

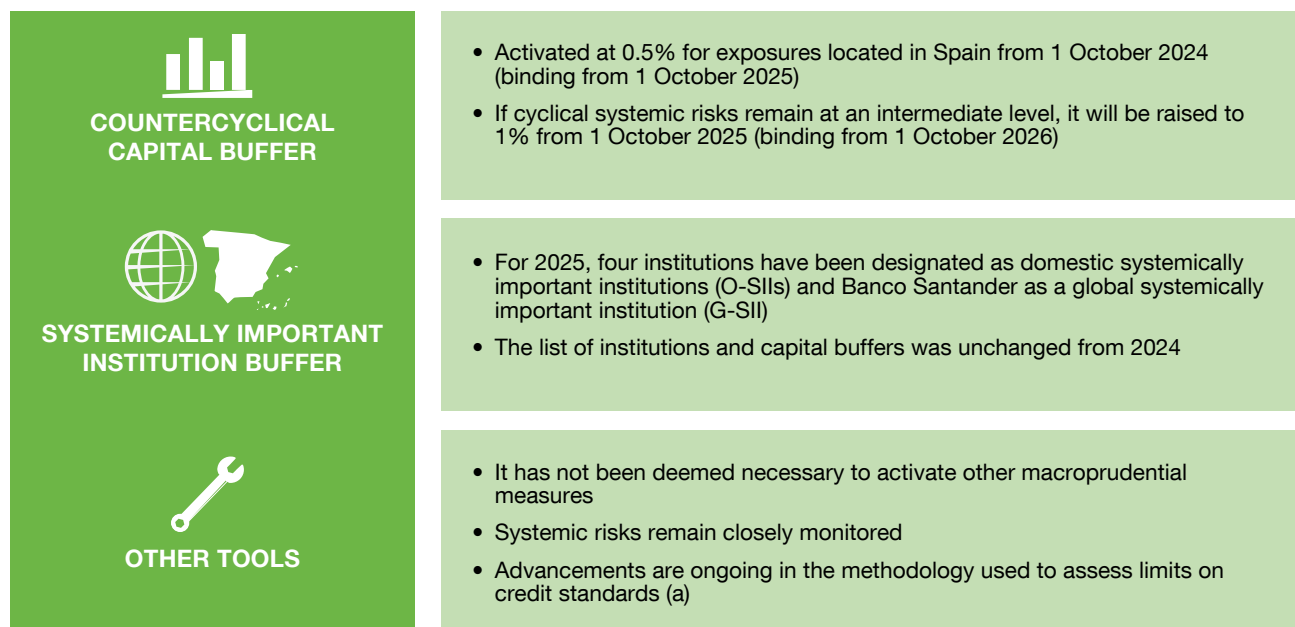
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MACROPRUDENTIAL POLICY

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Figure 6.1

Macroprudential policy



SOURCE: Banco de España.

a Limits on credit standards refer to regulatory constraints on the characteristics of loans permitted in a given jurisdiction. For instance, maximum repayment periods or caps on loan-to-income (LTI) or loan-to-value (LTV) ratios.

6.1 Countercyclical capital buffer

Macroprudential policy can help mitigate the effects of potential systemic shocks associated with the risks identified in this report. Several studies by the Banco de España show that the availability of the countercyclical capital buffer (CCyB) and its release in crisis situations can mitigate the effects of such crises on the provision of credit to the economy.¹ Accordingly, the activation of the CCyB, under the framework established by the Banco de España in 2024, represents a crucial macroprudential policy contribution to the stability of the Spanish financial system.²

The analysis of the CCyB monitoring framework's aggregated key indicators found cyclical systemic risk in Spain to stand at an intermediate level at end-2024. The key

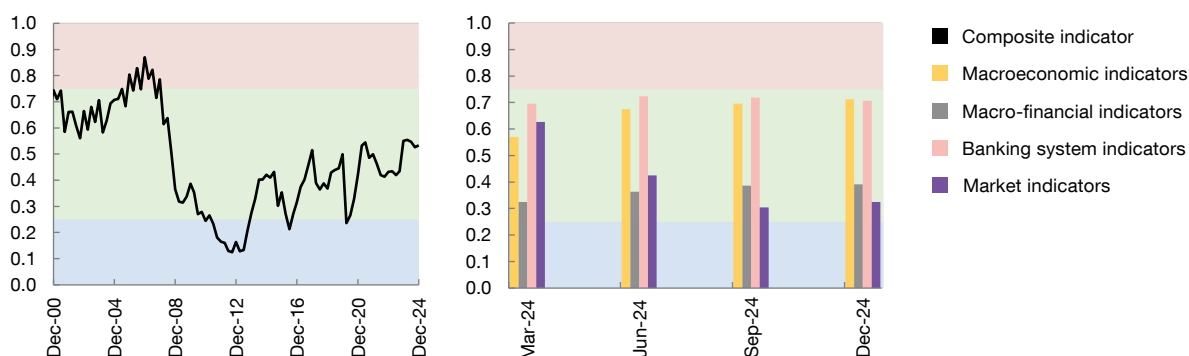
1 See Estrada et al. (2024). "Analysis of cyclical systemic risks in Spain and of their mitigation through countercyclical bank capital requirements".

2 For further details on the new framework for setting the countercyclical capital buffer in Spain, see the Banco de España's briefing note.

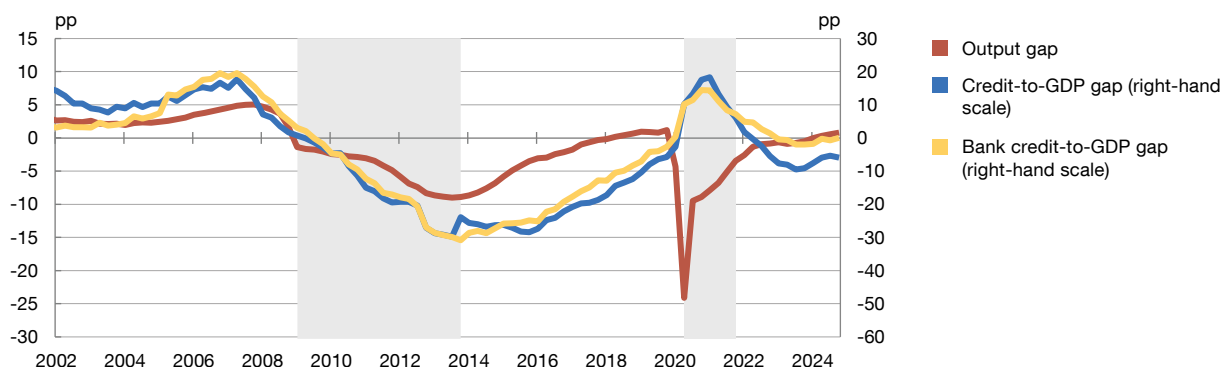
Chart 6.1

The cyclical systemic risks in Spain remained at an intermediate level in 2024, while the output gap and credit-to-GDP gap grew in the year as a whole

6.1.a Composite indicators (a)



6.1.b Credit-to-GDP gap and output gap (b)



SOURCES: Banco de España, INE and Datastream. Latest observation: December 2024.

- a The indicators are defined on a scale of 0 to 1 based on the percentile at which various metrics stand relative to their historical distribution. The blue (green) [red] range indicates a low (standard) [high] level signal of cyclical systemic risks.
- b The output gap represents the percentage difference between observed GDP and its quarterly potential level. Values calculated at constant 2010 prices. See Pilar Cuadrado and Enrique Moral-Benito. (2016). "Potential growth of the Spanish economy". Documentos Ocasionales, 1603, Banco de España. The credit-to-GDP gap is calculated as the difference, in percentage points, between the observed ratio and the long-term trend calculated using a statistical one-sided Hodrick-Prescott filter with a smoothing parameter equal to 25,000. This parameter is calibrated to the financial cycles historically observed in Spain. See Jorge Galán. (2019). "Measuring credit-to-GDP gaps. The Hodrick-Prescott filter revisited". Documentos Ocasionales, 1906, Banco de España. The bank credit-to-GDP gap is calculated identically to the credit-to-GDP gap, but only taking into account bank lending. The grey vertical bands denote periods of economic crisis in Spain: the last systemic banking crisis and the economic crisis triggered by the COVID-19 health crisis.

indicators are grouped into four blocks: (i) macroeconomic, (ii) macro-financial, (iii) Spanish financial markets and (iv) the Spanish banking system.³ In December 2024 these four dimensions of cyclical systemic risk stood at an intermediate level in terms of their historical distribution (Chart 6.1.a). The most notable change since mid-2024 was the shift in the financial market indicators towards levels that are somewhat tighter and, therefore, less conducive to the build-up of risk. Nonetheless, they also held at an intermediate level. Of the remaining indicators, the

3 The (i) macroeconomic indicators track economic activity and the labour market; the (ii) macro-financial indicators reflect developments in credit and the gap to equilibrium levels, along with real estate market imbalances; the (iii) financial market indicators gauge the degree of systemic tensions in these markets; and the (iv) Spanish banking system indicators aggregate information on levels of capital, profitability and non-performance.

macroeconomic and banking sector indicators presented the highest levels. In aggregate terms, at end-2024 the composite indicator, which combines information from all of the indicators, was similarly at a standard level, just above the 50th percentile.

At end-2024 the indicators of risk associated with the real business cycle were higher than those linked to the credit and real estate cycles, although all were trending towards stronger expansion. Among the main indicator categories, the rise in the macroeconomic indicators was driven by GDP growth and the widening of the output gap (Chart 6.1.b). Despite recording positive year-on-year growth, the credit-to-GDP gap remained in negative territory. If the credit-to-GDP gap were calculated for bank lending only (i.e. excluding other forms of debt), it would show positive values approaching equilibrium in December 2024, thus demonstrating the contribution made by non-bank finance to the negative gap. The indicators used to monitor the sectoral credit cycles of households and non-financial corporations (NFCs) generally showed no signs of imbalances, with some maintaining a slight growth trend (A2.6.1 in Annex 2).⁴ Meanwhile, the real estate sector indicators stood in a more expansionary position (see Section 4.1).

The intermediate level of cyclical systemic risk supports maintaining a CCyB rate of 0.5% applicable to exposures in Spain. The Banco de España will continue to review quarterly developments in cyclical systemic risks. The information available for 2025 Q1 (e.g. growth in credit to households and firms, high financial market valuations, bank earnings and GDP growth expectations) point to cyclical systemic risk remaining at an intermediate level. Should this situation persist, the CCyB for exposures in Spain will foreseeably rise to 1% from 1 October 2025, with binding effect for institutions 12 months later.

An increasing number of European countries have established macroprudential capital buffers releasable at standard levels of cyclical systemic risk. The latest countries to announce the activation of a CCyB rate are Portugal (0.75%) and Poland (1%). In the case of Poland, the 1% rate will ultimately be raised to the target rate of 2%.⁵ Furthermore, Cyprus has lifted its CCyB rate from 1% to 1.5%. These decisions are in addition to previous activations of the CCyB and the systemic risk buffer (SyRB) in other European countries.

4 These imbalances are estimated based on the gap between the sectoral credit levels and long-run sustainable values according to various econometric techniques. For a detailed description of the indicators used to monitor sectoral credit cycles, see Carmen Broto, Esther Cáceres and Mariya Melnychuk. (2022). “Sectoral indicators for applying the Banco de España’s new macroprudential tools”. *Financial Stability Review - Banco de España*, 42. Also, *Box 3.1, Financial Stability Report*. Spring 2022.

5 For more information, see Narodowy Bank Polski, Ministerstwo Finansów, Komisja Nadzoru Finansowego and Bankowy Fundusz Gwarancyjny. (2024). “Strategy on the application of the countercyclical capital buffer in Poland”.

6.2 Capital buffers for systemic institutions

The Banco de España announced in late 2024 the designation of four institutions as other systemically important institutions (O-SIIs) for 2025, and of Banco Santander, S.A. as a global systemically important institution (G-SII) in 2026.⁶ These institutions (BBVA, CaixaBank, Banco Sabadell and Banco Santander as O-SIIs, the latter also as a G-SII) are subject to additional capital requirements to shore up their solvency, mitigate any potential adverse systemic effects they may have on the financial system as a whole, and correct their potential competitive advantage in the funding market stemming from their systemic nature.

As a result, the existing macroprudential capital requirements for systemic institutions are maintained. The list of four banks designated as O-SIIs (i.e. domestic systemically important banks) for 2025 has not changed with respect to 2024. The capital requirements for O-SIIs have also remained unchanged in both years (Table 6.1). The O-SII requirements for 2026 shall be set by the Banco de España over the course of 2025. The decision to identify Banco Santander, S.A. as a G-SII for 2026 (two years in advance as required under current regulations) and set a macroprudential capital buffer of 1 percentage point of CET1 means the continuation of the regulatory requirements in place for 2024 and 2025.⁷ Under current regulations, as in previous years, the effective capital buffer rate applicable to Banco Santander, S.A. in 2026 as a systemically important institution shall be the higher of: (i) the aforementioned G-SII buffer rate and (ii) the buffer rate for O-SIIs.

Table 6.1

Systemically important institutions and associated capital buffers

LEI	Institution	Designation (a)	Capital buffer required in 2024 (%)	Capital buffer required in 2025 (%)
5493006QMFDMMYWIAM13	Banco Santander, S.A. (b)	G-SII and O-SII	1.25	1.25
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, SA	O-SII	1.00	1.00
7CUNS533WID6K7DGF187	CaixaBank, SA	O-SII	0.50	0.50
SI5RG2MOWQQLZCXKRM20	Banco de Sabadell, SA	O-SII	0.25	0.25

SOURCE: Banco de España.

a G-SII stands for “global systemically important institution” and O-SII for “other systemically important institution”.

b The effective requirement applicable to Banco Santander, S.A. as a systemically important institution is the higher of the G-SII buffer rate (1%) and the O-SII buffer rate (1.25%).

6 See “The Banco de España updates the list of other systemically important institutions and sets their macroprudential capital buffer rates for 2025”, press release of 22 November 2024, and “The Banco de España designates a Global Systemically Important Institution and sets its macroprudential capital buffer rate for 2026”, press release of 5 December 2024.

7 This decision by the Banco de España is a macroprudential measure envisaged in the prevailing EU and Spanish legislation, formalising the prior designation of this bank as a global systemically important bank (G-SIB) by the Financial Stability Board (FSB). See 2024 List of Global Systemically Important Banks (G-SIBs), FSB press release of 26 November 2024.

6.3 Other macroprudential tools

The Banco de España may set limits on credit standards (borrower-based measures, BBMs). *Royal Decree-Law 22/2018* and *Royal Decree-Law 102/2019* provide for the Banco de España to set limits on the standards applied by banks in new lending to both households and non-financial corporations.⁸ For instance, for mortgages, the Banco de España could set limits on LTP, LTI or LSTI ratios, which are examined in Chapter 4, and establish the maximum terms for new mortgages, among other measures.

There is growing international consensus about the need to activate structural macroprudential limits on mortgage lending standards. Specifically, supervisory authorities in different international jurisdictions support setting these limits structurally, so that they remain activated throughout all stages of economic and financial cycles.⁹ Under this approach, during downturns financial institutions would, in practice, have incentives to apply credit standards that are stricter than these limits, which would therefore serve as a latent barrier, rather than an effective restriction. However, during upturns, particularly in real estate booms, these limits would generally prove restrictive, preventing excessive easing of credit standards. Most countries that make up the banking union have already activated such limits. Spain, however, is one of the three countries that has not yet done so, as no systemic risks or vulnerabilities have been identified in the real estate sector (see Chapter 4).¹⁰ In an assessment of the European real estate market published in early 2024, the European Systemic Risk Board (ESRB) found that the macroprudential stance in Spain was adequate given the level of risk identified up until then in the domestic real estate market. Nonetheless, the ESRB recommended that the Banco de España consider introducing such limits in the future to ensure sound credit standards.¹¹

The Banco de España is making headway in developing the framework for monitoring and calibrating the limits on lending standards and is evaluating whether to activate them. In the short term, an analytical work programme is in place to enhance the monitoring of lending standards for households and non-financial corporations.¹² In addition, analysis of the potential costs and benefits of macroprudential limits for these standards has also been

8 Circular 5/2021 of 22 December describes these tools in detail, along with the other macroprudential tools provided for in these legislative texts.

9 See, for example, “*Macroprudential policies to mitigate housing market risks*”, Committee on the Global Financial System, December 2023.

10 Of the 21 countries making up the banking union, only Germany, Spain and Italy have not activated these tools. For Germany, the ESRB issued a recommendation on the vulnerabilities of its residential real estate sector, in which it proposed activating limits on the LTV, among other measures (see *Recommendation ESRB/2021/10* of February 2022).

11 See “*Follow-up report on vulnerabilities in the residential real estate sectors of the EEA countries*”, ESRB, February 2024.

12 As part of its work programmes, the Banco de España’s has published studies assessing the impact of lending standards on bank credit supply and the probability of default, as regards both mortgage loans (see Box 1.3. “*Credit standards and mortgage default risk*”, *Financial Stability Report*, Autumn 2019, Banco de España; Box 3.1. “*The effect of credit standards for mortgage loans on credit growth and on default risks assumed*”, *Financial Stability Report*, Autumn 2022, Banco de España; and Box 3.1. “*Impact of the macroeconomic cyclical position and credit standards on mortgage defaults*”, *Financial Stability Report*, Spring 2023, Banco de España) and loans to non-financial corporations (Box 3.1. “*The impact of credit standards on the quality of lending to non-financial corporations*”, *Financial Stability Report*, Autumn 2024, Banco de España).

strengthened.¹³ Activation of the limits on lending standards will depend on the risks to financial stability, the result of the cost-benefit analysis and the Banco de España's decision regarding the advisability of setting such limits structurally, in keeping with the above-mentioned international consensus. In any event, the development of a framework for calibrating the limits on lending standards is not in response to any existing signs that institutions are easing their standards (see Chapter 4).

To date, it has not been deemed necessary to activate any other macroprudential tools available to the Banco de España. All the same, the Banco de España continues to closely monitor the macro-financial environment and any systemic risks that may potentially jeopardise financial stability, and can, within its mandate, adopt additional measures.

¹³ For earlier references, see Box 3.2. “Cost-benefit analysis of macroprudential policy”, *Financial Stability Report*, Spring 2020, Banco de España; Box 4.2. “An analysis of alternative public policies to reduce the problems of housing affordability”, *Annual Report 2023*, Banco de España; Carro, Adrián. (2023). “Taming the housing roller coaster: The impact of macroprudential policy on the house price cycle”, *Journal of Economic Dynamics and Control*, 156, 104753.

