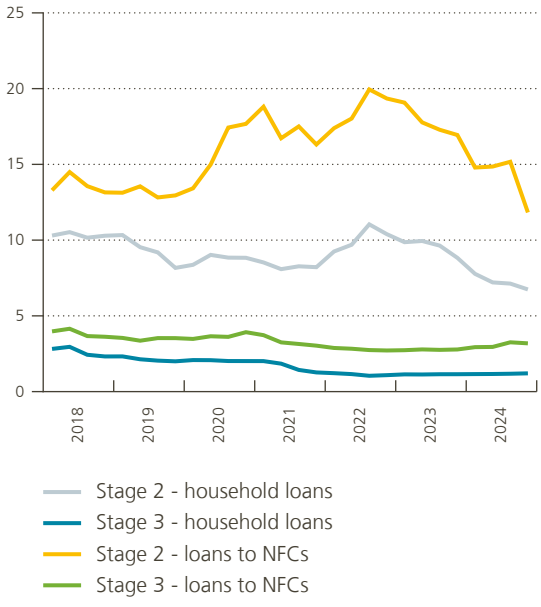
Non-performing loan ratio and impairment by IRFS impairment stage[1]

(consolidated data, as a % of total loans, unless otherwise stated)

NPL ratio

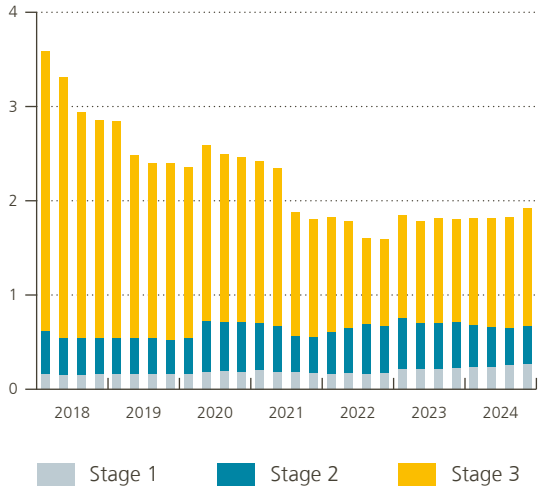


Loans to households and NFCs by IFRS impairment stage



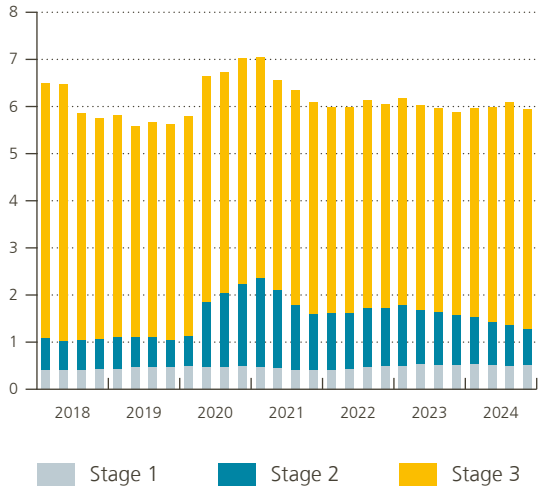
Credit risk provisions for loans to households, by impairment stage[3]

(consolidated basis, in € billion)



Credit risk provisions for loans to non-financial corporations, by impairment stage[3]

(consolidated basis, in € billion)



Source: NBB.

1. Non-performing loans are those that may not be repaid or that are already in arrears.

3 and lifetime ECLs recognised as in stage 2. The share of household loans in stage 2 dropped significantly from 10.4% at the end of 2022 to 8.8% at the end of 2023 and then to 6.5% at the end of 2024. There was also a considerable decline in NFC loans in stage 2, the share of which returned to its pre-pandemic level. This share fell from 19.3% at the end of 2022 to 16.9% at the end of 2023 and to 11.8% at the end of 2024. The marked decline in 2024 was, to some extent, driven by factors other than the underlying credit risk of the loans, including a fine-tuning of reporting by a major bank. The share of loans to NFCs in stage 3 rose slightly between the end of 2023 (2.8%) and 2024 (3.2%). For both households and non-financial corporations, the stock of credit risk provisions – shown in the bottom graphs in Figure 10 – remained close to the levels recorded at the end of 2023, with some change for loans to NFCs towards more stage 3 and fewer stage 2 provisions. Forbearance ratios showed limited change in 2024 compared to the end of 2023 (Figures B12 and B13 in the Annex).

Last year's Financial Stability Report featured a themed article entitled "Trying times for Belgian real estate companies and the Belgian CRE market" which discussed, among other things, the characteristics of Belgian banks' CRE loans to Belgian corporations, factors that could mitigate or amplify the risk of credit losses in the event of a major increase in credit defaults or loan restructurings in this portfolio, and key points for attention in terms of financial stability. The article reiterated that banks should ensure that the value of the real estate collateral they use to calculate their risk exposure corresponds to the value thereof in the event these assets are seized. This valuation should be sufficiently conservative, erring on the side of caution given the prevailing uncertainty caused by the sharp increase in interest rates and the dearth of benchmark transactions on the CRE market. Concern was also raised regarding the potential development of a negative spiral, whereby cash-strapped real estate companies would be forced to liquidate large volumes of CRE assets in a thin market, resulting in fire sale prices becoming the benchmark for valuing similar assets on the books of market participants. Consequently, in addition to reviewing the value of CRE collateral, banks were advised to closely monitor the credit risk related to their CRE loan exposures and to adopt a pro-active approach as soon as borrowers became vulnerable. For debtors facing financial difficulties due to the ongoing challenging CRE market, banks were advised to define adequate credit strategies having regard to the borrower's specific situation, including potential forbearance actions where appropriate. At the same time, banks were advised to set aside sufficient capital in order to deal with a potential increase in credit losses on some of their real estate loans as the pass-through of higher interest rates to borrowers continues.

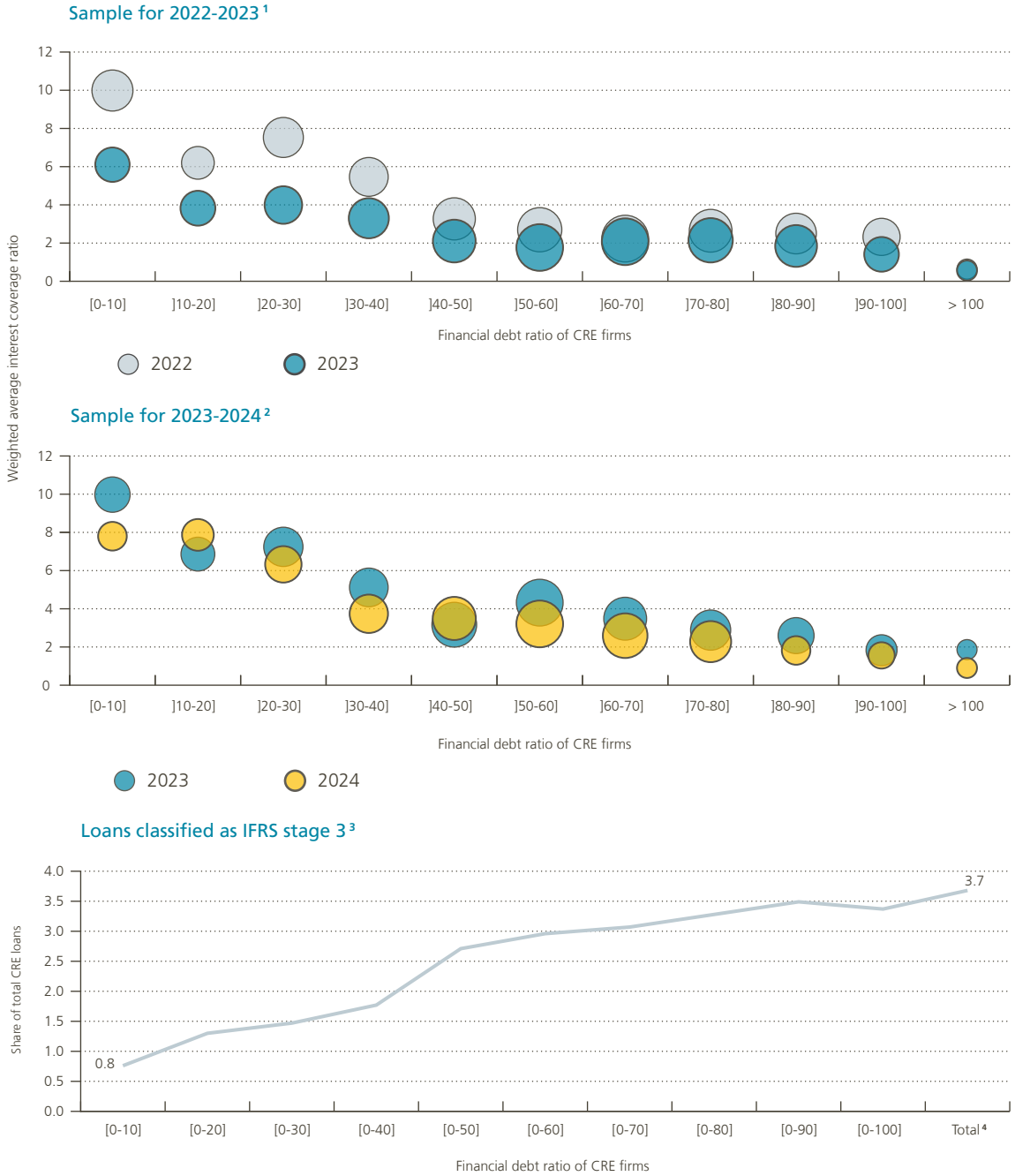
These points for attention remain valid, as the real estate sector continues to face challenging times, although there are signs of some stabilisation and a negative market spiral has been avoided, thanks as well to the constructive role played by banks. CRE loan exposures remain a source of potential unexpected losses and the Bank has therefore continued to monitor this issue closely since the last Financial Stability Report. It has also engaged in structured dialogue with the country's major credit institutions in order to assess related risks and mitigating factors. These discussions have allowed the Bank to refine its granular analyses, including by drilling them down to specific subsegments of banks' CRE loan portfolio.

Figure 15 displays a breakdown of Belgian bank loans to domestic real estate developers and firms holding commercial real estate for income-producing purposes. This scope most closely adheres to the CRE loan definition used by banks and points to a CRE loan portfolio of €55 billion at the end of 2024. This figure is somewhat lower than that derived from other measures of the CRE loan portfolio of Belgian banks (Table B5 in the Annex) as it focuses on loans to firms for which real estate development and income-producing real estate assets are key to their business model and financial performance. The upper chart in Figure 15 shows the distribution of this €55 billion according to two balance sheet ratios of CRE firms, derived from financial statements filed with the Central Balance Sheet Office for 2023 and 2022. The size of the bubble indicates the share in the CRE loan portfolio of the group of borrowers based on their level of indebtedness (measured by the share of financial debt in their balance sheet total), as shown on the *x*-axis. The position of the bubble on the y-axis reflects the weighted average interest coverage ratio for the sub-group. The upper chart is based on a sample of 41 000 firms for which balance sheet data were available for 2022 and 2023. Two conclusions can be drawn from this chart: firstly, banks have sizeable exposure to firms with relatively high indebtedness which is, moreover, negatively correlated with the interest coverage ratio (ICR), and, secondly, the ICR deteriorated on

Figure 15

Loans to domestic commercial real estate firms

(as a %, with the exception of the interest coverage ratio)



Source: NBB.

1 Breakdown of loans extended by Belgian banks to domestic real estate developers and firms holding commercial real estate for income-producing purposes (€55 billion at the end of 2024) according to two balance sheet ratios of the debtor firms, derived from financial statements filed with the Central Balance Sheet Office for 2023 and 2022. The size of the bubble indicates the relative share in the CRE loan portfolio of the group of debtors; debtors have been grouped based on their level of indebtedness, as shown on the x-axis. Indebtedness is measured as the share of financial debt in the balance sheet total. Financial debt is debt to financial institutions and in the form of issued debt securities; it does not include commercial or intragroup liabilities. The position of the bubble on the y-axis reflects the weighted average interest coverage ratio for the sub-group of debtors. The interest coverage ratio is the ratio of EBITDA (earnings before interest, taxes, depreciation and amortisation) to financial charges. The upper chart is based on a sample of 41,000 firms for which balance sheet data were available for 2022 and 2023.

2 The analysis is the same as in the upper chart but based on 2023 and 2024 balance sheet data for a more limited sample of around 6,000 CRE firms, as defined above.

3 Cumulative share of the CRE loan portfolio classified as being in stage 3 (i.e. in or close to default) for the group of firms with indebtedness as defined in note 1 and for the tranches of indebtedness shown on the x-axis.

average between 2022 and 2023 across all categories of indebtedness (while the decline was more pronounced for less indebted firms, their ICR remains higher though than for other groups).

The middle chart provides exactly the same analysis but relies on 2023 and 2024 balance sheet data for a smaller sample of real estate firms, as defined above. This sample was limited to around 6 000 firms. The main conclusion that can be drawn is that the ICR continued to deteriorate for firms with high indebtedness.

The lower graph shows the share of the CRE loan portfolio classified as stage 3 (i.e. in or close to default) as firms with higher indebtedness are added to the group upon which the calculation is made. This graph shows that the share of stage 3 loans and indebtedness (as well as the ICR) are correlated. Given the further deterioration in the ICR in 2024, further materialisation of credit risk in the CRE portfolio in the coming quarters seems likely.

3. Insurance sector

The analysis set out in this section is, for the most part, based on unconsolidated Solvency II data. Under the Solvency II framework, applicable since 2016, assets and liabilities are assessed at market value. Figure 16 shows the balance sheet of the insurance sector at the end of 2024. Total assets were valued at €348 billion, which is less than the €377 billion recorded at the end of 2021, when the interest rate level was much lower.

Under Solvency II, own funds are mainly defined as the difference between the economic value of assets and liabilities. The excess of assets over liabilities amounted to €39.2 billion at the end of 2024 (versus €39.6 billion at the end of 2023) and constitutes a key component of regulatory own funds. Total eligible own funds under Solvency II are obtained by adding to this key component other eligible forms of own funds that meet the definition of Tier 1, Tier 2 or Tier 3 capital.

When analysing the financial position and financial stability risks of the insurance sector, the assets and liabilities related to unit-linked or class 23 life insurance contracts are considered separately. At the end of 2024, the technical provisions for class 23 contracts amounted to €55.7 billion. These are life insurance policies with variable capital, comparable to mutual funds, where the policyholder bears the investment risk. As shown in Figure I5 in the Annex, the assets held on behalf of unit-linked class 23 policyholders mainly consist of shares in investment funds.

Technical provisions excluding unit-linked contracts amounted to €210.7 billion at the end of 2024, divided between technical provisions for life (77%), non-life (16%) and health (7%) insurance. Public sector (40%) and corporate bonds (20%) and loans and mortgages (16%) accounted for more than three-quarters of the assets held for these non-unit-linked insurance contracts. Equity instruments and investment funds each accounted for less than 10% of the total. In line with the respective level of the technical provisions, the volume of assets held for non-life insurance is much lower than for life insurance (Figure I5 in the Annex).

Life insurance contracts with a guaranteed rate of return account for a majority of life insurance premiums in Belgium and cover both individual and group policies (Figure I1 in the Annex). Under these contracts, the insurer provides some guarantee as to the final return and thus bears at least a portion of the risk related to changes in the market value of the investment portfolio. A key challenge for life insurers with regard to asset-liability management is therefore to compose investment portfolios that yield an adequate return to meet the abovementioned guarantee, while trying to match as best as possible the sensitivity of the Solvency II values of their assets and liabilities to developments in interest rates and other financial market prices.

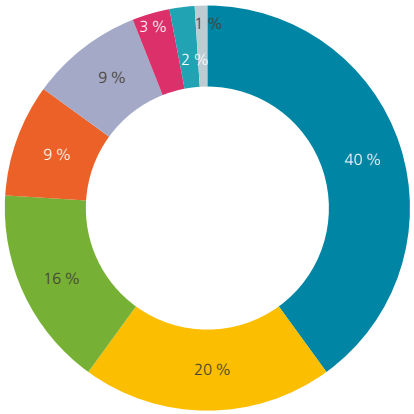
In this regard, it should be recalled that the economic value, as per Solvency II, of technical provisions – which constitute the bulk of liabilities – is calculated as the present value of incoming and outgoing cash flows using

Figure 16

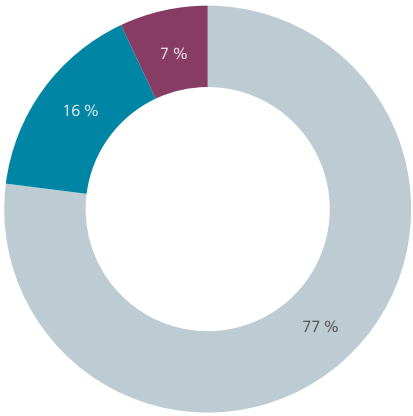
Main balance sheet items

(non-consolidated data for the end of 2024, in € billion, unless otherwise stated)

ASSETS	348.4	LIABILITIES AND OWN FUNDS	348.4
Investments, excl. unit-linked	253.6	Excess of assets over liabilities	39.2
		Technical provisions, excl. unit-linked	210.7
Assets held for unit-linked contracts	57.5	Technical provisions for unit-linked contracts	55.7
Other assets	37.3	Other liabilities	42.8



Public sector bonds
Corporate bonds
Loans and mortgages
Shares and equities
Investment funds
Real estate
Cash and deposits
Other



Life excluding health and unit-linked
Non-life excluding health
Health

Source: NBB.

a (risk-free) discount rate. The discount rates that insurance companies must use to calculate the present value of these cash flows are set by the European Insurance and Occupational Pensions Authority (EIOPA) and are based on market-based swap rates for maturities of up to 20 years and an extrapolation towards an ultimate forward rate for maturities beyond 20 years. This ultimate forward rate is re-evaluated every year and was set at 3.30% for calendar years 2024, 2025 and 2026, down from 3.45% for 2023. The Solvency II long-term guarantee package moreover partly corrects the abovementioned mark-to-market principle for liabilities. These long-term guarantee measures include the matching adjustment (a mechanism, the application of which is subject to supervisory approval, that prevents changes in the value of assets caused by market movements in the spreads of these assets from impacting the amount of own funds) and the volatility adjustment (which covers insurance products ineligible for the matching adjustment). The volatility adjustment is an artificial spread, determined by EIOPA, which is added to the risk-free rate curve used by insurance companies to calculate their technical provisions, to theoretically compensate for the change in spreads on

the assets side. When spreads widen, the volatility adjustment increases as well and, as it raises the discount rate, reduces the present value of the technical provisions. It has a countercyclical effect in that when assets are hit by a spread shock, the shock is partially absorbed through a reduction in technical provisions to lessen the impact on own funds.

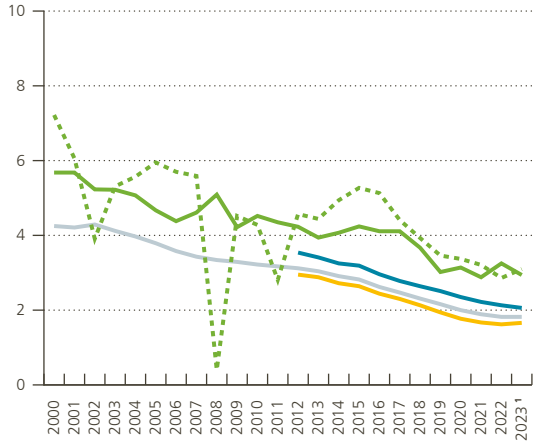
Figure 17 and Table I4 in the Annex show that life insurance companies have managed the challenges related to contracts with a guaranteed rate of return relatively well in recent years. These challenges were particularly pronounced during the period of low interest rates. With a pre-dominance of fixed-income assets in the investment portfolio (approximately 68% in 2019) and an average duration of assets somewhat lower than that of their (long) contractual obligations to policyholders, significant amounts of earned coupons and matured bonds had to be rolled over or reinvested in bonds with lower yields than those reaching maturity. As shown in Figure 17, insurance companies lowered re-investment risks by gradually reducing the duration gap. This gap amounted to slightly more than 1.5 years in the period 2016-2018, before falling to around one year in 2019-2020 and 0.7 years on average over 2021-2023. They also succeeded in maintaining a positive spread between the average yield of the investment portfolio and the guaranteed rate of return on the stock of life insurance contracts, by making changes to the product offering on the liabilities side and through strategic asset re-allocations in the investment portfolio.

Figure 17

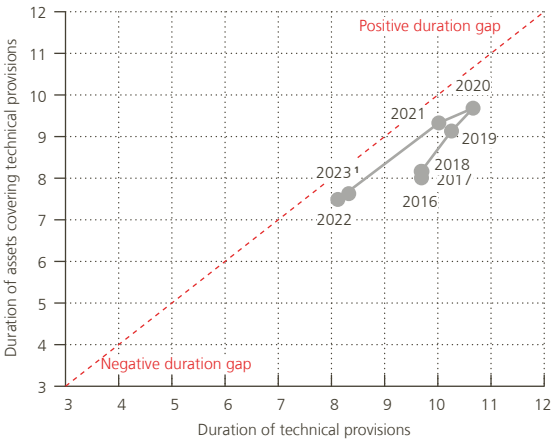
Guaranteed rate of return and duration gap for life insurance contracts

(non-consolidated end-of-period data based on statutory annual accounts and reporting to the NBB; as a %, unless otherwise stated)

Life insurance guaranteed rates and investment returns



Duration of assets and liabilities [2]



Average guaranteed rate of return on existing contracts
of which group insurance contracts
of which individual insurance contracts
Estimated return on assets backing guaranteed-rate contracts, excluding capital gains and depreciation
Estimated return on assets backing guaranteed-rate contracts

Source: NBB.

1 At the cut-off date of this report, 2024 data were not yet available.

2 Average duration, expressed in years, for technical provisions and assets covering technical provisions for a constant representative sample of insurance companies reporting this information.

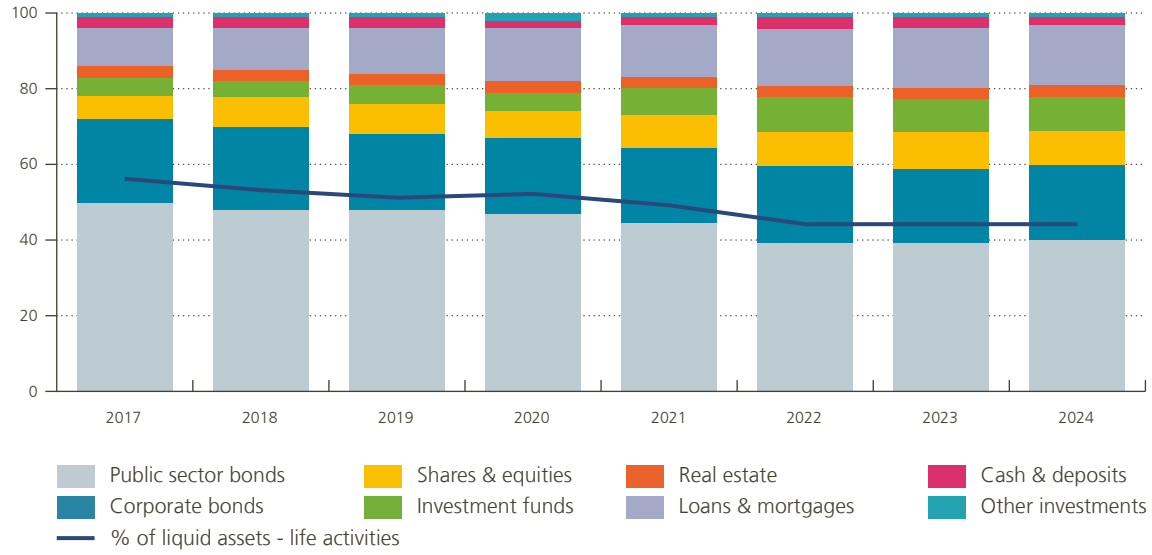
The main development on the liabilities side was a gradual decline in the average guaranteed rate of return on life insurance contracts subject to such a rate. This rate dropped from 2.8% in 2015 to 1.8% at the end of 2022 and 2023. The gradual run-off of older contracts with still very high guaranteed rates of return (up to 4.75%) and the production of new contracts featuring significantly lower guaranteed rates of return were the main drivers of this decline. Some life insurers also carried out targeted buy-backs for contracts with high guaranteed rates at the beginning of the low-interest rate period. At the end of 2023, the average guaranteed return was still low, notwithstanding the increase in interest rates since 2021 and the more attractive conditions that insurance companies started to offer for new life insurance contracts. At the time of writing, the rate for 2024 was not yet available. During that year, insurance companies, like banks, positioned themselves to attract some of the funds that were freed up upon maturity of the one-year State note issued in September 2023. This also led some insurance companies to promote class 26 products. These products are a type of insurance-based investment, comparable to a savings certificate, which offers a guaranteed return for a limited period. In 2024, total new life insurance premiums collected rose by 10% or €1.8 billion, more or less evenly distributed between unit-linked and non-unit-linked contracts (Figure I1 in the Annex).

Given the significant decline in returns in recent years, insurance companies should continue to ensure a good match between new higher-yield contracts and the yield offered by corresponding investments. If insurance companies were to offer unsustainably high guaranteed returns to policyholders, this could undermine their profitability and, ultimately, their solvency. Belgian law therefore provides for a mechanism that caps the guaranteed rates life insurers can offer policyholders, based on a substantiated proposal from the Bank to the competent minister. In light of the increase in interest rates, the maximum guaranteed rate for long-term life insurance contracts (class 21 contracts with a term of more than eight years) was raised from 2% to 2.5% as of 1 January 2025. This increase in the maximum rate was calibrated to provide insurance companies with a sufficient safety margin in the event of a return to a lower interest rate environment.

Figure 18

Composition of the investment portfolio[1]

(non-consolidated data, as a % of investments, excluding unit-linked)



Source: NBB.

1 Liquid assets are those considered liquid (i.e. cash, public sector bonds, corporate bonds, equities and shares issued by investment funds) but with the application of gradual haircuts, depending on the type of issuer and rating quality of the asset.

A re-allocation of investments on the assets side was another factor explaining why the return on assets held to cover guaranteed-rate life insurance contracts remained above the average guaranteed yield throughout the low interest rate period. Figure 17 shows the estimated return with and without capital gains or losses and impairments. Using the latter yardstick, the return fell from 4.2% in 2015 to around 3% in the years between 2019 and 2023. This relatively strong performance, given the long period of very low interest rates, reflects good asset-liability management; it also points, to some degree, to a search for yield as insurers shifted their investments away from public sector bonds towards riskier and less liquid assets, such as mortgages and commercial real estate. The investment risk profile thus increased at the margin during the low-interest rate period, which could expose insurance companies to other types of market risk going forward.

This search for yield is also apparent in Figure 18 which provides more information on the composition of the investments backing insurance contracts over the period 2017-2024.

While public sector bonds accounted for 50% of the total investment portfolio in 2017, this share declined markedly between 2019 and 2022. At the end of 2024, it stood at 40%. Within the bond portfolio, the bias in favour of domestic issuances became less pronounced, with investment in Belgian public sector bonds falling from 55% to less than 40% over the same period (Figure I7 in the Annex). The geographical re-orientation of the portfolio did not affect the credit quality, however, with AAA and AA bonds still accounting for almost 90% of the total. Exposure is mainly to public sector entities in euro area countries and European supranational institutions.

The share of corporate bonds in the investment portfolio has remained relatively stable since 2017, at around 20%. This bond portfolio is mainly composed of senior unsecured debt issued by euro area corporates (around 60%) but also includes a significant share of bonds issued by non-European corporations. It consists primarily of investment-grade bonds; however, around 30% of total corporate bond investments, or 6% of total investments, are in bonds with the weakest rating for this type of asset, i.e. a BBB rating (Figure I6 in the Annex). Corporate bond exposure is spread across a large number of sectors, with some concentration in bonds issued by financial sector institutions (46%, of which approximately three quarters were issued by banks) and manufacturing firms (18%).

Shares and equity participations increased from 6% of the investment portfolio in 2017 to 9% in 2024. This category includes investments in the shares of firms listed on a stock exchange as well as participations of insurance companies in related companies and joint ventures. Listed shares account for around one-third of the exposure. Holdings in non-listed firms include equity stakes in real estate companies, such as CRE SPVs. Equity stakes in related firms are mainly concentrated in the financial, construction and real estate sectors (Figure I6 in the Annex).

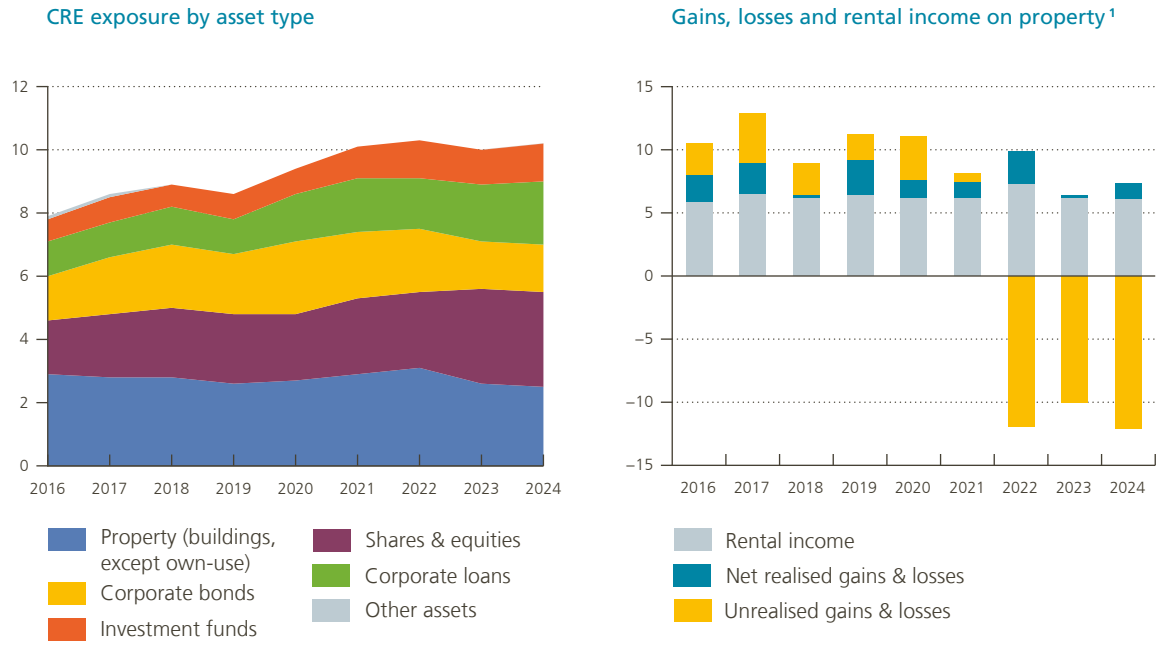
The search for yield during the low interest rate period also led to an increase in the portion of the portfolio invested in shares of investment funds, which rose from 5% to 9% between 2017 and 2024. The composition of this asset category is quite diverse, with significant investments in debt funds, money market funds, asset allocation funds, real estate funds and private equity and infrastructure funds. The latter three are part of the so-called alternative investment universe of private non-traded assets which tend to be characterised by higher yields but much lower liquidity than traded assets. At the end of 2024, alternative investment funds accounted for around 35% of total investments in investment funds or 3% of overall total investments.

Insurance companies have also built up a significant exposure to private credit in the form of direct loans and mortgages. This exposure stood at 10% of the investment portfolio in 2017, rising to 16% in 2024, and is composed of loans to households and corporations. Loans to corporations are mainly concentrated in the financial and real estate sectors. Mortgages constitute the bulk of loans to households. According to the Bank's PHL reporting, this exposure has held steady at around €20 billion in recent years, an amount equivalent to around 8% of the investment portfolio excluding unit-linked contracts. It is composed of a roughly equal share of Belgian and foreign (mainly Dutch) mortgages. The credit standards of Belgian mortgages are subject to

Figure 19

CRE exposure and gains and losses on investments in property

(non-consolidated data, as a % of investments excluding unit-linked contracts, unless otherwise stated)



Source: NBB.

1 Gains and losses expressed as a percentage of the book value of total property investments. Property investments are direct investments in buildings, excluding those for own use.

the Bank's macroprudential supervisory expectations, with a formal "comply or explain" obligation for insurers with an exposure above a certain threshold. In 2025, the Bank published a circular clarifying its minimum expectations for the valuation of mortgage loans, explaining the parameters and methodology to be taken into account in this regard.

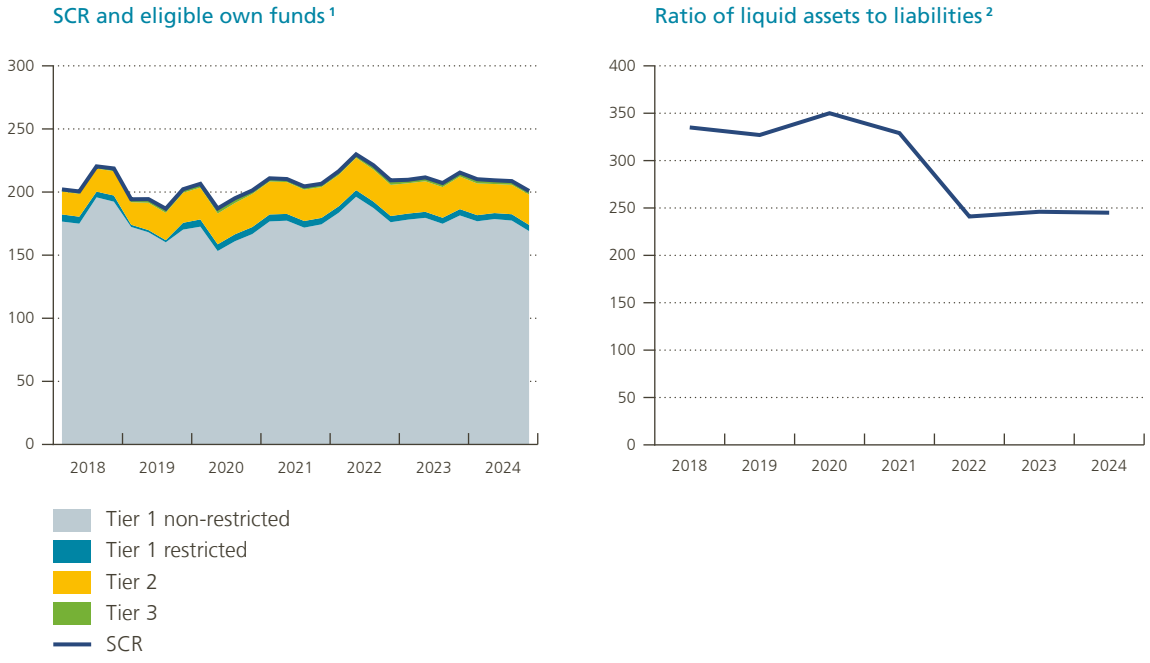
While direct holdings in real estate represent only 3% of the investment portfolio, the total commercial real estate (CRE) exposure is significantly larger if indirect exposures are included, leaving aside household mortgages (Figure 19). Direct and indirect CRE exposure increased from less than 8% of the investment portfolio (excluding assets covering unit-linked contracts) at the start of Solvency II reporting in 2016 to around 10% as from 2021. This is quite high compared with the CRE exposure of the insurance sector in other EU countries. At the end of 2024, CRE exposure (€26 billion) consisted of direct investments in property (€6.5 billion) and indirect investments in CRE-related assets, such as financial instruments issued by real estate companies. The latter include CRE-related equities (€7.7 billion), corporate bonds (€3.8 billion), loans (€5 billion), and investment fund shares (€2.9 billion). During the period under review, the Bank continued to monitor developments very closely based on granular analyses and discussed the results with a number of insurance companies with the largest exposures. In line with the policy-related issues raised in the themed article on commercial real estate in last year's Financial Stability Report, the main concern for financial stability in this regard remains guaranteeing that insurance companies value their exposures in a sufficiently conservative way. The right-hand graph in Figure 19 shows that insurance companies booked significant unrealised value reductions on their physical CRE holdings in 2022, 2023 and 2024, amounting to a cumulative value reduction of around 30% compared to Solvency II values as at the end of 2021. Figure 19 also shows that rental income on physical CRE was very stable, at around 6%, throughout the period 2016 to 2024.

With a solvency capital requirement (SCR) ratio of 201% at the end of 2024, down slightly from 216% at the end of 2023, the insurance sector continues to dispose of a large capital buffer, well above the regulatory minimum of 100%, which can be used to absorb losses in the event of adverse shocks (Figure 20). This resilience was assessed by means of a stress test in 2024. While one Belgian insurance group took part in the European stress test conducted by EIOPA, the Bank conducted a parallel exercise for 18 Belgian insurance companies, representing a significant share of the sector, based on the same scenario. The adverse scenario of the 2024 stress test, developed jointly by EIOPA and the European Systemic Risk Board, focused mainly on identifying and assessing potential vulnerabilities resulting from a persistently high interest rate environment coupled with rising inflation. This combination of factors gave rise to a number of specific shocks to market and underwriting risks, affecting both assets and liabilities. The reference date for the test was set at 31 December 2023. The average SCR ratio of the 18 participating Belgian insurance companies was 198% before the shocks. After the shocks, this fell to 97%, but the decline was more limited (110%) when factoring in the possibility for insurers to reduce their dividend payments. The fall in the SCR ratio mainly reflected a decline in the value of the investment portfolio, in particular bonds and equities (a negative impact of 111 and 41 percentage points, respectively). However, this adverse effect was partially mitigated by offsetting factors, particularly related to technical provisions (+106 percentage points in the case of life insurance activities). Insurance companies also had the option of applying post-shock reactive management actions. These had a positive effect and lifted the SCR ratio to 138%. The results of the Belgian stress test can be consulted on the Bank's website, while the results of the European test are available on EIOPA's website.

Figure 20

Solvency and liquidity ratios

(non-consolidated data and reporting to the NBB, as a %)



Source: NBB.

1 Basic own funds are classified into three tiers, based on their "permanence" and "loss absorbency". Tier 1 is considered to be the highest quality; at least 50% of the capital held to cover the SCR must be Tier 1. Tier 1 is in turn divided into "restricted" (junior debt securities) and "unrestricted" (ordinary shares) components.

2 Liquidity ratio for non-unit-linked life insurance activities. Liquid assets are those considered liquid (cash, public sector bonds, corporate bonds, equities and shares of investment funds) but with the application of gradual haircuts, depending on the type of issuer and the rating quality of the asset. Liquid liabilities are those that can be called by policyholders without incurring a penalty.

Figure 20 also illustrates the development of the liquidity ratio for non-unit-linked life insurance activities, defined as the ratio of the value of liquid assets to the stock of liquid liabilities. When interest rates rise, there is an increased risk of policyholders deciding to surrender their life insurance contracts prematurely. In this case, insurance companies must be able to liquidate the underlying investments in order to reimburse policyholders. Figure 18 shows, in this regard, that a search for yield contributed to a decline in the share of liquid assets in the investment portfolio for non-unit-linked life insurance activities. This was also the main reason for the decline in the liquidity ratio shown in Figure 20. Notwithstanding this drop, the ratio remained strong at approximatively 250%. In view of the tax treatment and generally longer term of most contracts falling under the second and third pension pillars, surrenders of life insurance contracts remained low in 2023 and 2024, at around 3% and 1%, respectively, of the technical provisions.

Margin calls on interest rate derivatives are another potential source of liquidity outflows for insurance companies. While the Belgian banking sector, generally speaking, is likely to be a net receiver of liquidity when interest rates rise (e.g. it can post less collateral with interest rate derivative counterparties than was previously the case), insurance companies will generally be on the opposite side due to their long-term liabilities and a corresponding net receiver swap position to help close the duration gap with their assets. The higher interest rates prevailing since 2021 changed the market value of these derivatives and led to corresponding changes in the amounts of collateral to be posted with counterparties holding the positive market value of the contracts. Looking at the sector as a whole, the use of derivatives is nevertheless moderate and the related liquidity effects are thus rather contained.

A holistic assessment of financial stability also requires an analysis of the potential challenges that the financial system faces with regard to the provision of key services to the real economy, including insuring against losses arising from natural disasters. In the event of a higher incidence of natural disasters, the sector may decide or indeed have no choice but to reduce the extent of its coverage for this type of hazard. While this reduced risk coverage would a priori contribute to the stability of the insurance sector (less risk exposure), it would come at the cost of the provision of a critical service to the rest of the economy. When assessing the stability of the financial system, defined broadly, it is therefore also necessary to monitor potential insurance protection gaps and the effectiveness of public-private arrangements to bolster the insurability of natural disaster risks.

In this regard, the applicability of the statutory framework governing the allocation of costs associated with natural disasters in Belgium remains a key area for attention. In Belgium, the July 2021 floods highlighted the difficulties in applying the existing statutory framework, with insurance companies ultimately paying out more than double the legal limit, at the request of the regions. The law on insurance coverage for natural disasters was slightly amended in 2023 following the floods, but uncertainty remains as to the applicability of the system should the cap again be exceeded owing to future extreme weather events. Consequently, given that Belgian insurance companies transfer the largest financial losses resulting from natural disasters to (international) reinsurers, the uncertainty of the current statutory framework could lead reinsurance companies to scale back their activity and reduce the capacity they offer on the Belgian market. There is therefore a risk that insurance companies will no longer be able to offer coverage against fire and natural disasters or will be able to do so only in return for considerably higher premiums. An increase in the cost of such policies could place them out of reach of those most in need and thus drive up inequalities between those who can afford insurance and those who cannot. It is therefore essential to finalise the statutory framework on allocation of the costs associated with natural disasters, which will include strengthening the current public-private partnership.

4. Non-bank financial intermediation and decentralised finance

4.1 Non-bank financial intermediation and asset management

The growth in non-bank financial intermediation (NBFI) and asset management seen in recent years reflects an ongoing trend towards a more market-oriented financial system, in which an increasing share of financial intermediation occurs outside the banking sector. Market-based financing provides a valuable alternative to bank financing, helps support the real economy and is compatible with calls in Europe for less dependence on bank financing.

In order to bolster economic prosperity and competitiveness, the European Commission has proposed the creation of a savings and investments union, intended to help strengthen Europe's competitiveness and autonomy, finance the European Green Deal and digital strategy, and offer savers and investors a wider choice of investments and financing at more attractive terms. In addition to the aim of completing the banking union, the Commission's strategy focuses primarily on the continued development of the capital markets union. Launched in the wake of the global financial crisis and the crisis that hit certain euro area countries, these two projects have not progressed at the same pace. With respect to the banking union, the Single Supervisory Mechanism is a reality and the single resolution mechanism largely complete, although the single deposit guarantee scheme is only at the proposal stage. Less progress has been made on the capital markets union, which is a more complex policy programme, involving a wide range of areas, such as securities markets, securitisation, insurance and insolvency law.

The Draghi report on European competitiveness pinpointed three flaws that are reportedly contributing to the fragmentation of European capital markets and that explain why Europe lags behind the US in terms of financial intermediation. According to the report, these flaws are the absence of a single rulebook and a single financial market regulator, a low level of integration (compared with the US) of the infrastructure for post-trade processing of market transactions, and considerable differences between countries in terms of tax and insolvency rules. The harmonisation of these rules could undoubtedly remove some of the barriers that currently prevent greater mobilisation of savings for investment. However, the potential gains in this area following, for example, the introduction of unified financial market supervision or the strong integration of market infrastructures are much less obvious. The proof of this is that Europe's financial market infrastructures have held up well to past crises, despite the absence of a single regulator. It would thus be preferable to focus the rollout of the capital markets union on other areas, in order to make a difference on the ground. In this context, the Bank supports measures to promote securitisation in the EU and to expand the issuer and investor base for such instruments. Due diligence and transparency requirements could be simplified and reduced without compromising financial stability, thereby reducing the regulatory burden and transaction costs. Greater standardisation of securitisation transactions would also help make these instruments more accessible and attractive.

The introduction of more diversified financial intermediation in Europe will nevertheless require the supervisory authorities to ensure that the system is sustainable and does not jeopardise financial stability. While the financial markets allow savers to invest directly in corporate shares or bonds, many choose to invest primarily through financial intermediaries, such as banks, investment funds, insurance companies and pension funds. These intermediaries may also, in return for appropriate remuneration, assume a portion of the risks associated with the reinvestment of these savings. Such transformation risks are not confined to the banking sector, as evidenced by the global financial crisis of 2007-2009, which involved the shadow banking system, and, more recently, the "dash for cash" on the global financial markets in March 2020, the failures of Archegos and Greensill, and the UK pension funds crisis.

As more diversified forms of financial intermediation develop in Europe, supervisory authorities will have to be alert to the possibility of a transfer of transformation risks from banks to non-banks. They will need to ensure that the latter also carry out intermediation activities in a sustainable manner, by building up sufficient buffers

to absorb shocks and avoiding overleveraging so as not to jeopardise financial stability. A selective tightening of the supervisory framework for non-banks thus remains essential to preserve financial stability. In recent years, a great deal of preparatory work has been done at international level to limit the risks associated with non-bank financial intermediation. The Financial Stability Board (FSB), in cooperation with the International Organization of Securities Commissions (IOSCO) and other standard-setting bodies, has developed a framework and a wide-ranging work programme to improve the resilience of the non-bank sector. In Europe, the European Systemic Risk Board (ESRB) and the European Securities and Markets Authority (ESMA) have carried out in-depth studies and made policy recommendations. The consultation launched by the European Commission in 2024 on the adequacy of macroprudential policies for non-bank financial intermediation should therefore mark the starting point of a process leading rapidly, through both regulation and tangible measures, to a strengthening of the supervisory framework for certain segments of the NBFI sector. It will then be possible to develop the capital markets union on a solid foundation, reconciling the objective of more efficient financial intermediation with the need to maintain financial stability.

Since 2017, the Bank and the Financial Services Market Authority (FSMA) have regularly published a joint report on non-bank financial intermediation and asset management in Belgium. This report analyses potential systemic risks stemming from asset management and non-bank financial intermediation, their interconnectedness with other (financial and non-financial) sectors and related consumer protection aspects. It also reviews relevant national and international developments, regulations and ongoing policy work. A new edition was published in January 2025. In line with previous editions, the report did not identify material financial stability risks relating to NBFI and asset management in Belgium:

- For investment funds, the main type of risk is liquidity risk, particularly the risk of sudden, large-scale redemptions. In Belgium, such liquidity risk is already partly addressed by existing legislation, through, for example, rules on asset diversification and the introduction of additional liquidity management tools for asset managers. In 2023, potential liquidity risks to Belgian investment funds were assessed by both the International Monetary Fund (IMF) and the FSMA. The IMF subjected the Belgian investment funds sector to a liquidity stress test while the FSMA performed a liquidity risk assessment based on quantitative and qualitative analysis. Both concluded that the Belgian investment funds sector would be able to withstand severe but plausible redemption shocks.

- Belgian residents' links with non-banks are substantial in some cases, but their interconnectedness with entities engaged specifically in NBFI (see below) were found to be limited and concentrated in areas that are generally part of the ordinary course of business with no particular points of concern for financial stability.

- The FSMA's regular assessment of the systemic risk arising from the use of leverage by alternative investment fund managers in Belgium did not identify any immediate systemic risks requiring the adoption of measures specific to leverage, such as imposing limits on the use of this technique.

- As regards commercial real estate, potential leverage-related systemic risks from Belgian real estate funds appear contained, although CRE-related risks continue to be an area requiring attention by the FSMA and the NBB. The closed-ended nature of Belgian financial vehicles investing in real estate and the limited footprint of real estate investment funds strongly mitigate the potential financial stability risks stemming from these vehicles. Yet they are part of a broader ecosystem that results in sizeable overall exposure of the Belgian financial system to commercial real estate.

- Another focus area of the 2025 report was the private finance market in Belgium. This market encompasses activities of non-bank investors relating to capital raising for and lending to companies through bilateral transactions, such as private equity and private credit. Here again, the picture that emerged is relatively reassuring from a financial stability point of view, as a substantial share of the investment risk from this sector is borne by participants in public financial markets, leverage is low and funding links with the banking sector were found to be limited.

Table 2

Classification of the narrow NBFI sector by economic function

	Definition	Typical entity types
EF1	Management of collective investment vehicles with features that make them susceptible to runs	Money market funds, fixed income funds, mixed funds, credit hedge funds, real estate investment trusts and funds
EF2	Loan provision that is dependent on short-term funding	Finance companies, leasing/factoring companies, consumer credit companies
EF3	Intermediation of market activities that is dependent on short-term funding or on secured funding of client assets	Broker-dealers, securities finance companies
EF4	Facilitation of credit creation	Credit insurance companies, financial guarantors, monoline insurers
EF5	Securitisation-based credit intermediation and funding of financial entities	Securitisation vehicles, structured finance vehicles, asset-backed securities

Source: FSB Global Monitoring Report on Non-Bank Financial Intermediation 2023.

The Belgian NBFI sector is also regularly analysed by the Financial Stability Board (FSB) in its Global Monitoring Report on Non-Bank Financial Intermediation. The latest edition of this report was published by the FSB on 16 December 2024 and describes broad trends in financial intermediation across 29 jurisdictions which account for around 88% of global GDP. The FSB's monitoring exercise is based on a two-step approach. The first step entails taking a comprehensive look at the NBFI sector to ensure that the data collected cover all areas of the financial system within which vulnerabilities may arise. The second step focuses on vulnerabilities associated with the NBFI sector which resemble those in the banking system or for which regulatory arbitrage could undermine the goals of reforms enacted after the global financial crisis. This so-called narrow measure of NBFI, as defined by the FSB, covers "NBFI entities that authorities have assessed as being involved in credit intermediation activities that may pose bank-like financial stability risks (i.e. credit intermediation that involves maturity/liquidity transformation, leverage or imperfect credit risk transfer) and/or regulatory arbitrage". This does not mean that the NBFI sector escapes regulatory requirements but rather that it is regulated differently than banks. The bank-like risks covered by the narrow measure of NBFI are maturity transformation, liquidity transformation, leverage and credit risk transfer. To arrive at a narrow measure of the NBFI sector in line with this definition, participating countries identify the NBFI entities within their jurisdiction that may give rise to these vulnerabilities and in turn classify them in accordance with the five economic functions used by the FSB for risk monitoring purposes. These economic functions (EFs) are reproduced in Table 2.

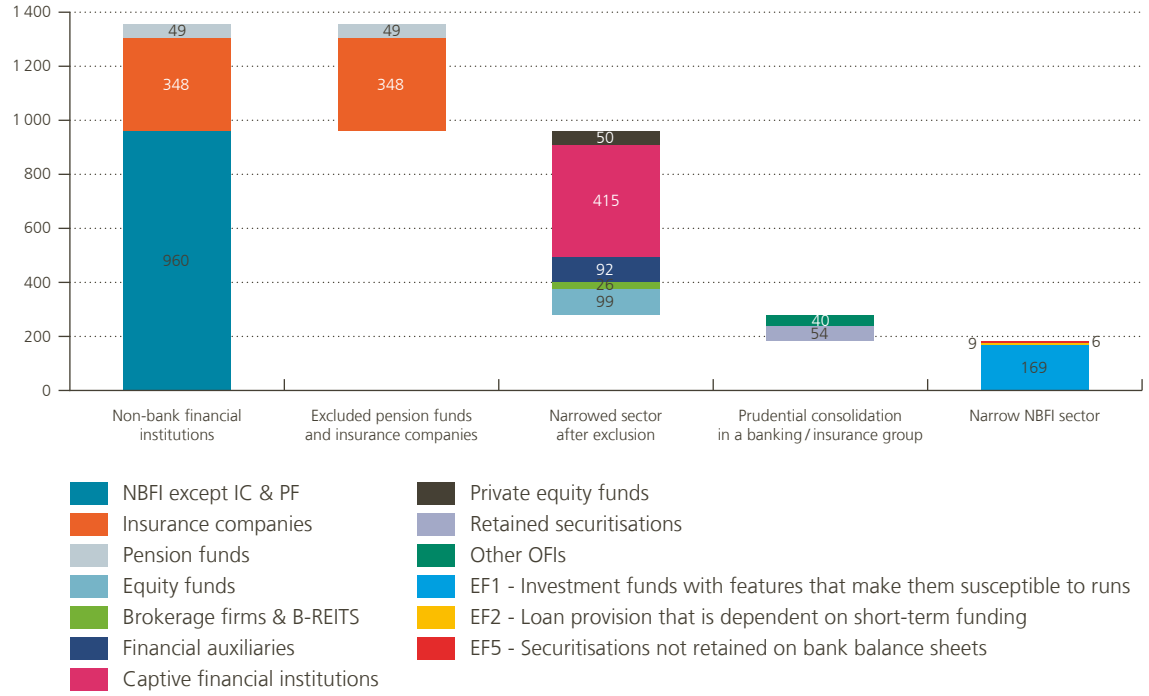
Figure 21 shows the corresponding narrow NBFI sector in Belgium, based on the FSB's methodology. This exercise starts by determining the total financial assets of all non-bank financial institutions, including pension funds and insurance companies, using data on flows of funds from financial accounts. This value amounted to €1 357 billion at the end of 2024. However, not all of these entities should be considered as posing bank-like financial stability risks. Therefore, Figure 21 narrows down this aggregate to that segment of the NBFI sector that poses bank-like risks to the financial system and which includes entities that are not part of the scope of prudential consolidation of a banking or insurance group.

Based on the FSB's narrow measure and classification by economic function, the total financial assets of the NBFI sector in Belgium amounted to €184 billion at the end of 2024. The sector consists mainly of money market funds (MMFs) and non-equity investment funds (EF1, €169 billion) as well as, to a more limited extent, firms engaged in loan provision that is dependent on short-term funding, such as leasing, factoring or consumer credit companies that are not part of a banking group (EF2, €9 billion), and securitisations that are not retained on bank balance sheets (EF5, €6 billion). The narrow Belgian NBFI sector therefore accounted for only around

Figure 21

The Belgian NBFI sector as per the FSB's narrow measure

(€ billion, end-of-2024 data)



Source: NBB.

Notes: NBFI stands for "non-bank financial intermediation", OFIs refer to "other financial intermediaries" and B-REITs are "Belgian real estate investment trusts".

one-tenth of the total financial assets held by the Belgian non-bank financial sector and one-twentieth of the total assets held by the Belgian financial sector (including banking sector assets) at the end of 2024.

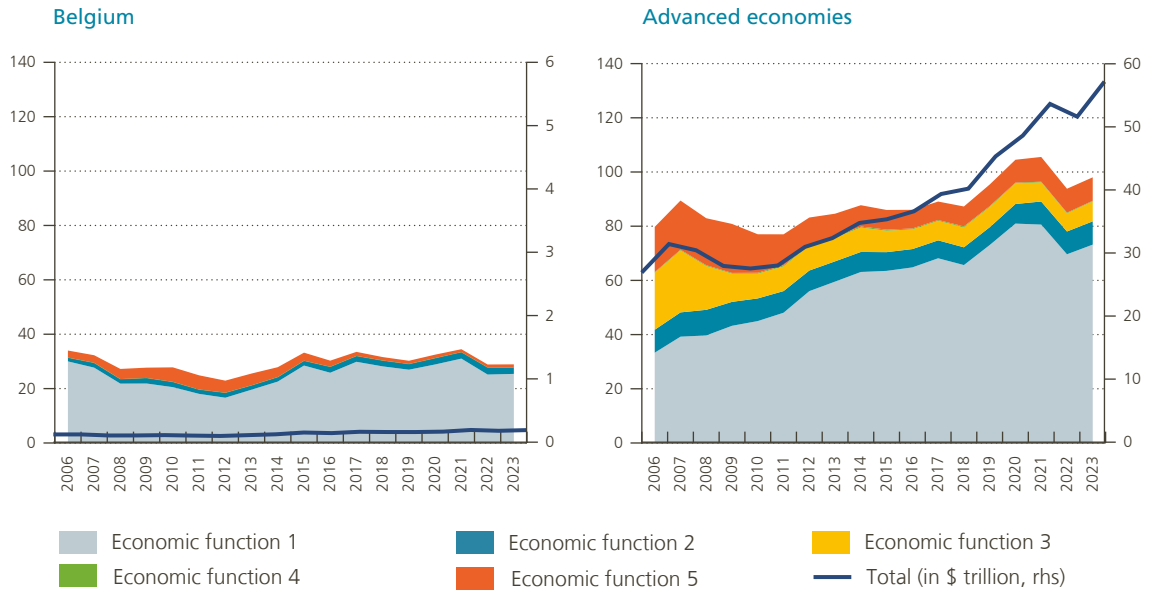
Using data from the FSB's annual Global Monitoring Report, Figure 22 compares the (relative) size of the Belgian NBFI sector with the average for advanced economies. At the end of 2023, advanced economies (including Belgium) accounted for slightly more than 80% of the financial assets held by the global narrow NBFI sector ($ 50.7 trillion of $ 70.2 trillion). The US alone accounts for more than 30% of this global aggregate. The EU (excluding the United Kingdom and Switzerland) follows with a share of around 20%, driven, in particular, by the (narrow) NBFI sectors in Luxembourg and Ireland, followed by Germany and France.

The narrow NBFI sector in Belgium accounts for only 0.3% of the global aggregate and around 1% of the total for EU countries. As shown in Figure 22, the size of the narrow NBFI sector is also significantly smaller in Belgium (29% of GDP) than in other advanced economies (98% of GDP) compared to the size of the economy. This confirms, on the one hand, that credit intermediation in Belgium is, to a large extent, still dominated by banks and non-banks that form part of banking groups (many leasing or consumer credit companies are subsidiaries of banks and hence fall within the scope of prudential consolidation). It also suggests that non-Belgian NBFIs (for example, investment funds incorporated in Luxembourg) play on average a relatively larger role in the provision of financial services in Belgium than in other advanced economies.

Figure 22

Size of the narrow NBFI sector relative to GDP [1]

(as a %, unless otherwise stated)



Source: FSB Global Monitoring Report on Non-Bank Financial Intermediation 2024.
1 More information on the economic functions can be found in Table 2.

4.2 Digitalisation, decentralised finance and crypto-markets

Over the past decade, the financial sector has become increasingly dependent on digital processes, critical infrastructures, information and communications technology (ICT) services, standardised IT system components and partnerships. This digitalisation of the financial world offers both opportunities and risks for financial institutions.

ICT and cyber risks represent an increasing challenge to the operational resilience, performance and stability of the financial system. Cyber threats are constantly evolving and becoming more sophisticated. Malicious actors can often rely on vast financial resources, a high degree of organisation and cutting-edge technical skills. Keeping up with the rapid evolution of these threats, ensuring they have the tools and expertise to adequately protect their assets, and dealing with a range of extreme but plausible scenarios pose a significant challenge for financial entities. The CrowdStrike incident on 19 July 2024 was an interesting illustration of how an error by a single service provider can lead to large-scale disruption of the economy, including the financial sector. Assessing and promoting the management of cyber and IT risks is therefore a top priority for the Bank and the Single Supervisory Mechanism. Various activities are being carried out to verify compliance with the regulatory framework and the proper management of IT systems with regard to cyber and IT risks. To this end, the Bank has developed a programme for ethical hacking (TIBER-BE), which it supplements with internal and sector-specific crisis simulation exercises and the use of European coordination mechanisms. The Bank was also a key contributor to the cyber resilience stress test organised by the ECB in the first half of 2024. The aim of this initiative was to assess the response and recovery plans of significant credit institutions in the face of a simulated cyber incident. In addition, the Bank worked to ensure the proper implementation of the European Digital Operational Resilience Act (DORA), the provisions of which have been applicable since January 2025

to a wide range of financial entities, including central securities depositories, credit institutions, insurance and reinsurance undertakings, stockbroking firms, payment institutions and electronic money institutions.

The Bank also continues to work on preparations for the potential introduction of a digital euro, in cooperation with the ECB and the other national central bank members of the high-level task force. The digital euro would be a complement to cash (banknotes and coins), allowing individuals, businesses and public authorities to make payments online or offline, including person-to-person transfers, with digital central bank money. Like cash, the digital euro would be risk-free, widely accessible, easy to use and free of charge for basic use. However, in order to avoid a run on banks and risks to the stability of the financial system, the amount of digital euros a user could hold in their account would be limited. The digital euro is intended to strengthen the strategic autonomy and monetary sovereignty of the euro area, improve the efficiency of the European payments ecosystem and enhance its resilience to possible cyber-attacks or technical disruptions. During the first stage of the preparatory phase, which will end on 31 October 2025, the focus is on finalising the rulebook for the digital euro and on selecting possible service providers to set up the required platform and infrastructure. Depending on the results of this phase and the progress made on the legislative front, the ECB Governing Council may, if appropriate, advance to the second stage, defining what it entails and its duration.

Decentralised finance and cryptocurrency markets are another, albeit very different, area in which the digitalisation of finance presents risks and opportunities. Cryptocurrency markets are outside the regular financial system. The following paragraphs therefore aim first and foremost to remind (Belgian) investors of the highly speculative nature of these markets and the high risk of losses due to the (insufficient) way in which they are organised. Indeed, decentralised finance and cryptocurrency markets intrinsically lack many of the guardrails that have been integrated into the traditional financial system to protect customers and maintain financial stability, based on lengthy experience dealing with crises. A number of high-profile failures have already rocked cryptocurrency circles, such as the collapse of the stablecoin TerraUSD, the bankruptcy of the leading trading platform FTX, and the imposition of record fines on Binance in the US due to failure to prevent money laundering. In these cases, which displayed strong similarities with past financial bubbles, it was demonstrated that the valuation of the products in question was based on highly speculative practices. The events also revealed fraud, market manipulation and inadequate due diligence, notably made possible by shortcomings in the management and governance of firms active on these markets.

Due to the limited interconnectedness of regulated financial institutions and cryptocurrency markets, turbulence affecting the latter has, thus far, had little impact on the former. Overall, the cryptocurrency markets and decentralised finance do not seem to pose a real threat to financial stability at present. However, this will remain true only if and for as long as interconnection with the traditional financial sector remains limited. The approval of several spot Bitcoin Exchange Traded Products (ETPs) by the US Securities and Exchange Commission (SEC) in 2024 was a significant development in this regard. A number of large US banks have started offering these products. This authorisation of Bitcoin ETPs should not, however, be viewed as an endorsement of cryptocurrencies as a reliable financial asset. Such currencies remain a highly speculative and volatile investment with a high risk of losses for investors. In addition, prices on the cryptocurrency markets have rallied as a result of the new Trump administration's crypto-friendly policies, including the discontinuance of certain investigations, the issuance of an executive order creating a strategic bitcoin reserve and legislative proposals for payment stablecoins (the GENIUS and STABLE Acts). The evolving dynamics of the cryptocurrency markets and their connectedness with the traditional financial system (including through reserve-backed stablecoins), along with a possible shift in investor exposure, require close monitoring and, where necessary, regulatory action, such as the Markets in Crypto Assets (MiCA) Regulation for cryptocurrency issuers and providers in the EU or the Basel Committee on Banking Supervision's standard on the prudential treatment of banks' crypto-asset exposures.

The MiCA Regulation aims to create a harmonised legal framework for the risks associated with crypto-assets, thus avoiding a multitude of national frameworks. It became fully effective on 30 December 2024. It uses a broad definition for crypto-assets so as to avoid a legal vacuum. However, it does not apply to certain types of crypto-assets that are already regulated, such as the financial instruments covered by MiFID. In addition, it distinguishes

between e-money tokens (EMTs), asset-referenced tokens (ARTs) and tokens that do not fall into either of these two categories, each of which is subject to different rules. MiCA contains prudential requirements for issuers, offerors and persons seeking the admission to trading of crypto-assets and imposes disclosure requirements on them, such as the publication of a white paper to inform investors. Stricter rules apply to the issuers of EMTs and ARTs considered significant due to their potential impact on financial stability. The classification of a token as "significant" falls within the remit of the EBA, which will be responsible for supervising such tokens. In October 2024, the EBA established a procedure on this determination of significance. Furthermore, MiCA introduces harmonised prudential and conduct of business rules for the providers of crypto-asset-related services in the European Union, such as custody, the operation of a trading platform and order execution. Alongside these regulatory developments at European level, the Basel Committee continued its work on an international framework for banks' exposures to crypto-assets. In late 2022, the BCBS published a prudential standard on this topic, dividing crypto-assets into categories subject to different prudential requirements. Specific amendments to the standard have since been made, concerning in particular the conditions under which certain stablecoins qualify for preferential regulatory treatment, notably with regard to the composition of their reserve assets. The BCBS published these amendments in July 2024 but their implementation has been postponed until 1 January 2026 to ensure full and consistent application.

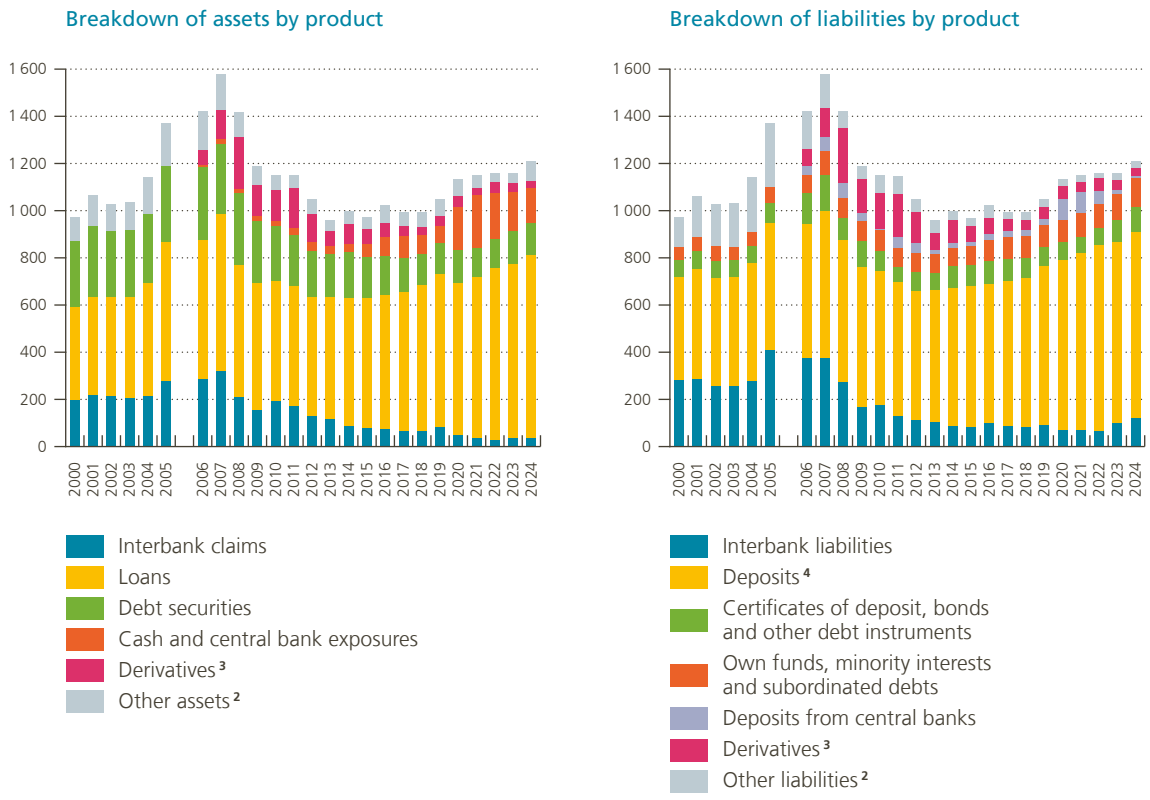
5. Annex: Additional figures and tables

5.1 Banking sector

Figure B1

Assets and liabilities by product [1]

(consolidated data, in € billion)



Source: NBB.

1 Data compiled according to Belgian accounting rules (Belgian GAAP) until 2005 and according to IAS/IFRS as from 2006.

2 "Other assets" mainly include shares, tangible and intangible assets and deferred tax assets. "Other liabilities" are primarily short positions, liabilities other than deposits and debt securities, provisions and liabilities for defined benefit obligations. From the third quarter of 2014, liabilities linked to transferred assets are no longer recognised under "Other liabilities" but rather are included under various items on the liabilities side.

3 Derivatives are recognised at market value.

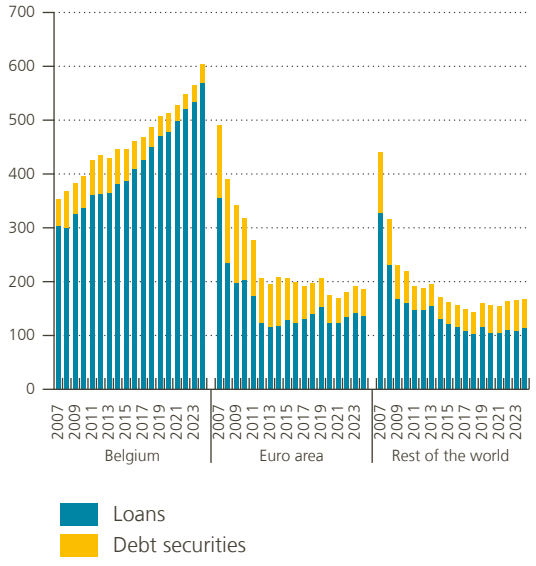
4 From the third quarter of 2014, saving certificates are no longer included in "Deposits" but rather are recorded under "Certificates of deposit, bonds and other debt instruments".

Figure B2

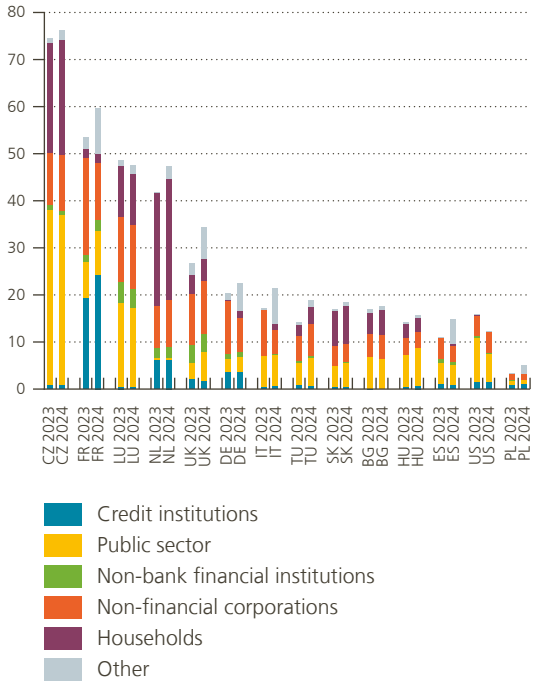
Geographical and sectoral breakdown of assets held by Belgian banks

(consolidated data, in € billion)

Geographical breakdown of loans and debt securities [1]



Exposure on the main foreign markets, by counterparty [2]



Source: NBB.

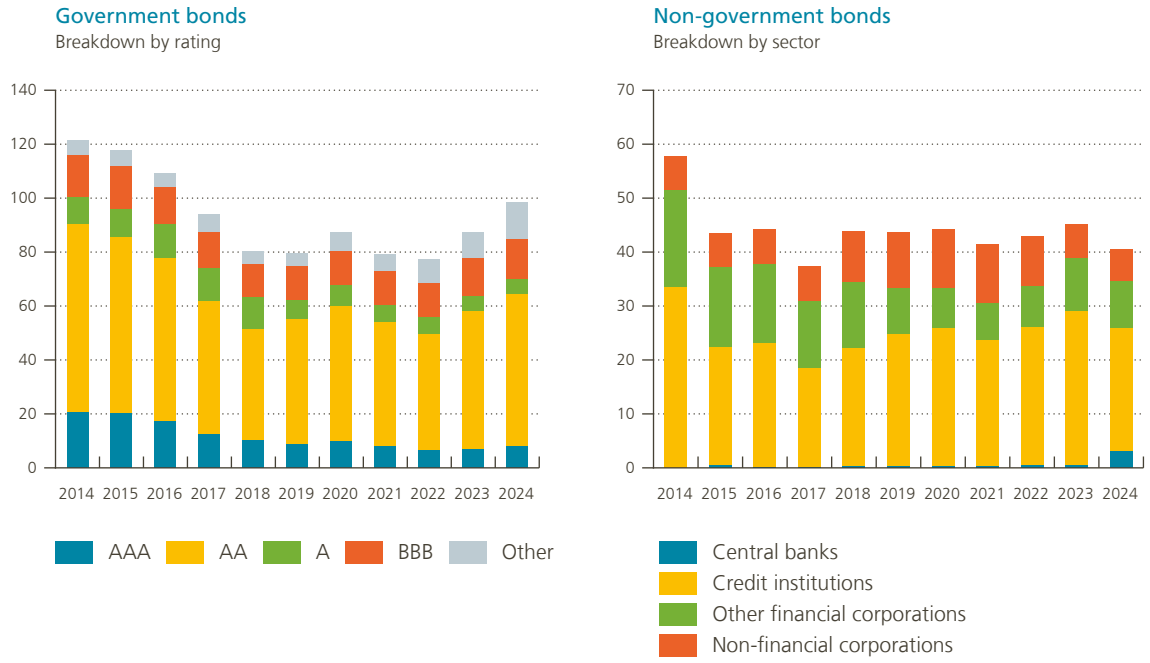
1 Gross carrying amounts, excluding exposures to central banks.

2 Ultimate risk basis, i.e. after guarantees and other risk transfers.

Figure B3

Bond portfolio of Belgian banks

(consolidated data, in € billion)



Source: NBB.

Table B4

Sectoral breakdown of outstanding loans by Belgian banks to non-financial corporations

(consolidated data, end of 2024, gross carrying amounts, in € billion)

	Total NFCs	Belgian NFCs	Foreign NFCs
Loans and advances to non-financial corporations	310.2	199.6	110.6
of which:			
Manufacturing	49.6	21.7	28.0
Real estate activities	45.4	36.6	8.8
Wholesale and retail trade	45.2	28.3	16.9
Construction	33.3	24.6	8.7
Professional, scientific and technical activities	24.8	20.7	4.1
Transport and storage	17.5	8.2	9.3
Human health services and social work activities	16.1	14.9	1.2
Electricity, gas, steam and air conditioning supply	13.5	6.3	7.2
Administrative and support service activities	12.3	7.7	4.6
Agriculture, forestry and fishing	11.1	4.2	6.9
Financial and insurance activities	10.8	8.3	2.5
Information and communication	8.7	4.1	4.5
Other services	6.0	2.3	3.7
Accommodation and food service activities	4.8	3.8	1.0
Water supply	4.4	3.1	1.3
Arts, entertainment and recreation	2.4	1.9	0.5
Public administration and defence, compulsory social security	1.8	1.7	0.0
Mining and quarrying	1.6	0.4	1.2
Education	0.8	0.6	0.1

Source: NBB.

Table B5

Exposure of Belgian banks to the residential and commercial real estate markets [1]

(gross carrying amount, consolidated end-of-period data)

	2022		2023		2024	
	In € billon	As a % of total assets	In € billon	As a % of total assets	In € billon	As a % of total assets
Residential real estate market						
Lending for house purchase	311.3	26.9	319.3	27.6	341.4	28.2
Loans collateralised by residential real estate	306.7	26.5	316.5	27.4	335.9	27.7
of which to Belgian residents	240.8	20.8	247.0	21.4	263.1	21.7
Commercial real estate market						
Loans to the commercial real estate sector [2]	69.2	6.0	74.1	6.4	78.8	6.5
of which to Belgian residents	53.1	4.6	57.3	5.0	61.2	5.1
Loans collateralised by commercial real estate	83.8	7.2	91.2	7.9	98.0	8.1
of which to Belgian residents	66.9	5.8	72.6	6.3	78.7	6.5
"CRE" loans (ESRB definition) [3]	90.0	7.8	102.7	8.9	109.6	9.1

Source: NBB.

1 According to different definitions used in the reporting, which can overlap in whole or in part.

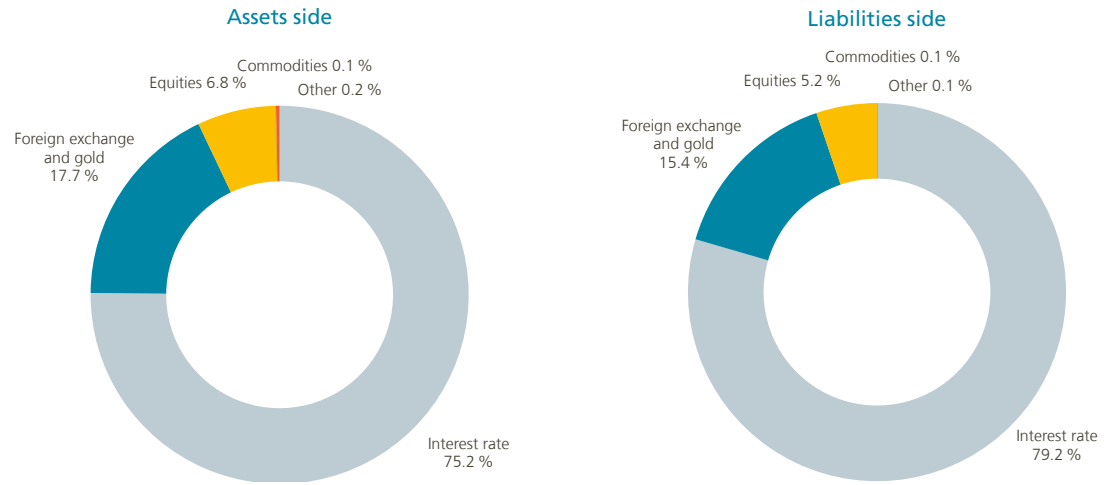
2 Loans to NACE construction and real estate sectors.

3 CRE loans according to the ESRB definition are loans to corporations for the purchase, construction or development of commercial real estate, or collateralised by commercial real estate.

Figure B6

Breakdown of the market value of the derivative positions of Belgian banks, by type of derivative

(gross carrying amount, consolidated data at the end of 2024)



Source: NBB.

Table B7

Asset encumbrance of Belgian banks in 2024

(collateral provided by source of encumbrance, consolidated data; in € billion, unless otherwise stated)

	Collateral type								Total collateral provided	Ratio of over-collateralisation (as a %)
	Government bonds	Other bonds	Loans to households	Loans to non-financial corporations	Loans to financial institutions	Loans to central banks and governments	Loans on demand	Other assets / collateral received		
Source of encumbrance										
Derivative transactions	4.5	0.4	0.0	0.0	6.9	0.0	0.2	4.0	16.1	122.8
Repo transactions and other deposits (excluding central banks)	31.2	5.6	30.3	9.5	0.0	0.0	0.0	0.2	77.0	112.1
Issuance of covered bonds	0.5	0.2	40.3	0.2	0.0	1.4	0.0	0.0	42.5	135.8
Issuance of ABS	0.0	0.0	2.4	1.3	0.0	0.0	0.0	0.0	3.8	103.5
Central bank funding (of all types: TLTROs, repos)	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4	144.9
Other sources of encumbrance	3.7	2.1	4.4	0.7	0.1	0.0	1.2	0.3	12.6	174.1
Total encumbered assets and collateral received	**40.3**	**8.4**	**77.4**	**11.7**	**7.1**	**1.4**	**1.5**	**4.5**	**152.3**	**122.6**
Asset encumbrance ratio[1] (as a %)	**34.5**	**9.6**	**11.8**				**1.1**	**3.8**	**11.9**	

Source: NBB.

1 Asset encumbrance ratio as defined in Commission Implementing Regulation (EU) No 2015/79 (paragraphs 9-11 of Annex III), calculated as $\frac{\text{total encumbered assets + total collateral received and reused}}{\text{total assets + total collateral received and available for encumbrance}}$.
Here, as in the EBA methodology, assets are measured at carrying amount and collateral at fair value.

Table B8

Asset quality ratios of Belgian banks

(consolidated end-of-period data, as a %)

	NPL ratio						Ratio of performing forborne loans		Coverage ratio		
	Total exposures		Belgian exposures		Foreign exposures				Excluding collateral received		Including collateral received
	2023	2024	2023	2024	2023	2024	2023	2024	2023	2024	2024
Total loans[1]	1.6	1.8	1.7	1.8	1.3	1.7	0.8	0.6	43.3	42.5	80.0
of which:											
Non-financial corporations	2.9	3.3	3.3	3.4	2.2	3.1	1.2	1.2	50.4	47.4	80.9
of which:											
SMEs	3.0	3.4	3.1	3.3	2.8	3.8	1.0	0.8	44.0	41.4	82.0
Loans collateralised by CRE	2.8	3.3	3.1	3.4	1.8	2.7	1.4	1.2	26.4	25.5	94.7
Households	1.2	1.3	1.2	1.3	1.2	1.3	0.6	0.5	24.6	28.1	80.8
of which:											
Residential mortgage loans	0.9	0.9	0.9	1.0	0.6	0.6	0.7	0.6	12.8	12.4	98.3
Consumer credit	4.0	4.8	4.0	5.4	4.0	3.7	0.3	0.4	44.7	47.4	49.5

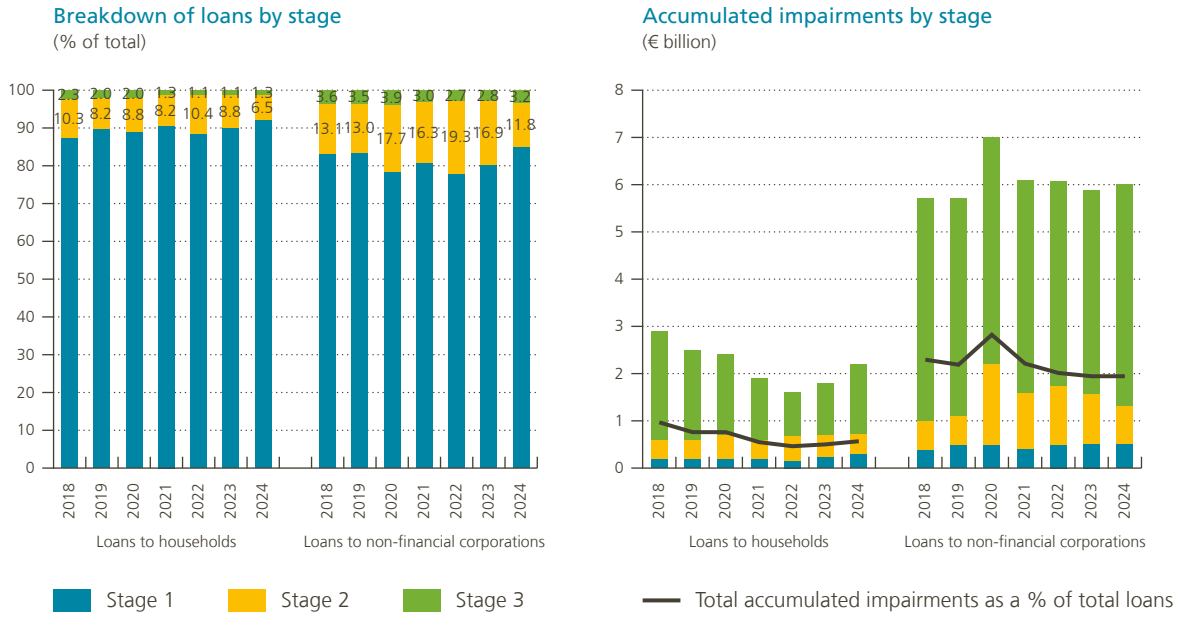
Source: NBB.

1 Including exposures to central banks, general government, credit institutions, other financial corporations, non-financial corporations and households.

Figure B9

Breakdown of loans to households and non-financial corporations and their accumulated impairments, as per IFRS 9

(consolidated end-of-period data)



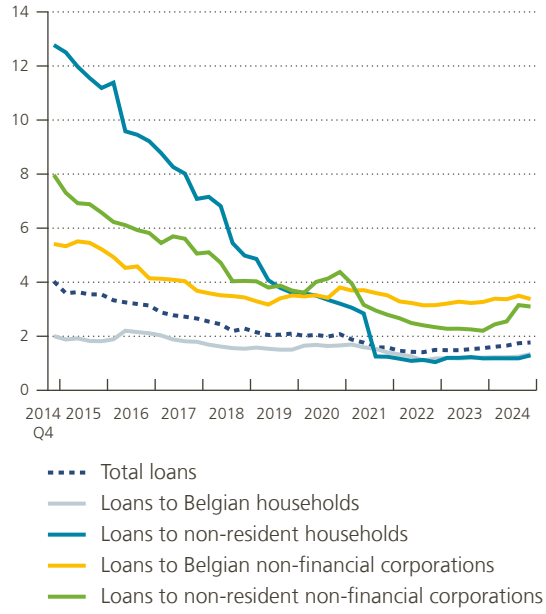
Source: NBB.

Figure B10

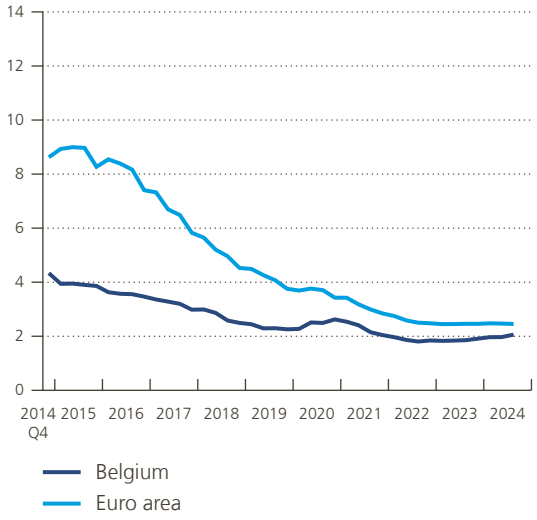
Non-performing loans

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

NPL ratio of the Belgian banking sector [1]



NPL ratio in Belgium and the euro area [2]



Source: NBB.

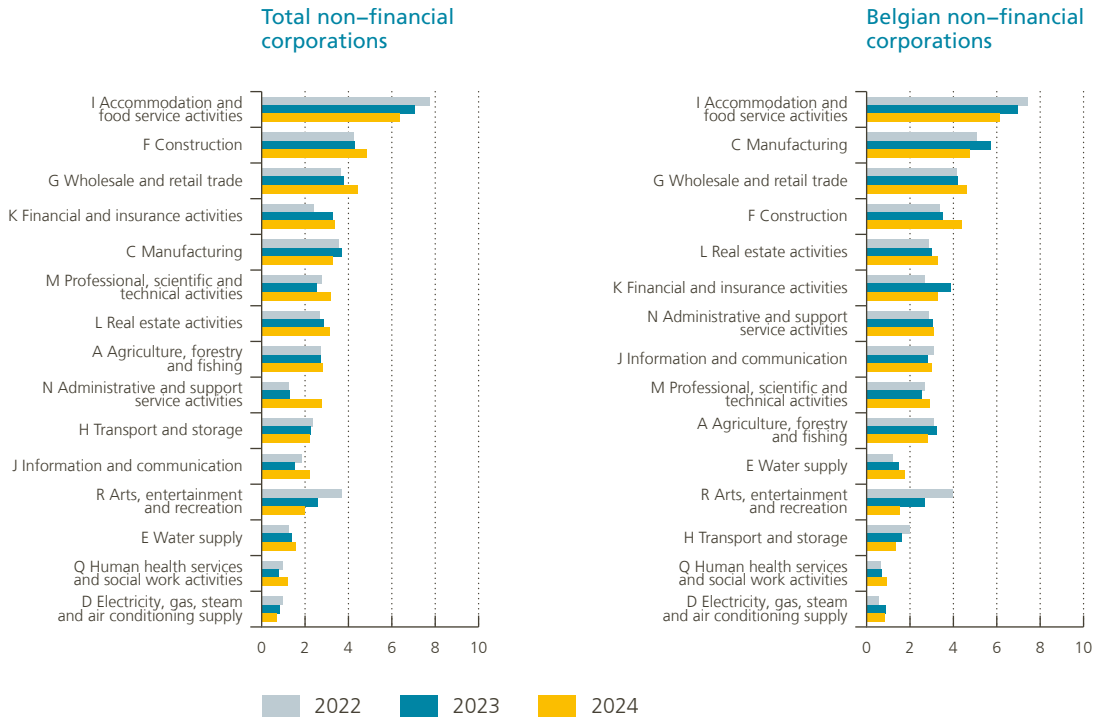
1 Non-performing loans are those that may not be repaid due to the borrower experiencing financial difficulty or that are already in arrears.

2 Calculation of the NPL ratios displayed in this figure is based on a slightly different scope than in the left-hand graph.

Figure B11

NPL ratio for non-financial corporations by corporate sector [1]

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



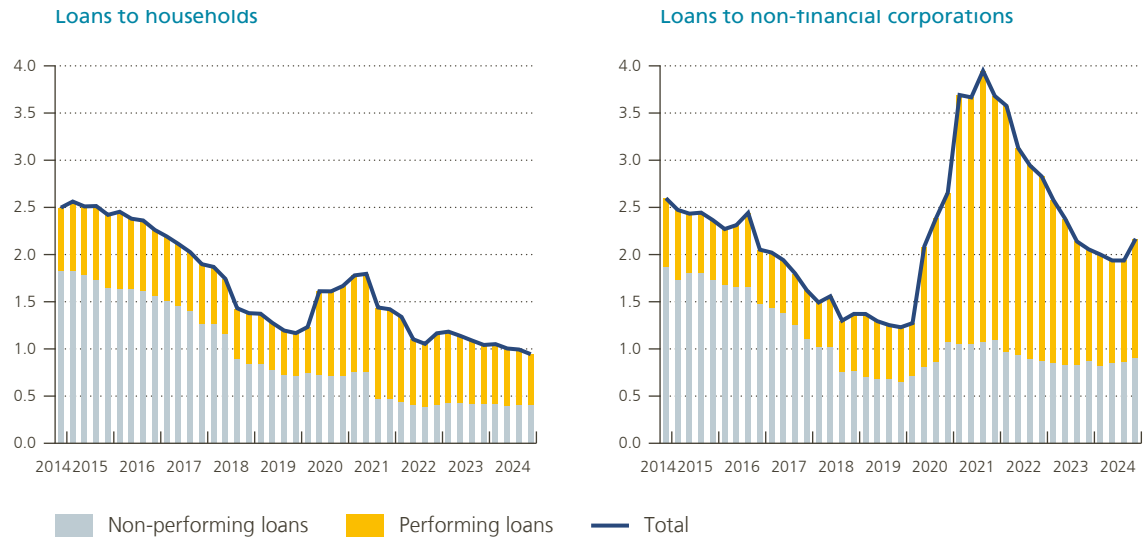
Source: NBB.

1 Excluding the three smallest sectors in terms of the banking sector's exposure.

Figure B12

Loans with forbearance measures[1]

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



Source: NBB.

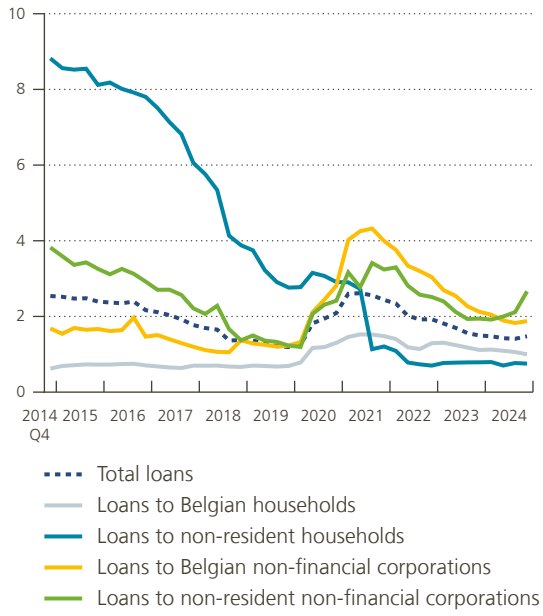
1 Loans with forbearance measures are those for which the lender has made concessions (modification of the contract or refinancing) as the borrower is facing or about to face difficulties in meeting its payment obligations.

Figure B13

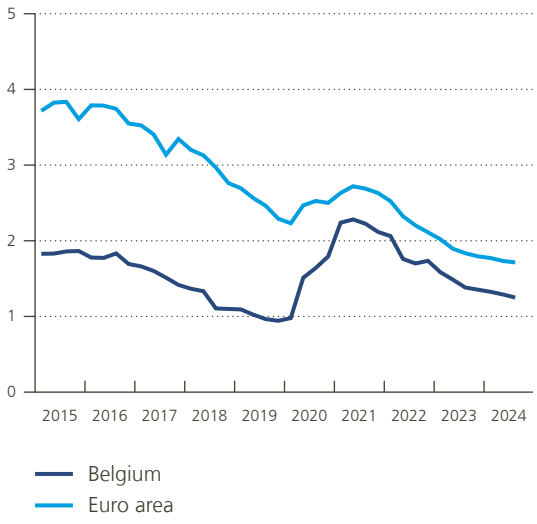
Loans with forbearance measures [1]

(consolidated data, as a % of total loans)

Forbearance ratio of the Belgian banking sector [1]



Forbearance ratio in Belgium and the euro area [2]



Source: NBB.

1 Loans with forbearance measures are those for which the lender has made concessions (modification of the contract or refinancing) as the borrower is facing or about to face difficulties in meeting its payment obligations.

2 The forbearance ratios displayed in this graph are based on a slightly different scope than in the left-hand graph.

Table B14

Aggregate income statement of the Belgian banking sector

(consolidated data, in € billion)

	2018	2019	2020[4]	2021	2022	2023	2024
Net interest income	14.4	14.6	14.2	14.4	15.3	18.1	16.9
Non-interest income	8.3	8.5	8.2	7.6	7.9	8.1	11.3
Net fee and commission income[1]	5.6	5.6	5.6	6.4	6.5	6.7	6.7
(Un)realised gains or losses on financial instruments[2]	1.2	0.5	0.0	0.6	0.8	0.2	0.5
Other non-interest income	1.5	2.4	2.6	0.6	0.6	1.2	4.1
Total operating income (bank product)	22.7	23.1	22.4	22.0	23.2	26.2	28.2
Total operating expense (–)	13.9	13.7	13.8	13.3	14.2	15.3	16.2
Staff expenses (excluding commissions paid to bank agents)	6.8	6.8	6.5	6.2	6.4	6.8	7.5
General and administrative expenses (including depreciation)	7.0	7.0	7.3	7.1	7.8	8.5	8.7
Gross operating result (before impairments and provisions)	8.8	9.4	8.6	8.7	9.1	10.9	11.9
Total impairments and provisions (–)	0.8	1.3	3.1	0.2	1.1	0.7	1.1
Impairments on financial assets at amortised cost	0.6	1.1	2.8	0.2	0.8	0.6	1.0
Impairments on other financial assets	–0.0	0.0	0.0	0.0	–0.0	–0.0	0.0
Other impairments and provisions	0.2	0.2	0.3	0.0	0.3	0.1	0.1
Other components of net operating income[3]	0.3	0.2	0.5	1.8	2.0	2.4	1.0
Net operating income	8.2	8.3	6.0	10.3	9.9	12.5	11.9
Tax and extraordinary profit or loss	–2.0	–1.8	–1.3	–2.0	–1.9	–2.7	–2.5
Total profit or loss on discontinued operations	–	–	–	–	–0.0	0.0	0.0
Net profit or loss including minority interests	6.2	6.6	4.7	8.2	8.1	9.8	9.3
For reference: Net profit or loss (bottom line)	*5.6*	*6.1*	*4.3*	*7.8*	*7.6*	*9.3*	*9.0*

Source: NBB.

1 Including commissions paid to bank agents.

2 This item includes net realised gains (or losses) on financial assets and liabilities not measured at fair value through profit or loss, net gains (or losses) on financial assets and liabilities held for trading and designated at fair value through profit or loss, and net gains (or losses) from hedge accounting.

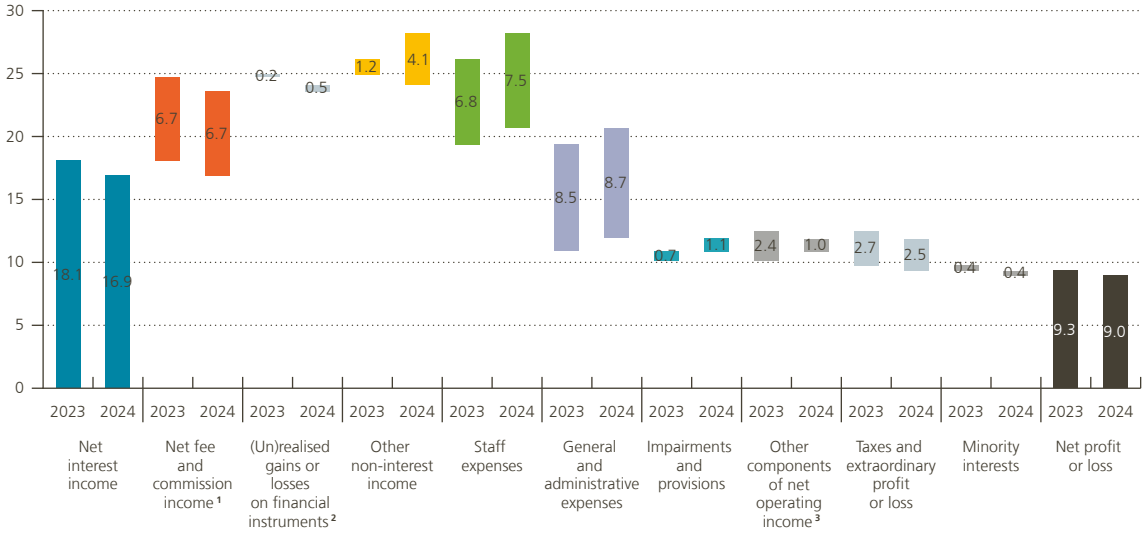
3 Other components of net operating income include the share in profit or loss of associates and joint ventures accounted for using the equity method, the profit or loss from non-current assets, disposal groups classified as held for sale not qualifying as discontinued operations, and negative goodwill recognised immediately in profit or loss.

4 Since 2020, some expenses must be booked separately in the prudential reporting, which has resulted, for some banks, in the transfer of these expenses to other lines of the income statement and thus a break in non-interest income, other non-interest income, total operating income, general and administrative expenses and total operating expenses.

Figure B15

Main components of the income statement in 2024 compared to 2023

(consolidated data, in € billion)



Source: NBB.

1 Including commissions paid to bank agents.

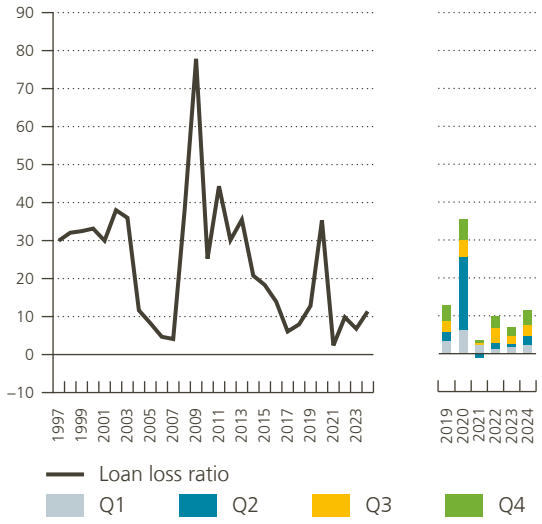
2 This item includes net realised gains (or losses) on financial assets and liabilities not measured at fair value through profit or loss, net gains (or losses) on financial assets and liabilities held for trading and designated at fair value through profit or loss, and net gains (or losses) from hedge accounting.

3 Other components of net operating income include the share in profit or loss of associates and joint ventures accounted for using the equity method, the profit or loss from non-current assets, disposal groups classified as held for sale not qualifying as discontinued operations, and negative goodwill recognised immediately in profit or loss.

Figure B16

Loan loss ratio 1

(consolidated data, in basis points)



Source: NBB.

1 The loan loss ratio is the ratio of the net loan impairment charge for the year to the total stock of loans.

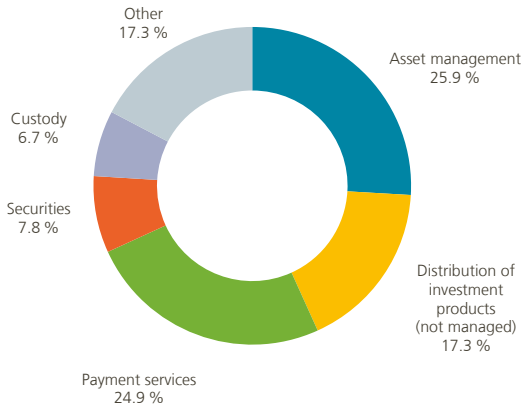
Figure B17

Breakdown of gross fee and commission income by source and assets involved in the services provided

(consolidated data)

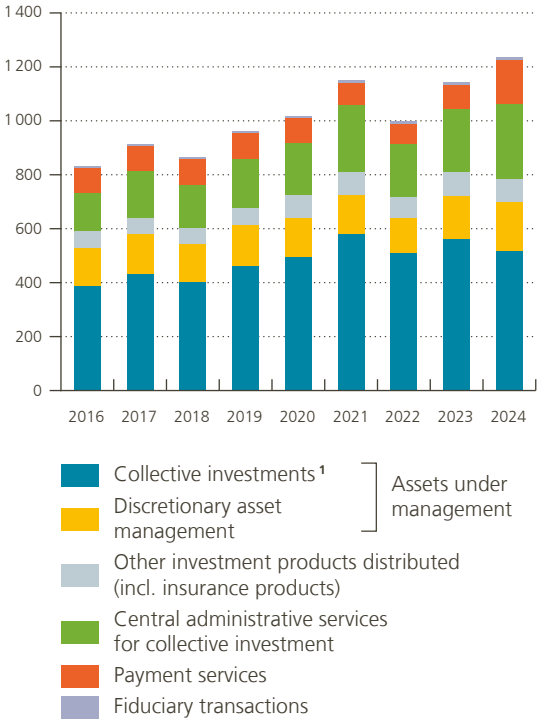
Breakdown of gross fee and commision income by source

(in 2024, as a % of the total)



Assets involved in the services provided (excluding custody)

(end-of-period data, in € billion)



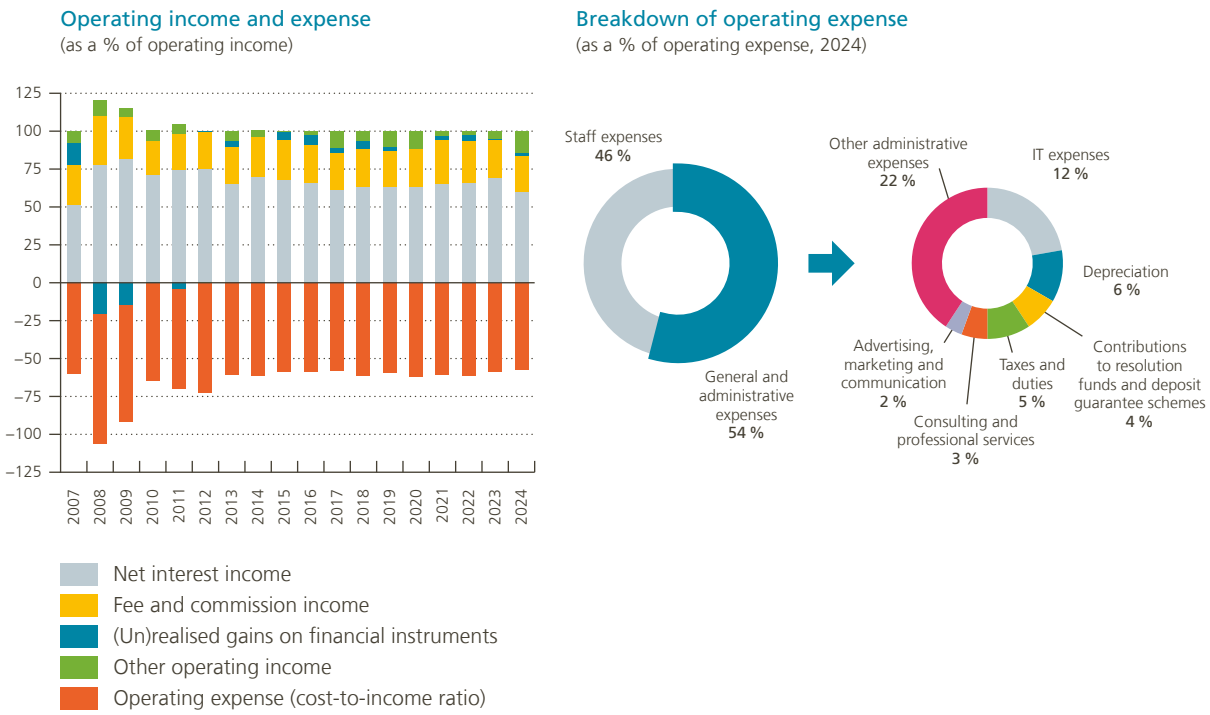
Source : NBB.

1 Collective investment products either managed by banks (and their subsidiaries) themselves or sourced from other parties and distributed to their clients.

Figure B18

Operating income and expense

(consolidated data)

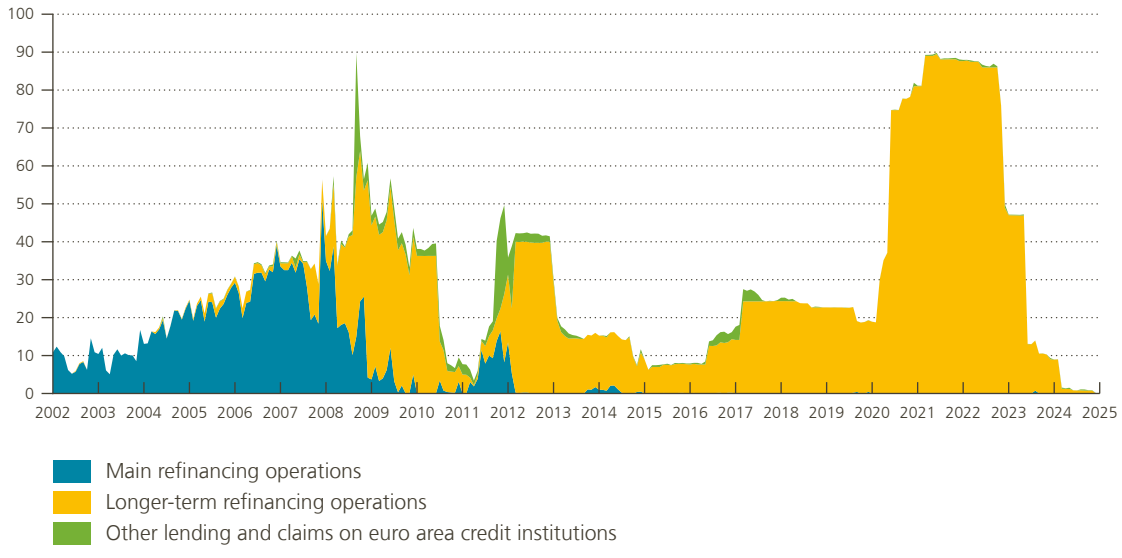


Source: NBB.

Figure B19

National Bank of Belgium's claims on euro area credit institutions

(consolidated end-of-period data, in € billion)



Source: NBB.

Table B20

Liquidity ratios

(consolidated end-of-period data; in € billion, unless otherwise mentioned)

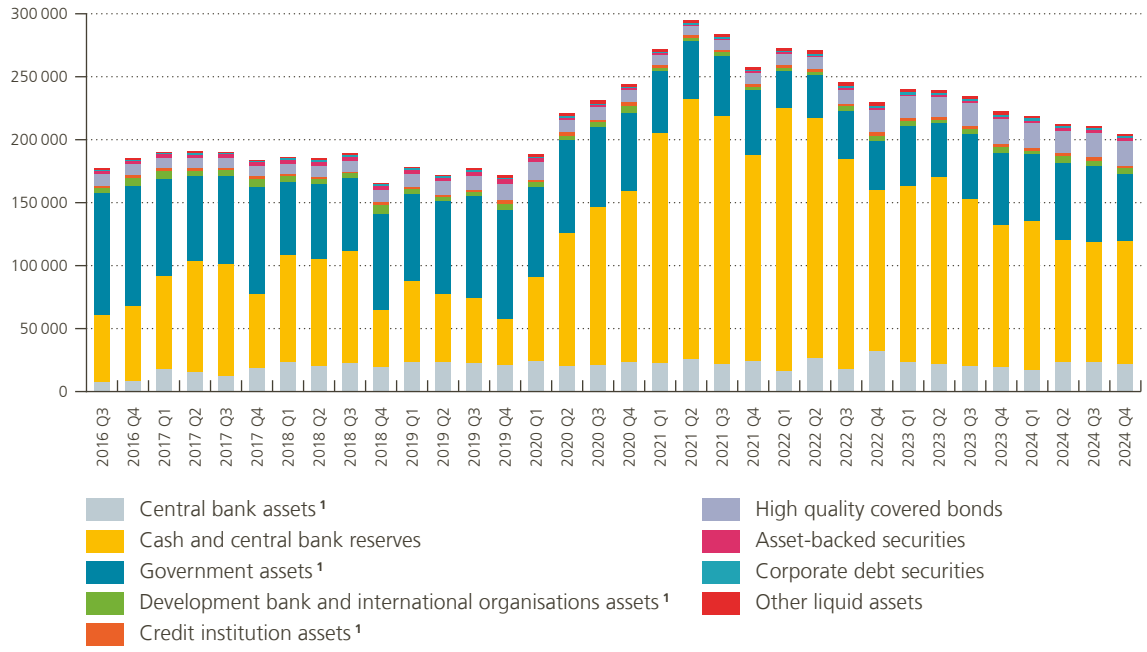
	2018	2019	2020	2021	2022	2023	2024
Customer loan-to-deposit ratio (%)	**97.5**	**95.9**	**89.0**	**89.6**	**92.0**	**93.9**	**95.9**
Customer loans	619	649	648	679	729	740	775
Customer deposits	634	677	728	758	793	788	809
Liquidity coverage ratio (%)	**144.6**	**140.5**	**181.6**	**184.3**	**157.7**	**153.3**	**155.5**
Liquidity buffer	165	172	244	257	231	223	205
Net liquidity outflows	114	122	134	140	146	145	132
Asset encumbrance ratio (%)	**13.2**	**12.1**	**17.1**	**17.9**	**12.7**	**13.3**	**12.0**
Encumbered assets and re-used collateral	141	137	205	217	154	165	154
Total assets and collateral received	1 065	1 128	1 194	1 212	1 213	1 233	1 279
Net stable funding ratio (%)	**–**	**–**	**–**	**141.7**	**133.0**	**127.1**	**129.2**
Available stable funding	–	–	–	787	731	727	790
Required stable funding	–	–	–	556	549	572	612

Source: NBB.

Figure B21

Breakdown of the liquid assets buffer

(consolidated end-of-period data, in € billion)



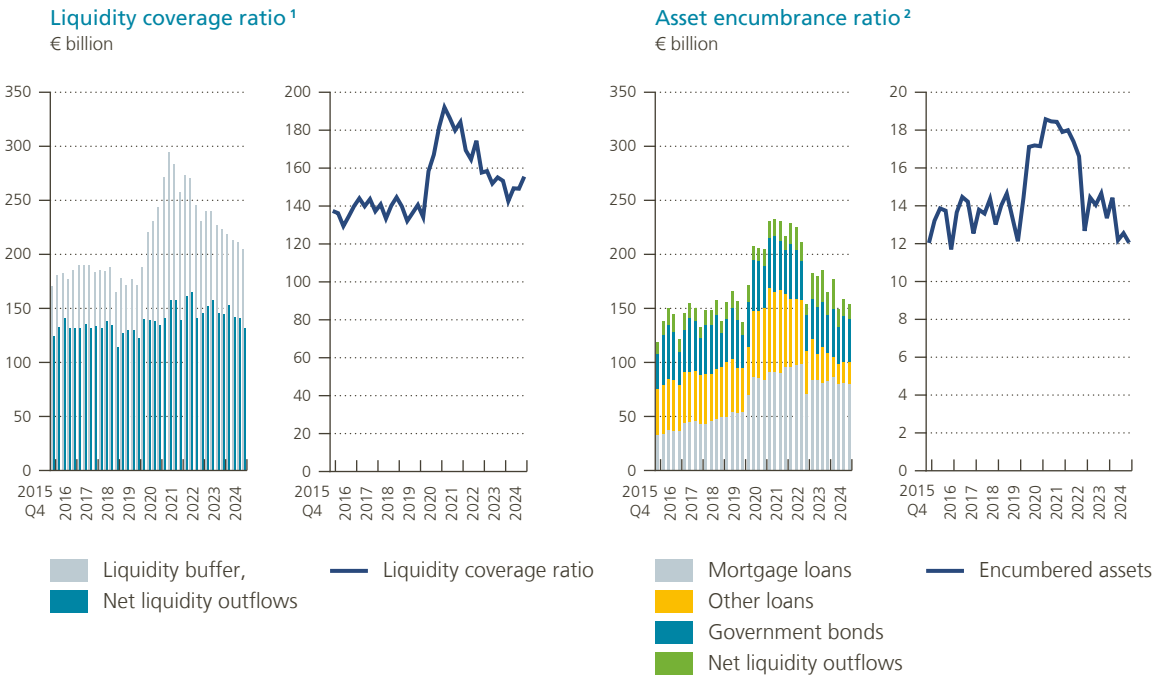
Source: NBB.

1 Assets representing claims on or guaranteed by these entities.

Figure B22

Liquidity coverage ratio and asset encumbrance ratio

(consolidated end-of-period data, as a % unless otherwise mentioned)



Source: NBB.

1 Ratio between the stock of high-quality liquid (unencumbered) assets and simulated net cash outflows in a hypothetical 30-day stress scenario.

2 Ratio between total encumbered assets (including collateral received and reused) and total assets (including collateral received).

Table B23

Solvency ratios and breakdown of capital and risk-weighted assets

(consolidated end-of-period data; in € billion, unless otherwise stated)

	2018	2019	2020	2021	2022	2023	2024
Total own funds	**71.8**	**73.7**	**79.4**	**77.6**	**75.3**	**75.9**	**86.3**
Tier 1 capital	63.1	65.4	71.1	71.4	69.3	69.3	75.1
of which:							
Common Equity Tier 1 capital	59.7	61.1	66.9	67.0	65.1	64.8	67.2
Additional Tier 1 capital	3.3	4.3	4.3	4.4	4.3	4.5	7.9
Tier 2 capital	8.7	8.3	8.2	6.2	6.0	6.6	11.3
Risk-weighted assets	**382.5**	**392.6**	**389.0**	**378.5**	**375.3**	**387.0**	**448.8**
Credit risk	315.9	322.2	321.0	317.1	327.5	334.3	396.9
Market risk	7.2	6.1	6.0	5.7	7.9	6.3	5.9
Operational risk	38.6	38.4	37.9	35.0	35.4	38.8	44.2
Credit valuation adjustment	4.5	3.9	3.1	2.2	1.7	1.9	1.3
Other	16.4	21.9	21.0	18.5	2.8	5.7	0.5
of which:							
Additional stricter prudential requirements based on Article 458[1]	16.1	17.0	17.5	18.2	0.0	0.0	0.1
Total solvency ratio (%)	**18.8**	**18.8**	**20.4**	**20.5**	**20.1**	**19.6**	**19.2**
Tier 1 capital ratio (%)	**16.5**	**16.7**	**18.3**	**18.9**	**18.5**	**17.9**	**16.7**
Common Equity Tier 1 ratio (phased-in) (%)	**15.6**	**15.6**	**17.2**	**17.7**	**17.3**	**16.7**	**15.0**
Common Equity Tier 1 ratio (fully loaded) (%)	**15.6**	**15.6**	**17.2**	**17.6**	**17.3**	**16.7**	**15.0**
Leverage ratio (phased-in) (%)	**5.9**	**5.8**	**6.7**	**6.4**	**5.7**	**5.7**	**5.9**

Source: NBB.

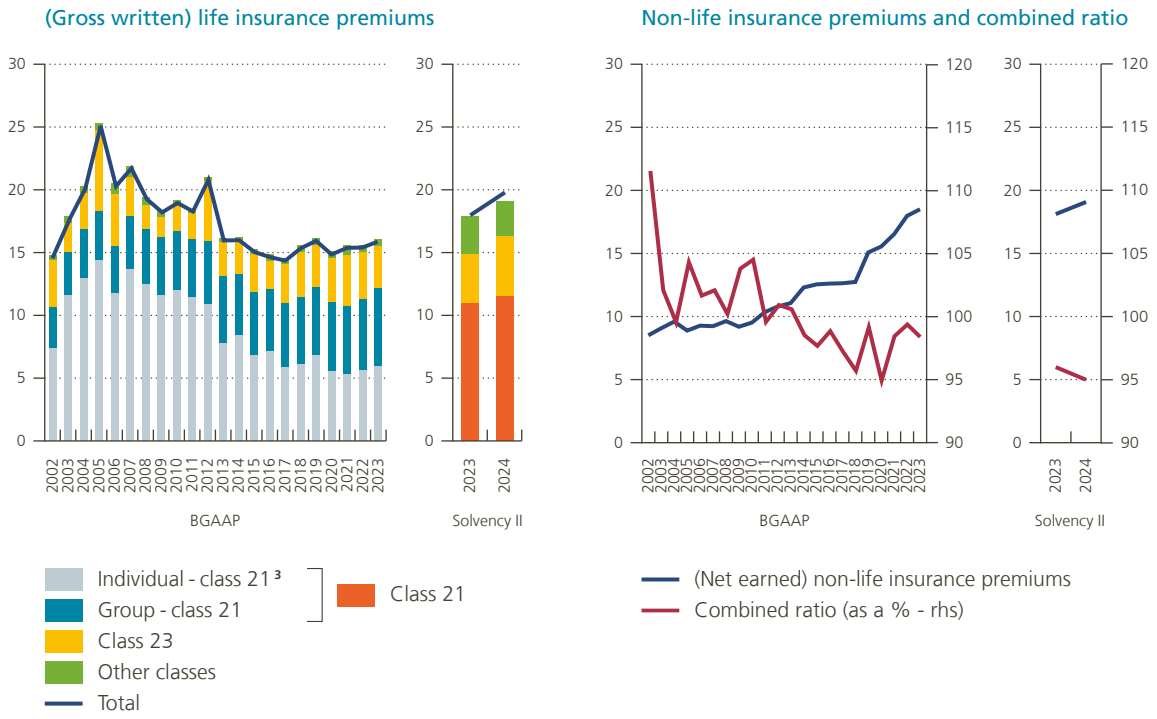
1 Additional stricter prudential requirements based on Article 458 of the Capital Requirements Regulation due to modified risk weights for targeting asset bubbles in the residential and commercial property markets.

5.2 Insurance sector

Figure I1

Premiums[1] and combined ratio[2]

(non-consolidated end-of-period data; in € billion, unless otherwise stated)



Source: NBB.

1 Gross written life insurance premiums are somewhat larger under Solvency II than under BGAAP due to the inclusion of certain health insurance premiums (which are considered non-life premiums under BGAAP). Net earned premiums for non-life insurance differ between the two reporting formats for the same reason. This also applies to the combined ratio, for which the calculation has been adapted to the available Solvency II data. At the cut-off date of this report, 2024 BGAAP data were not yet available.

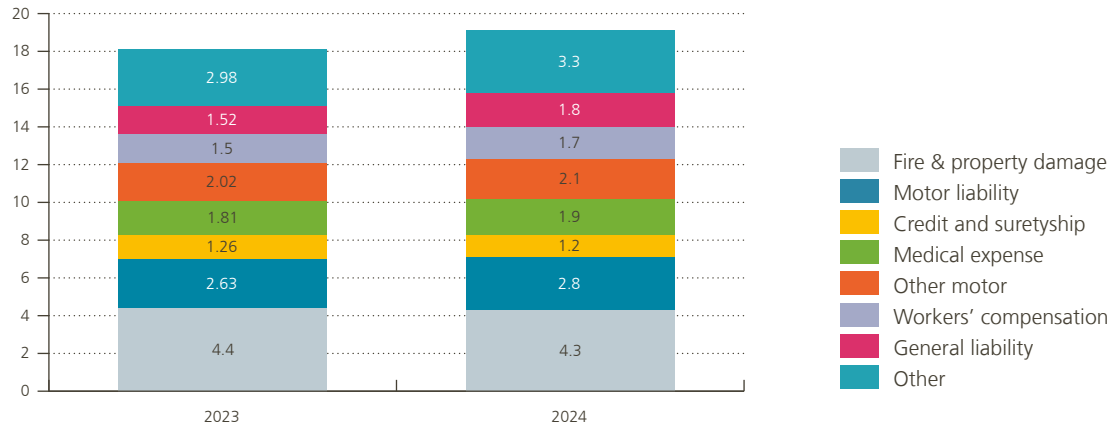
2 The combined ratio is the sum of the cost of claims plus operating expenses divided by net premium income. At the cut-off date of this report, 2024 BGAAP data were not yet available.

3 Class 21 products are life insurance contracts with a minimum guaranteed rate of return, while class 23 refers to unit-linked or index-linked contracts. At the cut-off date of this report, 2024 BGAAP data were not yet available.

Figure I2

Breakdown of net written non-life insurance premiums

(Solvency II non-consolidated end-of-period data, at market value, in € billion)

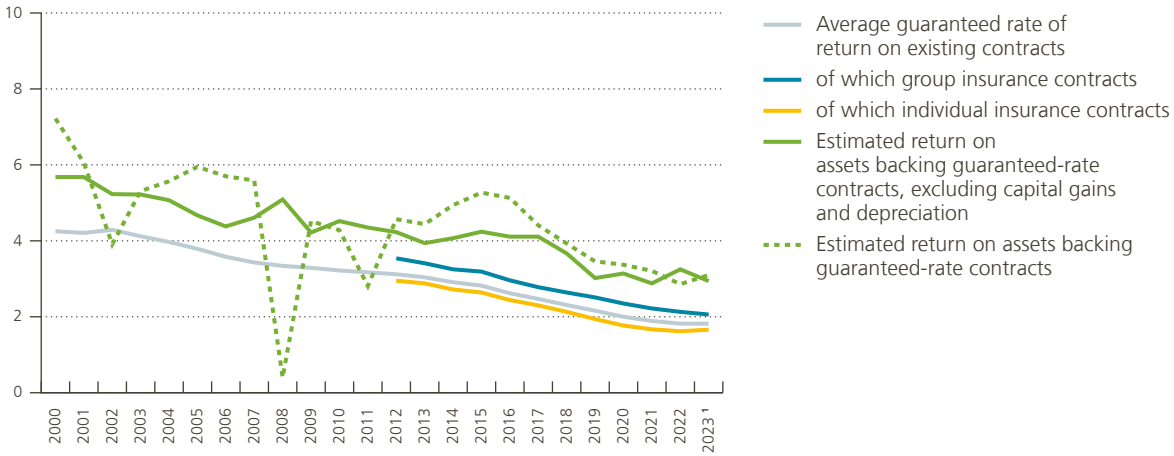


Source: NBB.

Figure I3

Life insurance guaranteed rates and investment returns

(non-consolidated end-of-period data based on statutory annual accounts, as a %)



Source: NBB.

1 At the cut-off date of this report, 2024 data were not yet available.

Table I4

Rate of return and average guaranteed return on life insurance

(non-consolidated end-of-period data based on statutory annual accounts; as a %, unless otherwise stated)

	2019	2020	2021	2022	2023 [1]
Return on assets backing guaranteed-rate contracts	3.46	3.37	3.21	2.86	3.1
Estimated return on assets backing guaranteed-rate contracts, excluding capital gains and depreciation	3.02	3.14	2.88	3.25	2.94
Average guaranteed rate of return on existing contracts	2.16	2.00	1.89	1.82	1.82
■ Group insurance	2.51	2.35	2.22	2.13	2.06
■ Individual insurance	1.94	1.77	1.67	1.62	1.66
Yield gap	1.30	1.37	1.32	1.04	1.28
Flashing light provision [2] (in € billion)	7.4	7.6	7.2	7.2	7.2
Flashing light rate	0.49	0.33	0.25	0.39	0.77

Source: NBB.

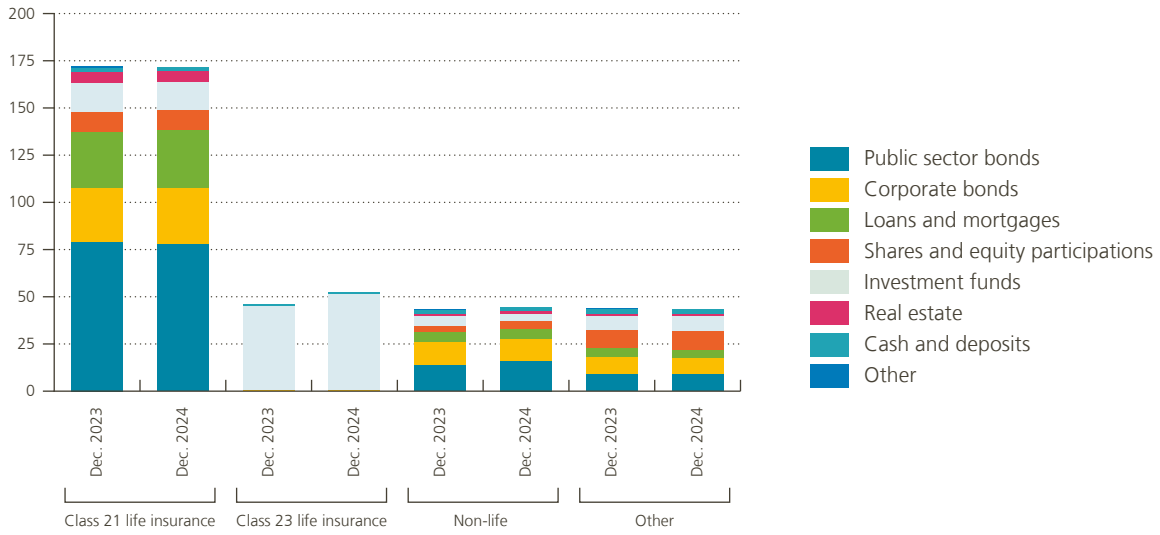
1 At the cut-off date of this report, 2024 data were not yet available.

2 The flashing light provision is an additional reserve that the NBB requires life insurers in Belgium to hold to ensure that sufficient funds are always available to fulfil guarantees given to clients under their contracts. The flashing light provision is a purely BGAAP concept.

Figure I5

Composition of covering assets per insurance activity

(Solvency II non-consolidated data, at market value, in € billion)

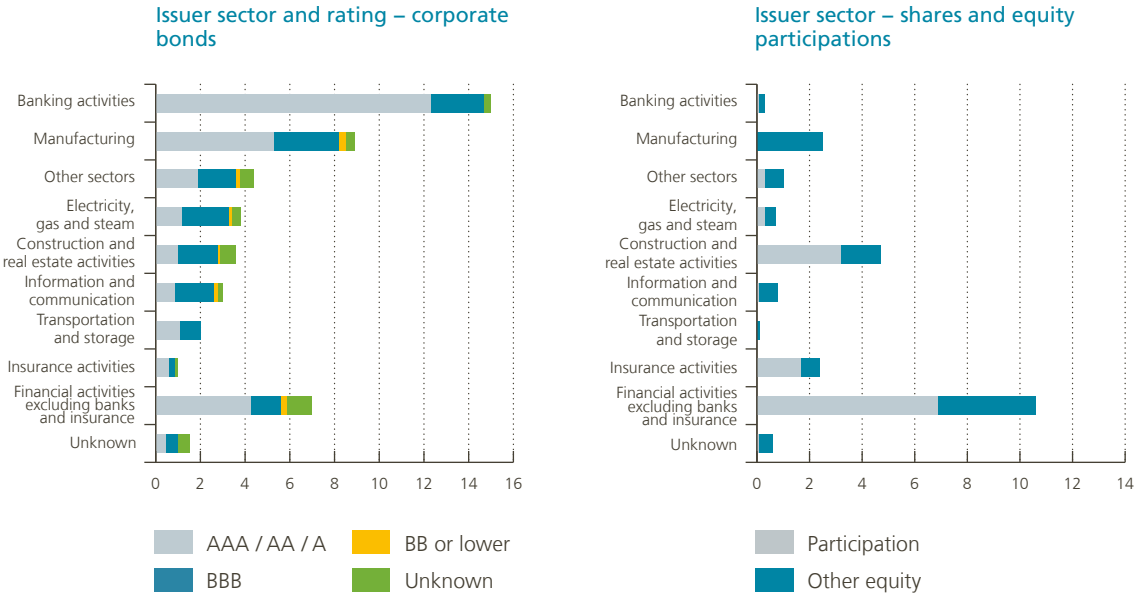


Source: NBB.

Figure I6

Breakdown of corporate bonds and equity portfolios by sector

(Solvency II non-consolidated data for the end of 2024, at market value, in € billion)

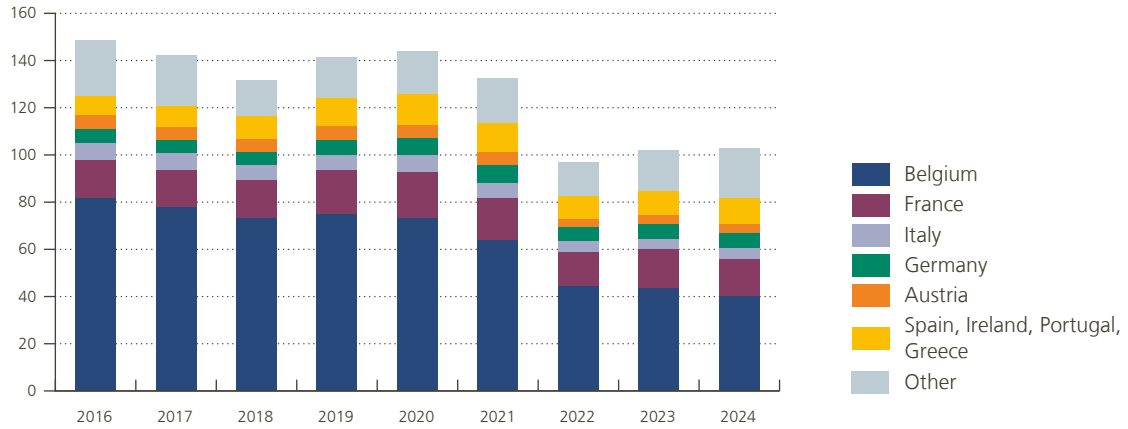


Source: NBB.

Figure I7

Geographical breakdown of public sector bonds

(Solvency II non-consolidated end-of-period data, at market value, in € billion)



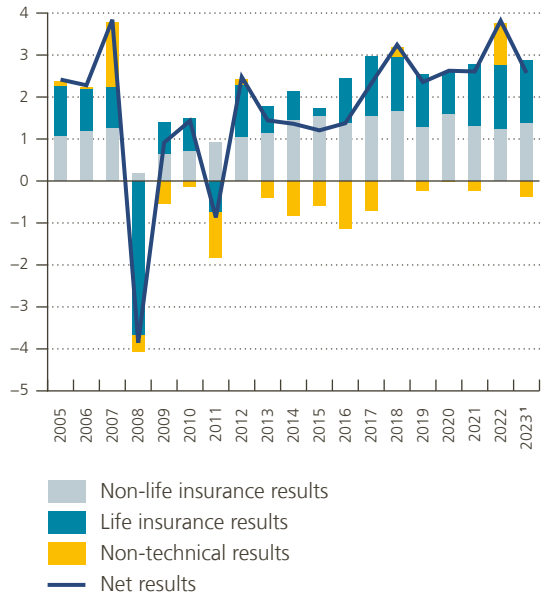
Source: NBB.

Figure I8

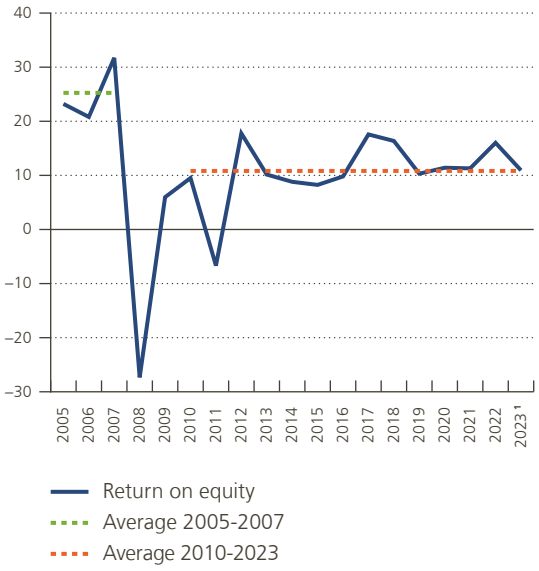
Net results and return on equity

(non-consolidated end-of-period data based on statutory annual accounts; in € billion, return on equity as a %)

Insurance sector net results



Insurance sector return on equity



Source: NBB.

1 At the cut-off date of this report, 2024 data were not yet available.

Table I9

Main components of the profit and loss account

(non-consolidated end-of-period data based on statutory annual accounts, in € billion)

	2019	2020	2021	2022	2023 [1]
Life insurance technical result	1.3	1.0	1.5	1.5	1.5
Result of insurance activities	–9.0	–5.1	–8.5	4.6	–8.0
Excluding adjustments to class 23	–4.7	–4.5	–4.0	–3.1	–3.8
Net investment income	10.3	6.1	9.9	–3.0	9.4
Excluding adjustments to class 23	6.0	5.5	5.5	4.6	5.3
Non-life insurance technical result	1.3	1.6	1.3	1.3	1.4
Result of insurance activities	0.1	0.8	0.3	0.1	0.3
Net investment income	1.2	0.8	1.1	1.1	1.1
Non-technical result [2]	–0.2	0.0	–0.2	1.0	–0.4
Net investment income	0.6	1.0	0.8	1.5	0.6
Other results	–0.9	–1.0	–1.0	–0.5	–0.9
Net result for the financial year	2.3	2.6	2.6	3.8	2.5

Source: NBB.

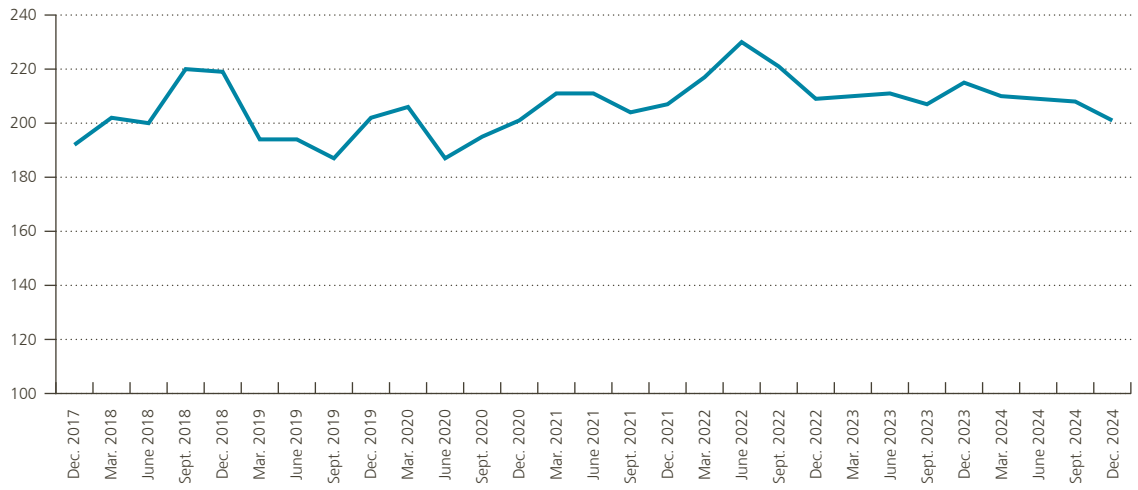
1 At the cut-off date of this report, 2024 data were not yet available.

2 The non-technical result includes investment income not attributed to life and non-life insurance activities, exceptional results and taxes.

Figure I10

Solvency capital requirement ratio (SCR ratio)

(Solvency II non-consolidated data, as a %)



Source: NBB.

Themed article

Repurchase and buy/sell-back transactions in Belgium – A description of the market using data from the Securities Financing Transactions Regulation

Riemer Faber

Introduction

Securities financing transactions (SFTs) allow entities to temporarily exchange assets (such as bonds and shares) for cash. Such a transaction thereby helps an entity raise funds for its activities and another entity obtain securities.

During the global financial crisis, the securities financing markets greatly amplified financial instability. Concerns about the liquidity and quality of the assets provided (e.g. securitised mortgages) led to additional collateral demands, forcing entities to unwind their leveraged positions quickly and triggering large decreases in the value of these assets. This ultimately caused solvency problems for banks.[1] Furthermore, the crisis highlighted the lack of transparency in the securities financing markets. Regulators and supervisors had no clear view of SFTs.[2]

To address these issues, the European Union (EU) introduced the Securities Financing Transactions Regulation (SFTR).[3] This regulation covers four types of SFTs: repurchase (or repo) transactions, buy/sell-back transactions, securities lending transactions, and margin lending transactions. The SFTR increases the transparency of securities financing markets by requiring financial and non-financial entities to report on a daily basis all their SFTs, except for those with members of the European System of Central Banks (ESCB).[4][5]

This article uses these data and presents descriptive statistics on the use of repurchase and buy/sell-back transactions in Belgium. The focus is on these types of SFTs given that repurchase transactions represent the largest total value (and that buy/sell-back transactions are very similar to repurchase transactions). This is

1 Financial Stability Board (2017), *Assessment of shadow banking activities, risks and the adequacy of post-crisis policy tools to address financial stability concerns* (see page 9).

2 Financial Stability Board (2013), *Strengthening oversight and regulation of shadow banking: policy framework for addressing shadow banking risks in securities lending and repos*, and European Commission (2013), *Shadow banking – addressing new sources of risk in the financial sector*, Communication from the Commission to the Council and the European Parliament, COM/2013/0614 final.

3 Regulation (EU) 2015/2365 of the European Parliament and of the Council of 25 November 2015 on transparency of securities financing transactions and of reuse and amending Regulation (EU) No 648/2012, Official Journal of the European Union, L 337, 23.12.2015, 1-34.

4 The reporting obligation applies to parties established in the European Economic Area (EEA) (including their branches outside the EEA) and to EEA branches of parties from third countries. Parties exempt from reporting their transactions are members of the ESCB and the Bank of England, other bodies performing similar functions in the EEA and UK, other public bodies charged with or intervening in the management of the public debt in the EEA and UK, and the Bank for International Settlements.

5 The SFTR is similar to the European Market Infrastructure Regulation (EMIR) for derivatives. For more information on this regulation, see Ben Hadj S., R. Faber, P. Rovira Kaltwasser and P. Van Roy (2024), *Derivatives through the lens of EMIR and supervisory data*, National Bank of Belgium, Financial Stability Report 2024, 133-148.

the first publication of the National Bank of Belgium that uses SFTR data. It supplements recent reports by the European Securities and Markets Authority and the European Central Bank relying for the first time on SFTR data to provide statistics on repurchase and buy/sell-back transactions in the EEA and the euro area.[6]

This article shows that the total value of repurchase and buy/sell-back transactions in Belgium is large, but there are not many entities involved. On 12 February 2025, the cut-off date of the observation period, there were 24 Belgian reporting counterparties with a total principal amount of over €220 billion (almost all of which pertained to repurchase transactions).[7] It is primarily the banking sector that engages in repurchase and buy/sell-back transactions, for both cash borrowing and cash lending purposes. Belgian entities mostly borrow from entities in the euro area, whereas their lending is more diverse (although the majority is to euro area entities). Government securities are the most common type of collateral used. While transactions frequently have a one-day maturity, they can also often run up to six months. A substantial share of the principal amount is cleared by a central counterparty in the euro area.

1. What are repurchase and buy/sell-back transactions?

In a repurchase transaction, entity A sells a security to entity B, with the agreement to buy it back at a predetermined price in the future. Hence, entity A temporarily holds the cash of entity B, and entity B temporarily holds the security of entity A.[8] Although legally this transaction consists of two distinct sales, it can be interpreted as a loan by entity B to entity A, for which (i) the security is the collateral and (ii) the difference between the sales prices determines the interest paid (also called the repurchase (or repo) rate).

Entity A usually buys the security back at a higher price than the price at which it sold it (in other words, entity A (the cash borrower) pays interest to entity B (the cash lender)), but this is not always the case (e.g. when the security is in demand). Repurchase transactions are often used as an alternative to unsecured interbank lending, with the interest paid tending to be lower due to the use of collateral.[9]

The above description of repurchase transactions can be extended to buy/sell-back transactions. Buy/sell-back transactions are similar to repurchase transactions, aside from relatively minor differences such as the moment at which entity A gets the coupon and dividend received by entity B while holding the security.[10]

2. Descriptive statistics

Figure 1 presents the daily total principal amount of all repurchase and buy/sell-back transactions reported by Belgian counterparties. The principal amount is the value of the loan (that is, the price at which entity A

6 European Securities and Markets Authority (2024), *Market report on EU securities financing transactions markets 2024*, and Bassi C., M. Grill, F. Hermes, H. Mirza, C. O'Donnell and M. Wedow (2024), *Enhancing repo market transparency: the EU Securities Financing Transactions Regulation*, European Central Bank, Occasional Paper Series, No 342.

7 In this article, the term "principal amount" refers to the "principal amount on the value date".

8 This transaction can be described as a repurchase (or repo) transaction for entity A and a reverse repurchase (or repo) transaction for entity B. This article does not make this distinction and uses the term repurchase transaction regardless of the entity being discussed.

9 European Securities and Markets Authority (2024), *Market report on EU securities financing transactions markets 2024* (see page 23).

10 Like a repurchase transaction, a transaction can be labelled as a buy/sell-back transaction or a sell/buy-back transaction depending on the entity being discussed. This article does not make this distinction and uses the term buy/sell-back transaction regardless of the entity under discussion.

sells the security to entity B). The figure also shows the number of transactions. The data cover the period 2 January 2024 – 12 February 2025. [11]

On Wednesday 12 February 2025, there were 3 899 transactions with a total principal amount of €224 billion. The average transaction value was €57 million. Repurchase transactions were much more common than buy/sell-back transactions: 97% of the transactions were repurchase transactions, representing 99% of the total principal amount. There were 24 reporting counterparties trading with six other counterparties on average. The reporting counterparties vary greatly in size, but on average reported 162 transactions and a principal amount of €9.3 billion. [12]

Over the course of 2024, there were substantial fluctuations in the total principal amount as Figure 1 illustrates. There was a minimum of €163 billion on 5 September and a maximum of €252 billion on 18 March (the average for 2024 was €198 billion). However, the variation over time is not extremely large. There was an upward trend in the number of transactions: it rose from around 2 500 transactions at the beginning of the year to around 3 500 at year's end. Analysis of the underlying data for individual reporting counterparties does not reveal a common trend. The development over time of both the principal amount and the number of transactions differs between entities. Patterns in the aggregated values appear to be driven by a combination of entity-specific factors.

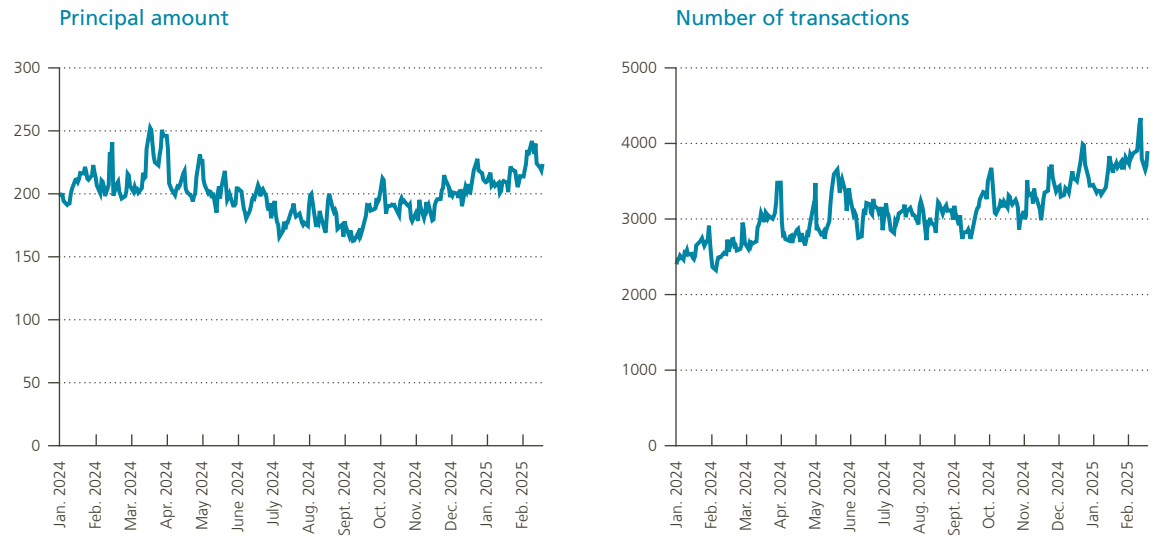
11 The figures reported in this article include only transactions reported under the SFTR.

12 This article reports the total principal amount as the sum of the entity-specific principal amounts. Hence, the total value includes the same transaction twice if two Belgian entities trade with each other (once per entity). The principal amount of repurchase and buy/sell-back transactions between Belgian entities is €25 billion (see Figure 3). Assuming the reporting is complete, an approximation of the principal amount without double counting is €211 billion (223.7 – 0.5*25).

Figure 1

Principal amount and number of transactions over time [1]

(principal amount in € billion, daily data)



Source: SFTR.

1 The figure shows all repurchase and buy/sell-back transactions by Belgian reporting counterparties for the period 2 January 2024 – 12 February 2025. This includes intragroup transactions (i.e. transactions between entities belonging to the same conglomerate) and forward transactions (i.e. agreed transactions for which the initial exchange of the security and cash has not yet taken place). On 12 February 2025, 18% of transactions were forward transactions, representing 16% of the total principal amount.

Breaking down the total principal amount by sector of the reporting counterparty reveals that it is mostly banks that engage in repurchase and buy/sell-back transactions. On 12 February 2025, the final day of the sample, the banking sector reported 88% of the total principal amount (€197 billion). Insurance companies reported 8% (€17 billion). The other sectors are relatively small.

Figure 2 divides these principal amounts by sector (gross positions) into transactions where the reporting counterparty is the cash borrower (collateral lender) and transactions where it is the cash lender (collateral borrower). The difference between cash borrowing and cash lending is the net position of a sector.

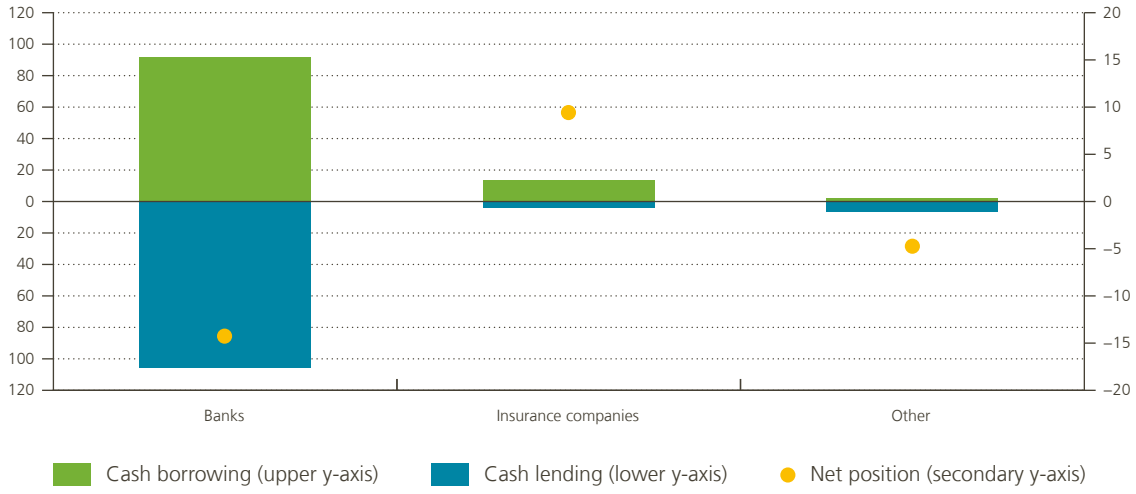
The left-hand bar in Figure 2 illustrates that the Belgian banking sector is a net cash lender: it lends €14 billion more than it borrows. In contrast, the insurance sector is a net cash borrower, as it borrows €9 billion more than it lends (middle bar). The net position of the banking sector is not representative of all individual entities as the differences between them are large. For example, 50% of entities in this sector are net cash borrowers, even though the banking sector as a whole is a net cash lender.

The total cash lending of banks and insurance companies is €110 billion (the blue parts of the first two bars of the figure reflect this number). By comparison, the total value of the assets of Belgian banks and insurance companies is approximately €1 500 billion.

Figure 2

Net position of Belgian reporting counterparties by sector[1]

(principal amount in € billion)



Source: SFTR.

1 The figure is based on all repurchase and buy/sell-back transactions by Belgian reporting counterparties on 12 February 2025. The net position of a sector is its cash borrowing minus its cash lending. The gross position of a sector is its cash borrowing plus its cash lending. The sum of the gross positions of the three sectors equals the principal amount reported in Figure 1. See European Securities and Markets Authority (2024), *Market report on EU securities financing transactions markets 2024*, page 17, for a similar figure for the EEA.

To analyse foreign exposure, the total principal amount of Belgian reporting counterparties (as reported in Figure 1) can be broken down by the country of the other counterparty. Doing so reveals that Belgian entities are mainly exposed to the euro area. More specifically, on 12 February 2025, their transactions with Belgian entities accounted for 11% of the total (€25 billion), their transactions with entities in other Economic and Monetary Union (EMU) countries accounted for 69% (€154 billion), and their transactions with entities in

other EU countries accounted for 3% (€7 billion).[13] Furthermore, transactions with entities from the UK and US accounted for 7% (€15 billion) and 3% (€8 billion), respectively.

This suggests that repurchase and buy/sell-back transactions involve a large volume of cross-border activity and that they are potentially an important transmission channel for shocks initiating outside Belgium.[14] Moreover, these results suggest that the foreign exposure of Belgian entities more closely resembles that of entities in the Netherlands and Spain (which mostly transact with entities in the EEA) than that of entities in Italy (which mostly trade domestically) and those in Germany and Ireland (which also trade substantially with entities outside the EEA).[15]

Figure 3 divides the principal amount per country of the other counterparty (that is, the gross position of Belgian reporting counterparties with respect to a certain country) between transactions in which the Belgian reporting counterparty is the cash borrower and transactions in which it is the cash lender. The difference between cash borrowing and cash lending is the net position of Belgian reporting counterparties with respect to a certain country.

13 The reported principal amount for transactions between Belgian entities should include each transaction twice (see Footnote 12). An approximation of the principal amount without double counting is €12.5 billion (0.5*25).

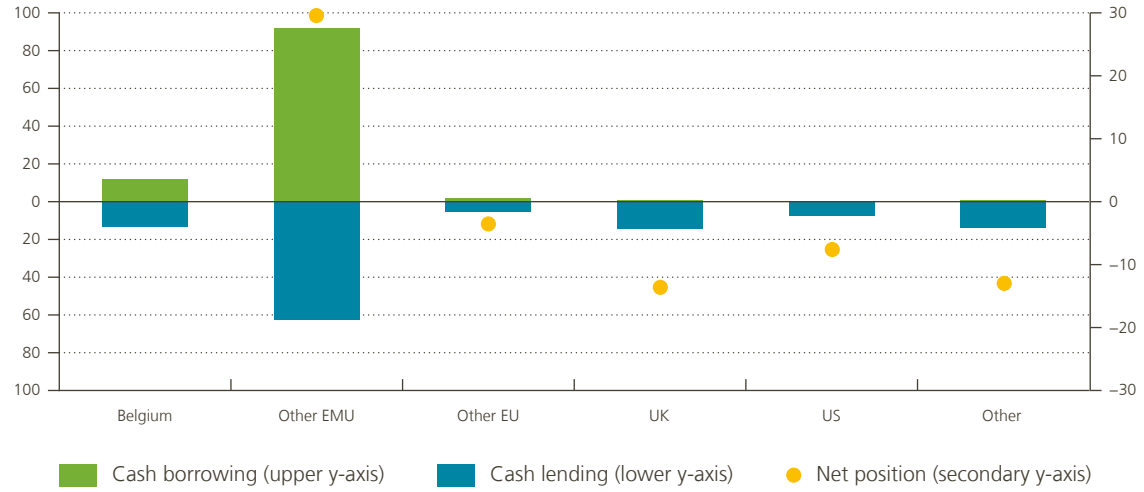
14 See Bassi C., M. Grill, F. Hermes, H. Mirza, C. O'Donnell and M. Wedow (2024), *Enhancing repo market transparency: the EU Securities Financing Transactions Regulation*, European Central Bank, Occasional Paper Series, No 342, page 13, for a similar analysis for the euro area.

15 European Securities and Markets Authority (2024), *Market report on EU securities financing transactions markets 2024* (see page 17).

Figure 3

Net position of Belgian reporting counterparties by country of the other counterparty[1]

(principal amount in € billion)



Source: SFTR.

1 The figure is based on all repurchase and buy/sell-back transactions by Belgian reporting counterparties on 12 February 2025. The net position of Belgian reporting counterparties with respect to a certain country is cash borrowing from that country minus cash lending to that country. The gross position of Belgian reporting counterparties with respect to a certain country is cash borrowing from that country plus cash lending to that country. The sum of the six country-specific gross positions equals the principal amount reported in Figure 1. "Other EMU" refers to the EMU countries excluding Belgium. "Other EU" refers to EU countries excluding Belgium and the other EMU countries. In principle, the net position for Belgium should be zero as each transaction between two Belgian entities should be included twice in the dataset, with the same principal amount (reported once by the cash borrower and once by the cash lender). However, due to misreporting or other data issues, total cash lending exceeds total cash borrowing by approximately €1 billion. See European Securities and Markets Authority (2024), *Market report on EU securities financing transactions markets 2024*, page 35, for a similar figure for the EEA.

As illustrated, Belgian reporting counterparties are a net borrower from other EMU countries, borrowing €30 billion more than they lend. Conversely, Belgian reporting counterparties scarcely borrow from the remaining EU countries, the UK and the US. In this context, Belgian reporting counterparties are a net lender as their cash lending exceeds their cash borrowing by €4 billion, €14 billion and €8 billion, respectively.

Adding together the net positions across all foreign countries (that is, summing the yellow circles in Figure 3) shows that Belgian entities, in total, lend €8 billion more to foreign entities than they borrow from them.

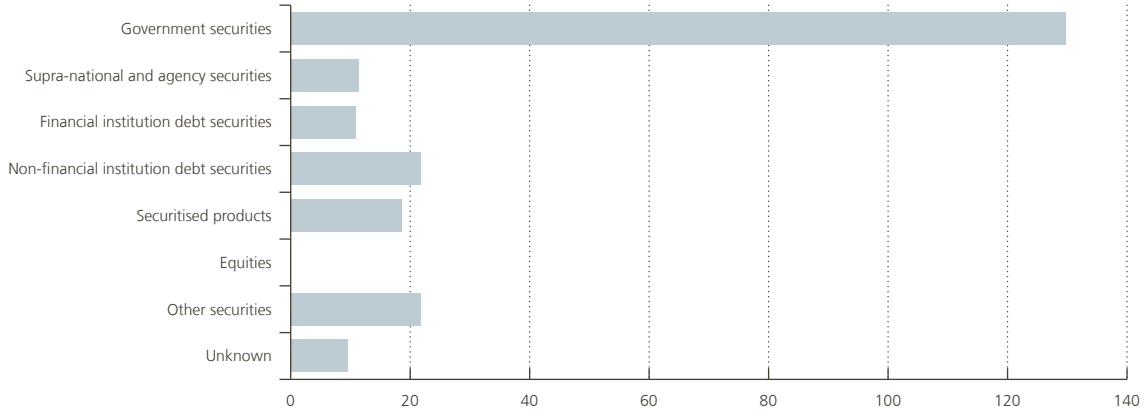
Figure 4 breaks down the total principal amount of all repurchase and buy/sell-back transactions on 12 February 2025 according to the type of collateral used in each transaction. The figure shows that transactions often involve government securities. Transactions based on government securities account for 58% of the total principal amount (€130 billion). Government securities are suitable as collateral as they are relatively safe and liquid. Even during periods of market turbulence, a cash lender should be able to sell a government security to cover losses if a cash borrower is unable to repay.

Other securities that entities exchange relatively often are corporate debt securities issued by non-financial institutions (10% of the total principal amount, or €22 billion) and securitised products (8%, or €19 billion). Entities use debt securities issued by financial institutions, and supra-national and agency securities less often (both accounting for 5%, or €11 billion).

Figure 4

Principal amount by type of collateral[1]

(principal amount in € billion)



Source: SFTR.

1 The figure is based on all repurchase and buy/sell-back transactions by Belgian reporting counterparties on 12 February 2025. Where a transaction involves multiple types of collateral, the principal amount of the transaction is divided equally among the different types used.

Entities often use repurchase and buy/sell-back transactions as a short-term instrument, but they also engage in transactions with longer durations. Figure 5 breaks down the total principal amount, as reported in Figure 1 for 12 February 2025, by the (original) maturity of each transaction, that is, the length of the period between the initial sale of the security and its repurchase.

Transactions with a maturity of one day represented 37% of the total principal amount (equal to €83 billion). Transactions with a maturity of between two and seven days accounted for 6% (€13 billion). Market

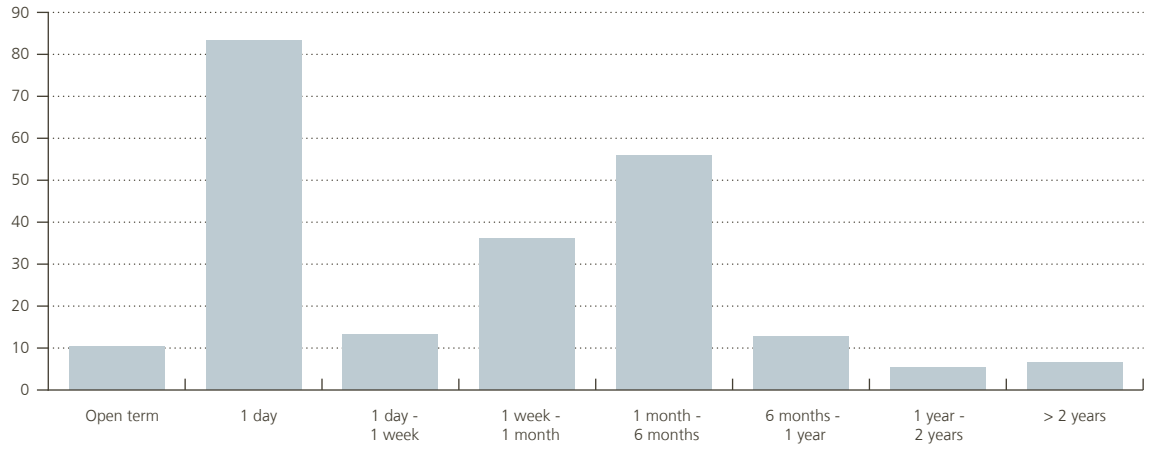
turbulence could, therefore, lead to a rapid decline in the number of transactions undertaken by entities and the overall principal amount involved.

Nevertheless, transactions with longer maturities represented a substantial share of the total principal amount. Transactions with a maturity of between one week and one month accounted for 16% (€36 billion), and those with a maturity of between one month and six months represented 25% (€56 billion). A relatively small share of the total principal amount (5%) did not have a predetermined repurchase date (i.e. open-term transactions).

Figure 5

Principal amount by original maturity [1]

(principal amount in € billion)



Source: SFTR.

1 The figure is based on all repurchase and buy/sell-back transactions by Belgian reporting counterparties on 12 February 2025. The time intervals exclude the lower bound and include the upper bound.

Lastly, Figure 6 breaks down the total principal amount of all repurchase and buy/sell-back transactions on 12 February 2025 based on whether a transaction is cleared by a central counterparty. After two entities agree on a trade, a central counterparty can be placed between them and become a buyer for the selling entity and a seller to the buying entity. The central counterparty guarantees to both entities the execution of the terms of the initial contract. Entities are exposed to the central counterparty (instead of each other) which reduces the risk of the counterparty not fulfilling its obligations. This in turn reduces contagion risk and enhances financial stability. Furthermore, if entities have multiple transactions with a single central counterparty (instead of with several other entities), it may be possible to reduce collateral demands by netting various positions. [16]

As illustrated, 38% (€84 billion) of the total principal amount is cleared by a central counterparty. Note that the total principal amount includes transactions for which clearing is not an obvious choice (such as intragroup transactions). Furthermore, Figure 6 shows that nearly all cleared transactions are handled by a

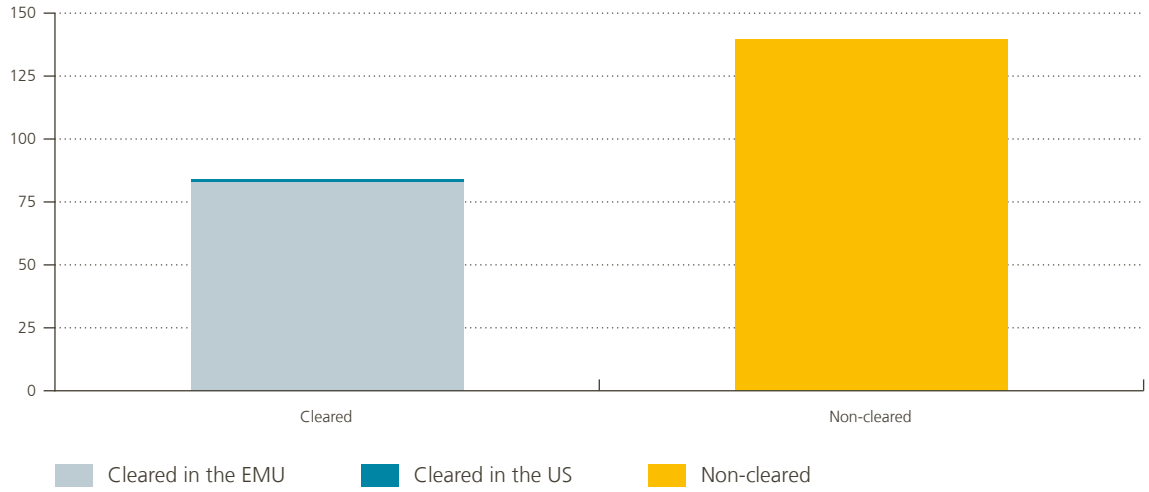
16 Menkveld A.J. and G. Vuillemey (2021), *The economics of central clearing,* Annual Review of Financial Economics, vol 13, 153-178.

central counterparty from the EMU (there are no central counterparties located in Belgium). This is in line with the aim of the EU to avoid excessive reliance on systemic central counterparties from non-EU countries. [17]

Figure 6

Principal amount by clearing status [1]

(principal amount in € billion)



Source: SFTR.

1 The figure is based on all repurchase and buy/sell-back transactions by Belgian reporting counterparties on 12 February 2025.

17 Regulation (EU) 2024/2987 of the European Parliament and of the Council of 27 November 2024 amending Regulations (EU) No 648/2012, (EU) No 575/2013 and (EU) 2017/1131 as regards measures to mitigate excessive exposures to third-country central counterparties and improve the efficiency of Union clearing markets, Official Journal of the European Union, L series, 4.12.2024, 1-71.

Statistical annex

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Table 1

Number of Belgian credit institutions

	2018	2019	2020	2021	2022	2023	2024
Credit institutions incorporated under Belgian law with a majority of Belgian shareholders	14	14	15	16	16	16	14
Credit institutions incorporated under Belgian law with a majority of non-resident shareholders	18	17	16	14	14	13	13
EU Member States	11	9	8	6	6	6	6
Other states	7	8	8	8	8	7	7
Belgian branches of non-resident credit institutions	56	54	51	51	50	51	49
EU Member States	48	48	45	45	45	47	45
Other states	8	6	6	6	5	4	4
Total	88	85	82	81	80	80	76

Source: NBB.

Table 2

Key figures

(consolidated data)

	2017	2018	2019	2020	2021	2022	2023	2024 [1]
A. Large banking groups								
Balance sheet total (in € billion)	839.6	847.0	888.2	959.3	975.7	983.5	980.8	1 049.2
Customer holdings (in € billion)	595.3	598.2	623.3	654.0	672.5	712.7	708.6	754.0
Loans and advances to customers (in € billion)	506.3	531.4	555.7	551.6	578.0	626.4	636.0	654.0
Risk asset ratio (%)	17.8	17.7	17.6	19.2	19.8	19.1	18.2	18.4
Net after tax results (in € billion)	5.2	5.3	5.6	3.5	6.4	6.7	8.2	8.0
Return on average assets (%)	0.6	0.6	0.6	0.4	0.6	0.7	0.8	0.8
Return on average equity (%)	9.4	9.2	9.6	5.9	10.0	10.2	12.5	11.9
Cost-income ratio (%) [2]	56.9	59.9	57.7	60.1	59.4	60.2	58.1	56.5
B. Belgian credit institutions								
Balance sheet total (in € billion)	993.8	993.2	1 047.8	1 132.0	1 150.9	1 158.7	1 156.3	1 210.9
Customer holdings (in € billion)	708.5	717.5	751.8	796.2	821.3	858.7	856.9	895.6
Loans and advances to customers (in € billion)	590.2	618.5	648.9	647.7	679.2	728.7	740.3	775.5
Risk asset ratio (%)	19.0	18.8	18.8	20.4	20.5	20.1	19.6	19.2
Net after tax results (in € billion)	5.9	5.6	6.1	4.3	7.8	7.6	9.3	9.0
Return on average assets (%)	0.6	0.5	0.6	0.4	0.7	0.6	0.8	0.8
Return on average equity (%)	8.9	8.0	8.7	5.9	10.2	10.0	12.1	11.5
Cost-income ratio (%) [2]	58.2	61.2	59.5	61.2	60.4	61.0	58.4	57.6

Source: NBB.

1 The change in data between 2023 and 2024 partly reflects adjustments to the scope of the banks taken into account to compile the consolidated statistics.

2 As from 2020, some expenses are booked separately in the prudential reporting, which has resulted, for some banks, in a break in the series.

Table 3

Belgian banks' funding structure and liquidity ratios

(consolidated end-of-period data; in € billion, unless otherwise stated)

	2017	2018	2019	2020	2021	2022	2023	2024 [1]
Total liabilities and equity	994	993	1 048	1 132	1 151	1 159	1 156	1 211
Deposits	736	745	797	884	917	915	906	940
Central banks	29	26	26	87	89	54	16	9
General government	26	27	27	30	29	32	35	36
Credit institutions	89	85	95	70	69	69	103	123
Other financial corporations	85	79	85	93	93	98	111	79
Non-financial corporations	132	140	149	163	175	184	185	194
Household deposits	374	389	415	442	461	479	456	500
Debt securities issued	106	98	91	86	83	88	97	119
Certificates of deposits	40	30	23	14	12	18	26	26
Covered bonds	23	28	26	28	26	24	28	31
Other debt securities	43	40	42	43	45	46	43	62
Derivatives	49	43	51	53	39	54	42	37
Other liabilities [2]	28	31	31	29	29	21	25	27
Equity	75	76	78	80	83	81	85	89
Liquidity coverage ratio (%)	138	145	141	182	184	158	153	156
Net stable funding ratio (%)					142	133	127	129
Customer loan-to-deposit ratio (%)	95.5	97.5	95.9	89.0	89.6	92.0	93.9	95.9
Asset encumbrance ratio (%) [3]	12.5	13.0	12.1	17.1	17.9	12.7	13.3	12.0

Source: NBB.

1 The change in data between 2023 and 2024 partly reflects adjustments to the scope of the banks taken into account to compile the consolidated statistics.

2 Including, among other tax liabilities, liabilities included in disposal groups classified as held for sale, short positions, and provisions and liabilities for defined benefit obligations.

3 As defined in Commission Implementing Regulation (EU) No 2015/79 (paragraphs 9-11 of Annex III).

Table 4

Main components of Belgian banks' income statement

(consolidated data, in € billion)

	2017	2018	2019	2020 [1]	2021	2022	2023	2024 [2]
Net interest income	14.11	14.41	14.62	14.19	14.35	15.30	18.08	16.89
Non-interest income	8.94	8.25	8.48	7.87	7.63	7.94	8.09	11.26
Net fee and commission income [3]	5.62	5.58	5.57	5.59	6.43	6.55	6.67	6.71
(Un)realised gains or losses on financial instruments [4]	0.86	1.22	0.53	0.01	0.56	0.80	0.21	0.49
Other non-interest income	2.46	1.46	2.39	2.27	0.64	0.59	1.22	4.06
Total operating income (bank product)	23.05	22.66	23.10	22.06	21.98	23.24	26.16	28.16
Total operating expenses (–)	13.42	13.89	13.74	13.49	13.28	14.18	15.28	16.22
Staff expenses (excluding bank agent commissions)	6.74	6.84	6.77	6.51	6.20	6.37	6.80	7.49
General and administrative expenses (including depreciation)	6.68	7.05	6.97	6.99	7.08	7.81	8.48	8.73
Gross operating result (before impairments and provisions)	9.63	8.81	9.36	8.57	8.71	9.06	10.88	11.94
Total impairments and provisions (–)	0.67	0.83	1.26	3.12	0.23	1.11	0.75	1.08
Impairments on financial assets at amortised cost [5]	0.41	0.61	1.05	2.77	0.19	0.84	0.60	1.02
Impairments on other financial assets	–0.07	–0.01	0.01	0.02	0.00	–0.01	0.00	0.00
Other impairments and provisions	0.34	0.23	0.20	0.32	0.03	0.28	0.15	0.06
Other components of net operating income [6]	0.29	0.26	0.25	0.50	1.78	1.99	2.35	1.01
Net operating income	9.25	8.20	8.35	5.96	10.25	9.94	12.49	11.87
Tax and extraordinary profit or loss	–2.64	–2.00	–1.78	–1.26	–2.02	–1.86	–2.70	–2.53
Total profit or loss on discontinued operations	–	–	–	–	–	0.00	0.00	–0.01
Net profit or loss including minority interests	6.61	6.20	6.57	4.70	8.23	8.08	9.78	9.33
For reference: Net profit or loss (bottom line)	*5.95*	*5.60*	*6.12*	*4.26*	*7.76*	*7.62*	*9.34*	*8.96*

Source: NBB.

1 As from 2020, some expenses must be booked separately in the prudential reporting, which has resulted, for some banks, in the transfer of these expenses to another line on the income statement. This led to a break in the series for non-interest income, other non-interest income, total operating income, general and administrative expenses and total operating expenses.

2 The change in data between 2023 and 2024 reflects, in particular, adjustments to the scope of the banks taken into account to compile the consolidated statistics.

3 Including bank agent commissions.

4 This item includes net realised gains (losses) on financial assets and liabilities not measured at fair value through profit or loss, net gains (losses) on financial assets and liabilities held for trading and designated at fair value through profit or loss, and net gains (losses) from hedge accounting.

5 Data for years before 2018 relate to impairments on loans and receivables (under IAS 39).

6 Other components of net operating income include the share in profit or loss of associates and joint ventures accounted through the equity method, profit or loss from non-current assets, disposal groups classified as held for sale not qualifying as discontinued operations, and negative goodwill recognised immediately in profit or loss.

Table 5

Number of Belgian insurance companies

	2017	2018	2019	2020	2021	2022	2023	2024
A. By the location of their registered office								
Belgium [1]	68	69	68	66	64	64	61	62
European Economic Area [2]	46	46	45	37	34	35	37	39
Rest of the world [3]	0	0	0	0	0	0	0	0
Total	**114**	**115**	**113**	**103**	**98**	**99**	**98**	**101**
Freedom to provide services [4]	917	1 095	1 118	1 123	961	768	780	779
B. By specialisation [5]								
Life insurance	20	16	16	14	12	11	10	11
Non-life insurance	67	72	71	64	62	64	66	68
Life and non-life insurance	25	24	24	23	21	22	21	21
Reinsurance	2	3	2	2	3	2	1	1
Total	**114**	**115**	**113**	**103**	**98**	**99**	**98**	**101**

Source: NBB.

1 Companies with their registered office in Belgium include Belgian subsidiaries of non-resident companies.

2 Belgian branches of companies with their registered office in another EEA country.

3 Belgian branches of companies with their registered office outside the EEA.

4 Provision of insurance services without an establishment in Belgium.

5 Including Belgian branches of non-resident insurance companies.

Table 6

Main components of insurance companies' assets

(data based on statutory annual accounts, in € billion)

	2016	2017	2018 [1]	2019 [1]	2020	2021	2022	2023 [2]
Investments	261.4	263.9	272.8	290.6	295.8	304.1	297.7	301.7
All activities with the exception of class 23	229.6	228.2	236.8	246.1	249.8	252.1	251.7	250.2
Shares	13.5	14.1	14.3	15.5	16.5	19.4	20.6	21.0
Debt securities	171.4	169.2	168.1	174.7	174.2	172.2	168.9	166.6
Land and buildings	2.9	2.8	2.8	2.7	2.7	2.4	2.1	2.1
Mortgage loans	11.7	12.7	13.6	16.7	17.6	17.5	17.3	16.7
Investments in affiliated undertakings	17.2	17.6	25.7	22.4	23.0	23.7	24.7	24.9
Other	13.0	11.8	12.3	14.2	15.9	16.9	18.1	18.9
Class 23	31.8	35.8	36.0	44.6	46.1	52.0	46.0	51.5
Shares	19.9	23.6	23.6	32.0	34.7	42.6	39.3	44.7
Debt securities	10.9	11.1	11.5	11.5	10.4	8.6	6.5	6.6
Other	1.0	1.0	0.9	1.0	0.9	0.7	0.3	0.2
Reinsured portion of technical provisions	7.2	6.3	6.1	9.7	17.1	22.4	27.9	28.8
Claims and other assets	16.3	14.1	14.6	18.9	19.2	19.8	21.4	23.2
Total	284.9	284.4	293.5	319.3	332.1	346.3	347.0	353.7

Source: NBB.

1 The large changes in 2018 and 2019 are mainly attributable to the inclusion of new companies in the scope of reporting.

2 At the cut-off date of this report, 2024 BGAAP data were not yet available.

Table 7

Main components of insurance companies' liabilities

(data based on statutory annual accounts, in € billion)

	2016	2017	2018 [1]	2019 [1]	2020	2021	2022	2023 [2]
Own funds	13.5	13.0	19.5	22.4	22.6	22.6	23.5	23.1
Technical provisions	243.4	245.1	243.7	262.3	269.7	277.6	276.1	283.8
Life insurance (with the exception of class 23)	173.5	171.9	170.6	172.2	170.9	169.5	168.2	167.5
Class 23	31.8	35.8	36.0	44.6	46.1	52.0	46.0	51.5
Non-life insurance	29.4	28.8	28.5	34.0	40.9	43.5	48.0	49.3
Other	8.8	8.6	8.6	11.4	11.8	12.7	13.9	15.4
Reinsurance companies' deposits	4.2	3.3	3.5	3.9	4.0	8.2	9.3	9.2
Creditors' claims	20.3	20.1	22.7	26.3	30.9	31.2	32.3	32.2
Other liabilities	3.5	2.9	4.2	4.4	5.0	6.5	5.8	5.5
Total	284.9	284.4	293.6	319.3	332.1	346.3	347.0	353.7

Source: NBB.

1 The large changes in 2018 and 2019 are mainly attributable to the inclusion of new companies in the scope of reporting.

2 At the cut-off date of this report, 2024 BGAAP data were not yet available.

Table 8

Components of the income statement of insurance companies

(data based on statutory annual accounts; in € billion, unless otherwise stated)

		2016	2017	2018 [1]	2019 [1]	2020	2021	2022	2023 [2]
A. Life insurance technical account									
Net premiums written		14.4	14.4	15.3	16.3	15.3	16.2	14.3	16.5
Claims paid	(–)	18.7	17.6	16.7	17.1	18.0	17.5	17.1	17.6
Change in the provisions for claims	(–)	1.4	1.3	0.6	–6.4	–0.6	–5.4	9.3	–5.0
■ All life insurance classes excluding class 23		0.6	0.2	3.0	–10.7	–1.2	–9.8	16.9	–9.1
■ Adjustments to class 23		0.7	1.1	–2.4	4.3	0.6	4.4	–7.6	4.1
Premiums after insurance costs		**–5.7**	**–4.4**	**–0.8**	**–7.3**	**–3.3**	**–6.7**	**6.4**	**–6.1**
Net operating expense	(–)	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9
Result before investment income		**–7.3**	**–6.1**	**–2.5**	**–9.0**	**–5.1**	**–8.5**	**4.6**	**–8.0**
Net investment income		8.3	7.6	3.7	10.3	6.1	9.9	–3.0	9.4
■ All life insurance classes excluding class 23		7.6	6.4	6.1	6.0	5.5	5.5	4.6	5.3
■ Adjustments to class 23		0.7	1.1	–2.4	4.3	0.6	4.4	–7.6	4.1
Life insurance technical result		**1.1**	**1.4**	**1.3**	**1.3**	**1.0**	**1.5**	**1.5**	**1.5**
B. Non-life insurance technical account									
Net premiums earned		12.7	12.7	12.8	15.1	15.6	16.6	18.0	18.6
Claims paid	(–)	8.2	7.8	8.1	9.7	9.4	10.9	11.9	11.7
Change in the provisions for claims	(–)	0.5	0.6	–0.3	–0.6	–0.5	–0.3	–0.7	–0.8
Premiums after insurance costs		**4.0**	**4.3**	**4.4**	**4.9**	**5.8**	**5.4**	**5.4**	**6.1**
Net operating expense	(–)	3.8	3.9	3.9	4.7	5.0	5.1	5.3	5.8
Result before investment income		**0.2**	**0.4**	**0.6**	**0.1**	**0.8**	**0.3**	**0.1**	**0.3**
Net investment income		1.2	1.2	1.1	1.2	0.8	1.1	1.1	1.1
Non-life insurance technical result		**1.4**	**1.6**	**1.7**	**1.3**	**1.6**	**1.3**	**1.3**	**1.4**
C. Non-technical account									
Total technical result - life and non-life insurance		2.5	3.0	3.0	2.5	2.6	2.8	2.8	2.9
Residual net investment income		–0.2	0.4	1.0	0.6	1.0	0.8	1.5	0.6
Other exceptional results and taxes		–1.0	–1.1	–0.8	–0.9	–1.0	–1.0	–0.5	–0.9
Net result		**1.3**	**2.3**	**3.2**	**2.3**	**2.6**	**2.6**	**3.8**	**2.5**
For reference: Return on equity (%)		*9.8*	*17.6*	*16.4*	*10.3*	*11.4*	*11.3*	*16.0*	*10.9*

Source: NBB.

1 The large changes in 2018 and 2019 are mainly attributable to the inclusion of new companies in the scope of reporting.

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