



Communication Department

## PRESS RELEASE

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

**After analysing the macro-financial environment and lending developments, paying particular attention to the situation in the real estate market, the Banco de España has decided<sup>1</sup> to hold the countercyclical capital buffer (CCyB) rate applicable to banks for their credit exposures in Spain at 0% in the third quarter of 2022.**

The CCyB is a macroprudential instrument designed to bolster the banking system's resilience via the accumulation of capital during economic upswings – which is when systemic risks tend to build up – for subsequent use in the event that risks that might affect financial stability materialise.

The Banco de España regularly monitors the financial cycle by analysing various indicators. One of the most important indicators is the credit-to-GDP gap, which measures the deviation, on a given date, of the private non-financial sector's total credit-to-GDP ratio from its trend level. A positive and widening credit-to-GDP gap is associated with upside risks linked to credit volume growth. With the onset of the COVID-19 pandemic, this indicator rose sharply as a result of the steep decline in GDP and of the growth in lending spurred by the economic authorities' support measures. Accordingly, the increase in this indicator could not be construed as a systemic alert.<sup>2</sup> Indeed, the subsequent recovery in activity has led to a gradual correction in this indicator since mid-2021, although it remains above high-risk values. This correction is expected to continue over the coming quarters. Yet the pace of the future adjustment and the value to which it converges will be affected by the war in Ukraine, which has generated a high level of uncertainty as regards future macro-financial developments.

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<sup>1</sup> 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.

<sup>2</sup> As stated in the Basel Committee on Banking Supervision (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.

The Banco de España also analyses a wide range of **complementary macro-financial indicators**, which, overall, do not indicate a situation of heightened systemic risks. In particular, the pattern of GDP shows that activity has yet to return to its pre-pandemic level. Likewise, credit intensity (the ratio of new lending to GDP) and the debt service ratio (the ratio of loan principal and interest payments to GDP) are at moderate levels and the current account remains in surplus.

### **The Spanish real estate market**

Real estate market developments are particularly important for CCyB decisions, especially because loans for house purchase account for a high share of Spanish banks' portfolios (43.1% of lending to the private sector in March 2022). The Banco de España regularly and closely monitors this market and the related lending.

The latest developments in this market show that the house price growth rate quickened in the first quarter of 2022 (to a year-on-year rate of change of 8.5%, compared with 6.4% in the fourth quarter of 2021). In this regard, the indicators of real estate market price imbalances have shown some minor signs of overvaluation since the beginning of 2020. These indicators rose slightly in 2021 and could be pushed up further should the house price acceleration observed in the first quarter of 2022 take hold. However, they remain close to equilibrium values and far from the values reached prior to the global financial crisis.

Current macro-financial developments may push future house prices in opposite directions. On the one hand, the downside risks to household disposable income and the tightening of financing conditions stemming from monetary policy normalisation could temper the recent increases. On the other, the considerable increase in construction materials, which could be passed through to a greater or lesser degree to final prices via a reduction in activity in the sector, and the role of real estate property as a safe haven asset amid financial market volatility could have the opposite effect. In the current circumstances, the aggregate net effect of these dynamics is hard to anticipate.

Turning to real estate transactions, in the first quarter of 2022 house purchases stood 22% above those recorded in the same period of 2019, the year before the pandemic broke out. In keeping with the growth in transactions, new mortgage loans are also particularly buoyant. In 2021 new lending in this segment stood 35% above the 2019 level and in the first quarter of 2022 recorded year-on-year growth of 20%. However, given the high volume of repayments and since new lending accounts for a relatively small share of total lending due to the long-term nature of the loans, the outstanding amount of mortgage lending grew moderately (1.4% year-on-year in March 2022). In tandem, lending for real estate development and construction activities continued to contract (-4.8% in March 2022), with its share of the portfolio of bank loans to the private sector shrinking to 8.7% (from 26% at the end of 2007).

Credit standards for new residential mortgages did not change significantly in 2021. In particular, the average mortgage loan granted amounted to 69% of the house's value (71% pre-pandemic) and 13% of mortgages amounted to over 80% of the value (20% pre-pandemic). The average mortgage loan amount has also remained relatively stable at 4.6 times the mortgagor's annual disposable income. The interest rate for fixed-rate mortgages fell to the lowest levels of recent years, almost matching, on average, that for variable-rate mortgages (around 2% at the end of 2021). In this regard, it must be borne in mind that a prerequisite for ensuring financial stability is that the risks implicit in lending are

appropriately passed through to interest rates. Lastly, mortgage interest rates have only increased moderately so far. However, financial market developments and expectations of monetary policy normalisation suggest that this pattern could sharpen going forward. Indeed, the 12-month EURIBOR, which is the most common reference index for variable-rate mortgages in Spain,<sup>3</sup> has risen from -0.501% on 31 December 2021 to 0.948% on 27 June 2022.

**Overall, the assessment of the indicators analysed is consistent with holding the CCyB rate at 0% at present. In any event, the Banco de España will continue to monitor developments closely, drawing on the new information that becomes available, paying particular attention to that related to the real estate sector.**

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.<sup>4</sup>

The Banco de España's previous press releases, and other relevant information for determining CCyB rates, are available [here](#).

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<sup>3</sup> The share of fixed-rate mortgages in Spain has increased in recent years. Nevertheless, these loans still only accounted for 25% of the total outstanding amount of mortgage loans as at December 2021.

<sup>4</sup> AMCESFI has not issued an Opinion on this proposed decision as the new CCyB rate is unchanged from the previous quarter's.

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