



PRESS RELEASE

Madrid, 20 December 2019

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

The Banco de España has decided to maintain at 0% the countercyclical capital buffer (CCyB) rate applicable to credit exposures in Spain in the first quarter of 2020. This press release summarises the data and analysis supporting the decision.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.

In line with the practice of the authorities in other countries, the Banco de España calculates and analyses a broad set of macroeconomic and financial indicators when taking decisions on the CCyB (see accompanying Table and Chart). Other information of a qualitative nature likewise considered relevant has its place in this assessment.

The reference indicator at international level used to guide the setting of the CCyB rate is the credit-to-GDP gap. This indicator of imbalances linked to credit developments measures the deviation, for a given date, of the total private non-financial sector credit-to-GDP ratio from its long-term trend. A positive and growing value of this indicator denotes upward risks linked to credit volume growth.

The Banco de España uses two statistical specifications to estimate the credit-to-GDP gap: the standardised one defined by the Basel Committee on Banking Supervision (BCBS) and a gap adjusted to the characteristics of the Spanish economy's credit cycle.² Additionally, the Banco de España uses different leading indicators of systemic crises relating to credit intensity, valuation of residential assets

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.

² To consider an average duration of the credit cycle of between 15 and 20 years, in line with the historical evidence for Spain.

in the real estate sector, private non-financial sector debt servicing, the current account balance and GDP growth, as well as its own econometric models for estimating imbalances in the credit cycle.

On the latest information available, for June 2019, the estimation of the adjusted credit-to-GDP gap for Spain is still in negative territory (-6.8 percentage points), although it shows progressive convergence to the long-term equilibrium level.³ The projections of the adjusted gap suggest that it could stand at positive levels in late 2020.

In relation to other indicators monitored to assess macrofinancial risks, the credit-to-GDP ratio decreased slightly in the past quarter (153.1%), in line with the behavior of recent years, while the indicator of credit intensity barely changed. As regards indicators of house price overvaluation, in the second quarter of the year they remained near the estimated equilibrium levels and they are projected to continue on the same path over the next three years. The ratio of households' and firms' debt service to their disposable income held stable at low levels owing to the current low interest rate environment, while the current account balance (in terms of GDP) continued to show a surplus.

With regard to the business cycle, according to the latest estimates by the INE, GDP seems to have increased at a quarter-on-quarter rate of 0.4% (2.0% year-on-year) in the third quarter of the year. The output gap, at positive values since 2018, continued increasing. During the current phase of economic recovery, the output gap appears to be leading the adjusted credit-to-GDP gap.

In all, the analysis performed by the Banco de España substantiates holding the CCyB rate at 0%. However, if the baseline projections scenario is confirmed, some of the above-mentioned indicators would exceed the reference thresholds for activation of this macroprudential instrument over the forecast horizon. In this regard, it should be noted that following its eventual activation credit institutions have a twelve-month period to meet the requirement.

Nevertheless, the baseline projections scenario is currently subject to several risk factors tilted to the downside⁴, due to essentially external sources (further and more persistent weakening of global economic activity, eventual implementation of protectionist trade measures at the global level, and the uncertainty still surrounding the United Kingdom's withdrawal from the EU). If such risks were to materialise and significantly impact Spain's GDP, the current diagnosis would consequently change.

In accordance with the procedure set out in Article 5(1) of EU Regulation No 1024/2013, the present CCyB rate decision of the Banco de España has been previously consulted with the European Central Bank. Also, this decision has been communicated beforehand to Spain's Macroprudential Authority

³ The standardised credit-to-GDP gap, under the statistical specification defined by the BCBS, would show a value of -46.3 pp. This estimation has technical limitations which mean that it is not suited to the case of European countries such as Spain that have historically undergone pronounced credit growth and declines. The benchmark CCyB rate, which maps the credit-to-GDP gap to CCyB rates, would stand at 0% for the first quarter of 2020.

⁴ See the [autumn 2019 Financial Stability Report](#) of the Banco de España, dated 31 October 2019, and the [Macroeconomic projections for the Spanish economy \(2019-2022\)](#) of the Banco de España, dated 16 December 2019.

Financial Stability Council (AMCESFI), as envisaged in Article 16 of Royal Decree 102/2019 and in the Single Additional Provision of Royal Decree-Law 22/2018.⁵

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

⁵ The AMCESFI has not issued an Opinion on the proposal of this decision since the new measure does not entail any change from the CCyB rate measure prevailing in the previous quarter.

Table 1. Quantitative indicators

	Latest data	Previous observation	Average since 1970	Minimum since 1970	Maximum since 1970	Standard deviation since 1970	Average 1999-2008 ^(a)	Minimum since 1999	Maximum since 1999
Credit-to-GDP gap ^(b)	-6.8	-7.3	-2.2	-30.9	18.6	11.7	12.3	-30.9	18.6
Econometric models of credit imbalances ^(c)	[-12.2 -7.6]	[-12.8 -7.6]	[0.1 0.6]	[-28.2 -15.8]	[26.6 42.4]	[11.6 19.3]	[6.2 14.4]	[-15.9 -15.1]	[26.6 42.4]
Credit-to-GDP ratio	153.1	155.4	123.6	75.5	226.5	49.1	152.4	92.3	226.5
Credit intensity ^(d)	0.0	2.4	9.9	-19.4	34.5	10.3	22.0	-19.4	34.5
Indicators of real estate price imbalances ^(e)	[-6.5 0.1]	[-4.2 0.8]	[-7.1 -2.1]	[-45.8 -31.8]	[24.1 50.6]	[12.9 20]	[3.2 10.6]	[-45.8 -31.8]	[22.4 50.6]
Debt service ratio ^(f)	15.4	15.4	18.2	12.1	24.4	2.9	17.7	12.6	24.4
Current account balance ^(g)	1.1	0.5	-2.0	-10.5	3.2	3.0	-6.1	-10.5	2.5
Output gap ^(h)	0.9	0.7	-0.4	-8.4	5.6	3.3	3.0	-8.4	5.6
Annual real GDP growth ⁽ⁱ⁾	2.0	2.1	2.6	-3.7	8.2	2.3	3.6	-3.7	5.2

Source: Banco de España, INE and own calculations.

Notes: The “Latest data” column refers to end-June 2019, unless otherwise stated. The indicators are expressed in percentages (%), with the exception of the credit-to-GDP gap, indicators of real estate price imbalances 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). The credit measure considered comprises total funding to the non-financial private sector, which includes bank lending as well as debt issuance. 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 “credit-to-GDP gap” is calculated as the deviation of the credit-to-GDP ratio from its long-term trend, using a one-sided statistical Hodrick-Prescott filter (with a smoothing parameter adjusted to 25,000, instead of 400,000 as in the standardised BCBS specification). 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.

(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.

(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 residential real estate prices relative to their long-term trends. Some of these indicators are obtained using a statistical filter and others using econometric models.

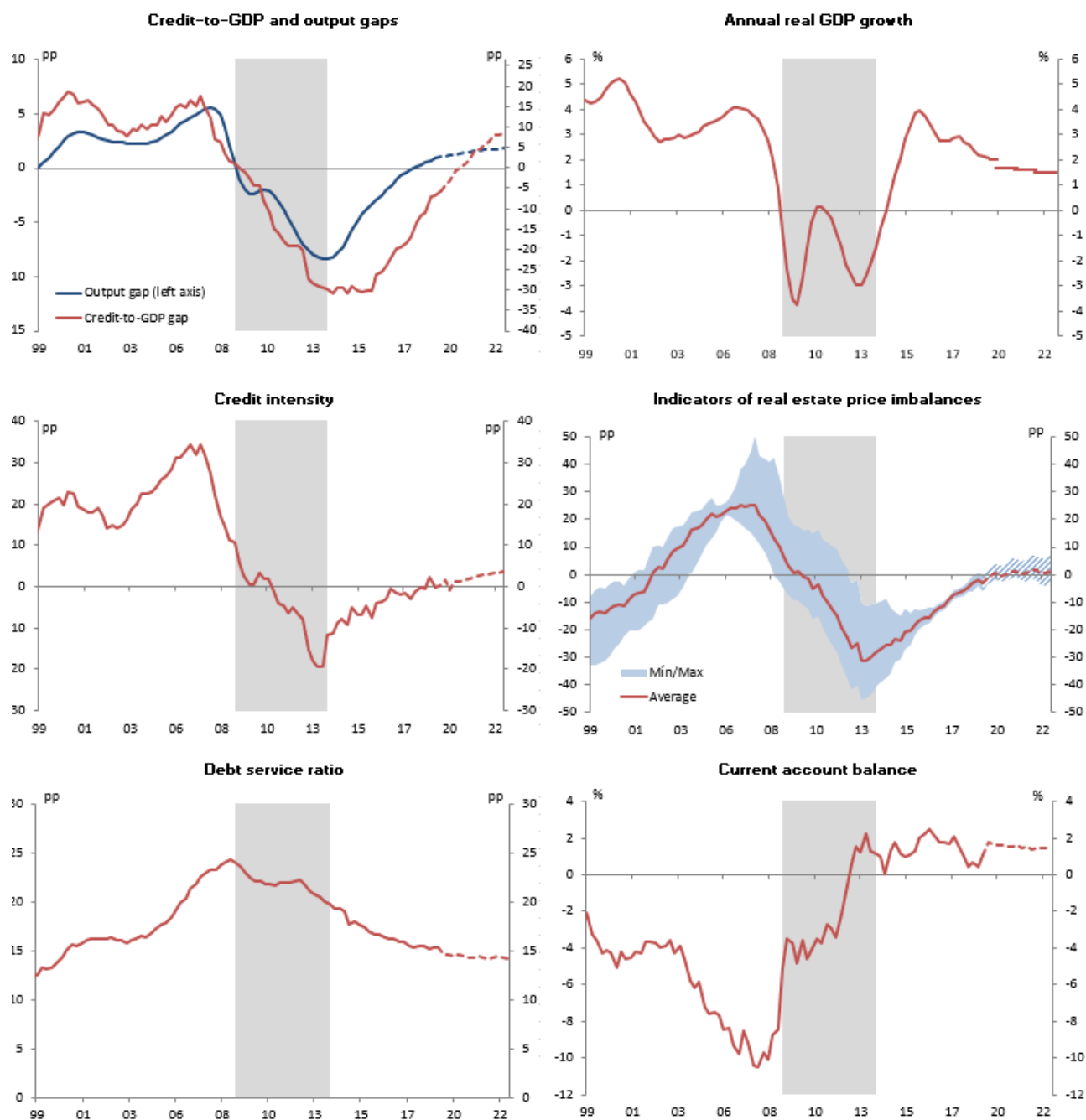
(f) Debt service ratio of the non-financial private sector, calculated according to the specification set out in Drehmann M. and M. Juselius (2012) “Do debt service costs affect macroeconomic and financial stability?”, BIS Quarterly Review, September.

(g) In terms of 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), “Potential growth of the Spanish economy”, Occasional Paper 1603, Banco de España.

(i) The latest figure refers to the third quarter of 2019.

Chart 1. Evolution of quantitative indicators



Source: Banco de España, INE and own calculations.

Note: In the charts, the grey-shaded area shows the period corresponding to the last systemic crisis (2009 Q1 to 2013 Q4). The dotted lines show the projected paths of the indicators (up to 2022 Q4).

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