



PRESS RELEASE

Madrid, 19 June 2019

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

The Banco de España has decided to maintain at 0% the countercyclical capital buffer (CCyB) rate applicable to credit exposures located in Spain in the third quarter of 2019.¹

The CCyB is a macroprudential instrument which calls on credit institutions to build up a capital buffer during expansionary periods to be released in a subsequent contractionary phase. The CCyB thus reinforces the resilience of the banking system during periods of growth, when risks usually accumulate, and helps mitigate the decline in the flow of new credit to the economy when those risks materialise. Consequently, the CCyB contributes to smoothing credit cycle fluctuations and to increasing credit institutions' capacity to withstand potential future losses.²

As the authorities do in other European countries, the Banco de España calculates and analyses a broad set of macroeconomic and financial indicators with a view to arriving at its decision on the setting of the CCyB rate (see accompanying table and chart). Also, other information of a qualitative nature likewise considered relevant has its place in this assessment. The aim of this note is to summarise the developments in the main indicators subject to analysis.³

Firstly, in relation to the credit cycle, the reference indicator at the international level to identify imbalances linked to credit developments is the credit-to-GDP gap. This indicator measures the deviation, for a given date, of the total-credit-to-GDP ratio from its long-term trend. A positive and growing value of this gap denotes upward risks linked to credit behaviour.

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 implementing that law.

² See "A framework for the CCyB", opening speech by the Governor of the Banco de España at the Second Conference on Financial Stability (Banco de España-CEMFI), 3 June 2019.

³ For a broader and more detailed analysis of developments in these and other indicators, see the latest Banco de España *Financial Stability Report* (Spring 2019).

However, the credit-to-GDP gap is not an observable variable and its calculation is subject to uncertainty. Accordingly, the Banco de España uses different methodologies for estimating this gap. Specifically, it estimates the credit-to-GDP gap following the methodology defined by the Basel Committee on Banking Supervision (BCBS), but adapting it to the characteristics of the Spanish economy's credit cycle.⁴ The Banco de España has also developed complementary econometric models with which to test for and promptly detect signs of cyclical imbalances in credit.

On the latest information available, for December 2018, the estimation of the credit-to-GDP gap shows that this variable is still in negative territory;⁵ that said, it has converged 1 pp closer to the long-term equilibrium level compared with the previous quarter.⁶ Estimates of the credit-to-GDP gap derived from complementary econometric models confirm these results.⁷

In relation to other indicators monitored to assess macrofinancial risks, the credit-to-GDP ratio continued to fall during the quarter, at a pace comparable to that noted in previous periods. Further, the credit intensity indicator posted a 1 pp increase in the latest quarter, abandoning its prior negative levels. As regards estimates of the deviation of house prices from their medium-term trend, average values increased moderately in the last quarter, now standing at levels close to equilibrium. The ratio of households' and firms' debt service to their disposable income held relatively stable at low levels and, lastly, the current account surplus (in terms of GDP) improved slightly.

With regard to the business cycle, activity in the Spanish economy has continued to be notably robust, prolonging the upturn. Specifically, on the initial estimates by INE, GDP is estimated to have increased at a quarter-on-quarter rate of 0.7% (2.4% year-on-year) in the first quarter of the year. As a result, the output gap⁸, which is estimated to have resumed positive values in 2018, will have continued increasing.

All these factors substantiate, at present, holding the CCyB rate at 0%, but point to the need for careful monitoring of the behaviour and forward projections of the indicators considered.

In accordance with the procedure set out in Article 5(1) of EU Regulation No 1024/2013, the present decision of the Banco de España has been previously notified to the European Central Bank. Also, for the first time, this decision has been communicated beforehand to the AMCESFI (the Spanish macroprudential authority) as stipulated in Article 16 of Royal Decree 102/2019, and in the Single Additional Provision of Royal Decree-Law 22/2018.⁹

The Banco de España's earlier decisions on quarterly CCyB rates are available at [this link](#).

⁴ Specifically, the statistical formulation used assumes a shorter average duration of the credit cycle than that implied in the BCBS's credit-to-GDP gap, in line with the empirical evidence available for Spain.

⁵ The estimated value is below the level of 2 pp that the Banco de España takes as one of the references for the activation of the CCyB (see Table 1).

⁶ A strict application of the BCBS methodology would show a credit-to-GDP gap value of -47.0 pp. However, as previously indicated, the estimation of the credit-to-GDP gap under the strict formulation of the BCBS has technical limitations which mean that it is not suited to the case of European countries such as Spain that have historically witnessed most pronounced credit growth and declines.

⁷ The benchmark CCyB rate for the third quarter of 2019 would stand at 0%.

⁸ This is an indicator that measures the difference between the actual and potential level of GDP. Positive values for this indicator are interpreted as periods of economic expansion.

⁹ Under current regulations, the AMCESFI has not issued an Opinion on this proposed decision since the new measure does not entail any change from the CCyB percentage measure prevailing in the previous quarter.

Table 1. Quantitative indicators

	Latest data	Previous data	Average since 1970	Minimum since 1970	Maximum since 1970	Standard deviation since 1970	Average 1999-2008 ^(a)	Minimum since 1999	Maximum since 1999
Adjusted credit-to-GDP gap ^(b)	-10.5	-11.5	-2.1	-30.6	18.6	11.2	11.7	-30.6	18.6
Econometric models of credit imbalances ^(c)	[-13.7 , -8.2]	[-14.1 , -8.6]	[0.2 , 0.6]	[-28.2 , -15.8]	[26.6 , 42.3]	[11.6 , 19.3]	[6.2 , 14.4]	[-15.9 , -15.1]	[26.6 , 42.3]
Credit-to-GDP ratio	152.0	154.0	122.1	75.4	217.8	47.1	151.0	92.9	217.8
Credit intensity ^(d)	0.1	-1.0	10.0	-18.5	35.8	10.1	21.6	-18.5	35.8
Housing prices ^(e)	[-5.2 , 0]	[-5.7 , -1.7]	[-7.2 , -1.6]	[-46.5 , -33.1]	[23.6 , 47.9]	[13.0 , 20.6]	[3.0 , 10.7]	[-46.5 , -33.1]	[21.6 , 47.9]
Debt service ^(f)	15.2	15.5	18.2	12.1	24.4	2.9	17.7	12.6	24.4
External imbalances ^(g)	0.7	0.4	-2.1	-10.5	3.2	3.0	-6.1	-10.5	2.5
Output gap ^(h)	0.6	0.3	-0.5	-8.7	5.5	3.3	3.0	-8.7	5.5
Annual real GDP growth ⁽ⁱ⁾	2.4	2.3	2.6	-4.3	8.3	2.4	3.6	-4.3	5.6

Source: Banco de España, INE and own calculations.

Notes: The latest data refers to end-December 2018, unless otherwise stated. The indicators are expressed in percentages (%), with the exception of the credit-to-GDP gap, housing prices and the output gap, which are expressed in percentage points (pp). Some figures may differ slightly from those published in previous press releases owing to the updating of data (flash estimates) published by INE (the National Statistics Institute). For more information on the CCyB, see Castro C., A. Estrada and J. Martínez, "The Countercyclical Capital Buffer in Spain: An Analysis of Key Guiding Indicators", Working Paper 1601, Banco de España.

(a) 1999 marks the start of the third stage of Economic and Monetary Union (introduction of the euro); 2008 was the last year before the start of the most recent systemic banking crisis in Spain.

(b) The adjusted credit-to-GDP gap is calculated as the deviation of the credit-to-GDP ratio from its long-term trend, using a one-sided Hodrick-Prescott filter (smoothing parameter equal to 25,000). Under the technical formulation of the BCBS (smoothing parameter equal to 400,000) the latest data stands at -47.0 pp. For further details on the calculation of the gap, see Galán, J.E., "Measuring credit-to-GDP gaps. The Hodrick-Prescott filter revisited", Occasional Paper 1906, Banco de España, and Box 3.2 of the Banco de España's Financial Stability Report, Spring 2019 (pages 84-85).

(c) (Semi-)structural models of unobserved components (UCM) and vector error correction (VEC) for measuring credit imbalances in relation to macrofinancial variables (GDP, interest rates and house prices). For further information, see Galán, J.E. and J. Mencía (2018), "Empirical Assessment of Alternative Structural Methods for Identifying Cyclical Systemic Risk in Europe", Working Paper 1825 of the Banco de España, and Box 3.1 of the Banco de España's Financial Stability Report, November 2018 (page 84).

(d) The credit intensity indicator is calculated as the annual change in credit to the non-financial private sector divided by cumulative GDP of the past four quarters.

(e) The ranges in each column show minimum and maximum values of a set of indicators of price changes in housing relative to their long-term trends, some obtained using a one-tailed Hodrick-Prescott filter (smoothing parameter equal to 400,000 in all cases) and others using econometric models.

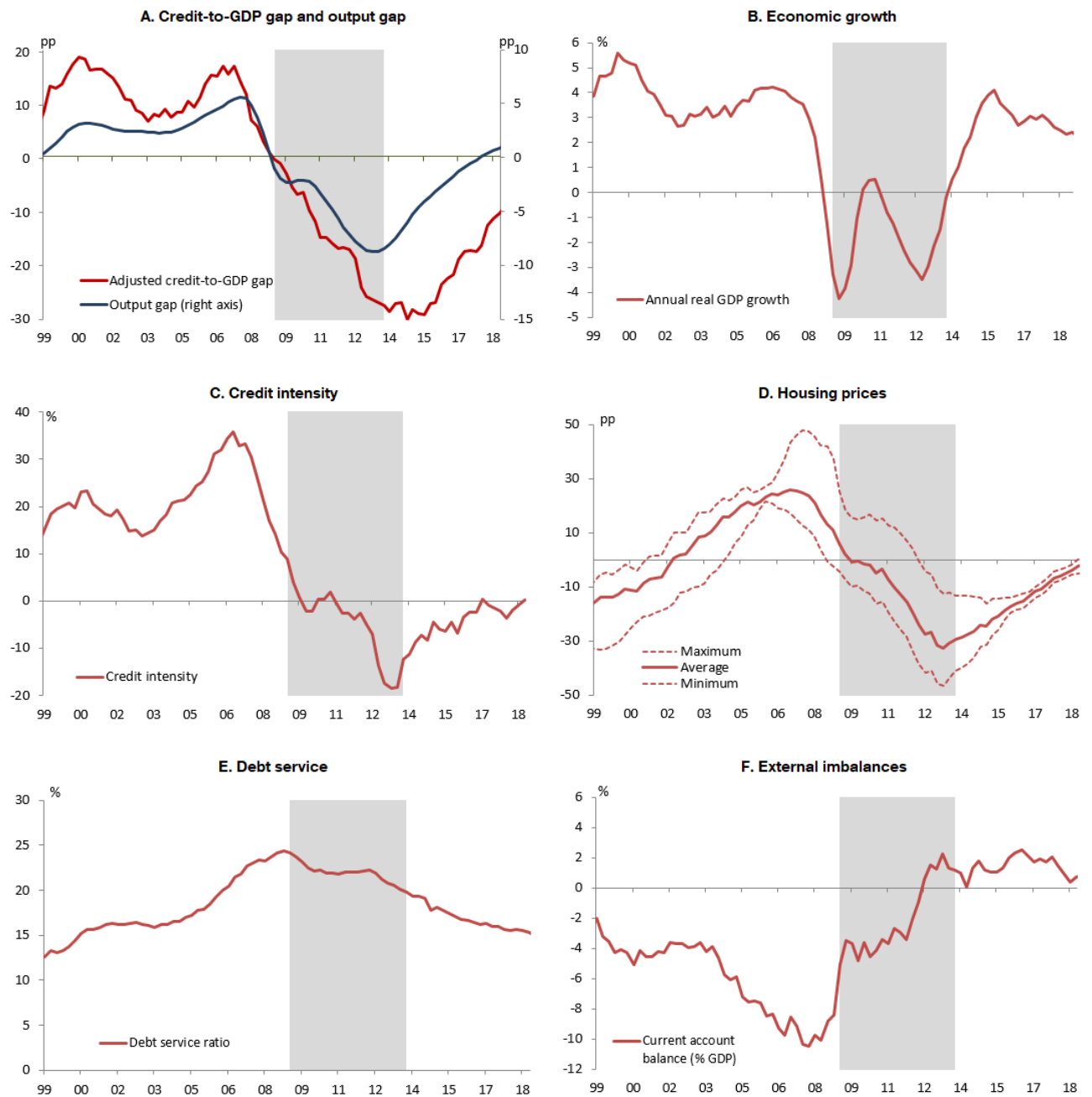
(f) Use is made of the debt service ratio in the non-financial private sector, calculated according to the specification set out in Drehmann M. and M. Juselius (2012) "Do debt service costs affect macroeconomic and financial stability?", BIS Quarterly Review, September.

(g) The indicator of external imbalances is calculated as the current account balance divided by GDP.

(h) The output gap measures the difference between the actual and potential level of GDP. For further information, see Cuadrado, P. and E. Moral-Benito (2016), "El crecimiento potencial de la economía española", Occasional Paper 1603, Banco de España.

(i) Year-on-year real GDP growth rate. The latest data refers to the first quarter of 2019.

Chart 1. Evolution of quantitative indicators



Source: Banco de España, INE and own calculations.

Note: The shaded area shows the period corresponding to the last systemic crisis (2009 Q1 to 2013 Q4).

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