



PRESS RELEASE

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

After analysing the macro-financial environment and lending developments, as well as the situation in the real estate market, the Banco de España has decided¹ to hold the countercyclical capital buffer (CCyB) rate applicable to banks for their credit exposures in Spain at 0% in the fourth quarter of 2022.

The CCyB is a macroprudential instrument designed to bolster the banking system's resilience via the accumulation of capital during economic upswings – which is when systemic risks tend to build up – for its subsequent use should risks that might affect financial stability materialise.

The Banco de España regularly monitors the financial cycle by analysing different indicators. One of the most important indicators is the credit-to-GDP gap, which measures the deviation of the private non-financial sector credit-to-GDP ratio from its trend level. This indicator has remained above the warning threshold since the start of the COVID-19 pandemic. However, this has not been interpreted as a high level of systemic risk as it is the result of the sharp fall in GDP deriving from the health crisis and of the effect of the measures implemented to support firms' and households' liquidity.² The temporary nature of the rise in this indicator is reflected in its gradual correction in recent quarters, driven by the recovery in economic activity from mid-2021. In coming months, the high uncertainty generated by the war in Ukraine, inflationary tensions and monetary policy tightening could affect the process of economic recovery and, consequently, the pace of the future correction of this indicator.

The Banco de España also analyses a wide range of **complementary macro-financial indicators**, which, overall, do not indicate that endogenous systemic risks are building up. In particular, the performance of GDP shows that activity has yet to return to its pre-pandemic level, and the increase in macroeconomic risks linked to inflationary pressures and geopolitical tension may slow down this recovery process. The possibility of negative supply conditions worsening, in particular through an increase in the price of energy supplies or a reduction in their availability, is an especially significant risk factor for economic activity in this setting, and appears to support maintaining the CCyB at 0% in order

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 As stated in the Basel Committee on Banking Supervision (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 [...] outright decline in GDP. *BCBS Guidance for national authorities operating the countercyclical capital buffer*, December 2010.

to stave off potential adverse pro-cyclical effects. In this connection, in a setting in which these downside risks to economic activity materialised, a moderation of credit, brought about by activating the CCyB, would not only contribute to reducing the level of systemic risk, but would also further weaken GDP. Against this backdrop, institutions should exert extreme caution as regards both their provisioning policy, which should take into account the greater likelihood of these downside risks to activity materialising, and their capital planning, which is essential for them to continue smoothly pursuing their task of providing financing to households and to firms with viable projects.

Other indicators, such as credit intensity (the ratio of new lending to GDP) and the debt service ratio (the ratio of loan principal and interest payments to GDP) are at moderate levels and the current account of the Spanish economy remains in surplus. In any event, these metrics must be closely monitored. In particular, the increase in financial market interest rates will cause the debt service ratio to start rising in the coming months.

The Banco de España supports [Warning 7/2022](#) of 22 September 2022 of the European Systemic Risk Board (ESRB) on vulnerabilities in the EU financial system. The ESRB's valuation is consistent with the Banco de España's assessment of the macro-financial environment. As noted in the ESRB's warning, it is necessary and desirable for the national macroprudential policy response to adapt to each country's specific, structural and cyclical conditions and, especially, the intensity of the imbalances detected. Against this backdrop, the decision to maintain the CCyB at 0% is based on the specific analysis of conditions in Spain.

The Spanish real estate market

The Banco de España continues to closely monitor developments in the real estate market, which are very important for CCyB decisions. The latest developments in this market show that the house price growth rate remained high in the second quarter of 2022 (a year-on-year rate of change of 8%, slightly down from 8.5% in the previous quarter). In this regard, the indicators of real estate market price imbalances continue to show some signs of overvaluation, although they remain contained and lower than in other European countries that have already activated some macroprudential tools. Turning to real estate transactions, in the second quarter of 2022 house purchases continued to grow strongly, mainly due to second-hand house purchases. However, the July figure of 8% year-on-year house purchase growth suggests a slowdown that will not be confirmed until new data become available.

In keeping with the growth in transactions, new mortgage loans remained particularly buoyant in the first half of the year. In the second quarter of 2022 the flow of new lending for house purchase increased by 10.9% compared with the same quarter of 2021. However, given the high volume of repayments and since new lending accounts for a relatively small share of total lending due to the long-term nature of the loans, the outstanding amount of mortgage lending continues to grow steadily and moderately (1.3% year-on-year in June 2022). In tandem, lending for construction activities and real estate development continued to contract (-6.7% year-on-year in June 2022), in line with the lower momentum in the new housing market.

Credit standards for new residential mortgages did not change significantly in 2022. The increase in new mortgage lending in recent quarters has not been accompanied to date by a greater proportion of

mortgages with high values in the loan-to-value ratios or in borrowers' debt-to-income ratios. However, new mortgage interest rates remained low at the end of the second quarter of 2022, and the spread between these rates and the benchmark rates continued to narrow, which suggests that the pass-through of the increases in benchmark rates in 2022 is taking place more slowly than in past episodes of rising rates.

Overall, the assessment of the indicators is consistent with holding the CCyB rate at 0% at present. In any event, the Banco de España will continue to monitor developments closely, drawing on the new information that becomes available, paying particular attention to that related to the real estate sector.

In accordance with the procedure set out in Article 5 of Regulation (EU) No 1024/2013, this decision of the Banco de España on the CCyB has been approved after consultation with the ECB. The proposed decision was also 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 22/2018.³

The Banco de España's previous press releases, and other relevant information for determining CCyB rates, are available [here](#).

³ 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.

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