BANCO DE ESPAÑA
Eurosistema

Communication Department

The Banco de España maintains the countercyclical capital buffer at 0%

The Banco de España has decided to maintain at 0% the countercyclical capital buffer (CCyB) rate applicable to credit exposures located in Spain in the first quarter of 2019. This quarterly macroprudential policy decision is adopted under the powers conferred upon the Banco de España by Law 10/2014 on the regulation, supervision and solvency of credit institutions, and by Royal Decree 84/2015 and Banco de España Circular 2/2016 implementing that law, in transposition of Directive 2013/36/EU.

The CCyB is a macroprudential instrument which makes credit institutions build up a capital buffer, or surcharge, in periods of excessive credit growth to be used in the subsequent correction phase. The CCyB thus strengthens the banking system's resilience in credit expansions, when risks normally accumulate, so that when they subsequently materialise, action can be taken to mitigate the resulting decrease in the flow of new credit. Consequently, this instrument helps to smooth the credit cycle.

The analysis of cyclical systemic risk warning indicators does not reveal widespread excessive credit growth in Spain, so this assessment is consistent with maintaining the CCyB rate at 0% in the current situation.[1] Specifically, the latest available information relating to June 2018 shows that the credit-to-GDP gap (an indicator measuring the deviation of the total credit-to-GDP ratio from its long-term trend) was -47.9 pp (indicator 1 in Table 1). This figure is well below the level of 2 pp followed by the Banco de España as the reference for activation of the buffer under the guidelines laid down by the Basel Committee on Banking Supervision. Indeed, the CCyB buffer guide, which maps the credit-to-GDP gap to a CCyB benchmark rate, stands at 0%.

The credit-to-GDP gap, however, has significant statistical limitations in economies which, like Spain, have shown changing trends in the credit-to-GDP ratio in recent years.[2] For this reason, the Banco de España monitors a wide range of statistical indicators and models summarising the available macrofinancial information so that the warning signs of cyclical financial imbalances can be detected sufficiently in advance. The complementary core indicators are as follows: credit intensity (change in credit as a percentage of GDP), price imbalances in the real estate sector, corporate and household debt service, current account balance relative to GDP; in addition, use is made of other qualitative

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[1] For more details, see Chapter 3 of the Financial Stability Report of the Banco de España, November 2018 (FSR 11/2018).
[2] Box 3.1 of FSR 11/2018 describes two alternative models of the deviation of the total credit-to-GDP ratio from its long-term trend, used to address the aforementioned statistical limitations of the credit-to-GDP gap.

information, which may at times be of importance. As can be seen in the accompanying table, although these indicators suggest that the credit cycle is approaching an expansionary phase, at present they are still below the risk thresholds.

In accordance with the procedures established under Regulation (EU) No 1024/2013, the present decision was adopted by the Banco de España after prior consultation with the European Central Bank.

The Banco de España's previous decisions on CCyB rates are available at this link.

Table 1. Credit-to-GDP gap and complementary core indicators

	Latest data	Previous quarter	Average since 1970	Minimum since 1970	Maximum since 1970	Standard deviation since 1970	Average 1999-2008 (a)	Minimum since 1999	Maximum since 1999
1) Credit-to-GDP gap [b]	-47.9	-50.2	0.5	-50.9	43.7	20.6	29.2	-50.9	43.7
2) Credit-to-GDP ratio	155.5	155.3	119.5	73.3	217.7	48.2	149.1	91.9	217.7
3) Credit intensity [c]	-2.2	-3.2	10.1	-18.5	35.8	10.1	21.6	-18.5	35.8
4) Real estate sector prices [d]	[-7.6 , 0.1]	[-8 , -1]	[-4 , -1.5]	[-40.2 , -33.1]	[22.6 , 47.7]	[13.2 , 20.7]	[3.1 , 10.7]	[-40.2 , -33.1]	[21.5 , 47.7]
5) Non-financial private sector indebtedness [e]	15.7	15.5	18.3	12.1	24.4	2.9	17.7	12.6	24.4
6) External imbalances [f]	0.5	1.5	-2.1	-10.5	3.2	3.0	-6.1	-10.5	2.2

Source: Banco de España and INE.

Notes to Table 1: Updated to end-June 2018. The indicators are expressed in percentages (%), with the exception of the credit-to-GDP gap and prices in the real estate sector, which are expressed in percentage points (pp). Some figures may differ slightly from those published in previous press releases owing to the updating of data (flash estimates) published by INE (the National Statistics Institute). For more information on the CCyB, see Castro C., A. Estrada and J. Martínez, "The Countercyclical Capital Buffer in Spain: An Analysis of Key Guiding Indicators", Working Paper 1601, Banco de España.

(a) 1999 marks the start of the third stage of Economic and Monetary Union (introduction of the euro); 2008 was the last year before the start of the most recent systemic banking crisis in Spain.

(b) The credit-to-GDP gap is calculated as the deviation of the credit-to-GDP ratio from its long-term trend, using a one-tailed Hodrick-Prescott filter (smoothing parameter equal to 400,000). For further details on the calculation of the gap, please refer to Box 3.1 "Comparison of methodologies used to calculate the credit-to-GDP gap", in Banco de España's Financial Stability Report – November 2017 (pages 76-77).

(c) The credit intensity indicator is calculated as the annual change in credit to the non-financial private sector divided by cumulative GDP of the past four quarters.

(d) The ranges in each column show minimum and maximum values of a set of indicators of price changes in the real estate sector relative to their long-term trends, some obtained using a one-tailed Hodrick-Prescott filter (smoothing parameter equal to 400,000 in all cases) and others using econometric models.

(e) Use is made of the debt service ratio in the non-financial private sector, calculated according to the specification in Drehmann M. and M. Juselius (2012) "Do debt service costs affect macroeconomic and financial stability?", BIS Quarterly Review, September.

(f) The indicator of external imbalances is calculated as the current account balance divided by GDP.