

Technical Communiqué no. 7/2022-SF
 Countercyclical capital buffer 1st quarter 2023

In compliance with *Law 35/2018, of 20 December, on solvency, liquidity and the prudential supervision of banking entities and investment entities* and the *Regulation implementing Law 35/2018, of 20 December, on solvency, liquidity and the prudential supervision of banking entities and investment entities* and, in particular, with article 68.5 of the Regulation, the Andorran Financial Authority (AFA) publishes the countercyclical capital buffer (CCyB) that applies to the first quarter of 2023 credit exposures located in the Principality of Andorra, which is set at 0%.

The countercyclical capital buffer calculation for the first quarter of 2023, calculated with data from the third quarter of 2022, has turned out to be 0%. This result is given by the reduction of credit while the increase in gross domestic product continues during the third quarter and that continues reducing the ratio between credit and GDP, and puts it below the trend and, therefore, the gap between both is negative.

Determination of the buffer:

To perform the calculation, the following data has been used based on the *Recommendation of the ESRB of 18 June 2014 on guidance for setting countercyclical buffer rates* (ESRB/2014/1):

Year	Quarter	Ratio Credit/GDP _t	Trend _t	GAP _t	CCyB _t Default	CCyB _t	Period of application
2021	Q4	141,53	143,18	-1,65	0 %	0%	2022-Q2
2022	Q1	135,80	140,81	-5,01	0 %	0%	2022-Q3
2022	Q2	133,62	138,74	-5,12	0 %	0%	2022-Q4
2022	Q3	131,28	136,50	-5,22	0 %	0%	2023-Q1

t= end-period date, the period being one quarter

$$\text{Ratio} \frac{\text{Credit}}{\text{GDP}_t} = \left[\frac{\text{Credit}_t}{\text{GDP}_t + \text{GDP}_{t-1} + \text{GDP}_{t-2} + \text{GDP}_{t-3}} \right] * 100\%$$

GDP_t= gross domestic product in quarter *t*

Credit_t = credit to households, non-financial companies and financial companies (except credit institutions) resident in the Principality of Andorra.

Trend_t = recursive Hodrick Prescott filtered trend of the Ratio $\frac{\text{Credit}}{\text{GDP}}$ with a smoothing parameter lambda of 1.600, in quarter *t*

GAP_t = Ratio $\frac{\text{Credit}}{\text{GDP}_t}$ - TREND_t in quarter *t*

Default CCyB_t = Countercyclical capital buffer calculated in quarter *t* following the Recommendation of the ESRB on 18 June 2014.

CCyB_t = Countercyclical capital buffer adopted by the AFA, taking into account the Recommendation of the ESRB on 18 June 2014 and the economic and financial situation of the economy of the Principality of Andorra.

Andorra la Vella, 30 December 2022