Commission de Surveillance du Secteur Financier

In case of discrepancies between the French and the English texts, the French text shall prevail.

CSSF Regulation No 18-05 on the setting of the countercyclical buffer rate for the fourth quarter of 2018.

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, after consulting with the BCL, is responsible for setting the countercyclical buffer rate applicable in Luxembourg;

Having regard to CSSF Regulation No 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 No 15-04 on the setting of a countercyclical buffer rate;

Having regard to CSSF Regulation No 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 Systemic Risk Committee (Comité du risque systémique) (CRS/2018/004) of 10 September 2018 on the setting of a countercyclical buffer rate for the fourth quarter of 2018;

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

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

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

Decides:

Article 1
Applicable countercyclical buffer rate

Based on the elements documented in Annex 1 and the Recommendation of the Systemic Risk Committee of 10 September 2018 on the setting of the countercyclical buffer rate for the fourth quarter of 2018 documented in Annex 2, the countercyclical buffer rate applicable to the relevant exposures located in Luxembourg shall be maintained at 0% for the fourth quarter of 2018.

Article 2
Entry into force

This regulation shall enter into force on 1 October 2018.

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, 28 September 2018

COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER

Marco ZWICK	Jean-Pierre FABER	Françoise KAUTHEN
Director	Director	Director

Claude SIMON	Claude MARX
Director	Director General

Annex 1: Elements taken into account in order to set the applicable countercyclical buffer rate
Annex 2: Recommendation of the Systemic Risk Committee of 10 September 2018 on the setting of a countercyclical buffer rate for the fourth quarter of 2018 (CRS/2018/004)

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

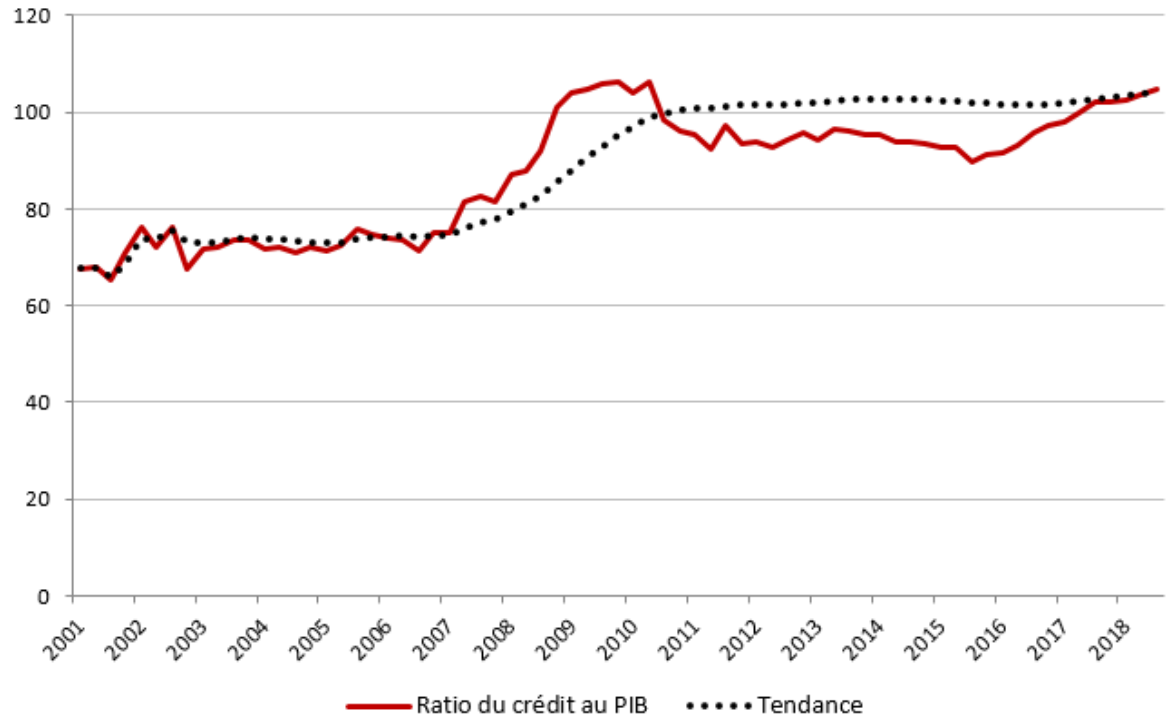
In accordance with Article 59-7(2) and (3) of the LFS and Recommendation ESRB/2014/1, the setting of the rate is based on the following indicators:

a) The credit-to-GDP ratio, based on banking loans granted to Luxembourg households and non-financial undertakings, amounts to 103.5% in the first quarter of 2018 (Graph 1).
b) The credit-to-GDP gap amounts to -0.3% (Graph 2).
c) The countercyclical buffer guide calculated according to Recommendation ESRB/2014/1 is set at 0% (Graph 2).

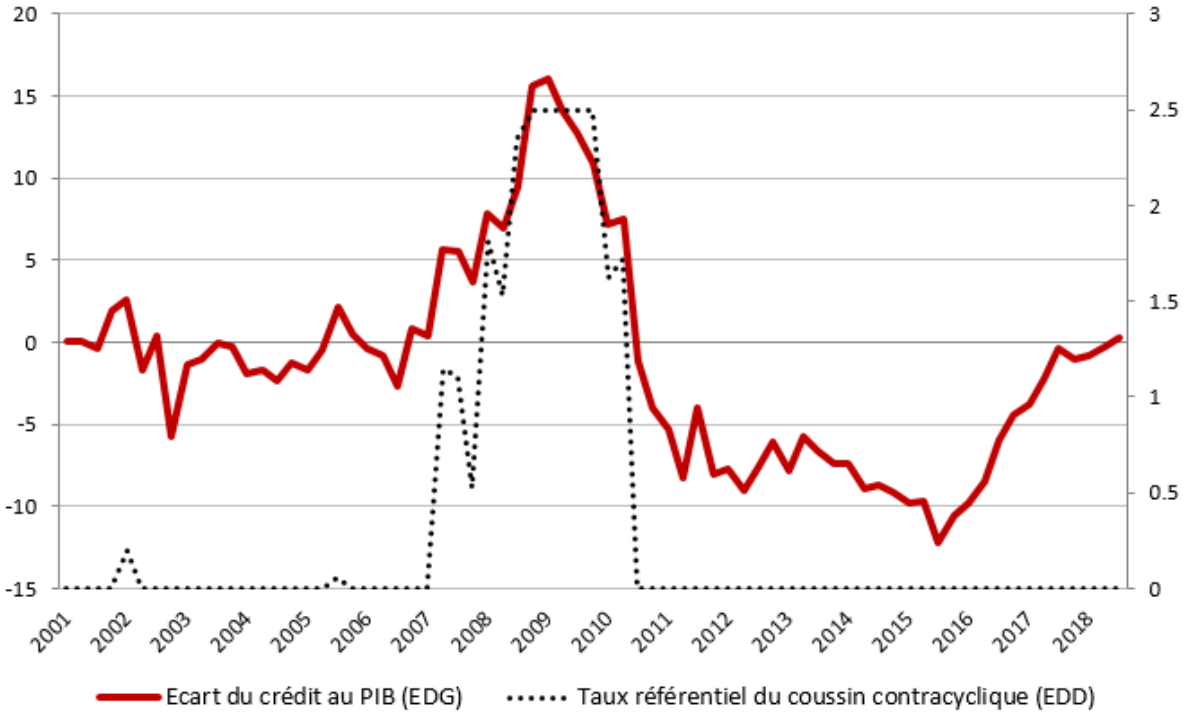
These indicators reveal that the level of the credit-to-GDP gap is progressively converging towards the 2% threshold but remains below the activation threshold. These indicators based on alternative measures of credit proposed by the European Central Bank, the Bank for International Settlements and the Banque centrale du Luxembourg, all led to credit-to-GDP gaps below the 2% reference threshold set in Recommendation ESRB/2014/1.

Other variables have been taken into account, insofar as they can indicate a build-up of systemic risks associated with excessive credit growth, such as credit dynamics, measures of potential overvaluation of property prices, as well as measures linked to macroeconomic environment. The analysis reveals that the development of credit remains dynamic, particularly vis-à-vis non-financial undertakings, even though macroeconomic fundamentals continue to be enhanced, be it the GDP or the trade balance. The banks' resilience measured by their level of capitalisation or leverage is stable. However, in the light of the convergence of the credit-to-GDP gap to the 2% threshold and the increase of additional risk indicators, the CSSF is vigilant regarding short-term credit developments, especially credits to non-financial undertakings.

Graph 1: Banking credit-to-GDP ratio and its long-term trend (only in French)



Graph 2: Credit-to-GDP gap and countercyclical buffer guide (only in French)



Annex 2:

RECOMMENDATION OF THE SYSTEMIC RISK COMMITTEE
of 10 September 2018
on the setting of a countercyclical buffer rate for the fourth quarter of 2018

(CRS/2018/004)

THE SYSTEMIC RISK COMMITTEE,

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 Article 130 thereof 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 No 15-01 on the calculation of institution-specific countercyclical capital buffer rate;

Having regard to CSSF Regulation No 15-04 on the setting of a countercyclical buffer rate;

Having regard to CSSF Regulation No 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 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;

Whereas at the end of the second quarter of 2018, the Luxembourg credit-to-GDP gap remains below the 2% threshold;

Whereas the level of the Luxembourg credit-to-GDP ratio is positive and its development converges towards the 2% threshold and having regard to the recent additional analyses and significant improvement of the levels of early warning indicators established by the BCL and the CSSF;

HAS ADOPTED THIS RECOMMENDATION:

Part 1 Recommendation on the setting of a countercyclical buffer rate for the fourth quarter of 2018

Recommendation A: Calibration of the countercyclical buffer rate

Based on the different quantitative and qualitative assessments, appended to this recommendation, and in particular in the light of the convergence of the credit-to-GDP ratio gap, calculated pursuant to Article 59-7(2) of the Law of 5 April 1993, the Systemic Risk Committee recommends that the designated authority sets, at this stage, the countercyclical buffer rate at 0% for the fourth quarter of 2018.

Recommendation B: Assessment of the factors underlying the credit cycle

In the light of the convergence of the credit-to-GDP gap towards the 2% threshold and the increase of additional risk factors, the Systemic Risk Committee invites the CSSF and the BCL to expand their respective analyses of the factors underlying the recent amplification of the credit cycle as well as to submit to the Committee options for possible macroprudential measures to be contemplated.

Recommendation C: Notifications

Based on this recommendation, the Systemic Risk Committee invites the designated authority to make the necessary notifications in particular 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. Contrôle et évaluation

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, 10 September 2018.

For the Systemic Risk Committee,

Pierre Gramegna

Chairman

Annex - Methodology for the countercyclical buffer rate

The methodological details used to calculate the deviation (or gap) of the credit-to-GDP ratio from its long-term average are described in the annex to the recommendation issued by the CRS on 16 November 2015.

The development of the credit-to-GDP ratio and of its long-term trend, of its deviation from this trend and of the countercyclical buffer guide are presented below.[1] The data used include the loans granted by Luxembourg banks to Luxembourg households and non-financial undertakings.

These graphs reveal that the deviation of the credit-to-GDP ratio is positive and that the buffer guide remains at 0%. However, this deviation from its historic trend is progressively converging towards the 2% threshold. It is explained by a significant increase in mortgage loans allocated to economic agents, which represents a driver in the acceleration of the current credit cycle phase. Taking into account the additional analyses dedicated to cyclical risk assessments conducted by the BCL and the CSSF, based on a set of measures introduced by the recommendation of the ESRB of 18 June 2014, confirms this trend.

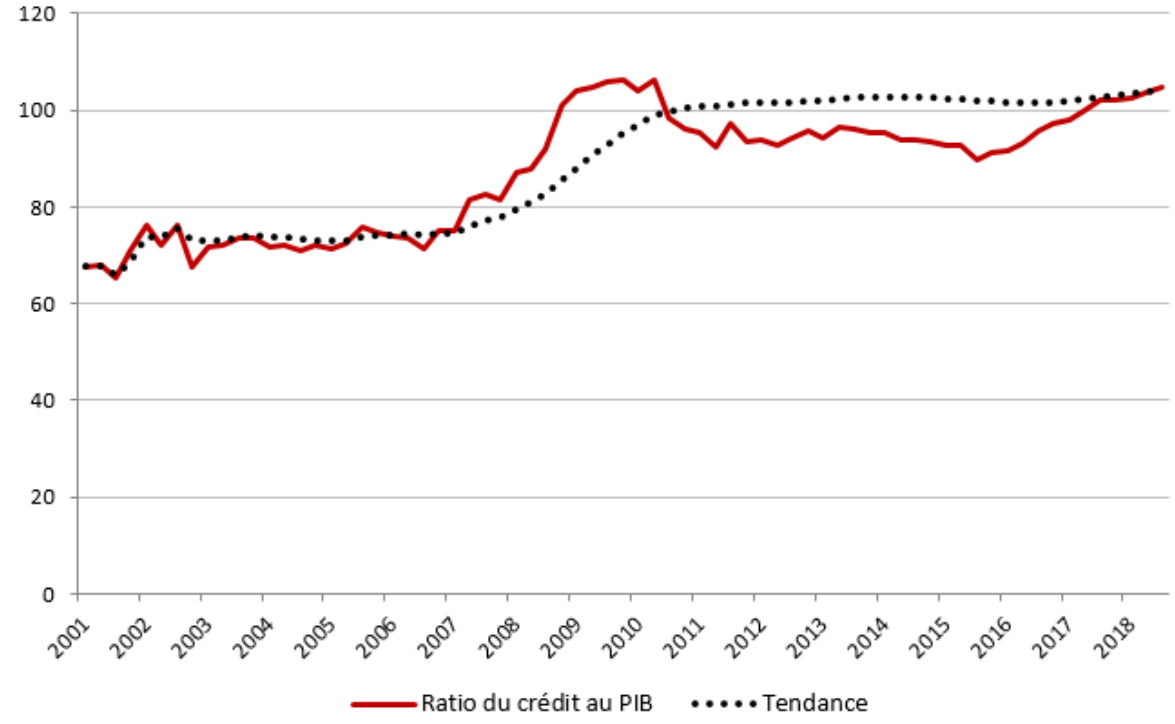
This observation is backed up by the results of the methods for the assessment of cyclical risks, early warning indicators, build-up of the vulnerabilities associated with the residential real estate market and estimates of credit cycle.

In particular, banking loan to non-financial companies, factor which explains the main recent dynamics of credit aggregates, has been subject to a sustained growth since 2016 (+11.3% per year on average, i.e. +5.6 billion euros in two years). In addition, the gap in the ratio of non-financial companies credit to GDP is positive and has increased over the last three quarters. According to estimates by the BCL, the associated risk is also close to (or above) the threshold of pronounced risk. Moreover, the estimates of the cycle of credit to non-financial companies do not allow contemplating a slowdown of this dynamic in the medium term.

For households, the debt-service to income ratio recorded a strong growth, from 88.5% of the available income in 2002 to 173.5% in 2018, whereas the progress during the same period is contained at 108% at European level. This weakening of the aggregated financial situation of households has intensified in a context of sustained growth of residential real estate prices (+5.3% per year on average over the last five years).
Thus, the elements, both quantitative and qualitative, suggest an acceleration of the credit cycle and an increase of underlying risks.

[1] The data sets relating to the “banking credit-to-GDP ratio” differ from the series used for some previous recommendations of the Systemic Risk Committee as there has been a change in methodology.

Graph 1: Banking credit-to-GDP ratio (%) and its trend extracted according to the HP filter (only in French)



Graph 2: Credit-to-GDP gap and countercyclical buffer guide (only in French)

