

Belgium

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IN A NUTSHELL

- GDP growth of 1.7% in 2017, mainly driven by domestic demand.
- Inflation averaged 2.2% in 2017.
- House price increase of 2.8% in the first three quarters of 2017.
- All times highest credit production in 2017 (EUR 31 billion).
- 9 out of 10 new loans have a fixed interest rate or an initial fixed interest rate for more than 10 years.
- A new macroprudential measure has been issued by the National Bank of Belgium on portfolio level, increasing for IRB banks by 5 pps the risk weight calculated on the basis of the internal models and applying a multiplier, on the basis of the average risk of each bank's portfolio (1.33).

MACROECONOMIC OVERVIEW

According to the annual report of the National Bank of Belgium, on which the following comments are based, Belgium saw its real GDP pick up in 2017, from an average of 1.4% in the three previous years to 1.7%. Economic activity advanced strongly in the first six months, but slowed down somewhat in the second half. It was mainly supported by domestic demand.

Private consumption remained a significant contributor to GDP growth, if to a lesser degree in 2017. The slowdown in durable goods consumption from the third quarter of 2016 ended in negative annualised growth in the second and third quarters of 2017.

Investment in housing shows a similar pattern to durable goods consumption : after growing robustly for three years, housing investment even turned negative in 2017, despite historically low mortgage rates. However, both areas of spending (durable goods consumption and investment in housing) are still at high levels.

Growth of economic activity was mainly driven by market services. Its value added for the first nine months rose by 2.4% compared to the same period in 2016, a rate of growth that had not been seen since 2011. By contrast, value added trends in the manufacturing industry, a key contributor to GDP growth in 2014 and 2015, have slowed since. Value added growth turned negative in the construction industry in 2017.

Belgium further bolstered its employment numbers in 2017. Domestic employment added 1.4%, i.e. the number of people in work grew by 66,000. The higher employment involved a fall in the number of unemployed job-seekers for a third year running. The harmonised unemployment rate worked out at 7.3%, still higher than it was in 2008. The number of unemployed job-seekers fell in Belgium's three Regions, across all unemployment durations, age brackets and levels of education.

In 2017, headline inflation averaged 2.2%, compared with 1.8% in 2016. Factors increasing inflation were not specific to Belgium and mainly resulted from external

developments like changes in energy prices. Inflation related to electricity prices, services and non-energy industrial goods slowed down.

HOUSING AND MORTGAGE MARKET

HOUSING MARKET

Nominal house prices have more than doubled since 2000 and house price falls during the great recession were very minor both in size and duration when compared with other Euro area countries. Property price increases consistently slowed between 2011 and 2014 but picked up sharply in 2015, notwithstanding property tax reforms, in the Flemish Region in particular. Growth in property prices again somewhat accelerated between 2016 and 2017, with a nominal y-o-y increase of 2.8% in the first three quarters of 2017. Deflated by the final consumption expenditure deflator, the figure amounts to a real price increase of 1.1%.

According to the National Bank of Belgium, house prices in 2017 are believed to have been approximately 6.5% higher than their estimated equilibrium value. This was less than in 2015, when the deviation had risen sharply to 11.1%. The reduction is chiefly attributable to the slower rate of increase in property prices.

Activity in the secondary real estate market, which was clearly influenced by the reforms implemented by the Regions since 2015 with regard to the tax deductibility of mortgage loans, moved closer to its customary levels in 2016. It picked up again in 2017, albeit at a moderate rate, as the Royal Federation of Belgian Notaries recorded a rise of barely 1% in the number of transactions in the first three quarters of the year compared with the corresponding period in 2016.

According to the "notary barometer", nationwide average house prices rose by 2.5% in Belgium (EUR 240,451), by 2.6% in Flanders (EUR 266,928) and by 2.7% (EUR 183,445) in Wallonia as compared to 2016. However, the opposite is true for Brussels, since house prices went down by -2.5% (EUR 429,698). As far as apartments are concerned, nationwide average apartment prices rose by 2.5% in Belgium (EUR 215,440), by 2.3% in Flanders (EUR 220,268) and by 3.4% (EUR 172,367) in Wallonia as compared to 2016. Contrary to the house prices, the apartment prices in the Brussels region also went up by 3.2% (EUR 234,736).

MORTGAGE MARKET

The outstanding amount of residential mortgage lending reached about EUR 233 bn at the end of 2017 (against EUR 220 bn at the end of 2016).¹

In 2017, the number of new mortgage credit contracts was about 243,000 for a total amount of more than EUR 31 bn (refinancing transactions not included). The number of mortgage credits went down by almost 7%, whereas their amount went up by 3% to reach again an all-time high.

The number of loans for the purpose of purchasing remained status quo. The number of construction loans went up by 1.8%. The number of loans granted for renovation (-21.3%), however, decreased substantially.

¹ Extrapolation for the total Belgian market, based on the figures of the UPC members market (EUR 206 bn).

The considerable growth of credit production in 2014 can be explained to a large extent by the exceptional figure for the fourth quarter as a consequence of the change in housing taxation in Flanders as of 2015. By contrast, the 2015 increase was spread over the last three quarters of the year. The strong growth in loan products in 2016 and 2017 is still closely connected to the low interest rates that further supported loan demand and lending.

The number of mortgage credit arrears of Belgian private persons remains low and is still declining. For years, it has been about 1.1% of the number of credits outstanding and now for the first time since long it only reaches 1%.

The average amount of mortgage loans for "purchases" stood at approximately EUR 156,000 at the end of 2017, about EUR 11,000 (or about 7%) more than at the end of 2015 (EUR 145,700). The average amount of mortgage loans for renovation purposes increased to ca EUR 50,000.

In 2017, the market share of new fixed interest rate loans and loans with initial fixed rate for more than ten years represented about 88.6% of loans newly provided. The share taken up by new loans granted with an initial fixed rate for 1 year, increased to approximately 1.4% of the credits provided (coming from 0.9%). The number of credits with an initial period of variable interest rate between 3 and 5 years also showed an increase (ca 10% of the credits provided).

MARKET PROSPECTS

In the first quarter of 2018, the number of mortgage credit contracts amounted to almost 60,000 for a total amount of nearly EUR 7.8 bn, external refinancing transactions not included. This means a decrease of the number of credits granted by more or less 4% all through the first quarter, as compared to last year's figure. However, the corresponding amount was 1% higher than in the first quarter of 2017.

As for credit purposes, the situation as compared to that of 2017 shows an increase in the number of credit contracts for house purchasing (+3%), but a decrease in the number of credit contracts for construction (-10%), for buying and renovating a house (-6%) and for house renovation (-20%).

However, the number of loan applications, not including the applications for external refinancing, increased by 4% over the course of the first quarter, compared to the same period in the previous year, as well as the corresponding amount (+6%).

NON-MARKET LED INITIATIVES

From 1 June 2018 on, the registration duty in Flanders amounts to 7% of the purchase price, instead of 10%. It only amounts to 6% in case the purchase price does not exceed EUR 200,000 (EUR 220,000 in the main cities and some cities around Brussels).

As from the beginning of 2017, buyers can benefit in the Brussels region from an "abattement" (exemption on which the buyer is not required to pay registration duties) on the first slice of EUR 175,000, compared to the first slice of EUR 75,000 before. However, this exemption is only applicable to properties of under EUR 500,000 and provided that it concerns the buyer's own and only

home as his main residence. At the same time the former tax reduction has been abolished in favour of this larger exemption on registration duties.

On 30 April 2018, the National Bank of Belgium has put in place a new macro-prudential measure to limit the risks it identifies in the Belgian residential real estate market. According to the National Bank of Belgium, the indicators first of all point to a further increase in the debt ratio of Belgian households, to a level that was higher than the Euro area average at the end of the first half of 2017. This increasing debt ratio is supported by a persistent and strong increase in the growth of mortgages granted by Belgian banks. In 2016 and in the first half of 2017, the share of risky loans in the banks' portfolios no longer improved. These riskier loans are characterised by a high loan interest rate, a high ratio between monthly payments and monthly income, a long maturity or a combination of these vulnerabilities. These trends further build up the already significant pockets of risk and lead to a further increase in systemic risks.

The new measure applies to the loans granted to retail clients that are covered by residential real estate situated in Belgium and only applies to banks that use an internal risk based approach to calculate their capital requirements.

The new measure consists of two components: the first component is a measure that already came into effect in 2013 and expired in May 2017 (but was continued voluntarily by banks), and is applied equally to all loans. This linear component consists of an increase of 5 pps of the risk weight calculated on the basis of internal models. The second component, which is more focused, applies on the basis of the average risk of each bank's portfolio, using a coefficient (multiplier). In that case, the (micro-prudential) initial risk weight is multiplied by 1.33.

	BELGIUM 2016	BELGIUM 2017	EU 28 2017
Real GDP growth (%) (1)	1.4	1.7	2.4
Unemployment Rate (LSF), annual average (%) (1)	7.8	7.1	7.6
HICP inflation (%) (1)	1.8	2.2	1.7
Outstanding Residential Loans (mn EUR) (2)	220,114	233,224	7,013,738
Outstanding Residential Loans per capita over 18 (EUR) (2)	24,422	25,779	16,872
Outstanding Residential Loans to disposable income ratio (%) (2)	91.3	94.2	73.8*
Gross residential lending, annual growth (%) (2)	1.1	-8.2	3.5
Typical mortgage rate, annual average (%) (2)	2.1	2.1	2.4**
Owner occupation rate (%) (1)	71.3	72.7	66.4*
Nominal house price growth (%) (2)	4.0	3.0	6.0

* The aggregate EU figure is from 2016.

** Please note that this value is the simple average of the typical interest rate of the EU 28 countries.

Sources:

(1) Eurostat

(2) European Mortgage Federation - Hypostat 2018, Statistical Tables.

BELGIUM FACT TABLE

<p>Entities which can issue mortgage loans:</p>	<p>Banks, insurance companies and other types of lenders that have been authorised (licence) or registered by the supervising authority FSMA to grant mortgage credit according to the Belgian law on mortgage credit.</p>	<p>The average maturity of a mortgage loan at origination is estimated at 22.5 years. Since 2007, lenders have continued to tighten customers' access to mortgage loans with long maturities. The percentage of loans granted with a maturity of more than 25 years has plummeted from 23% in 2007 production volumes to only 2% in 2015 and 2016. At the same time, the share of loans with a maturity between 20 and 25 years in mortgage loan vintages remained relatively stable until 2016 while the share of loans with a maturity between 15 and 20 years clearly increased. These trends seem to have influenced the average maturity level of total outstanding stock as from 2013; by the end of 2015, 11% was associated with initial maturities above 25 years, down from 20% in 2012. In 2017, the situation seemed to be changing again: whereas in 2016 only 28.0 % of mortgage loans was granted with a maturity of over 20 years, this number rose to 37.6 % in 2017.</p>
<p>The market share of the mortgage issuances:</p>	<p>Based on the membership of our Association (UPC), representing ca 90% of the total Belgian market, the following market shares can be approximatively given in amount:</p> <ul style="list-style-type: none"> • Banks: ca 95.7% • Insurance companies: 1.7% • Other types of lenders: 2.6% <p>N.B.: These figures do not take into account the social credit lenders. However, their market share is rather low.</p>	<p>Typical maturity of a mortgage:</p>
<p>Proportion of outstanding mortgage loans of the mortgage issuances:</p>	<p>The list of mortgage credit lenders and the end-of-year outstanding amount of mortgage loans was published until 2013 on an annual basis by the supervising authority FSMA. This publication has been stopped since then. On the basis of our membership, the following market shares can be approximatively given in amount:</p> <ul style="list-style-type: none"> • Banks: ca 96.1% • Insurance companies: 1.4% • Other types of lenders: 2.5% 	<p>Most common way to fund mortgage lending:</p>
<p>Typical LTV ratio on residential mortgage loans:</p>	<p>According to the Financial Stability Review issued by the National Bank of Belgium, the average loan-to-value ratio was about 80% in the period 1996-2006. It dropped to about 65% (and even below that) in the years 2007-2014. However, this average loan-to-value ratio has to be interpreted with caution, as the data are the result of a very wide distribution of loan-to-value ratios at origination. For the 2017 vintage, 30% of the volume of new mortgage loans was still made up of loans with an LTV ratio above 90%.</p>	<p>Most funding still comes from deposits. A few major lenders have started issuing covered bonds.</p> <p>From 01.06.2018 on, the registration duty in Flanders is 7% of the purchase price. It only amounts to 6% in case the purchase price does not exceed EUR 200,000 (EUR 220,000 in the main cities and some cities around Brussels). Moreover, the principle of "portability of registration duties" applies in Flanders: upon the purchase of a new housing property intended to replace the previous principal residence, registration duties up to EUR 12,500 may be "transferred", meaning these duties will not have to be paid a second time.</p> <p>In Wallonia, the registration duty amounts to 12.5% of the purchase price (6% in case of small properties). However, in case of a main residence, the first EUR 20,000 of the purchase price is exempt from registration tax.</p> <p>In the Brussels region, buyers can benefit from an "abattement" (= exemption on which the buyer is not required to pay registration duties) on the first slice of EUR 175,000, compared to the first slice of EUR 75,000 before. However, this exemption is only applicable to properties of under EUR 500,000 and provided that it concerns the buyer's own and only home as his main residence.</p>
<p>Any distinction made between residential and non-residential loans:</p>	<p>Residential purposes means that it is for private housing (consumers).</p> <p>The Belgian mortgage credit law applies to mortgage credit as funding for acquiring or safeguarding immovable real rights granted to a natural person chiefly acting for a purpose deemed to lie mainly outside the scope of his commercial, professional or crafting activities and having his normal place of residence in Belgium, at the moment when the agreement is being signed:</p> <ol style="list-style-type: none"> a) either by a lender having his principal place of business or chief residence in Belgium b) or by a lender having his principal place of business or chief residence outside Belgium, provided a special offer or publicity had been made in Belgium before the agreement was signed and the actions needed for signing the agreement have been undertaken by the borrower in Belgium. 	<p>Level of costs associated with a house purchase:</p> <p>There is also a registration duty on the amount of the mortgage loan covered by a mortgage registration.</p>
<p>Most common mortgage product(s):</p>	<p>The most common mortgage credit product is a loan with a term of 20 - 25 years, a fixed interest rate throughout the full loan term and a fixed amount of monthly instalments.</p>	<p>The level (if any) of government subsidies for house purchases:</p> <p>Across the regions (Flanders, Wallonia and Brussels) the schemes differ, with each region pursuing its own policy:</p> <p>In Flanders there is a "housing bonus" system, which allows the owner of a single house bought in 2017 to obtain deductions (40% tax relief) for construction/ purchase/ renovation up to the total amount of EUR 1,520. The deduction consists of interest, capital repayments and life insurance premiums which have been paid in connection with the mortgage. During the first 10 years of the mortgage, the level of deduction will increase up to EUR 2,280 (= + EUR 760). People with 3 children or more are entitled to an extra EUR 80.</p> <p>If one buys a second house, the level of deduction goes down to EUR 1,520 (tax relief of 40%).</p> <p>In Wallonia, a new system, the so-called "Chèque habitat", applies from 2016 on. More information is available on http://lampspw.wallonie.be/dgo4/site_logement/index.php/aides/aide?aide=chequehabitat</p> <p>The Brussels region no longer provides a tax reduction. Early 2017, it was decided to replace the reduction and to grant a higher tax relief on registration duties (first slice of EUR 175,000) to buyers purchasing their own and only home as their main residence.</p>