

# A positive neutral rate for the countercyclical capital buffer – state of play in the banking union

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# Excellent summary of the policy debate covering many of the relevant issues to be considered.

1. Pandemic showed some shortcomings of current scheme of capital buffers:
  - a) Banks were unwilling to dip into the releasable ones (CCoB)
  - b) Small buildup had taken place when crisis hit
2. Key lesson: regulatory capital relief measures were effective in supporting credit supply. i.e. release of CCyB in jurisdiction with available buffers.
3. Policy view on the CCyB evolved after the pandemic:
  - a) Use increased either to replenish buffer after release in the pandemic or activation for first time
  - b) Motivated by new realization that having releasable buffers is convenient and traditional view of increase in financial risks
4. Important design issues are still under debate
  - a) Calibration of neutral level for the CCyB
  - b) Harmonization of CCyB levels within a banking union

# On the calibration of the positive neutral CCyB: What are its benefits?

1. In order to have an effect on credit, the releasable buffer must be sizeable
2. It is important that buffers are accumulated gradually over time since increasing capital is costly and also given CCyB implementation lags
3. Not all banking crisis are preceded by a deterioration of systemic risk indicators. CCyB can provide resilience against a broader spectrum of shocks

# Relevant insights from the international experience

1. Strong case for wider space for macroprudential tools. Positive neutral CCyB being one option available.
2. There are several methods to calibrate the neutral CCyB and countries have chosen different levels: local realities and authorities' judgement play a role
3. Bank capital is costly and this should be factored in the calibration of the neutral CCyB
  - a) Neutral CCyB is an additional capital requirement → assessment of appropriate level of total capital should be considered
  - b) Defenses should be built when costs are low → measuring those costs is important.
  - c) When announcing a positive neutral CCyB, some jurisdictions have adjusted other requirements (Estonia, Ireland)

# Relevant insights from the international experience (continued)

3. The policy response to an unforeseen shock will involve actions from several authorities and different macro and micro policy measures. What is the contribution of a releasable buffer in this context?

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