Governing Council statement on macroprudential policies

28 June 2024

The Governing Council of the European Central Bank (ECB) is releasing the following statement following the meeting of its Macroprudential Forum on 19 June 2024.

Since the Governing Council statement issued in November 2022,[1] many countries participating in European banking supervision have continued with the implementation or adjustment of their capital-based and/or borrower-based macroprudential measures. Specifically, several authorities have increased releasable capital buffer requirements (i.e. countercyclical capital buffers and systemic risk buffers) to address relevant vulnerabilities and to enhance their capacity to respond to adverse shocks should they materialise. In addition, authorities have implemented or maintained borrower-based measures, primarily with the aim of ensuring sound lending standards in mortgage markets. Currently, 15 countries participating in European banking supervision have announced or have implemented a positive rate for the countercyclical capital buffer, 12 countries have announced or have implemented a positive rate for the (sectoral) systemic risk buffer, and 16 countries have applied some form of borrower-based measures.[2]

The Governing Council calls on national macroprudential authorities to maintain current capital buffer requirements. The euro area financial cycle is contracting in an orderly manner and the banking system has thus far proven resilient; vulnerabilities in the financial system have eased but are still elevated. Since mid-2022, credit growth and property price growth have decelerated markedly across the banking union in a context of tighter financial conditions and a challenging macro-financial environment. At the same time, bank profitability has increased to the highest level seen since the 2008 global financial crisis, driven by higher net interest income and a low cost of risk so far. However, headwinds facing bank profitability are expected to increase and vulnerabilities relevant for macroprudential policy remain, particularly in the form of high indebtedness and continuing signs of overvaluation in real estate and financial markets in several countries. In addition, geopolitical risk and macro-financial uncertainty remain elevated, creating the potential for further adverse shocks to the economy and to the financial system, while increased threats from cyber risks may also pose challenges to financial stability.[3] Against this background, and in the absence of signs of

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1. See "Governing Council statement on macroprudential policies", ECB, 2 November 2022.
2. For a comprehensive overview of current macroprudential measures in all European Union countries, see the website of the European Systemic Risk Board. A recent ECB Occasional Paper, entitled "The sectoral systemic risk buffer: general issues and application to residential real estate-related risks" and prepared by a workstream of the ESCB's Financial Stability Committee, discusses the increased application of the sectoral systemic risk buffer, enabled with the 2019 revision of the Capital Requirements Directive.
3. A detailed assessment of current financial stability risks for the euro area can be found in the May 2024 ECB Financial Stability Review.

widespread losses or credit supply constraints arising from bank capital, national authorities should maintain existing capital buffer requirements. This should help to preserve banking sector resilience and ensure that buffers are available in case the banking sector or macro-financial conditions deteriorate.

The Governing Council supports national authorities planning to increase capital buffer requirements. A further build-up of releasable capital buffer requirements to address vulnerabilities and enhance macroprudential space remains desirable in some countries, as prevailing banking sector conditions limit the risks of procyclicality. Higher releasable capital buffers provide benefits by enhancing macroprudential authorities' capacity to address vulnerabilities and react to possible shocks that may lie ahead, including possible shocks in relation to geopolitical and macro-financial uncertainties mentioned above. At the same time, a gradual increase in releasable capital buffer requirements would be unlikely to reduce credit supply much and would therefore imply low economic costs. This is because banks are profitable and/or have comfortable headroom above the capital requirements. The Governing Council therefore supports those national authorities planning to increase releasable capital buffers at the current juncture.

Although an orderly residential real estate downturn is visible in a few countries, the Governing Council calls on national authorities to maintain existing borrower-based measures to preserve sound and sustainable lending standards. The euro area residential real estate downturn has primarily been driven by price drops in a few countries, while prices continue to increase in most countries. Given this risk environment, existing borrower-based measures, such as caps on how much a client can borrow relative to its income or the value of the collateral, should be maintained as backstops to prevent excessively risky lending. While a general easing of the limits should be avoided, targeted adjustments to certain country-specific design elements could be considered should they prove to be overly binding in the current environment, as has already been done by some countries participating in European banking supervision in the recent past.

Postal address 60640 Frankfurt am Main, Germany
Telephone +49 69 1344 0
Website www.ecb.europa.eu

For specific terminology please refer to the ECB glossary (available in English only).

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