



EUROPEAN CENTRAL BANK

BANKING SUPERVISION

# Buffer Use and Lending to the Real Economy

28/07/2020

# Banks' use of capital buffers leads to better economic outcomes without compromising their resilience

✓ Banks' willingness to use capital buffers results in higher lending, with positive effect on GDP and lower credit losses, whilst the resilience of the banking system is not compromised

✓ Estimates show that, in stressed scenarios, a broad-based use of capital buffers could increase lending to the real economy by more than 3 percent, and GDP by over 0.5 percent

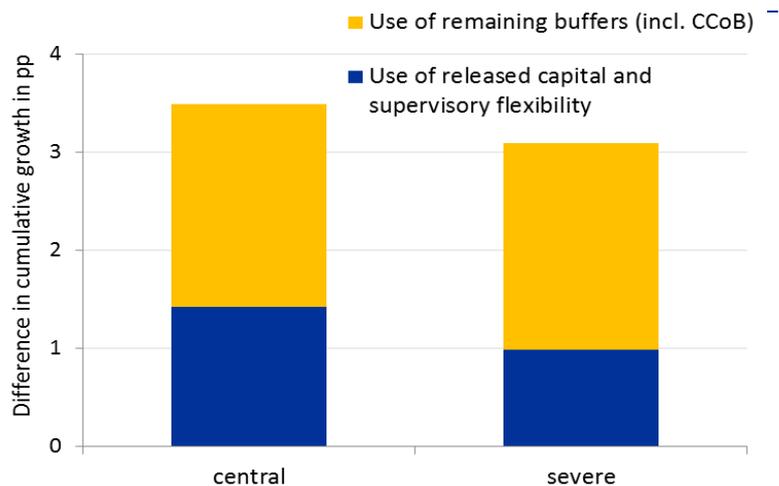
✓ The resulting positive impact on economic activity reduces credit losses and sustains banks' profitability, while final CET1 ratios remain essentially unaffected

✓ Simulations were performed using a dynamic model of banks' balance sheets and considering the same scenarios used for the Vulnerability Analysis

# Buffer use supports lending

Cumulated growth 2020-2022 in bank lending to the euro area non-financial private sector

(differences relative to the case of no buffer use)



Legend: ECB calculations (for the modelling approach see [Macroprudential stress test of the euro area banking sector](#), Occasional Paper Series No. 226). “Use of released capital and supervisory flexibility” includes use of P2G, CET1 capital released with the front loading of P2R changes, and of released macroprudential buffers. “Use of remaining buffers (incl. CCoB)” concerns the use of all capital above P1R and P2R, with MDA restrictions still binding. The analysis takes account of non-buffer elements of supervisory support packages of 12 and 27 March 2020, national moratoria and guarantee schemes.

- In stressed scenarios the banking system’s willingness to use capital buffers rather than to maintain higher capital ratios supports lending
- Compared to a situation where banks do not use their buffers, lending to the real economy increases by more than 3 percent
- The effect is halved if banks only use capital in excess of MDA thresholds\*
- Estimates use the **central** and **severe** scenarios from the Vulnerability Analysis

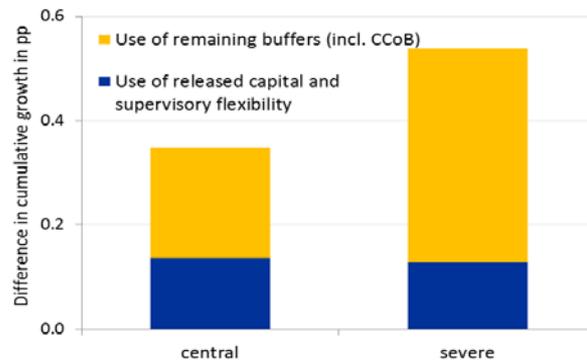
\* I.e. when banks target a capital ratio above MDA lowered by changes in P2R and the actual release of macroprudential buffers.

# Buffer use supports economic activity and lowers credit losses

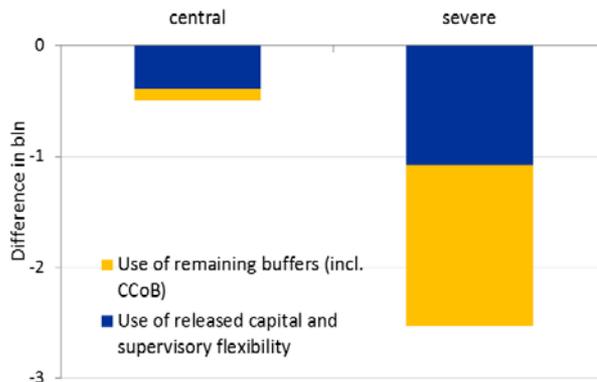
- Easing of credit supply conditions triggers a positive effect on economic activity...
  - ... reducing credit losses
  - ... improving bank profitability...
  - ... and ultimately increasing the capacity of banks to re-build their capital buffers over time

*Legend: ECB calculations (for the modelling approach see [Macropudential stress test of the euro area banking sector](#), Occasional Paper Series No. 226). "Use of released capital and supervisory flexibility" includes use of P2G, CET1 capital released with the front loading of P2R changes, and of released macroprudential buffers. "Use of remaining buffers (incl. CCoB)" concerns the use of all capital above P1R and P2R, with MDA restrictions still binding. The analysis takes account of non-buffer elements of supervisory support packages of 12 and 27 March 2020, national moratoria and guarantee schemes.*

Cumulated growth 2020-2022 in the euro area GDP  
Supporting economic activity...

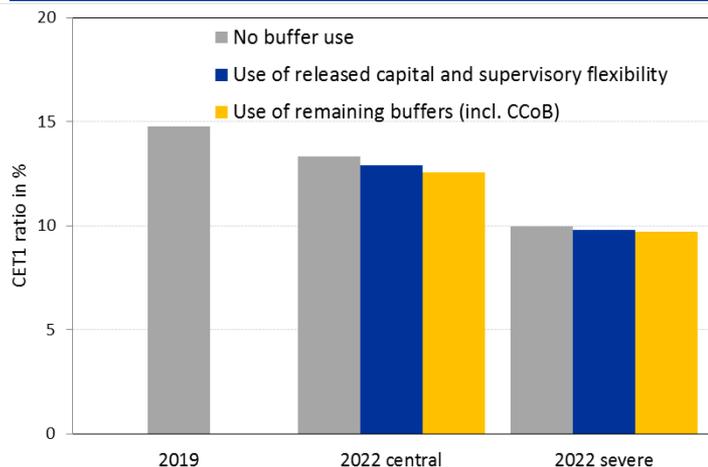


Cumulated change in credit losses in EUR bln  
...and leading to lower credit losses



# Buffer use results in broadly stable solvency

Figure: CET1 as % of RWA  
Relatively stable solvency rates



Legend: ECB calculations (for the modelling approach see [Macropudential stress test of the euro area banking sector](#), Occasional Paper Series No. 226). “Use of released capital and supervisory flexibility” includes use of P2G, CET1 capital released with the front loading of P2R changes, and of released macropudential buffers. “Use of remaining buffers (incl. CCoB)” concerns the use of all capital above P1R and P2R, with MDA restrictions still binding. The analysis takes account of non-buffer elements of supervisory support packages of 12 and 27 March 2020, national moratoria and guarantee schemes.

- **Broad-based willingness to (temporarily) use capital buffers does not lead to marked deterioration in solvency rates**
- Because of the positive impact of lending on the economy and in turn on credit quality, the final CET1 capital ratio is only marginally affected
- In order to generate the virtuous economic effects the willingness to temporarily use capital buffers needs to be as broad as possible