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Introduction

The primary task of central banks is to conduct monetary policy, typically with the aim of maintaining price stability. This article, however, focuses on one of their lesser-known tasks, namely that of acting as “lender of last resort” and providing central bank money to financial institutions experiencing liquidity problems. In this capacity, the central bank can provide what is known as emergency liquidity assistance (hereinafter “ELA”). The implications of ELA for the central bank’s balance sheet are *a priori* similar to those of monetary policy instruments, due to the fact that whenever a central bank expands the assets side of its balance sheet – by granting a collateralised loan or purchasing an asset – it creates new liabilities to finance the measure, i.e. reserves held by commercial banks with the central bank. In other words, the conduct of both ELA and traditional monetary policy results in a larger central bank balance sheet and more central bank money.²

Acting as the lender of last resort differs from the conduct of monetary policy in several ways. Most importantly, the objectives are not the same. Monetary policy aims to steer broader financing conditions in the economy with a view to achieving price stability. ELA, in contrast, is not intended to influence the monetary policy stance or to ease financing conditions in the economy. Rather it aims to deal with temporary liquidity or funding problems experienced by an individual financial institution, particularly when these may be systemic in nature and could jeopardise the stability of the financial system. The central bank’s role as lender of last resort is, therefore, justified by financial stability concerns and falls within its traditional remit and responsibilities. The fact that financial stability is a precondition for price stability³ reflects the interdependencies between these responsibilities. Another key difference between ELA and conventional monetary policy operations is the scope of the counterparties involved. ELA is only provided at the request of a distressed financial institution and is contingent on approval by the central bank. On the other hand, the central bank is indifferent as to the identity of the counterparty when conducting monetary policy operations,⁴ be it when providing liquidity to the banking sector through lending operations or when buying bonds to increase liquidity or ease financing conditions.

1 The authors would like to thank M. Bertrand, C. Cabaret, A. Copperman, E. Gerard, H. Henn, S. Keppens, G. Nguyen, G. Stuer and E. Vincent for their valuable input.

2 For more information on the implementation of monetary policy and its implications for the central bank’s balance sheet, see Boeckx, J., De Backer, B. and Vincent, E. (2025) “Everything you always wanted to know about money and monetary policy (but were afraid to ask)”, NBB *Economic Review*, July, 1-33.

3 As the ECB explicitly recognised upon conclusion of its [review of the monetary policy strategy](#) in 2021.

4 Counterparties to monetary policy operations must belong to a pre-defined group of eligible counterparties. For more information on the financial institutions with which the NBB carries out monetary policy operations, see <https://www.nbb.be/en/monetary-policy-and-reserve-management/monetary-policy-instruments/counterparty-framework?language=en>.

While some monetary policy instruments are used to counter market tensions and prevent financial stability problems from distorting the transmission of monetary policy, the system-wide focus of monetary policy distinguishes it from ELA, which has an institution-specific focus, whilst accounting for potential systemic implications.

The central bank's role as lender of last resort is as old as central banking. Central banks have always played an important role in maintaining financial stability, as they can provide the ultimate safe, liquid asset at will, namely central bank money or central bank reserves. In this way, the central bank can help prevent commercial banks facing liquidity problems (i.e. those unable to meet their payment obligations) from setting off a cascade of defaults in the financial system or the broader economy (with firms and households relying on the financial sector to make payments and to borrow or save money). In this regard, it should be noted that liquidity risk is inherent in the banking system given its core function of maturity transformation or the conversion of short-term deposits into long-term loans. As far back as the eighteenth and nineteenth centuries, English scholars discussed how the Bank of England should respond to a financial panic. In 1873, Walter Bagehot published principles on how central banks should act during financial crises, which are still relevant today. In his book *Lombard Street: A Description of the Money Market*,⁵ he argued that, during a financial panic, central banks should lend early and freely (meaning, without limit) to solvent firms, against good collateral and at "high rates".

This article explains how ELA is organised at the National Bank of Belgium (hereinafter the "NBB") with specific attention paid to the fact that the NBB is a member of the Eurosystem. It is structured as follows. Section 1 discusses legal aspects and the specific Eurosystem context in which ELA for Belgian financial institutions is embedded. Section 2 focuses on the eligibility and collateral criteria applied by the NBB. Section 3 explains how the concept of ELA has evolved over the years in a changing institutional context. Section 4 delves into the disclosure of ELA transactions and the need to balance transparency with respect for confidentiality in order to protect financial stability. Section 5 discusses the NBB's experience in providing ELA during and in the aftermath of the Global Financial Crisis (hereinafter the "GFC"). Section 6 highlights selected efforts to reinforce the NBB's ELA framework. Section 7 presents the conclusion.

1. ELA: a national competence within the context of the Eurosystem

The Eurosystem – which consists of the ECB and the national central banks (hereinafter the "NCBs") of those countries that have adopted the euro – is responsible for conducting monetary policy in the euro area. A fundamental principle of the Eurosystem is the decentralised implementation of operations, in particular those relating to monetary policy.⁶ This means that while the ECB adopts decisions regarding monetary policy, it counts on the NCBs to carry out the related operations and transactions, for instance through lending to counterparties.

ELA is, in contrast, a national competence. The NBB's financial stability mandate is enshrined in Article 12 §1 of the Act of 22 February 1998 establishing the organic statute of the National Bank of Belgium (hereinafter the "Organic Act"). The basis for ELA is set out in Article 5 §1 of the Organic Act, which provides that in order to achieve the objectives of the ESCB and perform its tasks,⁷ the NBB may, if necessary to maintain financial stability, "(...) carry out credit operations with credit institutions and other money market or capital market participants, with lending based on adequate collateral".

5 Bagehot, Walter (1873) *Lombard Street: A Description of the Money Market*, London: Henry S. King.

6 Article 12.1 of the Statute of the European System of Central Banks and of the European Central Bank.

7 The liquidity supplied by central banks in the form of ELA serves a pivotal role in maintaining financial stability, as can be illustrated by the risks posed by bank runs. See Steinbach, A., "The Lender of Last Resort in the Eurozone", *Common Market Law Review*, vol. 53, no. 2, 2016.

While the decision to grant ELA constitutes a prerogative of the national central bank, the ECB is involved to ensure that the objectives and tasks of the ESCB are protected. The Governing Council may therefore prohibit the provision of ELA if it finds that granting such assistance would interfere with the objectives and tasks of the ESCB⁸. ELA should not, for instance, hamper the monetary policy stance.

Likewise, the Governing Council ensures that ELA does not violate the prohibition on monetary financing laid down in Article 123 of the Treaty on the Functioning of the European Union (hereinafter the “TFEU”), as this would constitute interference with the objectives and tasks of the ESCB. ELA transactions akin to an overdraft facility or any other type of credit facility to the State, in particular any financing of the public sector’s obligations to third parties or the de facto assumption by the central bank of a State task, would violate the prohibition on monetary financing. Thus, the provision of ELA to insolvent institutions or those for which insolvency proceedings have been initiated under national law would violate the prohibition on monetary financing as it would amount to solvency support – rather than liquidity support – which is a responsibility of the fiscal authorities. This explains why the provision of ELA is assessed ex ante as regards compliance with the prohibition on monetary financing.

Given this institutional context, ELA decisions and policies must comply with the Eurosystem’s Agreement on emergency liquidity assistance (the “ELA Agreement”), the current version of which was adopted by the Governing Council on 27 September 2024.⁹ This agreement,¹⁰ which is available on the ECB’s website, contains the rules and procedures applicable to the provision of ELA, including the Governing Council’s role therein.

The Eurosystem ELA Agreement

According to the ELA Agreement, ELA occurs when an NCB provides central bank money and/or any other assistance that may lead to an increase in central bank money to a financial institution or a group of financial institutions facing liquidity problems, where, in either case, this operation does not form part of the single monetary policy. Hence not only the provision of cash (in euros or another currency) by the central bank is considered ELA but also “other assistance that may lead to an increase in central bank money”. Such assistance, called “indirect ELA”, may take the form of lending by the NCB of securities to a financial institution in order to obtain liquidity in regular monetary policy operations, the purchase by the NCB of bonds issued by the borrower (with or without a State guarantee) or any other construction having a similar effect.

With regard to the allocation of responsibilities, costs and risks, the ELA Agreement confirms that the NCBs are primarily responsible for the provision of ELA. This means that any costs (and profits) and risks arising from the provision of ELA shall be borne by the NCB concerned (or by a third party acting as guarantor) without risk-sharing, unlike in the context of regular monetary policy operations in which profits or losses are commonly shared among the NCB and the ECB.

The ELA Agreement also defines the solvency criterion which the institution receiving ELA must meet. A credit institution is considered solvent if (a) its Common Equity Tier 1 capital ratio, Tier 1 capital ratio, Total Capital Ratio and leverage ratio as reported under Regulation (EU) No 575/2013 on prudential requirements for credit institutions (the Capital Requirements Regulation or CRR) on an individual (if applicable) and consolidated

8 Article 14.4. of the Treaty on the Functioning of the European Union reads as follows: “National central banks may perform functions other than those specified in this Statute unless the Governing Council finds, by a majority of two thirds of the votes cast, that these interfere with the objectives and tasks of the ESCB. Such functions shall be performed on the responsibility and liability of national central banks and shall not be regarded as being part of the functions of the ESCB.”

9 On 17 October 2013, the ECB published a first set of procedures (<https://www.ecb.europa.eu/pub/pdf/other/elaprocedures.en.pdf>) on the provision of ELA to individual credit institutions. These procedures were subsequently reviewed and incorporated into an Agreement on emergency liquidity assistance in 2017, which was reviewed in 2020 and again on 27 September 2024. The next review is scheduled for 2027 at the latest.

10 [Emergency liquidity assistance \(ELA\) and monetary policy](#)

(if applicable) basis comply with the harmonised minimum regulatory own funds levels (namely, 4.5%, 6%, 8% and 3%, respectively) or (b) there is a credible prospect of recapitalisation – should (a) not be met – by which harmonised minimum regulatory own funds levels would be restored within 24 weeks after the end of the reference quarter of the data showing that the bank does not comply with harmonised regulatory minimum standards. In duly justified, exceptional cases, the Governing Council may decide to prolong the 24-week grace period. More forward-looking qualitative factors (CRR2 Pillar II) may also be taken into account in the solvency assessment.

In addition, the ELA Agreement contains rules on the duration and pricing of ELA. Where ELA is provided for a period in excess of six months, the governor of the NCB concerned must send a letter to the president of the ECB outlining the intended exit strategy and, for as long as the institution receives ELA, it must update the exit strategy in the event of relevant changes to the exit plan. The provision of ELA may only exceed 12 months following a decision by the Governing Council under the non-objection procedure, initiated by the governor of the NCB concerned at the latest when the provision of ELA exceeds 10 months. For any provision of ELA exceeding 12 months, the governor of the NCB concerned must justify the further provision of ELA in a letter to the president of the ECB on a monthly basis, and the Governing Council may impose additional requirements and conditions.

As regards pricing, it is noted that the NCBs must charge a penalty interest rate to the institution receiving ELA. In the case of lending operations, NCBs should in principle apply a minimum rate equal to the Eurosystem's marginal lending facility rate plus 100 basis points, regardless of the net cost of relevant guarantees and other costs of collateral. In the case of euro-denominated intraday ELA, NCBs should in principle apply a minimum rate equal to 1% per annum.

Furthermore, the ELA Agreement contains a number of provisions on the information that the NCB granting ELA must provide to the ECB to ensure that ELA operations do not interfere with the single monetary policy of the Eurosystem.

Regardless of the size or nature of ELA operations, the NCB must always inform the ECB in a timely manner of the details of any such operation. After the initial notification, further relevant information and updates should be provided on an ongoing basis until the ELA is repaid.

The institution receiving ELA must submit a funding plan within two months following the first provision of ELA. For as long as the institution receives ELA, it must update the funding plan on a quarterly basis. The institution receiving ELA must provide up-to-date information on a monthly basis regarding the precise level of its regulatory own funds ratios (i.e. Common Equity Tier 1 capital ratio, Tier 1 capital ratio, Total Capital Ratio and leverage ratio) as reported under the CRR on an individual (if applicable) and consolidated (if applicable) basis within two months from the end of each reference month. An institution receiving ELA that is in violation of the own funds requirements under the CRR must submit a recapitalisation plan to the ECB for assessment within a timeframe determined by the Governing Council.

Where the size of ELA operations envisaged by the NCB for a given financial institution or group of financial institutions exceeds a threshold of €500 million, the NCB must inform the Executive Board of the ECB as soon as possible prior to the extension of assistance. Where the size of ELA operations exceeds a threshold of €2 billion, the Executive Board shall decide in a timely manner whether the issue needs to be addressed by the Governing Council. If the Executive Board concludes that there is a risk of the provision of ELA interfering with the single monetary policy of the Eurosystem, it shall request the Governing Council to take a position on the matter at short notice. The NCB is free to proceed with the planned ELA operation, unless the Governing Council decides to prohibit the execution thereof on the ground that it interferes with the single monetary policy of the Eurosystem, within 24 hours from being notified by the NCB.

At the request of the NCB(s) concerned and in order to expedite ELA operations in particularly urgent cases or avoid potential systemic implications, the Governing Council may decide not to prohibit potential future ELA

operations to deal with the same problem up to a certain ceiling and within a short pre-specified period of time, which may be extended by a subsequent decision. Such a ceiling may also refer to several financial institutions and/or several groups of financial institutions at the same time. Governing Council decisions are taken by a two-thirds majority. If immediate action is necessary to avoid systemic implications, the NCB can carry out an overnight operation while the Governing Council's decision is pending. The Executive Board of the ECB must be informed immediately of any such overnight emergency operation.

2. Eligibility criteria and collateral requirements applied by the NBB

Under the ELA Agreement, the NBB can exercise discretion in the conduct of ELA operations. This section explains which institutions are eligible for ELA and the collateral requirements applied to protect the NBB from the financial risks involved in such operations.

2.1 Institutions eligible for ELA

Belgian financial institutions may receive ELA on a strictly uncommitted basis. ELA is fundamentally different from a standing facility to which eligible counterparties automatically have access (in return for the posting of eligible collateral), as the NBB's Board of Directors has discretion to evaluate ELA applications on a case-by-case basis, in light of the specific circumstances of each request. In any case, the NBB will consider the systemic risk associated with the situation of the financial institution requesting ELA. Specifically, it will assess whether the liquidity issues faced by the institution could spread and destabilise the broader financial sector.

The key reason for the NBB's refusal to pre-commit to the provision of ELA and to disclose specific conditions for such assistance (see below) is to avoid moral hazard. The provision of ELA in the form of a permanent facility would significantly raise the risk of moral hazard within financial institutions. Assurance of a readily available safety net could incentivise institutions to derogate from prudent liquidity management practices and to rely excessively on ELA as a fallback option during periods of financial distress. Financial institutions should indeed not take ELA into consideration in their liquidity planning.

The NBB is entitled by law to provide ELA not only to credit institutions but also, in theory, to non-bank financial institutions (NBFIs). This is in contrast to regular Eurosystem monetary policy operations, for which the counterparties are restricted to credit institutions that meet specific eligibility criteria. For instance, they must be established in the euro area and subject to supervision by a competent authority. The greater flexibility afforded when providing ELA allows the NBB to potentially support a wider range of financial entities when fulfilling its key function of safeguarding financial stability. There is however no precedent for the provision by the NBB of ELA to financial institutions other than banks and no commitment on its part to consider such institutions as eligible counterparties for ELA (see also section 5).

While the ELA eligibility criteria are not explicitly defined, a fundamental prerequisite is that the institution be solvent and faced with a severe yet temporary liquidity shortfall, which it is unable to remedy by sourcing liquidity on the markets or through the Eurosystem's regular refinancing operations. The provision of ELA to an insolvent institution could risk violating the prohibition on monetary financing, i.e. direct funding by the central bank of government expenditure. If ELA were to be provided to an insolvent institution, this would entail utilising central bank resources to support a non-viable entity. In practice, it is more straightforward to conduct a solvency assessment for credit institutions, which have (or had) access to monetary policy operations, than for NBFIs.

To mitigate the financial risks inherent in ELA, the NBB requires the distressed financial institution to provide collateral in the form of assets. Institutions unable to provide adequate unencumbered collateral are

consequently excluded from ELA. ELA operations are typically structured as collateralised loans provided as intraday and overnight liquidity, which may be rolled over from one day to the next. These loans are governed by an agreement on emergency liquidity assistance concluded between the NBB and the ELA recipient. The beneficiary must repay the advanced liquidity by the next business day, along with interest. The institution is closely monitored and must provide a funding plan for repayment of the ELA received. The NBB reserves the right to discontinue ELA at any time if it deems this appropriate. The next subsection looks at the types of collateral accepted by the NBB.

2.2 ELA collateral: discretion on the part of the NBB

The assets accepted by the NBB as collateral in ELA operations may not be eligible for use in the Eurosystem's regular refinancing operations; the NBB has discretion to determine which assets it is willing to accept as collateral and at which conditions. These assets are generally grouped into two main categories: marketable assets and non-marketable assets.

Marketable assets are securities that can be bought or sold on the financial markets. The risks associated with this type of asset depend on, among other factors, their credit quality (rating), maturity and liquidity. The types of marketable securities accepted within the ELA framework are diverse and can evolve over time. In the past, the NBB has accepted government debt instruments and corporate bonds, as well as asset-backed securities (ABS) and covered bonds.¹¹

Non-marketable assets, on the other hand, are those that are not traded on the financial markets. The risk inherent in these assets depends on factors such as maturity, creditworthiness and other considerations such as the liquidity profile and valuation uncertainties. This category typically includes credit claims (mortgage loans, business loans, consumer loans, etc.) held by the financial institution concerned.

To ensure sufficient protection against the risks associated with ELA, the NCB applies haircuts to the value of the assets pledged by the distressed financial institution.¹² These haircuts ensure that the loans granted are over-collateralised so as to adequately protect the NCB's balance sheet should the collateral be realised/appropriated upon default by the financial institution. The haircut percentage depends on various factors, including credit quality, market risk over the expected liquidation period and valuation risk. It is up to each NCB to define these haircuts and the collateral eligibility requirements applicable to ELA.

Even though the NBB does not benefit from preferential creditor status when acting as the lender of last resort, it has a limited preferred claim (*privilège spécial*) against certain assets pursuant to Article 7 of its Organic Act. Specifically, the NBB's claims arising from lending operations (including ELA) shall constitute preferred claims against all securities held by the ELA borrower in an account with the NBB or in the NBB's securities settlement system for its own account. These preferred claims shall have the same rank as the claims of secured creditors. If the ELA borrower defaults, the NBB may, after notifying the borrower in writing of the event of default, take action automatically, without a prior court decision, and realise the securities on which it has a preferred claim, notwithstanding the possible bankruptcy of the ELA borrower or any other situation involving competing claims on the part of the latter's creditors (*concursum creditorum*), such as a voluntary liquidation. The NBB shall endeavour to sell the securities at the most advantageous price and as quickly as possible, bearing in mind the transaction volume. The proceeds from the sale shall be used to settle the NBB's claims, including principal, interest and costs, with any remaining balance reverting to the ELA borrower or to its estate in the case of insolvency proceedings.

11 Covered bonds are debt securities issued by a financial institution and secured by a pool of assets such as mortgages loans.

12 See the [ECB's definition of a haircut](#) for more information.

3. ELA over the years

The economic, financial and institutional context in which the NBB operates has changed to a significant extent over the past decades, with implications for the conduct of ELA, including the degree of transparency and disclosure.

3.1 Constructive ambiguity

ELA became more conspicuous in Europe during the GFC. Initially, ELA was not highly publicised as it was considered, and remains today, the very last line of defence, and not as a standing facility.

As the GFC unfolded (with the failure of Lehman Brothers in September 2008 and the outbreak of the European sovereign debt crisis thereafter), several European banks experienced severe liquidity shortages due to the sudden and almost complete freeze in interbank lending. To address the risks this entailed for price stability and the stability of the financial system, the ECB Governing Council was obliged to take exceptional monetary policy measures.¹³ However, due to the general climate of mistrust, these measures proved insufficient for some credit institutions that were under heavy pressure. As a result, several euro area NCBs (including the NBB) had to provide emergency liquidity for a limited period of time, in particular to institutions that presented a systemic risk to the European financial system.

It was not always clear to the public which criteria financial institutions had to fulfil in order to qualify for emergency liquidity from their central bank. Although some central banks released a public statement on their lender of last resort policy,¹⁴ many, particularly in the euro area, were deliberately vague as to their ELA policy, emphasising the importance of constructive ambiguity.¹⁵ Concerns about moral hazard and adverse effects on market functioning were the main reasons cited for this deliberate vagueness as to the precise terms and conditions for ELA.

3.2 A changing institutional context

The GFC created a strong impetus for financial system reform. Various initiatives were taken to reshape the supervisory architecture for the financial sector, in both the EU and Belgium. These had and continue to have (see also section 6.2 on strengthening preparedness) implications for the use of ELA.

In Europe: establishment of the SSM and the SRM

In 2014, in response to the GFC and the subsequent euro area sovereign debt crisis, the banking union was established to provide a new and better integrated European architecture for banking supervision and resolution. The first two pillars of the banking union – the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM) – are fully operational and apply to both euro area countries and non-euro area countries (the latter on a voluntary basis). The third pillar – the European deposit insurance scheme (EDIS) – is still at the proposal stage and has yet to be adopted by the co-legislators.

¹³ See the NBB's Annual Reports for more information.

¹⁴ For example, the Bank of England (<https://www.bankofengland.co.uk/-/media/boe/files/news/2012/november/the-provision-of-emergency-liquidity-assistance-in-2008-9>) and the Swiss National Bank (SNB) (<https://www.bis.org/review/r231102a.htm> and <https://www.snb.ch/en/media/dossiers>).

¹⁵ Magnus, M. and Xirou, A., "Emergency Liquidity Assistance - moving away from "constructive ambiguity?", European Parliament, 3 February 2017, available at [https://www.europarl.europa.eu/RegData/etudes/BRIE/2017/587395/IPOL_BRI\(2017\)587395_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2017/587395/IPOL_BRI(2017)587395_EN.pdf).

As regards banking supervision, the SSM was established in 2014. As a result, the ECB exercises direct supervision over approximately 130 so-called significant institutions (SIs). These include the largest banks operating in Belgium. So-called less significant institutions (LSIs) are supervised by the national competent authorities under the aegis of the ECB. The SSM aims to establish a common approach to day-to-day supervision, with harmonised supervisory actions and corrective measures and the consistent application of regulations and supervisory policies, to help ensure/rebuild trust in the European banking sector.

The SRM is the second pillar of the banking union. Several pieces of legislation were adopted in 2014 to define the mechanism's contours. These included the Bank Recovery and Resolution Directive¹⁶ (BRRD), which laid down the general resolution framework, and the Single Resolution Mechanism Regulation¹⁷ (SRMR), which effectively established the SRM. At the centre of the SRM are the Single Resolution Board (SRB), which is the central resolution authority in the banking union, and the Single Resolution Fund (SRF). The SRF reached its target level in 2023 and now amounts to €80 billion.¹⁸ During resolution, the SRF can provide guarantees or extend loans to an institution. The resolution framework provides the resolution authorities with specific tools and powers to effectively manage bank failures. Recourse can only be had to these tools and powers, however, if their use would allow the resolution objectives to be better achieved than in normal insolvency proceedings, ensuring that their application serves the public interest. The framework aims to protect (i) the real economy by ensuring the continuity of an ailing bank's critical functions, (ii) the State and taxpayers by minimising the risk of reliance on public funds, (iii) covered depositors and investors, (iv) client funds and assets, and (v) the financial system, through the avoidance of contagion effects.

In addition, three European Supervisory Authorities (ESAs) were established in 2011 to harmonise the application of regulatory measures and the operational conduct of microprudential surveillance in the Member States, for the banking sector (EBA), the insurance sector (EIOPA) and the securities markets (ESMA).

On the macroprudential side, the European Systemic Risk Board (ESRB) was established in 2010 to ensure macroprudential oversight of the EU financial system and the prevention and mitigation of systemic risks. The ESRB therefore has a broad remit, covering banks, insurers, asset managers, shadow banks, financial market infrastructures and other financial institutions and markets. In the performance of its macroprudential mandate, the ESRB monitors and assesses systemic risks and, where appropriate, issues warnings and recommendations. In the euro area, the ECB has also been entrusted with macroprudential policy tasks and regularly assesses the appropriateness of macroprudential measures introduced by national macroprudential authorities, with the power to top up some of them (i.e. apply higher requirements).

In Belgium: introduction of the “twin peaks” model

In tandem with these developments at European level, a new supervisory structure was introduced in Belgium.

In 2010, the Belgian government opted to move away from an integrated model of supervision (with a single supervisory authority) towards a dual or two-tier model known as the “twin peaks” model. In this model, micro- and macroprudential supervision are fully integrated into a single institution, the central bank. A second authority, the Financial Services and Markets Authority (FSMA), oversees the smooth functioning of the financial markets and the protection of consumers of financial services. The new supervisory architecture entered into force on 1 April 2011. This division of powers between the NBB and the FSMA was enshrined in new statutory provisions.

16 Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms and amending Council Directive 82/891/EEC, and Directives 2001/24/EC, 2002/47/EC, 2004/25/EC, 2005/56/EC, 2007/36/EC, 2011/35/EU, 2012/30/EU and 2013/36/EU, and Regulations (EU) No 1093/2010 and (EU) No 648/2012, of the European Parliament and of the Council.

17 Regulation (EU) No 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism and a Single Resolution Fund and amending Regulation (EU) No 1093/2010.

18 See <https://www.srb.europa.eu/en/content/no-additional-srf-bank-levies-needed-2025-fund-continues-meet-target-level>.

Since April 2011, the NBB has thus been responsible for both the supervision of financial institutions, as part of its mandate to ensure financial stability in Belgium (including by serving as lender of last resort), and the prudential supervision of financial intermediaries, previously exercised by the former Banking, Finance and Insurance Commission (CBFA). The FSMA is in charge of supervising the organisation of securities markets and protecting customers/users of financial services.

Against the backdrop of this reform, the NBB also received new macroprudential powers in the context of its financial stability mandate. The NBB closely monitors developments in the financial sector and identifies risks that could jeopardise financial stability. Where necessary, it can take measures to ensure the stability of the financial sector. These measures can be of various kinds, for example the imposition of additional capital requirements based on developments in the financial cycle, specific exposures in the financial sector or the systemic nature of certain institutions. The NBB can also take measures to steer the credit policy of financial institutions, the main aim of which is to prevent the development of new risks. In 2014, the NBB was officially designated as the national macroprudential authority.

That same year, certain provisions of the European legislation on recovery and resolution were transposed into Belgian law by the Act of 25 April 2014 on the legal status and supervision of credit institutions. The NBB was designated as the national resolution authority. In order to exercise the powers conferred on national resolution authorities and ensure that prudential tasks are structurally separate from resolution activities, a new organ was established within the NBB, namely the Bank's Resolution Board.

3.3 Enhancing the transparency of ELA

The establishment of the SSM and the SRM centralised and strengthened the supervision of financial institutions in the euro area. While ELA remained a national competence, these institutional changes indirectly impacted it, as NCBs rely on supervisory assessments to determine the financial soundness of counterparties.

Against the backdrop of these institutional changes and the pivotal role played by ELA during the GFC, discussions took place on enhancing the transparency of ELA so as to improve public trust in the financial system, avoid inappropriate expectations on the part of financial institutions with regard to ELA, and ensure accountability in central bank decision-making.

The provision of ELA is a delicate undertaking which requires rapid decision-making, based on information that is highly market sensitive. The need for transparency, especially in the short term, must be carefully balanced against possible immediate risks to financial stability, the potential risk of moral hazard and legal constraints, in particular professional secrecy.

As regards ELA procedures, central banks tend to be more transparent than before. As discussed in section 1, the ELA Agreement ensures a common approach and procedures among Eurosystem central banks, while respecting their national discretion, thus strongly enhancing the transparency of ELA in the euro area and improving operational preparedness. Some central banks are taking additional steps to improve transparency, like the Swiss National Bank which recently introduced an extended liquidity facility (ELF) that covers ELA and aligns it more closely to standard credit operations.¹⁹

When it comes to the disclosure of actual ELA operations, most central banks are discrete. To avoid market disruption, stigma and moral hazard, central banks tend to release limited information on these operations and only after a certain period of time has passed. The Swiss National Bank took a different approach after the

19 See https://www.snb.ch/en/publications/communication/speeches/2025/ref_20250429_anmar.

rescue of Credit Suisse in March 2023, as it communicated immediately about the support it provided as lender of last resort.²⁰

The following section explains how the NBB balances the need for transparency and accountability with its duty of confidentiality.

4. Disclosure of ELA operations and communication on ELA

ELA operations are recorded on the balance sheet and in the financial statements of the NBB but are not identified separately. Individual ELA recipients are not disclosed. It is possible to see the evolution of these operations over the course of the year under heading A6 in the NBB's monthly financial statement ("Other claims on euro area credit institutions denominated in euro"), which is posted on the NBB's website. The NBB's annual accounts are published at the end of March. Whereas the volume of ELA operations is not separately identified, their impact on the Bank's financial statements is clarified in the NBB's Corporate Report.

An ELA recipient may decide to disclose information on the emergency assistance received to its shareholders.²¹ The decision to do so rests with the institution's management, which could reasonably find that the financial stability of the institution is in danger and that the disclosure of ELA operations could undermine potential actions to restore its situation. For instance, for Greek banks, ELA operations were disclosed since the ELA was provided for a longer term and it was thought that this information would reassure depositors. In any case, a credit institution that discloses its assets and borrowings with the central bank is not required to reveal the nature of these borrowings (MRO, ELA, etc).

According to Article 9 of the ELA Agreement, NCBs have the option to communicate publicly about the aggregate provision of ELA in their country, in cases where they deem that such communication is necessary. Should the NBB consider it necessary to disclose information on ELA, it must notify the Governing Council in advance of the intended communication plan and content, including a communication proposal. The NBB's communication should not refer to any assessments or decisions of the Governing Council but may contain, for example, the following information: the ELA ceiling (including the duration of its applicability) to which the Governing Council did not object; the amount of ELA provided by the NBB on average over a period of time; and relevant contextual information, where deemed useful to explain matters to the public. The Governing Council must approve the proposed communication plan and content in view of the potential broader confidence and financial stability implications for the euro area.

The NBB's duty of professional secrecy and the provision of ELA

The provision of ELA is covered by the duty of professional secrecy set out in Article 35 §1 of the Organic Act, which provides that *"except when called upon to give evidence before a court of law in criminal proceedings and for communications made in the context of parliamentary committees of inquiry, the Bank, the members and former members of its management bodies, its staff and the experts it engages are bound by a duty of professional secrecy and may not disclose to any person or authority whatsoever confidential information of which they become aware in the performance of their duties"*.

20 For example, SNB on Credit Suisse, including a statement that "there has never been a situation where the SNB refused a request for liquidity" (<https://www.snb.ch/en/media/dossiers>).

21 This is governed by Guidelines issued by the European Securities and Markets Authority (ESMA) which provide (point 10) that for purposes of Article 17(4)(a) of the Market Abuse Regulation, the cases where immediate disclosure of the inside information is likely to prejudice the issuer's legitimate interests may include, but are not limited to, the following circumstances: "(...) b. the financial viability of the issuer is in grave and imminent danger, although not within the scope of the applicable insolvency law, and immediate public disclosure of the inside information would seriously prejudice the interests of existing and potential shareholders by jeopardising the conclusion of the negotiations designed to ensure the financial recovery of the issuer".

According to the Belgian Council of State,²² the duty of professional secrecy provided for by Article 35 of the Organic Act concerns only “confidential information”. Based on the case law of the Court of Justice,²³ the Council of State considers that the latter means information held by the NBB which, first, is not public in nature and, second, whose disclosure could harm the interests of the legal entity that provided it, the interests of third parties or other protected interests. In other words, information must meet three requirements in order to be protected by the duty of professional secrecy laid down in Article 35 of the Organic Act:

1. The persons subject to the duty of professional secrecy must have become aware of the information through the exercise of their official function.
2. The information must not be public.
3. Disclosure of the information could harm one or more protected interests.

Applying these principles to ELA, it must be concluded that (i) information on ELA is obtained in the context of the performance by the NBB of its function as lender of last resort, (ii) information on ELA is not public by definition and (iii) the need to protect relevant interests could outweigh the need for disclosure.

The NBB’s duty of professional secrecy qualifies as a “statutory duty of confidentiality” within the meaning of Article 6 §2(2°) of the Act of 11 April 1994 on administrative transparency and therefore constitutes an exception to the principle of administrative transparency which is binding on the NBB. Moreover, this duty of professional secrecy covers a type of interest explicitly mentioned by the Act of 11 April 1994 as justifying an exception to administrative transparency, namely “a federal economic or financial interest, the currency or public credit” within the meaning of Article 6 §1 (6°), of this legislation.

The disclosure of such information could indeed lead to speculation about the measures the NBB might take in emergency situations involving specific institutions and create certain expectations. Professional secrecy also protects the interests of the institutions concerned by the provision of ELA. The NBB must be able to decide independently and at its discretion, within the limits set by the applicable legislation, on the measures it takes in specific circumstances.

Disclosure of the conditions under which ELA was granted in the past and the methodology applied could create an expectation among credit institutions that the NBB will adopt the same attitude and apply the same conditions and methodology in the future. Credit institutions could then assume that they would be able to obtain emergency liquidity in the event of a precarious situation and make assumptions regarding the attached conditions, including its cost. They could incorporate this information when taking risks, which could increase the likelihood of situations in which the NBB must intervene as lender of last resort (“moral hazard”).²⁴

Such expectations could also put pressure on the NBB to grant ELA in future situations under certain conditions. This pressure would be even greater if the NBB knew that its decision would be made public and compared with previous ones. This should thus be avoided to preserve the independence of the NBB and protect the effectiveness of its role as lender of last resort and therefore financial stability.

22 Council of State, 16 November 2018, no 242.960.

23 CJEU, 19 June 2018, C-15/16; CJEU, 12 November 2014, C-140/13.

24 See also [https://www.europarl.europa.eu/RegData/etudes/BRIE/2017/587395/IPOL_BRI\(2017\)587395_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2017/587395/IPOL_BRI(2017)587395_EN.pdf).

The argument, advanced by the ECB, that the disclosure of such information could have negative consequences for financial stability has been followed by the General Court of the European Union.²⁵

When acting as lender of last resort, a central bank must have freedom to take the most effective measures required by the specific circumstances. To prevent systemic crises with serious consequences for the economy, the NBB must indeed benefit from the greatest possible flexibility and discretion so as to be able to take into account, on the one hand, the financial situation of the bank requesting ELA and, on the other hand, the financial situation of other banks, the financial system as a whole and the economy in general.

The NBB's discretion in this regard is also evident from the general structure of the Organic Act, which does not stipulate the conditions and modalities under which the NBB must carry out its tasks in general or provide ELA in particular. This shows the legislature's intent to confer on the NBB a wide degree of discretion in the performance of its core tasks, including as lender of last resort.

Balancing transparency and confidentiality

That being said, if the NBB invokes its duty of professional secrecy, it must justify why the information in question is protected. If the requested information is only partially covered by professional secrecy, those parts that are not must be disclosed ("partial disclosure"). In this context, the disclosure of certain information on past instances of ELA to obtain an idea of the maximum exposure of ELA granted by the NBB to an institution could be envisaged since, after a certain period of time, the underlying financial stability concerns relating to the release of this information may have receded. Moreover, the aforementioned Article 35 §2 of the Organic Act provides that the NBB "*may disclose confidential information: ... (4) in abridged or summary form, so that individual natural or legal persons cannot be identified*".

Against this background, the communication of certain information on the level of ELA supplied may no longer be harmful to the legitimate interests of the credit institution concerned, especially if it is already publicly known that the institution benefited from ELA. This is all the more true if sufficient time has passed since the ELA. For instance, it is well known that the NBB extended ELA to Dexia and Fortis during and following the GFC, which occurred more than a decade ago. Therefore, despite the NBB's duty of confidentiality, it could be argued that greater transparency on the provision of ELA is warranted. The following section provides information on this subject. However, aside from the amounts granted to the credit institutions concerned and the associated timeline, the NBB has concluded that more detailed information, such as on the specific interest rates applied, the collateral, haircuts, and the assessments of the liquidity and solvency positions of the institutions concerned, is protected by its duty of professional secrecy.

5. Information on ELA by the NBB in the period 2008-2011

The GFC and the European sovereign debt crisis placed significant strain on the financial position of key credit institutions and insurance companies in Belgium. The authorities were thus required to intervene in order to

²⁵ General Court, 6 October 2021, T-827/17, *Aeris Invest v ECB*. It should be noted that in both Decision LS/PT/2017/66 of 11 August 2017 and the second contested decision, the ECB established a specific causal link between the potential disclosure of the information at issue and the specific harm to the protected public interests. Furthermore, as regards the collateral provided, the ECB explained that this information indicates how distressed the credit institution is, to the extent it includes collateral that is not eligible for use in standard monetary policy operations. The possible disclosure of this information could deter credit institutions from requesting ELA or from requesting it in a timely manner. Market participants may also be tempted to request additional or different collateral in exchange for working with the institution concerned or may stop lending money to it, which would pose a genuine threat to financial stability in the Member State concerned. →The General Court found that the applicant had not refuted these arguments and that the ECB had not made an error of judgment in concluding that disclosure of the information in question would harm the interests invoked.

restore market confidence. Governments injected capital and granted financial guarantees. The NBB provided ELA to Fortis and Dexia.

In the last week of September 2008, serious counterparty concerns emerged with respect to these banks. These concerns made it increasingly difficult for them to renew their short-term financing on the wholesale markets and led to sharp declines in their share prices and escalating premiums for credit default swaps (“CDS”) referencing them.

5.1 Fortis

While its material exposure to structured financial instruments undoubtedly contributed to the erosion of market confidence in the Fortis group, its vulnerability to tensions in the international financial markets stemmed mainly from concerns over the group’s reduced financial flexibility following its acquisition of ABN AMRO.²⁶

The European Commission had approved the acquisition on the condition that certain parts of the Dutch division of ABN AMRO be divested. Since the transfer of ABN AMRO to Fortis was scheduled to take place, for the most part, between late 2008 and the end of 2009, Fortis was deemed to have sufficient time to improve its solvency position. However, on 26 June 2008, in response to worsening market conditions since the end of May and the prospect of losses from the forced sale of certain Dutch commercial banking activities, as required by the European Commission, Fortis announced that it was revising and accelerating its solvency plan. The new measures included a capital increase and the issuance of non-diluting capital instruments. The announcement of these measures triggered a further drop in Fortis’ share price. Following the collapse of Lehman Brothers in mid-September 2008, Fortis faced serious refinancing challenges in the interbank and wholesale markets, along with the withdrawal of deposits by professional and wholesale counterparties.

5.1.1 Measures taken

Fortis’ financial condition deteriorated to such an extent that the only solution was an emergency rescue operation involving government support for the group’s banking subsidiaries and the provision of ELA by the NBB.

The rescue operation conceived the weekend of 27 and 28 September 2008 by the Dutch, Belgian and Luxembourg governments proved to be the start of a long, drawn-out process that entailed the forced sale of the group’s Dutch activities (including the stake in ABN AMRO) to the Dutch State (on 3 October), the takeover of Fortis by the Belgian State (on 6 October) and, subsequently, the conclusion of an agreement with the French bank BNP Paribas to acquire a majority stake in Fortis.

Provision of ELA by the NBB

As from 29 September 2008, the NBB provided ELA to Fortis in the form of overnight (O/N) credit in euros and US dollars at a penalty interest rate and backed by collateral ineligible for regular ECB refinancing operations (see Table 1). ELA was provided until 9 October and reached a maximum equivalent amount of €51.3 billion on 3 October.

26 Fortis took over ABN AMRO in October 2007, together with Royal Bank of Scotland (RBS) and Santander.

Table 1

ELA provided by the NBB to Fortis in 2008

(daily amounts in € million)

	Number of days	Average amount	Maximum amount
September 2008	2	30 943	47 664
October 2008	9	31 767	51 328
Total	11	31 617	51 328

Source: NBB.

Collateral

Fortis pledged both marketable and non-marketable assets as collateral to the NBB. The non-marketable assets consisted mainly of credit claims on various debtors, in both the private and public sectors.

The marketable assets consisted of debt securities, issued on various markets within and outside Europe (Belgium, France, the Netherlands, the United States, etc.), and included sovereign bonds (issued by Poland, South Africa, Tunisia, etc.) as well as non-financial corporate bonds and bank bonds.

5.2 Dexia

Dexia, at the time the world's largest provider of public funding, came under severe pressure during both the GFC in 2008 and the European sovereign debt crisis in 2011-2012.

Global Financial Crisis

Dexia had significant exposure to US subprime mortgages, which were at the root of the GFC. As borrowers defaulted on these mortgages, the value of Dexia's investments plummeted.

Dexia also faced refinancing problems following the collapse of Lehman Brothers owing to the group's heavy dependence on wholesale funding to finance its large balance sheet – characterised by significant maturity mismatches – and market concerns over its high exposure to US-originated assets.

Dexia's considerable reliance on the wholesale markets was due to the fact that the group collected only retail deposits in Belgium and Luxembourg. To supplement these retail funding sources, Dexia's business model entailed the mobilisation of a large proportion of its substantial portfolio of highly rated debt securities to borrow on the secured wholesale funding markets. The dislocation of these markets, which became particularly acute in the days following the failure of Lehman Brothers, affected several of Dexia's key funding sources. This funding liquidity shock occurred at a time of market concerns regarding the group's substantial exposure to US assets and structured credit instruments – mostly through its subsidiary Financial Security Assurance²⁷ (FSA), a monoline insurer – and distressed market prices for many of its highly rated bonds as a result of a sharp, widespread increase in risk premiums. Rating downgrades exacerbated these problems and increased borrowing

²⁷ Financial Security Assurance (FSA) was an American financial guaranty (or monoline) insurance company. FSA was acquired by Dexia in 2000 for €2.7 billion. In 2007, before the GFC, FSA was ranked number four among global monoline credit insurers. In 2009, it was sold to Assured Guaranty Corporation.

costs. Investors and depositors lost confidence in the bank, leading to withdrawals and a further deterioration of its financial position.

The recapitalisation of Dexia on 30 September 2008, for an amount of €6.4 billion, was the result of joint action by the Belgian, French and Luxembourg governments. In Belgium, the recapitalisation of €3 billion euros was supported by the federal government (€1 billion via the Federal Participation and Investment Company), the regional governments (€500 million by the Flemish Community, €350 million indirectly by the Walloon Region and €150 million by the Brussels-Capital Region) and existing institutional shareholders (Gemeentelijke Holding, Arcofin and Ethias, for a total of €1 billion). The French government injected €3 billion, while the Luxembourg government invested €376 million in new convertible bonds.

As from 9 October 2008, Dexia also benefited from a joint guarantee granted by Belgium, France and Luxembourg covering many of its funding sources. This guarantee was for a total maximum amount of €150 billion and covered Dexia's liabilities to credit institutions and institutional counterparties.

In addition, on 14 November 2008, the Belgian and French governments agreed to guarantee the asset portfolio of FSA Asset Management, a subsidiary excluded from the sale of FSA's activities further to the restructuring of Dexia, provided Dexia covered the first loss of \$3.1 billion above the already reserved amount of \$1.4 billion.

Alongside these various forms of government intervention, ELA was granted to Dexia between October and December 2008 (see below) by the Belgian and French central banks, carried out on their own balance sheets, and covered by the two national banks to the tune of 50%.²⁸

European sovereign debt crisis

Despite efforts to remedy financial vulnerabilities following the state-supported rescues of 2008 and 2009, Belgian financial institutions were not immune to the intensification of sovereign risk concerns and the further tightening of bank funding conditions in the second half of 2011 and had to cope with a number of rating downgrades, including as a result of the downgrade of Belgium's sovereign rating, which negatively impacts the ratings of Belgian credit institutions.

Dexia's rating was further downgraded in autumn 2011, during the European sovereign debt crisis. Given its still vulnerable funding liquidity position and relatively large exposure to certain euro area countries, Dexia was particularly affected by developments in the financial markets, and its share price collapsed as investors, in light of changed market circumstances, reassessed the feasibility of its restructuring plan to address, in the short-term, the legacies of its strong expansion in the years leading up to the GFC.

Given the bank's rapidly worsening risk profile, exacerbated by the impact of low interest rates on the level of collateral to be posted in swap agreements, and the downgrading of its credit rating, the NBB insisted that Dexia submit a dismantling plan to safeguard the group's strategic entities. In order to restore market confidence in the group's sound entities and avoid the risk of contagion, the subsequently agreed measures included the acquisition by the Belgian State of all shares held by Dexia SA in Dexia Bank Belgium, the sale of several other subsidiaries and the establishment of a new funding guarantee mechanism by the Belgian, French and Luxembourg governments for Dexia SA and its subsidiary Dexia Crédit Local.

The group was required to implement an orderly resolution plan based on two main pillars:

- divestment of Dexia's commercial franchises;
- management in run-off of its residual assets, with Dexia's viability being assured by a funding guarantee of €85 billion granted by Belgium, France and Luxembourg.

²⁸ See <https://www.ccomptes.fr/fr/documents/25263>.

The orderly resolution plan was revised in autumn 2012 and led to the recapitalisation of Dexia, in the amount of €5.5 billion, by Belgium and France on 31 December 2012.

The resolution plan was approved by the European Commission on 28 December 2012. In line with its undertakings, the group disposed of a majority of its operating entities, in particular Dexia Bank Belgium in 2011, Dexia RBC Investor Services, DenizBank and Dexia Banque Internationale à Luxembourg in 2012, and Dexia Municipal Agency at the beginning of 2013.

During this period, Dexia benefited from a patchwork of state guarantees. Following the grant of approval by the European Commission on 19 November 2008, Belgium, France and Luxembourg signed a guarantee agreement with Dexia SA on 9 December 2008, which was followed by a number of amendments and new agreements. More information can be found in Dexia's 2012 annual report²⁹ and on the NBB's website.³⁰

ELA provided by the NBB

In light of the foregoing, the NBB provided ELA to Dexia in the form of overnight liquidity at a penalty interest rate and backed by collateral typically ineligible for use in regular ECB refinancing operations, during two different periods:

- from the beginning of October until mid-December 2008 (see Table 2) and
- from the beginning of October 2011 until the beginning of February 2012 (see Table 3).

Table 2

ELA provided by the NBB to Dexia in 2008

(daily amounts in € million)

	Number of days	Average amount	Maximum amount
October 2008	29	18 851	29 131
November 2008	30	3 350	6 271
December 2008	17	1 556	1 887
Total	76	8 863	29 131

Source: NBB.

The funding problems experienced by Dexia at the end of 2008 were the harbinger of a second wave as the group sought even more secured funding when the unsecured markets dried up again in the summer and autumn of 2011. Dexia also increased its take-up of central bank liquidity. The group managed to generate additional reserves by swapping non-eligible for eligible assets.

At the end of 2011, Dexia still represented a systemic risk for the European financial markets given its large balance sheet, extensive off-balance sheet derivatives with a large number of counterparties, and financing activity for the European local public sector (mainly in France and Italy). It was highly dependent on central bank funding and needed to maintain access to Eurosystem mechanisms, in addition to its other funding sources. The temporary maintenance of Dexia Crédit Local's banking license in France was therefore essential when Dexia

29 See <https://www.dexia.com/sites/default/files/2019-12/DSA%20Annual%20Report%202012%20EN.pdf>.

30 See <https://www.nbb.be/en/guarantee-agreement-between-belgian-state-french-state-luxembourg-state-and-dexia-sanv>.

entered resolution, although its subsequent withdrawal formed part of the roadmap validated by the European Commission in 2012 with a view to longer-term resolution.³¹

In this context, at the end of 2011 and into 2012, the Belgian and French central banks granted ELA to Dexia for a second time. The NBB provided ELA to Dexia in the form of overnight liquidity at a penalty interest rate and covered by collateral ineligible for use in regular ECB refinancing operations via overnight (ON) operations until the beginning of February 2012. The guaranteed issuances on 7 March 2012 made it possible to reduce the provision of ELA by the French central bank by that time.³²

Table 3

ELA provided by the NBB to Dexia in 2011-2012

(daily amounts in € million)

	Number of days	Average amount	Maximum amount
October 2011	27	11 676	16 990
November 2011	30	18 274	20 525
December 2011	31	18 700	20 525
January 2012	31	2 214	6 365
February 2012	1	150	150
Total	120	12 600	20 525

Source: NBB.

Collateral

In 2008, Dexia received ELA from the NBB and posted collateral consisting almost exclusively of securities (marketable assets). The pledged securities portfolio included sovereign bonds issued by Poland, Hungary and Italy, as well as corporate bonds. Residential and commercial mortgage-backed securities (RMBS and CMBS) were also accepted as collateral. In addition to marketable assets, Dexia provided a smaller amount of non-marketable assets such as credit claims.

In 2011, the NBB again granted ELA to Dexia. This time, only non-marketable assets were initially pledged as collateral, i.e. credit claims. Subsequently, the NBB also accepted asset-backed securities as marketable assets. At this time, some pledged assets became eligible for the Eurosystem's standard refinancing operations and were therefore no longer used for ELA purposes.

31 See https://www.dexia.com/sites/default/files/2023-12/2023-12-12_Dexia_retrait%20agr%C3%A9ments%20DCL_EN_vdef.pdf. Dexia Credit Local, now called Dexia, is a 99.6% state-owned Belgian-French group, which entered into orderly resolution in December 2012. The group manages its residual assets in run-off while ensuring that the interests of its shareholders and guarantors are preserved. The group's parent company, Dexia Holding, is a public limited-liability company incorporated under Belgian law. Based in France, Dexia is the group's main operating entity. As at 31 December 2023, Dexia had 445 staff members and total assets of about €60 billion.

32 Official Journal of the European Union: State Aid – Belgium, France, Luxembourg: 2012/C 333/02 - Aides d'État SA 34925 (2012/C) (ex 2012/N) Dexia - Augmentation du plafond de la garantie - Belgique, SA 34927 (2012/C) (ex 2012/N) Dexia - Augmentation du plafond de la garantie - Luxembourg, SA 34928 (2012/C) (ex 2012/N) Dexia - Augmentation du plafond de la garantie - France - <https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX%3A52012XC1030%2809%29>.

5.3 Impact on the NBB's income statement

The net income generated by NCBs when conducting monetary policy operations is referred to as the monetary income of the Eurosystem.³³ This income is not retained by the NCBs but is pooled within the Eurosystem and then allocated among the NCBs in accordance with their respective share of the ECB's capital. By contrast, as ELA is a national competence, the associated risks are born entirely by the NCB providing this form of assistance. Therefore, the interest received on these transactions may also be allocated in full to the NCB concerned.

The NBB did not incur any losses on the ELA it provided to Dexia and Fortis as both institutions repaid the amounts received in full. These operations were conducted at a penalty interest rate, meaning they generated a financial profit for the NBB. In the years in which the NBB provided ELA – specifically 2008, 2011 and 2012 – the average interest rates³⁴ applied to ELA were 6.1%, 3.0% and 3.5%, respectively. During the periods in which the NBB provided ELA in 2008, 2011 and 2012, the main refinancing operations (MRO) rate was 3.6%, 1.3% and 1.0%, respectively. At that time, the MRO rate served as an appropriate proxy for the NBB's funding cost.³⁵ Consequently, these ELA operations generated markedly positive net interest income for the Bank.

6. Continuing work to enhance the NBB's ELA framework and crisis response

In an evolving macrofinancial and institutional context, the NBB continues to work on improving its ELA framework. In this regard, it benefits from advice of international institutions.

6.1 IMF recommendations

The Financial Sector Assessment Program (FSAP), established in 1999, is a comprehensive assessment by International Monetary Fund (IMF) staff of a country's financial sector. FSAPs in advanced economies focus on assessing the resilience of the financial sector, the quality of the regulatory and supervisory framework, and the capacity to manage and resolve financial crises. The last FSAPs for Belgium were carried out in 2023 and 2018.

In 2023, the following recommendations were made regarding crisis management, the financial safety net and, more specifically, enhancement of the Belgian ELA framework:³⁶

- The NBB could seek cooperation arrangements with other relevant NCBs to strengthen preparedness, coordination and information sharing in the event of ELA involving a cross-border banking group (near term).
- The NBB should develop policies to assess the prospective solvency and document the lines of action and responsibility of each actor in the event of ELA for a bank in resolution, subject to a credible resolution strategy (immediate).
- The NBB should explore if and how it would consider granting ELA to non-bank financial intermediaries (NBFIs) (near term).

The IMF made similar recommendations to other NCBs.

³³ See [FAQs on the ECB's Annual Accounts](#).

³⁴ The average ELA rates were calculated by dividing the total annual interest income generated by ELA operations on the NBB's balance sheet by the average daily amount of ELA over that same year.

³⁵ At the time, intra-Eurosystem balances were also remunerated at the MRO rate. The ECB later changed the rate used to remunerate intra-Eurosystem balances to the deposit facility rate (DFR) so as to better reflect market conditions.

³⁶ See <https://www.imf.org/en/Publications/CR/Issues/2023/12/07/Belgium-Financial-Sector-Assessment-Program-Technical-Note-on-Financial-Safety-Net-and-542159>.

6.2 Strengthening preparedness

An integral part of preparing for possible reliance, as a last resort, on ELA involves continuous operational readiness work with banks, in coordination with the SSM and the SRM. Since 2014 and the adoption of the BRRD, banks have to satisfy a new requirement, namely they should be resolvable. In order to be resolvable, banks must demonstrate specific capabilities, including relating to liquidity and funding in resolution.

This operational readiness work encompasses several aspects. Firstly, banks are required to identify and classify all instruments and assets that could potentially serve as collateral, clearly distinguishing the characteristics of each type, such as any encumbrances, the valuation method, marketability and eligibility for monetary policy purposes. This should be done for all assets that could potentially qualify for use as collateral in resolution, including less marketable assets. In addition, processes should be established to effectively mobilise collateral when in resolution, including the elimination of any impediments to these processes. Furthermore, banks are required to develop capabilities to estimate, measure and report their liquidity needs during resolution, including the drivers of liquidity risk, as well as operational measurement and simulation methods and reporting processes.

While banks are required to identify their possible sources of collateral and how to mobilise them – including where necessary through ELA – in order to be resolvable, their resolution plan is based on the assumption that neither ELA nor central bank liquidity assistance under non-standard collateralisation and interest rate terms will be provided. ELA is thus not assumed to be available and cannot be considered in a resolution plan, in order to ensure that institutions – while prepared – remain committed to risk management and prudent decision-making. The idea is to maintain constructive ambiguity as to the potential availability of ELA, thereby helping to limit moral hazard.

This operational readiness work forms part of the broader supervisory processes and resolution planning cycles for banks which aim to enhance their liquidity management. For example, banks are obliged to participate in various exercises, such as the annual liquidity analysis conducted jointly by the ECB and the SRB, which has a much broader focus than potential reliance on ELA. Collectively, these efforts aim to prepare banks to manage liquidity risk and maintain financial stability in diverse scenarios.

Conclusion

The resurgence of inflation in recent years has underscored the importance of monetary policy and the pivotal role central banks play in ensuring price stability. This article focuses on another fundamental role of central banks, namely that of serving as the so-called “lender of last resort”, key to preserve financial stability. In the European context, this role commonly entails the provision of emergency liquidity assistance (ELA).

ELA serves a distinct objective. Unlike monetary policy instruments, which are employed to steer broader financing conditions in the economy to ensure price stability, ELA is used to provide liquidity to solvent financial institutions experiencing temporary distress.

In the euro area, monetary policy decisions are taken by the ECB Governing Council and implemented in a decentralised way by the NCBs. ELA, in contrast, is a national competence, meaning that, in Belgium, the NBB may act at its sole discretion as the lender of last resort for Belgian financial institutions. However, as ELA entails the provision of central bank money to a European credit institution, the ECB is also involved to ensure that there is no interference with the monetary policy stance or violation of the prohibition on monetary financing.

The ELA Agreement between the ECB and the NCBs stipulates the modalities for the provision of ELA in the euro area by the NCBs.

The NBB will only consider providing ELA in exceptional circumstances and on an uncommitted basis when it deems that the liquidity issues faced by an institution have the potential to jeopardise financial stability. ELA is by design not a permanent facility as this would significantly increase the risk of moral hazard within financial institutions. Due to the discretionary nature of ELA, the NBB bears the risks associated with these operations and records the profit or loss on its balance sheet. To mitigate these risks, the funding is made subject to a penalty interest rate, in addition to the requirement of sufficient collateral.

Although central banks have served as the lender of last resort since their inception, not much information has been made public about their provision of ELA. Indeed, the NCBs are reluctant to disclose information on ELA so as to avoid moral hazard. ELA came to the fore in Europe during the GFC and played a vital role in safeguarding the stability of the European financial sector. This crisis led to the reshaping of the supervisory architecture in Europe, with the establishment of the SSM and the SRM. Against the backdrop of these institutional changes, transparency on ELA has increased, as evidenced by the publication of the ELA Agreement. However, as this article explains, the benefits of heightened transparency need to be carefully weighed against the risks to financial stability and of moral hazard and balanced against the NBB's duty of professional secrecy.

It is public knowledge that the NBB extended ELA to Dexia and Fortis during and in the aftermath of the GFC, which occurred over a decade ago. Therefore, despite the NBB's duty of confidentiality, greater transparency on these instances of ELA is warranted. This article offers more information on ELA provided by the NBB thus far.

In conclusion, ELA is an essential instrument in the toolkit of a central bank when acting as lender of last resort. The NBB will continue to enhance its crisis response framework, in cooperation with all relevant stakeholders.

List of abbreviations

Abbreviations

ABS	Asset-backed securities
BRRD	Bank Recovery and Resolution Directive
CBFA	Commission bancaire, financière et des assurances
CDS	Credit default swaps
CMBS	Commercial mortgage-backed securities
CRR	Capital Requirements Regulation
DFR	Deposit facility rate
EBA	European Banking Authority
ECB	European Central Bank
EIOPA	European Insurance and Occupational Pensions Authority
ELA	Emergency liquidity assistance
ELF	Extended liquidity facility
ESA	European Supervisory Authorities
ESMA	European Securities and Markets Authority
ESCB	European System of Central Banks
ESRB	European Systemic Risk Board
EU	European Union
FSA	Financial Security Assurance
FSAP	Financial Sector Assessment Program
FSMA	Financial Services and Markets Authority
GFC	Global Financial Crisis
IMF	International Monetary Fund
LSIs	Less significant institutions
MRO	Main refinancing operation(s)
NBB	National Bank of Belgium
NBFI	Non-bank financial institution
NCB	National central bank

RBS	Royal Bank of Scotland
RMBS	Residential mortgage-backed securities
SlS	Significant institutions
SNB	Swiss National Bank
SRB	Single Resolution Board
SRF	Single Resolution Fund
SRM	Single Resolution Mechanism
SRMR	Single Resolution Mechanism Regulation
SSM	Single Supervisory Mechanism
TFEU	Treaty on the Functioning of the European Union

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