EUROPEAN CENTRAL BANK

EUROSYSTEM

Press release

31 January 2025

ECB and ESRB issue joint report on experiences of using the countercyclical capital buffer early in the cycle

- 17 EEA countries have adopted a positive neutral CCyB approach
- Authorities using this approach do not expect it to result in higher CCyB requirements at the peak of the cycle
- The European macroprudential framework could be clarified to facilitate a more flexible and proactive use of the CCyB

A timely build-up of capital buffers that can be released in times of stress is essential for financial stability. One way to achieve this is by setting a positive countercyclical capital buffer (CCyB) rate early in the cycle when cyclical systemic risks are neither subdued nor elevated. Understanding how authorities can apply this “positive neutral” approach is essential to advancing the use of the CCyB.

The European Central Bank (ECB) and the European Systemic Risk Board (ESRB) today published a joint report aimed at deepening our knowledge of the implementation of positive neutral approaches to setting the CCyB in the European Economic Area (EEA).

The report describes the experience of countries that have adopted a positive neutral CCyB approach, as well as the views of those that have not. It outlines the perceived costs and benefits, implications for setting the CCyB through the cycle, calibration methods, conditions for build-up and release, interactions with other capital instruments, buffer usability and reciprocity.

Motivations for the adoption of a positive neutral CCyB approach mostly relate to three areas. The first is the need to build up the CCyB in a timely manner, not only to address uncertainty in the identification of systemic risks, but also to ensure that releasable capital buffers are available in the early stages of the financial cycle. The second is to allow for a more gradual, and therefore less costly, build-up of the buffer. The third is increasing the amount of releasable buffers, also to boost resilience against a wider spectrum of potentially large shocks.

European Central Bank
Directorate General Communications
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.ecb.europa.eu

The report highlights three common elements in the positive neutral CCyB approaches adopted by EEA countries. First, a positive neutral CCyB approach is not intended as a new buffer, but rather as an earlier activation of the CCyB in an environment where cyclical systemic risks are neither subdued nor elevated. Second, in most countries, adopting a positive neutral CCyB approach is not expected to yield higher CCyB requirements at the peak of the cycle. This is in line with the objective of building up the CCyB early in the cycle. Third, for most countries, this more proactive and flexible use of the CCyB does not need to be offset by lowering other requirements, consistent with the risk-based nature of the CCyB.

Finally, the report describes what ESRB member institutions see as the challenges and obstacles to implementing a positive neutral CCyB approach, and presents potential avenues for overcoming them. First, more clarity on the objectives of a positive neutral CCyB could alleviate concerns about potential overlaps with the objectives of other instruments, most notably the systemic risk buffer. Second, some countries view a lack of clarity in EU legislation as an obstacle to adopting a positive neutral CCyB approach. In this context, it would be helpful to clarify the European macroprudential framework to ensure that the CCyB can be used more flexibly and proactively. This could be done notably by reducing the prominence of the credit-to-GDP gap and other credit indicators to guide the setting of the CCyB rate.

The report could serve as a useful reference for countries within and outside the EEA region that are considering adopting such an approach. It may also provide valuable information to regulatory bodies looking at issuing further guidance on positive neutral CCyB approaches.

For media queries, please contact Ettore Fanciulli tel.: +49 69 1344 95012.

European Central Bank
Directorate General Communications
Sonnemannstrasse 20, 60314 Frankfurt am Main, Germany
Tel.: +49 69 1344 7455, email: media@ecb.europa.eu, website: www.bankingsupervision.europa.eu