

Comunicato Stampa

DIFFUSO A CURA DEL SERVIZIO SEGRETERIA PARTICOLARE DEL DIRETTORIO E COMUNICAZIONE

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The Countercyclical Capital Buffer (CCyB) rate for the first quarter of 2020 has been set at zero per cent

Based on the analysis of the reference indicators, the Bank of Italy has decided to keep the countercyclical capital buffer rate at zero for the first quarter of 2020.¹ Specifically:

- In the third quarter of 2019 the deviation of the credit-to-GDP ratio from its long-term trend (the credit-to-GDP gap), calculated using the standard methodology set by the Basel Committee on Banking Supervision, was about -16 percentage points (Table 1 and Figure 1). According to the methodology developed by the Bank of Italy, which takes into account the specific features of Italy's credit cycle, the gap was about -10 percentage points.² Similar findings emerge from the analysis of the total credit-to-GDP gap (Table 1 and Figure 2);³
- The Italian financial cycle remains weak. The growth rate of bank lending to households is stable while that to firms, already negative, is decreasing (Figure 3). Although the stock of non-performing loans in proportion to the total is falling sharply, it remains high for firms (Figure 4). The real sector indicators connected with developments in macroeconomic-financial conditions are sending similar signals: the unemployment rate, although it has declined in the last six months, still remains high (Figure 5), real property prices are still well below their long-term level (Figure 6).

Table 1

Credit-to-GDP ratio and estimated credit-to-GDP gap (1) (per cent and percentage points)

	Q3 2019 (2)	Q2 2019	Q1 2019
Bank credit			
Credit-to-GDP ratio	72.5	73.2	73.5
Credit-to-GDP gap standard	-16.0	-15.9	-16.3
Credit-to-GDP gap Bank of Italy	-9.8	-9.8	-10.4
Total credit			
Credit-to-GDP ratio	108.5	109.7	109.3
Credit-to-GDP gap standard	-17.7	-17.2	-18.1
Credit-to-GDP gap Bank of Italy	-10.4	-9.8	-10.7

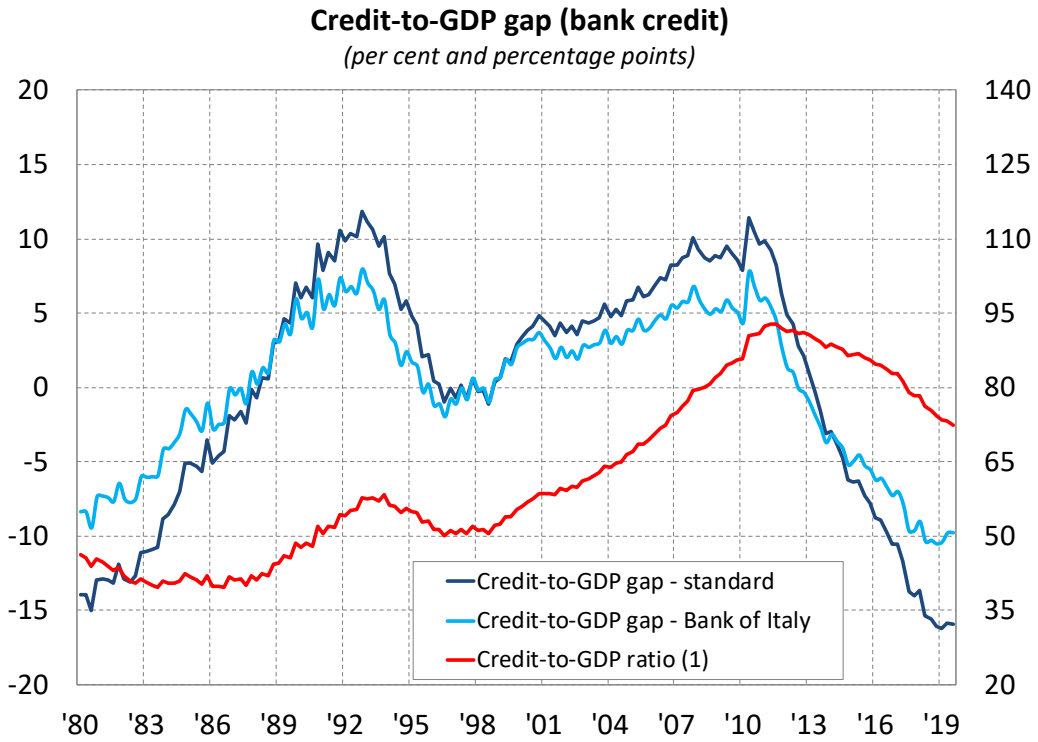
(1) For the calculation method, see the Methodological Appendix. – (2) Total credit data are provisional

¹ The rate concerns exposures to Italian counterparties. The Bank of Italy has exercised the regulatory option set out in Article 130(2) of Directive 2013/36/EU (CRD IV) in order to exempt small and medium-sized Italian investment firms from the countercyclical capital buffer, also bearing in mind their relative systemic riskiness.

² For the technical details, see the Methodological Appendix on page 4.

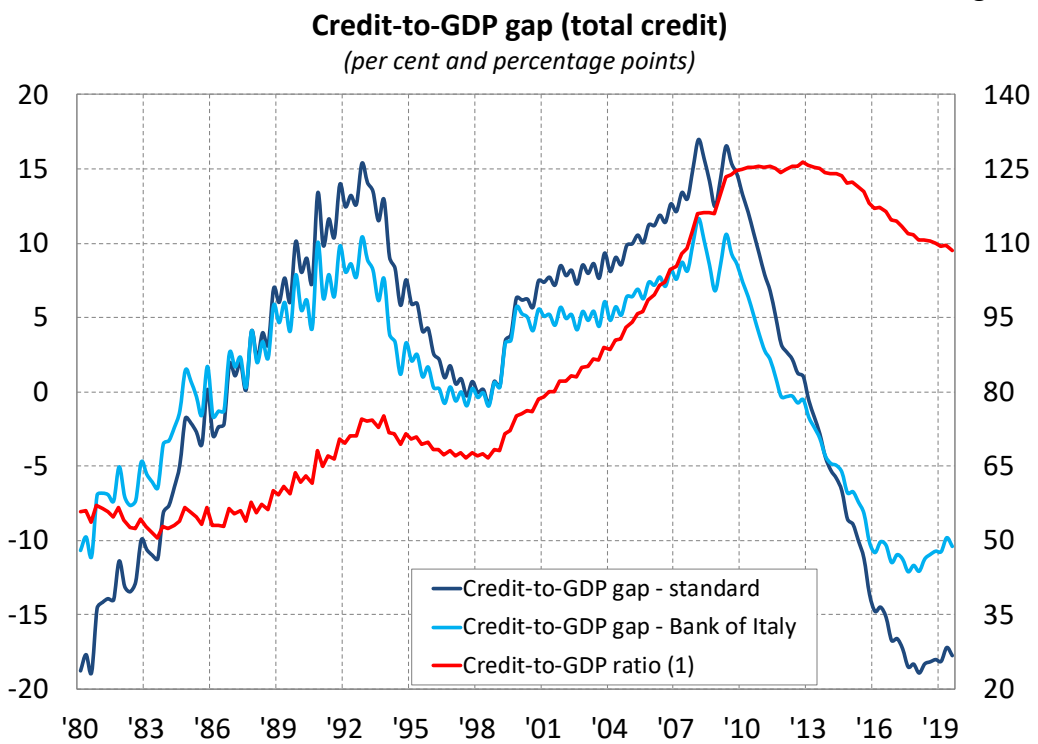
³ The data reported in the table and the figures are available on the [Bank of Italy's website](http://www.bancaditalia.it).

Figure 1



(1) Right-hand scale.

Figure 2



(1) Right-hand scale.

Figure 3

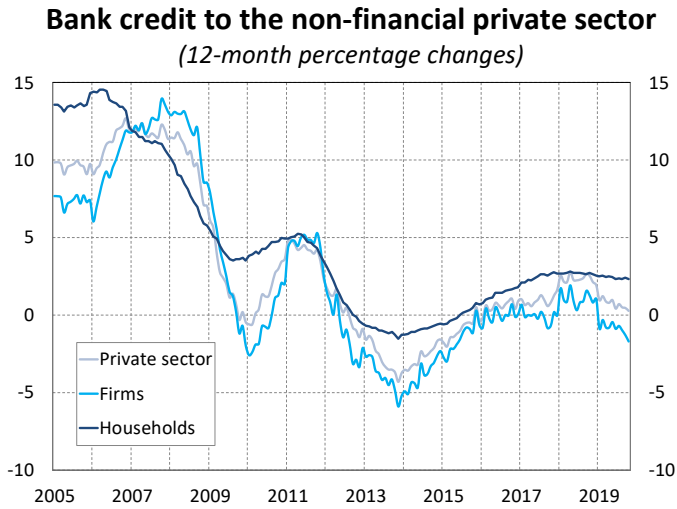
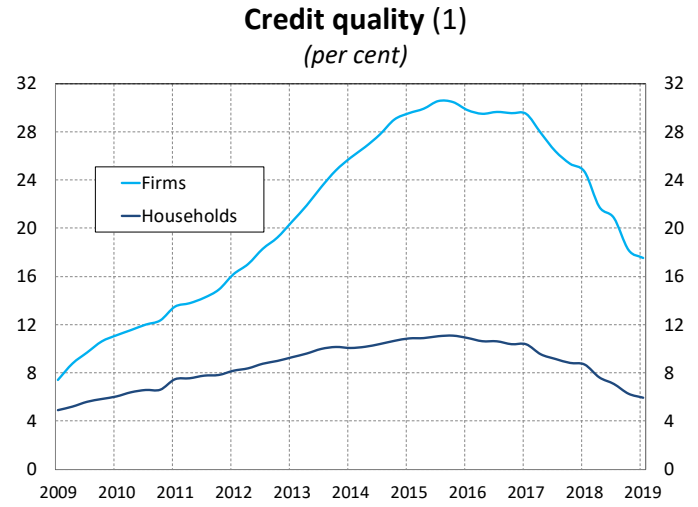
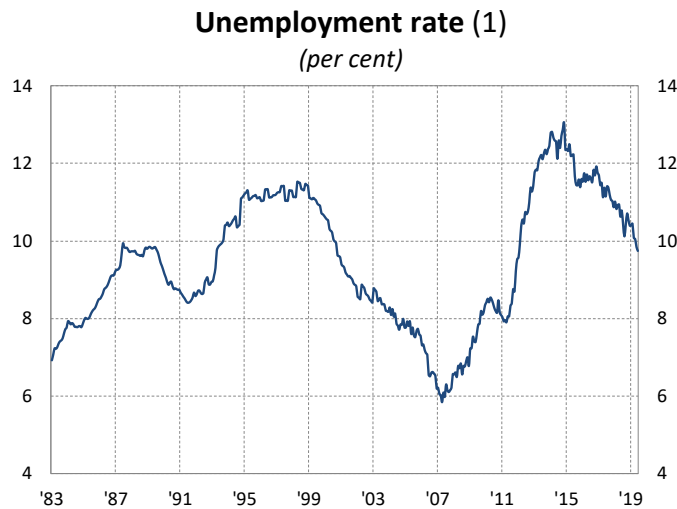


Figure 4



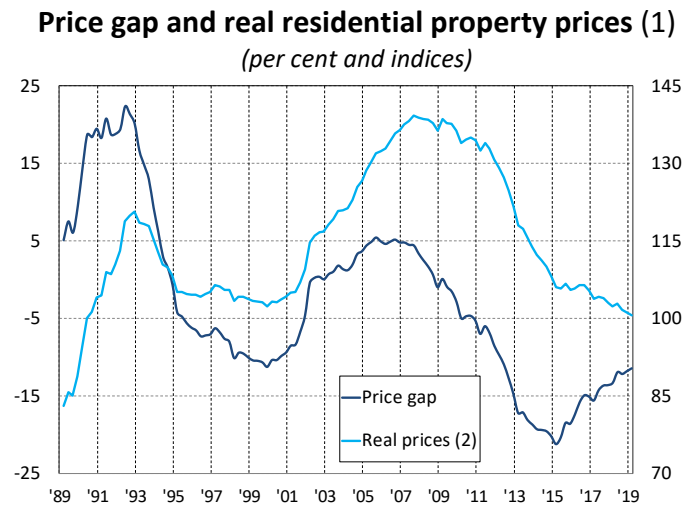
(1) Non-performing loans before write-downs, expressed as a ratio to total loans of the reference sector. The data relate to bank loans to residents and include 'non-current assets and groups of assets held for sale'.

Figure 5



(1) Seasonally adjusted monthly unemployment rate.

Figure 6



(1) The price gap is the percentage deviation of the real property price index from its long-term trend. For the calculation method, see the publication cited in the last footnote of the Methodological Appendix. – (2) Index, 1990=100. The index is deflated by the total consumption deflator. Right-hand scale.

Methodological Appendix

European legislation identifies the credit-to-GDP gap as the main indicator for setting the countercyclical capital buffer rate. It measures the credit cycle based on the deviation of the ratio of total credit to the non-financial private sector to GDP from its long-term trend, calculated using the standard methodology recommended by the Basel Committee on Banking Supervision. Recommendation ESRB/2014/1 of the European Systemic Risk Board of 18 June 2014 allows the designated authorities of EU countries to adopt non-standard credit-to-GDP gap measures in the event that the standardized gap does not accurately reflect the national financial cycle.

According to the standard methodology, the long-term trend is calculated using a one-sided Hodrick-Prescott (HP) filter in which estimates at every point in time are based only on current and past information.¹ An analysis of credit dynamics in Italy from 1970 to date reveals two problems with this methodology:

- a. The estimate of the credit cycle calculated in real time is systematically and significantly revised downwards when new data on credit and GDP become available. The one-sided HP filter is in fact very different from the two-sided filter (which uses information from the whole sample) and tends to overestimate cycle volatility.²
- b. The results suggest that expansionary phases in Italy last around 12 years; this is a much longer period than documented in the literature and rather unrealistic.³

Although the two-sided HP filter cannot, by definition, be calculated in real time, its time series can still be used to obtain a better estimate of the state of the credit cycle by adjusting the value yielded by the one-sided HP filter on the basis of the historical differences observed between the estimates produced with the two filters, as suggested by Alessandri et al. (2015).⁴

This adjusted filter produces real-time estimates that are closer to those obtained with the two-sided filter. The adjustments greatly reduce the estimated volatility of the credit cycle in Italy; notably, the peaks of the expansionary phases of the early 1990s and mid-2000s are much lower, both for total credit and for bank credit.

¹ R. J. Hodrick and E. C. Prescott, 'Postwar U.S. Business Cycles: An Empirical Investigation', *Journal of Money, Credit, and Banking*, 29, 1, 1997, 1-16.

² As already pointed out in A. Orphanides and S. van Norden, 'The Unreliability of Output Gap Estimates in Real Time', *The Review of Economics and Statistics*, 84, 4, 2002, 569-583.

³ According to S. Claessens, M. A. Kose and M. E. Terrones ('How Do Business and Financial Cycles Interact?', *Journal of International Economics*, 87, 1, 2012, 178-190), the expansionary phase of a financial cycle lasts two years on average; according to M. Drehmann, C. Borio and K. Tsatsaronis ('Characterising the Financial Cycle: Don't Lose Sight of the Medium Term!', BIS Working Papers, 380, 2012), the median duration is five and a half years.

⁴ P. Alessandri, P. Bologna, R. Fiori and E. Sette, 'A note on the implementation of a countercyclical capital buffer in Italy', Banca d'Italia, *Questioni di Economia e Finanza (Occasional Papers)*, 278, 2015.