

Comunicato Stampa

DIFFUSO A CURA DEL SERVIZIO COMUNICAZIONE

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

The Bank of Italy has decided to keep the countercyclical capital buffer rate at zero per cent for the fourth quarter of 2020.¹

The exceptionally severe crisis that hit the Italian and the global economy made it necessary for the authorities to adopt measures to encourage the flow of lending and liquidity to the real economy.

In the second quarter of 2020 the liquidity needs of firms as a result of the pandemic, was also met by an increase in bank lending, which benefited from the expansion of public guarantees (Figure 3). Increased lending, together with an unprecedented decline in GDP, led to a reduction of the credit-to-GDP gap (Table 1, Figures 1 and 2).²

The other indicators used to assess macroeconomic and financial conditions have also been influenced by the measures taken by the Italian government to counter the effects of the crisis. The NPL ratio in relation to firms has been positively influenced by the moratorium measures (Figure 4) and the unemployment rate was slowed by the exceptional use of social safety nets (Figure 5).

Table 1

Credit-to-GDP ratio and estimated credit-to-GDP gap (1)

(per cent and percentage points)

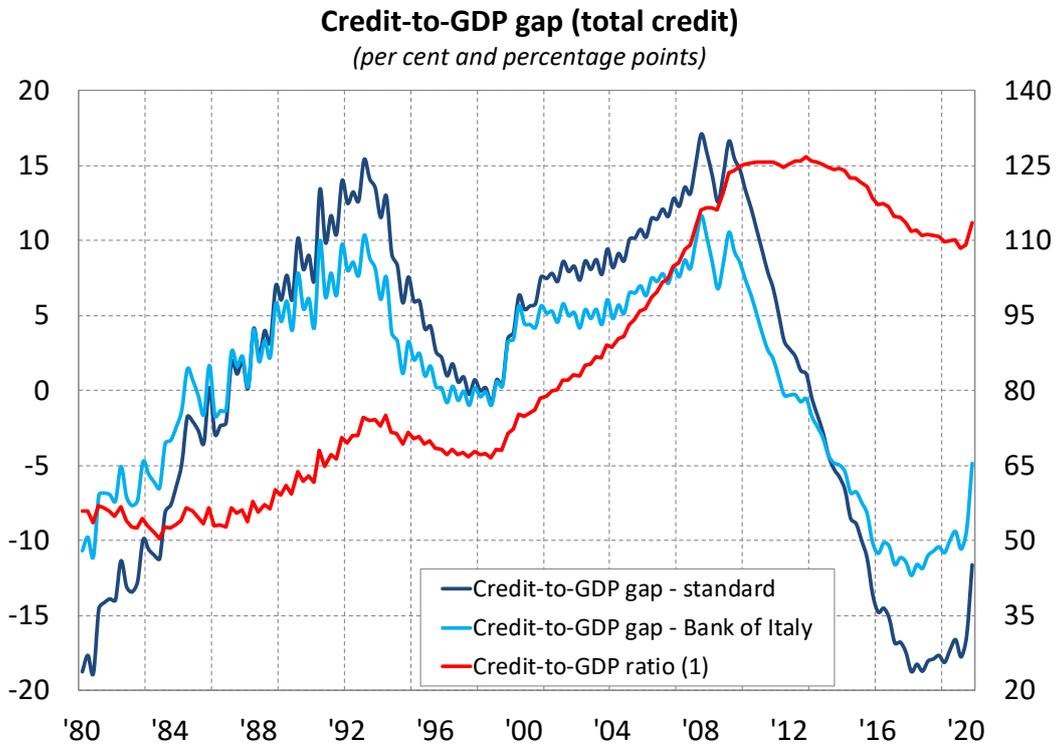
| | Q2 2020 (2) | Q1 2020 | Q4 2019 |
|---------------------------------|-------------|---------|---------|
| Total credit | | | |
| Credit-to-GDP ratio | 113.6 | 109.2 | 108.4 |
| Credit-to-GDP gap standard | -11.6 | -16.4 | -17.8 |
| Credit-to-GDP gap Bank of Italy | -4.8 | -9.3 | -10.6 |
| Bank credit | | | |
| Credit-to-GDP ratio | 77.0 | 72.9 | 71.1 |
| Credit-to-GDP gap standard | -9.7 | -14.1 | -16.6 |
| Credit-to-GDP gap Bank of Italy | -3.6 | -7.7 | -10.2 |

(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.

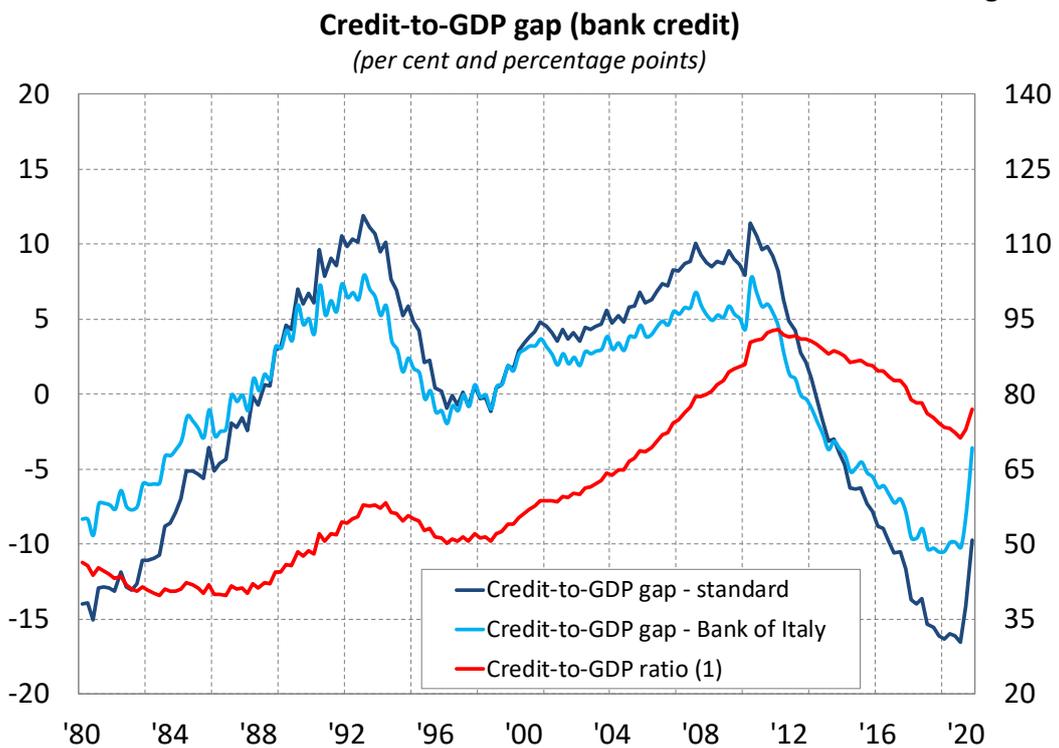
² For the technical details, see the Methodological Appendix. The data reported in the table and the figures are available on the [Bank of Italy's website](http://www.bancaditalia.it).

Figure 1



(1) Right-hand scale.

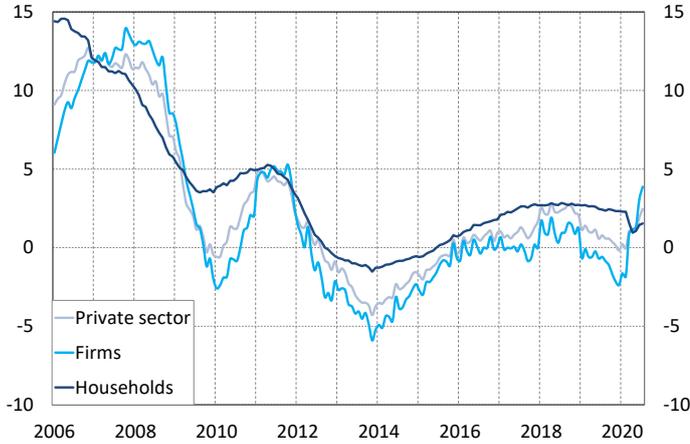
Figure 2



(1) Right-hand scale.

Figure 3

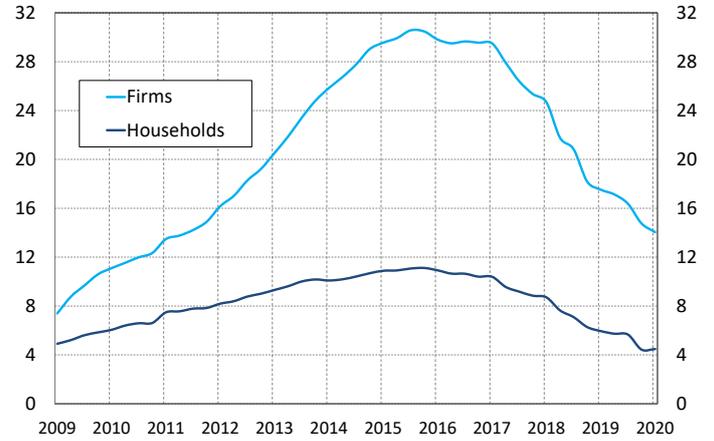
Bank credit to the non-financial private sector
(12-month percentage changes)



Source: Based on our calculations.

Figure 4

Credit quality (1)
(per cent)



Source: Based on data from unconsolidated bank supervisory reports data.

(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

Unemployment rate (1)
(per cent)

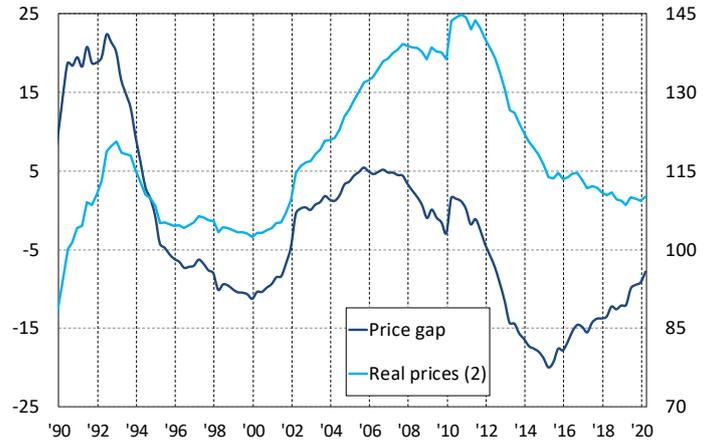


Source: Eurostat.

(1) Seasonally adjusted monthly unemployment rate.

Figure 6

Price gap and real residential property prices (1)
(per cent and indices)



Source: Based on our calculations.

(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.