ANALYTICAL ARTICLES
Economic Bulletin

3/2019

BANCO DE ESPAÑA
Eurosistema

BANK LENDING SURVEY IN SPAIN: JULY 2019

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ABSTRACT

The results of the Bank Lending Survey reflect, in general, a slightly less expansionary credit supply, both in Spain and the euro area, in 2019 Q2. Thus, credit standards tightened in Spain in the two household segments, while in the euro area standards tightened for both lending to enterprises and consumer credit and other lending to households. By contrast, terms and conditions for new lending eased somewhat in the consumer credit segment, both in Spain and the euro area, while for lending to enterprises they eased in Spain but tightened in the euro area. Spanish banks reported a decline in demand for loans to enterprises and for consumer credit and other lending to households, whereas loan applications increased across the board in the euro area. The conditions of access to retail and wholesale financial markets remained stable or improved both in Spain and the euro area. According to the banks surveyed, regulatory and supervisory measures on capital, leverage and liquidity prompted a degree of tightening in the credit supply in 2019 H1, again both in Spain and the euro area. Lastly, between January and June 2019, the NPL ratio also contributed to some tightening of the credit supply in both areas.

Keywords: lending, credit, credit supply, credit demand, lending standards, credit conditions, financial markets.

JEL codes: E51, E52, G21.

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Main results

This article presents the results of the July 2019 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in Q2, and on the outlook for Q3. This edition includes ad hoc questions on conditions of access to wholesale and retail funding markets, on the impact of regulatory and supervisory measures and on the effect of the NPL ratio on bank lending policies.[1] This section discusses the main results obtained from the replies of the ten Spanish banks participating in the survey, comparing them with the results for the euro area as a whole. The following sections contain a more detailed analysis of the results for Spain.[2]

The results of the survey show that in Q2, the credit supply was in general somewhat less expansionary both in Spain and the euro area. By contrast, credit demand recorded a more negative performance in Spain than in the euro area overall, where it continued to increase. Credit standards tightened slightly in consumer credit and other lending to households, both in Spain (for the third consecutive quarter) and the euro area, and also in Spain for lending for house purchase (see Table 1 and Chart 1). In the case of lending to enterprises, credit standards were unchanged in Spain but tightened somewhat in the euro area. General terms and conditions for new lending to households for house purchase remained stable in both areas, and eased slightly for consumer credit and other lending to households. Credit conditions for lending to enterprises tightened somewhat in the euro area overall, while in Spain they eased a little, resulting in a narrowing of margins on average loans.

In 2019 Q2 demand declined in Spain for loans to enterprises and for consumer credit and other lending to households (for the second consecutive quarter), while demand

1 The Banco de España has published these results on its website (Bank Lending Survey), in tandem with publication of this article and with dissemination by the ECB of the results for the euro area. Also available at this address are the time series of the aggregate indicators by bank, relating to the regular questionnaire, along with additional information on the nature of the BLS. A more detailed analysis of the results for the euro area overall can be found in the ECB's regular notes on its website (Euro area bank lending survey).

2 This analysis is based on "diffusion indicators", 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 take no account of the aforementioned weighting.

Table 1
BANK LENDING SURVEY
Main results. July 2019

	Credit standards	General credit conditions	Demand for loans
Spain			
Past three months			
Non-financial corporations	No change	Easing	Decrease
Households for house purchase	Tightening	No change	No change
Households for consumer credit and other lending	Tightening	Easing	Decrease
Forecast for next three months			
Non-financial corporations	No change	(a)	No change
Households for house purchase	Tightening	(a)	No change
Households for consumer credit and other lending	No change	(a)	No change
Euro area			
Past three months			
Non-financial corporations	Tightening	Tightening	Increase
Households for house purchase	No change	No change	Increase
Households for consumer credit and other lending	Tightening	Easing	Increase
Forecast for next three months			
Non-financial corporations	No change	(a)	Increase
Households for house purchase	No change	(a)	Increase
Households for consumer credit and other lending	Easing	(a)	Increase

SOURCES: Banco de España and ECB.

a The survey does not include questions on expected changes in loan terms and conditions.

for loans to households for house purchase remained unchanged. By contrast, the euro area saw a widespread increase in loan applications in all three segments.

For Q3, the Spanish banks surveyed anticipated some tightening in credit standards for lending to households for house purchase, and no change in the other two segments. In the euro area, credit standards for consumer credit and other lending to households were expected to ease somewhat, with no change anticipated in lending to enterprises and to households for house purchase. On the demand side, no major changes were foreseen in Spain, while in the euro area the banks expected to see a widespread increase in loan applications.

Regarding the ad hoc questions included in the survey, banks in both areas reported that they perceived no change or a slight improvement in Q2 in conditions of access to all wholesale markets, especially debt securities markets (see Chart A.1). Access to retail markets was also perceived to have improved slightly in the euro area, remaining unchanged in Spain. Banks in both areas indicated that regulatory and supervisory measures on capital, leverage and liquidity had contributed to an increase in asset and capital levels, and also, in the case of Spain, to some easing of credit conditions. They also replied that in Spain these measures had contributed to a tightening of credit standards for loans to SMEs and consumer credit and other

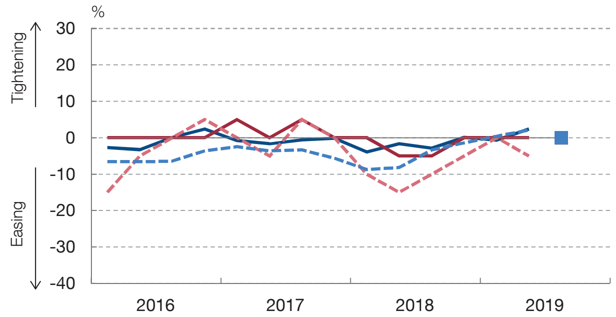
Chart 1

CREDIT SUPPLY SOMEWHAT LESS EXPANSIONARY. CREDIT DEMAND FELL SLIGHTLY IN SPAIN BUT CONTINUED TO RISE IN THE EURO AREA OVERALL

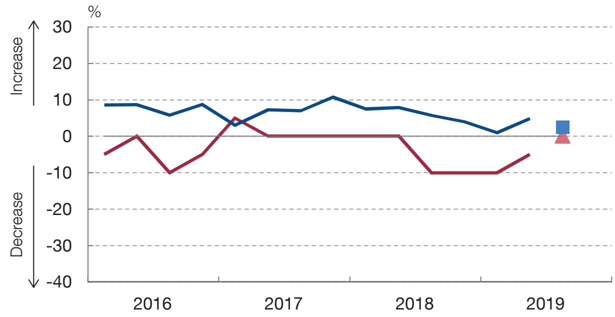
In 2019 Q2, credit standards tightened slightly for consumer credit and other lending to households, both in Spain and the euro area, and also in Spain for lending to households for house purchase. Credit standards for lending to enterprises remained steady in Spain but tightened a little in the euro area. Demand for loans to enterprises and for consumer credit for households fell slightly in Spain, while the euro area saw an increase in loan applications across the board.

1 LENDING TO NON-FINANCIAL CORPORATIONS

1.1 CHANGE IN CREDIT STANDARDS AND IN CONDITIONS APPLIED TO LOANS (a)

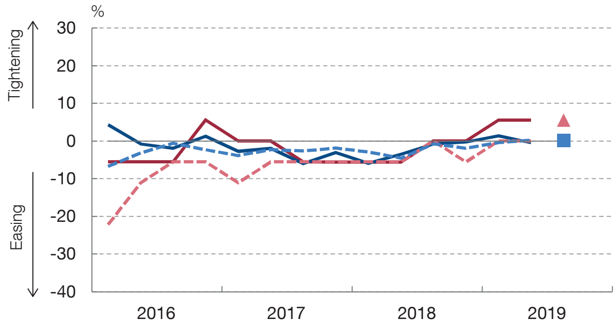


1.2 CHANGE IN DEMAND (b)

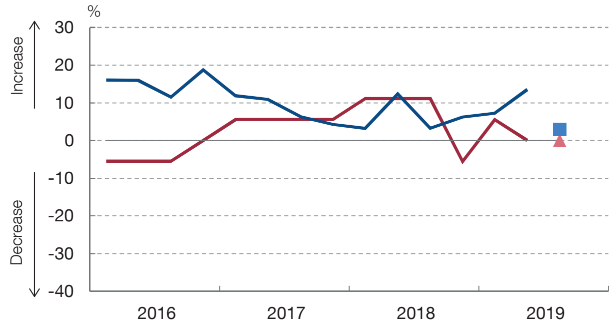


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

2.1 CHANGE IN CREDIT STANDARDS AND IN CONDITIONS APPLIED TO LOANS (a)

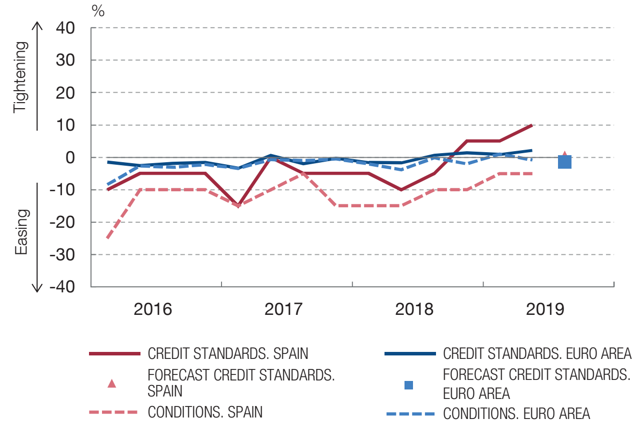


2.2 CHANGE IN DEMAND (b)

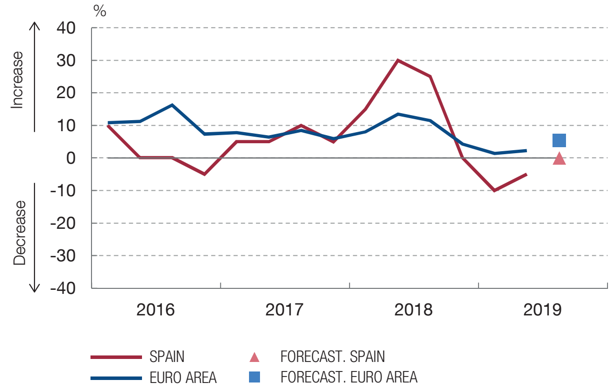


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

3.1 CHANGE IN CREDIT STANDARDS AND IN CONDITIONS APPLIED TO LOANS (a)



3.2 CHANGE IN DEMAND (b)



SOURCES: Banco de España and ECB.

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

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

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lending to households, while in the euro area the credit supply had tightened in all segments (see Chart A.2). Lastly, the Spanish banks indicated that the change in NPL levels in 2019 H1 had given rise to some tightening of credit standards for lending to enterprises and consumer credit to households, which in the latter case had also had a negative impact on the conditions applied (see Chart A.3). For their part, the euro area banks reported that in 2019 H1 the NPL ratio had led to a degree of tightening in the credit supply in all segments. It was expected that these effects could continue in both areas in 2019 H2.

Credit supply and demand in Spain

A detailed analysis of Spanish banks' replies shows that, in the lending to non-financial corporations segment, there were no major changes in credit standards in 2019 Q2, both for short and longer term loans. The breakdown by firm size reflects a certain degree of tightening of credit standards applied to lending to SMEs, compared with credit standards for large corporations which eased somewhat. Turning to the factors behind these developments, greater competition, both between banks and from non-bank market financing, favoured an easing of credit standards, while higher capital costs and the worsening outlook for sectors and firms had the opposite effect (see Chart 2).

General terms and conditions for new lending eased somewhat in 2019 Q2, mainly owing to competitive pressure. The more detailed information points to an easing of margins on average loans and a decline in loan covenants, while margins on riskier loans tightened a little (see Chart 2). The breakdown by firm size shows that general terms and conditions for new lending to SMEs were unchanged, whereas those for new lending to large corporations eased somewhat. The percentage of loan applications rejected was steady throughout 2019 Q2.

According to the replies received, demand from enterprises for both short and longer term loans fell slightly between April and June 2019. The breakdown by firm size shows that loan applications were stable for SMEs but declined for large corporations. This falling demand is chiefly attributed to the increase in the use of loans from other banks. Other factors were lower investment in fixed capital, the drop in applications to finance inventories and working capital, and the greater recourse to internal funding. The generally low level of interest rates had the opposite effect (see Chart 3).

Also on the replies received, credit standards for lending to households for house purchase tightened slightly in 2019 Q2, owing primarily to the decline in banks' risk tolerance (see Chart 2). In turn, terms and conditions applied to new lending remained broadly unchanged, although margins on riskier loans tightened slightly. There was a minor increase in the percentage of loan applications rejected.

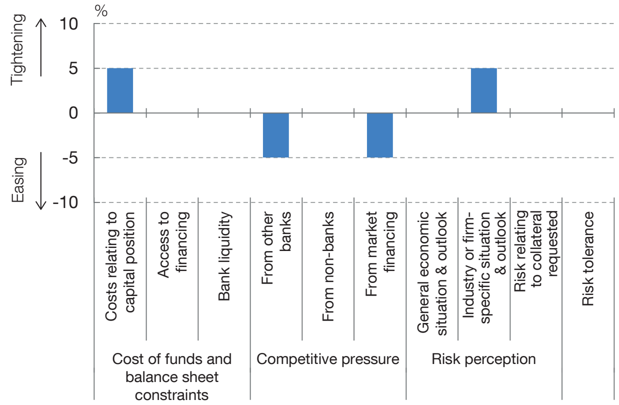
Chart 2

GREATER RISK PERCEPTION CONTRIBUTED TO TIGHTENING OF CREDIT STANDARDS. CONDITIONS EASED SOMEWHAT IN LENDING TO FIRMS AND CONSUMER CREDIT TO HOUSEHOLDS

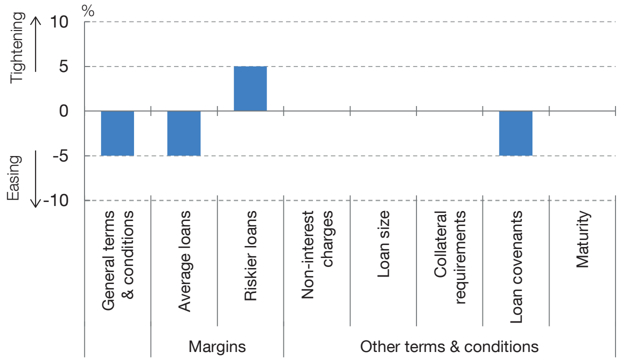
Credit standards tightened somewhat in the two household lending segments, mainly owing to heightened risk perception and a decline in banks' risk tolerance. By contrast, terms and conditions applied to loans to enterprises and to consumer credit for households eased; this was reflected, in both segments, in a certain narrowing of margins on average loans.

1 LOANS TO NON-FINANCIAL CORPORATIONS

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

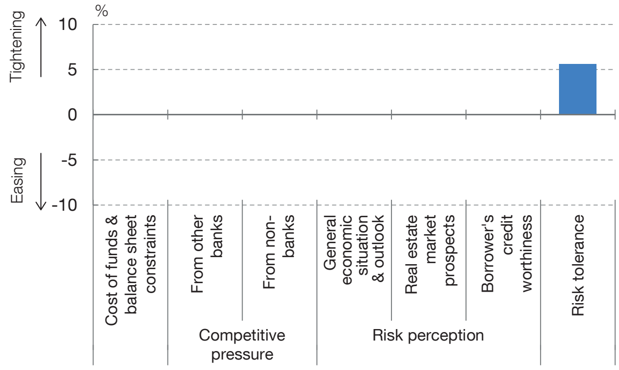


1.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

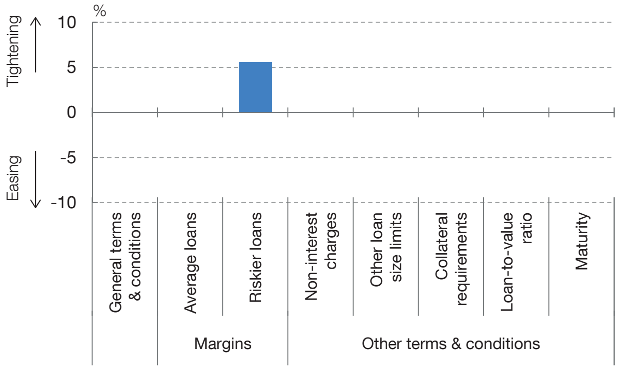


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

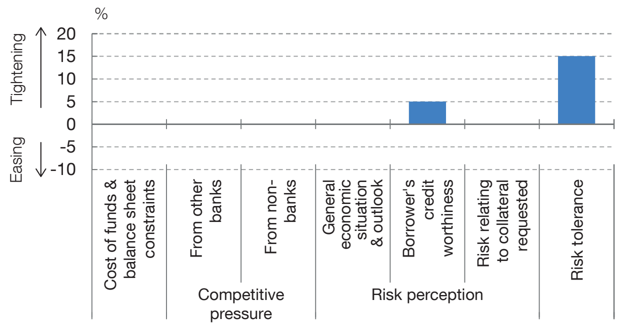


2.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

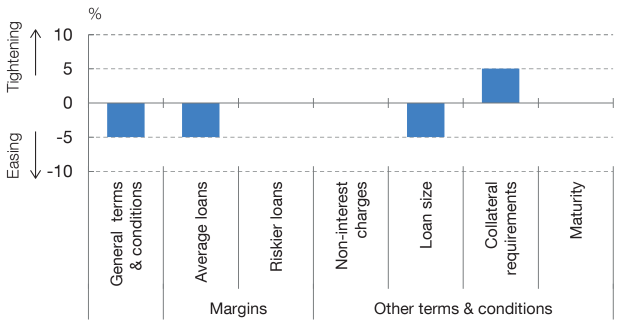


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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



3.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)



SOURCES: Banco de España and ECB.

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

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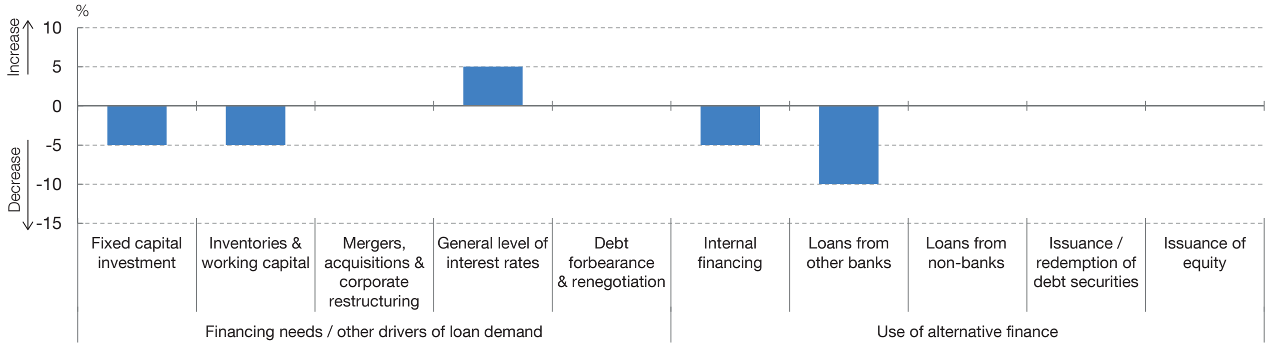
Chart 3

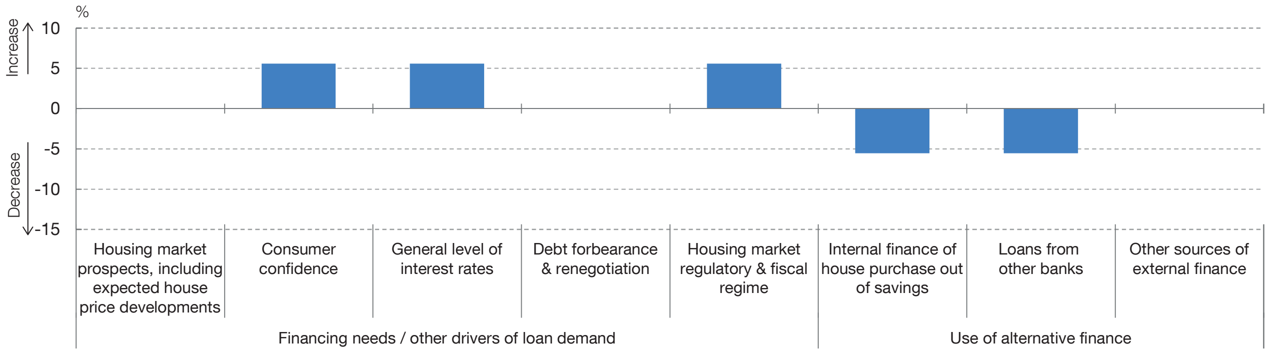
THE GREATER USE OF OTHER TYPES OF FINANCING AND LOWER FINANCING NEEDS GAVE RISE TO A CONTRACTION IN DEMAND, COUNTERED PARTLY BY THE LOW LEVEL OF INTEREST RATES (a)

Although the low interest rate environment continued to drive the demand for credit, the use of other sources of financing, together with lower financing needs, countered this effect, both in lending to enterprises and consumer credit for households. Applications for loans for house purchase were positively affected not only by the low borrowing costs but also by increased consumer confidence and regulatory changes, but this effect was offset by greater recourse to other types of financing, which ultimately resulted in demand holding steady in this segment.

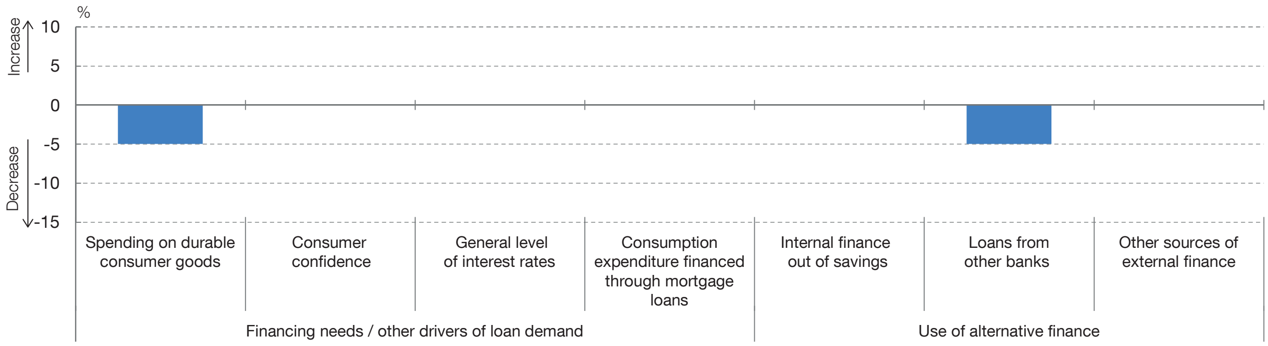
1 LOANS TO NON-FINANCIAL CORPORATIONS



2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE



3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS



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SOURCES: Banco de España and ECB.

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.

Demand for loans for house purchase was steady throughout 2019 Q2. According to the banks, the generally low level of interest rates, regulatory and fiscal changes in the market and growing consumer confidence boosted loan applications, but these effects were countered by the increase in self-financing and in the use of loans from other banks (see Chart 3).

Credit standards for consumer credit and other lending to households tightened between April and June 2019, for the third consecutive quarter. According to the banks, this was essentially due to the decline in banks' risk tolerance and a deterioration in borrowers' creditworthiness (see Chart 2). By contrast, general terms and conditions for consumer credit and other lending to households eased again, owing to greater competitive pressure. In particular, margins on average loans narrowed and volumes granted increased. By contrast, collateral requirements also rose slightly. The percentage of loan applications rejected was higher than in the preceding period.

Demand for consumer credit and other lending fell slightly in 2019 Q2. According to the replies received, this was due to lower spending on consumer durables and greater use of loans from other banks (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), the banks reported that they perceived an improvement in the conditions of access to debt securities markets, and to a lesser extent in the ability to transfer credit risk off balance sheet, in 2019 Q2, with no change in the conditions of access to the other wholesale funding and the retail funding markets.

In response to the questions on the impact of the regulatory and supervisory measures on capital, leverage and liquidity, the banks indicated that in 2019 H1 these measures had encouraged growth in total and liquid assets (see Chart A.2), and also (more markedly) in risk-weighted assets, both in average and riskier loans. In addition, they reported that the measures had had a positive impact on their capital levels, owing to share issuance and, in particular, to retained earnings. According to the banks surveyed, the measures had led to an easing of banks' credit conditions, contributing to a moderate tightening of credit standards for loans to SMEs and for consumer credit and other lending to households, but without affecting the other loan types. Lastly they reported that they had perceived no significant impact on terms and conditions applied to new loans.

In reply to the third and last ad hoc question on the impact of the NPL ratio on banks' lending policies, the banks underlined that in 2019 H1 the change in the NPL ratio had contributed to a tightening of credit standards, both for lending to enterprises and consumer credit to households, and to a small tightening, in this last segment, in the terms and conditions applied (see Chart A.3). The main reasons for this were the decline in banks' risk tolerance and, to a lesser extent, the pressure exerted by regulatory and supervisory requirements and the increase in perceived risk.

Outlook

For the current quarter, the banks surveyed anticipated that credit standards would tighten slightly for lending to households for house purchase, remaining stable in all other segments (see Chart 1). On the demand side, they foresaw no significant changes in any of the three loan types.

In the case of the retail and wholesale funding markets, banks expected to see a slight improvement in conditions of access to almost all wholesale markets in 2019 Q3, with the exception of the money market which was expected to weaken somewhat. In the case of retail funding markets, they anticipated a deterioration in the long-term deposit market and no change in the short-term securities market (see Chart A.1).

As a result of the regulatory and supervisory measures on capital, leverage and liquidity, for 2019 H2 the banks surveyed expected both risk-weighted assets and capital levels to increase, owing to new capital issues and, especially, to growth in retained earnings (see Chart A.2). The banks expect these measures to give rise to a certain degree of tightening of credit standards for lending to SMEs, and to higher margins in lending to large corporations and households.

Regarding the impact of the NPL ratio, the banks surveyed expected it to prompt some tightening of credit standards for lending to enterprises and for consumer credit and other lending to households in 2019 H2, but without affecting the terms and conditions applied in any of the loan types (see Chart A.3). As to the factors driving this impact, the banks indicated that the tightening of credit standards would be due to banks' lower risk tolerance and, to a lesser extent, to the greater regulatory pressure and heightened risk perception.

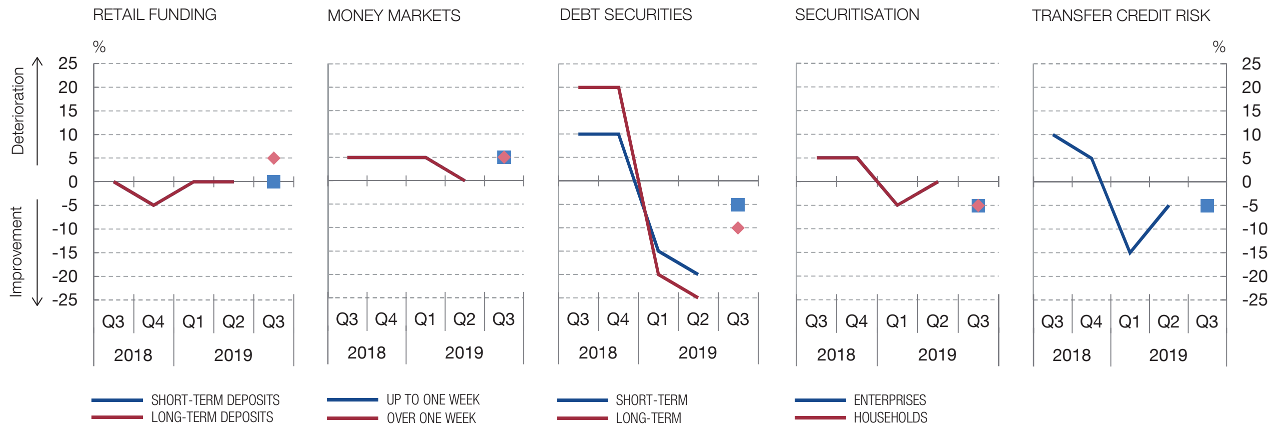
23.7.2019.

Chart A.1

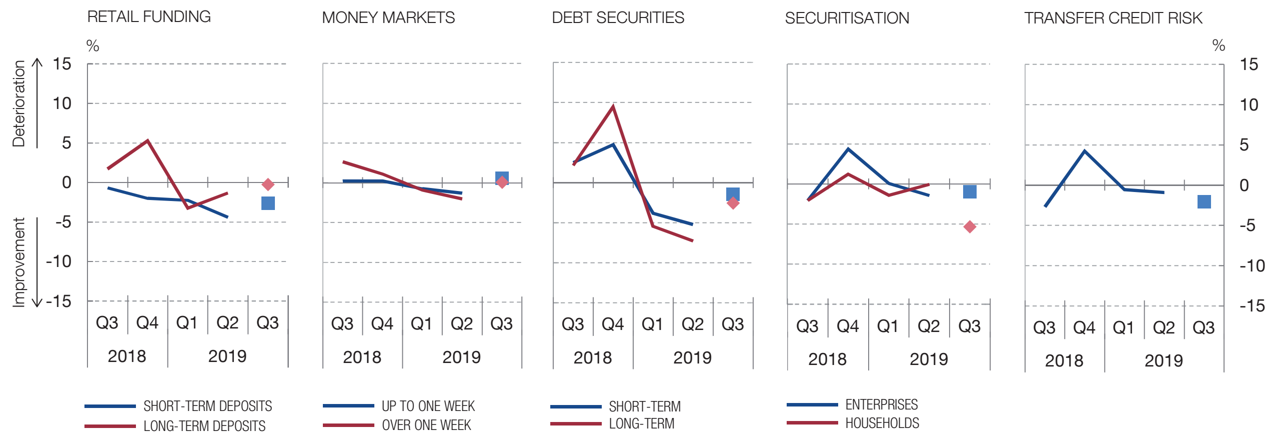
ACCESS TO WHOLESALE AND RETAIL MARKETS IMPROVED OR REMAINED STEADY IN ALL CASES, BOTH IN SPAIN AND THE EURO AREA (a) (b)

In 2019 Q2, banks in both areas perceived an improvement across the board in conditions of access to wholesale markets (especially debt securities markets). Access to retail markets also improved in the euro area, with no appreciable change noted in Spain.

1 ACCESS TO FUNDING. SPAIN



2 ACCESS TO FUNDING. EURO AREA



SOURCES: Banco de España and ECB.

a Indicator = percentage of banks that perceived a considerable deterioration in market access × 1 + percentage of banks that perceived some deterioration × 1/2 − percentage of banks that perceived some improvement × 1/2 − percentage of banks that perceived a considerable improvement × 1.

b ◆, ■ = Forecast.

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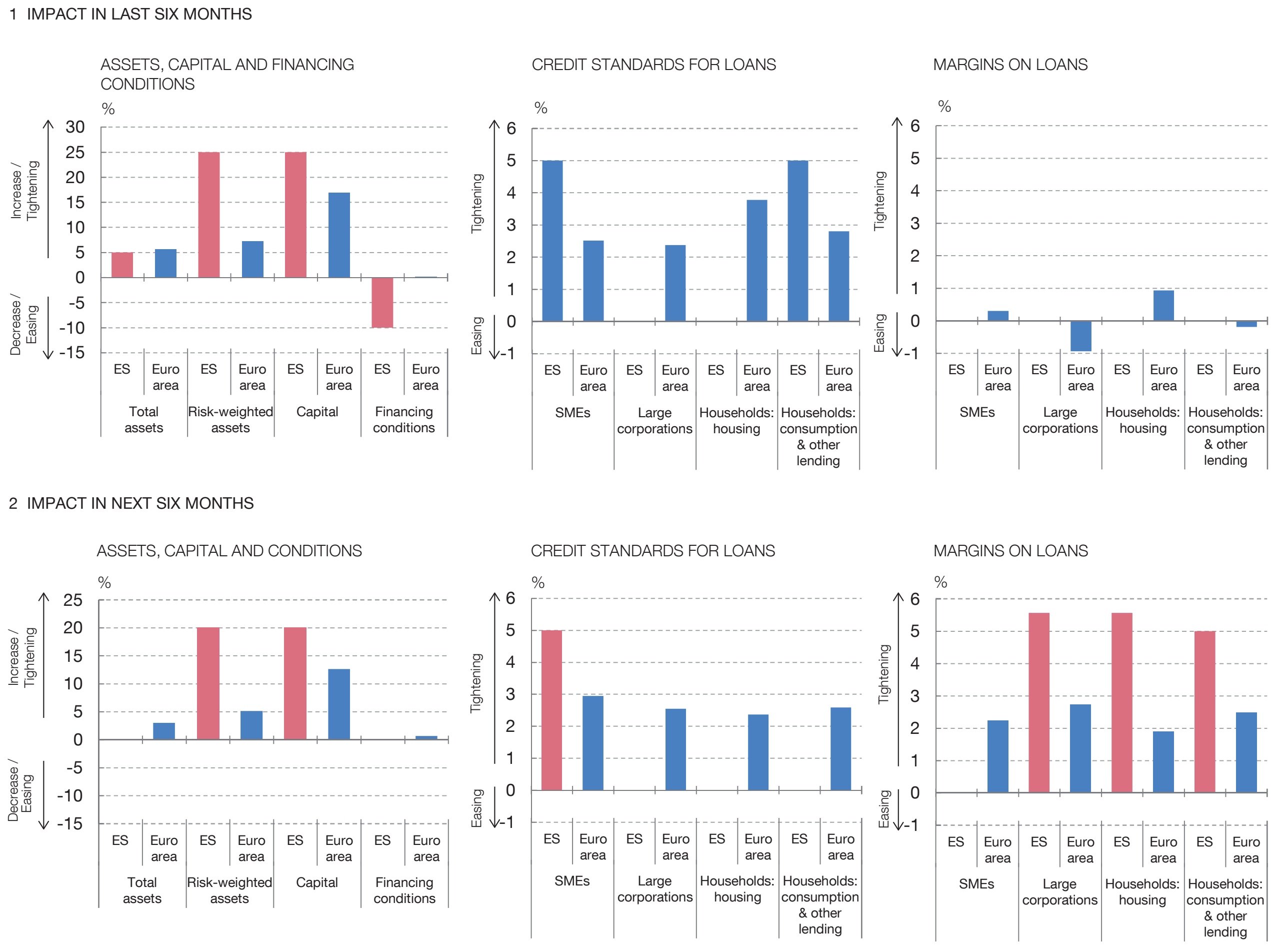
Chart A.2

REGULATORY AND SUPERVISORY MEASURES AFFECTED THE SUPPLY OF CREDIT AND GAVE RISE TO A DEGREE OF TIGHTENING IN BOTH AREAS, ALBEIT ON A BROADER SCALE IN THE EURO AREA (a)

Banks in both areas indicated that these measures had contributed to an increase in asset and capital levels and, in the case of Spain, to a degree of easing of their credit conditions. The measures also contributed to some tightening of the credit supply; in Spain this affected lending to SMEs and consumer credit and other lending to households, while in the euro area it affected all segments.



SOURCES: Banco de España and ECB.

a Indicator = percentage of banks reporting an increase or tightening (as appropriate), less the percentage of banks reporting a decrease or easing (as appropriate), with considerable changes weighted by 1 and minor changes weighted by 1/2.

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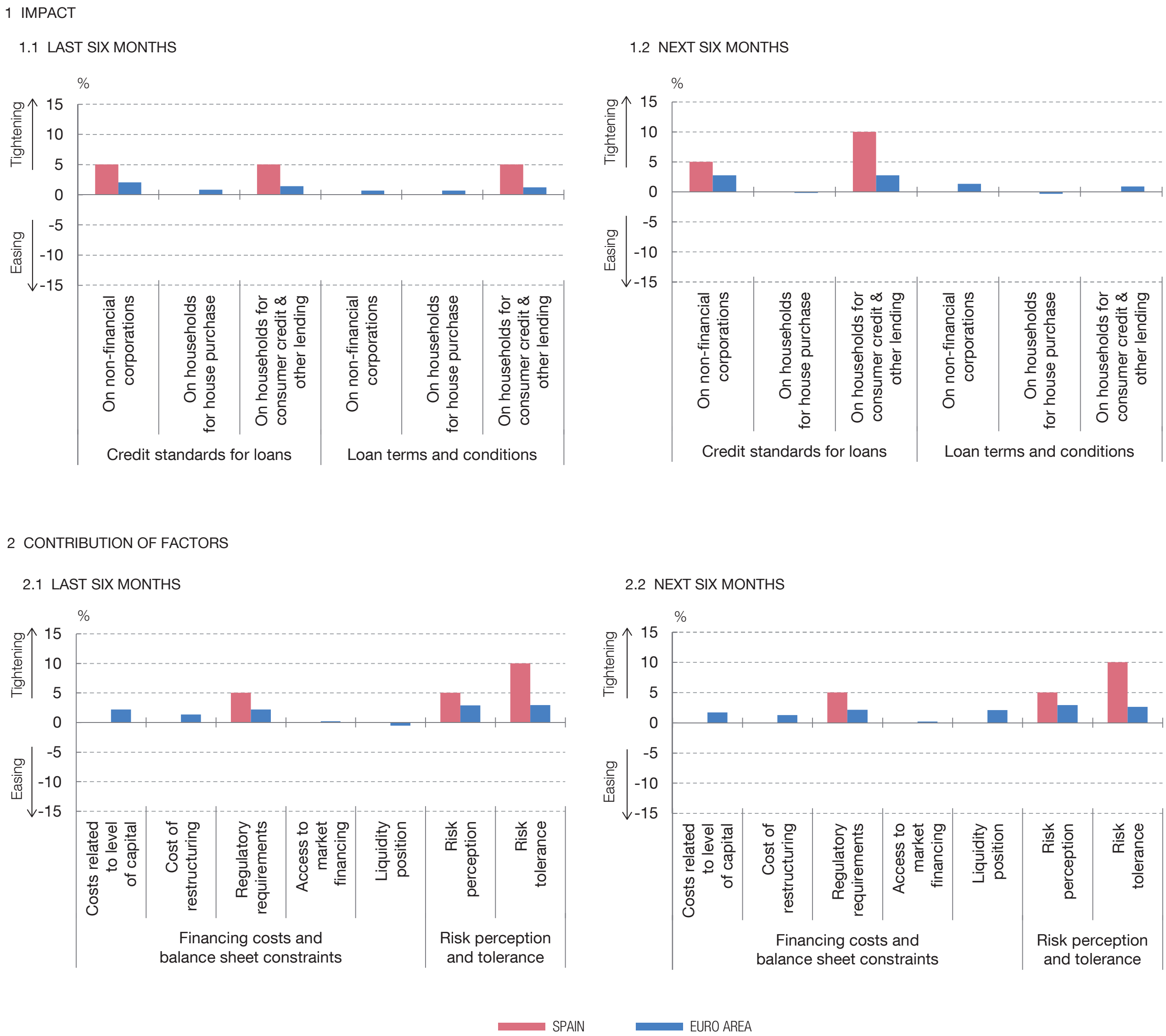
Chart A.3

THE NPL RATIO PROMPTED SOME TIGHTENING OF BANKS' LENDING POLICIES, ON A BROADER SCALE IN THE EURO AREA THAN IN SPAIN (a)

In 2019 H1 the NPL ratio prompted some tightening both of credit standards and conditions applied, on a somewhat broader scale in the euro area (where it affected all types of loans) than in Spain. If banks' expectations are borne out, these effects will continue, in almost all segments, in H2.



SOURCES: Banco de España and ECB.

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 × 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 × 1.

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