



PRESS RELEASE

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The Banco de España holds the countercyclical capital buffer rate 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 second quarter of 2019.¹

The CCyB is a macroprudential instrument which calls on credit institutions to build up a capital buffer in periods of credit growth to be released in the subsequent correction phase. The CCyB thus reinforces the resilience of the banking system during expansionary phases, when risks normally accumulate, and helps to mitigate the decline in the flow of new credit to the economy when those risks materialise. Consequently, the CCyB smooths credit cycle fluctuations.

The reference indicator used at international level to identify the existence of risks linked to credit behaviour, and therefore to set the CCyB, is the credit-to-GDP gap, which measures the deviation of the total-credit-to-GDP ratio from its long-term trend. A positive and growing value of this gap denotes risks linked to credit behaviour.

The estimation of the credit-to-GDP gap poses, however, some technical difficulties. For this reason, the Banco de España uses different estimates of this gap to make its decision on the activation of the CCyB and, in addition, calculates and analyses a broader information set including various macrofinancial indicators (see table). Also, other information of a qualitative nature likewise considered relevant has its place in this analysis.

The estimation of the credit-to-GDP gap under the technical specification of the Basel Committee on Banking Supervision (BCBS) has significant statistical limitations in the case of countries which, like Spain, have experienced in the past pronounced rises and falls in credit. In fact, on the latest available information, as of September 2018, the credit-to-GDP gap estimated by the BCBS's standards would be clearly negative in Spain (-48.3 percentage points). This figure is well below the level of 2 pp used by the Banco de España as its reference for the activation of the CCyB (see first row of the table). Hence, the CCyB buffer guide, which maps the credit-to-GDP gap to a CCyB benchmark rate, stands at 0% for the second quarter of 2019.

¹ 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.

However, in view of these technical limitations, the Banco de España has developed alternative methodologies to estimate the credit-to-GDP gap. It has developed econometric models to check for and detect early any signs of cyclical credit imbalances. The estimates of the credit-to-GDP gap derived from these models appear to confirm that credit still stands below but significantly closer to the long-term equilibrium level than suggested by the Basel credit-to-GDP gap (see third row of the table). Additionally, a technical specification different from that approved by the BCBS is being used by the Banco de España with a view to adjusting it to fit the average length of credit cycles in our country. The gap thus calculated, as of the latest available date, also yields a negative figure, though one significantly smaller (see fourth row of the table).

Turning to the other macrofinancial indicators used, as shown by rows 5 to 8 of the table, the credit intensity indicator seems to have continued to rise in the past quarter, although remaining negative (-1.8%). The average level of the estimated deviation of real estate sector prices from their medium-term trend increased in the quarter and shows positive values in the upper range of these estimates (indicating price levels above equilibrium). The debt service ratio of households and non-financial corporations seems to have held steady in the quarter and, lastly, the current account balance (in terms of GDP) decreased significantly but remained in surplus (0.3% of GDP in the quarter).

All these factors advise holding the CCyB rate at 0% for the time being, but point to the need for careful monitoring of the behaviour and forward projections of the quantitative indicators considered.

In accordance with the procedure set out in Article 5(1) of Regulation (EU) No 1024/2013, the present decision of the Banco de España has been previously notified to the European Central Bank. The Banco de España's earlier decisions on quarterly CCyB rates are available at [this link](#).

Table 1. Credit-to-GDP gap and other complementary quantitative 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
Basel credit-to-GDP gap ^(b)	-48.3	-48.4	0.2	-50.9	43.7	20.8	29.2	-50.9	43.7
Credit-to-GDP ratio	152.7	154.7	119.7	73.3	217.7	48.2	149.1	91.9	217.7
Econometric models of credit imbalances ^(c)	[-14.2 , -8.6]	[-14.2 , -9.1]	[0.5 , 0.7]	[-28.2 , -15.8]	[26.6 , 42.3]	[11.6 , 19.3]	[6.2 , 14.4]	[-15.9 , -15.1]	[26.6 , 42.3]
Adjusted credit-to-GDP gap ^(d)	-12.3	-13.3	-2.0	-30.6	18.6	11.2	11.7	-30.6	18.6
Credit intensity ^(e)	-1.8	-2.3	10.0	-18.5	35.8	10.1	21.6	-18.5	35.8
Real estate sector prices ^(f)	[-6.1 , 1.5]	[-7.1 , 0.1]	[-4.0 , -1.6]	[-40.2 , -33.1]	[22.6 , 47.3]	[13.2 , 20.6]	[2.8 , 10.7]	[-40.2 , -33.1]	[21.5 , 47.3]
Non-financial private sector indebtedness ^(g)	15.5	15.6	18.2	12.1	24.4	2.9	17.7	12.6	24.4
External imbalances ^(h)	0.3	0.9	-2.1	-10.3	3.2	3.0	-6.1	-10.3	2.5

Source: Banco de España, INE and own calculations.

Notes: Updated to end-September 2018. The indicators are expressed in percentages (%), with the exception of the credit-to-GDP gaps and real estate sector prices, 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 Basel 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, refer to Box 3.1 of the Banco de España's Financial Stability Report, November 2017 (pages 76-77).

(c) (Semi-)structural models of unobserved components (UCM) and vector error correction (VEC) for measuring credit imbalances in relation to macrofinancial variables (GDP, interest rates and housing prices). For further information, see Galán, J.E. and J. Mencía (2018), "Empirical Assessment of Alternative Structural Methods for Identifying Cyclical Systemic Risk in Europe", Working Paper 1825 of the Banco de España.

(d) The formulation of the adjusted credit-to-GDP gap uses a smoothing parameter equal to 25,000. Further information available in Galán, J.E., "Measuring credit-to-GDP gaps. The Hodrick-Prescott filter revisited", Occasional Paper of the Banco de España (forthcoming).

(e) 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.

(f) 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.

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

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

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For further information: Tel. +34 91 338 5044 / 6097 / 5318 Fax +34 91 338 5203 www.bde.es Email: comunicacion@bde.es



@BancoDeEspana



Banco de España