Quarterly Commentary on Macroprudential Policy

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SUMMARY OF THE NBS BANK BOARD'S DECISION

ON THE SETTING OF THE COUNTERCYCLICAL CAPITAL BUFFER RATE

Buffer rate to be increased	- Credit market risks continued to increase in the first quarter of 2019, but at a slower pace - The economy is still overheating - The banking sector's profitability is increasingly sensitive, in particular to credit risk costs - Strong risk appetite is present in the banking sector - The composite indicator of the financial cycle remains elevated
Approved buffer rates	- The buffer rate until 31 July 2019: 1.25% - The buffer rate from 1 August 2019: 1.50% - The buffer rate from 1 August 2020: 2.00%
The financial cycle	- The cycle's expansionary phase continued in the first quarter of 2019 - Cyclical risk was high in all areas: - excessive credit growth - economic overheating, evident mainly in the labour market - continuing growth in prices of flats - low credit risk costs and low risk perception - The build-up of risks is expected to continue in the near term, according to simulations
Outlook for the next quarter	- A decision to increase the buffer rate is not expected to be taken in the next quarter - In the event of adverse financial market developments, in particular a build-up of credit losses in the banking sector, Národná banka Slovenska stands ready to immediately reduce the buffer rate to the extent necessary

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Introduction

A sound financial system is a prerequisite for a well-functioning economy and sustainable economic growth. The financial sector fulfils certain basic and vital functions in the economy (providing financing, enabling saving and investment, operating payment systems, etc.). A financial system cannot be sound unless it is stable, i.e. the financial sector is sufficiently resilient to potential shocks and risks that could in certain circumstances disrupt the sector's functioning and thus have adverse repercussions on the economy. The purpose of macroprudential policy is to deploy various tools to support financial stability, mainly by increasing the financial system's resilience and by mitigating the build-up of systemic risks. To that end, macroprudential policy aims to identify, monitor, assess and reduce systemic risks to the financial system.

The purpose of the Quarterly Commentary on Macroprudential Policy (QCMP) is to monitor current developments in the financial market – focusing mainly on the credit market – and to evaluate systemic risk trends related to these developments. In this edition of the QCMP, the quantitative and qualitative assessment is based on the information available for the first quarter of 2019. The Bank Board of Národná banka Slovenska (NBS) regularly refers to the QCMP when taking its quarterly decision on the setting of the countercyclical capital buffer (CCyB) rate. The QCMP's analytical assessment may also be referred to for decisions on activating or changing other macroprudential policy instruments. The document is divided into three parts:

(i) a brief analysis and evaluation of the most significant systemic-risk-related developments which occurred during the quarter under review;

(ii) the current setting of, and any changes to, macroprudential policy instruments, including the latest decision on the setting of the CCyB rate;

(iii) a table showing the macroprudential policy objectives under review.

1 Assessment of trends in the first quarter of 2019

The financial market situation in the first quarter of 2019 saw the continuation of the financial cycle's expansionary phase, though with a gradual slowdown in loan growth. Cyclical risks therefore continued to build up, but at a more moderate pace compared with previous quarters. Factors stimulating loan demand remained present in the economy and included favourable macroeconomic trends, low interest rates, and strong competition in the credit market. Rising property prices also continued to support loan demand, with the supply of properties coming on to the market having been in decline for an extended period. At the same time, however, the moderation of loan growth is reflecting the impact of NBS measures and the gradual saturation of the household credit market.

Private sector credit growth[1] maintained its downward trend in the first quarter of 2019, with its year-on-year rate easing to 8% (from 8.5% in the fourth quarter of 2018). Nevertheless, this growth rate was still one of the highest among EU countries, far exceeding the averages for the EU (2.8%), euro area (1.8%), and central and eastern European countries (5.5%). While annual growth in loans to non-financial corporations (NFCs) has been stable for a year, at around 5% (4.9% in the first quarter of 2019), growth in loans to households has been decelerating (to 9.6% in the first quarter of 2019, from 10.3% at the end of 2018). Despite moderating, however, household loan growth remains excessive vis-à-vis economic fundamentals – higher than GDP growth and household disposable income growth. Loan growth is also having an upward impact on private sector indebtedness, whose marked rise in recent years has been driven by both the NFC and household sectors. In recent quarters, however, indebtedness has begun to stabilise, and in the first quarter of 2019 it stood at 94.1% of GDP.

Recent macroeconomic developments have been a major factor in the build-up of cyclical risks in the credit market. Although Slovakia's economy grew at a somewhat slower pace in the fourth quarter of 2018 and first quarter of 2019,[2] it continued to operate above potential. The slowdown of GDP growth indicates that the economic upswing has already peaked and that the economic overheating will stabilise in coming quarters. The labour market, however, is

[1] Loans provided by domestic banks to the household sector (S.14 and S.15) and the non-financial corporations sector (S.11) in Slovakia (source: banks' reporting – statement V (NBS) 33 - 12).

[2] The economy grew by 3.6% in the fourth quarter of 2018 and 3.7% in the first quarter of 2019, down from 4.6% in the third quarter of 2018.

expected to remain tight. The current combination of historically low unemployment rates[3] and skilled labour shortages are putting upward pressure on wage growth.[4] Economic developments may therefore stimulate private sector demand for loans in the next period, though they are also supporting the build-up of cyclical risks that will materialise when the business cycle turns and macroeconomic trends deteriorate.

Slovakia's loan demand growth and credit market overheating have also, for a long time, been linked with property market developments. The annual growth rate of prices of existing flats has been in double digits for almost a year,[5] amid a continuing decrease in the supply of such flats.[6] Owing to the strong growth in property prices, which has been outpacing average nominal wage growth, the housing affordability index continued falling in the first quarter of 2019. At the same time, demand for housing is under downward pressure from the gradual saturation of the housing loan market, the increasing indebtedness of households, and the moderation of employment growth.

The banking sector's profitability remains relatively stable from a long-term perspective. At the same time, however, banks are increasingly sensitive to cyclical risks. The aggregate net profit of the Slovak banking sector in the first quarter of 2019 was close to its level for the same period in 2018.[7] This trend, however, has been significantly affected by two factors: banks' ramping up of lending activity as a way of compensating for interest margin compression, and the current low level of credit risk costs. Banks have also been benefiting from rising interest income on loans to NFCs. Gradually, however, banks are becoming increasingly sensitive to further interest rate movements and to developments in credit risk losses, which are currently at extremely low levels. It is estimated that if the credit risk cost ratio increased to its average level for the period 2013–2016, the banking sector's net profit could fall by almost one-third. The sector's solvency improved slightly in the first quarter of 2019, with the aggregate total capital ratio increasing by 0.2 percentage point between the end of December 2018 and the end of March 2019, to 18.4%. At the same time, low interest rates are expected to continue putting downward pressure on banks' profitability.

The financial cycle's current expansionary phase is also indicated by the Cyclogram, a composite indicator of the domestic financial cycle, which although it has not been increasing since summer 2018, remains close to

[3] 5.03% at the end of the first quarter of 2019; source: Office of Labour, Social Affairs and Family of the Slovak Republic (ÚPSVaR SR).

[4] The year-on-year increase in wages was 7.1% in the first quarter of 2019; source: Statistical Office of the Slovak Republic (SO SR).

[5] The year-on-year increase in flat prices was 11.9% in the first quarter of 2019; source: Cenová mapa nehnuteľností (Property Price Map).

[6] The average year-on-year decrease in the supply of flats was 7% in the first quarter of 2019; source: Cenová mapa nehnuteľností.

[7] The year-on-year decrease in banks' aggregate net profit for the first quarter of 2019 was 3.2%.

historical highs. So although cyclical risks associated with financial cycle developments are still accumulating, they are doing so more slowly compared with previous quarters. The Cyclogram's levelling-off stems largely from the slowdown of credit market growth. The principal upward pressure on the indicator in the first quarter of 2019 was from property market developments. As regards the Cyclogram's relevance for the countercyclical capital buffer rate, the benchmark buffer rate based on this indicator was 2.00% at the end of the first quarter. At the same time, a simulation of the Cyclogram's future trend indicates that it will remain stable over the next four quarters and that in an upward direction would affect macroeconomic developments.

Most of the current risks to the financial market are cyclical in nature and are related to the possibility of the business and financial cycles turning more quickly and more sharply than currently projected, with adverse consequences for the financial sector. Such a scenario could arise if global economic growth and global demand decrease on the back of faltering confidence and economic sentiment in countries significant for global trade. Another risk is the potential escalation of protectionist measures in international trade, and there are also political and geopolitical risks, including the persisting possibility of a 'no deal' Brexit.

2 Macroprudential policy decisions

2.1 Latest NBS decision taken with respect to developments in the quarter under review

On 23 July 2019 the NBS Bank Board decided that the CCyB rate will be raised to 2.00% with effect from 1 August 2020. In taking its decision on the CCyB rate, the NBS Bank Board gave due consideration to the views of the European Central Bank (ECB) in accordance with Article 5 of the SSM Regulation.[8]

Given current capital levels across banks in Slovakia, the increase in the CCyB rate is not expected to have a significant impact on the domestic banking sector. Some banks, however, will be unable to meet their capital requirements unless they take additional measures, including mainly changes in the area of dividend policy. In view of the characteristics of the Slovak credit market, including strong competition, the CCyB rate increase is not expected to affect credit growth and credit availability to a significant extent.

2.2 Current macroprudential instrument settings

Countercyclical capital buffer

The CCyB rate was set at 1.25% as from 1 August 2018 and at 1.50% as from 1 August 2019, under, respectively, NBS Decision No 8/2017 of 10 July 2017[9] and NBS Decision No 6/2018 of 3 July 2018.[10]

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[8] Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions.

[9] https://www.nbs.sk/_img/Documents/_Dohlad/Makropolitika/8_2017_EN.pdf

[10] https://www.nbs.sk/_img/Documents/_Dohlad/Makropolitika/WEB_rozhodnutie_vankus__TRA-EN_July_2018.pdf

TABLE 1 COUNTERCYCLICAL CAPITAL BUFFER RATES FOR SLOVAK EXPOSURES	
Period of application	Rate
1 August 2018 – 31 July 2019	1.25%
1 August 2019 – 31 July 2020	1.50%
1 August 2020 –	2.00%

Source: NBS.

An overview of current and future CCyB rate settings in other countries is given in Table 6 in the Annex.

Buffers for significant banks

Under NBS Decision Nos 5/2017 and 6/2017 of 30 May 2017, banks in Slovakia identified as 'other systemically important institutions' (O-SIIs) have been required since 1 January 2018 to maintain a total additional capital buffer (comprising an O-SII buffer and in some cases also a systemic risk buffer (SRB)) of between 1% and 2% of risk-weighted exposures. Under NBS Decision Nos 3/2019 and 4/2019 of 28 May 2019, the total additional capital buffer requirements will remain unchanged from 1 January 2020.

TABLE 2 OVERVIEW OF RATES FOR O-SII BUFFERS AND SYSTEMIC RISK BUFFERS		
	O-SII buffers effective from 1 January 2018	SRBs effective from 1 January 2018
Československá obchodná banka, a.s.	1.00%	-
Poštová banka, a.s.	1.00%	-
Slovenská sporiteľňa, a.s.	1.00%	1.00%
Tatra banka, a.s.	0.50%	1.00%
Všeobecná úverová banka, a.s.	1.00%	1.00%

Source: NBS.

Regulatory conditions for retail lending

On 29 May 2018 the NBS Bank Board approved a Decree amending the NBS Consumer Loan Decree and a Decree amending the NBS Housing Loan Decree. The new decrees tighten regulatory loan-to-value (LTV) ratio limits. Thus, the provision of loans with an LTV ratio greater than 90% is prohibited, and the percentage of new loans that may have an LTV ratio of between 80% and 90% is reduced. In addition, the Decrees introduce a new debt-to-income (DTI) ratio limit, set at 8. There is a general exemption from this limit that will be gradually tightened. The Decrees entered into force on 1 July 2018. As of 1 July 2019, in accordance with these amendments, the maximum share of new housing loans with an LTV ratio of more than 80% was reduced to 20%, and the maximum share of new loans with a DTI ratio greater than 8 was reduced from 10% to 5%. In the case of the DTI ratio, the exemption may still be extended up to 10% provided that each loan included in the additional exemption range is a housing loan provided to a borrower who is not older than 35 years and whose income does not exceed 1.3 times the average wage. For loans included in the additional range, the DTI ratio may not exceed 9.

TABLE 3 REGULATORY LENDING LIMITS

Indicator	Calculation	Parameter	Limit
Debt-service-to-income (DSTI) ratio	$\frac{\text{total debt service obligations}^{1)}}{\text{net income – minimum subsistence amount}}$	Maximum DSTI ratio	80%[2]
Loan-to-value (LTV) ratio[3]	$\frac{\text{amount of loan}}{\text{value of collateral}}$	Maximum LTV ratio	90%
		Maximum share of new loans with an LTV ratio > 80%	From 1 July 2019: 20%
Debt-to-income (DTI) ratio	$\frac{\text{total debt}}{\text{annual net income}}$	Maximum share of new loans with a DTI ratio > 8	From 1 July 2019: 5% + 5%[4]
Maximum term of loan		Loan secured by immovable property or provided by a home savings bank	30 years[5]
		Other loan	8 years

Source: NBS.

Notes: Compliance with the limits is checked only when granting a new loan, or when significantly increasing the total amount of an existing loan. The measures do not apply to loans that are to be used to refinance one or more existing loans, nor to loans that are to be topped up, provided that the amount of the loan applied for does not exceed €2000 or 5% of the outstanding amounts, whichever is lower.

1) The amount of loan instalments takes into account interest rate increases.
2) DSTI ratios may exceed 100% in the following cases:
- consumer loans where the sum of the loan applied for and the borrower's existing debt does not exceed the borrower's annual net income;
- leasing contracts that include a down payment of at least 20% and where the sum of the lease and the borrower's existing debt is not greater than 1.5 times the borrower's annual income.

3) The limit applies only to housing loans.
4) For the first 5%, no additional conditions apply. For the second 5%, the loans provided must be housing loans, the borrower must not be older than 35 years, the borrower's income must not exceed 1.3 times the average wage, and the DTI ratio may not be greater than 9.
5) Up to 10% of new loans secured by immovable property may exceed this limit.

Other currently applicable macroprudential policy instruments, covering mainly the area of capital requirements, are listed in Tables 5 to 7 in the Annex.

2.3 Potential application of macroprudential policy instruments over the medium term

Retail lending

Národná banka Slovenska has adopted several measures in regard to retail lending (outlined above), the purpose of which is to contain the build-up of risks related to excessive credit growth. The phased-in tightening of regulatory lending limits was completed with the measures implemented from 1 July 2019 in accordance with NBS Decree Nos 6/2018 and 7/2018. Going forward, it will be necessary to monitor credit market developments.

Expectations for the CCyB rate in the next quarter

The recent build-up of risks in the Slovak financial market is a corollary of the financial cycle's expansionary phase. It is typical for the expansionary phase of a financial cycle to be accompanied by excessive credit growth and leverage, economic overheating, and the underestimation of risk, which create risks that eventually materialise at the turn of the financial cycle. In the current expansionary phase, moreover, the banking sector and private sector are becoming increasingly sensitive to cyclical risks. In response to these trends, Národná banka Slovenska has been gradually increasing the countercyclical capital buffer rate in an effort to incentivise the banking sector to strengthen its capital buffers against the risks that will materialise at times of financial stress. The outlook for the next period indicates that cyclical risks will continue mounting, albeit more moderately than they did in previous quarters. Imbalances are expected to result mainly from macroeconomic developments and the current overheating of the labour market. It is further envisaged that factors stimulating loan demand – low interest rates, credit market competition, and property price growth – will continue having an impact and will moderate only gradually.

In such a situation, it will be important to monitor the ongoing developments and build-up of risks in the financial market. For the moment, however, a decision to increase the CCyB rate is not expected to be taken in the next quarter. Nevertheless, in the event of adverse financial market developments, in particular a build-up of credit losses in the banking sector, Národná banka Slovenska stands ready to immediately reduce the buffer rate to the extent necessary.

2.4 Recent ECB decisions concerning the Slovak banking sector

As of 17 July 2019 the European Central Bank had not issued any macroprudential policy decision concerning the Slovak banking sector.

3 Macroprudential policy objectives

TABLE 4 MACROPRUDENTIAL POLICY OBJECTIVES

Objectives	Risks	NBS response
To mitigate and prevent excessive credit growth	Household and NFC debt growth; lending to the NFC sector, including commercial real estate lending; risks related to macroeconomic developments at home and abroad and to financial market trends	· Activated countercyclical capital buffer (set at 1.25% until 31 July 2019, at 1.5% from 1 August 2019 and at 2.00% from 1 August 2020) · Decrees concerning the prudential provision of housing loans and consumer loans (introduction of lending limits and tightening of LTV ratios)
To strengthen the resilience of the financial system	Business model sustainability; macroeconomic developments at home and abroad	· Capital conservation buffer implemented at a rate of 2.5% · Activated countercyclical capital buffer (set at 1.25% until 31 July 2019, at 1.5% from 1 August 2019 and at 2.00% from 1 August 2020) · Application of O-SII buffers, and in some cases also an SRB, to the five largest banks · Decrees concerning the prudential provision of housing loans and consumer loans (introduction of lending limits and tightening of LTV ratios)
To mitigate and prevent excessive maturity mismatch in banks' balance sheets and market illiquidity	Increasing maturity mismatch between assets and liabilities; increase in long-term assets as a result of credit growth; rising loan-to-deposit ratios	· A new legislative framework for the issuance of covered bonds, with a potential positive impact on the stability of banks' long-term funding
To limit direct and indirect exposure concentrations	Relatively high concentration in (part of) the portfolio, or higher intra-group exposure, in certain institutions or funds	· Additional capital buffers applied to the five largest banks on grounds of their systemic importance – comprising O-SII buffers and in some cases also a SRB
To limit the systemic impact of misaligned incentives with a view to reducing moral hazard	Existence of banks that are too large from the view of the global/domestic economy; increasing linkages between financial entities and financial brokers; under the EU's banking union, the potential relaxing of EU regulatory rules for banks that are subsidiaries of foreign banks, particularly in the areas of liquidity, capital, and large exposures; risks in non-bank sectors	· Application of O-SII buffers, and in some cases also an SRB, to the five largest banks · The Housing Loan Act and Consumer Credit Act require financial institutions to take a prudential approach when cooperating with financial brokers · Supervision of non-bank lenders · Since 2015, significant strengthening of NBS's competences and supervisory powers in regard to financial consumer protection
To strengthen the resilience of financial infrastructures	Functioning of payment systems; level of deposit coverage; impact on financial stability of digital innovation in financial services	

Note: Legend for the importance of the objectives:

High Medium Low.

4 Annex

TABLE 5 CAPITAL BUFFER RATES CURRENTLY APPLIED IN SLOVAKIA		
Macroprudential instrument	Value	Note
Capital conservation buffer (Article 33b of the Banking Act)	2.5%	
Countercyclical capital buffer rate (Article 33g of the Banking Act)	1,25%	To be increased to 1.5% as from 1 August 2019 and to 2.00% from 1 August 2020
O-SII buffer (Article 33d of the Banking Act)[1]	0.5% to 1%	
Systemic risk buffer (Article 33e of the Banking Act)[2]	1%	

Source: NBS.

Notes:

[1] An O-SII buffer is applied to Československá obchodná banka, a.s., Poštová banka, a.s., Slovenská sporiteľňa, a.s., Tatra banka, a.s. and Všeobecná úverová banka, a.s

[2] A systemic risk buffer is applied to Slovenská sporiteľňa, a.s., Tatra banka, a.s. and Všeobecná úverová banka, a.s.

TABLE 6 COUNTERCYCLICAL CAPITAL BUFFER (CCYB) RATES CURRENTLY APPLIED TO EXTERNAL EXPOSURES (ARTICLES 33I AND 33J OF THE BANKING ACT) AND CHANGES SCHEDULED FOR THESE RATES IN COMING QUARTERS

	Country	30 Sep. 2018	31 Dec. 2018	31 Mar.2019	30 Jun. 2019	30 Sep. 2019	31 Dec. 2019	31 Mar.2020	30 Jun. 2020	30 Sep. 2020	Note
EEA countries	Belgium	0	0	0	0	0	0	0	0	0.5	↑ to 0.25% from 1 July 2020
	Bulgaria	0	0	0	0	0	0.5	0.5	1	1	↑ to 0.5% from 1 October 2019 and to 1% from 1 April 2020
	Czech Republic	1	1	1.25	1.25	1.5	1.5	1.75	1.75	2	↑ to 1.5% from 1 July 2019, to 1.75% from 1 January 2020 and to 2% from 1.7.2020
	Denmark	0	0	0.5	0.5	1	1	1	1	1	↑ to 0.5% from 1 March 2019 and to 1% from 30 September 2019
	France	0	0	0	0	0.25	0.25	0.25	0.5	0.5	↑ to 0.25% from 1 July 2019 and to 0.5% from 2 April 2020
	Ireland	0	0	0	0	1	1	1	1	1	↑ to 1% from 5 July 2019
	Lithuania	0	0.5	0.5	1	1	1	1	1	1	↑ to 1% from 30 June 2019
	Luxemburg	0	0	0	0	0	0	0.25	0.25	0.25	↑ to 0.25% from 1 January 2020
	Germany	0	0	0	0	0	0	0	0	0.25	↑ to 0.25% from 1 July 2020
	United Kingdom	0.5	1	1	1	1	1	1	1	1	
	Sweden	2	2	2	2	2.5	2.5	2.5	2.5	2.5	↑ to 2.5% from 19 September 2019
Non-EEA	Iceland	1.25	1.25	1.25	1.75	1.75	1.75	2	2	2	↑ to 1.75% from 15 May 2019 and to 2% from 1 February 2020
	Hong Kong	1.88	1.88	2.50	2.50	2.5	2.5	2.5	2.5	2.5	
	Norway	2	2	2	2	2	2.5	2.5	2.5	2.5	↑ to 2.5% from 31 December 2019

Sources: ESRB and BIS.
Notes: The table shows only countries where a non-zero CCyB rate has been set.
The scheduled rates are based on decisions currently in force; they may, however, be changed by subsequent decisions.

TABLE 7 BUFFERS AND PARAMETERS WHICH ARE CURRENTLY APPLIED TO EXPOSURES TO FOREIGN COUNTRIES AND ARE ALSO APPLIED TO SLOVAK BANKS

Country	Macroprudential instrument	Value
Estonia	Systemic risk buffer (Article 33f of the Banking Act)	1%
Sweden, Romania	Risk weight for exposures fully secured by mortgages on commercial immovable property (Article 124 of the EU's 2013 Capital Requirements Regulation/CRR)	100%
Norway	Minimum value of the exposure weighted average loss given default (LGD) for all retail exposures secured by residential property and not benefiting from guarantees from central governments (Article 164 of the CRR)	20%

Sources: NBS and ESRB.

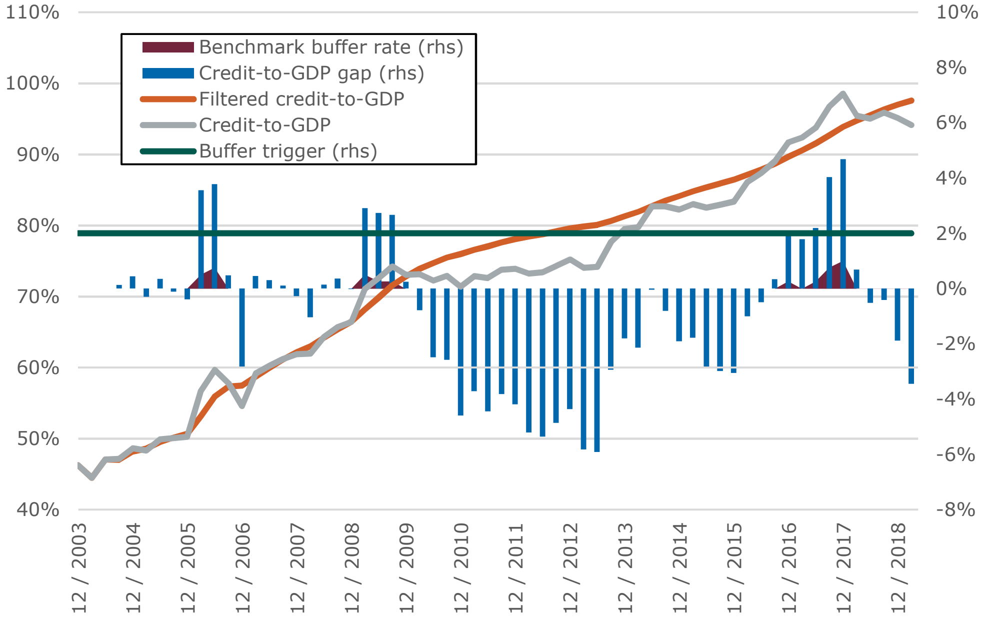
TABLE 8 MACROPRUDENTIAL MEASURES CURRENTLY IN FORCE IN OTHER EU COUNTRIES BUT NOT APPLIED TO SLOVAK BANKS ON GROUNDS OF LOW EXPOSURE

Country	Macroprudential instrument	Value
Belgium	A risk-weight add-on for retail exposures secured by residential immovable property located in Belgium, applied to banks using the internal ratings-based (IRB) approach (Article 458(2)(d)(vi) of the CRR)	5 p. p. + 33% of average risk weight
Finland	A floor for the average risk weight for exposures secured by residential immovable property located in Finland, applied to banks using the IRB approach (Article 458(2)(d)(vi) of the CRR)	15%
France	A tightening of the large exposure limit applicable to exposures to highly indebted large nonfinancial corporations having their registered office in France, applied to global systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs) (Article 458(2)(d)(ii) of the CRR) **In this regard, NBS warns that there are systemic risks associated with the increased leverage of large NFCs having their registered office in France**[11]	5% of eligible capital
Sweden	A floor for the average risk weight for the portfolio of retail exposures to obligors residing in Sweden secured by immovable property, applied to banks using the IRB approach (Article 458(2)(d)(vi) of the CRR)	25%

Sources: NBS and ESRB.

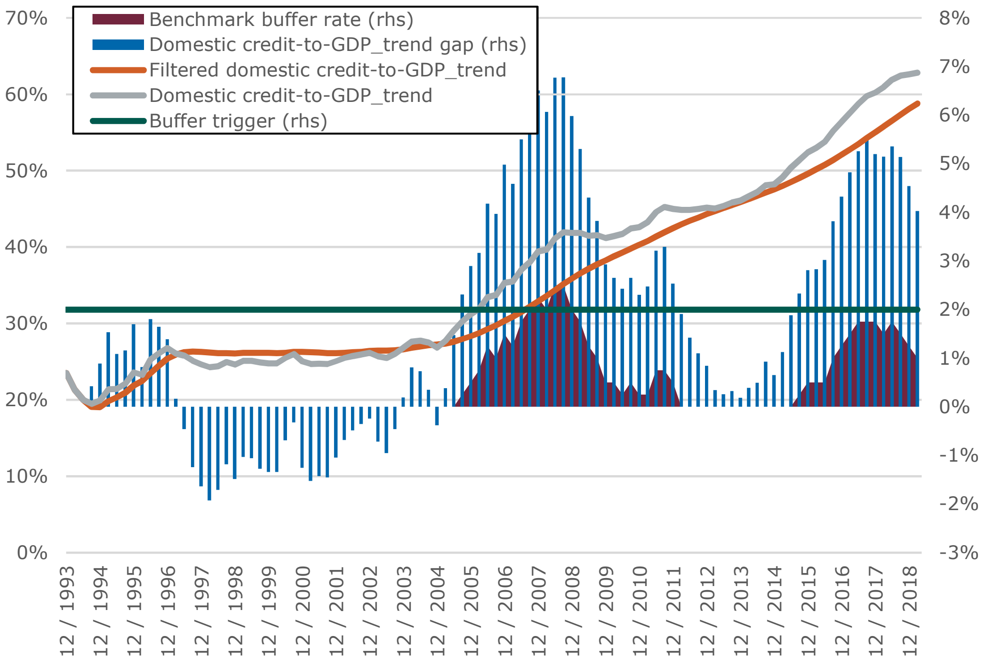
[11] Signalling in accordance with Recommendation ESRB/2015/2.

Chart 1
Standardised credit-to-GDP gap



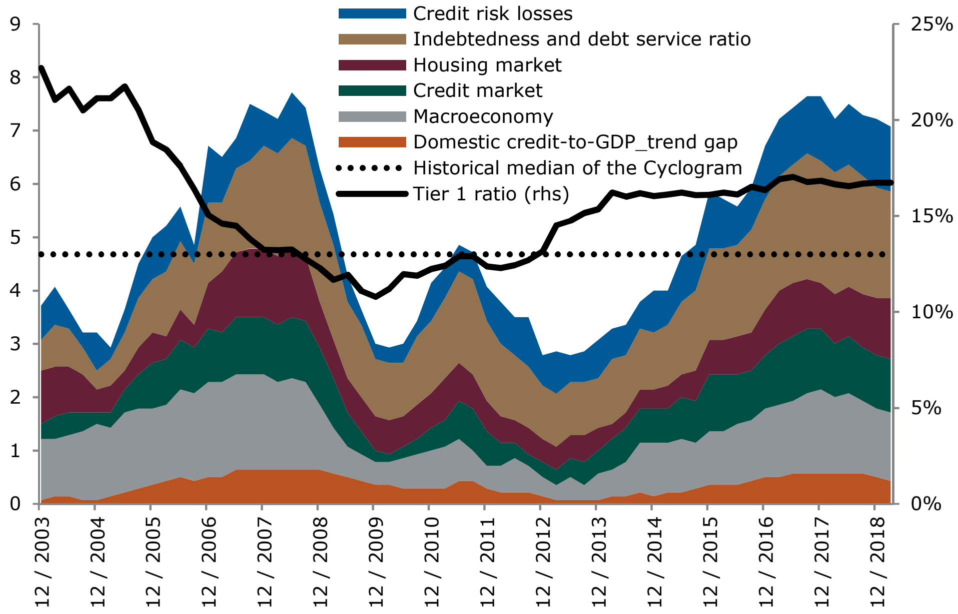
Sources: NBS and SO SR.
Notes: In the standardised credit-to-GDP gap, credit refers to the total outstanding amount of debt of NFCs and households.
The benchmark buffer rate is calibrated in accordance with Part 2 of the Annex to Recommendation No ESRB/2014/1.
The trigger value for a non-zero CCyB and the values of the 'gap' are shown on the right-hand scale.

Chart 2
Domestic credit-to-GDP$_{\text{trend}}$ gap



Sources: NBS and SO SR.
Notes: Domestic credit-to-GDP$_{\text{trend}}$ gap, domestic credit refers to total outstanding amount of credit provided by the domestic banking sector to NFCs and households.
Domestic credit-to-GDP$_{\text{trend}}$ gap is calculated in accordance with Article 33g(2a) of the Banking Act and with Recommendation B 2, of Recommendation No ESRB/2014/1.
The trigger value for a non-zero CCyB and the values of the 'gap' are shown on the right-hand scale.

Chart 3
Cyclogram



Sources: NBS, SO SR and CMN.
Notes: The indicator is calculated in accordance with Article 33g(1c) of the Banking Act and with Recommendations C and D of Recommendation ESRB/2014/1.

TABLE 9 HEADLINE INDICATORS FOR THE COUNTERCYCLICAL CAPITAL BUFFER AS AT 31 MARCH 2019

Indicator	Benchmark buffer rate	Credit-to-GDP ratio	Deviation of the creditto-GDP ratio from its long-term trend
Standardised credit-to-GDP gap (Chart 1)	0.00%	95.1%	-1.89%
Domestic credit-to-GDP$_{trend}$ gap (Chart 2)	1.00%	60.7%	4.02%
Cyclogram (Chart 3)	2.00%	-	-

Source: NBS.
Notes: The table is compiled on the basis of requirements arising from Article 33g(2) of the Banking Act and in accordance with Part II of the Annex to Recommendation ESRB/2014/1.
Owing to its short time series, the standardised credit-to-GDP gap does not yet provide a meaningful value for the countercyclical capital buffer.