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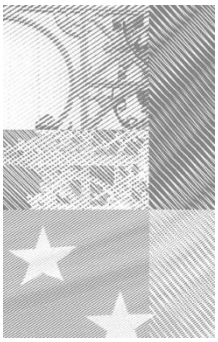

Communication Department

PRESS RELEASE

Madrid, 25 September 2020

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

The Banco de España has decided[1] to maintain at 0% the countercyclical capital buffer (CCyB) rate applicable to credit exposures in Spain in the fourth quarter of 2020. In the current situation, marked by the severe macrofinancial impact of COVID-19 in the first part of the year, with an uneven economic recovery set against high uncertainty linked to the course of the health crisis, it is essential that credit institutions maintain the flow of financing to economic activity[2]. In these circumstances, and in step with the decisions being taken by 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 maintains its forward-looking stance of not increasing the CCyB rate over the coming quarters, at least until the main economic and financial effects arising from the coronavirus crisis have dissipated.

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), 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 circumstances, the provision of lending to the real economy by credit institutions is an essential component of the strategy to alleviate the impact of the COVID-19 shock and to ensure the swiftest possible economic recovery. Consequently, the Banco de España has decided 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 COVID-19 crisis have been dispelled and a path of macroeconomic recovery is resumed.

[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.

This decision to hold the CCyB at 0% is in line with the prudential expectations of a temporary easing of requirements in response to COVID-19, issued in March 2020 by the European Central Bank (ECB),[2] the European Banking Authority[3] and the Basel Committee on Banking Supervision,[4] with the ultimate aim of facilitating the ongoing provision of lending to the real economy by banks.

The set of indicators habitually analysed to guide the setting of the CCyB (see Table 1) has lost a large part of its informative value in the current situation, as it was conceived to detect early imbalances in expansionary phases of the cycle generated endogenously by the financial system itself. Thus, the materialisation of the shocks triggered by COVID-19 and the drastic change witnessed in the economy's cyclical position mean that these indicators are not appropriate. Indeed, it cannot be ruled out that in the coming quarters these indicators start to exhibit conflicting signs. Rather than owing to excessive and unsustainable increases in lending, this is the result of 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. Consequently, the behaviour of these indicators should not be interpreted as a warning requiring the activation of the CCyB.[5]

Given this situation, the Banco de España is paying special attention to other types of macrofinancial indicator. In particular, the output gap has stood at sharply negative values since 2020 Q1; however, its estimation is subject to a high level of uncertainty in the current conditions, and it will recover to some extent in Q3 of this year, given the economic recovery. Moreover, the systemic risk indicator (see Chart 1), which enables real-time monitoring of the estimated level of systemic stress in financial markets, spiked in Spain following the outbreak of the crisis. It is currently stable, remaining above pre-pandemic levels.

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.

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[2] "ECB Banking Supervision provides temporary capital and operational relief in reaction to coronavirus", ECB press release of 12 March 2020.

[3] "*EBA statement on actions to mitigate the impact of COVID-19 on the EU banking sector*", EBA press release of 12 March 2020.

[4] "*Basel Committee coordinates policy and supervisory response to Covid-19*", BCBS press release of 20 March 2020.

[5] Indeed, as put forward in the BCBS 2010 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.

[6] AMCESFI has not issued an Opinion on this proposed decision since the new rate does not entail any change 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]	-2.0	-5.1	-2.2	-30.9	18.6	11.7	12.3	-30.9	18.6
Econometric models of credit imbalances [c]	[-7.6 -4.9]	[-9.2 -5.9]	[-0.1 0.5]	[-28.2 -15.8]	[26.6 42.4]	[11.5 19.1]	[6.2 14.4]	[-15.9 -15.1]	[26.6 42.4]
Credit-to-GDP ratio	150.5	149.7	123.9	75.5	226.4	48.8	152.3	92.3	226.4
Credit intensity [d]	-1.7	0.1	9.7	-19.3	34.5	10.2	22.0	-19.3	34.5
Indicators of real estate price imbalances [e]	[-2.3 3.1]	[-2.9 2.6]	[-6.9 -1.3]	[-45.8 -31.8]	[24.1 46.6]	[12.8 20.3]	[3.4 10.6]	[-45.8 -31.8]	[22.4 46.6]
Debt service ratio [f]	16.2	15.1	18.3	12.0	24.9	3.0	17.9	12.5	24.9
Current account balance [g]	-0.2	1.7	-1.8	-10.4	3.6	3.1	-5.9	-10.4	3.6
Output gap [h]	-8.2	-3.5	-0.4	-8.4	5.6	3.3	3.0	-8.4	5.6
Annual real GDP growth [i]	-22.1	-4.1	2.5	-4.4	8.3	2.3	3.5	-22.1	5.4

Sources: Banco de España, INE and own calculations.

Notes: The "Latest data" column refers to end-March 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 -42.2 pp as of end-March 2020. The benchmark CCyB rate, which maps the credit-to-GDP gap to CCyB rates, would stand at 0% for the fourth 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.

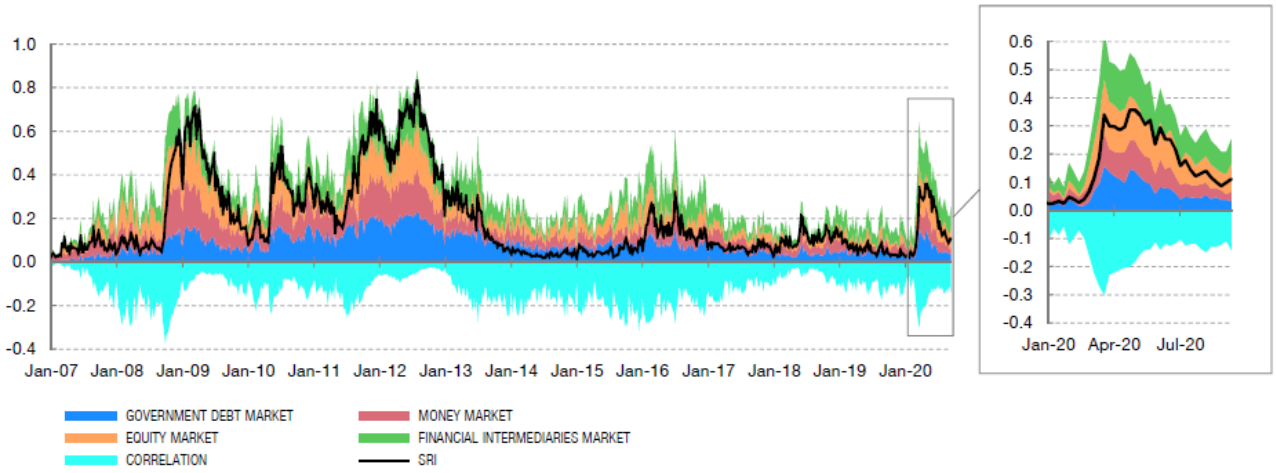
(f) Debt service ratio of the non-financial private sector, calculated according to the specification set out in Drehmann M. and M. Juselius (2012) "Do debt service costs affect macroeconomic and financial stability?", BIS Quarterly Review, September.

(g) In terms of GDP. Seasonally adjusted series. The latest figure refers to the second 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 second quarter of 2020.

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). For further information, see Box 1.1 of the Banco de España's Financial Stability Report, May 2013.

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