



Communication Department

PRESS RELEASE

Madrid, 29 June 2020

The Banco de España holds 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 in Spain in the third quarter of 2020. The severe macroeconomic and financial impact had by the COVID-19 crisis and the uncertainty associated with the incipient economic recovery require that credit institutions maintain the flow of financing to the real economy. It is therefore not the appropriate time to raise this macroprudential requirement. The Banco de España does not anticipate increasing the CCyB rate over the coming quarters, at least until the main economic and financial effects arising from the COVID-19 crisis have dissipated.¹

The CCyB is a macroprudential instrument provided for in the prevailing legislation to shore up the solvency of the banking system in phases of excessive credit growth (which is when a build-up of risks usually occurs), to smooth credit cycle fluctuations and to build up capital buffers in boom periods with a view to being able to use them when conditions worsen. In the present circumstances, the provision of lending to the real economy by credit institutions is an essential component of the strategy to alleviate the impact of the COVID-19 shock and to ensure the swiftest possible economic recovery.² Consequently, the Banco de España has decided to maintain the CCyB rate at the minimum level of 0%, confirming its intention not to increase the rate over a prolonged period, at least until the main economic and financial effects arising from the COVID-19 crisis have been dispelled and a path of macroeconomic recovery is resumed.

This decision was taken in accordance with the recent prudential expectations issued by the European Central Bank (ECB),³ the European Banking Authority⁴ and the Basel Committee on Banking Supervision⁵

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, and by Royal Decree 84/2015 and Banco de España Circular 2/2016.

² See the [press release](#) of the Banco de España of 31 March 2020.

³ "ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus", ECB [press release](#) of 12 March 2020.

⁴ "EBA statement on actions to mitigate the impact of COVID-19 on the EU banking sector", EBA [press release](#) of 12 March 2020.

⁵ "Basel Committee coordinates policy and supervisory response to Covid-19", BCBS [press release](#) of 20 March 2020.

in response to COVID-19, which recommended a coordinated reduction in this cyclical macroprudential instrument by the relevant national authorities and that, where appropriate, credit institutions use this buffer to absorb possible losses and thus facilitate the ongoing provision of lending to the real economy.

With regard to the set of indicators habitually analysed when deciding whether or not to activate or deactivate this macroprudential instrument, the materialisation of the shocks triggered by COVID-19 and the foreseeable drastic change in the system's cyclical position mean that these indicators lose a large part of their informative value, as they were conceived to detect early imbalances in expansionary phases of the cycle generated endogenously by the financial system itself.⁶ Indeed, it cannot be ruled out that in the coming quarters these indicators start to exhibit conflicting signs, as a result of COVID-19's impact on the economy and the measures implemented to mitigate it. Against this backdrop, the Banco de España is paying special attention to other types of macrofinancial indicator, such as the systemic risk indicator (see Chart 1), which enables real-time monitoring of the estimated level of systemic stress in financial markets. This indicator spiked in Spain following the outbreak of the crisis. At present, it has stabilised at levels that suggest a high degree of macrofinancial stress, like in other European countries.

In accordance with the procedure set out in Article 5(1) of Regulation (EU) No 1024/2013, this decision of the Banco de España has been previously notified to the ECB. Also, this decision has been communicated beforehand to the Spanish Macroprudential Authority Financial Stability Council (AMCESFI) as stipulated in Article 16 of Royal Decree 102/2019, and in the Single Additional Provision of Royal Decree-Law 22/2018.⁷

The Banco de España's earlier decisions on quarterly CCyB rates are available at [this link](#).

⁶ As indicated in [the spring 2020 Financial Stability Report](#), some empirical research shows that, in this activity adjustment phase, GDP may fall quicker than credit, since GDP is a measure of flow that reacts faster than measures of stock such as total credit. This could lead the credit-GDP gap and other similar indicators to send incorrect or conflicting signals of the actual changes in cyclical risks.

⁷ The AMCESFI has not issued an Opinion on this proposed decision since the new rate does not entail any change 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)	-5.0	-5.0	-2.2	-30.9	18.6	11.7	12.3	-30.9	18.6
Econometric models of credit imbalances ^(c)	[-9.2 -5.9]	[-11.7 -7.5]	[0 0.5]	[-28.2 -15.8]	[26.6 42.4]	[11.5 19.2]	[6.2 14.4]	[-15.9 -15.1]	[26.6 42.4]
Credit-to-GDP ratio	149.8	152.4	123.7	75.5	226.4	49.0	152.3	92.3	226.4
Credit intensity ^(d)	0.3	1.0	9.8	-19.3	34.5	10.2	22.0	-19.3	34.5
Indicators of real estate price imbalances ^(e)	[-2.7 2.6]	[-3.5 1.5]	[-7 -2.1]	[-45.8 -31.8]	[24.1 50.6]	[12.9 19.9]	[3.2 10.6]	[-45.8 -31.8]	[22.4 50.6]
Debt service ratio ^(f)	15.1	15.5	18.3	12.0	24.9	3.0	17.9	12.5	24.9
Current account balance ^(g)	1.9	2.3	-1.9	-10.4	3.6	3.1	-5.9	-10.4	3.6
Output gap ^(h)	1.0	1.0	-0.4	-8.4	5.6	3.2	3.0	-8.4	5.6
Annual real GDP growth ⁽ⁱ⁾	-4.1	1.8	2.5	-4.4	8.3	2.3	3.5	-4.4	5.4

Sources: Banco de España, INE and own calculations.

Notes: The “Latest data” column refers to end-December 2019, unless otherwise stated. The indicators are expressed in 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 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-sided statistical Hodrick-Prescott filter (with a smoothing parameter adjusted to 25,000, instead of 400,000 as in the standardised BCBS specification). For further details on the calculation of the gap, see Galán, J.E., “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 (which is not suited to the case of European countries such as Spain that have historically undergone pronounced credit growth and declines) would show a value of -45.2 pp as of end-December 2019. The benchmark CCyB rate, which maps the credit-to-GDP gap to CCyB rates, would stand at 0% for the third quarter of 2020.

(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 house 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, 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.

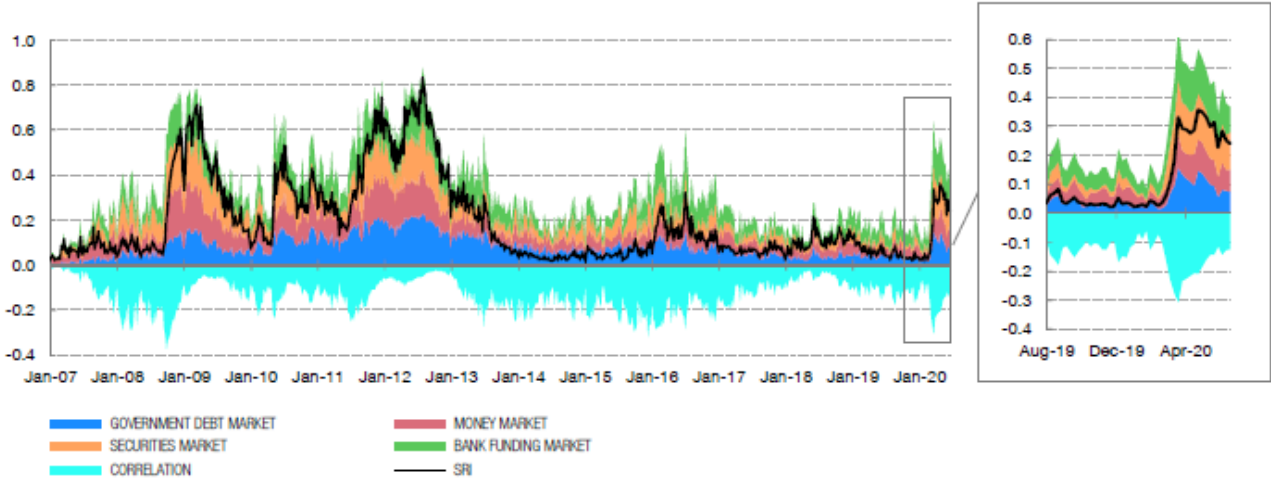
(f) Debt service ratio of the non-financial private sector, calculated according to the specification set out in Drehmann M. and M. Juselius (2012) “Do debt service costs affect macroeconomic and financial stability?”, BIS Quarterly Review, September.

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

(h) The “output gap” measures the difference between the actual and potential level of GDP. For further information, see Cuadrado, P. and E. Moral-Benito (2016), “Potential growth of the Spanish economy”, Occasional Paper 1603, Banco de España.

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

Chart 1. Systemic risk indicator





Sources: Datastream, Banco de España and own calculations.

Note: The systemic risk indicator (SRI) adds twelve individual stress indicators (volatilities, interest rate differentials, maximum historical losses, etc.) from different segments of the Spanish financial system (money market, government debt, securities and financial intermediaries). For the calculation of the SRI, the effect of cross-correlations is taken into account, so that the SRI registers higher values when the correlation between the four markets is high (i.e., situations where there is a high –or low- level of stress in the four markets at the same time) and reduces its value when the correlation is lower or negative (i.e., situations in which the level of stress is high in some markets and low in others).

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