Macroprudential Policy Experiences

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Belgian macroprudential measures so far

- Two macroprudential measures: **risk-weight add-ons 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**…
- … 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 capital-based 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.