CZECH NATIONAL BANK
NA PŘÍKOPĚ 28
115 03 PRAHA 1
CZECH REPUBLIC

Financial Market Regulation and Analyses Department

Prague, 9 September 2010

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

TO: baselcommittee@bis.org

Re

The Czech National Bank´s comments on the consultative document "Countercyclical capital buffer proposal"

The Czech National Bank welcomes the opportunity to comment on the consultative document *Countercyclical capital buffer proposal* issued by the Basel Committee on Banking Supervision in July 2010.

Please find attached an enclosure containing our opinion on the proposed introduction of the countercyclical capital buffer as a new prudential tool and its proposed framework.

Pavel Hollmann	Pavel Vacek
Executive Director	Director
Financial Market Regulation and Analyses Department	Financial Market Regulation Division

Enclosure
Opinion of the Czech National Bank on the consultative document of the Basel Committee on Banking Supervision entitled "Countercyclical capital buffer proposal"

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Encl.

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Opinion of the Czech National Bank on the consultative document of the Basel Committee on Banking Supervision entitled "Countercyclical capital buffer proposal"

In our opinion, the countercyclical capital buffer can be, in terms of the objectives, only a tool that is supplementary to the basic set of regulatory tools. We also feel certain doubts about its capacity to significantly dampen credit growth itself in "good times".

The countercyclical capital buffer can function well as a communication tool that will allow national authorities to effectively express their views on the risks associated with the credit cycle and thus strenghten its credibility.

We also have certain reservations about the tool in that it affects all banks across the board, without discriminating carefully between more responsible banks and those less responsible (which makes it different from the leverage ratio, which we perceive as a fairer instrument).

In terms of how the public is likely to look on this tool, we share some concerns that it will be sensed as a permanent increase in the regulatory capital requirements, regardless of the efforts made to explain that it is not so.

The proposed discretions for national authorities can be supported, because they will facilitate a timely response to an instance of rapid credit growth. It can be agreed that the setting of specific parameters of the model should be left to national authorities. However, setting some limits for the enlargement of a particular indicator could eliminate potential efforts by national authorities to use model parameters which would focus on stimulating growth in a short-term horizon with long-term negative impacts. Although we acknowledge that raising additional capital is not a procedure which can be accomplished in a short time, we are of the opinion that national authorities should have discretion to require a deadline shorter that one year in justified instances.

Concerning the credit-to-GDP indicator that is being considered, it can be a good starting point for the calibration of the countercyclical capital buffer, because the purpose of this buffer is to reduce potentially harmful impacts associated with credit growth. In many countries, however, the calibration will have to be based on a greater number of indicators. Changes in economic conditions and the structure of the economy over time will require periodic recalibration.

The method of the calculation of the total amount of credit in individual economies should be specified more precisely. In theory, the figure should cover all loans in the given economy that are used for the purpose of financing. It should not cover loans to residents used for financing their operations abroad and, vice versa, it should cover loans to residents (regardless

of whether the loans have been provided by domestic or foreign entities) used for financing domestic activities. Obtaining such a measure may not be that simple. However, data inaccuracies of this type should not pose a significant quantitative problem. Another problem may lie in the fact that private and government loans are, to some extent, substitutes. It is a question whether credit indicators should cover private loans only.