PRESS RELEASE

Madrid, 30 September 2019

The Banco de España holds the countercyclical capital 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 fourth quarter of 2019. This press release summarises the data and analysis supporting the decision.¹

The CCyB is a macroprudential instrument which calls on credit institutions to build up a capital buffer during expansionary periods to be released in a subsequent contractionary phase. The CCyB thus reinforces the resilience of the banking system during periods of growth, when risks usually accumulate, and helps mitigate the decline in the flow of new credit to the economy when those risks materialise. Consequently, the CCyB contributes to smoothing credit cycle fluctuations and to increasing credit institutions’ capacity to withstand potential future losses.

In line with the practice of the authorities in other countries, the Banco de España calculates and analyses a broad set of macroeconomic and financial indicators with a view to arriving at decisions on the CCyB (see accompanying Table and Chart). Other information of a qualitative nature likewise considered relevant has its place in this assessment.

The reference indicator at international level used to guide the setting of the CCyB rate is the credit-to-GDP gap. This indicator of imbalances linked to credit developments measures the deviation, for a given date, of the total private non-financial sector credit-to-GDP ratio from its long-term trend. A positive and growing value of this indicator denotes upward risks linked to credit volume growth. The Banco de España uses two statistical specifications to estimate the credit-to-GDP gap: the standard specification defined by the Basel Committee on Banking Supervision (BCBS) and a gap adjusted to the characteristics of the Spanish economy’s credit cycle.² Additionally, the Banco de España uses different indicators relating to credit intensity, valuation of residential assets in the real estate sector, private non-financial sector debt servicing, the current account balance and GDP growth, as well as its own

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.

² To consider an average duration of the credit cycle of between 15 and 20 years, in line with the empirical evidence available for Spain.
econometric models with which to test for and promptly detect signs of cyclical imbalances in credit developments.

On the latest information available, for March 2019, the estimation of the credit-to-GDP gap is still in negative territory;³ that said, it shows some convergence to the long-term equilibrium level compared with prior quarters, especially in the case of the adjusted credit-to-GDP gap (−7.8 pp).⁴ The Banco de España’s projections of the adjusted gap suggest that it would stand at positive levels at the start of 2021, exceeding the 2 pp threshold, which is normally used as a reference to activate the CCyB, towards the second quarter of 2021. Estimates of the credit-to-GDP gap derived from complementary econometric models confirm this diagnosis.

In relation to other indicators monitored to assess macrofinancial risks, the credit-to-GDP ratio rose slightly in the past quarter (152.8%), following the declines posted in recent years, while credit intensity increased by nearly 2 pp, to stand at positive levels. As regards estimates of house price overvaluation, they continued to increase moderately at the start of 2019, standing at equilibrium levels, but with prospects of continuing on a rising path over the next three years. The ratio of households’ and firms’ debt service to their disposable income held stable at low levels owing to the low level of interest rates and the current account surplus (in terms of GDP) was slightly lower than in the previous quarter.

With regard to the business cycle, according to the latest estimates by INE, GDP is estimated to have increased at a quarter-on-quarter rate of 0.5% (2.1% year-on-year) in the second quarter of the year. Consequently, the output gap⁵ of the Spanish economy, in positive values since 2018, continued increasing. During the current phase of economic recovery, the output gap appears to be around two years ahead of the adjusted credit-to-GDP gap.

As a whole, the analysis performed substantiates holding the CCyB rate at 0%. However, if the projections are confirmed, several reference indicators will exceed the activation thresholds next year. Should this macroprudential instrument be activated, affected credit institutions will have a twelve-month period to meet the requirement. Nevertheless, this analysis is conditional upon compliance with the baseline projections scenario, which is currently subject to numerous downside risk factors (possibility of a no-deal Brexit, heightened trade tensions and delay in the recovery of economic growth in the euro area). If such risks were to materialise, with a significant impact on Spain’s GDP, the former diagnosis would consequently change.

In accordance with the procedure set out in Article 5(1) of EU Regulation No 1024/2013, the present decision of the Banco de España has been previously notified to the European Central Bank. Also, this

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³ The benchmark CCyB rate for the third quarter of 2019 would stand at 0%.
⁴ The standard defined by the BCBS would show a credit-to-GDP gap value of -45.5 pp for Spain. This estimation has technical limitations which mean that it is not suited to the case of European countries such as Spain that have historically witnessed most pronounced credit growth and declines.
⁵ This is an indicator that measures the difference between the actual and potential level of GDP. Positive values for this indicator are interpreted as periods of economic expansion.
The Banco de España’s earlier decisions on quarterly CCyB rates are available at this link.

### Table 1. Quantitative indicators

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</thead>
<tbody>
<tr>
<td>Adjusted credit-to-GDP gap (h)</td>
<td>-7.8</td>
<td>-11.0</td>
<td>-2.1</td>
<td>-29.5</td>
<td>18.5</td>
<td>11.3</td>
<td>11.9</td>
<td>-29.5</td>
<td>18.5</td>
</tr>
<tr>
<td>Econometric models of credit imbalances (f)</td>
<td>[-13.1 -7.8]</td>
<td>[-13.7 -8.2]</td>
<td>[0.1 0.6]</td>
<td>[-28.2 -15.8]</td>
<td>[26.6 42.4]</td>
<td>[11.6 19.3]</td>
<td>[8.2 14.4]</td>
<td>[-16.1 -15.1]</td>
<td>[26.6 42.4]</td>
</tr>
<tr>
<td>Credit-to-GDP ratio</td>
<td>152.8</td>
<td>152.4</td>
<td>122.4</td>
<td>75.0</td>
<td>219.6</td>
<td>47.7</td>
<td>151.3</td>
<td>92.5</td>
<td>219.6</td>
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<tr>
<td>Credit intensity (f)</td>
<td>2.1</td>
<td>-0.1</td>
<td>9.8</td>
<td>-18.7</td>
<td>35.9</td>
<td>10.1</td>
<td>21.6</td>
<td>-18.7</td>
<td>35.9</td>
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<tr>
<td>Real estate sector prices (f)</td>
<td>[-2.3 1.1]</td>
<td>[-3.7 0.1]</td>
<td>[-7.1 -2.1]</td>
<td>[-46.5 -33.1]</td>
<td>[23.6 49.4]</td>
<td>[13.2 20.2]</td>
<td>[3.3 10.7]</td>
<td>[-46.5 -33.1]</td>
<td>[21.6 49.4]</td>
</tr>
<tr>
<td>Debt service (g)</td>
<td>15.1</td>
<td>15.2</td>
<td>18.2</td>
<td>12.1</td>
<td>24.4</td>
<td>2.9</td>
<td>17.7</td>
<td>12.6</td>
<td>24.4</td>
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<tr>
<td>External imbalances (f)</td>
<td>0.5</td>
<td>0.7</td>
<td>-2.0</td>
<td>-10.5</td>
<td>3.2</td>
<td>3.0</td>
<td>-6.1</td>
<td>-10.5</td>
<td>2.5</td>
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<tr>
<td>Output gap (g)</td>
<td>0.9</td>
<td>0.6</td>
<td>-0.4</td>
<td>-8.7</td>
<td>5.6</td>
<td>3.3</td>
<td>3.0</td>
<td>-8.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Real GDP annual growth (i)</td>
<td>2.1</td>
<td>2.2</td>
<td>2.6</td>
<td>-3.7</td>
<td>8.2</td>
<td>2.3</td>
<td>3.6</td>
<td>-3.7</td>
<td>5.2</td>
</tr>
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</table>

Source: Banco de España, INE and own calculations.

Notes: The “Latest data” column refers to end-March 2019, unless otherwise stated. The indicators are expressed in percentages (%), with the exception of the credit-to-GDP gap, housing prices 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). 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 adjusted credit-to-GDP gap is calculated as the deviation of the credit-to-GDP ratio from its long-term trend, using a one-sided Hodrick-Prescott filter (smoothing parameter equal to 25,000, rather than 400,000, as is used in the standard 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 (pages 84-85).


(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 price changes in housing relative to their long-term trends, some obtained using a one-tailed Hodrick-Prescott filter (smoothing parameter equal to 400,000 in all cases) and others using econometric models.

(f) Use is made of the debt service ratio in 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) The indicator of external imbalances is calculated as the current account balance divided by 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) Year-on-year real GDP growth rate. The latest figure refers to the second quarter of 2019.

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6 Under current regulations, 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.
Chart 1. Quantitative indicators

Credit-to-GDP gaps and output gap

- Adjusted credit-to-GDP gap
- Output gap (right axis)

Economic growth

- Annual real GDP growth

Credit intensity

- Credit intensity

Debt service

- Debt service ratio

Real estate prices

- Min/Max
- Average

External imbalances

- Current account balance (% GDP)

Source: Banco de España, INE and own calculations.

Note: The shaded area shows the period corresponding to the last systemic crisis (2009 Q1 to 2013 Q4).