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APRIL 2020 BANK LENDING SURVEY IN SPAIN

Álvaro Menéndez Pujadas

ABSTRACT

According to the Bank Lending Survey, in 2020 Q1 credit supply contracted slightly in both Spain and the euro area, affecting practically all the segments analysed. Demand for loans continued to fall in Spain across the board, although firms' demand fell at a slower rate than in the prior quarter. In the euro area as a whole, firms' demand for funds surged, while that of households slowed. Banks expect the COVID-19 pandemic to have a greater impact in 2020 Q2, especially in the case of demand for financing. For instance, they anticipate an upsurge in firms' demand for loans between April and June, likely driven by their high liquidity needs. Should these expectations materialise, it would be the largest increase in demand recorded in this segment by the survey since it began in 2003. Conversely, amid growing economic uncertainty financial institutions foresee a slump in demand for loans from households. Furthermore, these intermediaries expect to ease credit standards for loans to firms during those months, foreseeably on account of the State guarantee schemes launched in several countries. According to the respondents, the measures adopted by the ECB (expanded asset purchase programme, negative deposit facility rate and TLTRO III) continued to help relax the credit supply terms and conditions and to contribute to a rise in lending volumes.

Keywords: funding, credit, loan supply, loan demand, credit standards, terms and conditions for loans, financial markets.

JEL classification: E51, E52, G21.

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Main results

This article presents the results of the April 2020 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in 2020 Q1 and on the outlook for Q2. This round includes ad hoc questions on the conditions of access to the wholesale and retail funding markets, the effects of the ECB's expanded asset purchase programme approved by its Governing Council on 12 March (including the pandemic emergency purchase programme of 18 March), the impact of the negative deposit facility rate, and the impact of the ECB's third series of targeted longer-term refinancing operations (TLTRO III).[1] This section discusses the main results obtained from the replies by the ten Spanish banks participating in the survey, comparing them with the results for the euro area as a whole, while the following sections review the results for Spain in more detail.[2]

The crisis triggered by the COVID-19 pandemic is already somewhat reflected in certain of the survey's results. However, according to the banks responding to the survey, the impact of the aforementioned situation on lending in Spain was still limited in 2020 Q1, having only a slight effect towards the end of the quarter, whereas its effects are far more evidently and severely reflected in the outlook for Q2, especially in the case of demand. In the euro area as a whole, some effects of this shock are observed in credit supply and demand in Q1, although the impact is expected to intensify and build up from April onwards.

In 2020 Q1, in Spain credit standards both for loans to enterprises and for consumer credit and other lending to households - and the terms and conditions applied to those loans - tightened at a rate similar to that of 2019 Q4. By contrast, changes in the supply of loans to households for house purchase remained negligible (see

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 at this address are the time series of the aggregate indicators by bank, relating to the standard 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 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.

Table 1
BANK LENDING SURVEY
Main results. April 2020

	Credit standards	Overall conditions on new loans	Loan demand
Spain			
Past three months			
Non-financial corporations	Tightening	Tightening	Decrease
Households for house purchase	Unchanged	Unchanged	Decrease
Households for consumer credit and other lending	Tightening	Tightening	Decrease
Forecast for next three months			
Non-financial corporations	Easing	(a)	Increase
Households for house purchase	Unchanged	(a)	Decrease
Households for consumer credit and other lending	Unchanged	(a)	Decrease
Euro area			
Past three months			
Non-financial corporations	Tightening	Tightening	Increase
Households for house purchase	Tightening	Tightening	Increase
Households for consumer credit and other lending	Tightening	Tightening	Decrease
Forecast for next three months			
Non-financial corporations	Easing	(a)	Increase
Households for house purchase	Tightening	(a)	Decrease
Households for consumer credit and other lending	Tightening	(a)	Decrease

SOURCES: Banco de España and ECB.

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

Table 1 and Chart 1). Credit standards and terms and conditions also tightened in the euro area, doing so at a faster rate than in 2019 Q4 and affecting all types of lending.

Demand for loans fell across the board in Spain between January and March 2020, although in the case of firms the decline was more moderate than that witnessed in 2019 Q4, owing in part to the greater borrowing needs to finance inventories and working capital (see Chart 1). In the euro area, firms' demand for funds surged, while that of households slowed.

For 2020 Q2, institutions in both Spain and the euro area expect an easing of credit standards for loans to enterprises. This loosening will be greater in Spain. This change could be due to the launch of State guarantee schemes for loans in several countries to facilitate the flow of credit to firms. By contrast, Spanish banks do not anticipate any significant changes in the supply of loans to households for house purchase and consumer credit and other lending to households, while euro area banks expect further tightening.

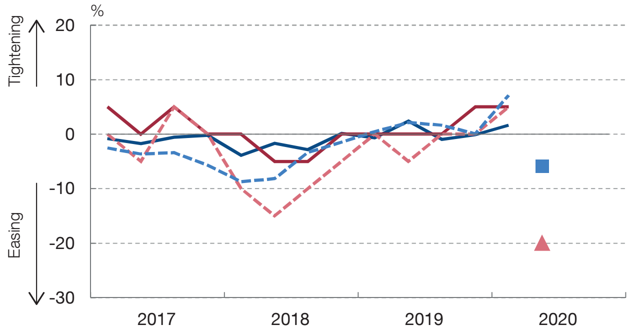
Chart 1

CREDIT SUPPLY TIGHTENED IN Q1 BOTH IN SPAIN AND THE EURO AREA, WITH SHARP CHANGES TO DEMAND EXPECTED IN Q2

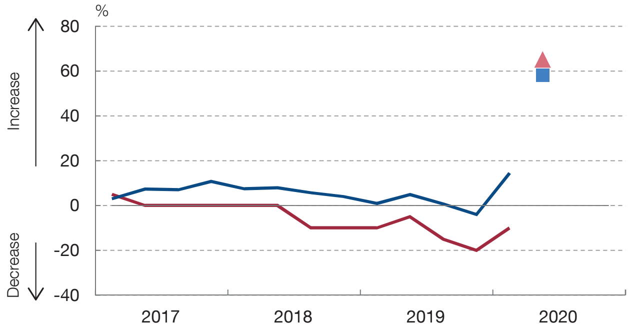
During 2020 Q1 credit standards tightened both in Spain and the euro area in practically all segments. Demand in Spain shrank across the board, although firms' demand declined at a slower pace than three months earlier. In the euro area, firms' demand increased while that from households slowed. In Q2, firms' demand is expected to increase sharply in both areas, with an easing of credit standards. In lending to households, demand is expected to decline rapidly, with supply remaining stable in Spain and falling in the euro area.

1 LENDING TO NON-FINANCIAL CORPORATIONS

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

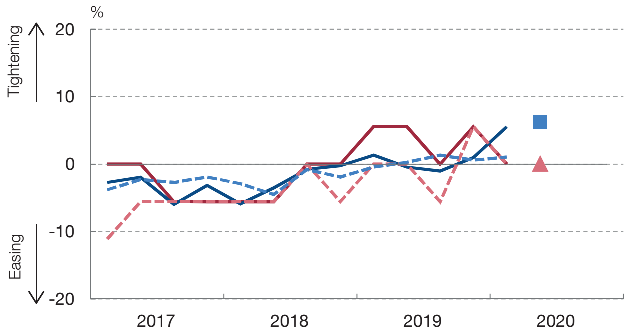


1.2 CHANGE IN DEMAND (b)

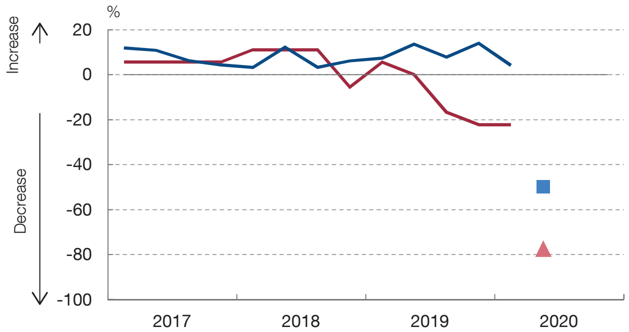


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

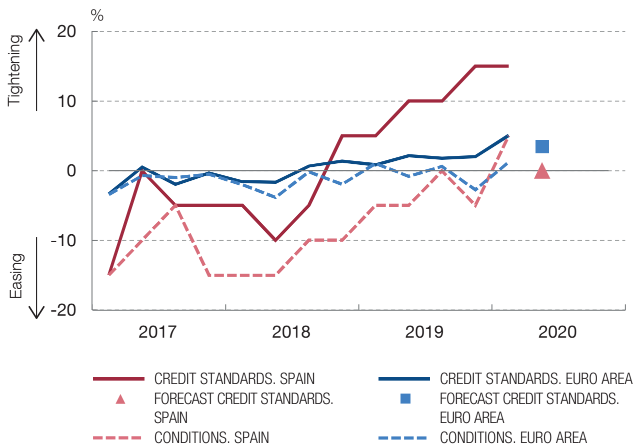


2.2 CHANGE IN DEMAND (b)

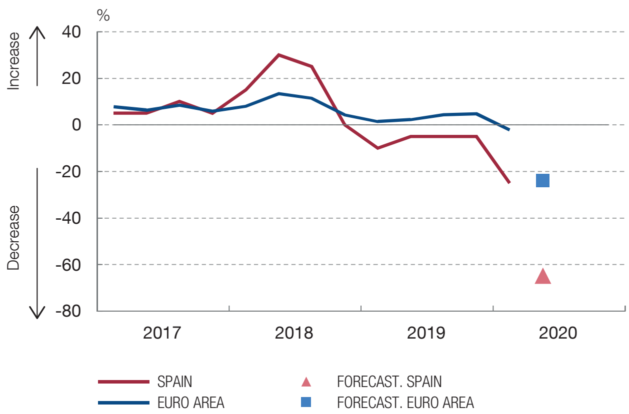


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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



3.2 CHANGE IN DEMAND (b)



SOURCES: ECB and Banco de España.

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 × 1/2 – percentage of banks reporting a considerable decrease × 1.

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Responding banks in the two areas expect an upsurge in firms' demand for loans amid increases in their liquidity needs owing to the drop in income as a result of the containment measures implemented due to the COVID-19 pandemic. Should the banks' expectations materialise, the upturn in demand for funds, approximated by the diffusion index,[3] would be the highest in a quarter since the survey began in 2003. By contrast, banks expect demand for housing loans and demand for consumer credit and other lending to households to slump, both in Spain and in the euro area, amid a deteriorating economic outlook and increasing uncertainty. In this case, the change would also be the highest recorded since the survey began, or would be close to the largest fall on record, which took place in the months following the onset, in September 2008, of the global financial crisis.

In the ad hoc question on funding markets, both the Spanish banks and those from the euro area as a whole reported that, in 2020 Q1, they had observed a deterioration in the conditions of access to practically all wholesale markets, which was more pronounced in debt securities markets. The euro area also witnessed a deterioration in the conditions of access to money markets. In the retail markets the conditions of access remained unchanged in Spain and worsened slightly in the euro area (see Chart A.1).

Banks both in Spain and in the euro area reported that the ECB's expanded asset purchase programme had contributed in the last six months to increasing their liquidity and improving their funding conditions. Also, in Spain the expanded programme helped increase banks' profitability and capital ratios, whereas in the euro area it had a somewhat negative impact on profitability levels (see Chart A.2). In Spain, the programme did not have an impact on either credit supply or lending volumes. By contrast, in the euro area it contributed to a slight easing of the terms and conditions and an increase in lending volumes in all segments.

In the ad hoc question on the ECB's negative deposit facility rate, Spanish banks reported that, in the last six months, this measure had not affected either their profitability or their net interest income, while euro area banks reported that it had led to a decline in both. Furthermore, and in this case for both Spain and the euro area, this measure was perceived to have contributed to a reduction in the interest rates applied to deposits, an increase in non-interest rate charges and a decrease in the volume of deposits taken from firms. As regards the terms and conditions applied to new loans, the negative deposit rate facility had led, both in Spain and in the euro area, to a decrease in interest rates on new loans, accompanied by a slight decline in margins[4] and an increase in lending volumes. Lastly, the introduction of a two-tier system for the remuneration of reserves held at the central bank had a positive impact on banks' financial situation in both Spain and the euro area as a whole (see Chart A.3).

3 See Footnote 2.

4 The margin is the spread of a bank's interest rate on loans over a market reference rate.

Finally, from the responses to the questions on the ECB's TLTRO III (see Charts A.4, A.5 and A.6) it can be inferred that 50% of responding Spanish banks participated in the last operation, which took place in March, while in the euro area participation was somewhat lower, amounting to 32%. In both Spain and the euro area, profitability was the main reason for participating, with the precautionary motive also prominent. In the case of the euro area, its contribution to compliance with regulatory requirements was also a noteworthy reason. The funds obtained in the operations to date have been used mainly to replace TLTRO II funding and to lend to the private sector. In both areas these operations contributed to an improvement in liquidity, funding conditions and profitability, as well as to compliance with regulatory requirements. Furthermore, they prompted a slight easing of credit standards and the terms and conditions applied, and a minor rise in lending volumes.

Supply and demand conditions in Spain

Lending to non-financial corporations

A detailed analysis of Spanish banks' replies to the standard questionnaire reveals that credit standards for loans to both large firms and to SMEs in the non-financial corporations segment tightened slightly in 2020 Q1. Likewise, the breakdown by maturity shows the same trend in long-term loans, whereas credit standards for those extended at a shorter term held unchanged. Regarding the factors behind these developments, the higher costs relating to capital levels and a worsening outlook for both the general economic situation and the creditworthiness of specific sectors and borrowers prompted a tightening of standards, whereas the remaining factors were not particularly influential (see Chart 2).

The overall terms and conditions on new loans tightened slightly in 2020 Q1 owing to rising borrowing costs, balance sheet constraints and banks' greater risk perception. The more detailed information reveals a slight increase in the margins on both average and riskier loans, and a rise in non-interest charges (see Chart 2). The breakdown by size of enterprise shows that the overall terms and conditions of new loans tightened both in lending to SMEs and to large firms. The percentage of rejected loan applications increased during 2020 Q1.

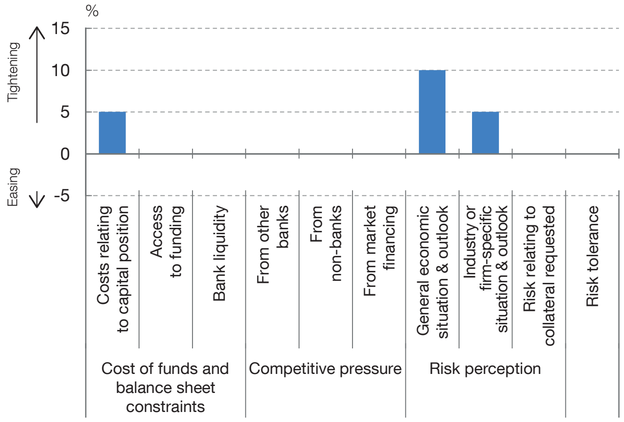
Based on the responses received, loan demand in 2020 Q1 remained in decline for the seventh consecutive quarter, albeit at a slower pace than in 2019 Q4. The same trend was observed both in loan applications from SMEs and larger firms. The breakdown by maturity shows a decline in applications for longer term loans, while there was a slight increase in those for short-term loans. The decrease in demand was chiefly due to lower fixed capital investment and fewer mergers, acquisitions and corporate restructuring operations, and, to a lesser degree, banks increasingly

Chart 2

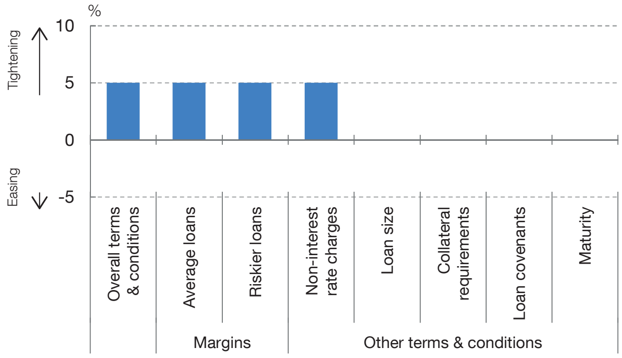
GREATER RISK PERCEPTION ENCOURAGED A TIGHTENING OF CREDIT SUPPLY IN LOANS TO ENTERPRISES AND IN CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

Standards were tightened slightly in loans to enterprises and in the households segment for consumer credit and other lending, mainly due to banks' greater risk perception and lower risk tolerance. Terms and conditions also tightened in the above segments, while holding unchanged in loans to households for house purchase.

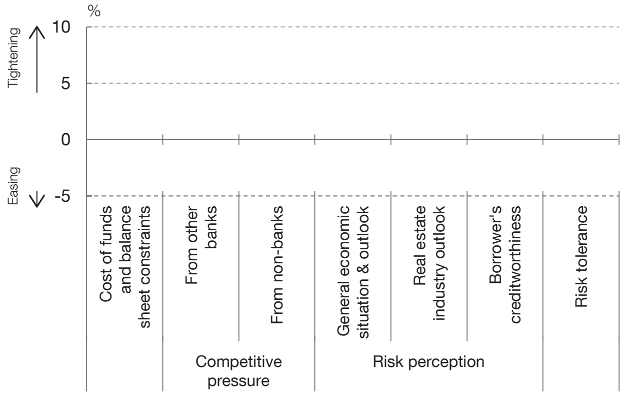
1 LOANS TO NON-FINANCIAL CORPORATIONS
1.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)



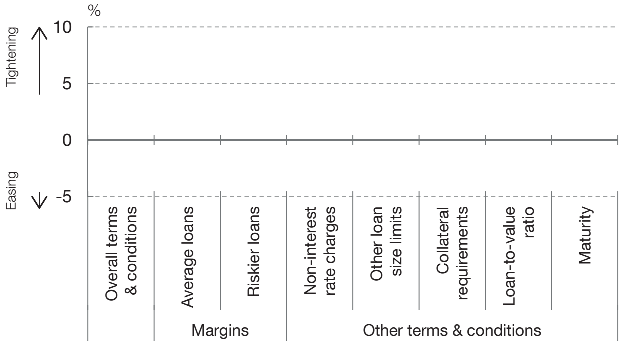
1.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)



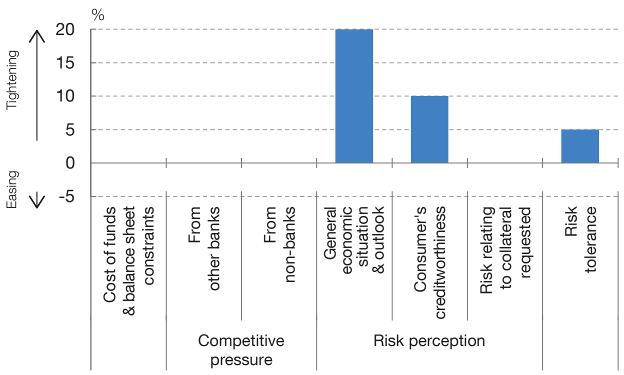
2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE
2.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)



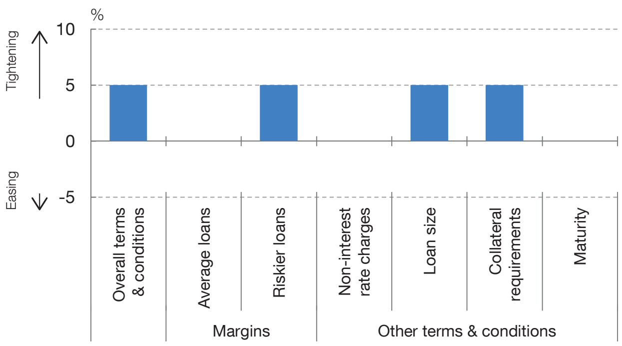
2.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)



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: 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 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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tapping other sources of internal and external funding (debt securities, loans from other institutions and share issues) (see Chart 3). By contrast, larger borrowing needs to finance inventories and working capital were conducive to a slight increase in loan applications.

Loans to households for house purchase

According to the replies received, credit standards for loans to households for house purchase in Spain did not change substantially in 2020 Q1 (see Chart 2). Similarly, no factors had a significant impact on the supply of funds. The overall terms and conditions on these loans also held stable, in a context in which none of the factors analysed were observed to have a significant influence. A more detailed analysis reveals that the changes both in margins (applied to average loans and riskier loans) and the other conditions (collateral, amount, maturity, non-interest charges) remained negligible. Lastly, the percentage of rejected loan applications decreased slightly.

For the third consecutive quarter, demand for loans for house purchase fell with some intensity in 2020 Q1. According to the banks, this development was mainly due to lower consumer confidence and the worsening outlook for the housing market, and, to a lesser degree, an increase in financing with own funds and greater recourse to financing from other institutions (see Chart 3).

Consumer credit and other lending to households

Credit standards for consumer credit and other lending tightened in 2020 Q1, continuing the trend recorded since 2018 Q4. Based on the responses received, this development in supply mainly occurred due to the worsening general economic outlook and a decline perceived in borrowers' creditworthiness, and, to a lesser degree, due to banks' lower risk tolerance (see Chart 2). The overall terms and conditions on this type of credit also tightened slightly, mainly as a result of banks perceiving increased risk and their lower risk tolerance, which resulted in a moderate increase in margins on riskier loans, a decrease in lending volumes and larger collateral requirements. The percentage of rejected loan applications once again grew moderately in 2020 Q1.

Demand for loans in the consumer credit and other lending segment fell sharply between January and March 2020 and sharper still than in 2019 Q4. Based on the responses received, this decline was the result of lower spending on consumer durables, lower consumer confidence and, to a lesser degree, higher internal financing out of savings and greater recourse to loans from other institutions and other external finance (see Chart 3).

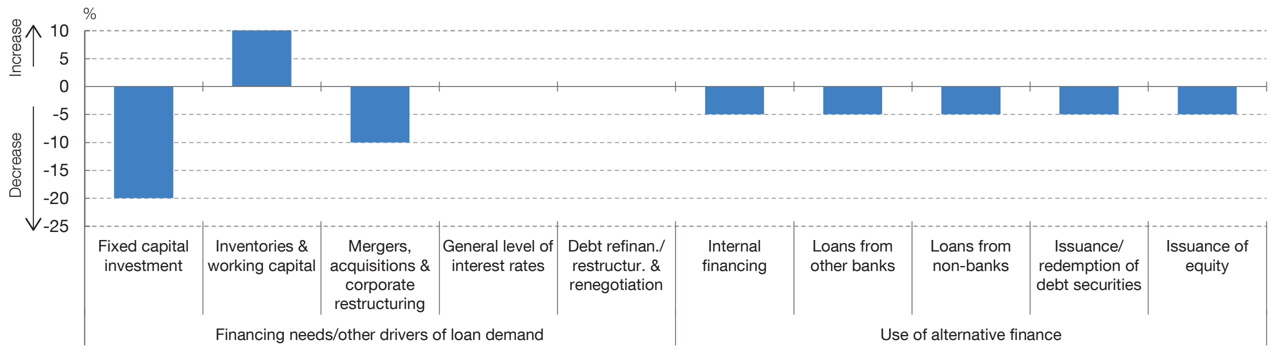
Chart 3

LOWER INVESTMENT IN FIXED CAPITAL AMONG FIRMS AND DECLINING DURABLE GOODS CONSUMPTION AMONG HOUSEHOLDS, TOGETHER WITH DIMINISHING CONSUMER CONFIDENCE, PROMPTED SHRINKING DEMAND FOR LOANS (a)

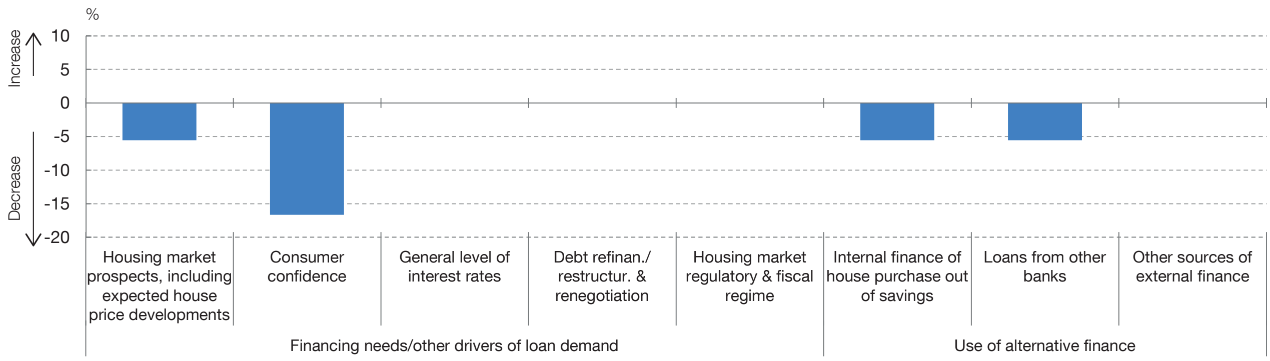
Lower borrowing needs for fixed capital investment among firms and for durable goods consumption among households, together with diminishing consumer confidence and the use of other sources of funding, had a negative bearing on demand for loans, prompting a drop in loan applications across all categories.

1 FACTORS AFFECTING DEMAND FOR LOANS

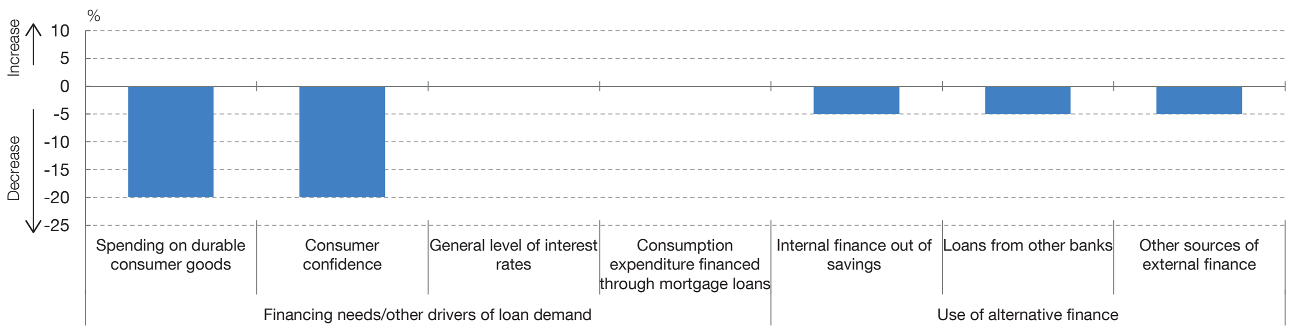
1.1 LOANS TO NON-FINANCIAL CORPORATIONS



1.2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE



1.3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS



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.

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Ad hoc questions

The banks perceived an across-the-board worsening in the conditions of access to wholesale funding markets in 2020 Q1, with the exception of the short-term money market where conditions were unchanged (see Chart A.1). This worsening was more pronounced in the case of debt securities markets and in the capacity to transfer risk off the balance sheet, and was more moderate in the securitisation and long-term money markets. By contrast, these conditions remained unchanged in retail markets.

In reply to the question on the impact of the ECB's expanded asset purchase programme, the responding Spanish banks reported that it had not affected their total assets, but had been conducive to improving their financial situation, in terms of liquidity and funding conditions, and to increasing their capital ratios and profitability (see Chart A.2.1). The programme had no influence on lending policies in 2020 Q1, having no significant bearing on credit standards, terms and conditions or lending volumes in any of the three segments analysed.

In reply to the ad hoc question about the effects of the ECB's negative deposit facility rate, Spanish banks indicated that this measure had not affected either their levels of profitability or their net interest income in the last six months (see Chart A.3.1). By contrast, it had been conducive to a drop in interest rates on deposits (both of households and, to a greater extent, firms) and a decline in funds deposited, particularly by firms. This measure had also prompted a reduction in interest rates on loans across all segments and, in the case of lending to enterprises, had also been conducive to a slight narrowing of margins and a modest increase in lending volumes. Lastly, the new two-tier system for remunerating reserves held at the Banco de España had had a positive impact both on banks' profitability and net interest income, as compared with the situation prior to the introduction of this system (see Chart A.3.2). The banks' liquidity situation and funding conditions had also improved. By contrast, it had had no effect on interest rates on loans and deposits, except in the case of deposits from firms where it had contributed to a slight increase.

Finally, based on the responses to the ad hoc questions on the ECB's TLTRO III (see Chart A.4), five of the ten reporting Spanish banks stated that they had participated in the operation in March 2020. The main reason for participating was profitability, since they considered its conditions attractive. The funds obtained had been used mainly to replace TLTRO II funding and to lend to the non-financial private sector (see Chart A.5). As for the direct and indirect repercussions of these operations, the banks considered that they had contributed to improving their financial situation in terms of profitability, liquidity and market funding conditions, and, to a lesser extent, that they had also enhanced compliance with regulatory requirements (see Chart A.6). Likewise, they had led to a slight easing of the credit standards applied to enterprises, a loosening of terms and conditions applied to new loans in all three segments, and a moderate increase in lending volumes to enterprises and consumer credit.

Outlook

Looking at the current quarter, the responding banks anticipated a considerable loosening of credit standards in loans to enterprises due to approval of the State guarantee scheme for loans extended to this segment. If the banks' expectations prove accurate, the diffusion index, which tracks changes to credit standards, would stand at its lowest level since the survey began in 2003, indicating the most pronounced loosening recorded in a single quarter since then. By contrast, changes to credit standards for loans to households are expected remain negligible (See Table 1 and Chart 1).

On the demand side, banks expected a substantial increase in loan applications from enterprises amid rapid growth in their financing needs. Conversely, applications from households, which are likely to be affected by heightened uncertainty and worsening economic prospects as a result of the pandemic, are set to drop sharply. Should these expectations prove accurate, the increase in demand from enterprises and the drop in demand from households would be the largest such changes recorded since the survey began in 2003.

In the funding markets, banks expected across-the-board deterioration in 2020 Q2, which would be more pronounced in wholesale markets than retail markets (see Chart A.1).

The surveyed Spanish banks expected that over the next six months the ECB's expanded asset purchase programme would remain conducive to improving their liquidity and funding conditions, and to a slight increase in their profitability and capital ratios (see Chart A.2.2). As for credit supply, the banks expected the programme to encourage some easing of credit standards and terms and conditions in all segments, and an increase in lending volumes across all categories.

Spanish banks did not expect the ECB's negative deposit facility rate to have a significant impact on their profitability and net interest income over the next six months, but believed it would remain conducive to a certain decline in interest rates on deposits and credit (see Charts A.3.1, A.3.2 and A.3.4). The banks expected the two-tier system for remunerating reserves held at the Banco de España to continue to have a positive impact on their financial situation (see Chart A.3.2).

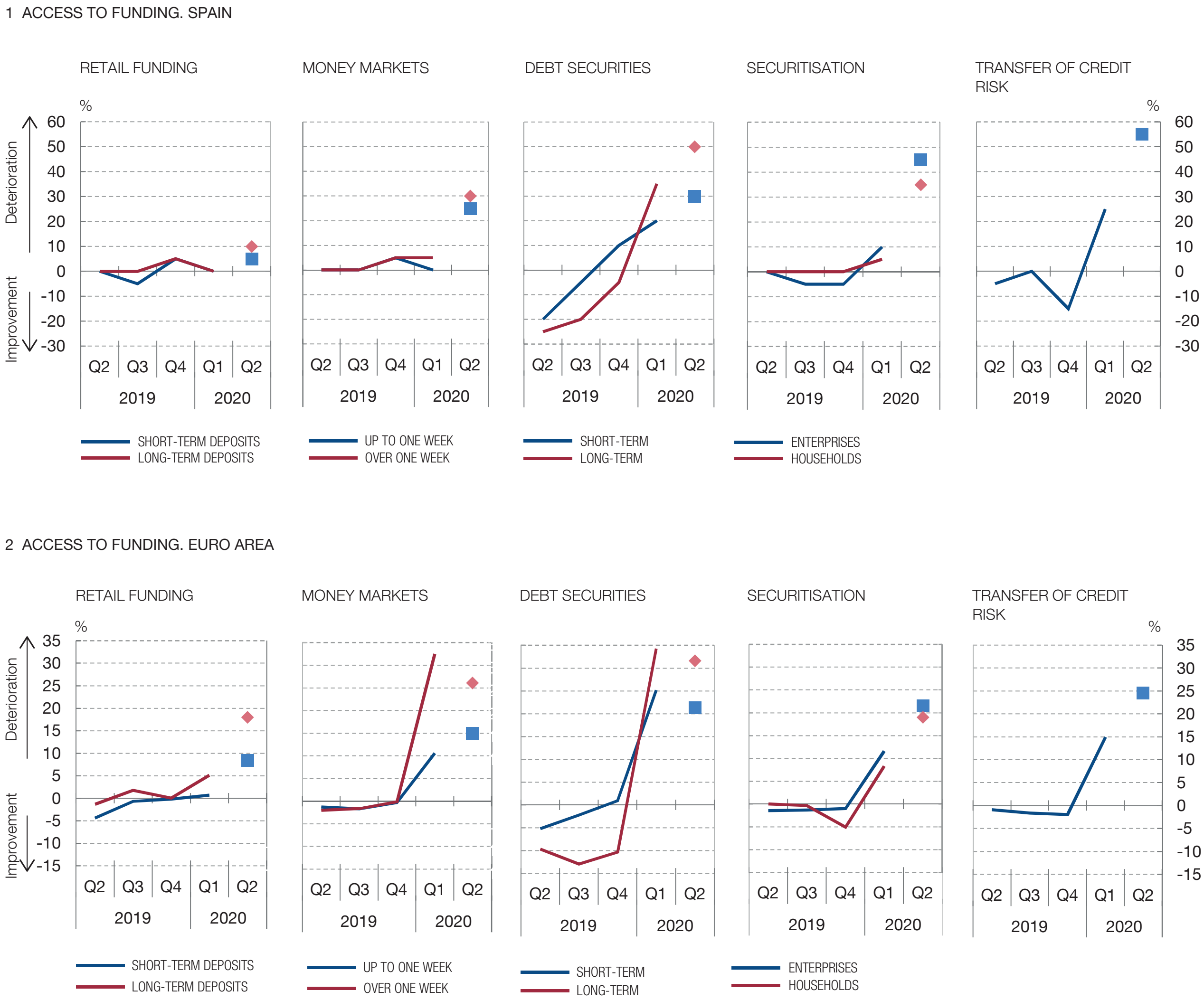
Lastly, regarding the ECB's TLTRO III, six of the ten responding Spanish banks intend to participate in future operations, essentially because they consider that the attendant conditions are attractive and, to a lesser extent, as a precaution ahead of potential liquidity needs (see Chart A.4). The banks expected that the liquidity obtained would be used mainly to replace TLTRO II funding and to grant loans to the non-financial private sector (see Chart A.5). As for its direct and indirect repercussions, the participating banks envisaged that these operations would continue to influence positively their liquidity situation, profitability and funding conditions (see Chart A.6). They also expected the TLTROs to contribute towards some easing of credit standards and the terms and conditions applied to new loans, and an increase in lending volumes.

28.4.2020.

Chart A.1

ACCESS TO WHOLESALE MARKETS WORSENED IN SPAIN AND IN THE EURO AREA. RETAIL MARKETS WERE PERCEIVED TO BE STABLE IN SPAIN, WITH SLIGHT WORSENING IN THE EURO AREA (a) (b)

The conditions of access to wholesale markets generally worsened in both areas. This deterioration was more pronounced in debt securities markets and, in the case of the euro area, money markets. Access to retail markets was unchanged in Spain and deteriorated slightly in the 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 in market access × 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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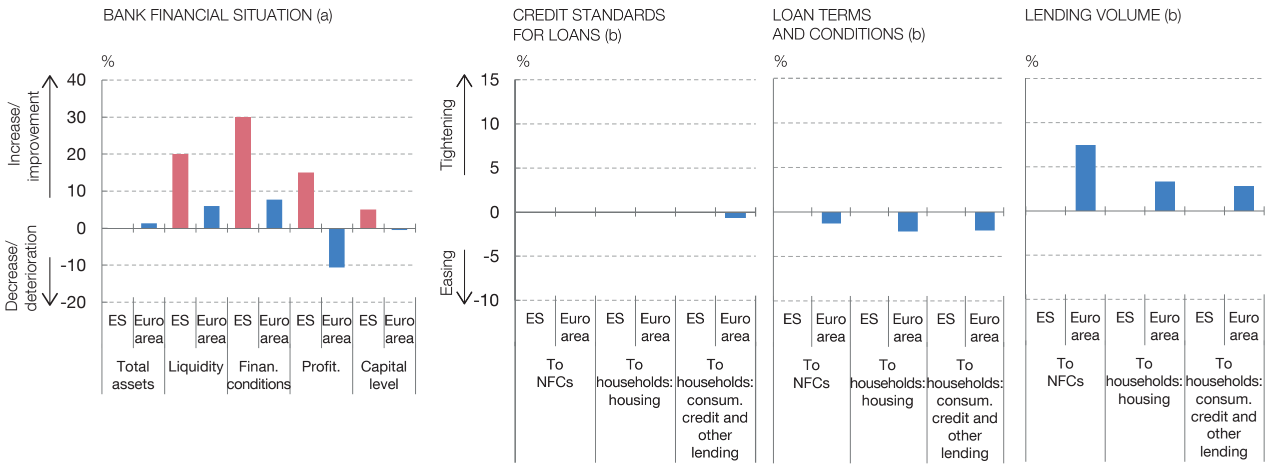
Chart A.2

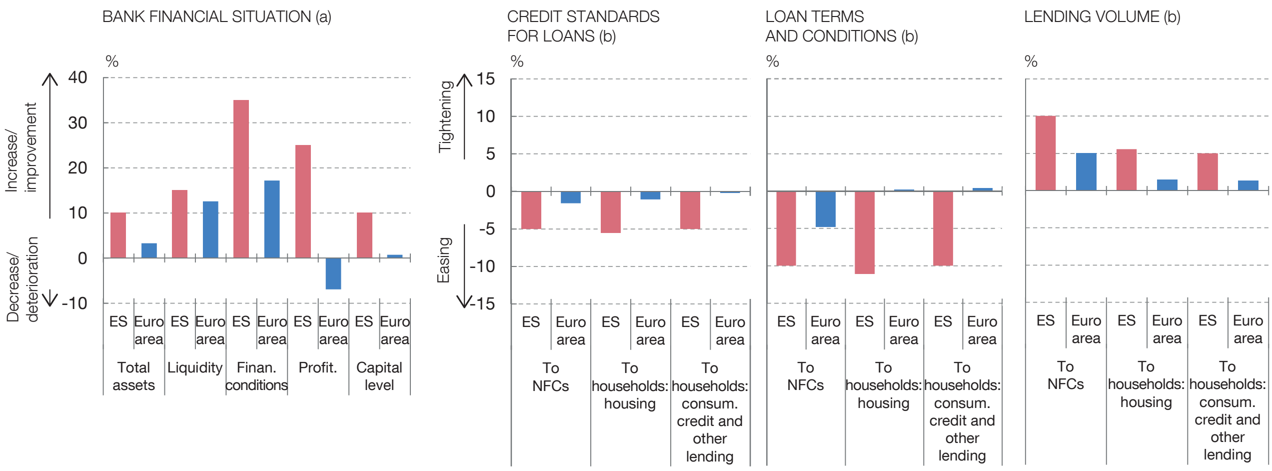
THE ASSET PURCHASE PROGRAMME GENERALLY HAD A POSITIVE IMPACT ON THE FINANCIAL SITUATION OF BANKS. IN THE EURO AREA IT ALSO CONTRIBUTED TO A SLIGHT EASING OF CREDIT STANDARDS AND GROWTH IN LENDING VOLUMES

In the last six months the programme helped to improve the liquidity situation and funding conditions of banks in both areas. In Spain it contributed to increased levels of profitability and capital ratios. The programme had no impact in the last six months on credit supply in Spain, but in the euro area it encouraged some loosening of terms and conditions and an increase in lending volumes across all segments. This impact is expected to continue over the next six months, also affecting credit supply in Spain.

1 IMPACT OF THE EXPANDED ASSET PURCHASE PROGRAMME OVER THE PAST SIX MONTHS



2 IMPACT OF THE EXPANDED ASSET PURCHASE PROGRAMME OVER THE NEXT SIX MONTHS



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the programme contributed or would contribute considerably to an improvement or increase × 1 + percentage of banks reporting that it contributed or would contribute to a slight improvement or increase × 1/2 – percentage of banks reporting that it contrbuted or would contribute to a slight deterioration or decrease × 1/2 – percentage of banks reporting that it contributed or would contribute to a considerable deterioration or decrease × 1.

b Indicator = percentage of banks reporting that the programme contributed or would contribute considerably to a tightening of credit standards and the terms and conditions or to increasing the lending volume × 1 + percentage of banks reporting that it contributed or would contribute to a slight tightening or increase × 1/2 – percentage of banks reporting that it contributed or would contribute to a slight easing of the credit standards and terms and conditions or a decrease in lending volume × 1/2 - percentage of banks reporting that it contributed or would contribute to a considerable easing or decrease × 1.

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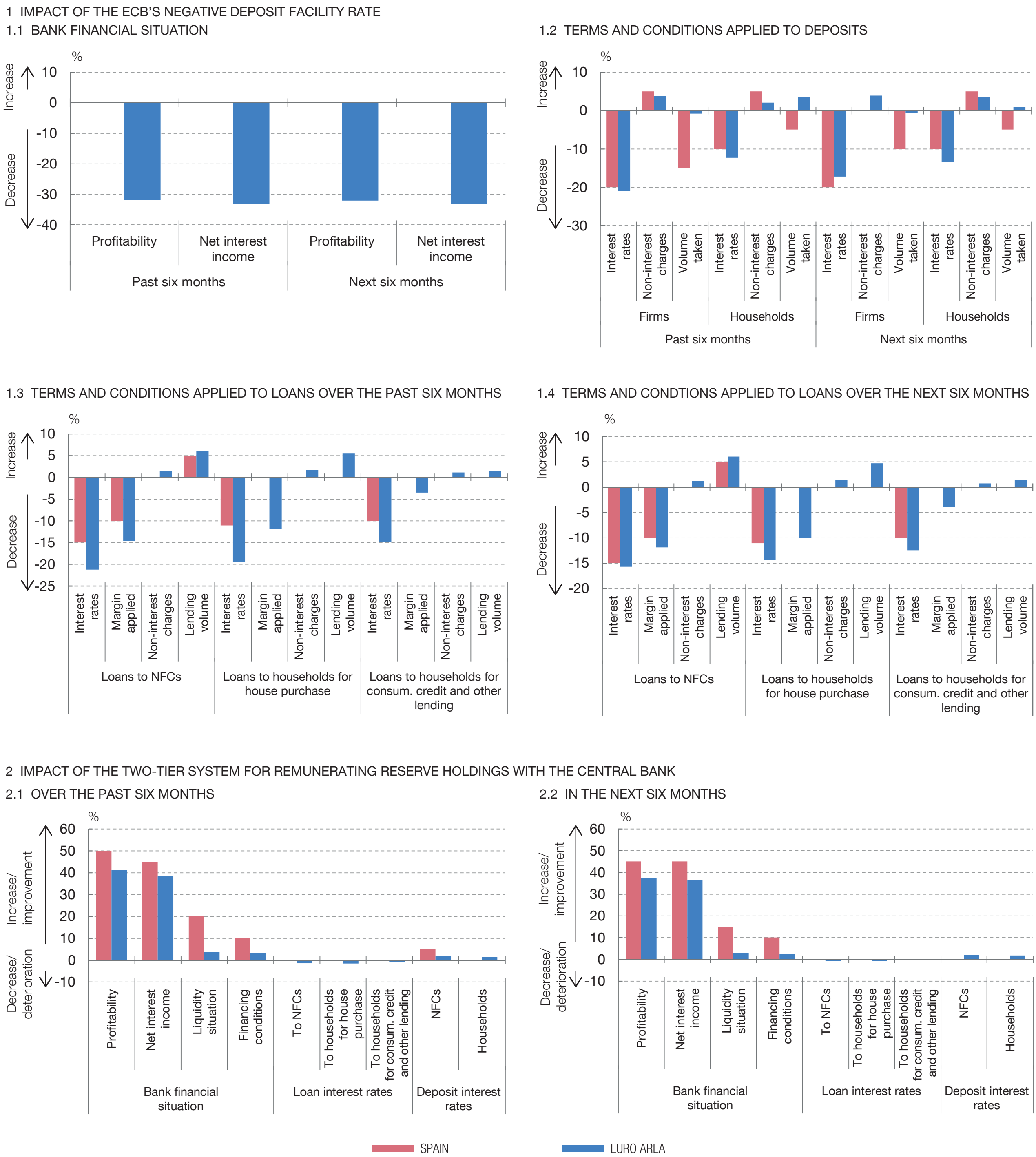
Chart A.3

IN BOTH AREAS, THE NEGATIVE DEPOSIT FACILITY RATE PROMPTED LOWER INTEREST RATES ON DEPOSITS AND CONTRIBUTED TO EXPANDING CREDIT SUPPLY (a)

The negative deposit facility rate prompted a decline in profitability and net interest income for banks in the euro area. It was also conducive, in both areas, to a reduction in interest rates on deposits, an increase in non-interest charges and a decline in volume taken. Likewise, it stimulated an increase in credit supply both in Spain and the euro area as a whole. Lastly, the two-tier system for remunerating reserves held with the central bank had a positive impact on the banks' financial situation in both areas.



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting a considerable improvement or increase × 1 + percentage of banks reporting a slight improvement or increase × 1/2 – percentage of banks reporting a slight deterioration or decrease × 1/2 – percentage of banks reporting a considerable deterioration or decrease × 1.

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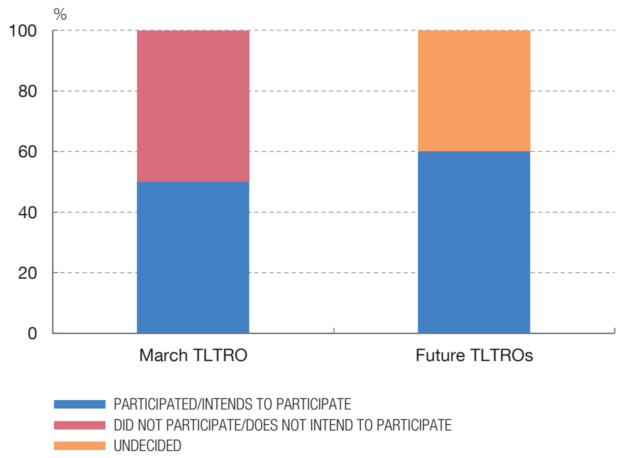
Chart A.4

HALF OF THE SPANISH BANKS PARTICIPATED IN THE MARCH TLTRO III, MAINLY ATTRACTED BY THE ATTENDANT FAVOURABLE CONDITIONS

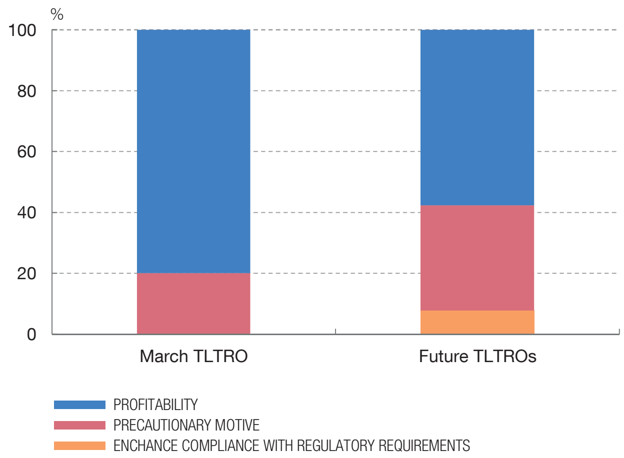
Five of the ten responding banks in Spain participated in the March TLTRO III, while in the euro area the participation percentage was somewhat lower, at 32%. The main reason for participation was profitability, followed by the precautionary motive and, in the euro area, to enhance compliance with regulatory requirements. Around 60% of banks in Spain and close to half of banks in the euro area intend to participate in future operations.

1 SPAIN

PARTICIPATION IN TLTRO III (a)

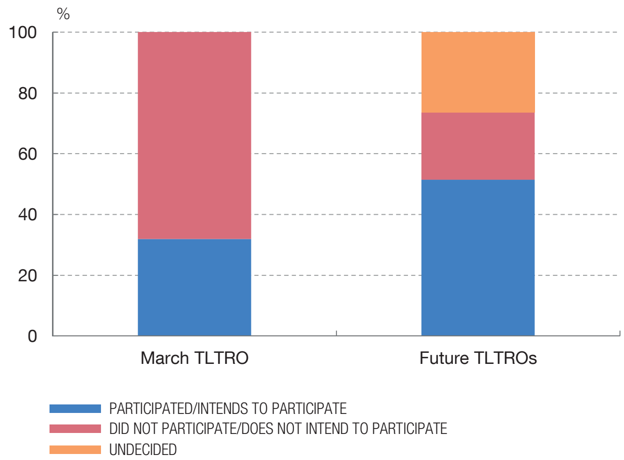


MAIN REASON FOR PARTICIPATION (b)

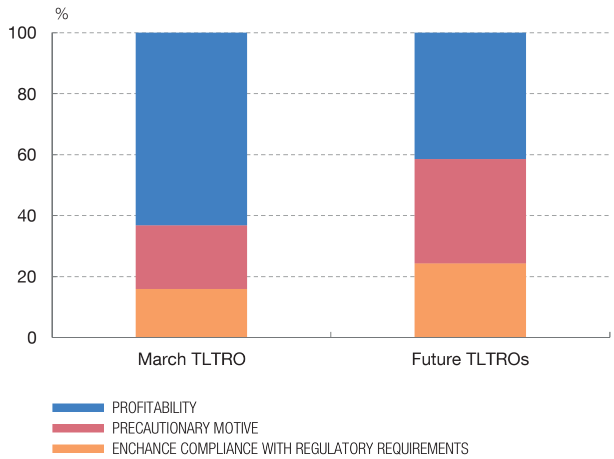


2 EURO AREA

PARTICIPATION IN TLTRO III (a)



MAIN REASON FOR PARTICIPATION (b)



SOURCES: ECB and Banco de España.

a Percentage of banks.
b Indicator = percentage of banks indicating that the motive influenced or will influence considerably the decision to participate × 1 + percentage of banks indicating that it influenced or will influence somewhat the decision to participate × 1/2. The results were rescaled to 100.

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Chart A.5

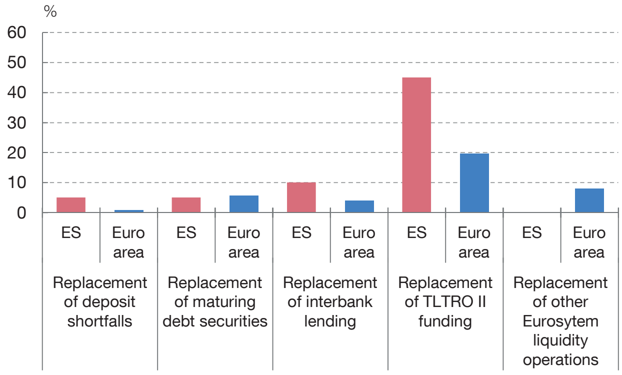
THE FUNDS OBTAINED FROM TLTRO III WERE MAINLY USED TO REFINANCE TLTRO II FUNDING AND GRANT LOANS TO THE NON-FINANCIAL SECTOR (a)

The liquidity obtained from these operations has chiefly been used to replace TLTRO II funding and grant loans to the private sector. The banks expected to use the funds obtained for the same purposes over the next six months.

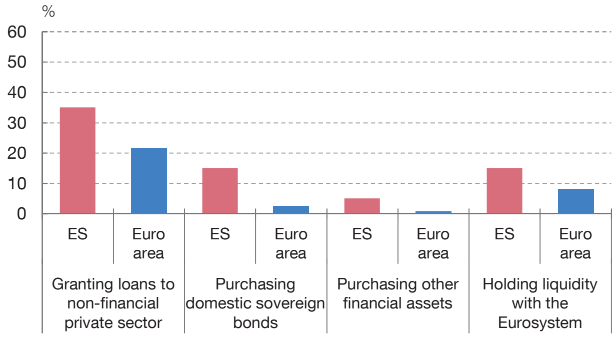
1 USE OF LIQUIDITY OBTAINED IN TLTRO III

1.1 OVER THE PAST SIX MONTHS

FINANCING

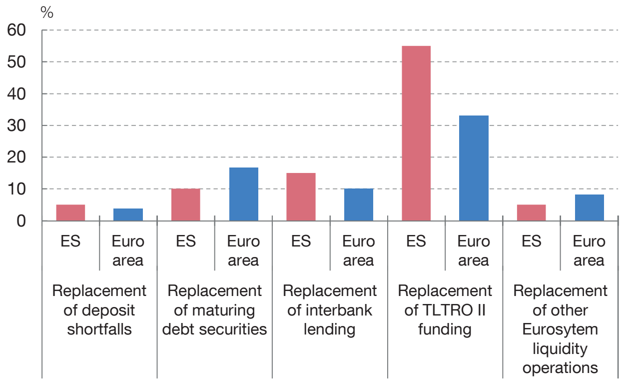


GRANTING LOANS, PURCHASING ASSETS AND HOLDING LIQUIDITY

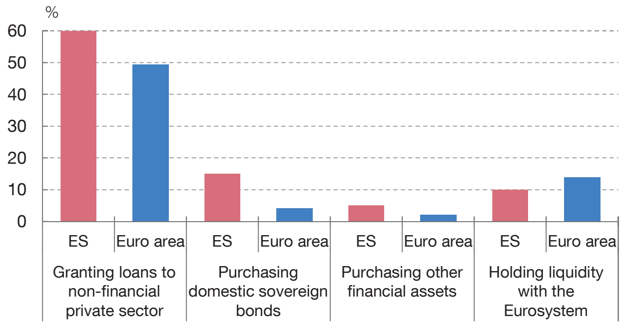


1.2 OVER THE NEXT SIX MONTHS

FINANCING



GRANTING LOANS, PURCHASING ASSETS AND HOLDING LIQUIDITY



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the funds obtained and/or envisaged contributed or would contribute considerably to this purpose × 1 + percentage of banks reporting that they contributed or would contribute somewhat × 1/2.

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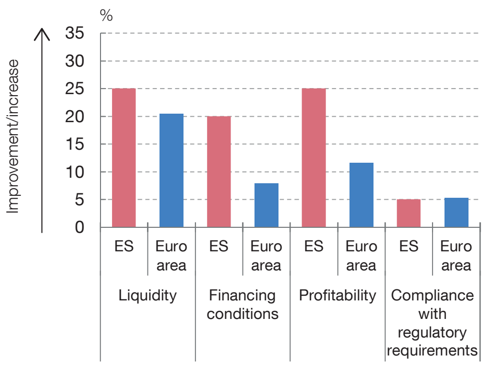
Chart A.6

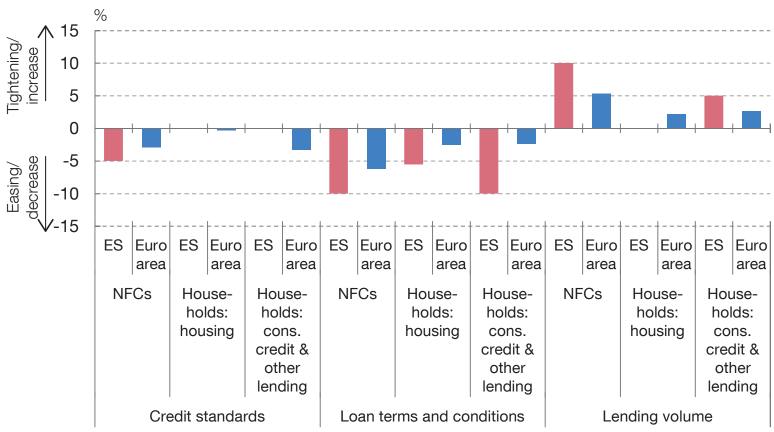
TLTRO III CONTRIBUTED TO IMPROVING THE BANKS' FINANCIAL SITUATION AND TO SLIGHTLY EXPANDING THE SUPPLY OF CREDIT

Over the last six months, TLTRO III prompted an improvement in the banks' financial situation and, to a lesser degree, enhanced compliance with regulatory requirements. It also contributed to some easing of credit terms and conditions and a slight increase in lending volumes. These effects are expected to continue and intensify over the next six months.

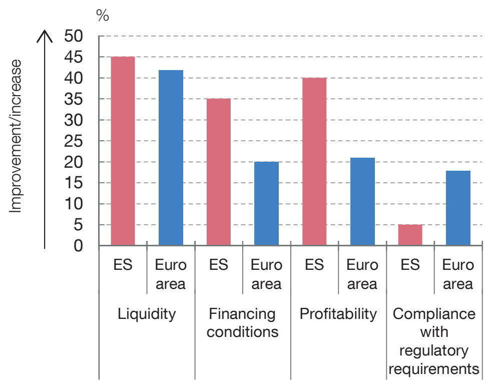
1 DIRECT AND INDIRECT IMPACT OF TLTRO III

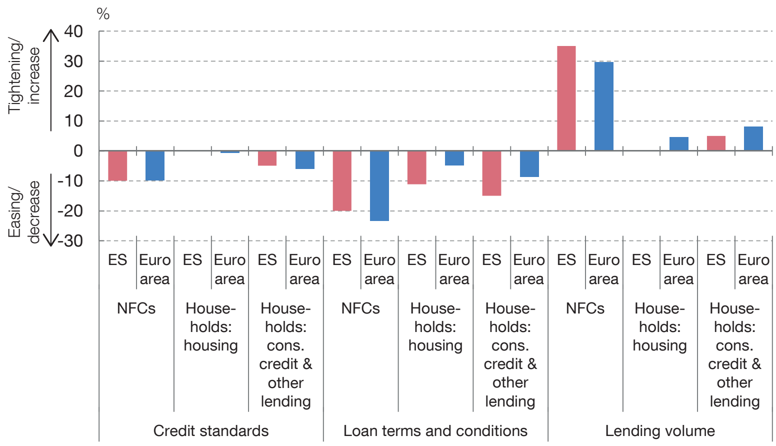
1.1 OVER THE LAST SIX MONTHS





1.2 OVER THE NEXT SIX MONTHS





SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting a considerable improvement or increase × 1 + percentage of banks reporting a slight improvement or increase × 1/2 – percentage of banks reporting a slight deterioration or decrease × 1/2 – percentage of banks reporting a considerable deterioration or decrease × 1.

b Indicator = percentage of banks reporting a considerable tightening or increase × 1 + percentage of banks reporting a slight tightening or increase × 1/2 – percentage of banks reporting a slight easing or decrease × 1/2 + percentage of banks reporting a considerable easing or decrease × 1.

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