



Commission de Surveillance  
du Secteur Financier

CSSF Regulation  
No 21-03 of  
30 September 2021 on  
the setting of the  
countercyclical buffer  
rate for the fourth  
quarter of 2021

## CSSF Regulation No 21-03 of 30 September 2021 on the setting of the countercyclical buffer rate for the fourth quarter of 2021

(Mém. A 2021, No 700)

*The Executive Board of the Commission de Surveillance du Secteur Financier,*

Having regard to Article 108a of the Constitution;

Having regard to the Law of 23 December 1998 establishing a financial sector supervisory commission ("Commission de surveillance du secteur financier"), and in particular Article 9(2) thereof;

Having regard to the Law of 5 April 1993 on the financial sector ("LFS"), and in particular Article 59-7 thereof, pursuant to which the CSSF as the designated authority shall, after consultation with the BCL, be responsible for setting the countercyclical buffer rate applicable in Luxembourg;

Having regard to CSSF Regulation N° 15-01 on the calculation of institution-specific countercyclical capital buffer rates, transposing Article 140 of Directive 2013/36/EU;

Having regard to CSSF Regulation N° 15-04 on the setting of a countercyclical buffer rate;

Having regard to CSSF Regulation N° 15-05 on the exemption of investment firms qualifying as small and medium-sized enterprises from the requirements to maintain a countercyclical capital buffer and capital conservation buffer;

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 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, and in particular Articles 130, 135 and 136 thereof;

Having regard to 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 ("SSM Regulation"), and in particular Article 5 thereof;

Having regard to the Recommendation of the European Systemic Risk Board of 18 June 2014 on guidance for setting countercyclical buffer rates ("Recommendation ESRB/2014/1");

Having regard to the Recommendation of the Comité du risque systémique (Systemic Risk Committee) (CRS/2021/004) of 6 September 2021 on the setting of a countercyclical buffer rate for the fourth quarter of 2021;

Having regard to the decision of the ECB of 23 September 2021, adopted pursuant to Article 5 of the SSM Regulation, not to object to the CSSF's intention to take the macro-prudential measures set out in this regulation;

Having regard to the opinion of the Consultative Committee for Prudential Regulation;

*Decides:*

## **Article 1**

### **Applicable countercyclical buffer rate**

In accordance with Article 59-7 of the Law of 5 April 1993, based on the elements documented in Annex 1 and the Recommendation of the Systemic Risk Committee of 6 September 2021 on the setting of a countercyclical buffer rate for the fourth quarter of 2021 documented in Annex 2, the countercyclical buffer rate applicable to the relevant exposures located in Luxembourg shall remain set at 0.50 % for the fourth quarter of 2021.

## **Article 2**

### **Entry into force**

This regulation shall enter into force on the day of its publication in the Journal officiel du Grand-Duché de Luxembourg.

## **Article 3**

### **Publication**

This regulation shall be published in the Journal officiel du Grand-Duché de Luxembourg and on the website of the Commission de Surveillance du Secteur Financier.

Luxembourg, 30 September 2021

### **Commission de Surveillance du Secteur Financier**

**Claude WAMPACH**  
Director

**Marco ZWICK**  
Director

**Jean-Pierre FABER**  
Director

**Françoise KAUTHEN**  
Director

**Claude MARX**  
Director General

Annex 1: Elements taken into account in order to set the applicable countercyclical buffer rate

Annex 2: Recommendation of the Comité du risque systémique (Systemic Risk Committee) of 6 September 2021 on the setting of a countercyclical buffer rate for the fourth quarter of 2021 (CRS/2021/004)

### **Annex 1: Elements taken into account in order to set the applicable countercyclical buffer rate**

In accordance with Article 59-7(2) and (3) of the LFS and Recommendation ESRB/2014/1, the setting of the rate is based on the following indicators:

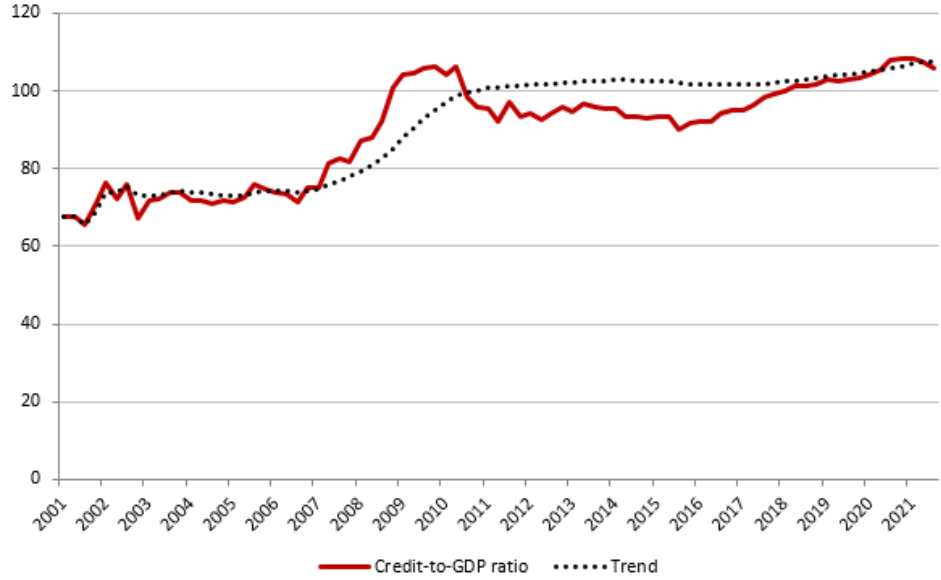
- (a) The credit-to-GDP ratio, based on banking loans granted to Luxembourg households and non-financial undertakings, is estimated at 106.0 % in the second quarter of 2021 (Graph 1).
- (b) The credit-to-GDP gap is estimated at -1.7 % (Graph 2).
- (c) The countercyclical buffer guide calculated according to Recommendation ESRB/2014/1 is set at 0 % (Graph 2).

These indicators reveal that the deviation of the ratio of credit-to-GDP from its long-term trend is currently below the 2 % activation threshold. These indicators based on alternative measures of credit proposed by the European Central Bank, the Bank for International Settlements and the Banque centrale du Luxembourg, all led to credit-to-GDP gaps below the reference threshold of 2 % set in Recommendation ESRB/2014/1.

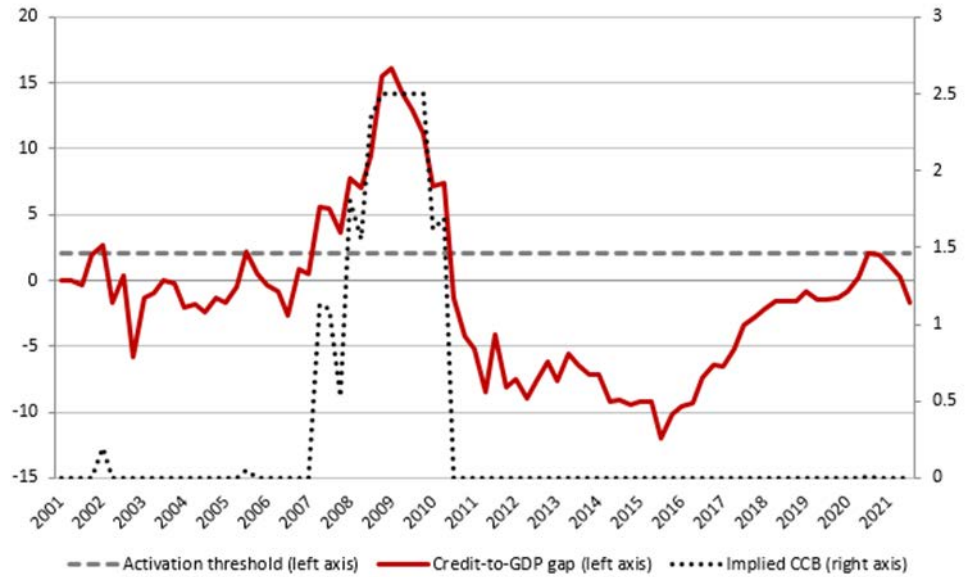
Moreover, other variables have been taken into account, insofar as they can indicate a build-up of systemic risk associated with excessive credit growth, such as credit dynamics, especially mortgage credits, measures of potential overvaluation of property prices, as well as measures linked to macroeconomic environment. It emerges from the analyses carried out by the BCL and the CSSF that the development of banking credit, in particular to households, in the current macroeconomic environment is likely to be a potential source of systemic risk. These analyses show however that the banks' resilience measured by their level of capitalisation or leverage remains stable.

Considering the uncertainty regarding the development in the real economy and the increase of the additional risk indicators, the CSSF maintains the countercyclical buffer rate unchanged at 0.50 % of Luxembourg risk-weighted assets and remains vigilant regarding the development of credit to the non-financial sector.

Graph 1: Banking credit-to-GDP ratio and its long-term trend



Graph 2: Credit-to-GDP gap and countercyclical buffer guide



**Annex 2:**

**RECOMMENDATION OF THE COMITÉ DU RISQUE SYSTÉMIQUE  
(SYSTEMIC RISK COMMITTEE)**

**of 6 September 2021**

**on the setting of a countercyclical buffer rate for the fourth quarter of 2021**

**(CRS/2021/004)**

THE COMITÉ DU RISQUE SYSTÉMIQUE,

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 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, and its Article 130 on the requirement to maintain an institution-specific countercyclical capital buffer et seq.;

Having regard to 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, and in particular Article 5 thereof (“SSM Regulation”);

Having regard to the Law of 5 April 1993 on the financial sector, and in particular Articles 59-1, 59-2, 59-5, 59-6 and 59-7 thereof (“Law of 5 April 1993”);

Having regard to CSSF Regulation N° 15-01 on the calculation of institution-specific countercyclical capital buffer rates;

Having regard to CSSF Regulation N° 15-04 on the setting of a countercyclical buffer rate;

Having regard to CSSF Regulation N° 15-05 on the exemption of investment firms qualifying as small and medium-sized enterprises from the requirements to maintain a countercyclical capital buffer and capital conservation buffer;

Having regard to the Law of 1 April 2015 establishing a Comité du risque systémique (Systemic Risk Committee) and amending the Law of 23 December 1998 concerning the monetary status and the Banque centrale du Luxembourg, as amended, and in particular Article 2(e) and Article 7 thereof;

Having regard to the internal rules of the Systemic Risk Committee of 16 November 2015, and in particular Articles 9, 11 and 12 thereof;

Having regard to the Recommendation of the European Systemic Risk Board (ESRB) of 18 June 2014 on guidance for setting countercyclical buffer rates;

Having regard to the Recommendation of the European Systemic Risk Board of 4 April 2013 on intermediate objectives and instruments of macro-prudential policy;

Whereas the Systemic Risk Committee assesses the appropriate countercyclical buffer rate for Luxembourg in accordance with Article 59-7(3) of the Law of 5 April 1993;

HAS ADOPTED THIS RECOMMENDATION:

## **Part 1 Recommendation on the setting of the countercyclical capital buffer rate**

### **Recommendation A: calibration of the countercyclical buffer rate**

In accordance with Article 59-7(2) of the Law of 5 April 1993, the Systemic Risk Committee recommends that the designated authority maintains the countercyclical capital buffer rate at 0.5 % of Luxembourg risk-weighted assets. In line with Recommendation CRS/2019/008, this rate applies since 1 January 2021.

### **Recommendation B: Notifications**

The Systemic Risk Committee invites the designated authority to make the notifications under Article 59-7(7) of the Law of 5 April 1993, as well as Article 5(1) of the SSM Regulation.

## **Part 2 Implementation of the recommendation**

### **1. Interpretation**

- (a) The terms used in this recommendation have the same meaning as in the Law of 5 April 1993.
- (b) The Annex is an integral part of this recommendation.

### **2. Follow-up**

- 1) The Systemic Risk Committee invites the CSSF as addressee of this recommendation, to communicate, as soon as possible, its follow-up to this recommendation to the Systemic Risk Committee via the secretariat.
- 2) The Systemic Risk Committee invites the secretariat of the committee to publish this recommendation on the website of the Systemic Risk Committee.

### **3. Monitoring and assessment**

- 1) The secretariat of the Systemic Risk Committee:
  - (a) assists the CSSF in order to facilitate the implementation of the recommendation; and
  - (b) prepares a report on the follow-up to this recommendation and informs the Systemic Risk Committee thereof.
- 2) The Systemic Risk Committee assesses and follows up on the responses of the CSSF to this recommendation.

Done in Luxembourg, 6 September 2021.

*For the Systemic Risk Board*  
**Pierre Gramegna**  
*Chairman*

### **Annex - Setting of the countercyclical buffer rate**

The purpose of the countercyclical capital buffer is to counteract the pro-cyclical developments in credit markets. By reinforcing the level of own funds during periods of excessive credit growth, associated with an escalation of system-wide risks, the countercyclical capital buffer contributes to absorb losses in times of stress, while allowing credit institutions to continue granting credit to the economy.

In accordance with Recommendation ESRB/2014/1, the setting of the countercyclical buffer rate by macroprudential authorities follows the principle of “guided discretion”. According to this principle, authorities responsible for setting the buffer rate combine a rules-based approach with the exercise of their discretionary powers when deciding on the appropriate buffer rate.

- Recommendation ESRB/2014/1 specifies the methodological base for the assessment of the countercyclical buffer rate to be associated to the degree of financial intermediation in the economy, measured by the credit-to-GDP ratio.
- The above-mentioned recommendation also lays down that, given the dynamic nature of financial systems and the specificities of national economies, the macroprudential authorities should take into account, in their decision-making, additional indicators that signal the exacerbation of system-wide risk associated with periods of excessive credit growth.

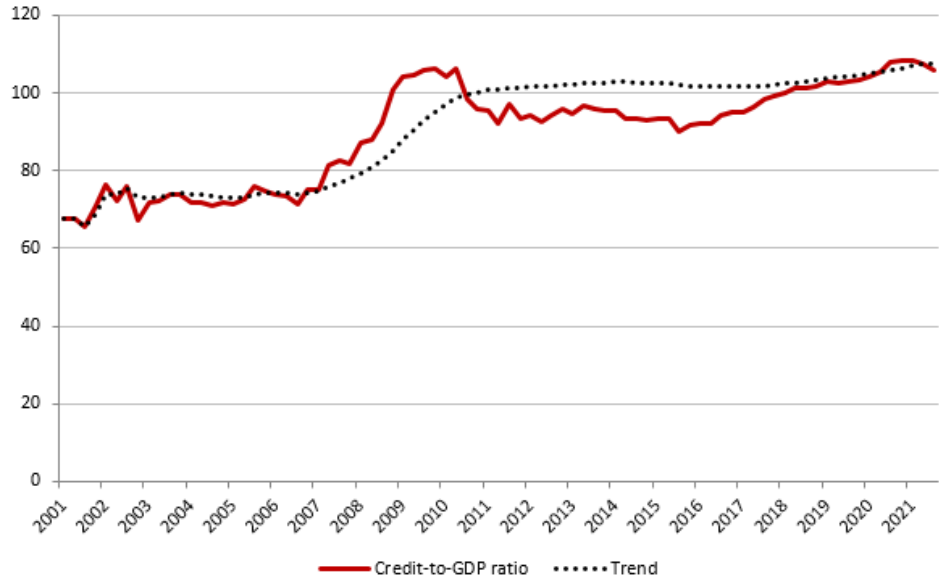
Following the application of the above-mentioned methodology to the most recent quarterly data, the credit-to-GDP ratio in Luxembourg decreased and has now fallen below its long-term trend. Thus, for the reference period, i.e. the second quarter of 2021, the deviation of the credit-to-GDP ratio from its long-term trend is negative; it amounts to -1.69%.

Moreover, additional analyses of cyclical risk assessments carried out by the BCL and the CSSF, based notably on early warning measures and indicators provided for in Recommendation ESRB/2014/1 of 18 June 2014, confirm that the current level of growth of credits granted to households would be likely to be a potential source of cyclical systemic risk.

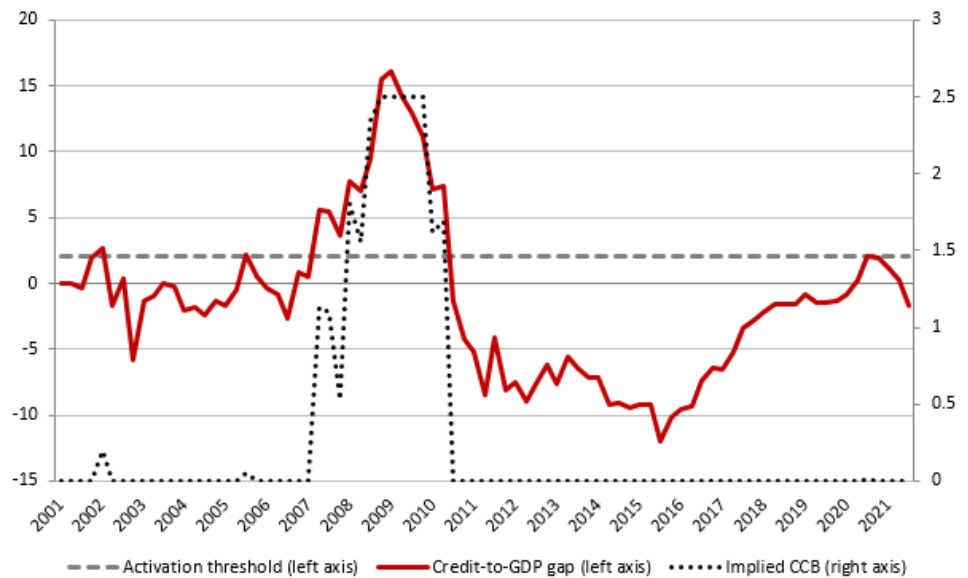
Indeed, the development of banking credit granted to Luxembourg households, as well as the vulnerabilities highlighted by the ESRB in its warning of 28 November 2016 and in its recommendation of 23 September 2019 lead the CdRS to recommend maintaining the countercyclical buffer rate at 0.5 % of Luxembourg risk-weighted assets.



**Graph 1: Banking credit-to-GDP ratio (%) and its HP filter trend**



**Graph 2: Credit-to-GDP gap and countercyclical buffer guide**





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