PRESS RELEASE

Madrid, 31 March 2020

The Banco de España holds the countercyclical 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 second quarter of 2020. The recent outbreak of the coronavirus (COVID-19) global pandemic and the necessary containment measures applied in Spain have given rise to a situation that advises not activating this instrument for a prolonged period. This will be at least until the main economic and financial effects arising from the coronavirus crisis have dissipated.[1]

The outbreak of the coronavirus (COVID-19) global pandemic and the necessary containment measures in Spain and in many other European countries have disrupted economic activity most severely. The economic impact is already visible and the indicators available point to a sharp contraction in economic activity worldwide. Against this background, public policies are crucial for preventing the decline in activity and in household and corporate income in the short term from becoming something more persistent. To this end, national and European economic authorities have adopted considerable healthcare, fiscal, labour market, financial, monetary and supervisory measures that should cushion substantially the impact of this crisis.

The banking system is essential so that firms, the self-employed and households may temper their temporary losses in income and recoup their previous levels of activity, procurement, consumption and investment as quickly as possible. This is why governments - Spain's among them - have deployed, among other measures, sizeable public guarantees to help financing continue flowing to the real economy. The ECB Governing Council, for its part, has approved new long-term refinancing operations (LTRO and TLTRO-III), under very favourable conditions, an increase in the volume of securities purchases under the APP (Asset Purchase Programme) and a new Pandemic Emergency Purchase Programme (PEPP) under which it will buy public and private assets worth at least €750 billion over the rest of 2020. In parallel, the Single Supervisory Mechanism (SSM) has established that credit institutions may use in full capital and liquidity buffers, and it has introduced supervisory flexibility as regards the treatment of COVID-19-related loans, with the ultimate aim of allowing households and firms to benefit fully from the guarantees and moratoriums approved by the public authorities.

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[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.

The CCyB is a macroprudential instrument that was created 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 economic circumstances, the authorities of other European countries that activated this instrument in the past in the face of discernible excessive credit growth in their economies have now proceeded to provide for its release (setting it at 0%). In Spain's case, the countercyclical credit buffer is currently set at 0%, given that before the pandemic the total volume of bank lending to the private sector was still continuing to fall and the instrument-activation indicators were not emitting signs of warning. At the current juncture, the Banco de España has decided to hold it at 0%. Further, it anticipates not activating this instrument over a prolonged period, at least until the main economic and financial effects arising from the coronavirus crisis have been dispelled.

The Banco de España, adhering to the same practices as the authorities in other countries, calculates and analyses a broad set of macroeconomic and financial indicators in its CCyB decision-making (see accompanying table and chart). In a situation like the present, the indicators for activating this instrument take a back seat while those that seek to capture the degree of macrofinancial stress in the economy take on particular significance. As can be seen in the accompanying chart, the so-called systemic risk indicator, which is based on the behaviour of various financial markets, has recently shown a most significant increase in the degree of macrofinancial stress in Spain, as in the other economies.

In accordance with the procedure set out in Article 5(1) of Council Regulation (EU) No 1024/2013, the present decision of the Banco de España has been previously notified to the European Central Bank. Also, this decision has been communicated beforehand to the AMCESFI as stipulated in Article 16 of Royal Decree 102/2019, and in the Single Additional Provision of Royal Decree-Law 22/2018.[2]

The Banco de España's earlier decisions on quarterly CCyB rates are available at this link.

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[2] The AMCESFI has not issued an Opinion on this proposed decision since the new measure does not entail any change from the CCyB percentage measure 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]	-5.1	-6.8	-2.2	-30.9	18.6	11.7	12.3	-30.9	18.6
Econometric models of credit imbalances [c]	[-11.7 -7.5]	[-12.2 -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	152.2	153.2	123.7	75.5	226.4	49.0	152.4	92.3	226.4
Credit intensity [d]	0.8	0.1	9.8	-19.4	34.5	10.3	22.0	-19.4	34.5
Indicators of real estate price imbalances [e]	[-3.5 1.5]	[-6.5 0.2]	[-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]	15.5	15.4	18.2	12.1	24.4	2.9	17.7	12.6	24.4
Current account balance [g]	1.6	2.1	-1.9	-10.4	3.5	3.1	-5.9	-10.4	3.5
Output gap [h]	1.0	0.9	-0.4	-8.4	5.6	3.2	3.0	-8.4	5.6
Annual real GDP growth [i]	2.0	2.1	2.6	-3.8	8.2	2.3	3.6	-3.8	5.2

Sources: Banco de España, INE and own calculations.

Notes: The "Latest data" column refers to end-September 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 -45.0 pp as of end-September 2019. The benchmark CCyB rate, which maps the credit-to-GDP gap to CCyB rates, would stand at 0% for the second 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.

(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 fourth quarter of 2019.

Chart 1. Systemic risk indicator
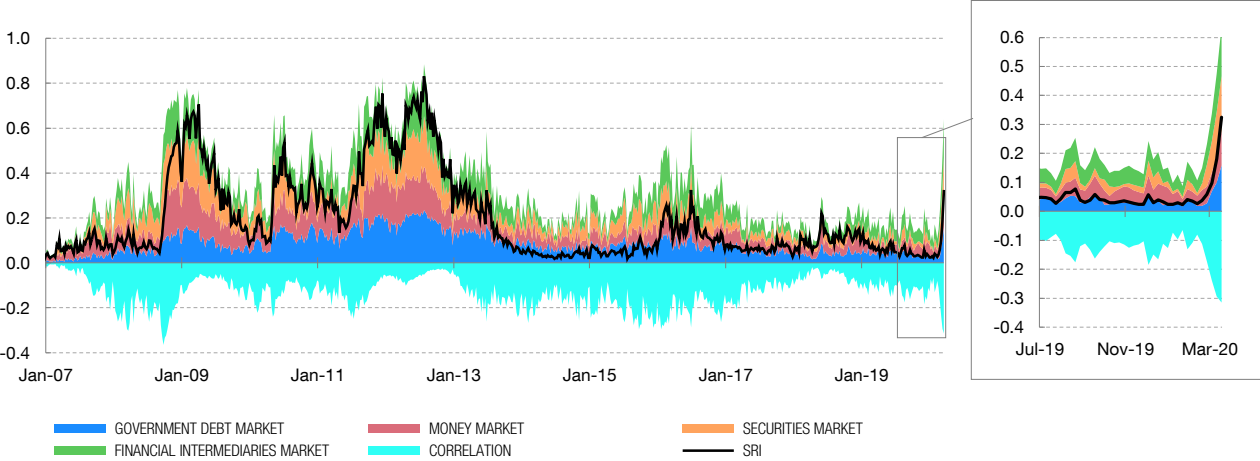
Sources: Datastream, Banco de España and own calculations.

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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