

A. FSAP: assessment of the Belgian financial sector and IMF recommendations

In 2017, the International Monetary Fund (IMF) conducted an analysis of the Belgian financial sector and Belgian financial regulations. This Financial Sector Assessment Program (FSAP) is a five-yearly exercise for countries with a systemically important financial sector, such as Belgium. The last time Belgium was assessed was in 2012-2013.

This analysis forms part of the IMF's supervisory function, along with its missions under Article IV, involving an extensive analysis of the socio-economic policy of the Member State in question. An FSAP is a financial sector analysis by the IMF that considers three main topics.

First, it assesses the financial sector's resilience by trying to identify systemic risks and sources of potential financial contagion between the various components of the financial sector. An essential tool enabling the IMF to examine the financial sector's resilience is the stress test, in which the IMF assesses the influence of extreme macroeconomic shocks on the portfolios of banks and insurance companies, for example.

Second, the IMF also checks the quality of the supervisory framework. On the one hand, it examines the microprudential supervision framework where the Basel Core Principles for Effective Banking Supervision and the Insurance Core Principles set the standard. In 2017, in view of the size of the financial conglomerates in the Belgian financial sector, the IMF also examined the supervision of these *bancassurance* groups on the basis of the Principles for the Supervision of Financial Conglomerates. Another key element of the mission concerned macroprudential supervision which, since the financial crisis, has formed an integral part of prudential supervision. For Belgium, the 2017 FSAP was the first opportunity to

obtain an IMF analysis of the National Bank's still quite new macroprudential policy, including the Bank's initiatives in the residential real estate sector. During this mission, the IMF also examined the way in which the Bank conducts the oversight of SWIFT⁽¹⁾.

Third, an FSAP also focuses on the crisis management arsenal, i.e. the set of tools available to a Member State to prevent and combat financial crises. To that end, the IMF conducts interviews not only with the supervisory authority but also with other crisis management players, such as the resolution authority (in Belgium, the Resolution College set up at the Bank) and the deposit guarantee system (in Belgium, the Guarantee Fund for Financial Services).

The FSAP generally comprises several missions. For instance, the IMF's visit to Belgium in 2017 included a brief preparatory mission and two detailed missions lasting two weeks each. During these missions, various IMF experts held interviews with the Bank, the Financial Services and Markets Authority (FSMA), the Federal Public Service (FPS) Finance, the Finance Office, the aforesaid crisis management players and a whole range of market participants.

The IMF also held meetings with the European Central Bank (ECB) and the Single Resolution Board (SRB), the authority responsible for the resolution of the leading banks in the euro area. With the entry into force of the first and second pillars of the Banking Union, the supervision and resolution framework became largely European. The ECB

(1) SWIFT (Society for Worldwide Interbank Financial Telecommunication) is a limited liability cooperative company established in Belgium and specialising in the exchange of financial messages between financial institutions and financial market infrastructures.

and the SRB are now responsible for the supervision and resolution of credit institutions deemed significant (significant institutions: SIs), under the single supervisory and resolution mechanisms. It should be noted that an FSAP of the euro area as a whole is taking place in parallel with the Belgian FSAP. That exercise is very important in view of the Banking Union and the primarily European character of financial regulations in the European Union.

The Belgian FSAP mission was prepared with the aid of questionnaires, completed in advance by the Bank, the ECB, the FSMA and FPS Finance. This written approach gives the IMF an initial view of any vulnerability in the financial sector and the quality of the regulatory and prudential framework before the on-site mission.

On completion of an FSAP mission, the IMF publishes its recommendations, in which it states the entities to which those recommendations are addressed (e.g. the Bank, the federal government, the ECB) and the timescale for implementing them. These recommendations are not binding but they carry considerable weight. Thus, most of the recommendations resulting from the 2012-2013 FSAP on banking supervision were transposed into the Banking Law⁽¹⁾ and the Law of 25 April 2014 establishing the

mechanisms of a macroprudential policy⁽²⁾. This concerns among other things the granting of the macroprudential authority mandate and the resolution authority mandate to the Bank, the introduction of preferential treatment for retail deposits in the event of bankruptcy, and the requirement whereby credit institutions must submit their strategic decisions to the supervisory authority for prior approval. Since the last FSAP, the supervision framework and the prudential regulations have therefore undergone radical change. The 2017 FSAP will reveal the areas in which Belgium is on the right track and those where the situation could be improved.

These recommendations are expected to be approved by the IMF Executive Board in March 2018. They will be presented in a Financial System Stability Assessment (FSSA), accompanied by technical notes focusing on specific subjects. These recommendations could also have some influence on the agenda of the supervisory and regulatory authorities in the years ahead. The next FSAP is scheduled for 2022.

(1) Law of 25 April 2014 on the legal status and supervision of credit institutions and stockbroking firms.

(2) Law of 25 April 2014 establishing the mechanisms of a macroprudential policy and spelling out the specific tasks devolved to the National Bank of Belgium.