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MACROPRUDENTIAL POLICY

3.1 Macprudential instruments

The Banco de España regularly monitors systemic risks to the financial system. As a complement to microprudential supervision, which analyses each bank individually, macroprudential policy takes an overall view of the financial system as a whole, analysing the interplay between financial institutions and sub-sectors and the potential implications for the real economy. For this purpose, the Banco de España performs regular exercises to identify and monitor risks and vulnerabilities across the entire financial system and among systemically important banks.

Macroprudential policy brings together a set of prudential tools to mitigate identified risks to financial stability and increase institutions' shock-absorbing capacity. The work performed by the Banco de España to analyse financial stability is essential to define the stance on the macroprudential instruments available, for which the Banco de España is the designated authority in the case of credit institutions. Under current regulations, the Banco de España regularly sets two types of macroprudential capital buffers to address the build-up of cyclical and structural risk: i) the countercyclical capital buffer (CCyB); and ii) the buffers for Spain's global and domestic (other) systemically important institutions (G-SIIs and O-SIIs, respectively). The changes to the CRR and the CRD approved in 2019 affected the design and application of various macroprudential capital buffers available to the Banco de España (see Box 3.1). In parallel, the Banco de España started work on a circular on the new macroprudential tools relating to credit institutions made available to it under Royal Decree-Law 22/2018 and Royal Decree 102/2019.¹ These instruments will allow the Banco de España to apply the CCyB to specific sectors, to limit the concentration of exposures and to set certain conditions on lending.

3.1.1 Countercyclical capital buffer

The Banco de España sets the countercyclical capital buffer (CCyB) for credit exposures in Spain quarterly. The CCyB is designed to ensure that banks gradually build up an additional capital reserve in financial upturns. The difference between this capital buffer and other capital requirements is that the funds built up would be released in the next financial downturn, to absorb possible losses and help mitigate the contraction in credit flows to the real economy that are usually observed in these situations.

¹ For more information, see Box 3.1 of the *Financial Stability Report*, Spring 2019.

NEW MACROPRUDENTIAL REGULATORY DEVELOPMENTS IN THE EUROPEAN UNION

The entry into force of Directive (EU) 2019/878 (CRD-V) and of Regulation (EU) 2019/876 (CRR-II) introduces a series of amendments to the legislative framework governing the macroprudential tools for credit institutions laid down in CRD-IV and the CRR. These changes come into effect at different times, according to the date of entry into force of the provisions in which they are included.¹ The amendments to CRR II/CRD-V are the result of the experience acquired to date in the countries of the European Union in the use of these tools. The amendments seek to make the existing framework more flexible, improve the delimitation of its scope and ensure that the tools are used in a consistent manner, in line with the purpose of their design. The greater flexibility envisaged in the use of some macroprudential tools has led in turn to an amendment to Pillar 2, confined to the specific risks of each regulated entity, thus eliminating the possibility of Pillar 2 measures being applied in respect of considerations linked to systemic risk.

As regards the measures relating to the application of capital buffers, the key new developments refer to Articles 131 and 133 of the CRD, on capital buffers for G-SIIs and O-SIIs² and on the systemic risk buffer, respectively. In the case of the other macroprudential tools, there are minor changes to Articles 124, 164 and 458 of the CRR.

The most significant change relates to the design of the systemic risk buffer, which now also applies to sectoral exposures, as opposed to the previous situation in which it only applied to total risk exposure. For this purpose, four main sectors are specified and the EBA is given the mandate to define subsectors for each of these. The four main sectors are: i) retail exposures to natural persons secured by residential property; ii) exposures to legal persons secured by commercial property; iii) exposures to legal persons other than those specified in point (ii); and iv) exposures to natural persons other than those specified in point i). If a national authority were to activate an overall buffer (on all exposures) and one or several sectoral buffers, the total buffer requirement would be the sum of all the buffers

activated.³ In addition it is specified that this buffer should not be used to mitigate risks that are already being addressed by means of O-SII buffers (a practice followed to date by some European NCAs, which considered that the limit set for O-SII buffers was insufficient) or for risks covered by the CCyB.

The amendments to CRD-V also increase the maximum limit set for the O-SII capital buffer, up to 3% (previously, 2%) of risk-weighted assets (RWAs); this level may be exceeded with the authorisation of the European Commission. The upper limit for buffers of foreign banking groups' subsidiaries identified as O-SIIs is also increased and now stands at the lower of the buffer at the consolidated group level plus 1 pp and 3% of the subsidiary's RWAs (or, as appropriate, the percentage authorised by the Commission for application to the consolidated group). Under the new framework the G-SII and O-SII buffers and the systemic risk buffer become additive, up to a limit of 5%; over that limit, the authorisation of the European Commission will be necessary.

Regarding the G-SIIs, the main new development relates to the mandate given to the EBA to draft a methodology for identifying G-SIIs alternative to that designed by the BCBS that will not treat European banks' exposures within the countries of the banking union as cross-border exposures. The systemic importance scores resulting from this adjustment may be used as a guide for the possible exercise of expert judgment, in order to reclassify G-SIIs, where necessary, in a different subcategory from that applicable under the BCBS methodology, with the corresponding change in the capital buffer requirement.

The amendments to CRR-II also make minor changes to some articles that are relevant for macroprudential purposes. In particular, the powers conferred in Articles 124 and 164 of the CRR – which allow increased risk weights on mortgage portfolios subject to the standardised approach and increased loss given default (LGD)⁴ for institutions using internal ratings based (IRB) approaches – previously lay

1 The changes in this respect in CRR-II are applicable from 28 December 2020. Those contained in CRD-V will have effect from 29 December 2020 or once their transposition into the national legislation of each Member State has been completed.

2 For more details on capital buffers for systemic institutions, see section 3.1.2. As explained in that section, the highest level buffer will be applicable to institutions that are classed both as G-SIIs and O-SIIs.

3 If the combined buffer requirement or any of the sectoral buffers exceeds 3% of RWAs, the opinion of the European Commission must be sought; the authorisation of the Commission is needed for levels between 3% and 5%. When the buffer is activated the minimum level may be equivalent to 0.5% of RWAs (previously, 1%).

4 LGD is the expected loss on an exposure classified as «in default» as a percentage of the total exposure at the time of default. It is the percentage of the exposure that the institution does not expect to recover in the event of default.

NEW MACROPRUDENTIAL REGULATORY DEVELOPMENTS IN THE EUROPEAN UNION (cont'd)

with the competent (microprudential) authority. Under the new regulations, each Member State may assign responsibility for these buffer requirements to the national authority designated for macroprudential tools.

Lastly, the European Commission has undertaken to make a comprehensive review of the macroprudential rules contained in the CRR/CRD, by June 2022 and every five years thereafter.

In 2019 the Banco de España fine-tuned the analytical framework that serves as a base for its CCyB decisions. One of the key indicators used in the quarterly CCyB decisions is the credit-to-GDP gap. This indicator, developed originally by the BCBS, measures the difference between the credit-to-GDP ratio and its long-run trend. Although it has a generally very good – and internationally proven – capacity to detect imbalances in an economy's level of debt and predict systemic crises, the indicator works less well in the wake of strong deleveraging such as that observed in the Spanish economy in recent years. For this reason, the Banco de España has developed its own statistical specification of the credit-to-GDP gap, tailored to historical observations of financial cycle duration in Spain. The output gap, which measures the difference between economic growth and its potential value, has also been included in the analytical framework, so as to take into account situations of economic overheating (a positive output gap) which may be a good time to consider building up the CCyB.

The Banco de España has started to use 3-year projections of all the macro-financial indicators considered in the CCyB analysis. Naturally, these projections are consistent with the Banco de España's quarterly macroeconomic projection exercises. Using forecasts will make it easier to identify when is the best time to activate the CCyB, as pursuant to the regulations, credit institutions are required to satisfy the buffer requirement within 12 months of its activation.

In 2019 the CCyB remained at 0% for credit exposures located in Spain. The quarterly CCyB decisions taken by the Banco de España are based on the analysis performed according to the methodological framework described above, which in addition to quantitative indicators may also take into account other qualitative information that may be relevant. In 2019 the adjusted credit-to-GDP gap remained below its threshold level for activation of the CCyB. However, during the year, most indicators gradually moved towards levels that evidence signs of build-up of cyclical systemic risk. The latest baseline projections scenario suggests that some of these indicators may begin to cross the risk thresholds in mid-2021. Nevertheless, in view of the present climate of uncertainty and the predominance of downside risks to the baseline scenario, more than the usual degree of caution is required in decision-taking.

3.1.2 Systemically important institutions

Each year the Banco de España identifies systemically important institutions and sets their capital buffers. Since 2015 the Banco de España identifies those institutions whose hypothetical failure would cause severe harm to the financial system and the real economy, i.e. systemically important institutions. Precisely to reduce the likelihood of collapse of these institutions and to correct any possible competitive edge they may have in the funding market owing to their systemic importance, the regulations require that they hold an additional capital buffer. Systemic importance is assessed both at the international level (G-SIIs) and the national level (O-SIIs).

To identify systemic institutions, the Banco de España applies, as appropriate, global international standards and agreements as implemented in EU and Spanish law. The G-SII and O-SII identification methodologies use similar indicators relating to several dimensions of banking activity: a) size of balance sheet; b) interconnectedness with the financial system; c) substitutability of the services provided in the event of failure; d) complexity of activities pursued; and e) scale of cross-border activity. On this basis, institutions included in the identification exercise are assigned a score that classifies them according to the “systemic footprint”: the higher the score, the greater the systemic importance. The BCBS and the FSB coordinate the identification and setting of buffers of G-SIIs at the global level. The national designated authorities are responsible for identifying O-SIIs, while the determination of their capital buffers is governed – in the euro area – by the ECB’s guidelines on minimum buffer requirements.

In November 2019 the Banco de España announced the designation of one G-SII for 2021 and five O-SIIs for 2020, along with their capital buffers.² Table 3.1 shows the buffer requirements for each institution identified. The institution classified both as a G-SII and an O-SII must comply only with the higher of the two requirements.

Table 3.1
CAPITAL BUFFERS FOR SYSTEMIC INSTITUTIONS

Institution	Designation	Capital buffer requirement in 2020 (%)
Banco Santander, SA	G-SII and O-SII	1.00%
Banco Bilbao Vizcaya Argentaria, SA	O-SII	0.75%
CaixaBank, SA	O-SII	0.25%
Sabadell, SA	O-SII	0.25%
BFA Tenedora de Acciones, SAU (Bankia, SA)	O-SII	0.25%

SOURCE: Banco de España.

² See press release “Banco de España updates the list of systemically important institutions and sets their capital buffers” of 25 November 2019.

3.2 National macroprudential policy

AMCESFI, Spain's new macroprudential authority, was created by virtue of Royal Decree 102/2019 of 1 March 2019. It is organised as a collegiate body attached to what is now the Ministry of Economic Affairs and Digital Transformation and is made up of senior representatives from the Ministry and the three sectoral authorities with prudential regulatory and supervisory responsibilities for the Spanish financial system: the Banco de España, the CNMV and the DGSFP. AMCESFI is entrusted with the regular monitoring and analysis of systemic risk factors. Its powers include issuing alerts and recommendations on any matter that may affect financial stability and opinions on proposed macroprudential measures notified to it in advance by the sectoral authorities. With the creation of AMCESFI, Spain meets the recommendations of the ESRB and the IMF and thus places itself on an equal footing with other euro area countries.

In AMCESFI's first year of activity, the foundations for its internal workings and organisation have been laid. Through regular meetings, since April 2019,³ of its Board and Financial Stability Technical Committee (FSTC),⁴ AMCESFI has served as a forum for debate and exchange of information on the macro-financial risk



Inaugural meeting of AMCESFI's Board, 1 April 2019 at the Ministry of the Economy and Enterprise.

³ See Ministry of the Economy and Enterprise press release, "*La Autoridad Macropudencial celebra su primera reunión*", of 1 April 2019.

⁴ The Board is chaired by the Third Deputy Prime Minister and Minister for Economic Affairs and Digital Transformation, with the Governor of the Banco de España acting as vice-chair. The FSTC is chaired by the Deputy Governor of the Banco de España, with the General Secretary of the Treasury and International Financing acting as vice-chair.

situation, proposed regulatory and macroprudential measures and recent international committee developments. In 2019 AMCESFI worked on the draft of an internal regulation and on the design and implementation of an own website, as a platform for compliance with the provisions of Royal Decree 102/2019 in terms of transparency and accountability. AMCESFI's first annual report is to be presented to Parliament in 2020.

3.3 SSM macroprudential tasks

In the framework of the SSM, the Banco de España is in continuous dialogue with the ECB and with other national authorities on macroprudential analysis and policy matters. In accordance with its regulatory obligations, the Banco de España informs the ECB in advance of all its proposed macroprudential measures. Specifically in 2019 the Banco de España informed the ECB of the quarterly CCyB measures and of the annual designation of systemically important institutions (G-SIIs and O-SIIs) and their respective capital buffers.⁵ This is part of a regular process whereby the ECB scrutinises national macroprudential policies in the euro area.

The Banco de España takes part in the ECB's Financial Stability Committee (FSC) and the Macroprudential Forum (MPF). Through its working groups, the FSC seeks to foment the analysis of risks and vulnerabilities for financial stability and to facilitate the exchange of information, thus encouraging coordination in the formulation of macroprudential policy measures between central banks and national supervisory authorities in the euro area. Notably in 2019 the FSC completed the technical review of the guidelines on minimum calibration floors for capital buffers for O-SIIs in the euro area. The work of the FSC is regularly presented to the MPF, which brings together the Supervisory Board and the Governing Council of the ECB, for discussion and, where appropriate, approval by the latter.

⁵ NCAs must also provide information on the systemically important institutions in advance to the EBA, the European Commission and the ESRB.