Box 2.7

MEASURES TO MITIGATE THE IMPACT OF THE PANDEMIC ON THE ECONOMY AND THE FINANCIAL SYSTEM. MORATORIA. GUARANTEES. CAPITAL REQUIREMENTS

In response to the extraordinary situation prompted by the pandemic, the authorities swiftly adopted a raft of monetary, fiscal and financial policy measures aimed at mitigating the impact of the crisis.

Notable among the measures adopted in Spain are moratoria and public guarantee facilities. A moratorium temporarily defers loan repayments for a set period. Initially, legislative moratoria were established (Royal Decree-Laws 8/2020 and 11/2020) for mortgage loans and non-mortgage loans to vulnerable individuals affected by the pandemic. Specific legislative moratoria were subsequently approved for firms in the tourism and transportation sectors (Royal Decree-Laws 25/2020 and 26/2020). In addition to the legislative moratoria, financial institutions voluntarily implemented via their associations agreements to widen the group of eligible beneficiaries and extend the grace periods. Through the public guarantee facilities, the central government provides guarantees on a certain percentage (up to 80% of the principal) of financing extended by financial institutions to firms and the self-employed to cover liquidity needs and for new investments. To be eligible, the borrowers have to be domiciled in Spain and not be in default nor subject to insolvency proceedings. Two guarantee facilities have been implemented for a total of up to €140 billion (Royal Decree-Laws 8/2020 and 25/2020). Spanish institutions have very actively extended these State-guaranteed loans, enabling a large number of firms to access such financing and helping to sustain the business sector.

Meanwhile, European regulators conducted **an urgent review of capital requirement regulations.** These so-called “quick fix” amendments are intended to maintain institutions’ capacity to lend and to absorb pandemic-related losses, while simultaneously preserving their resilience.

Supervisory authorities eased capital and liquidity requirements, allowing institutions to temporarily operate below the levels set in the Pillar 2 Guidance (P2G), the capital conservation buffer and the liquidity coverage ratio. Supervisors also fostered the flexible application of accounting standards.

Overall, these measures are geared towards forestalling the potential procyclical effects of capital and liquidity requirements, and the application of the accounting framework, such that the institutions remain unfettered in their capacity to lend to the overall economy, at a time when this is an essential function to mitigate the impact of the crisis.

Legislative moratoria were established for mortgage loans and for non-mortgage loans to vulnerable individuals affected by the pandemic.

Box 2.7

MEASURES TO MITIGATE THE IMPACT OF THE PANDEMIC ON THE ECONOMY AND THE FINANCIAL SYSTEM. MORATORIA. GUARANTEES. CAPITAL REQUIREMENTS (cont'd)

Further, **supervisors eased the operational burden of supervisory activity** to encourage institutions to concentrate efforts on ensuring their operational continuity and on performing their critical economic functions. For example, the EBA and ECB stress tests due to take place in 2020 were postponed until 2021, certain deadlines to implement action plans ensuing from recent on-site inspections were extended and some of the planned on-site actions were postponed.

Alongside these relief measures, supervisors (the ECB and the Banco de España, within their respective remits) have recommended that institutions refrain from, or limit, the distribution of dividends to shareholders, so as to ensure that they can have the maximum possible capital available to provide financing to economic agents and to absorb potential losses. They also reiterated their expectations that banks adopt extreme moderation with regard to the payment of variable remuneration.