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Analysis of the comments received during the public consultation on the revision of the framework for setting the countercyclical capital buffer and the public notice period of the proposal to set the buffer's rate from 2024 Q4.

The 16 May 2024 marked the beginning of a public consultation on the Banco de España's revised framework for setting the countercyclical capital buffer (CCyB) and a public notice period of the proposal to set the buffer rate from 2024 Q4. Both processes concluded on 13 June 2024, after the legally stipulated 20 working days had passed.

The comments received and the Banco de España's responses are set out below.

Annex 1. Comments received and the Banco de España's responses.

1) European and international prudential framework

No.	Comment	Response
1	The stakeholder considers that the measure could have a limited effect and that the capital buffer will ultimately not be “usable” in practice, given the role of market expectations and the market’s perception of capital requirements.	<p>It is true that prudential requirements interact with other aspects, such as those relating to the leverage ratio, resolution requirements and even market expectations. How the CCyB and these requirements interact depends on the situation of each institution, and may affect some institutions’ ability to use the CCyB in the event of its release.</p> <p>In any event, the CCyB’s activation will tend to reduce overlaps with other parallel requirements by increasing risk-weighted capital requirements without affecting the leverage ratio requirements or the minimum required eligible liabilities. In addition, the evidence available suggests that the overlap with other requirements is generally limited in the case of the Spanish banking sector (as shown in this 2021 report by the European Systemic Risk Board (ESRB) and confirmed in subsequent analyses).</p> <p>As far as market expectations are concerned, to the extent that they are more demanding, they call for a higher level of the capital ratio in crisis situations, which actually increases the economic utility of building up additional capital buffers. In their absence, potential capital charges during times of crisis could lead to tighter bank lending conditions in such adverse scenarios, which could then spread to wholesale debt. An increase in the CCyB requirement, by incentivising greater capital accumulation, will tend to ease investors’ restrictions on its use.</p> <p>Another aspect of the empirical evidence should also be taken into account. It has been observed that banks more readily continue providing credit to the economy when they have more capital headroom above requirements. This is even clearer in situations of uncertainty. In this regard, studies on the impact of the release of the releasable buffers during the pandemic show that banks in countries that released capital buffers increased their provision of credit and demonstrated that this increase was particularly significant in those banks that were more constrained, in terms of having less capital headroom (see, for example, Couaillier, Reghezza, Rodriguez d’Acri and Scopelliti, 2022 and Bedayo and Galán, 2024).</p>

2	<p>The stakeholder states that the proposal will contribute to increasing the complexity of the capital requirements framework</p>	<p>The Banco de España has not changed the regulatory capital framework, which is based on European and international regulations. What it has done is revise the internal methodology used to monitor cyclical systemic risks and set the CCyB in line with the regulations in force, with what other European countries have done and with the recommendations of the International Monetary Fund (IMF).</p> <p>In so doing, the Banco de España has made a significant effort to enhance transparency, far ahead of other European countries that have also revised their strategy, publishing the new framework for setting the CCyB and opening it up to public consultation so that the new methodology can be understood by the public and the institutions to which it applies. The Banco de España deems this to be a key element of the process as it will increase the buffer's usability.</p> <p>In any event, whatever the complexity of the capital requirements framework, it cannot result in parts of the framework not being applied. First, because it is an internationally agreed framework and, second, because it has been devised with multiple components that work alongside each other.</p> <p>In addition, the revised framework is based partly on the previously existing methodology, which makes it easier to understand. For example, material indicators that were used previously, such as the credit-to-GDP gap or the output gap, continue to play an important role in determining the level of cyclical systemic risk in Spain.</p> <p>The modification and extension of the methodological framework is also backed by findings in the economic and financial literature, as detailed in the bibliography of technical documents published on the Banco de España website as part of the public notice and consultation processes. Lastly, these same technical documents include the analyses carried out by the Banco de España to complement the existing financial and economic literature and further inform the decision.</p> <p>In assessing the framework's complexity, it should also be borne in mind that comparable frameworks, which set a positive CCyB rate when risks are at a standard level, were already in place in many European jurisdictions prior to the revision of the framework in</p>
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3	The stakeholder thinks that it is necessary to review the framework at an international level, with the “neutral positive” approach being paired with a recalibration of other buffers.	<p>The European Central Bank (ECB), the European Banking Authority (EBA) and the ESRB (in their replies to the <i>call for advice</i> carried out by the European Commission in 2021 on the review of the EU macroprudential framework) and the Commission itself (in the closing remarks contained in its <i>report</i> on 24.1.2024 to the European Parliament and the Council) considered it important to update the framework for setting the CCyB rate, incorporating the lessons learned in the first decade of the tool’s use. The Banco de España agrees with their conclusion.</p> <p>However, the review of the European macroprudential framework can be expected to take a long time. In any case, the current framework already allows for the activation of the CCyB when cyclical systemic risks are at a standard level. In fact, the legislation currently in place already accounts for the fact that, although the buffer guide is a highly significant benchmark for the setting of the CCyB rate, it must not be the only variable considered, meaning that its guidance does not give rise to any automatic buffer setting. In particular, according to Rule 9(1)(b)(iii) of Circular 2/2016 of the Banco de España and Article 136(3)(c) of Directive 2013/36/EU, the Banco de España may make its decision taking into account any other variables it considers relevant for addressing cyclical systemic risk. Therefore, the benchmarking rules established by the current legislation, such as the aforementioned guide, should not be interpreted as automatic rules, because the authorities must adjust their final decision if they consider it justified by other data points.</p> <p>Given that the revision of the framework for setting the CCyB for exposures located in Spain, initiated in 2024, does not conflict with the legislation in force and that significant benefits are expected in terms of banking system resilience and mitigation of cyclical systemic risk, it is deemed appropriate for the Banco de España to act in this area without waiting for the eventual review of the European or global prudential framework.</p>

		<p>As such, it is important to note that the new framework put in place by the Banco de España is fully compatible with the original framework established by the Basel Committee on Banking Supervision, as that body clarified in its October 2022 newsletter.</p> <p>The possible recalibration of other buffers requires either modifying the internationally agreed regulatory capital framework or, at the very least, the ECB's agreement, and is not, therefore, something that the Banco de España can undertake alone.</p> <p>Within the existing regulatory framework, it should be noted that Spain currently has very limited room for manoeuvre to reduce the level of other buffers. This is because: (i) they are not releasable (e.g. the capital conservation buffer), (ii) they are the result of decisions made at the international level (e.g. the global systemically important institutions buffer), and (iii) their level is relatively low. The latter is true for the buffers set by the Banco de España for other systemically important institutions, given that these all stand at the lowest levels allowed by the ECB.</p>
4	The stakeholder expresses a preference for making structural buffers (such as the capital conservation buffer) releasable via a revision of the European framework.	Structural buffers are intended to boost institutions' solvency in the face of risks that do not evolve with the cycle and are therefore not designed to be released according to the state of the economic cycle. In any case, this proposal should be addressed at international level, accounting for all potential benefits and drawbacks.
5	The stakeholder thinks that there is some overlap between the objectives of the CCyB and certain structural requirements, such as other macroprudential buffers and the Pillar 2 requirement (P2R). Therefore, the stakeholder requests that these structural buffers be made releasable or that the P2R methodology be reviewed.	The CCyB covers risks other than those of the aforementioned structural requirements, since it is designed as a buffer against cyclical systemic risk, which affects the entire banking sector. By contrast, the aforementioned structural requirements are calibrated individually for each institution. It is, then, clear that there is no overlap and that it is not possible to offset the activation of the CCyB with a reduction in requirements that differ for each institution.

2) Effectiveness of the measure

No.	Comment	Response
6	The stakeholder questions whether the current environment is appropriate for the activation of the CCyB, given the potential for change in the macroeconomic outlook for the next two years and the absence of signs of excessive credit growth.	<p>The indicators used by the Banco de España to monitor cyclical systemic risks point to a robust economy and banking sector. On data up to 2023 Q4, the global composite indicator stood at a standard level and relatively close to a high risk level (at the 59th and 61st percentiles, when aggregating using simple averages or main components, respectively) Data to 2024 Q1 show no substantial change in this situation.</p> <p>Looking at the components of this development, both the composite macroeconomic and banking indicators point to a standard level of cyclical systemic risk, albeit nearing the high-risk range.</p> <p>The market indicator stands at the low end of the standard risk range.</p> <p>Macro-financial indicators signal the lowest level of risk (although their level rose slightly in 2024 Q1), helped, in particular, by the relative weakness of the credit cycle. This weakness can be seen, for example, in indicators such as the credit-to-GDP gap, credit intensity and the rate of change in lending to households and firms. However, the recent trend in lending is more dynamic, with lending envisaged to again increase year-on-year in 2024 Q4. This will make the credit-to-GDP gap grow, meaning that it could exceed the benchmark level of 2 percentage points (pp) in 2025 Q2. Moreover, the bank credit-to-GDP gap is already closer to zero than the overall credit-to-GDP gap.</p> <p>Indicators of price imbalances in the real estate sector also point to a standard level of risk. The forecasts envisage relatively stable paths for these indicators.</p> <p>Lastly, indicators relating to the banking sector suggest a robust situation, with strong profitability and high asset quality, historically speaking. Therefore, it appears that the banking system could currently handle the required increase in buffers without significantly affecting its financial intermediation capacity.</p>

		<p>In conclusion, the set of indicators used in the new CCyB framework are at a standard risk level and do not appear to point to a downward shift, according to the forecasts used.</p> <p>In any event, the CCyB is a flexible tool and the Banco de España constantly monitors the macro-financial context. Should incoming information in the two-year horizon change the assessment of the state of cyclical systemic risk, the Banco de España may modify or roll back its decisions regarding the CCyB rate for exposures located in Spain.</p>
7	The stakeholder questions the need of this increase in requirements, since the Spanish banking sector has strong solvency levels and is highly resilient.	<p>From a microprudential point of view, the solvency of the Spanish banking sector is adequate. In addition, the resilience of the Spanish banking sector has been confirmed by the various stress tests carried out by the Banco de España, the EBA and the IMF in its latest assessment of Spain's financial system (Spain: Financial System Stability Assessment). These findings, however, indicate significant capital charges under adverse scenarios.</p> <p>The macroprudential approach of the CCyB is particularly oriented towards systemic cyclical risk. As this is a risk shared by the entire banking sector, its materialisation would have effects beyond the factors used to calibrate institutions' microprudential requirements, which are mainly intended to ensure each institution's individual ability to absorb the fallout of shocks. It is also a risk separate to that covered by the systemic institution buffers, which is a structural risk and specific to institutions identified as being of systemic importance, although it affects the financial system as a whole.</p> <p>The activation of the CCyB does not, therefore, call into question the capital levels of any particular institution. Instead, the buffer is in place to cover a separate risk to those addressed by microprudential supervision and other macroprudential tools. In fact, this requirement means that institutions will have to set aside a portion of their capital to absorb the potential materialisation of risks that cannot be managed individually – systemic risks and those that recur cyclically.</p> <p>Activating the CCyB in the current setting and releasing it in the face of a potential crisis would help to make the supply of bank credit more stable over the financial cycle. As noted above, although various stress tests have shown that Spanish institutions are able</p>

		to absorb the stress test impacts without breaching the minimum capital requirements, having an additional releasable buffer would improve their resilience and ability to keep credit flowing in a hypothetical context of severe macro-financial stress.
8	The stakeholder considers that the measure could have a negative impact on the functioning of the banking business and the real economy by reducing the sector's profitability and banks' ability to grant loans.	<p>Analyses indicate that the impact will be limited if current macro-financial conditions are maintained. First, based on European experience, analyses of the impact on the distributions of credit growth and GDP indicate that building up the CCyB by 1 pp would result in median credit and GDP growth decreasing by just 0.1 pp and 0.3 pp, respectively, over a two-year horizon. In a comparable range, the impact analysis based on time series of Spanish GDP, capital and credit shows a cost of 0.2 pp for one-year GDP growth following the activation of each 1 pp step build-up in the CCyB (Documento Ocasional 2414, Banco de España).</p> <p>Second, a study of the impact of the pre-pandemic CCyB increases by institution type using a sample of European countries suggests that the build-ups had no effect on the provision of credit by institutions with plenty of capital headroom above requirements and that the impact on institutions with less headroom was limited and very short-term (it was only statistically significant in the first two quarters) (Documento Ocasional 2414, Banco de España).</p> <p>Lastly, the above evidence is reflected in a recent ECB Governing Council statement on macroprudential policies on 28 June 2024, indicating that building up macroprudential buffers under the current conditions would entail limited costs and that these costs are even lower in an environment of high bank profitability, such as the present one.</p>
9	The stakeholder considers that the measure contributes to creating an unfavourable financial environment for banks, with adverse effects on the confidence of investors and on the sector's ability to attract them.	<p>Activating the CCyB will contribute to a more stable financial environment.</p> <p>First, activation of this buffer is expected to increase institutions' overall requirements on average, which should, in turn, improve their solvency. This is because institutions have an incentive to preserve, at least partially, the voluntary or management margin above requirements. An analysis of time series data for Spain (see Documento Ocasional, 2414, Banco de España) shows that the equilibrium capital ratio actually increases when requirements are raised. This finding is consistent with the results from other studies and other jurisdictions (Berger, DeYoung, Flannery, Lee and Öztekin, 2008 and Meeks, 2017).</p>

		<p>Second, the evidence suggests that greater bank solvency may lead to lower premia on bank debt issues. This is because better capitalised banks are perceived as less risky for investors (Arnould, Pancaro and Żochowski, 2020).</p> <p>Third, in the event of a potential crisis and the materialisation of systemic risk, increased solvency would allow banks to provide more credit to the economy (see Jiménez, Ongena, Peydró and Saurina, 2012 and Jiménez, Ongena, Peydró and Saurina, 2017). This would mitigate the downturn in economic activity and the rise in non-performing loans (NPLs), thereby limiting the negative impact on institutions themselves. Investor confidence would be less adversely affected and the blow to banks' stock prices would be softened.</p> <p>In 2023, for example, the EU banking sector proved resilient following the bankruptcy of several US banks and the takeover of Credit Suisse by UBS and, although the stock market experienced significant corrections, these did not pose any risk to financial stability. This resilience was supported by the strong capital and liquidity positions within the European banking system, resulting from regulatory reforms agreed at international level over the past decade. In Europe these reforms were applied to all banks, with strict capital and liquidity requirements regardless of the bank's size (see the Banco de España Financial Stability Report, spring 2023).</p> <p>Lastly, the current setting is characterised by a growing number of risks outside the financial cycle itself, which are beyond the control of macroprudential authorities. The COVID-19 pandemic is an example of one of these exogenous shocks. Today, among other existing risks, the high geopolitical risk (Russia's invasion of Ukraine, tensions in the Middle East) could have financial stability implications if it escalates. These risks interact with cyclical systemic risk and may increase the volatility of the credit cycle. The existence of releasable buffers would help to keep credit flowing should a systemic risk materialise.</p>
10	The stakeholder believes that this measure could have an adverse impact concentrated mainly on banks that	The measure's focus on addressing cyclical systemic risk in Spain is consistent with it having a greater impact on the requirements of institutions that conduct a larger share of their lending activities within the country.

	operate exclusively in Spain and their customers, especially in areas where such banks play a crucial role.	In any event, it should be borne in mind that Spanish institutions with an international presence are already subject to various macroprudential buffers in other countries, including the CCyB. Therefore, these institutions' capital requirements should be assessed from a broader perspective than a merely national one.
11	The stakeholder considers that the activation of buffers and their subsequent release in the COVID-19 crisis was not effective.	Empirical studies of the pandemic show that the release of buffers had a positive and significant effect on credit provision in those countries that had previously activated them and were able to release them. Couaillier, Reghazza, Rodriguez d'Acri and Scopelliti (2022) found that for every percentage point of capital released during the pandemic, lending to firms increased by between 1.2% and 2.7%. In the same vein, Bedayo and Galán (2024) observed that the release of the CCyB in response to the pandemic not only boosted credit provision, but also primarily benefited banks that were in a more vulnerable position owing to their having less capital headroom above requirements.
12	The stakeholder believes that, in a downturn such as the present one, activating the CCyB could have procyclical effects.	<p>The impact analysis conducted by the Banco de España shows that the expected costs in terms of credit and GDP growth are limited in the current macro-financial environment (see the previous responses). The forecasts used in the scoreboard predict sustained GDP growth with no further negative corrections in projected credit growth.</p> <p>In addition, a recent paper by ECB staff shows that a gradual activation of the CCyB (the approach taken by the Banco de España) helps to reduce the costs of the measure.</p> <p>In any event, as indicated above, the Banco de España reviews the CCyB quarterly, adjusting its calibration depending on how cyclical systemic risks evolve.</p>

3) Framework for setting the CCyB

No	Comment	Response
13	The stakeholder criticises the use of global indicators (return on equity (ROE), NPL ratio) in the scoreboard, even though the CCyB applies only to exposures in Spain.	The set of key indicators used in the first stage of the assessment of cyclical systemic risk focus mainly on macro-financial conditions in Spain. However, it is important to include a measure of profitability at consolidated level and an indicator capturing the stock market valuation of the banking sector, which is influenced by the performance of its business abroad. Some Spanish credit institutions have very significant international activity and their financial decisions in Spain, particularly in terms of lending, may be influenced by the financial situation of the consolidated group they belong to. In line with this, the empirical analyses aimed at assessing the impact of the CCyB measure on credit conditions in Spain also use consolidated information (Documento Ocasional 2414, Banco de España).
14	The stakeholder proposes that the scoreboard include the ROE – COE indicator instead of ROE.	The Banco de España prefers to use the cost of equity (COE) as a complementary variable, due to the significant uncertainty inherent to its estimation (see Fernández Lafuerza and Melnychuk, 2024), which results in a less robust indicator. Moreover, COE is a variable that is largely determined by indicators that are already included in the scoreboard, such as ROE itself or the price-to-book value ratio. Its inclusion would therefore substantially increase the scoreboard's complexity and make it highly dependent on the particular methodology used, for which there is no academic consensus.
15	The stakeholder expressed doubts about the price-to-book value ratio being considered “standard” in the scoreboard, despite standing at less than 1.	A framework has been developed for monitoring cyclical systemic risks, using statistical criteria to identify the positions of a set of 16 economic indicators to make the procedure as objective as possible. At present, composite indicators of the state of the banking sector suggest that, on aggregate, these indicators are at a standard level. Similarly, the price-to-book value ratio, despite remaining below 1, is also at a standard level with respect to its own historical values, as the latest figure available in the technical documentation for this administrative process falls within the 25th to 75th percentile range. In any event, this first-stage statistical information is complemented by additional analyses in a second stage, incorporating other relevant quantitative and qualitative information.

16	<p>The stakeholder requests that a minimum period from the date of release of the CCyB to its effective rebuilding be announced.</p>	<p>The CCyB framework operates under the principle of guided discretion and setting the proposed minimum period would limit the flexibility needed to adjust macroprudential policy to the various specific macro-financial circumstances that may arise during recovery from a systemic crisis. In other words, the Banco de España considers that decisions should be primarily data-driven rather than time-dependent.</p> <p>However, the methodology described in the attached technical documentation provides important insights that may help shape expectations regarding the rebuilding of the CCyB. Specifically, it indicates that this rebuilding will commence only once the cyclical systemic risk indicators return to a standard level, meaning that macroeconomic and financial conditions have returned to normal.</p> <p>Furthermore, the CCyB rules already stipulate that when the buffer rate decreases, an indicative (but non-binding) period will be announced during which the buffer rate is not expected to increase (Circular 2/2016, Rule 9(3)(g)). It also establishes a 12-month period from the announcement of the CCyB rate increase until it becomes enforceable, giving institutions subject to these requirements more time to adapt.</p>
17	<p>The stakeholder requests that the conditionality of the activation of the second phase of the CCyB increase to cyclical circumstances be emphasised.</p>	<p>The Banco de España reiterates that its decision on the CCyB is contingent on cyclical systemic risk remaining at a standard level. In addition, it should be noted that the CCyB will continue to be reviewed on a quarterly basis, allowing the Banco de España to respond to any new relevant information.</p>
18	<p>Page 10 of the document “Revision of the framework for setting the countercyclical capital buffer in Spain” states the following: “In general, the appropriate time to build up the CCyB would be when (i) the overall indicator is at a standard level, (ii) the composite indicators of at least two of the dimensions are also at a standard level, and (iii) the banking system indicators do not point to low capital generation capacity.” The stakeholder seeks confirmation that when conditions (i) and (ii) are met, but the banking system indicators indicate low capital generation capacity, the CCyB will not be triggered under any circumstances. If</p>	<p>The Banco de España reiterates that it will consider the three conditions mentioned as the main reference for activating the CCyB in an environment where cyclical systemic risks are at a standard level.</p> <p>In any event, it is important to remember that the Banco de España will not only take into account the 16 scoreboard indicators, but also additional relevant, quantitative and qualitative information. Therefore, under no circumstances should it be understood that the Banco de España will treat these three conditions as automatic rules.</p>

	there are any cases where the CCyB could be activated despite these conditions being met, it is requested that such cases be specified.	
19	The stakeholder seeks clarification on whether the methodology now includes any guidance on the possibility of establishing buffers of around 2.5% and whether the possibility of calibrating the tool for situations other than standard risks (i.e. high risk) has been considered.	As indicated in the CCyB framework, this buffer will be raised above 1% when cyclical systemic risk reaches a high level. The exact level will be proportionate to the identified imbalances, which will require a calibration specific to the high-risk context identified. In such high-risk circumstances, this buffer may also be combined with other macroprudential tools available to the Banco de España, depending on the sources and intensity of systemic risk.