



PRESS RELEASE

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

In light of the persistent uncertainty over the current macro-financial environment and the ascertainment that there are no widespread signs of a build-up of systemic risk, the Banco de España has decided to hold the countercyclical capital buffer (CCyB) rate applicable to banks for their credit exposures in Spain at 0% in the third quarter of 2023.¹

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 its subsequent use when risks that might affect financial stability materialise.

The Banco de España regularly monitors the financial cycle by analysing a variety of indicators. One of the most important is the credit-to-GDP gap, which measures the deviation of the private non-financial sector credit-to-GDP ratio from its trend level. The latest data available show that this indicator has continued to decline into negative territory, and is therefore moving away from the warning threshold. This behaviour was somewhat more intense than projected, as a result of a slight contraction in lending to the private sector (amid extraordinary debt repayments by households and firms) and growth in economic activity that was marginally higher than expected. This decline is expected to continue in the coming quarters.

The Banco de España also analyses a wide range of **complementary macro-financial indicators**, which, overall, do not indicate that endogenous systemic risks are building up either. In addition, the current environment continues to be subject to high uncertainty owing to factors such as the war in Ukraine, inflationary pressures and the (still incomplete) pass-through of the rise in interest rates to bank customers. These factors support maintaining the CCyB at 0% so as to stave off potential adverse pro-cyclical effects. Should these risks materialise, adversely impacting GDP, a moderation of credit, brought about by activating the CCyB, would not help reduce the level of systemic risk and could also further weaken economic activity.

Specifically, indicators such as credit intensity (the ratio of the annual change in lending to GDP) and the debt service ratio (the ratio of loan principal and interest payments to households' and firms' disposable

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

income) are at moderate levels and continue to trend downwards, despite the rise in interest rates. Also, the Spanish economy continues to record current account surpluses.

The Spanish real estate market

In the real estate market, the latest data indicate a slowdown in house prices, albeit with some downward rigidity. Specifically, the National Statistics Institute's Housing Price Index recorded an annual rate of change of 3.5% in 2023 Q1, 2 percentage points (pp) less than in the previous quarter and 5 pp less than in the first three months of the year. As regards the indicators of imbalances in house prices, some signs of overvaluation remain, although they are moderate.

As regards real estate transactions, following their increase in the spring of 2022, house purchases have been less dynamic since the second half of 2022. In fact, in 2023 Q1 they declined by 2.1% in year-on-year terms. New mortgage loans continued to lose momentum in 2023. In particular, in the first quarter of 2023 the flow of new credit for house purchase decreased by 21.8%, compared with the same quarter of 2022. For its part, total outstanding mortgage credit also fell, albeit more moderately (by 1.6% year-on-year in 2023 Q1), owing to the decline in the flow of new lending and, especially, to an extraordinary increase in the rate of repayments. In tandem, lending for construction and real estate development continued to contract, although at a slower pace than in 2022 Q4 (-3.6% year-on-year in 2023 Q1 compared with -7.7% in 2022 Q4).

Lastly, no significant changes have been observed in credit standards since [the last CCyB review](#). Specifically, a moderate decrease is observed in the loan-to-value ratio. Moreover, although interest rates on new mortgage loans started to rise in 2022 Q3, their spreads against the reference rates continued narrowing up to the most recent period, when they stabilised somewhat. It should be noted that the narrowing of spreads has been observed since before the launch of the current monetary policy normalisation process. Evidence of other previous episodes of monetary policy tightening shows that interest rate hikes are usually passed-through more rapidly to the market benchmark rates than to interest rates on loans. This could contribute to a temporary narrowing of the spreads initially, as is currently being observed, but in the medium term interest rates on loans are expected to rise to cover bank financing costs, which are also expected to grow.

In view of the foregoing, this assessment of the indicators warrants holding the CCyB rate at 0%. In any event, the Banco de España will continue to monitor the situation closely, paying particular attention to developments related to the real estate sector.

In this connection, institutions should use the higher earnings that are currently observed in the short term to bolster their resilience and continue performing their primary function, which is to lend to households and firms with viable projects, even if the significant risks identified in the current uncertain environment materialise.

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 22/2018.²


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

² AMCESFI has not issued an opinion on this proposed decision since the new rate does not entail changes from the CCyB rate prevailing in the previous quarter.

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Para más información: Tel. +34 91 338 5044 / 6097 / 5318 Fax +34 91 338 5203 www.bde.es Correo electrónico: <mailto:comunicacion@bde.es>

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