



What factors truly drive the countercyclical capital buffer rates in Europe?

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DISCUSSION BY
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OCTOBER 14, 2025



Disclaimer: The views expressed are those of the presenter and not necessarily those of Banco de Portugal, the Eurosystem or any of its policy committees

AGENDA



01

KEY TAKEAWAYS

02

DISCUSSION



01

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This is an important, timely, and relevant topic for policymakers

- It uses an **empirical approach to quantify the factors** driving CCyB rates in Europe.
- It evaluates **the benefits of implementing macroprudential policy instruments**.

Great data work

- Combining different data sources: the BIS, the ECB, the ESRB and World Bank.
- Countries: covers all EU + Norway + Iceland.
- Linear models (but also non-linear decision models in the appendix).
- 2014Q4 to 2023Q4.

KEY TAKEAWAYS



Interesting findings

- The 2007-08 financial crisis is used as a counterfactual scenario. Had the CCyB been in place, it could have supported the accumulation of additional capital, which could have been released to absorb losses during the crisis.
- The authors ask whether macroprudential authorities followed the BCBS and ESRB guidelines when setting the CCyB. They find that, on average, authorities did not rely on the credit-to-GDP gap or other recommended indicators.
- The CCyB decision is driven by other factors :
 - Variables not directly measuring risk, i.e., the supervisory funding structure.
 - While this finding is striking, it aligns with evidence from other published studies.
 - Macroprudential authorities applying a positive cycle-neutral CCyB rate approach.



02

DISCUSSION

DISCUSSION



This paper offers valuable insights into the determinants of CCyB rate

- ❖ The models include variables representing the different phases of business and financial cycles, the authorities' funding structure and even the commitment for implement a CCyB in neutral environment.
- ❖ However, the models exhibit relatively low explanatory power, suggesting that other factors likely influence how authorities design and calibrate the CCyB. These may include:
 - The level of capital headroom.
 - A holistic view of all the macroprudential measures (Capital measures and BBMs) in place.
 - Interactions with the microprudential policy and resolution requirements.
 - Structural features of financial system:
 - The share of financial intermediation conducted by non-bank entities.
 - The proportion of variable interest rate mortgage contracts.
 - Differences in monetary policy regimes and banks' ability to generate capital internally.
 - The use of various calibration methodologies, including stress tests, indicator-based approaches, and DSGE models.

DISCUSSION



To enhance the effectiveness of CCyB, greater coordination is proposed

- ❖ This would promote consistency in the application of capital buffers and enhance regulatory certainty.
- ❖ **But the direction of harmonization of the frameworks across jurisdictions should not be pursued, as there are many countries specificities that should be taken into account,** preserving flexibility at the national level.

Further developing studies to measure the cost and benefits of the neutral positive CCyB

- ❖ Macroprudential policy implies costs in short term (economic activity) and benefits (resilience of financial system) that are fully realized in the medium term.
- ❖ The marginal benefits of increases in capital measures are initially high but decrease with the tightness of macroprudential policy.
- ❖ In the context of regulatory simplification, authorities must carefully evaluate the net benefits of their actions, balancing resilience against economic impact.

DISCUSSION



Future studies could perform textual analysis of official CCyB decision announcements from macroprudential authorities to gain deeper insights into the decision-making process

- ❖ Still some heterogeneity in the way different national authorities communicate.
 - Run the regressions in the sub-sample of countries that use an indicator-based approach and mention that in the communication.

The CCyB decision is driven by the supervisory funding structure, so it is suggested a more centralized approach

- ❖ The findings indicate that governance frameworks, supervisory quality, and funding arrangements may contribute to an inaction bias among macroprudential authorities.
- ❖ A key limitation is the availability of data—particularly the index measuring the quality and independence of banking and macroprudential supervision, which only extends to 2016. It remains unclear how this index has been updated or maintained since then.



The analysis would benefit from distinguishing between CCyB increases and releases

- ❖ While buffer increases typically involve long implementation lags, as appropriately considered in the authors' econometric model, releases tend to be immediate.
- ❖ Differentiating between the build-up and release phases could enhance the model's explanatory power.

Macroprudential policy has a forward-looking dimension

- ❖ Given the forward-looking nature of macroprudential policy, incorporating forecast-based variables (e.g., GDP growth projections, banking system profitability forecasts) rather than relying solely on historical data could improve both the econometric specification and causal interpretation.
- ❖ Alternative indicators of macroprudential policy stance—such as the number of positive CCyB decisions rather than the CBR may offer additional insights.

In short, it is essential to consider **institutional context, regulatory culture, and the strategic objectives of each macroprudential authority to access the decision-making regarding CCyB rates or other macroprudential instruments.**

The image shows a wide, brightly lit interior space, likely a museum or a grand hall. In the center, a large, heavy, golden-yellow curtain hangs from the top, reaching down to the floor. The curtain has deep vertical folds and a slight sheen. On either side of the curtain, the walls are made of light-colored stone or plaster, featuring intricate architectural details. There are several arched doorways or alcoves, each framed by elaborate carvings and moldings. The floor is made of large, polished, light-colored tiles that reflect the light. The overall atmosphere is one of elegance and grandeur.

THANK YOU!