Indicators for determining the 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 with the guidelines of the European Systemic Risk Board, reference indicators are used to determine the countercyclical capital buffer rate (*Alb.* 'KUNC'). Such indicators aim to fairly capture 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 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, a complementary indicator is used, built as a compound index. The Complementary Early Warning Indicator (CEWI), in addition to the primary indicator, includes five other sub-indicators capturing the developments in bank credit and in non-financial assets (real estate).

The decision-making on the level of the countercyclical supplement is mainly based on the performance of the values of the indicator of the gap of the ratio of credit to GDP. Although the "gap of the credit ratio to GDP" is the main indicator for the activation of CCYB, the practice of its implementation in other countries and in Albania has evidenced the slowness of the response of this indicator in general, and its insufficiency to capture and evidenced rapid developments in certain loan segments. Therefore, the regulatory and methodological framework of the Bank of Albania foresees that the decision-making for the definition of CCYB is also based on the Supplementary Early Warning Indicator (CEWI).

Justification for setting the CCyB rate (Alb. 'KUNC')

From the table below, it is observed that the values of the primary indicator remain negative up to Q1-2026, but the magnitude of the negative value continues to shrink at an accelerating pace, marking the lowest negative level since the second half of 2010[i]. Specifically, the value of the primary indicator has narrowed by approximately 2.3 percentage points compared to a year earlier, and by around 0.3 percentage points compared to the previous quarter.

Table 1. The primary indicator

Indicator[ii]	Historical average		2026 Q1
	2003 Q4 : 2008 Q4	2009 Q1: 2025 Q4	
"Credit to economy / GDP[iii]" gap	1.90 pp	-7.3 pp	-1.95 pp

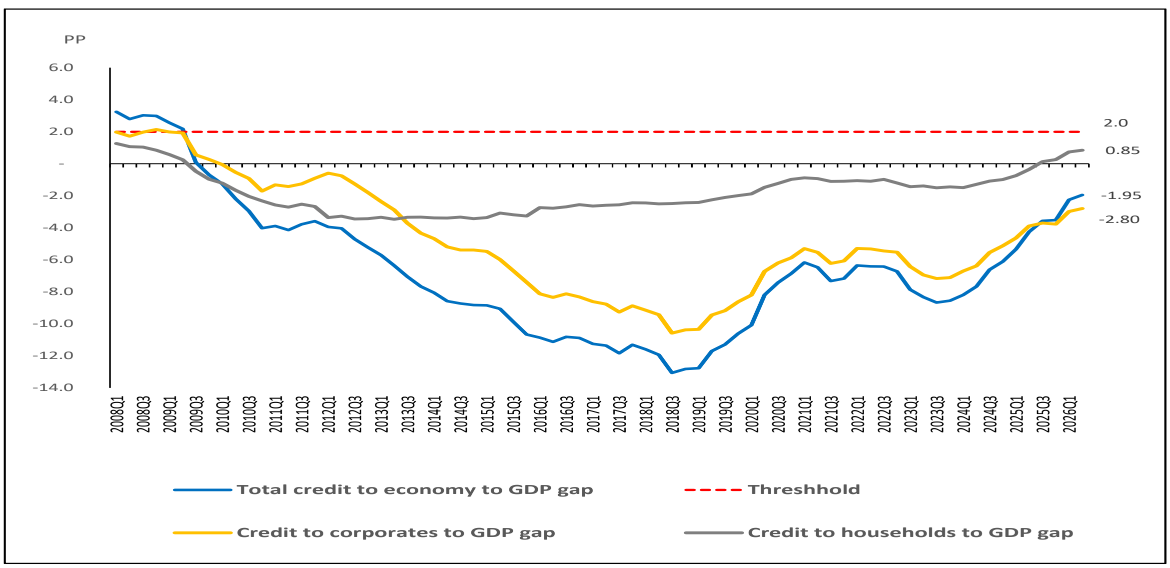
Source: Bank of Albania (BoA) and Institute of Statistics (INSTAT).

The developments described above reflect the divergence between the growth rate of credit to the economy and that of economic activity. Specifically, in Q1 2026, credit to the economy expanded by around 11% year-on-year, significantly outpacing the annualized GDP growth rate of 5.2% over the same period.

Across segments, the *gap for the household* sector remained in positive territory for the fourth consecutive quarter, reaching 0.85 percentage points. This development reflects the sustained expansion of household lending and points to the need for continued monitoring of household indebtedness, as well as of the factors affecting debt-servicing capacity. Such an assessment remains important for the timely identification of any potential build-up of risks in this segment.

By contrast, the *gap for the corporate sector* remained in negative territory (-2.8 percentage points). Nevertheless, its narrowing by around 1.1 percentage points on a year-on-year basis signals a gradual improvement in corporate lending dynamics. In this context, it remains important to assess whether the increase in corporate indebtedness has been supported by an expansion of productive capacity and improved profitability. Such an assessment enables the timely identification of potential pressures on corporates' debt-servicing capacity and on the quality of banks' corporate loan portfolio.

Chart 1. Performance of "Credit to economy/GDP" gap, in percentage points



Source: Bank of Albania calculations.

The decision-making of the Bank of Albania on the determination of the countercyclical capital addition rate, in addition to the primary indicator, is also based on the performance of the CEWI[iv]. The values of its constituent sub-indices are presented in Table 2.

The intensity of credit to the economy is an important indicator for assessing the sustainability of lending activity and its contribution to supporting economic growth. Although the indicator has shown a slight downward trend, both on a year-on-year and quarter-on-quarter basis (by around 0.6 percentage points in both cases), its level continues to remain above its historical average.

Recent developments reflect an acceleration in the *growth rate of the real estate loan portfolio* compared with the same period a year earlier. The growth of this category of credit continues to outpace both nominal GDP growth and the growth rate of the total outstanding bank credit. Nevertheless, its current growth rate remains below the historical average.

At the same time, *the house price index* has accelerated further and has remained well above its long-term trend for more than one year. In parallel, *the house price-to-rent ratio* has continued to increase, indicating that house purchase prices have been rising faster than rents for several consecutive quarters. Overall, these developments point to strong demand in the real estate market while, at the same time, highlighting the need for continued monitoring of risks that could undermine the long-term sustainability of house price developments.

Developments in real estate lending and the evolution of the house price index are characterized by a close interaction, whereby each of these factors may reinforce the dynamics of the other. This relationship constitutes an important element in the analysis and assessment of risks to financial stability. A joint assessment of these indicators, complemented by an evaluation of the level of household indebtedness, enables the timely identification of signs of systemic risk build-up, particularly in cases where house price growth is driven by unsustainable dynamics.

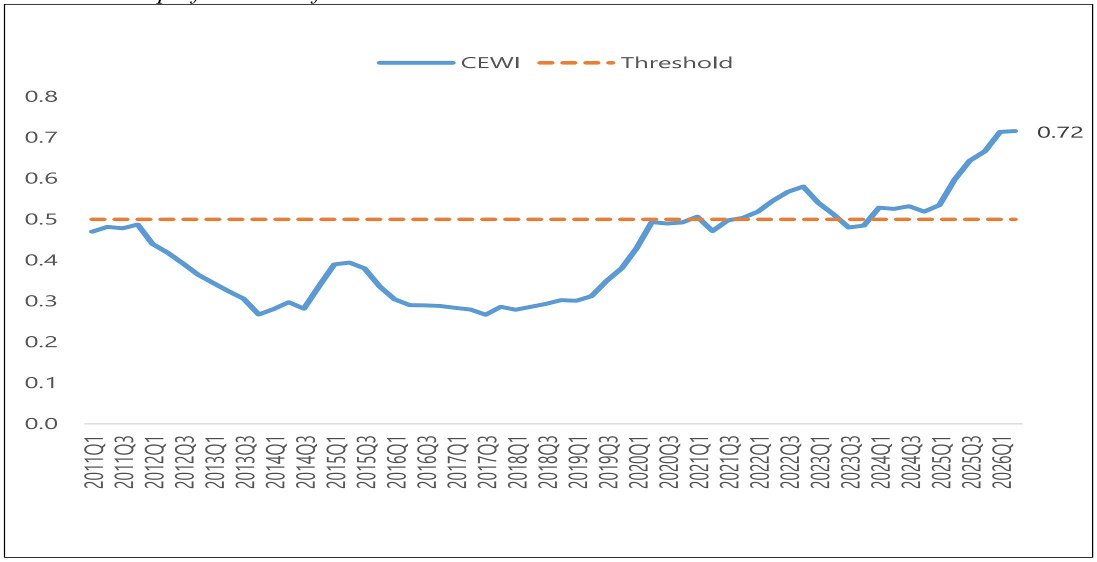
Table 2. Complementary Indicator

Other Indicators and the CEWI index	**Historical average (2003 Q4 : 2025 Q4)**	**2026 Q1**
Intensity of credit to economy[v]	2.9%	3.5%
Real estate bank credit, annual change	21.0%	15.1%
"House price to rent index", annual change[vi]	9.1%	25.2%
"House price index", annual change[vii]	7.4%	30.5%
Bank credit[viii], annual growth	14.3%	11.1%
CEWI index[ix]	0.50	0.72

Source: BOA and INSTAT

At the end of the first quarter of 2026, the CEWI index stood at 0.72, remaining well above the upper threshold suggested by the underlying methodology and staying above this threshold for most of the period since the end of 2023. This development reflects the accelerated dynamics of both credit growth and non-financial asset price growth.

Chart 2. Time performance of CEWI index



Source: BOA

Proposal for the Countercyclical Capital Buffer Rate (Alb. 'KUNC')

Overall, the developments in the above indicators confirm the continuation of a positive financial cycle, which is evolving at an accelerated pace. Alongside improved financing conditions and expanded access to credit, these developments are also accompanied by increasing risks related to the preservation of borrowers' debt-servicing capacity, the concentration of exposures in specific sectors of the economy, and the potential deterioration in the quality of banks' loan portfolios.

Accordingly, with a view to moderating the pace of credit growth and strengthening the resilience of the banking sector, the Bank of Albania increased the Countercyclical Capital Buffer (CCyB) rate by 0.25 percentage points in June 2024 and by a further 0.25 percentage points in December 2024, bringing it to its current level of 0.50%. These increases became effective in June 2025 and December 2025, respectively.

At the same time, to preserve the quality of banks' exposures to the real estate market, in May 2025 the Bank of Albania introduced upper limits on two lending standards indicators: the loan-to-value (LTV) ratio and the debt service-to-income (DSTI) ratio. These limits were differentiated according to the currency denomination of the loan and the purpose of the property purchase and have been applicable since 1 July 2025.

The Bank of Albania is currently monitoring the impact of these measures in order to assess their effectiveness and determine whether any further revision or enhancement of the macroprudential policy instruments is warranted.

Against this background, it is recommended that the CCyB rate for Albania remain unchanged at its current level of 0.50%.

Should the positive financial cycle continue to evolve at a rapid and sustained pace, accompanied by a further build-up of systemic risks, the Bank of Albania stands ready to further increase the Countercyclical Capital Buffer (CCyB) rate, in line with its objective of safeguarding financial stability.

NOTES

[i] The value of the primary indicator was: [-4.24] pp in Q1-2025, [-3.57] pp in Q2-2025, [-3.52] pp in Q3-2025 and [-2.25] pp in Q4-2025.

[ii] In analyzing the values in the table, it should be considered that the calculated values of the primary indicator and its historical average differ due to two factors: a) developments in the values of credit to economy and GDP; and b) possible revisions of GDP value performed regularly by the Institute of Statistics (INSTAT). These two sets of factors can influence the value of the primary indicator, in the same or opposite directions.

[iii] GDP is estimated as the sum of the values for the last four quarters. For Q1-2026 the real GDP growth rate is 3.71%. The actual GDP growth rate for the referring period might be subject to revision in the short-term by INSTAT.

[iv] An increase in the countercyclical capital buffer might be necessary even if the values of the primary indicator are lower than the benchmark ones. This is the case when, despite the performance of credit in general, there are rapid developments in the lending activity in certain economic sectors, which are considered being unsustainable and a source of risk to the stability of the financial system and markets.

[v] Annual growth of credit to economy as a ratio of annualized GDP (sum of GDP values of the last four quarters).

[vi] Data series is smoothed for 8 quarters. In Q4-2020, the change in the rent index calculation methodology has impacted its historical average value as well.

[vii] Data series is smoothed for 8 quarters. In Q2-2019, the change in the index construction methodology has impacted its historical average value as well.

[viii] It refers to credit provided from the banking sector to both public sector and to the private nonfinancial sector.

[ix] The individual sub-indicators, along with the primary one, make up the "Complementary Early Warning Indicator", alias CEWI. The indicator is built as an index, where each of the sub-indicators is equally weighted. The comparative threshold for the CEWI index is set at 0.5. For more information, please refer to the methodology "For countercyclical capital buffer":
https://www.bankofalbania.org/Financial_Stability/Macroprudential_policies/Instruments_of_Macroprudential_Policy/test/