



PRESS RELEASE

Madrid, 21 December 2020

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

The Banco de España has decided¹ to maintain at 0% the countercyclical capital buffer (CCyB) rate applicable to credit exposures in Spain in the first quarter of 2021. In the current setting of the pandemic, which has led to a considerable deterioration in the macro-financial environment, the priority is to make it easy for credit institutions to be able to continue maintaining the flow of financing to businesses and households.² Accordingly, and in step with the authorities in other countries and the relevant supranational organisations, it does not seem appropriate to raise the level of this macroprudential requirement. Further, the Banco de España confirms its forward-looking stance of not increasing the CCyB rate over the coming quarters, until the main economic and financial effects arising from the COVID-19 crisis have been overcome.

The CCyB is a macroprudential instrument, provided for in prevailing legislation, to shore up the solvency of the banking system in phases of excessive credit growth (which is when risks usually accumulate). This buffer smooths credit cycle fluctuations by building up capital in boom periods with a view to being able to use it in the face of a downturn in the macro-financial situation.

In the current setting, the provision of lending to the real economy by credit institutions is an essential component of the strategy to combat the macroeconomic impact of the coronavirus and to facilitate a gradual economic recovery. The Banco de España has decided, therefore, to maintain the CCyB rate at the minimum level of 0%, reiterating its intention not to increase the rate over a prolonged period, at least until the main economic and financial effects arising from the coronavirus crisis have been dispelled and a path of macroeconomic recovery has been resumed. This decision to hold the CCyB rate at 0% is in line with the prudential expectations of a temporary easing of requirements in response to COVID-19, issued by the European Central Bank (ECB), the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS) at the onset of the pandemic, with the ultimate aim of facilitating the ongoing provision of lending to the real economy by banks.³

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

² An in-depth review of relevant considerations for financial stability in the current setting can be found in the last two [financial stability reports](#) published by the Banco de España.

³ See “ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus”, ECB [press release](#) of 12 March 2020; “EBA statement on actions to mitigate the impact of COVID-19 on the EU banking sector”, EBA [press release](#) of 12 March 2020; and “Basel Committee coordinates policy and supervisory response to Covid-19”, BCBS [press release](#) of 20 March 2020.

As indicated in the previous Banco de España [press release](#) (issued on 25 September), the set of indicators habitually used for analysing the CCyB (see Table 1) was conceived for the early detection of imbalances gradually generated by the financial system itself in expansionary phases of the financial cycle. Consequently, these indicators have lost a large part of their informative value in the current setting of exogenous shocks to the financial system arising from COVID-19 and from the consequent drastic change in the cyclical position of the Spanish economy.

The key indicator of the methodology for the CCyB, the so-called credit-to-GDP gap, has been affected by a combination of abrupt drops in GDP and increased credit, promoted precisely to mitigate the impact of the pandemic and prepare the economy for its recovery, rather than owing to excessive and unsustainable increases in financing to the private sector. For this reason, the recent marked upward movement in the credit-to-GDP gap should not, in this case, be interpreted as a warning requiring the activation of the CCyB.⁴ The Banco de España is currently paying attention to another type of complementary macro-financial indicators, such as the output gap and the systemic risk indicator (SRI), which enable monitoring of both the difference between actual and potential activity and the systemic stress in the financial markets. The output gap – a particularly complex indicator to estimate in the current circumstances – is posting negative values, while the SRI, which spiked in Spain following the outbreak of the crisis, is currently stable but remains above pre-pandemic levels.⁵

In accordance with the procedure set out in Article 5(1) of Regulation (EU) No 1024/2013, this decision of the Banco de España on the CCyB has been previously notified to the ECB. Also, this decision has been 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 22/2018.⁶

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

⁴ As indicated in the 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 (an) (...) outright decline in GDP." *BCBS Guidance for national authorities operating the countercyclical capital buffer*, December 2010.

⁵ See [Chapter 3.1](#) of the Autumn 2020 Financial Stability Report of the Banco de España.

⁶ 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.

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)	11.4	-1.8	-2.2	-30.9	18.6	11.7	12.3	-30.9	18.6
Econometric models of credit imbalances ^(c)	[1.0 1.6]	[-5.8 -4.9]	[-0.1 0.5]	[-28.2 -15.8]	[26.6 42.4]	[11.4 19.1]	[6.2 14.4]	[-15.9 -15.1]	[26.6 42.4]
Credit-to-GDP ratio	163.1	150.5	124.1	75.5	226.4	48.8	152.3	92.3	226.4
Credit intensity ^(d)	3.0	-1.1	9.7	-19.3	34.5	10.2	22.0	-19.3	34.5
Indicators of real estate price imbalances ^(e)	[-2.4 3.3]	[-2.3 3.3]	[-6.8 -1.3]	[-45.8 -31.6]	[24.1 46.6]	[12.7 20.1]	[3.5 10.6]	[-45.8 -31.6]	[22.6 46.6]
Debt service ratio ^(f)	20.2	16.2	18.3	12.0	24.9	3.0	17.9	12.5	24.9
Current account balance ^(g)	0.1	-0.2	-1.8	-10.4	3.6	3.1	-5.9	-10.4	3.6
Output gap ^(h)	-11.5	-8.2	-0.5	-11.5	5.6	3.4	3.0	-11.5	5.6
Annual real GDP growth ⁽ⁱ⁾	-8.7	-21.5	2.5	-4.4	8.3	2.3	3.5	-21.5	18.1

Sources: Banco de España, INE and own calculations.

Notes: The “Latest data” column refers to end-June 2020, 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 -28.1 pp as of end-June 2020. The benchmark CCyB rate, which maps the standard credit-to-GDP gap to CCyB rates, would stand at 0% for the first quarter of 2021.

(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 third 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 third quarter of 2020.

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