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MACROPRUDENTIAL POLICY

3.1 Macprudential tools

Macprudential policy brings together a set of prudential tools designed to mitigate identified risks and vulnerabilities for financial stability and increase institutions' shock-absorbing capacity. It takes an overall view of the financial sector as a whole, analysing the interplay between the different financial institutions and sub-sectors and examining their potential implications for the real economy, as a complement to microprudential supervision, which is focused on the individual situation of each bank.

The Banco de España performs regular exercises to identify and monitor the risks and vulnerabilities of the financial system and systemically important banks. These periodic analyses are essential for defining its stance on the macroprudential tools available for credit institutions. As the designated authority in this regard, the Banco de España regularly sets two macroprudential capital buffers to address the build-up of cyclical and structural risks, respectively: 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). Moreover, the changes to the CRR and the CRD approved in 2019 have entailed adjustments to the design and application of various macroprudential tools available to the Banco de España.¹

In 2020 the Banco de España continued to work on a circular on new macroprudential tools,² which will provide for the possibility of a sectoral CCyB, limits on the concentration of exposures, and the power to impose certain (borrower-based) conditions on lending (see Section 8.2).

3.1.1 Countercyclical capital buffer

The Banco de España sets the CCyB rate for credit exposures in Spain on a quarterly basis. The CCyB is a capital requirement designed to ensure that banks gradually build up an additional capital reserve in financial upturns, when conditions are favourable. Unlike capital requirements not linked to the financial cycle, this buffer would be released in the next downturn so as to absorb potential credit losses

1 For more information, see Box 3.1 "New macroprudential regulatory developments in the European Union", *Report on Banking Supervision in Spain*, 2019, Banco de España (2020).

2 For more information, see Box 3.2 "Calculating the credit-to-GDP gap and financial cycle duration in Spain", *Financial Stability Report*, Spring, Banco de España (2019).

and help mitigate the contraction in credit flows to the real economy inherent to such adverse situations. This buffer should also be released in response to exogenous shocks materialising that are not connected to the financial cycle itself, such as those triggered in the wake of the pandemic.³

The Banco de España decided to maintain the CCyB rate at 0% for credit exposures in Spain in 2020 and does not expect to increase it over a prolonged period, at least until the main economic and financial effects arising from the pandemic have dissipated. The scale and duration of the negative shock prompted by the COVID-19 crisis have exceeded initial forecasts, which might suggest a slower and more uneven economic recovery than expected. Given the severity of the crisis, and to avoid procyclical effects,⁴ the Banco de España has reiterated its intention not to increase the rate of this instrument, so as to thus contribute to sustaining the flow of credit and mitigate negative pressures on economic growth. Consequently, the CCyB rate will be held at 0%, at least until the Spanish economy has resumed a path of recovery.⁵

In the wake of the pandemic, the set of indicators habitually analysed for setting the CCyB rate has lost a large part of its informative value, as they were not conceived for the materialisation of exogenous shocks like the current crisis. The swift and pronounced fall in activity triggered by the COVID-19 crisis has led to abrupt changes in the indicators calculated using GDP that do not stem from a build-up of cyclical risk (see Chart 3.1). Accordingly, the sharp drop in GDP in 2020 has pushed the adjusted credit-to-GDP gap above the 2 pp threshold⁶ for the first time since the Banco de España began setting the CCyB. This threshold represents the limit beyond which this indicator would be taken to signal imbalances that would suggest setting a positive CCyB rate. Nevertheless, this increase in the credit-to-GDP gap should not be interpreted as a systemic alert requiring the activation of the CCyB. On the contrary, it demonstrates that this indicator is intended for expansionary phases of the credit cycle, rather than situations, such as the present, involving a sharp fall-off in activity on account of factors wholly exogenous to the financial system. Although the stimulus policies implemented, such as the moratoria and guarantee schemes, have supported growth in bank lending, chiefly in 2020 Q2, these measures were designed to mitigate the effects of the slump in economic activity following the outbreak of the COVID-19 pandemic. Nor, then, can this credit growth be interpreted as an increase in financial imbalances.

3 By way of example, the mitigating impact of the macroprudential measures adopted in EU countries is set out in Box 3.1 “Impact of the pandemic on growth-at-risk and mitigating impact of the macroprudential measures adopted”, *Financial Stability Report, Autumn*, Banco de España (2020).

4 Macroprudential policy tightening could have procyclical effects in downturns like the present one, as it could hamper the provision of financing to the economy, which could in turn exacerbate economic conditions.

5 See press release of 21 December 2020 “The Banco de España holds the countercyclical capital buffer at 0%”.

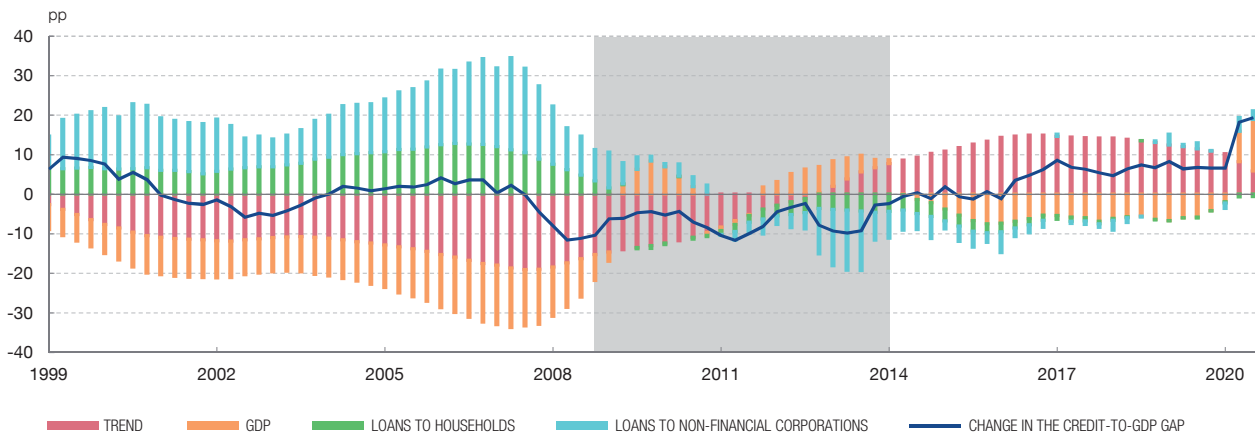
6 For more details, see J. E. Galán (2019), “Measuring credit-to-GDP gaps. The Hodrick-Prescott filter revisited”, *Occasional Paper No 1906*, Banco de España.

Chart 3.1

CHANGE IN CREDIT-TO-GDP GAP BY COMPONENT

Year-on-year change

The main reason for the widening in the credit-to-GDP gap in 2020 was the abrupt decline in GDP. Consequently, this indicator should not necessarily be interpreted as a sign of systemic imbalances.



SOURCE: Banco de España.

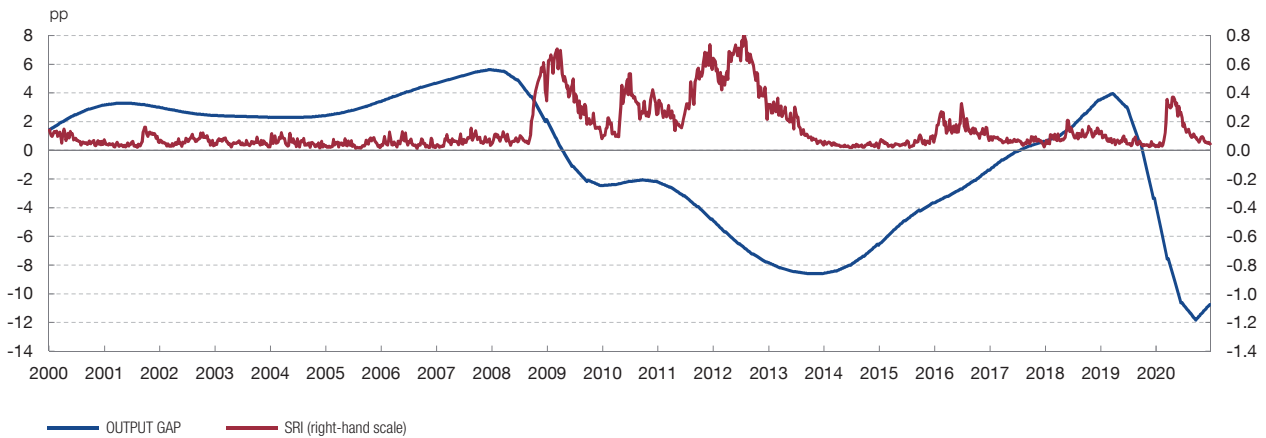
NOTE: The solid line represents the year-on-year change, in percentage points, of the credit-to-GDP gap. This gap is calculated as the difference between the credit-to-GDP ratio and the trend estimated using a one-sided Hodrick-Prescott filter. The gap is adjusted to adapt its calculation to a shorter cycle duration that is more consistent with the empirical evidence in Spain. To this end, a smoothing parameter of 25,000 is considered. The bars represent the contribution of the main factors comprising the gap to its year-on-year change. The shaded area denotes the last period of systemic banking crisis (2009 Q1-2013 Q4). The latest observation is for September 2020.

Against the current backdrop of crisis, indicators that elucidate the degree of macroeconomic and financial stress become more relevant for CCyB decision-making. In the context of a shock such as that triggered by the pandemic, risk aversion and volatility usually increase significantly in the financial markets at the same time as the shock materialises. This sharp negative impact subsequently passes through to the real economy with some delay. Consequently, the most useful indicators for risk monitoring and macroprudential decision-making are the financial stress indicators, followed by the macroeconomic imbalance indicators. For this reason, since the onset of the pandemic, the Banco de España has monitored stress in the financial markets using a specific indicator, namely the “systemic risk indicator” (SRI). This indicator shows that, following the high level of financial stress between March and May 2020, the markets gradually calmed down again, despite the sharp year-on-year contraction in economic activity for 2020 as a whole. This downturn in the macroeconomic environment has been reflected in the output gap, which measures the deviation in economic growth observed vis-à-vis the Spanish economy’s potential. Having been in positive territory before the pandemic, in 2020 Q3 this indicator fell to its lowest negative value in its time series. In short, simultaneous monitoring of stress in the financial markets and of the downturn in macroeconomic conditions is more informative at such junctures than traditional indicators such as the credit-to-GDP gap (see Chart 3.2).

Chart 3.2

SYSTEMIC RISK INDICATOR (SRI) AND OUTPUT GAP

Indicators on the level of financial stress, such as the SRI, and those on developments in the macroeconomic environment, such as the output gap, become more relevant for guiding CCyB decision-making in the current context, marked by the pandemic.



SOURCES: Datastream and Banco de España.

NOTE: The SRI aggregates 12 individual indicators of stress (volatilities, interest rate spreads, maximum historical losses, etc.) from different segments of the Spanish financial system (markets for money, government debt, equity and financial intermediaries). In calculating the SRI, the effect of cross-correlations is taken into account, whereby the SRI registers higher values if the correlation between the four markets is high (i.e. situations where there is a high –or low– level of stress in the four markets at the same time) and its value is lower when there is less or negative correlation (i.e. situations in which the level of stress is high in some markets and low in others). See Box 1.1 "Systemic risk indicator", *Financial Stability Report*, May, Banco de España (2013). The output gap is the percentage difference between observed GDP and potential GDP. Values calculated at constant 2010 prices. See P. Cuadrado and E. Moral-Benito (2016), "Potential growth of the Spanish economy", *Occasional Papers* No 1603, Banco de España.

3.1.2 Systemically important institutions

Each year the Banco de España identifies systemically important institutions and sets their macroprudential capital buffers. As part of its mandate, the Banco de España applies the EBA guidelines – based, in turn, on the framework of the Basel Committee on Banking Supervision (BCBS) – to identify the institutions domiciled in Spain that could be considered “systemically important” at domestic level. Specifically, institutions are classified as systemically important if the financial system and the real economy would be severely affected in the event that these banks had solvency problems. To reduce the likelihood of collapse of these institutions and to correct any possible competitive edge they may obtain in the funding markets owing to their status as systemically important institutions, the regulations require that they be subject to additional capital requirements.

Banks’ systemic importance is assessed on the basis of different dimensions of banking activity. The G-SII and O-SII identification methodologies use similar indicators relating to balance sheet size; interconnectedness with the banking and non-banking financial system; substitutability of the services provided in the event of failure; complexity of activities pursued; and volume of cross-border activity.

Table 3.1

SYSTEMICALLY IMPORTANT INSTITUTIONS AND ASSOCIATED CAPITAL BUFFERS

Legal Entity Identifier (LEI)	Institution	Designation	Capital buffer requirement in 2020
5493006QMFDDMYWIAM13	Banco Santander, SA	G-SII and O-SII	1.00%
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, SA	O-SII	0.75%
7CUNS533WID6K7DGF187	CaixaBank, SA	O-SII	0.25%
SI5RG2M0WQQLZCXKRM20	Banco de Sabadell, SA	O-SII	0.25%
549300GT0XFTFHGOIS94	BFA Tenedora de Acciones, SAU (Bankia, SA)	O-SII	0.25%

SOURCE: Banco de España.

Since end-2015, the Banco de España has announced the list of Spanish systemically important institutions each year. In November 2020 it announced the designation of one G-SII for 2022 and five O-SIIs for 2021, and their macroprudential capital buffers⁷ (see Table 3.1), with no changes vis-à-vis the previous year.

3.2 Macroprudential coordination at national level

2020 was the first full year of activity for AMCESFI.⁸ AMCESFI is set up as a collegiate body attached to the Ministry of Economic Affairs and Digital Transformation, with the participation of the Banco de España, the CNMV and the DGSFP, in their capacity as sectoral supervisory authorities. AMCESFI monitors and regularly analyses systemic risk factors, and issues opinions, warnings and recommendations on relevant matters for financial stability. The Banco de España plays a prominent role within AMCESFI, as the Governor of the Bank is the vice-chair of its Board, and the Deputy Governor sits on the Board and chairs its Financial Stability Technical Committee (FSTC). Further, the Bank's Director General Banking Supervision and Director General Financial Stability, Regulation and Resolution are ex officio members of the FSTC.

AMCESFI's activity increased during 2020 as a result of COVID-19-related events. It has continuously monitored the macro-financial situation in Spain, in keeping with its founding remit of serving as an institutional framework for meetings to coordinate and share information among national authorities entrusted with the preservation of financial stability. In 2020, its Board met five times and its FSTC held 12 meetings to discuss topics relating to the financial sector's situation, the support measures in response to the pandemic and the proposed macroprudential measures of the sectoral authorities. The main developments at EU and global bodies and committees dealing

7 See the press release of 27 November 2020 "Banco de España updates the list of systemically important institutions and sets their macroprudential capital buffers".

8 AMCESFI was created in 2019 by Royal Decree 102/2019 of 1 March 2019.

with reforms to the financial system and other coordinated international financial policies were also discussed.

In 2020 AMCESFI published its first annual report, for 2019,⁹ and launched its website. In accordance with the control and transparency obligations stipulated in Royal Decree 102/2019, the Third Deputy Prime Minister and Minister for Economic Affairs and Digital Transformation presented this report before the pertinent parliamentary committee on 3 September 2020. The report reviews the developments in the Spanish financial system in 2019 and offers an analysis of cross-sectoral interconnectedness, together with a compendium of relevant statistical indicators. In parallel, AMCESFI developed its own website (www.amcesfi.es) so as to have a common platform for disseminating information on its activities and future publications.

3.3 SSM macroprudential tasks

As part of the SSM, the Banco de España has a duty to regularly notify the ECB of each of its proposed macroprudential measures prior to their adoption and announcement. In 2020, the Banco de España informed the ECB of four quarterly CCyB measures and of the annual measures to designate G-SIIs and O-SIIs, together with the macroprudential capital buffers set for them.¹⁰ This is part of a regular process whereby the ECB's governing bodies scrutinise – together with the national authorities of the SSM countries – national macroprudential policies.

The Banco de España is a member of the ECB's Financial Stability Committee (FSC) and Macroprudential Forum (MPF). Through its technical working groups, the FSC analyses the risks and vulnerabilities for financial stability and seeks to promote coordination among the national designated authorities of the SSM countries in the formulation of macroprudential policy measures. In 2020, the FSC's work programme was adapted to address matters specifically associated with the impact of COVID-19 on the financial system. The work of the FSC is regularly presented to the MPF, which brings together members of the Supervisory Board and the Governing Council of the ECB.

⁹ AMCESFI (2020), *Annual Report 2019*.

¹⁰ National authorities must also provide information on the systemically important institutions in advance to the EBA, the European Commission and the ESRB.