Indicators for determining Countercyclical Capital Buffer (Alb. 'KUNC')

In line with regulation "For macroprudential capital buffers" approved with the decision no.41, date 05.06.2019 of the Supervisory Council of the Bank of Albania and guidelines of the European Systemic Risk Board, reference indicators are used to determine the countercyclical capital buffer (*Alb.* 'KUNC'). Such indicators aim to capture fairly the credit cycle and risks associated with excessive credit growth in the country, as well as to appropriately consider features of the Albanian economy. Quantitative values of such indicators are subject to experts' interpretations and analysis, with other qualitative factors being included in such analysis.

Among reference indicators, "credit to GDP gap", is the primary one. It represents the deviation of the current value of "credit to the economy/GDP" from the ratio's long-term trend. It signals the excessive credit growth in relation to economic growth, and eventually the rise in cyclical systemic risk. To complement the primary indicator, other indicators are used. The Early Warning Complementary Indicator (EWCI), in addition to the primary indicator, includes five other indicators capturing developments in bank credit and in non-financial assets (real estate).

Justification for setting the KUNC rate

The following tables show the most recent available values of selected indicators and their historical averages.

Table 1: The primary indicator

Indicator	Historical average		2019 Q1
	2002 Q4 – 2008 Q4	**2009 Q1 – 2018 Q4**	
Gap of "Credit to economy / GDP"[1]	1.9%	-7.1%	-11.1%

Source: Bank of Albania (BoA) and Institute of Statistics (INSTAT).

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[1] GDP is estimated as the sum of the values for the last four quarters.

Table 2: Other indicators[2]

Indicator	Historical average (2002 Q4 – 2018 Q4)	2019 Q1
Intensity of credit to economy[3]	3.2%	-0.3%
Annual Growth of real estate bank credit	23.7%	-1.1%
Annual Growth of index of "residential real estate prices to rent"	8.1	-0.1
Annual Growth of index of "residential real estate prices"	3.8	-2.2
Annual real bank credit[4] growth	17.7%	-4.1%

Source: BOA and INSTAT

The values of the indicators and the expert analysis, show that credit is subdued and suggest that risks arising from excessive credit are not actually relevant. Accordingly, the countercyclical capital buffer (KUNC) for Albania is proposed to be 0%.

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[2] The indicators, along with the primary one, consist on the Early Warning Complementary Indicator (EWCI).
[3] Annual growth of credit to economy as a ratio of annualized GDP (sum of GDP values of the last four quarters). "Credit to economy" refers to credit granted from banks and non-banks, to resident private sector.
[4] It refers to credit provided from the banking sector to the resident private sector.