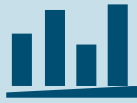


# 3

## MACROPRUDENTIAL POLICY



### EVOLUTION OF SYSTEMIC VULNERABILITIES

The regular monitoring of systemic vulnerabilities through indicators and stress tests did not trigger any risk alerts



### MACROPRUDENTIAL TOOLS

Two types of capital buffers are regularly set: CCyB and buffers for global and other systemically important institutions (G-SIIs/O-SIIs). The adequacy of sectoral concentration and loan origination conditions is also assessed



### COUNTERCYCLICAL CAPITAL BUFFER (CCyB)

The CCyB rate was maintained at 0%, as this was considered the appropriate level given the absence of cyclical imbalances, the geopolitical uncertainty, high inflation and tightening of the ECB's monetary policy



### SYSTEMICALLY IMPORTANT INSTITUTIONS

One G-SII and four O-SIIs were identified



### AMCESFI

The macroprudential inter-agency body (AMCESFI), in which the Banco de España participates, has now been in operation for five years



### COORDINATION IN THE SSM

Collaboration with the ECB and the SSM national authorities on: i) analysis of risks to financial stability, and ii) exchange of information on national macroprudential measures

### 3.1 Macroprudential tools

**The activation of macroprudential tools seeks to mitigate risks and systemic vulnerabilities, improving banks' shock absorption capacity and limiting the effects of shocks on the provision of funding and on the real economy.** In 2023, the Banco de España reviewed the adequacy of the levels of the macroprudential capital buffers which address the build-up of cyclical and structural risks, respectively: (i) the countercyclical capital buffer (CCyB); and (ii) the buffers for Spanish globally systemically important institutions (G-SIIs) and other systemically important institutions (O-SIIs). Moreover, it was not deemed necessary to activate any of the other macroprudential tools available in the legislation, due to the absence of signs of imbalance that justify it. These decisions are based on various methodologies, ranging from a broad set of indicators on the macro-financial environment to stress tests on Spanish banks, together with other more specific methodologies.<sup>1</sup>

#### 3.1.1 Stress tests

**For macroprudential purposes, the Banco de España performs annual assessments of credit institutions' resilience under central macroeconomic forecasts and under the potential materialisation of adverse scenarios.** Specifically, the solvency analysis focuses on estimating the level of the CET1 capital ratio in these scenarios over a three-year time horizon. The 2023 tests, as in previous years, used a methodological framework developed in-house by the Banco de España, known as the Forward-Looking Exercise on Spanish Banks (FLESB). It uses assumptions and models consistently across all of the banks analysed (top-down approach). FLESB uses highly granular information available from regulatory and supervisory reporting to project the evolution of institutions' balance sheets and income statements.<sup>2</sup>

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1 For more details on risk identification indicators, see C. Broto (coord.) et al. (2021), "Banco de España Strategic Plan 2024: Risk identification for the financial and macroeconomic stability - How do central banks identify risks? A survey of indicators". Occasional Papers, 2125, Banco de España.

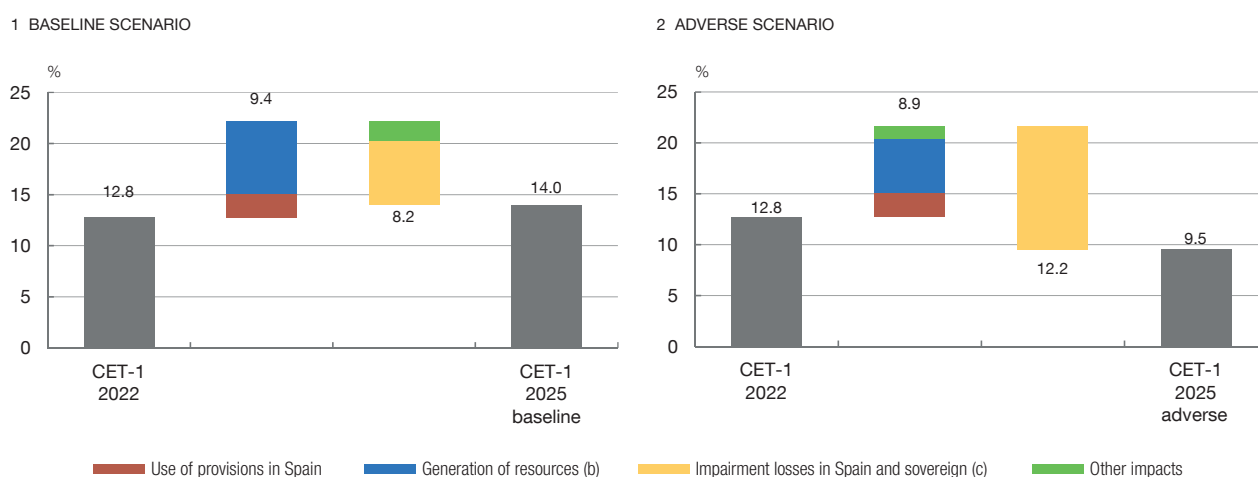
2 Each autumn issue of the Banco de España's Financial Stability Report presents the results and the main methodological improvements included in each exercise. The basic structure of this stress test framework can be seen in the [11/2013 Financial Stability Report](#) of the Banco de España.

**This exercise used macroeconomic scenarios from 2023 to 2025 in line with those used in the European Banking Authority (EBA) 2023 stress tests.**<sup>3</sup> In particular, the baseline scenario reflects the expectations of the evolution of the economic environment at the closing date of the scenarios for the EBA test.<sup>4</sup> The adverse scenario, in turn, incorporates the possible materialisation of various risks, in particular those related to the possibility of geopolitical tensions intensifying. This scenario is especially severe as it assumes a hypothetical stagflationary environment, with further increases in energy and food prices, higher interest rates and disruptions in global value chains. It is worth noting that for the first time the scenarios

Chart 3.1

**MACROPRUDENTIAL FLESB STRESS TESTS. IMPACT ON THE CET1 RATIO (a)**

Credit institutions maintain sound aggregate resilience, despite the relatively high volume of impairment losses in the adverse scenario, leading to a certain degree of capital consumption. Under the baseline scenario, credit institutions would be able to increase their CET1 ratio over the 2023-2025 horizon



**SOURCES:** Banco de España and Datastream.

- a The net effect of the positive (negative) flows are indicated by the figure above (below) the corresponding bar. The initial and final CET1 ratios are presented as "fully-loaded". The other impacts include the change in RWAs between 2022 and 2025 and the effect of the ICO guarantees. Aggregate results include institutions supervised directly by both the SSM and the Banco de España.
- b This variable includes net operating income in Spain and net income attributable to business abroad. Thus, the possible capital generated by the banking group as a whole is compared with the impairment losses in Spain and sovereign, which are the focus of these exercises.
- c This variable shows the projection over the three years of the exercise of gross losses due to credit portfolio impairment for exposures in Spain and other types of loss (associated with the fixed-income portfolio, the management of foreclosed assets and the sovereign portfolio).

3 See the documentation in *EBA 2023 EU-wide stress test exercise*. Note that, although this year's use of the FLESB framework for macroprudential purposes shares scenarios with the EBA 2023 stress tests, there are differences between the two methodological frameworks. The main methodological differences include most notably the fact that the FLESB-based exercise includes additional adverse credit risk shocks with respect to the EBA exercise, in particular based on an estimate of potential latent impairment deriving from economic turmoil in the 2020-2022 period. Moreover, the EBA exercise assumes a static balance sheet, while the size of the balance sheet can oscillate dynamically in the FLESB exercise depending on the scenario. Also, unlike the EBA exercise, the FLESB does not consider specific shocks on operational risk. As regards the sample of institutions, the FLESB exercise, in the case of Spain, covers all significant institutions (SIs) and also the less significant institutions (LSIs), while the EBA exercise analyses eight SIs.

4 On this occasion, it corresponds to trajectories of macroeconomic and financial variables estimated in the December 2022 European national central bank projections exercise. In its exercises, the Banco de España has also considered subsequent projection scenarios, corresponding to September 2023, which show a slight improvement in estimated solvency with respect to the EBA's baseline scenario.

designed by the EBA include heterogeneous sector-specific gross value-added trajectories (real GVA). These trajectories reflect the heterogeneous sectoral impact of rising energy and other commodity prices and value chain disruptions.

**The results obtained show that Spanish credit institutions maintain a sound aggregate solvency level for the 2023-2025 horizon, in both the baseline and the adverse scenarios.**

As shown in Chart 3.1, starting from a CET1 ratio of 12.8% in 2022, the analysed institutions improve their aggregate solvency in the baseline scenario and reach 14.0% in 2025 (+1.2 pp). In the adverse scenario, the aggregate CET1 ratio would fall to 9.5% by the end of the test's time horizon, resulting in capital consumption of 3.2 pp. However, the usual caution needs to be exercised in view of the individual institutions' heterogeneous results. In particular, smaller institutions, under direct supervision of the Banco de España (LSIs), show greater resilience on the whole, favoured by a higher baseline solvency ratio, as well as a simpler business model and lower risk-taking. This group of institutions starts from a CET1 ratio of 18.2% in 2022 and ends the stress test in 2025 with a ratio of 21.4% (+ 3.2 pp) in the baseline scenario and 17.3% (-0.9 pp) in the adverse scenario<sup>5</sup>.

Also, given the uncertainty of the current context, it is necessary for institutions, microprudential supervision and macroprudential policy to remain vigilant in order to be able to react quickly if there is a greater materialisation of the macro-financial risks identified, or others that may arise, with respect to the materialisation envisaged in the exercise.

### 3.1.2 Countercyclical capital buffer

**In 2023 the Banco de España maintained the CCyB rate at 0%.** This capital requirement is designed to ensure that banks build up an additional capital reserve in financial upturns, when conditions are favourable. This buffer would be released subsequently in a downturn so as to absorb potential credit losses and help mitigate the contraction in credit flows to the real economy that is characteristic of such adverse situations. The decision to maintain the CCyB rate at 0% is based on the absence of signs of imbalances in the credit cycle from the indicators used by the Banco de España in its quarterly reviews of this buffer. In particular, the credit-to-GDP gap, the main benchmark indicator, measures the deviation of the aggregate indebtedness of the non-financial private sector of the economy (credit-to-GDP ratio) from a long-term equilibrium trend.<sup>6</sup> Its value declined progressively in 2023 to reach negative figures, due to growth in economic activity and, to a lesser extent, to the contraction of credit, mainly in non-financial companies, which commenced at the end of 2022 in a context of higher interest rates (see Chart 3.2.1). Other complementary indicators show signs consistent with maintaining the

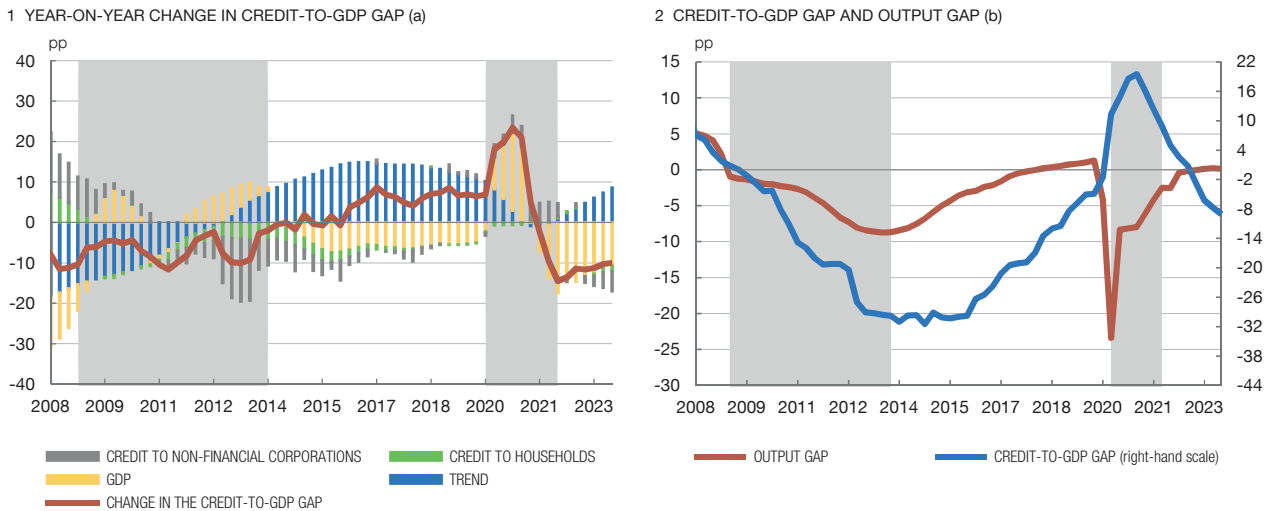
5 These results differ from those shown in Chapter 2, which are calculated under assumptions for microprudential purposes, including the assumption of a static balance sheet. In contrast, the results in this chapter are prepared for macroprudential surveillance purposes, using the dynamic balance sheet method and including the estimation of potential latent impairment losses deriving from the economic turmoil in the 2020-2022 period linked to the COVID-19 crisis.

6 This trend is calculated using statistical procedures (using a one-sided Hodrick-Prescott filter). An increase in the credit-to-GDP gap above 2 pp is a warning sign of potential excessive credit growth.

Chart 3.2

**CREDIT-TO-GDP GAP AND OUTPUT GAP**

The credit-to-GDP gap continued to narrow in 2023, moving away from the 2 pp reference threshold above which credit cycle imbalances are considered to exist. However, its narrowing trend was brought to a halt by the decline in the equilibrium level of the credit-to-GDP ratio and the moderation in the growth of economic activity. The macro-financial environment has been surrounded by high uncertainty, influenced by inflationary pressures, monetary policy tightening and geopolitical tensions. Complementary indicators on the evolution of the macroeconomic environment to inform CCyB decisions, such as the output gap, do not show signs of build-up of systemic vulnerabilities.



SOURCES: Banco de España and Datastream.

NOTE: The shaded areas denote the latest systemic banking crisis (2009 Q1 - 2013 Q4) ) and the crisis triggered by Covid-19 (2020 Q1 - 2021 Q4).

- a The solid line represents the year-on-year change, in percentage points, of the credit-to-GDP gap. The latest observation is for September 2023.
- b The credit-to-GDP gap is the difference between the credit-to-GDP ratio and the trend calculated 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. This parameter is calibrated to match the financial cycles historically observed in Spain. 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. The latest observation is for September 2023.

CCyB rate at 0%. For example, the output gap, which measures the difference between actual and potential growth of the Spanish economy, remained relatively stable in recent quarters, at values close to equilibrium (see Chart 3.2.2).

**The prevailing high macro-financial uncertainty throughout 2023 was also a relevant factor in the decision not to activate the CCyB.** Following the global banking sector turmoil in March 2023, the systemic tensions in financial markets reduced. However, the macro-financial environment continued to be subject to high uncertainty, due to factors such as high inflationary pressures throughout much of the year, the tightening of monetary policy to address them, and geopolitical tensions which have increased since October 2023 with the emergence of a new flashpoint in the Middle East. This environment has increased the likelihood of less favourable macroeconomic scenarios, which again supports the decision to maintain the CCyB rate at 0%.<sup>7</sup>

<sup>7</sup> See the current CCyB rate for exposures in Spain, together with the macro-financial indicators relevant to the decision, as well as the justification for the measure in the latest [press release available on the Banco de España website](#).

### 3.1.3 Systemically important institutions

**The Banco de España identifies the Spanish systemically important credit institutions each year and sets their macroprudential capital buffers.** An institution is deemed systemic –globally or domestically– if, in the event of potential solvency problems, it could have a very adverse impact on the financial system and the real economy. Accordingly, an additional capital requirement is imposed on institutions to reinforce their resilience, incentivise prudent risk-taking and correct their potential competitive advantage in the funding market stemming from their systemic nature. Systemic importance is assessed by a set of variables that measure institutions’ size, degree of interconnectedness, substitutability of services provided, complexity and cross-border activity.

**At 31 December 2023, one G-SII, which is also an O-SII, and three other O-SIIs had been identified.** In September 2023 the Banco de España announced the designation of four O-SIIs with their associated capital buffers in 2024,<sup>8</sup> while in December 2023 it announced the identification of one G-SII with its 2025 requirement (see Table 3.1).<sup>9</sup> Regarding capital buffers for O-SIIs, the Banco de España adapted its calibration methodology in 2023 to ensure consistency with the ECB’s revised floor methodology for assessing buffers.<sup>10</sup> The Banco de España’s new bucketing scheme between systemic importance scores and capital buffer ratios introduces a more demanding calibration at the top end than the ECB’s floor framework (see Table 3.2). Under this scheme, the number of buckets also increased with respect to previous years from four to seven, with buffers ranging from 0.25% to 1.75%. As a result of the new buffer setting framework, the buffer required in 2024 for Banco Santander, SA is 1.25% and for BBVA, SA it is 1%, which represents an increase of 0.25 pp with respect to 2023 in

Table 3.1

#### SYSTEMICALLY IMPORTANT INSTITUTIONS AND ASSOCIATED CAPITAL BUFFERS

LEI code (a)	Institution	Designation (b)	Capital buffer requirement 2023	Capital buffer requirement 2024 (%)
5493006QMFDDMYWIAM13	Banco Santander, SA	G-SII and O-SII	1.00	1.25 (c)
K8MS7FD7N5Z2WQ51AZ71	Banco Bilbao Vizcaya Argentaria, SA	O-SII	0.75	1.00
7CUNS533WID6K7DGF187	CaixaBank, SA	O-SII	0.50	0.50
SI5RG2M0WQQLZCXKRM20	Banco de Sabadell, SA	O-SII	0.25	0.25

**SOURCE:** Banco de España.

**a** The LEI code is the Legal Entity Identifier.

**b** G-SII refers to global systemically important institutions; O-SII refers to other systemically important institutions.

**c** In the event that an institution is designated as a G-SII or O-SII, the effective requirement is the largest of the two associated buffers. As Santander, S.A., the O-SII buffer (1.25%) prevails over the G-SII buffer (1.0%) in 2024.

8 See the press release of 29 September 2023 “The Banco de España updates the list of other systemically important institutions and sets their macroprudential capital buffer rates for 2024”.

9 See the press release of 14 December 2023 “The Banco de España designates a Global Systemically Important Institution and sets its macroprudential capital buffer rate for 2025”.

10 ECB. “Governing Council statement on macroprudential policies”, of 21 December 2022.

Table 3.2

**O-SII BUCKETING SCHEME IN SPAIN**

Bucket	Systemic importance score (bp)	% Capital buffer (of RWAs) (a)
7	More than 5,500	1.75
6	4,450 – 5,500	1.50
5	2,700 – 4,449	1.25
4	1,950 – 2,699	1.00
3	1,300 – 1,949	0.75
2	750 – 1,299	0.50
1	Up to 750	0.25

SOURCE: Banco de España.

a RWAs refers to risk-weighted assets.

both cases. For CaixaBank, SA, and Banco de Sabadell, SA, the buffers are maintained at 0.5% and 0.25%, respectively.<sup>11</sup>

### 3.1.4 Other macroprudential tools

No systemic imbalances have been identified that would justify the activation of any of the other macroprudential tools at the Banco de España's disposal. In particular, the analysis performed regularly by the Banco de España has not shown sectoral imbalances that would require the activation of any sectoral macroprudential tool (sectoral CCyB, sectoral use of the systemic risk buffer or concentration limits). Nor has it been necessary to introduce limits on lending criteria, as there are no signs of a relaxation of lending standards for companies and households.

## 3.2 Macroprudential coordination with other authorities in Spain and in the SSM

**The Banco de España is part of the Spanish macroprudential authority (AMCESFI),<sup>12</sup> which is tasked with risk oversight for the Spanish financial system.** To this end, the Banco de España coordinates with the General Secretariat of the Treasury and International Financing, the CNMV and the DGSFP to hold regular discussions and exchanges of information on financial stability issues. The activities carried out by AMCESFI in 2023 will be summarised in its *Annual Report*, which also reviews the evolution by sector of the Spanish financial system

11 *Box 3.2 of the Financial Stability Report. Autumn 2023* provides more details on the implications for the Spanish case of this review of the ECB's methodological framework for assessing the capital buffers for O-SIIs.

12 AMCESFI was created by [Royal Decree 102/2019](#) of 1 March 2019, and is configured as a collegiate body attached to the Ministry of Economy, Trade and Business, of which the National Securities Market Commission (CNMV) and the Directorate General of Insurance and Pension Funds (DGSFP) also form part.



and analyses the direct and indirect interconnections between sectors of the financial system. The list of the Banco de España's participating members on AMCESFI's Council and Financial Stability Technical Committee is available on the AMCESFI [website](#).

In 2023 AMCESFI published its first climate risk [report](#).<sup>13</sup> This new report, which is to be published every two years, includes an analysis of the estimated impact of transition and physical risks on the Spanish financial system. The analysis suggests that these risks would be lower in a scenario where measures to foster the decarbonisation of the economy are taken in a timely and orderly manner and, at the same time, it points out that transition measures should be accompanied by mechanisms to mitigate the impacts on the most vulnerable households and on the reallocation of resources among sectors and among companies. The report also raises major challenges for financial authorities arising from the uncertainty about climate change, the limitations of currently used models and the need for additional data.

**Within the framework of the Eurosystem and the Single Supervisory Mechanism (SSM), the Banco de España collaborates with other national authorities through the ECB's Financial Stability Committee (FSC).** Participation in the FSC allows the Banco de España to address various issues of interest on recent developments in the area of identification and assessment of systemic risks and on the design and implementation of macroprudential policy actions in Europe. As usual, in 2023 the Banco de España notified the FSC of all its proposals for quarterly CCyB measures and annual G-SII and O-SII measures — each of which was non-objected by the ECB (see section 3.1).

**The ECB prepared a report, co-authored with the European Systemic Risk Board (ESRB), on the development of a macroprudential policy framework for addressing climate change-related risks.** The [report](#), published in December 2023, considers: i) a surveillance framework, including indicators that can be used for assessing climate risks to financial stability; ii) a framework of macroprudential instruments, for both the banking and non-banking sectors, that address climate risk; and iii) extending the scope from climate-related risks to broader nature-related risks.

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<sup>13</sup> In compliance with the mandate established in Article 33(1) of Law 7/2021 of 20 May 2021 on climate change and energy transition.

## INITIATIVES TO STRENGTHEN RISK MONITORING IN THE COMMERCIAL REAL ESTATE SECTOR

The commercial real estate sector deals with the acquisition, financing, construction, development and management of properties in which economic activities are carried out. This type of property includes, among other categories, commercial premises, such as shops and hotels, offices and industrial buildings.<sup>1</sup> Supervisory authorities, at both the European and Spanish level, have followed this type of activity closely. Its importance derives mainly from the fact that these properties are a necessary production factor for companies in other sectors to carry out their activities. Also, by its very nature, the commercial real estate sector follows similar dynamics to the residential real estate sector. These properties, as in the case of housing, are potentially illiquid assets and can undergo processes of overvaluation and undervaluation that intensify both the financial upturns and the downturns in which systemic crises occur.

Given the importance of the commercial real estate sector, the ECB and the Single Supervisory Mechanism (SSM) commenced work in 2021 to strengthen its supervision.<sup>2</sup> On the macroprudential side, following careful analysis of this type of activity, at the end of 2022 the European Systemic Risk Board (ESRB) adopted [Recommendation ESRB/2022/9 on vulnerabilities of the commercial real estate sector](#). This recommendation aims to improve the oversight of risks in this sector, to ensure that financial institutions adequately address these risks and to ensure that all supervisory authorities (banking and non-banking), have the necessary prudential tools at their disposal and apply them appropriately.

The recommendation is divided into four sub-recommendations.<sup>3</sup> This box focuses exclusively on sub-recommendation A, as the Banco de España is its main target in Spain, and the deadline for its compliance is the nearest.<sup>4</sup> This sub-recommendation calls for the authorities to closely monitor current and emerging vulnerabilities related to commercial real estate, by assessing the cyclical

stage of the commercial real estate market and monitoring developments in commercial property prices, the income flows generated by commercial real estate and the financing conditions and sources in this sector, as well as the interconnectedness with other economic and financial sectors.

The Banco de España has adopted this recommendation and has launched a series of tasks to reinforce its monitoring of this sector. Firstly, a project has commenced in order to assess the level of imbalances in commercial real estate prices at different points in time. Secondly, work has intensified on the analysis of the various data sources available to the Banco de España that are relevant to the analysis of the commercial real estate market, which will allow close monitoring of the evolution of transactions and prices in this sector and of the financing of the companies that carry out this type of activity, together with information on their balance sheets and their interconnections with the rest of the economy and interlinkages between countries.<sup>5</sup>

As regards the bank financing of this sector, the weight of commercial real estate lending by Spanish institutions was close to 4% of total lending at the end of 2023.<sup>6</sup> This proportion is lower than in Spain's main neighbouring countries. For example, for the European Union as a whole, banks' exposures accounted for just over 6% of total lending at the end of last year. If banks' exposure to this sector is taken on an individual basis, in the case of Spanish institutions, this lending accounted for 6.3% of GDP at 2023 year-end.

The work that has already been carried out includes most notably the development of a hedonic price index for commercial real estate. The hedonic nature of the indicator guarantees the possibility of monitoring the price evolution of properties with homogeneous characteristics.<sup>7</sup> Chart 1 shows the evolution of this index for the commercial real

1 Residential buildings for rent can also be considered as commercial activities.

2 See "Commercial real estate: connecting the dots", article published in the ECB's *Supervision Newsletter* on 17 August 2022.

3 Sub-recommendation A, addressed to financial stability authorities; sub-recommendation B, addressed to supervisory authorities; sub-recommendation C, addressed to competent authorities; and sub-recommendation D, addressed to the European Commission.

4 In particular, the Banco de España must report on compliance by 31 March 2024 at the latest. A new assessment of this sub-recommendation will be carried out on 31 March 2026.

5 These sources would be the Banco de España's Central Credit Register, the Association of Registrars (with information on real estate transactions) and the Central Balance Sheet Data Office (with information on companies' balance sheets). Information on securitisations of commercial real estate backed loans granted is also available via the *European DataWarehouse*.

6 Based on consolidated information from the EBA's risk monitoring framework.

7 This is achieved through regressions that take into account categorical variables relating to the location of the property or other characteristics. For more details, see M. Lamas and S. Romaniega. (2022). "Designing a price index for the Spanish commercial real estate market". Occasional Papers, 2203, Banco de España.

## INITIATIVES TO STRENGTHEN RISK MONITORING IN THE COMMERCIAL REAL ESTATE SECTOR (cont'd)

In year-on-year terms, commercial property prices fell moderately until September 2023 (although since March of this year there has been an increase), and there was a certain loss of momentum in the business indicators (sales and loans).

Chart 1  
PRICE INDEX FOR COMMERCIAL REAL ESTATE SECTOR (a)

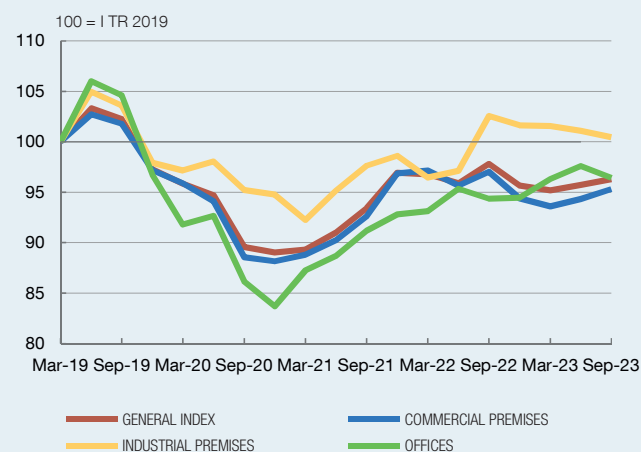
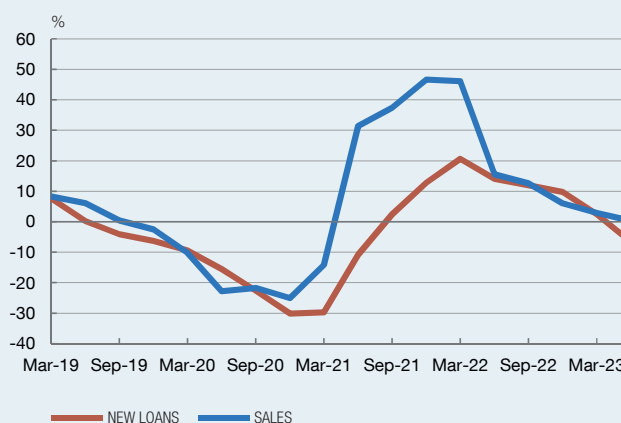


Chart 2  
YEAR-ON-YEAR CHANGE OF COMMERCIAL REAL ESTATE SALES AND LOANS



**SOURCES:** Banco de España and Association of Registrars.

- a Based on estimates with a hedonic regression model in each stratum. The aggregate index is the average weighted by the relative weight of transactions carried out in each segment (4% offices, 78% commercial premises and 18% industrial premises).
- b Sales of commercial premises, offices and industrial premises. The new mortgages considered are secured by these properties. The information on sales and mortgages for 2023 Q3 is still partial and not depicted in the chart. Moreover, the annual changes shown are the average year-on-year rates for the last four quarters.

estate sector as a whole and for some of the most representative types of establishments. As can be seen in the chart, commercial real estate prices suffered during the pandemic, although in 2021 they recovered to their pre-pandemic level. In 2023, however, there was a moderate price contraction (with the information available in Q3 2023, the year-on-year change in the price index was -1.6%).

The price behaviour of this type of establishment contrasts with the sector's activity indicators (Chart 2). According to information from the Association of Property Registrars (*Colegio de Registradores de la Propiedad*), and with data

up to Q2 2023, in the last year there was a year-on-year fall of 2.8% in the number of new sales of these properties. At the same time, this period saw a year-on-year decrease of 24.8% in new loans secured by this type of property. If this decline in activity was to consolidate persistently, it could have wider implications for commercial real estate prices and for economic activity and financial stability.<sup>8</sup> In addition, it should be noted that the balance of commercial real estate loans on the balance sheet of Spanish banks is relatively small compared to the balance of residential loans: it accounted for 8% of banks' total private sector loan balance at the end of 2023, as compared to 44% for residential real estate loans.<sup>9</sup>

<sup>8</sup> In the event of falling real estate prices, the value of real estate collateral declines, which affects agents' lending capacity or, in the case of defaults, loan recovery rates. Moreover, a less dynamic commercial real estate sector, which encompasses the activity of developers and builders, could have some impact on employment and reduce household incomes, implying a risk to financial stability.

<sup>9</sup> Based on supervisory information from the Banco de España (individual data, businesses in Spain).