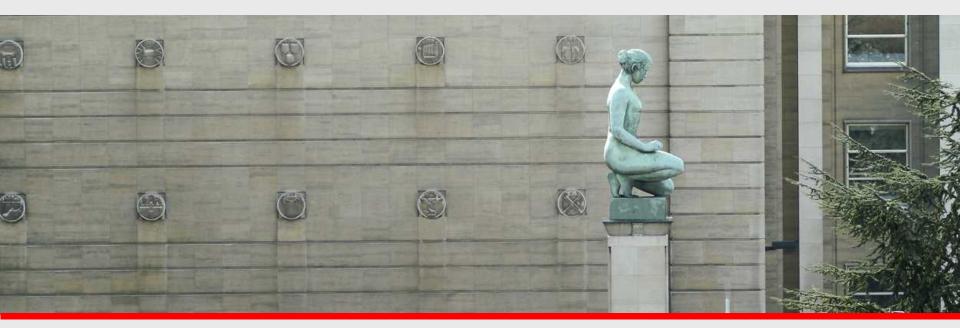
### Macroprudential Policy Experiences First ESRB annual conference – sept. 2016

### Mathias Dewatripont – NBB





# Belgian macroprudential measures so far

- Two macroprudential measures: risk-weight addons for real estate and D-Sifi buffers.
- For D-Sifi buffers, we have found the G-Sifi methodology useful, and see the current situation as OK.
- For RW add-ons, like others, we have found the CCyC buffer 'not granular enough' so far, in an economy with insufficient SME lending but excessive real-estate lending.
- Moreover, concerning our 5% real-estate add-on, we wonder why EU regulation insists on floors instead, which imply risk-weight compression which decrease risk-sensitivity.



### **Sectoral macroprudential buffers**

- The use of the CCyB may be inefficient if risks were building up in specific segments of the credit market: As it applies to total risk-weighted assets, the perceived increase in cost of funding could be passed on to other credit segments as well.
- Empirical evidence (Samarina-Zhang-Bezemer, 2015; De Backer-Dewachter-Ferrari-Pirovano-van Nieuwenhuyze, 2016) suggests credit cycles in different credit segments (households vs. non-financial corporations) indeed may not always be synchronised...
- In and therefore, should be analysed and targeted by policymakers separately.



# **Sectoral macroprudential buffers**

- Correlations of bank credit-to-GDP gaps not only weak between countries (highlighting the importance of national macroprudential policies) ...
- but also weak within countries: sector-specific credit gaps for households and NFCs within a same country are in general far from perfectly correlated (e.g. 0.54 in BE, 0.75 in DE, 0.69 in FI, 0.68 in FR, 0.37 in IT, and even negative in AT and NL).
- "The lack of synchronicity between credit developments to households and NFCs calls for capitalbased macroprudential policy instruments (in Pillar 1) that can be applied at the sectoral level"

Source: De Backer et al. (NBB FSR 2016)

# Belgian real estate risk weight add-on

- To mitigate vulnerabilities in the Belgian residential real estate market, the NBB activated a macroprudential measure targeting the residential real estate sector in December 2013: increase of IRB banks' average risk weight on Belgian mortgage loans from 10% to 15%.
- The main objective was to increase banks' resilience. The effect in terms of increased capital available to absorb potential losses is readily measurable (600 millions).



#### Belgian real estate risk weight add-on

- The objective of the add-on was not to curb credit supply per se. Yet, as higher capital requirements increase banks' funding costs, banks may decide to pass the higher perceived cost of capital on to their customers. Such effects are more difficult to assess.
- NBB assessment of the impact of this add-on on pricing shows that banks affected relatively more by the add-on (e.g. mortgage-specialized, capital constrained), increase lending spreads more.



# Belgian real estate risk weight add-on

- Economic significance appears limited however: Average impact ranging from 0 to 10 bps, with only a few banks increasing spreads by more than 10 bps. Not surprising, given that the calibration of the add-on aimed at increasing resilience while at the same time avoiding an unsettling of the market
- Finding of limited impact on lending spreads in line with existing studies on the effect of overall capital requirements (see e.g. BCBS WP 30, 2016), suggesting that harder borrower-based measures (e.g. LTV caps) may be needed to effectively curb the cycle.



# **Macroprudential policy in the Banking Union**

- Shared competence ECB National Macroprudential Authority. Good idea in a 'less-than-perfect Monetary Union' (but regional differences also in the UK: London real estate; why not in USA?)
- Asymmetry ('top-up option') does make sense to counter 'excessive-softness bias', which comes naturally from level-playing field argument and political-economy constraints (would plead for giving more instruments to independent authorities).
- Moreover, allowing both sides to go up and down risks creating 'cycles': no pure-strategy) Nash equilibrium.