

Technical Communiqué no. 2/2021-SF
 Countercyclical capital buffer 3rd quarter 2021

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, for the first time, the countercyclical capital buffer (CCyB) that applies to credit exposures located in the Principality of Andorra, which is set at 0%.

The decision has been made taking into account the current economic situation caused by the COVID-19 global pandemic and the need to take measures to mitigate the economic and financial effects, in order to facilitate providing credit to the economy.

This decision is aligned with the recommendations of the international organizations in charge of the systemic risk supervision, as the European Systemic Risk Board (ESRB), the Basel Committee on Banking Supervision (BCBS) or the Financial Stability Board (FSB).

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 Crèdit/GDP _t	TREND _t	GAP _t	Default CCyB _t	CCyB _t	Period of application
2020	Q2	145,94	145,40	0,55	0 %	-	
2020	Q3	152,33	144,38	7,95	1,75 %	-	
2020	Q4	157,71	143,39	14,32	2,50 %	-	
2021	Q1	163,36	142,42	20,94	2,50 %	0%	2021-Q3

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) residents 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

$$\text{GAP}_t = \text{Ratio} \frac{\text{Credit}}{\text{GDP}_t} - \text{TREND}_t \text{ in quarter } t$$

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, 1st July 2021