

3 MACROPRUDENTIAL POLICY



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3.1 Macroprudential instruments

Since 2014, the Banco de España is the national designated authority for application of the macroprudential policy instruments envisaged in the supervisory regulations for credit institutions.¹ The aim of macroprudential policy is to help safeguard the stability of the financial system as a whole, by reinforcing its resilience and mitigating systemic risks, ultimately to ensure that the financial sector makes a sustainable contribution to economic growth. For that purpose, the Banco de España carries out regular exercises to identify and monitor risks and vulnerabilities which may affect the financial system and analyses its resilience to the materialisation of those risks. This information is analysed using indicators and other analytical tools developed by the Banco de España to define the macroprudential policy stance and identify the appropriate measures to be taken to implement these instruments.²

Until last year, the main macroprudential instruments available to the Banco de España were the capital buffers. Capital buffers –or surcharges–are Common Equity Tier 1 (CET1) requirements (additional to those established in the regulations to address microprudential risks) which are determined as a set percentage of banks' risk-weighted exposures. Under current regulations, the Banco de España regularly sets two types of macroprudential capital buffers to deal with the accumulation of cyclical and structural risk: i) the countercyclical capital buffer and ii) the buffers for Spain's global and domestic systemically important institutions.

3.1.1 COUNTERCYCLICAL CAPITAL BUFFER

The Banco de España sets the percentage rate of the countercyclical capital buffer (CCyB) for credit exposures in Spain quarterly. The CCyB is conceived so that banks have a capital reserve –gradually built up previously in financial boom times– that can be used to absorb losses when the cycle turns, to help stabilise the flow of credit to the economy and strengthen banking sector solvency. It is an instrument designed to address the time dimension of systemic risks which, in this case, are forged in periods of excessive growth in aggregate credit, and may bring contractions in crisis periods.

Since the CCyB was effectively implemented on 1 January 2016, the Banco de España has held it at 0% for credit exposures located in Spain. This periodic decision³ is based on technical analysis of quantitative indicators and on other qualitative information which may be relevant. Among the quantitative indicators, the benchmark indicator is the credit-to-GDP gap, which measures the difference between the current level of the credit-to-GDP ratio and its long-run trend. This proven leading indicator of international systemic financial crises loses many of its properties when there are sustained changes in its trend, as occurred in Spain upon the deleveraging of the private sector following the global financial crisis. Hence, to refine the application of the CCyB, the Banco de España monitors the changes in other relevant indicators and is exploring econometric models with which to supplement the credit-to-GDP gap in its regular analysis of cyclical risks.⁴

1 Directive 2013/36/EU, Regulation (EU) No 575/2013, Law 10/2014 on the regulation, supervision and solvency of credit institutions, Royal Decree 84/2015, Banco de España Circular 2/2016 and Royal Decree-Law 22/2018 of 14 December, establishing macroprudential tools.

2 For more details, see J. Mencia and J. Saurina (2016), "Macroprudential policy: objectives, instruments and indicators", Banco de España Occasional Paper 1601.

3 See press release of 20 December 2018, "The Banco de España maintains the countercyclical capital buffer at 0%", and Chapter 3 (Macroprudential analysis and policy) of the Banco de España's Financial Stability Report, November 2018.

4 See Galán J. and J. Mencia (2018), "Empirical assessment of alternative structural methods for identifying cyclical systemic risk in Europe", Working Paper 1825, Banco de España.

Each year the Banco de España updates the list of systemically important institutions and sets their capital buffers. Since 2015 the Banco de España annually identifies global systemically important institutions (G-SIIs) and domestic or national systemically important institutions, known as other systemically important institutions (O-SIIs), and sets their capital buffers.

Systemically important institutions are those whose hypothetical failure would cause severe harm to the financial system and the real economy. This justifies imposing stricter prudential treatment on these institutions than on others, in order to ensure strengthened solvency. Systemic institution buffers take the form of capital surcharges designed to increase their ability to absorb losses and hence reduce their likelihood of failure due to unexpected shocks.

G-SIIs are identified in a coordinated manner at international level, applying the methodological framework for G-SIIs developed by the Basel Committee on Banking Supervision (BCBS) and endorsed by the Financial Stability Board (FSB). The Banco de España participates in both these fora. G-SIIs are identified using quantitative indicators to assign scores to each institution according to its level of systemic importance, under a system with five categories: a) size; b) interconnectedness with the financial system; c) substitutability of the services provided; d) complexity; and e) cross-border activity. Once the G-SIIs are identified, the G-SII framework prescribes the automatic assignment of a capital buffer proportional to their systemic importance within predefined limits.

To identify O-SIIs, the Banco de España uses guidelines developed by the EBA, within a framework for D-SIBs developed by the BCBS based on mainly quantitative criteria, similar to the G-SII framework. For institutions identified as O-SIIs, the capital buffers required are determined using the Banco de España's own calibration system, which is consistent with the guidelines agreed by the ECB in December 2016 for national authorities within the SSM.



Supervisory team working meeting.

Institution	Designation	Capital buffer required in 2018	Capital buffer required in 2019
Santander	G-SII and O-SII	0.75	1.0
BBVA	O-SII	0.5625	0.75
CaixaBank	O-SII	0.1875	0.25
Sabadell	O-SII	0.1875	0.25
Bankia	O-SII	0.1875	0.25

SOURCE: Banco de España.

In November 2018 the Banco de España announced the designation of one G-SII for 2020 and five O-SIIs for 2019, along with their capital buffers.⁵ The requirements for G-SIIs and O-SIIs were implemented in 2016 under a gradual phase-in timetable which concluded on 31 December 2018. Since 2019, systemically important institutions have to comply with the fully phased-in buffer requirement (see Table 3.1). The institution simultaneously classified as G-SIIs and O-SIIs only has to comply with the higher of the two associated buffer requirements.

In December 2018, under Royal Decree-Law 22/2018 the Government equipped the Banco de España with new macroprudential tools. Specifically, among others, the Banco de España may set limits and conditions on the loans granted by credit institutions in Spain. These instruments, which have a long history in European countries, directly affect borrowers. In this way, they help to raise the solvency of borrowers and thus reduce the potential losses of lenders.

Another highly significant development was the creation in March 2019 of a macroprudential authority for the Spanish financial system as a whole.⁶ The new authority, known by its Spanish acronym AMCESFI, is formed jointly by the Ministry of Economy and Business, the Banco de España, the CNMV and the Directorate General of Insurance and Pension Funds. The AMCESFI's remit is to analyse sources of systemic risk and it may issue opinions, warnings and recommendations (under the comply-or-explain principle) for the sectoral supervisory authorities.

3.2 Macroprudential tasks in the Single Supervisory Mechanism

In the framework of the Single Supervisory Mechanism (SSM), the Banco de España is in continuous dialogue with the ECB on macroprudential policy matters. The Banco de España periodically informs the ECB of all its proposed macroprudential measures before they are approved. Specifically, in 2018 the Banco de España informed of the quarterly countercyclical capital buffer measures and of the annual designation of systemically important institutions and the associated capital buffers.⁷ Such notifications are a regulatory obligation which enables the ECB to regularly scrutinise national macroprudential policies in the euro area and, where applicable, exercise its power to require stricter measures to be applied.

The Banco de España takes part in the discussions of the ECB's Financial Stability Committee (FSC), along with other euro area national central banks and supervisory

⁵ See press release "Banco de España updates the list of systemically important institutions and sets their capital buffers" of 21 November 2018.

⁶ Royal Decree 102/2019 of 1 March 2019 creating the Autoridad Macroprudencial Consejo Estabilidad Financiera (Macroprudential Authority Financial Stability Board) lays down its legal regime and sets out certain matters relating to macroprudential tools.

⁷ The information on systemic institutions must also be notified in advance by national authorities to the EBA, the European Commission and the European Systemic Risk Board (ESRB).

authorities. Through its working groups the FSC works to foment the analysis of risks and vulnerabilities for financial stability in Europe and to facilitate the exchange of information, thus helping to coordinate macroprudential policy measures between national authorities. In 2018 the FSC prioritised convergence in CCyB methodological operationalisation and the review of guidelines on minimum reference calibrations of buffers for O-SIIs in the euro area.

The Banco de España is a member of the ECB's Macroprudential Forum (MPF). This is a platform where members of the ECB's Governing Council and Supervisory Board meet quarterly to discuss the situation of the euro area banking system, the impact on financial stability of various regulatory initiatives, and other developments of macroprudential importance.



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