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

The Banco de España has decided[1] to hold the countercyclical capital buffer (CCyB) rate applicable to credit exposures in Spain at 0% in the second quarter of 2021. The adverse macro-financial impact of the COVID-19 pandemic, which has been reflected in a sharp downturn in economic activity, and the still high level of uncertainty associated with the future course of the pandemic, advise against the use of this macroprudential instrument in a situation in which the priority is to provide funding to the real economy. For this reason, the Banco de España reiterates its intention to hold the CCyB at 0%, at least until the main economic and financial effects of the pandemic have been overcome.

The CCyB is a macroprudential instrument, provided for in prevailing Spanish and European Union legislation, to shore up the solvency of the banking system in periods of excessive credit growth (when there is usually a widespread increase in risk). This buffer requirement aims to smooth credit cycle fluctuations, by building up capital in boom periods which credit institutions can subsequently use, at the authorities' request, in the event of a deterioration in the macro-financial situation.

As indicated in previous press releases, bank lending to the real economy is an essential part of the strategy to mitigate the severity of the adverse macro-financial effects of COVID-19 and thus pave the way for a gradual economic recovery. Accordingly, the Banco de España has decided to hold the CCyB rate at the minimum level of 0%, and to maintain its expectation that the rate will not be increased over a prolonged period, at least until the main economic and financial effects arising from the coronavirus crisis have been dispelled and a path of macroeconomic recovery has been resumed. This decision is in keeping with the guidance on a temporary easing of prudential requirements in response to COVID-19

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[1] This quarterly macroprudential policy decision is adopted under the powers conferred upon the Banco de España, in transposition of Directive 2013/36/EU, by Law 10/2014 on the regulation, supervision and solvency of credit institutions, by Royal Decree 84/2015 and by Banco de España Circular 2/2016.

issued, in spring 2020, by the European Central Bank (ECB), the European Systemic Risk Board (ESRB), the European Banking Authority (EBA), the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).[2]

As noted in previous press releases, the set of indicators habitually used to analyse cyclical risks in the CCyB methodology was conceived for the early detection of imbalances gradually generated by the financial system itself in upturns in the financial cycle. In a setting such as the present one, marked by shocks exogenous to the financial system (caused by COVID-19) and the consequent drastic change in the cyclical position of the Spanish economy, these indicators have lost a large part of their informative value.

In particular, the widening of the "credit-to-GDP gap" – the key indicator in the CCyB methodology – has been influenced by a combination of abrupt declines in GDP and moderate increases in the volume of credit granted, spurred on by a broad range of support measures adopted by the authorities precisely aimed at cushioning the impact of the pandemic and paving the way for economic recovery.[3] For this reason, the recent marked widening in the credit-to-GDP gap, which is expected to be short-lived, should not be interpreted as a systemic risk alert warranting the activation of the CCyB. To compensate for the limitations of the credit-to-GDP gap and substantiate its analysis of the cyclical risk position, the Banco de España also takes into account other complementary macro-financial indicators (see Table 1), the most important of these in the current situation being the output gap and GDP growth.

In accordance with the procedure set out in Article 5 of Regulation (EU) No 1024/2013, this decision of the Banco de España on the CCyB has been approved after consultation with the ECB. The proposed decision was also communicated to the Spanish macroprudential authority (AMCESFI), as stipulated in Article 16 of Royal Decree 102/2019 and in the sole additional provision of Royal Decree-Law 22/2018.[4]

The Banco de España's previous press releases on quarterly decisions, and other relevant quantitative information for determining CCyB rates, are available at this link.

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[2] See: "ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus", ECB press release of 12 March 2020; "The General Board of the European Systemic Risk Board held its 37th regular meeting on 2 April 2020", ESRB press release of 9 April 2020; "EBA statement on actions to mitigate the impact of COVID-19 on the EU banking sector", EBA press release of 12 March 2020; "Basel Committee coordinates policy and supervisory response to Covid-19", BCBS press release of 20 March 2020; and "COVID-19 pandemic: Financial stability implications and policy measures taken", FSB report of 15 April 2020.

[3] As stated in the BCBS Guidance on the CCyB: "In using the credit/GDP guide it is important to consider whether the behaviour of the GDP denominator reflects the build-up of system-wide risks. For example, it may not be appropriate to adhere to the guide if it had risen purely due to […] outright decline in GDP. *BCBS Guidance for national authorities operating the countercyclical capital buffer*, December 2010.

[4] AMCESFI has not issued an Opinion on this proposed decision as the new measure does not entail changes from the CCyB rate prevailing in the previous quarter.

Table 1. Quantitative indicators

	Latest data	Previous observation	Average since 1970	Minimum since 1970	Maximum since 1970	Standard deviation since 1970	Average 1999-2008 (a)	Minimum since 1999	Maximum since 1999
Credit-to-GDP gap [b]	14.3	11.5	-2.1	-30.9	18.6	11.7	12.3	-30.9	18.6
Econometric models of credit imbalances [c]	[1.2 1.8]	[1 1.6]	[-0.1 0.5]	[-28.2 -15.8]	[26.6 42.4]	[11.4 19]	[6.2 14.4]	[-15.9 -15.1]	[26.6 42.4]
Credit-to-GDP ratio	165.7	163.1	124.3	75.5	226.4	48.7	152.3	92.3	226.4
Credit intensity [d]	1.8	3.0	9.7	-19.3	34.5	10.2	22.0	-19.3	34.5
Indicators of real estate price imbalances [e]	[-5.5 4.3]	[-2.4 3]	[-6.8 -1.3]	[-45.8 -31.8]	[24.1 46.6]	[12.8 20.1]	[3.5 10.6]	[-45.8 -31.8]	[22.3 46.6]
Debt service ratio [f]	17.3	20.2	18.3	12.0	24.9	3.0	17.9	12.5	24.9
Current account balance [g]	1.2	0.0	-1.8	-10.4	3.6	3.1	-5.9	-10.4	3.6
Output gap [h]	-11.7	-10.6	-0.5	-11.7	5.6	3.6	3.0	-11.7	5.6
Annual real GDP growth [i]	-9.1	-9.0	2.5	-4.4	8.3	2.3	3.5	-21.6	21.2

Sources: Banco de España, INE and own calculations.

Notes: The "Latest data" column refers to September 2020, unless otherwise stated. The indicators are expressed as percentages (%), with the exception of the credit-to-GDP gap, indicators of real estate price imbalances and the output gap, 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). The credit measure considered comprises total funding to the non-financial private sector, which includes bank lending as well as debt issuance. For more information on the CCyB, see C. Castro, 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-sided Hodrick-Prescott statistical filter (with a smoothing parameter equal to 25,000, instead of 400,000 as in the standardised BCBS specification). For more details on the calculation of the gap, see J. E. Galán (2019), "Measuring credit-to-GDP gaps. The Hodrick-Prescott filter revisited", *Occasional Paper* 1906, Banco de España, and Box 3.2 of the Banco de España's Financial Stability Report, Spring 2019. The estimation of the standardised BCBS credit-to-GDP gap is not suited to European countries such as Spain that have historically undergone highly pronounced credit growth and declines.

(c) (Semi-)structural models of unobserved components (UCM) and vector error correction (VEC) for measuring credit imbalances in relation to macro-financial variables (GDP, interest rates and house prices). For further information, see J. E. Galán and J. Mencía (2021), "Model-based indicators for the identification of cyclical systemic risk", *Empirical Economics*, forthcoming, and Box 3.1 of the Banco de España's Financial Stability Report, November 2018.

(d) 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.

(e) The ranges in each column show minimum and maximum values of a set of indicators of residential real estate prices relative to their long-term trends. Some of these indicators are obtained using a statistical filter and others using econometric models.

(f) Debt service ratio of the non-financial private sector, calculated according to the specification set out in M. Drehmann and M. Juselius (2012), "Do debt service costs affect macroeconomic and financial stability?", *BIS Quarterly Review*, September.

(g) In terms of GDP. Seasonally adjusted series. The latest figure refers to the last quarter of 2020.

(h) The "output gap" measures the difference between the actual and potential level of GDP. See P. Cuadrado and E. Moral-Benito (2016), "Potential growth of the Spanish economy", *Occasional Paper* 1603, Banco de España.

(i) The latest figure refers to the last quarter of 2020.