

What are Banks' Actual Capital Target?

Cyril COUAILLIER

Abstract:

This paper investigates target capital ratios announced by large banks in the euro area. It provides the following key lessons. First, banks increasingly announce target capital ratio as part of their communication to investors. Second, those targets are driven by capital requirements and procyclical behavior consistent with market pressure. Third, the distance between actual CET1 ratio and the target is a valuable predictor of future balance-sheet adjustment, suggesting that banks actively drive their capital ratio toward their announced target, through capital accumulation and portfolio rebalancing.