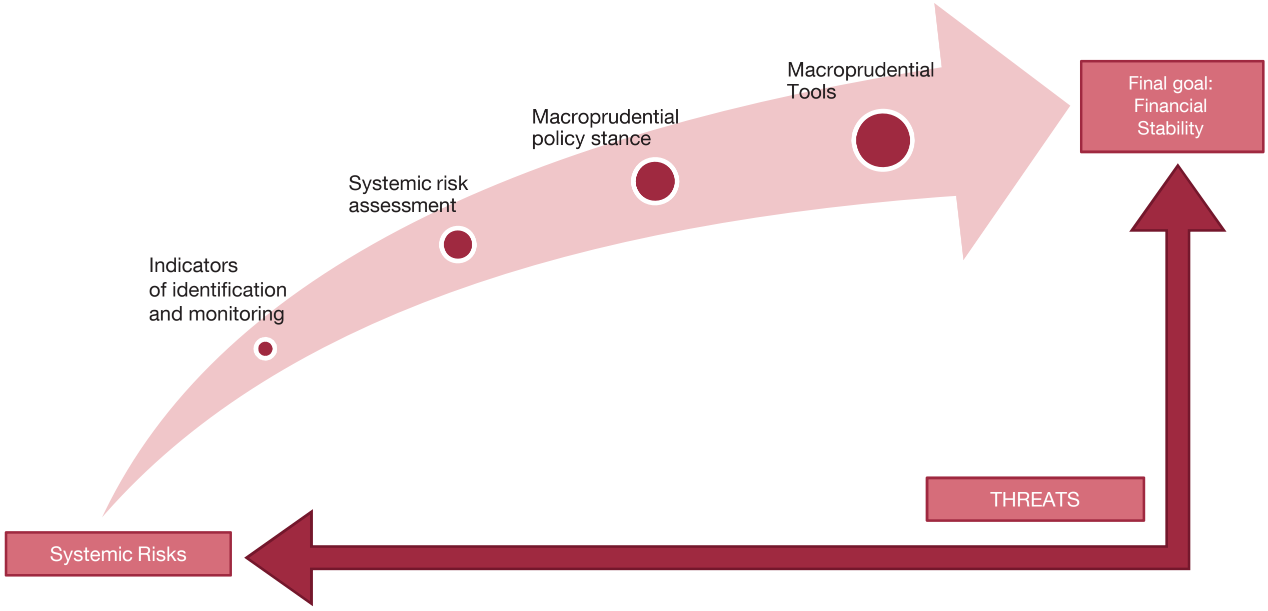
The objective of macroprudential policy is to help safeguard the stability of the financial system by reinforcing its resilience and mitigating systemic risks, so as to ensure that the financial sector makes a sustainable contribution to economic growth. The steps followed in achieving this objective are shown in Schema 3.1. The first step is to identify and monitor systemic risks in the financial system through the use of a broad range of indicators. This information is analysed and assessed using tools and models developed by the Banco de España, which provide guidance in defining the macroprudential policy stance. Lastly, a series of macroprudential instruments available to the Banco de España are implemented to prevent and mitigate systemic risk and thus preserve stability.

MACROPRUDENTIAL POLICY AND ANALYSIS FRAMEWORK

SCHEMA 3.1



SOURCE: Banco de España.

3.1 Macroprudential instruments

The Banco de España has a number of macroprudential instruments provided for in European legislation, specifically in Directive 2013/36/EU (CRD IV) and Regulation (EU) No 575/2013 (CRR).[1] The main instruments include the so-called “capital buffers”, which are a set of CET1 requirements additional to the minimum levels set in the CRR and to the additional capital requirement set individually by the supervisor for the bank through the SREP. Unlike those compulsory capital requirements, capital buffers determined as a percentage of banks’ risk exposures consist of an additional CET1 capital requirement, which, if not fully met, entails limitations on the distribution of the bank’s profits (the greater the CET1 shortfall with respect to that required to cover the total buffers, the greater the limitation). At present the Banco de España sets two types of capital buffer to prevent and mitigate different facets of systemic risk: the countercyclical capital buffer (CCyB) and the buffers for systemically important institutions. The purpose of the CCyB is to ensure that

1 Banco de España Circular 2/2016 sets out in more detail these powers, along with reporting transparency requirements and the relationship with the European authorities. A general description of Banco de España macroprudential policy objectives, instruments and indicators can be found in Occasional Paper 1601, Banco de España.

the banking sector as a whole has an additional capital buffer to help maintain the flow of credit to the economy without jeopardy to the solvency of the system in situations of financial system stress. For this reason, this buffer is designed to address the time dimension of systemic risks originated by excessive growth of aggregate credit. For their part, the buffers for systemically important institutions are intended to strengthen the solvency of institutions whose bankruptcy or poor functioning may seriously disrupt the financial system and the real economy. Also, these buffers act as capital surcharges which help to mitigate moral hazard for managers derived from the size and complexity of their banks. In this respect, these buffers seek to prevent and mitigate systemic risk in its transversal or structural dimension.

3.1 1 COUNTERCYCLICAL CAPITAL BUFFER

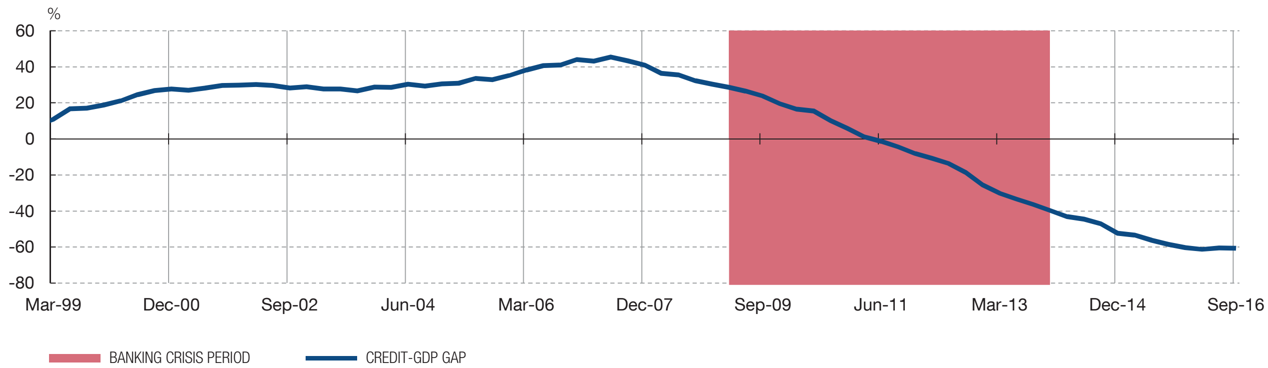
From 1 January 2016 the Banco de España determines quarterly the CCyB required of credit institutions. In 2016 the percentage of CCyB applicable to credit exposures in Spain remained steady at 0%. This periodic decision is based on technical analysis of specific quantitative indicators, on qualitative information and on expert judgement.

The CCyB required of banks remained at 0% in 2016

Within the quantitative indicators, the initial reference indicator is the so-called "credit-to-GDP gap". This indicator is intended to measure the excess credit in terms of GDP with respect to its long-term or equilibrium level. The value of this indicator at September 2016 was near –61 pp (see Chart 3.1). This value is clearly far from the activation threshold (2 pp), per the suggestion by the Basel Committee for Banking Supervision.

CREDIT-GDP GAP

CHART 3.1



SOURCE: Banco de España.

3.1.2 CAPITAL BUFFERS FOR SISTEMICALLY IMPORTANT INSTITUTIONS

The Banco de España identifies annually the global systemically important institutions (G-SSIs) and the national systemically important institutions, also called "other systemically important institutions" (O-SIIs). To identify G-SIIs, the Banco de España uses the methodology developed by the Basel Committee and accepted by the financial stability (FSB), which has been endorsed by European and Spanish legislation. This methodology establishes the assignment of a capital buffer requirement in accordance with objective criteria.

To identify O-SIIs, the Banco de España applies the guidelines developed by the EBA, also from the Basel Committee's framework, based on quantitative criteria. For the institutions identified as O-SIIs, the Banco de España determines the required capital buffers on the basis of a methodology of thresholds and intervals consistent with those set by the ECB. Under the applicable legislation, when the same institution is classified as both a G-SII and an O-SII, the higher of the two associated buffers is applied.

For 2017, six national systemically important institutions have been identified, of which one is also a global systemically important institution

At the end of 2016 the Banco de España published the lists of institutions identified as G-SIIs and O-SIIs for 2017 and their capital requirements. These requirements are introduced gradually, the required coverage being 50% in 2017, 75% in 2018 and 100% in 2019. The Banco de España reviews annually the institutions classified as G-SIIs and O-SIIs, and their respective capital buffers (see Table 3.1).

COMBINED BUFFER REQUIREMENT FOR G-SIIs AND O-SIIs IN 2017

TABLE 3.1

Institution	Systemic importance	Capital buffer requirement in 2017 (%)
Santander	G-SII and O-SII	0.500
BBVA	O-SII	0.375
Caixabank	O-SII	0.125
Bankia	O-SII	0.125
Sabadell	O-SII	0.125
Popular	O-SII	0.125

SOURCE: Banco de España.

3.2 European framework for reciprocity of macroprudential measures

The package of macroprudential measures may prove to be insufficient to mitigate the build-up of risk in the system if a supervisor's action is limited to banks' domestic activity and, moreover, addresses only resident agents. In recent years national banks have had a significant volume of exposures to foreign agents, so it is necessary to consider the risks arising from this activity, which may differ in nature and intensity from those identified in the domestic arena. Further, macroprudential action must be able to reach all institutions operating in the national territory, including those supervised by non-resident authorities (as in the case, for example, of branches of non-resident banks).

Reciprocal application of measures by countries allows more uniform and effective treatment of risks

Recognising the existence of cross-border issues in macroprudential policy, in 2015 the ESRB approved a recommendation,[2] adopted by the Banco de España, which introduced rules to ensure the reciprocity of macroprudential measures in the EU. The recommendation is based on the idea that exposure to the same macroprudential risk should receive equivalent regulatory treatment regardless of the jurisdiction of the agents affected. Specifically, it is recommended[3] that the macroprudential measures adopted in the various EU jurisdictions should be reciprocal provided that a Member State so requests, subject to certain conditions. Although the CRD IV and the CRR already include provisions establishing the duty of reciprocity for certain macroprudential instruments, the ESRB recommendation breaks new ground in that it establishes a general framework of application for all these instruments.

In 2016 there were two requests for reciprocity within the ESRB framework. The first consisted of a request by the Belgian authorities to raise mortgage exposure risk weights, measured by the internal-ratings based (IRB) approach at 5 pp. The second was a request from the Estonian authorities to introduce a systemic risk buffer of 1% applicable not only to banks supervised by the Estonian authority but also to the branches of non-resident banks and to cross-border activity in this market. The Banco de España decided, on the basis of criteria and exemptions agreed by the ESRB, that exposures of Spanish banks to

2 Recommendation ESRB/2015/2 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures.

3 As with all ESRB recommendations, compliance is not compulsory, although in this case the reasons for non-compliance have to be duly explained.

these two countries did not reach the materiality thresholds set for the adoption of reciprocal macroprudential action.

In the coming years, the Banco de España will continue analysing the reciprocity requests received from other countries and will also examine the impact of its own decisions when it considers the advisability of requesting reciprocity from other Member States. The ESRB reciprocity framework is a key pillar for ensuring the homogeneity and effectiveness of macroprudential policy in the EU.