



NATIONAL COMMITTEE FOR MACROPRUDENTIAL OVERSIGHT

NCMO Recommendation No R/4/2017 on the countercyclical capital buffer in Romania

Having regard to:

- (1) Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC, namely Art. 130 and Art. 136 concerning the countercyclical capital buffer, Art. 160 regarding the gradual or accelerated steps of adjustment of the countercyclical capital buffer, and Article 162 para. (2) on the applicability of capital buffers,
- (2) The aim of the countercyclical capital buffer (CCB) is to improve the banking sector's resilience to potential losses generated by excess credit growth. The CCB is built up in periods of excess credit growth as an add-on to the capital conservation buffer and may be released during credit crunches in order to absorb losses. The countercyclical buffer rate is expressed as a percentage of total risk exposure amount of credit institutions with credit exposures in Romania, shall range between 0 percent and 2.5 percent and shall be calibrated in steps of 0.25 percentage points or multiples of 0.25 percentage points. Where justified, a CCB rate higher than 2.5 percent of total risk exposure amount may be set.

Whereas:

Regarding the countercyclical capital buffer, it should be noted that:

- the analysis on the excessive growth of credit and private indebtedness showed that total indebtedness (non-financial corporations and households) further stays below the alert threshold that signals an excessive credit growth; however, the differential between the value of the alternative indicator and the signalling threshold

narrowed markedly since the previous analysis, reaching -0.42 percentage points in March 2017 versus -0.51 percentage points in December 2016;

- at sectoral level, there are further signals indicating the build-up of vulnerabilities related to household lending, the alert threshold being exceeded for the sixth quarter in a row;
- residential property prices continued to increase¹, their growth rate reaching 5.12 percent² in March 2017 versus March 2016 (4.93 percent in real terms over the same period), standing below the 6 percent alert threshold recommended by the European Commission. However, this information should be interpreted with caution, taking account of the changes made by the NIS in the calculation methodology of residential property prices.

Pursuant to:

- Art. 3 para. (1) and para. (2) and Art. 4 para. (1) of Law No. 12/2017 on the macroprudential oversight of the national financial system,

the National Committee for Macroprudential Oversight has adopted this recommendation:

Having regard to the fact that total indebtedness currently remains below the alert threshold and setting a countercyclical capital buffer rate above 0 percent is, thus, not necessary, the National Bank of Romania is recommended to maintain the countercyclical capital buffer rate at 0 percent and monitor developments in household indebtedness.

MUGUR ISĂRESCU

Chairman

¹The National Institute of Statistics changed the calculation methodology of residential property prices, which accounts for the fact that the annual growth rate for March 2017 lacks comparability.

²Data available in Prices Statistical Bulletin No.3/2017 released by the NIS; Eurostat data point to a growth rate of house prices of 7.3 percent in December 2016 versus the same year-ago period.