Discussion of **"Calibrating the countercyclical capital buffer for Italy,"**

by Pierluigi Bologna & Maddalena Galardo

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Workshop "Macroprudential Policy and the CCyB"
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Agenda

I. Brief summary

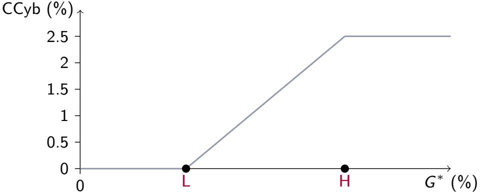
II. General Comments

III. Minor suggestions

IV. Wrapping up

Brief summary

- Calibrating $[L, H]$ bounds in the BCBS rule



- For instance, "L" should be high enough to avoid effects from too early an activation, low enough to allow a gradual accumulation
- Idea: $CCyB(G^*)$ should have good forecasting accuracy of financial risk

General Comments

1. Interpretation of the main exercise
2. Choice of dependent variable: Bank vs Macro fragility
3. Choice of buffer guiding variable
4. Implications for policy

- Main specification

$$FinRisksLevel_t|\Psi = \alpha + \beta_\Psi CCyB(CreditToGDPGap^*_{t-4}|\Psi; L, H)$$

GC-1. Intepretation main exercise: ready to use rule?

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- Yet, CCYB is part of regulatory framework $\Omega = \Omega(CCyB, \mathbf{E}(CCyB), CCB, P2, etc.)$

$$FinRisksLevel_t(\Omega)|\Psi^C = \alpha + \hat{\beta}_\Psi CCyB(CreditToGDPGap^*_{t-4}(\Omega)|\Psi^C; L, H)$$

$\rightarrow$ it will affect LHS and RHS variables (Aiyar et al. 2014; Gropp et al. 2019)

- **Suggestion**: Explore the direction of bias to let us interpret accordingly

GC-2. Choice of dependent variable: Bank vs Systemic fragility

- Variable of interest

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- What do capital buffers aim for?
  - Belong to macroprudential toolkit
  - " ...to enable banks to absorb losses while maintaining the **provision of key services** to the real economy ..." (Macroprudential Bulletin ECB, 2020) $\rightarrow$ avoid excessive deleveraging (credit crunch), limit procyclicality

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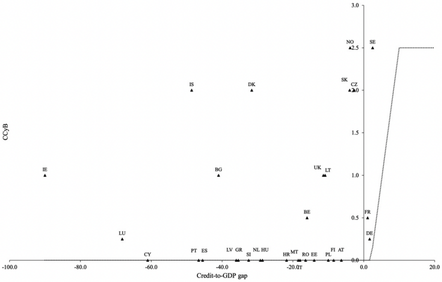
- **Suggestion**: Consider a broader measure of macro-financial fragility indicators
  - Bank credit growth, profitability, delinquency, (Martinez, Matus, Oda 2018), financial conditions, asset prices

GC-3. Choice of buffer guiding variable

- A bit unfair from an academic point of view, but important for policy-makers
- BCBS & Credit-to-GDP gap: Most countries don't use it activation

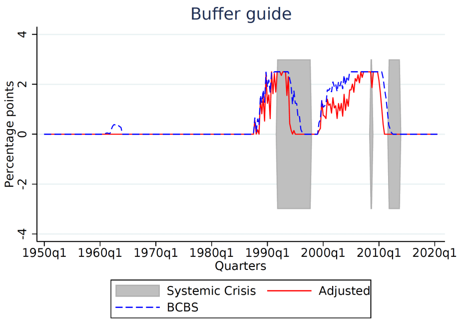
Figure: CCyB decisions and BCBS Buffer-Guide



Source:Herz and Keller 2023

- Correctly calibrating $[L, H]$ seems second order for actual policy-makers
- Release decisions, however, needs a timely indicator

GC-4. Implications for policy



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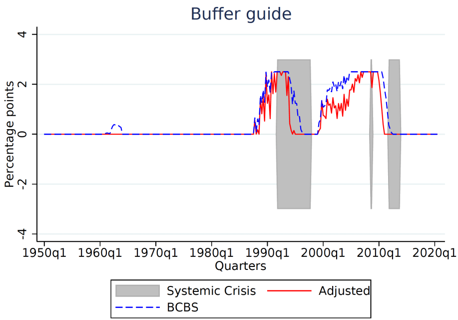

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  - If CCyB active for long periods, we might as well remove uncertainty

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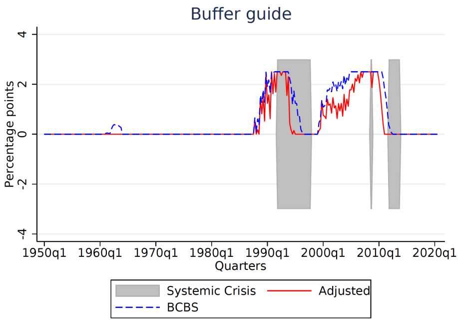

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- This framework → more useful for timely release decisions? Not conflict with a neutral approach

Minor suggestions

1. Robustness: I like Alessandri et al. (2015), but would like to see how it compares to C/Y, credit growth, H(many var), etc.
2. Bank vs total credit
3. Explain in more self-contained way AUROC

Wrapping up

1. I applaud digging in the BCBS guideline's quantitative implications.
   - We need more research like this paper

2. I learn from this paper
   - If want to max chances of getting it right for crises $\rightarrow$ the buffer guideline may imply very long periods of positive CCyB before release
   - Would like to see how this extends to more definitions of macro-financial risk

3. My take: a neutral level seems to be a sensible idea, but still needs indicators for release timing. Here is a good one.

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