



EUROPEAN CENTRAL BANK

EUROSYSTEM

Macroprudential policy in the SSM area

What have we learnt?

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The dawn of macroprudential policy in the EU

- **2014**: legal basis for macroprudential instruments in the EU
 - Capital Requirements Directive and Regulation
- Need for **homogeneous approach** to MPP in the EU:
 - Risk assessment frameworks
 - Frameworks for instrument choice and calibration
 - Understanding of transmission channels and effectiveness



Macroprudential architecture in the SSM area

National Authorities



**European Systemic Risk Board
(ESRB)**

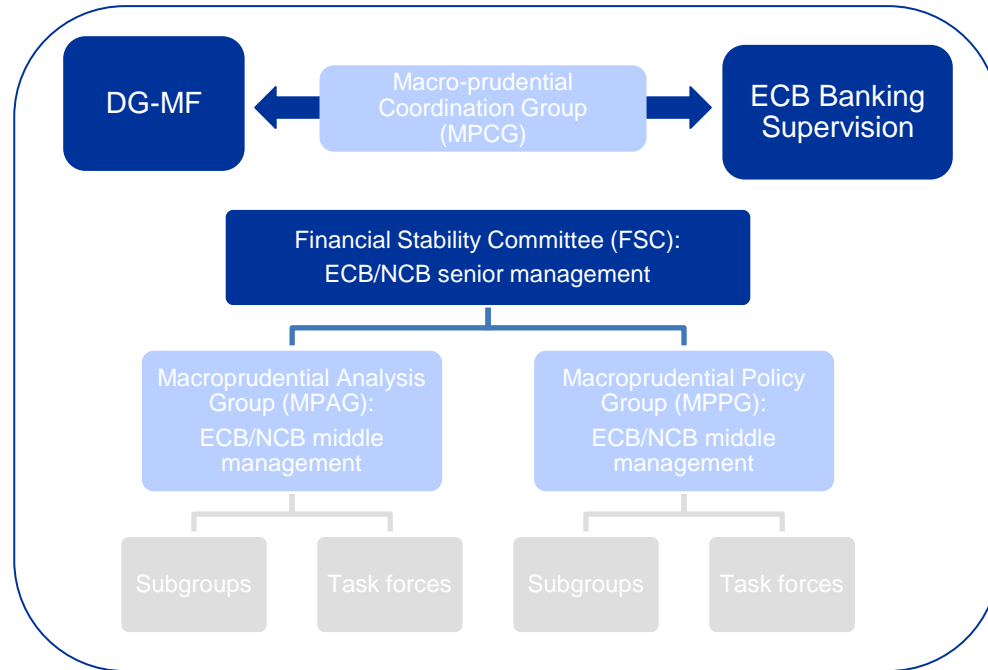
* Art. 5 SSM Regulation

- **National authorities:** identify, monitor and assess risks to financial stability and of implement policies to achieve their objective (stability of the financial system as a whole)
- **ECB:** tasks “concerning policies relating to the prudential supervision of credit institutions, with a view to contributing to the safety and soundness of credit institutions and the stability of the financial system within the Union and each Member State”
 - top up capital buffers and apply more stringent “measures aimed at addressing systemic or macroprudential risks” (i.e., Arts. 124/164/458 CRR)
- **ESRB:** macroprudential oversight of the financial system within the Union, prevention and mitigation of systemic risk

➔ Foster **timely policy action** at national level as well as **cross-country consistency** and **internalize spill-overs**

Regular discussions between the ECB and national authorities

Macroprudential Forum (Governing Council and Supervisory Board)



Macroprudential policy groups and discussion fora at the ECB

Building resilience is the main objective



Primary objective

Increase resilience of lenders and borrowers to the materialization of systemic risk



Potential secondary goal

Affect the credit/RRE cycle

Capital measures



Borrower-based measures

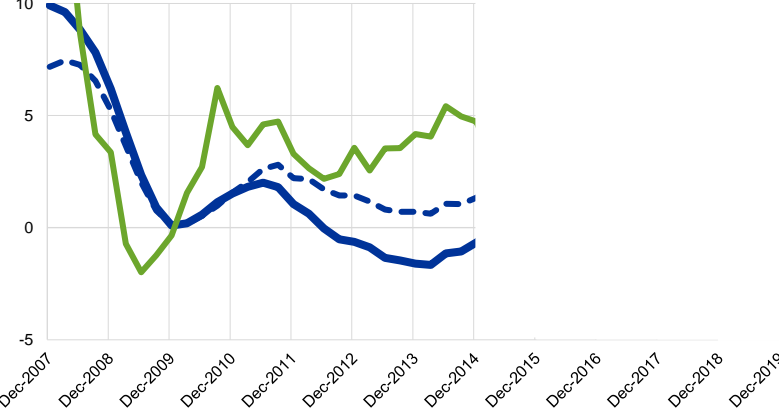


Prudent macroprudential action pre-pandemic

- Prior to the pandemic, policy action aimed to address vulnerabilities, which mainly concerned the RRE sector
- Limited build-up of releasable buffers (CCyB)

2014 2015 2016 2017 2018 2019

MFI loans to NFCs and HHs; residential real estate prices, y-o-y growth rates (%)



— MFI loan growth to NFCs and HHs (EA-19)
 - - - MFI loan growth to NFCs and HHs (EA-7*)
 — Residential real estate price growth (EA) - top 25th percentile

Source: ECB, ECB calculations
 * 7 EA countries with CCyB >0% (enacted/announced) as of end-2019 (BE, DE, FR, IE, LT, LU and SK).

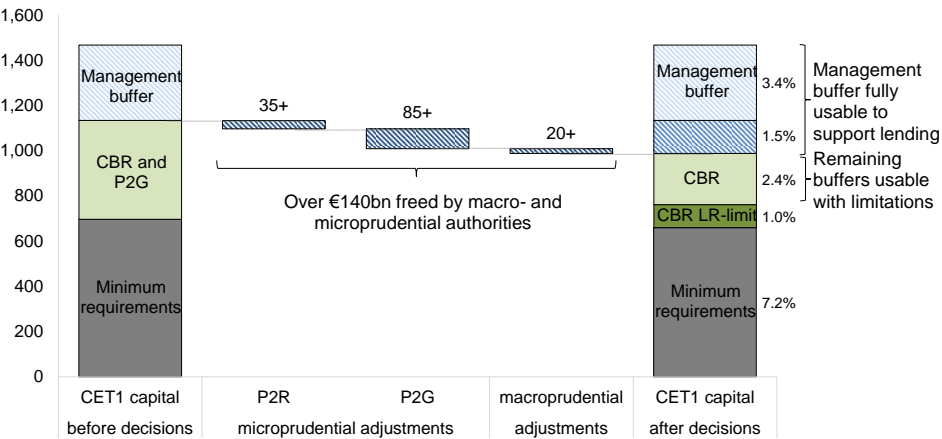
Enacted and announced macroprudential measures (2014 - 2019)

<p>Countercyclical capital buffer >0%</p>
<p>Systemic risk buffer >0%</p>
<p>Higher risk weights for real-estate related exposures</p>
<p>Borrower-based measures</p>

Note: SII buffers implemented in all 19 EA/SSM countries

Macroprudential policy during the pandemic

CET1 capital stack and remaining macroprudential capital buffers in the euro area (2019Q4, lhs in € bn, rhs in % of risk weighted assets)



Capital relief measures during the pandemic made €140 billion of capital usable

- Only €6 bn due to CCyB release
- Issues on buffer usability

Capital releases were effective:

- Banks continued to meet credit demand

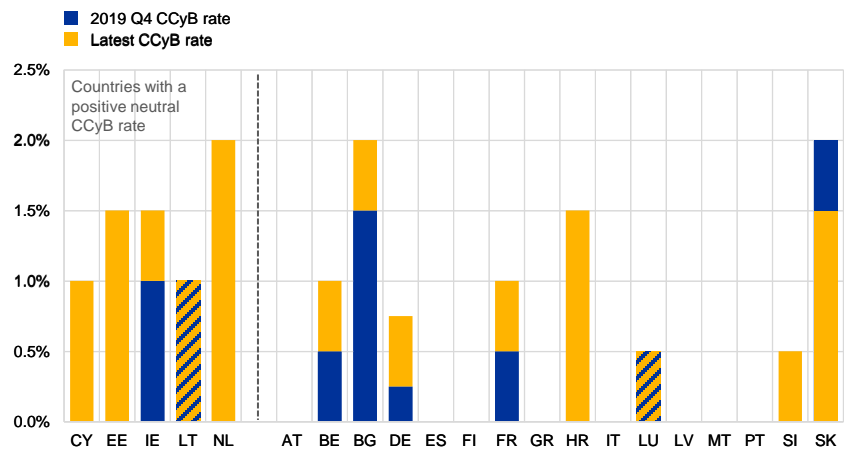
➤ **Increasing share of releasable buffers highly desirable**

Sources: COREP, National Authorities.
 Notes: Data refers to 2019 Q4, decisions considered up to 31 March 2020. Significant and Less Significant Institutions consolidated at system level. P2R adjustments refer to SSM frontloading of P2R composition in CRR5, macroprudential adjustments include releases of CCyB, SyRB and O-SII. Revoked announcements (CCyB) or delayed phase-in (O-SII, Art. 458 CRR) not considered.

A brave new world for macroprudential policy

- Current macro-financial environment poses challenges for macroprudential policy
- Since the pandemic, macroprudential policy action has further strengthened resilience
 - More active use of the CCyB, increased use of a positive neutral CCyB
 - (s)SyRB used to address vulnerabilities

CCyB rates (enacted and announced)



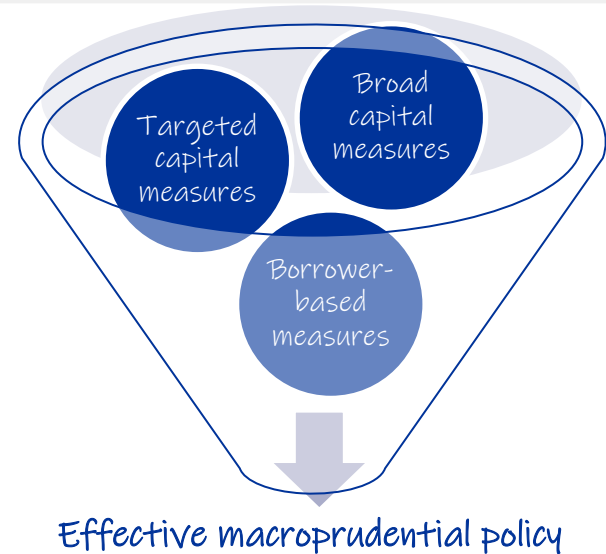
SSM countries with tighter macroprudential stance compared to pre-pandemic

<p>Countercyclical capital buffer >0%</p>
<p>Systemic risk buffer >0%</p>
<p>Higher risk weights for real-estate related exposures</p>
<p>Borrower-based measures</p>

The more, the merrier

Combinations of instruments enhance policy effectiveness:

- ✓ Multiple aspects of systemic risk addressed
- ✓ Reduced scope for circumvention
- Interactions among macroprudential instruments due to **synergies and complementarities**



Looking ahead

Macroprudential policy should continue evolving to incorporate lessons learnt and adapt to circumstances

- Macroprudential space and usability of buffers
- Interactions with monetary policy, microprudential policy, crisis mgt frameworks
- Macroprudential framework: calibration of sectoral buffers, capital releases
- Macroprudential policy for non-bank financial institutions
- Macroprudential policy for climate risks

Thank you for your attention