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# The January 2019 Bank Lending Survey in Spain

Álvaro Menéndez Pujadas

**Abstract**

In 2018 Q4, according to the Bank Lending Survey (BLS), credit standards for consumer credit and other lending to households tightened slightly both in Spain and in the euro area. There were no appreciable changes in the other two lending segments. For the current quarter, Spanish banks anticipated a slight tightening in all lending segments, a development also observable in the euro area – albeit to a lesser degree – in practically all segments. The overall terms and conditions on new loans eased across the board, both in Spain and, more moderately, in the euro area as a whole. In Spain, the demand for credit fell both in loans to enterprises and loans to households for house purchase, and it ceased to grow in consumer credit and other lending to households; in the euro area as a whole, meantime, loan applications grew across the board. Conditions of access to wholesale funding markets worsened, both in Spain and in the euro area, whereas in retail markets the changes were minor and of a different sign. According to the banks surveyed, regulatory and supervisory measures in respect of capital, leverage and liquidity did not exert an appreciable impact on the supply of credit in Spain in the second half of 2018, whereas in the euro area they prompted some tightening. Finally, the NPL ratio did not exert any influence on Spanish banks' lending policy in the second half of 2018, while in the euro area they contributed to some tightening in the supply of credit in all segments.

**Keywords:** funding, credit, supply of credit, demand for credit, credit standards, terms and conditions for loans, financial conditions.

**JEL codes:** E51, E52, G21.

# THE JANUARY 2019 BANK LENDING SURVEY IN SPAIN

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## Main results

This article presents the results of the January 2019 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in Q4, and on the outlook for the next three months. This edition includes ad hoc questions on the conditions of access to wholesale and retail funding markets, the impact of regulatory and supervisory measures, and the influence exerted by the NPL ratio on banks' credit policies.[1] This section discusses the main results obtained, drawing on the replies of the 10 Spanish banks participating in the survey, and compares them with those for the euro area as a whole. The following sections then analyse in greater detail the results for Spain.[2]

The results of the survey show that, in 2018 Q4, credit standards both in Spain and in the euro area tightened slightly in the segment of consumer credit and other lending to households, remaining virtually unchanged in that of lending to enterprises and in that of lending to households for house purchase (see Chart 1). The overall terms and conditions on new loans eased across the board in all segments, both in Spain and, more moderately, in the euro area as a whole.

According to the replies received, the demand for loans in Spain in 2018 Q4 fell slightly in loans to enterprises and in those extended to households for house purchase. In the segment of consumer credit and other lending to households, loans ceased to grow (see Chart 1). Conversely, in the euro area, applications for loans increased once again in all segments, although in most cases at a more moderate pace than that previously observed.

The dispersion of Spanish banks' replies on credit standards, with reference to the latest period observed, was zero in the case of loans to enterprises and of loans extended to households for house purchase, and low in the case of consumer credit and other lending to households. In the case of demand, the dispersion was moderate in all three segments.

For the current quarter, the Spanish banks surveyed anticipated a slight tightening of credit standards in all segments, which had not occurred since 2012. In the euro area, too, a somewhat slighter tightening in standards was forecast in loans to enterprises and in those to households for house purchase, with no changes anticipated in those relating to consumer credit and other lending to households. As to demand, in Spain and the euro area alike, growth was expected in loan applications by enterprises and by households for house purchase, while in the segment of consumer credit and other lending to households, a slight increase was anticipated in the euro area, while in Spain no appreciable changes were expected.

1 The Banco de España has published these results on its website (http://www.bde.es/webbde/en/estadis/infoest/epb.html), in tandem with the publication of this article and with the ECB's publication of the results for the euro area. Also available on this website are the time series of the aggregate indicators by bank, relating to the regular questionnaire, along with additional information about the BLS. A more detailed analysis of the results for the euro area as a whole can be found in the ECB's regular notes on its website (http://www.ecb.int/stats/money/lend/html/index.en.html).

2 The analysis of the results conducted in this article is based on the so-called "diffusion indices", which are calculated with a weighting based on the degree of improvement/worsening or of easing/tightening reported by each bank in its replies, unlike indicators calculated in terms of net percentages, which do not apply a weighting in this way.

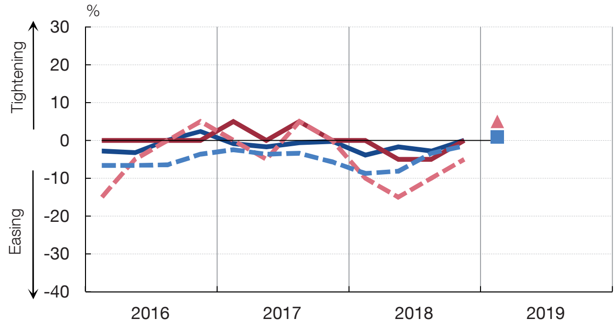
STABILITY OR SLIGHT TIGHTENING OF STANDARDS AND EASING OF LOAN TERMS AND CONDITIONS. CONTRACTION OF DEMAND FOR CREDIT IN SPAIN AND GROWTH IN THE EURO AREA

CHART 1

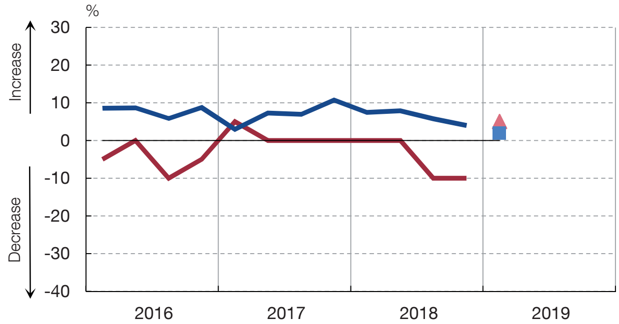
In 2018 Q4, lending standards in both Spain and the euro area tightened slightly in consumer credit and other lending, remaining without appreciable changes in the other two segments. The terms and conditions applied eased across the board in both areas. Demand grew in the euro area in all segments, while in Spain lending to corporations and to households for house purchase fell slightly, holding stable in that earmarked for consumer credit and other lending.

1 LENDING TO NON-FINANCIAL CORPORATIONS

1.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS FOR LOANS (a)

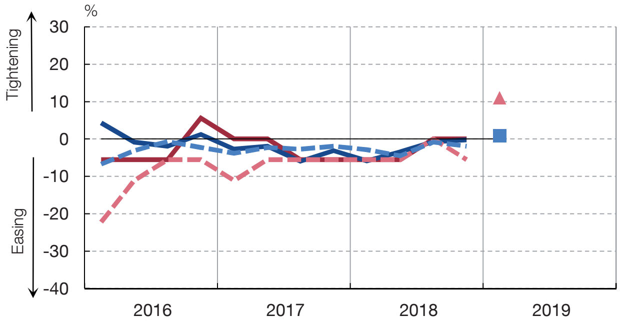



1.2 CHANGE IN DEMAND (b)

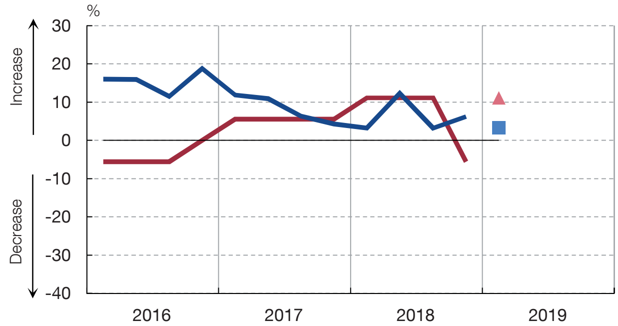



2 LENDING TO HOUSEHOLDS FOR HOUSE PURCHASE

2.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS FOR LOANS (a)

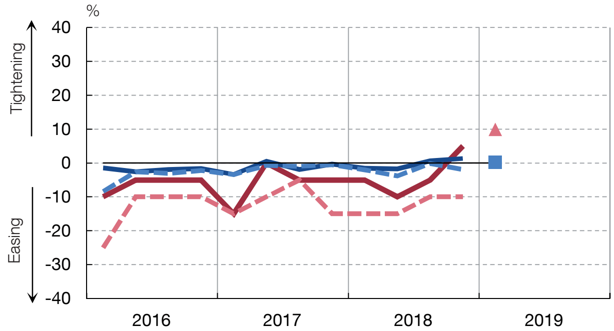



2.2 CHANGE IN DEMAND (b)

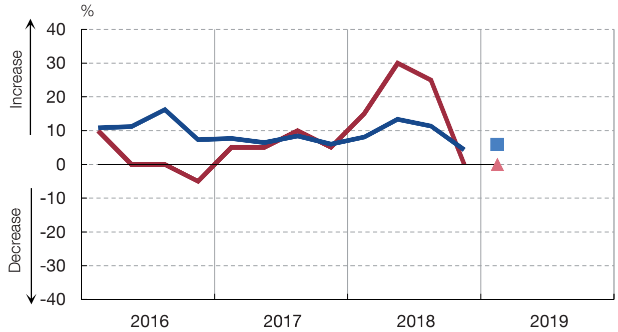



3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

3.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS FOR LOANS (a)




3.2 CHANGE IN DEMAND (b)





SOURCES: ECB and Banco de España.

a Indicator = percentage of banks that have tightened their credit standards or terms and conditions considerably × 1 + percentage of banks that have tightened their credit standards or terms and conditions somewhat × 1/2 – percentage of banks that have eased their credit standards or terms and conditions somewhat × 1/2 – percentage of banks that have eased their credit standards or terms and conditions considerably × 1.

b Indicator = percentage of banks reporting a considerable increase × 1 + percentage of banks reporting some increase – percentage of banks reporting some decrease × 1/2 – percentage of banks reporting a considerable decrease × 1.

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With respect to the ad hoc questions included in the survey, in the first of these banks reported that, in 2018 Q4, they perceived some improvement in conditions of access to retail markets in Spain, while in the euro area conditions had worsened in long-term deposits and had improved somewhat in the short-term segment. As to wholesale markets, banks in both areas indicated an across-the-board worsening in conditions of access, more markedly so in the case of long-term debt securities (see Chart A.1). As to the questions on the effect of regulatory and supervisory measures in respect of capital, leverage and liquidity, the banks in both areas indicated that such measures had contributed to an increase in capital levels, and to a slight tightening in lending conditions. They also replied that these measures had not had a significant influence in Spain on the terms and conditions on and margins applied to loans, whereas in the euro area they had contributed to some tightening in the supply of credit in all segments, albeit more intensely in the two household lending segments (see Chart A.2). Lastly, in the ad hoc question on the impact of the NPL ratio on lending policy, the domestic banks indicated that in the second half of 2018 NPLs had no impact, either on lending standards or on the terms and conditions applied to loans; however, they anticipated that, in the first half of 2019, it could exert an adverse effect on the supply of credit in the segment of consumer credit and other lending to households (see Chart A.3). Euro area banks, for their part, indicated that this ratio had, in the second half of 2018, prompted some tightening in credit supply in all segments, an effect that might run into the first half of 2019, according to their expectations.

#### Supply and demand conditions in Spain

Detailed analysis of the replies to the regular questionnaire shows that, in the segment of lending to non-financial corporations, credit standards remained virtually unchanged in 2018 Q4, both in short-term transactions and in longer-dated ones. The breakdown by size reveals the same pattern in lending extended to SMEs, while in the case of large corporations standards eased slightly. Having regard to the factors behind these developments, greater competition among banks prompted some easing, while the deterioration in expectations about economic activity in general had an effect in the opposite direction, not significantly influencing the other factors (see Chart 2).

The overall terms and conditions on new loans eased in Q4, owing mainly to the increase in competitive pressures, and this despite higher borrowing costs and the lesser availability of funds. The most detailed information reveals a decline in the margins applied on ordinary loans and some increase in maturities; conversely, there was a slight reduction in amounts granted, with the remaining conditions holding stable (see Chart 2). The breakdown by size of enterprises shows that the overall conditions on new loans did not change in loans intended for SMEs, while in those granted to large corporations there was some mild easing. The percentage of rejected loan applications increased slightly in Q4.

According to the replies received, in 2018 Q4 the overall demand for loans by corporations fell slightly, both in short-term and in longer-dated loans. The breakdown by size reveals stability in loan applications by SMEs and some reduction in those by large corporations. The declining course of demand was chiefly the result of lower fixed capital investment, and also of greater recourse to internal financing and, to a lesser extent, the decline in corporate merger, acquisition and restructuring operations, the reduction in debt restructuring and greater recourse to other sources of external financing (see Chart 3). By contrast, the low overall level of interest rates exerted an effect in the opposite direction.

According to the replies received, credit standards for loans to households for house purchase remained stable in 2018 Q4. Banks stressed that lower financing costs and

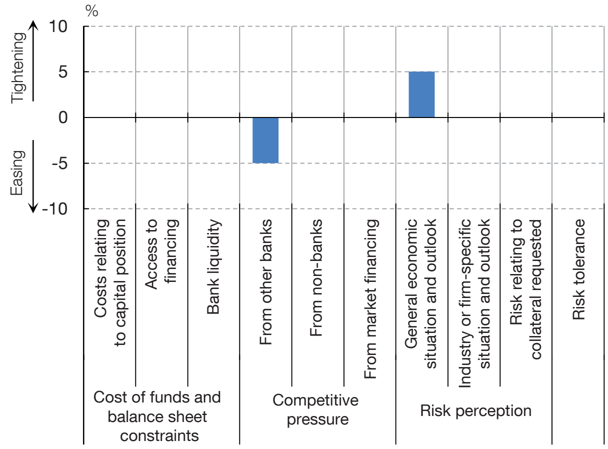
## ACROSS-THE-BOARD DECLINE IN MARGINS ON ORDINARY LOANS

CHART 2

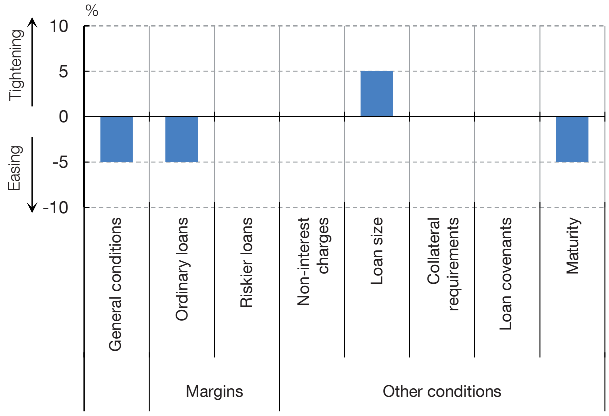
The slight tightening in lending standards in the consumer credit and other lending segment came about chiefly as a result of the perceived lower solvency of borrowers. As to the terms and conditions applied, these eased in all segments, which led to some narrowing in the margins on ordinary loans.

### 1 LOANS TO NON-FINANCIAL CORPORATIONS

#### 1.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)

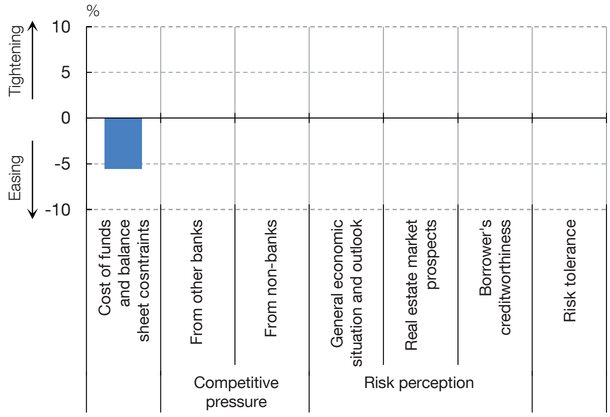



#### 1.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

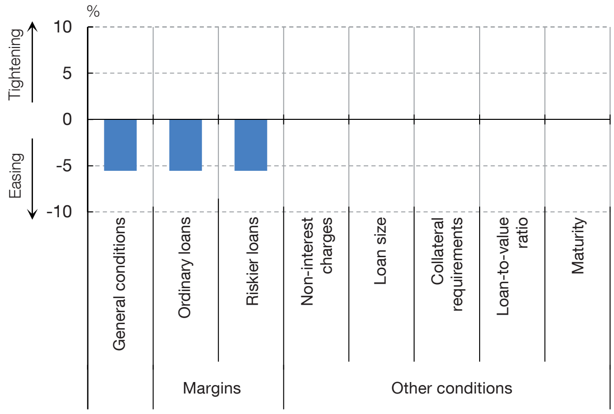



### 2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

#### 2.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)

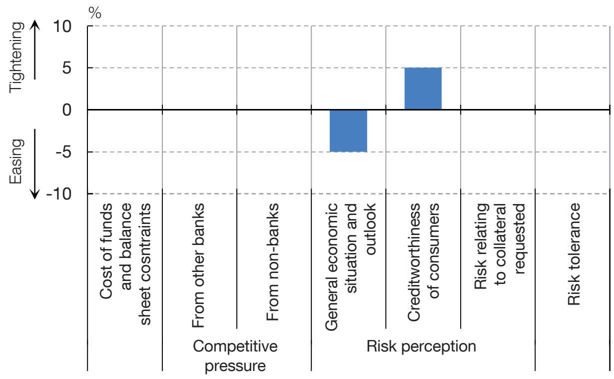



#### 2.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

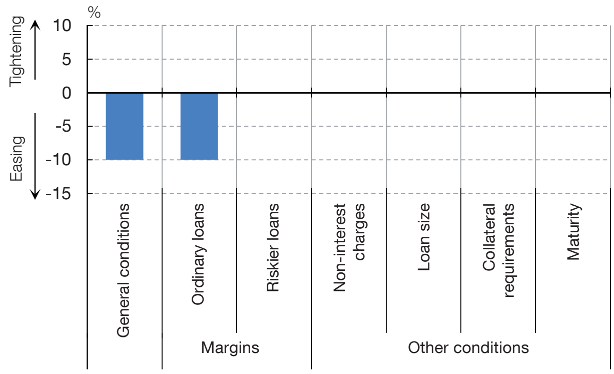



### 3 CONSUMER CREDIT AND OTHER LENDING

#### 3.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)




#### 3.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)




SOURCES: ECB and Banco de España.

**a** Indicator = percentage of banks reporting that the factor has contributed considerably to the tightening of credit standards × 1 + percentage of banks reporting that it has contributed somewhat to the tightening of credit standards × 1/2 – percentage of banks reporting that it has contributed somewhat to the easing of credit standards × 1/2 – percentage of banks reporting that it has contributed considerably to the easing of credit standards.

**b** Indicator = percentage of banks that have considerably tightened their terms and conditions × 1 + percentage of banks that have somewhat tightened their terms and conditions × 1/2 – percentage of banks that have somewhat eased their terms and conditions × 1/2 – percentage of banks that have considerably eased their terms and conditions.

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greater availability of funds may have prompted some easing, but this did not suffice for standards to change (see Chart 2). The remaining factors did not exert any impact on the supply of funds. The overall terms and conditions applied to these loans eased slightly, owing essentially to lower financing costs and the greater availability of funds. A more detailed analysis reveals a slight decline in the margins applied both on ordinary and on high-risk loans, the other conditions holding stable. Lastly, the percentage of rejected loan applications grew slightly.

The demand for loans for house purchase declined slightly. According to the responding banks, regulatory or fiscal changes in the market (in particular, the forthcoming entry into force of the new legislation regulating real estate credit agreements), the increase in own-funds financing and greater recourse to other sources of external financing contributed to the decline in loan applications, with these effects being partly offset by the overall low level of interest rates (see Chart 3).

Lending standards for consumer credit and other lending tightened slightly in 2018 Q4. This was essentially as a result of the perceived lower solvency of borrowers, while the sound overall economic outlook exerted a slight influence in the opposite direction, though not on a sufficient scale to counter the effect of the first factor (see Chart 2). Conversely, the overall terms and conditions on these types of loans eased once more, as a result of greater competition. In particular, the margins on ordinary loans narrowed, while the margins on riskier loans and the remaining terms and conditions held stable. The percentage of rejected loan applications did not change significantly during 2018 Q4.

The demand for consumer credit and other lending held stable in 2018 Q4 after several quarters of strong growth. According to the replies received, this was the outcome of several factors exerting opposing effects. Thus, the overall low level of interest rates, greater spending on consumer durables and increased consumer confidence were conducive to growth in loan applications, while the rise in internal financing via savings, along with a greater use of loans from other banks and of other external financing had an effect in the opposite direction (see Chart 3).

## Ad hoc questions

In their replies to the ad hoc question on conditions of access to retail and wholesale funding markets (see Chart A.1), Spanish banks reported that they perceived during 2018 Q4 some improvement in the conditions of access to retail markets, and a deterioration in those to wholesale markets, somewhat more intensely so in debt securities, and especially in the case of long-term securities.

In the questions relating to the effect of regulatory and supervisory measures in respect of capital, leverage and liquidity, banks responded that, during the second half of 2018, these measures were conducive to an increase both in total assets and, in particular, in liquid assets (see Chart A.2). They also prompted a slight increase in risk-weighted assets and, specifically, in ordinary loans, whereas higher-risk loans were not affected. Banks further indicated that these measures had a positive impact on their capital levels, both via the issuance of shares and, above all, through the retaining of earnings. According to the banks surveyed, these measures contributed to some tightening in banks' funding conditions, but they had no significant influence either on lending standards or on their margins in any of the lending segments.

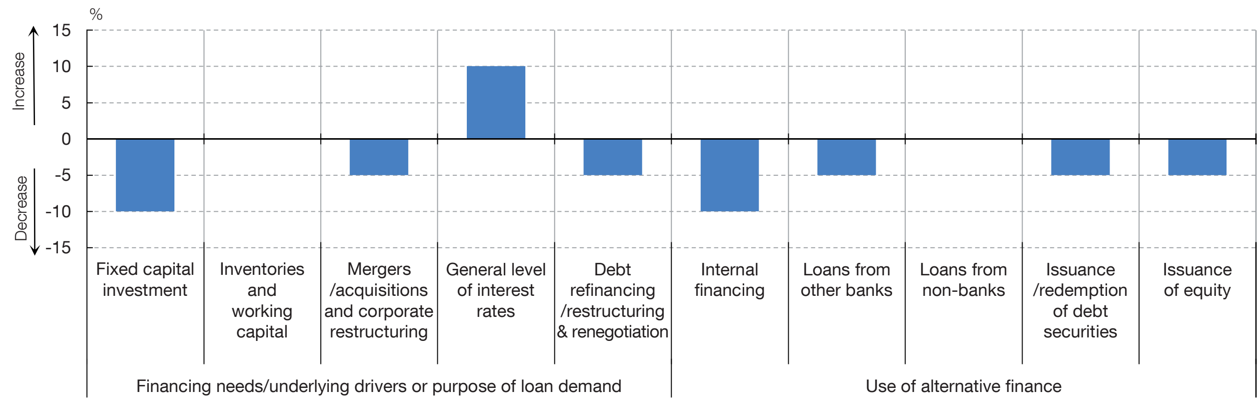
Finally, in the ad hoc question analysing the impact of the NPL ratio on banks' lending policy, respondents stressed that in the second half of 2018, the level of NPLs did not

## THE GREATER USE OF OTHER TYPES OF FUNDING WAS CONDUCIVE TO A CONTRACTION IN CREDIT DEMAND, PARTLY OFFSET BY THE LOW LEVEL OF INTEREST RATES (a)

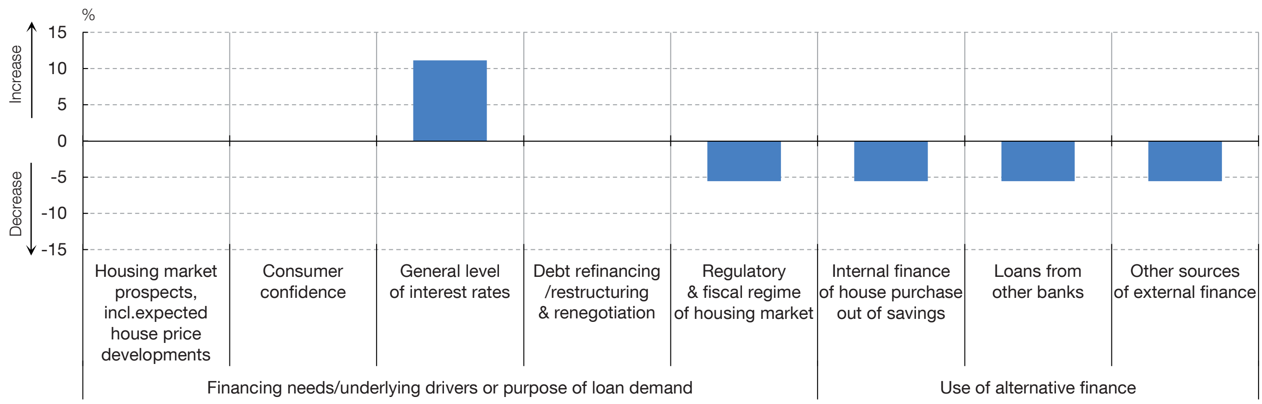
CHART 3

The low interest rate environment continued to drive the demand for credit, while the use of other sources of funding exerted influence in the opposite direction. In the segment of loans to corporations, demand was – in addition to these two factors – adversely affected by lower fixed-asset investment. Under financing to households, loan applications for house purchase were adversely affected by regulatory changes, while in the segment of consumer credit and other lending, greater expenditure on consumer durables was conducive to an additional boost to demand.

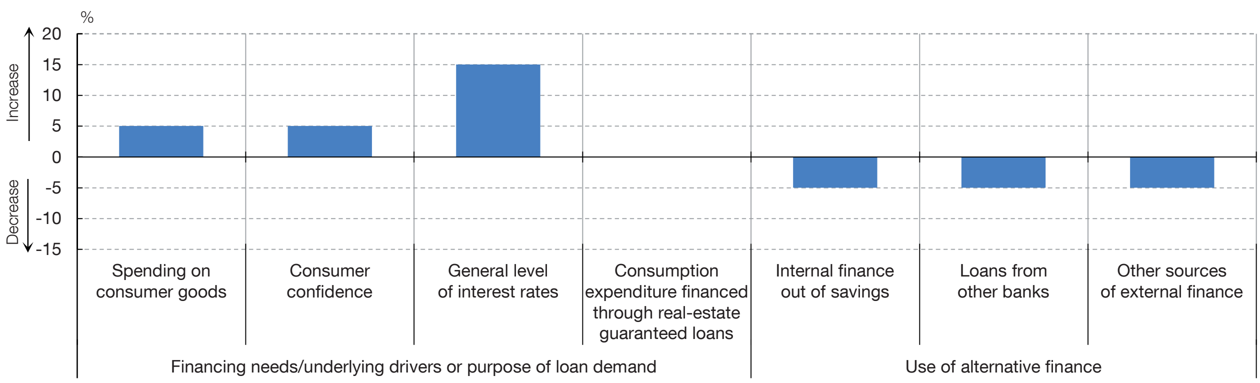
1 DEMAND FOR LOANS TO NON-FINANCIAL CORPORATIONS




2 DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE




3 DEMAND FOR CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS




SOURCES: ECB and Banco de España.

**a** Indicator = percentage of banks reporting that the factor has contributed considerably to increasing demand × 1 + percentage of banks reporting that it has contributed somewhat to increasing demand × 1/2 – percentage of banks reporting that it has contributed somewhat to reducing demand × 1/2 – percentage of banks reporting that it has contributed considerably to reducing demand.

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exert a significant impact either on standards or on the terms and conditions applied, in any of the segments analysed (see Chart A.3).

## Outlook

As regards the current quarter, the responding Spanish banks anticipated that lending standards would tighten slightly in all segments (see Chart 1). On the demand side, if their forecasts hold, loan applications would increase in the enterprises segment and in that of households for house purchase, and they would hold stable in that of consumer credit and other lending.

In the retail and wholesale funding markets, banks' outlook for 2019 Q1 was for a slight improvement in conditions of access to short-term debt securities markets and to securitisation markets, and for a slight deterioration in such conditions in long-term securities markets, in money markets and in the capacity to transfer off-balance sheet risk, with stability in the conditions of access to retail markets being anticipated (see Chart A.1).

As a result of regulatory and supervisory measures in respect of capital, leverage and liquidity, the respondent banks expected, for the first half of 2019, a slight increase both in total balance sheet size, and in risk-weighted assets, along with an increase in the level of capital, owing both to new capital issues and to the growth of non-distributed earnings (see Chart A.2). Banks did not expect these measures to prompt changes in lending standards, though they estimated that the margins applied to loans might tighten somewhat in the case of those to large corporations and in the segment of financing to households. They also anticipated a slight adverse effect on their funding conditions.

Regarding the impact of the NPL ratio, banks foresaw, for the first half of 2019, that the level of this ratio might prompt a slight tightening both in lending standards and in the terms and conditions applied to consumer credit and other lending, not affecting the other two loan segments (see Chart A.3). As to the factors through which the NPL ratio would be influenced, banks indicated that the foreseeable tightening in the consumer credit and other lending segment would come about, both owing to the higher costs relating to balance sheet restructuring operations and to the increase in banks' risk perception and lower risk tolerance.

22.1.2019.

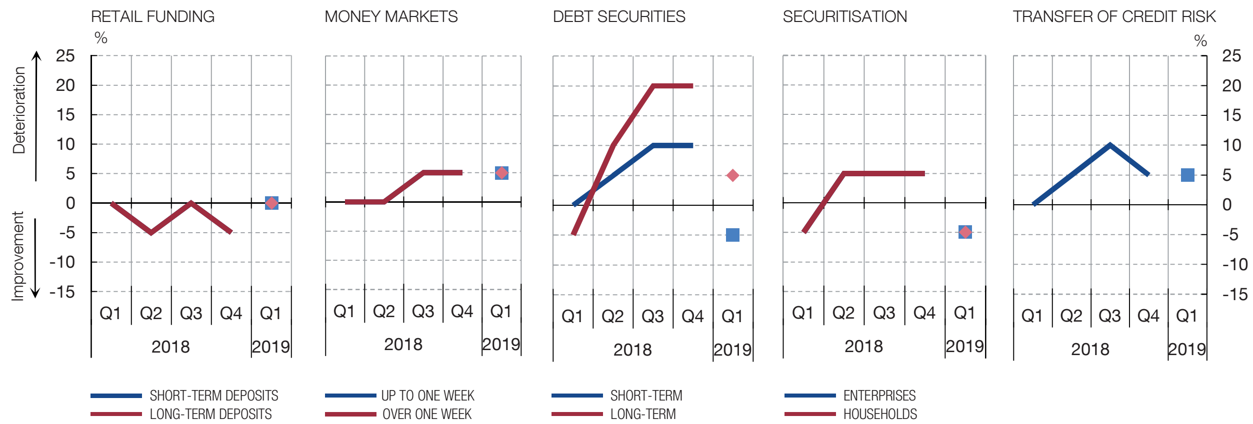
## ANNEX WITH CHARTS OF MAIN RESULTS FOR THE AD HOC QUESTIONS

**ACCESS TO WHOLESALE MARKETS WORSENED BOTH IN SPAIN AND IN THE EURO AREA, WHILE THERE WAS LITTLE CHANGE IN ACCESS TO RETAIL MARKETS AND IN OPPOSITE DIRECTIONS** (a) (b)

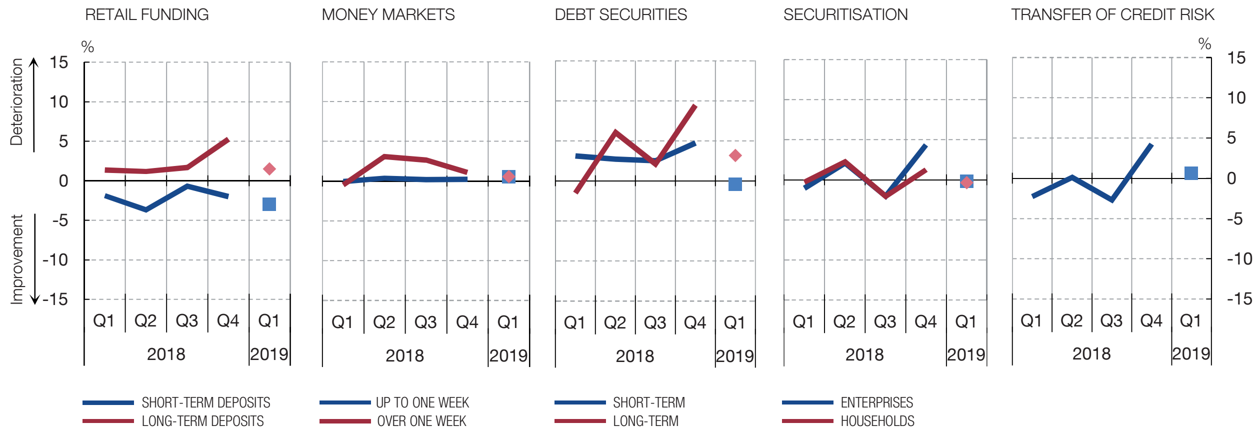
**CHART A.1**

Banks in the two areas perceived that, in 2018 Q4, conditions of access to wholesale markets worsened, more markedly so in the case of long-term debt securities. In retail markets, conditions of access improved slightly in Spain, and some worsening was perceived in the euro area in long-term securities, with a slight improvement in short-term securities.

1 ACCESS TO FINANCE (SPAIN)




2 ACCESS TO FINANCE (EURO AREA)




SOURCES: ECB and Banco de España.

**a** Indicator = % of banks that have perceived a considerable deterioration in their market access × 1 + % of banks that have perceived some deterioration × 1/2 – % of banks that have perceived some easing × 1/2 of banks that have perceived a considerable easing × 1.

**b** ◆, ■ Forecast.

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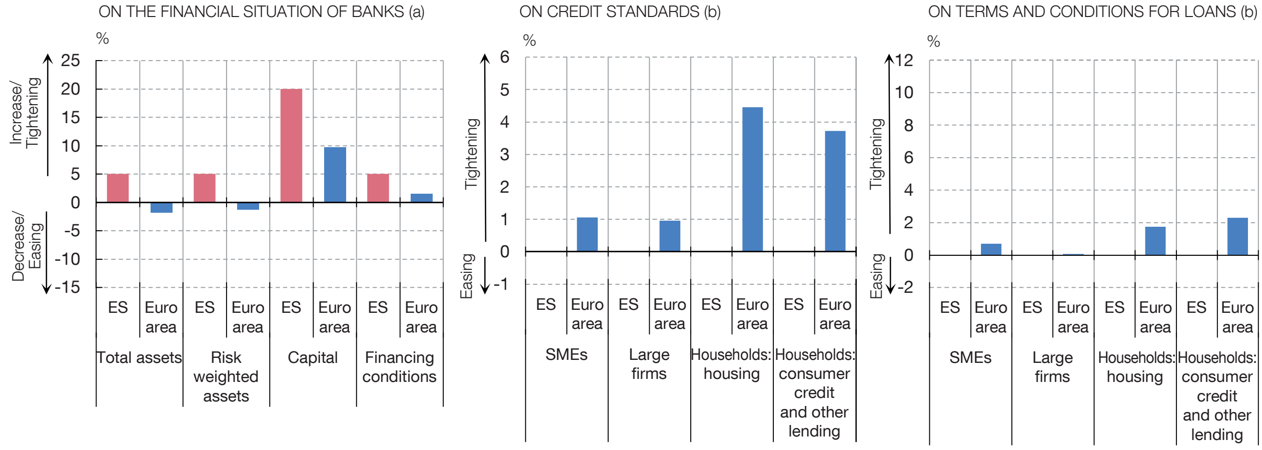
## THE REGULATORY AND SUPERVISORY MEASURES DID NOT AFFECT THE SUPPLY OF CREDIT IN SPAIN, BUT PROMPTED A SLIGHT TIGHTENING IN THE EURO AREA (a)

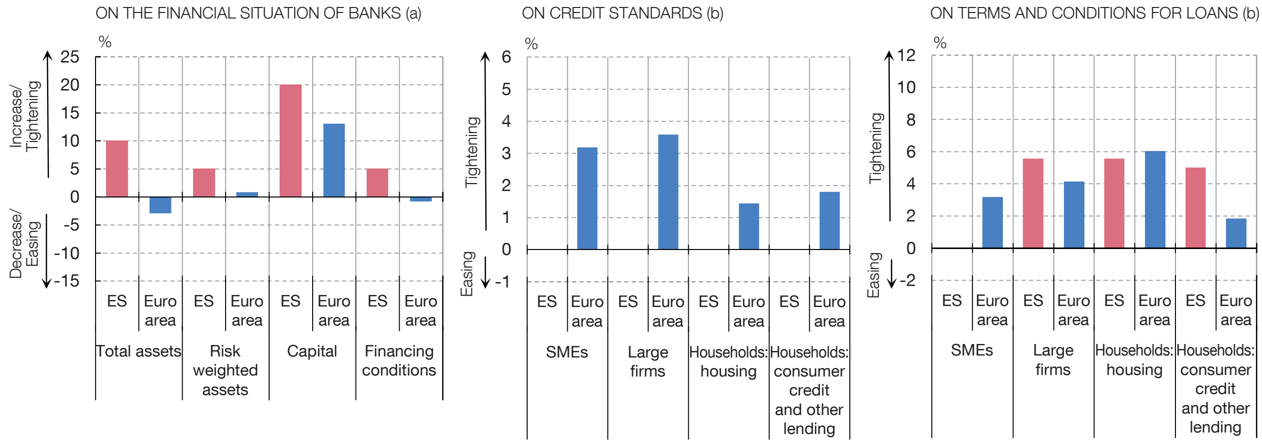
CHART A.2

Banks in both areas reported that these measures contributed to an increase in capital levels, and to a slight tightening of their funding conditions. Moreover, these measures did not have a significant influence in Spain on credit supply, while in the euro area they contributed to some tightening in credit supply in all segments, albeit more intensely so in the two household lending segments.

1 IMPACT OVER THE LAST SIX MONTHS




2 IMPACT OVER THE NEXT SIX MONTHS




SOURCES: ECB and Banco de España.

**a** Indicator = percentage of banks reporting an increase or tightening (depending on the item analysed), minus the percentage of those reporting a decrease or easing (depending on the item analysed), weighting considerable changes by 1 and minor changes by 1/2.

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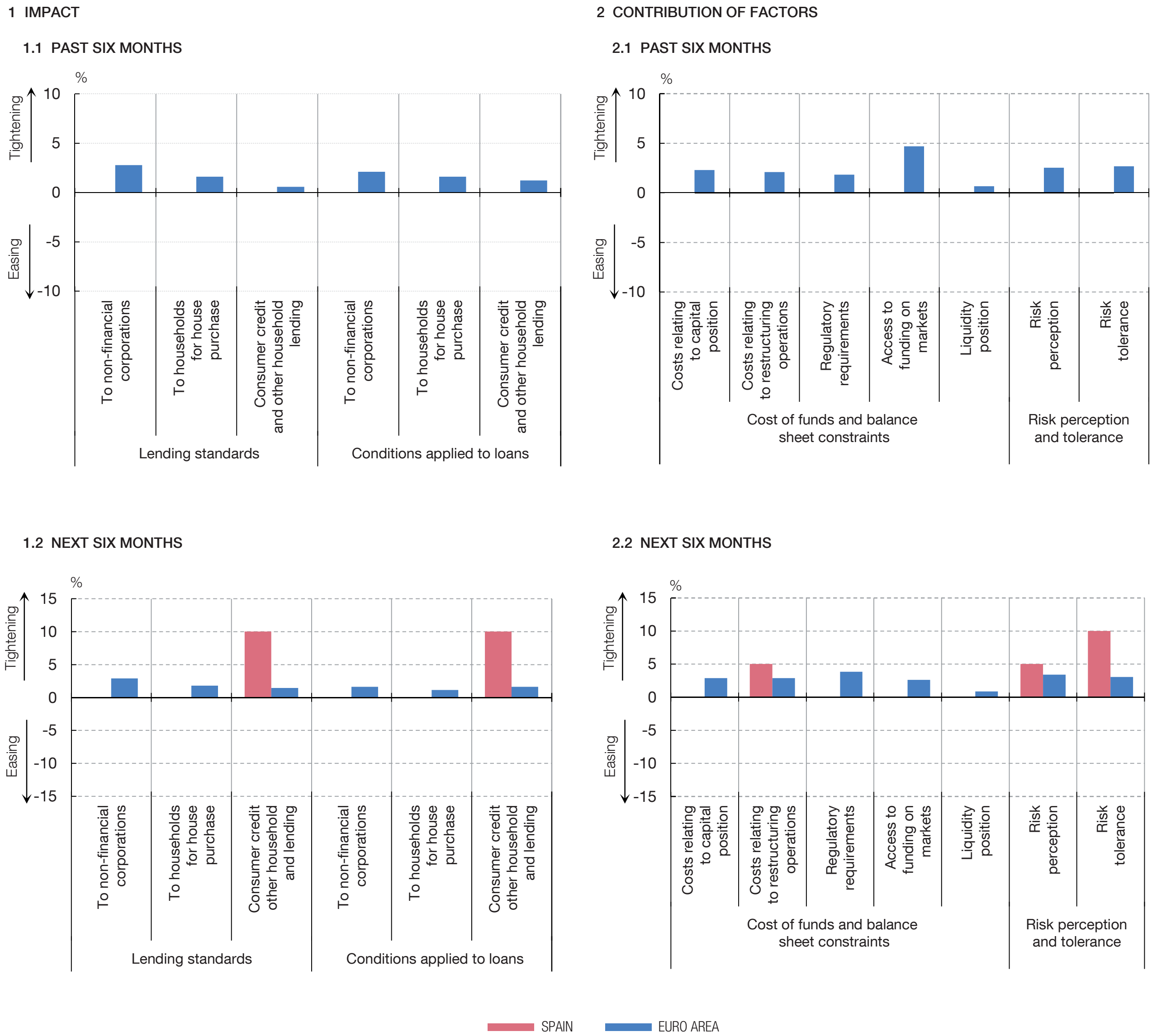
**THE NPL RATIO DID NOT INFLUENCE BANKS' CREDIT POLICY IN SPAIN, BUT IT DID CONTRIBUTE TO A SLIGHT TIGHTENING IN THE EURO AREA (a)** **CHART A.3**

The NPL ratio did not influence Spanish banks' credit policy during the second half of 2018, whereas in the euro area it contributed to some tightening of supply in all segments. If Spanish banks' expectations are met, this might also be seen in Spain in the segment of consumer credit and other lending in the first half of this year.




SOURCES: ECB and Banco de España.

**a** Indicator = % of banks reporting that it has contributed considerably to the tightening of lending policy × 1 + % of banks reporting that it has contributed to some extent to tightening × 1/2 – % of banks reporting that it has contributed to some extent to easing × 1/2 – % of banks reporting that it has contributed considerably to easing × 1.

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