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BANK LENDING SURVEY IN SPAIN: JUNE 2020

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ABSTRACT

The latest results of the Bank Lending Survey are very much marked by the impact that the COVID 19 pandemic has had on economic activity and, in consequence, on the credit market. Thus, during 2020 Q2, the credit supply to enterprises eased in Spain, highly influenced by the establishment of the government-backed ICO COVID 19 credit line. In the euro area, the credit supply to enterprises presented little change, in contrast to the significant tightening recorded during the previous financial crisis, owing both to the impact of the tax and economic policy measures adopted and to banks' stronger capital positions. Both in Spain and the euro area, credit standards and terms and conditions for lending to households tightened, largely as a result of the increase in perceived risk and the deterioration of the economic outlook overall. As regards credit demand, loan applications by enterprises rose sharply both in Spain and the euro area, on account of the increase in their liquidity needs primarily to fund working capital. By contrast, households' demand fell markedly, against a backdrop of growing economic uncertainty.

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

JEL classification: E51, E52, G21.

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Main results

The article presents the results of the June 2020 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in Q2, and on the outlook for Q3. This round of the survey includes ad hoc questions on access to wholesale and retail funding markets, the impact of the NPL ratio on banks' lending policies, and how credit supply and demand have evolved by sector of activity. This section discusses the main results obtained from the replies given by the ten Spanish banks participating in the survey and compares them with the results obtained for the euro area overall. The subsequent sections present a more detailed analysis of the results for Spain.[1]

Credit activity in Q2, both in Spain and the euro area as a whole, was marked by the crisis generated by the COVID-19 pandemic. Thus, between April and June, credit standards and terms and conditions for lending to enterprises both eased in Spain, highly influenced by the establishment of the government-backed ICO COVID-19 credit line.[2] In the euro area, credit standards and terms and conditions for lending to enterprises presented little change, in contrast to the significant credit supply tightening observed during the previous financial crisis. This is attributed both to the positive impact of the various tax and monetary policy measures adopted (especially the guarantee programmes approved in several countries), and to European banks' stronger capital positions. In both segments of lending to households (loans for house purchase, and consumer credit and other lending), the credit supply tightened both in Spain and the euro area, in the case of Spain especially in consumer credit and other lending (see Table 1 and Chart 1).

Between April and June 2020 enterprises' demand for loans registered a very significant increase – the highest since the survey began in 2003 – both in Spain and the euro area, as companies sought to fund their large liquidity needs. By contrast, households' demand for loans fell sharply, against a backdrop of low economic activity and high uncertainty as a consequence of the COVID-19 pandemic (see Chart 1).

1 The results are analysed using "diffusion indices", which are calculated with a weighting according to the degree of improvement/worsening or of easing/tightening reported by each bank in its replies, rather than by means of indicators calculated in terms of net percentages, which take no account of this weighting.

2 See Annual Report, Chapter 4 "The impact of the pandemic in Spain and the economic policy response" and Box 4.3 "Developments in bank finance for productive activities in the context of the COVID-19 crisis".

Table 1
BANK LENDING SURVEY
Main results. July 2020

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

SOURCES: Banco de España and ECB.

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

Looking ahead to Q3, banks both in Spain and the euro area expect credit standards in all loan categories to tighten. Regarding demand, households' loan applications (both loans for house purchase and consumer credit and other lending) are expected to increase in Spain and in the euro area, following the sharp decline recorded between April and June. By contrast, in the case of lending to enterprises, Spanish banks anticipate a slight fall-off in demand, following the unprecedented growth in Q2. However, in the euro area overall, enterprises' demand for loans is expected to continue to rise in Q3, albeit very moderately.

In reply to the ad hoc question on funding markets, both Spanish and euro area banks overall reported a perceived deterioration in access to almost all wholesale funding markets in 2020 Q2, most pronounced in access to debt securities markets and in banks' capacity to transfer risk off balance sheet (for example, via credit derivatives), and also in the case of the euro area in access to longer-term money markets. By contrast, access to retail markets was reported to have improved, both in Spain and the euro area (see Chart A.1).

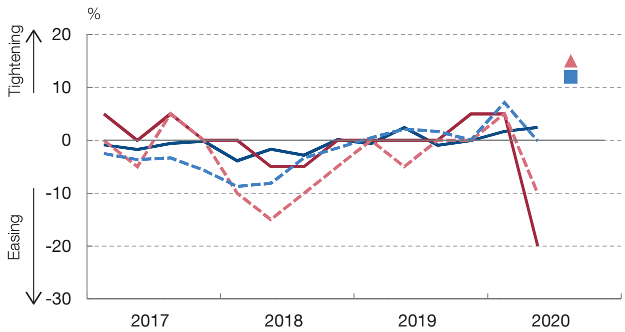
Chart 1

STRONG IMPACT OF THE COVID-19 CRISIS ON LENDING IN Q2

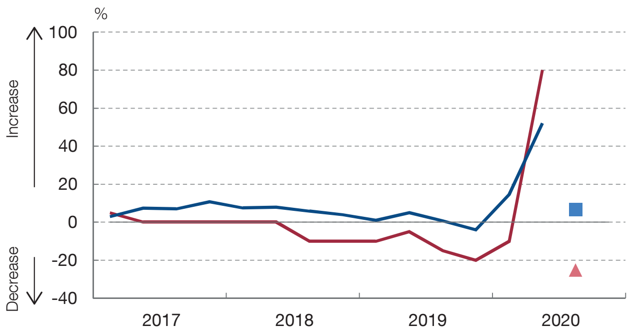
Credit activity in Q2, both in Spain and in the euro area as a whole, was marked by the crisis generated by the COVID-19 pandemic. Thus between April and June, credit supply in lending to enterprises eased in Spain due to the establishment of the government-backed ICO credit line, whereas there were small changes in the credit standards and conditions applied in the euro area. In both segments of lending to households, the credit supply tightened both in Spain and the euro area. As for demand, loan applications from enterprises surged and those from households dropped sharply both in Spain and the euro area.

1 LENDING TO NON-FINANCIAL CORPORATIONS

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

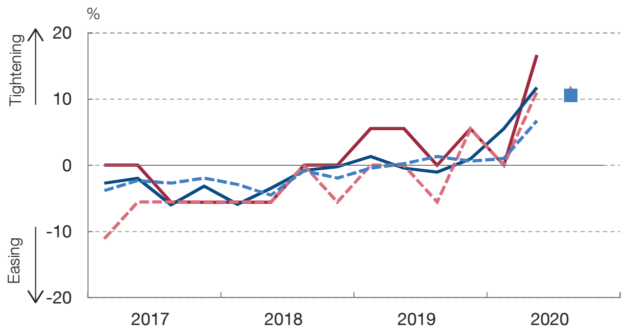


1.2 CHANGE IN DEMAND (b)

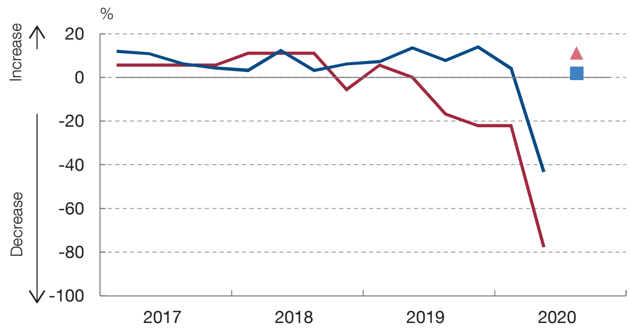


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

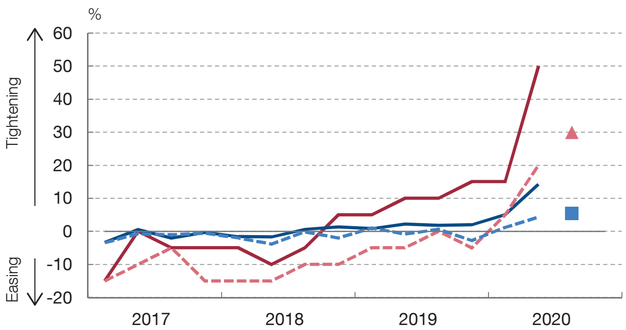


2.2 CHANGE IN DEMAND (b)



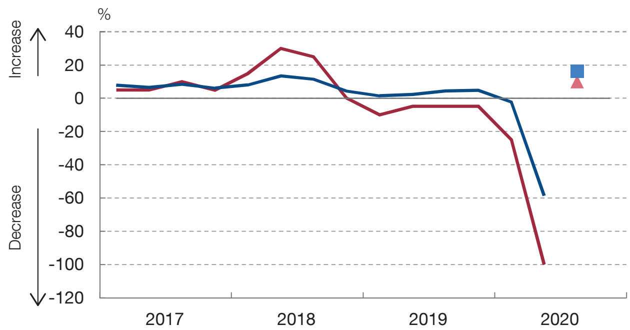
3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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



CREDIT STANDARDS. SPAIN
CREDIT STANDARDS. EURO AREA
FORECAST CREDIT STANDARDS. SPAIN
CONDITIONS. SPAIN
CONDITIONS EURO AREA
FORECAST CREDIT STANDARDS. EURO AREA

3.2 CHANGE IN DEMAND (b)



SPAIN
EURO AREA
FORECAST SPAIN
FORECAST EURO AREA

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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As regards the impact of the NPL ratio on lending policies, banks both in Spain and the euro area reported that NPL levels in 2020 H1 were conducive to a widespread tightening in the credit supply. This was somewhat more marked in consumer credit to households, especially in Spain (see Chart A.2). In both areas it was expected that these effects may continue through the second half of the year.

Lastly, regarding the behaviour of credit supply and demand in the first half of the year by sector of activity, Spanish banks perceived an easing of credit standards in almost all sectors, with the exception of real estate activities. By contrast, credit conditions were perceived to have tightened slightly or remained unchanged. In the euro area, a certain degree of tightening of the credit supply across all areas of activity was perceived. A clear increase in demand was reported in all sectors (save in the case of real estate activities where it had remained stable), although this demand growth was more pronounced in Spain than in the euro area overall.

Supply and demand conditions in Spain

Lending to non-financial corporations

A detailed analysis of the Spanish banks' replies to the standard questionnaire reveals that credit standards for loans to non-financial corporations eased in 2020 Q2, both for lending to large firms and to SMEs. The breakdown by maturity reflects this same pattern both in long and short-term loans. The establishment of the ICO COVID-19 credit line is the main explanation for the growth in credit supply, and this despite the adverse impact of the deterioration in outlook, both for the general economic situation and for the solvency and creditworthiness of specific sectors and borrowers, and the decline in banks' risk tolerance. All other factors had no significant impact (see Chart 2).

The overall terms and conditions on new loans also eased somewhat in 2020 Q2. This was likewise owing to the impact of the ICO credit line and, to a lesser degree, to a certain decline in the cost of funds and greater competitive pressure, although the increased risk perception among banks exerted influence in the opposite direction. A more detailed analysis reveals a slight decrease in the margins on average loans, higher loan volumes, longer maturities and a decline in non-interest rate charges (see Chart 2). By contrast, the margins on riskier loans increased slightly, as did the collateral requirements and loan covenants. The breakdown by size of enterprise shows that the overall conditions on new loans to SMEs eased, while those on loans granted to large enterprises tightened slightly. The percentage of rejected loan applications declined somewhat in 2020 Q2.

According to the responses given, demand for loans from enterprises increased very robustly in 2020 Q2. The breakdown by size and by maturity both show this

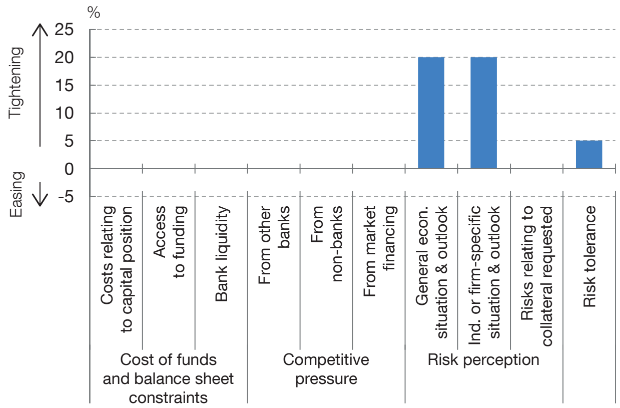
Chart 2

INCREASED RISK PERCEPTION PROMPTED A TIGHTENING OF THE CREDIT SUPPLY IN SPAIN

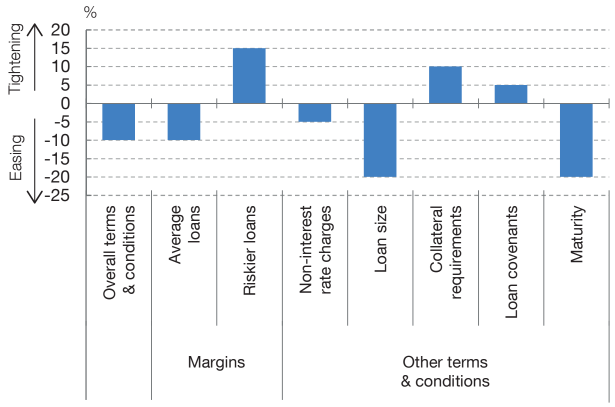
Increased risk perception against a backdrop of a sharp deterioration in the general economic situation, borrowers' creditworthiness and specific sectors prompted a tightening of all loan types. However, the establishment of the COVID-19 ICO credit line totally offset this effect in loans to enterprises and is the main factor explaining the growth of credit supply in this segment.

1 LOANS TO NON-FINANCIAL COPORATIONS

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

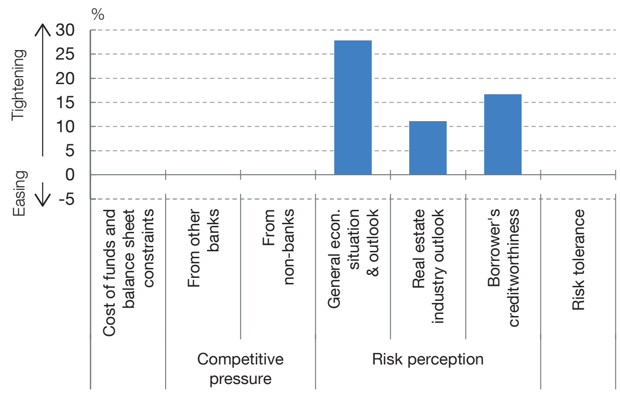


1.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

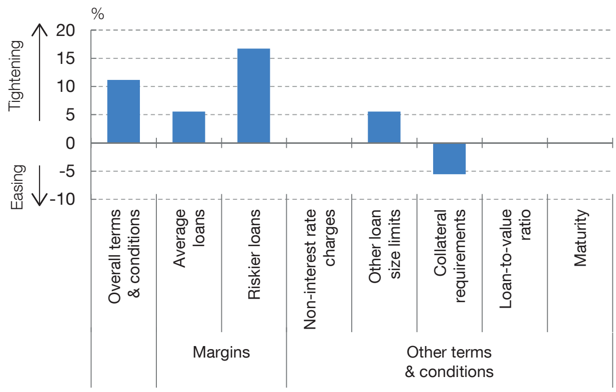


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

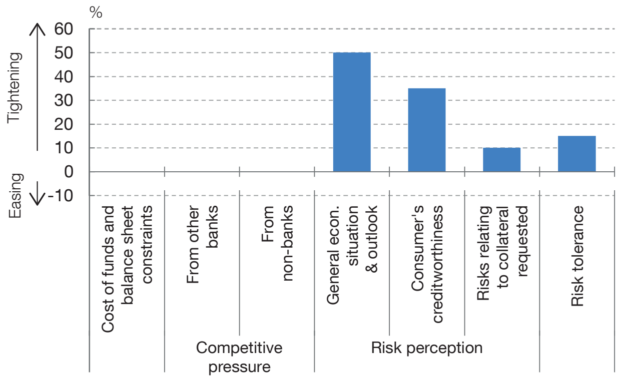


2.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

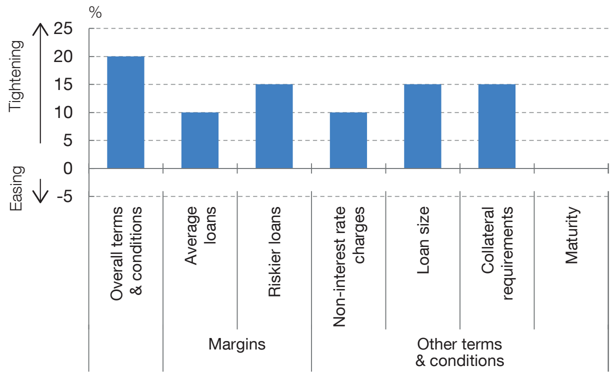


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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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same rising trend, although the strongest growth came in loan applications from SMEs and for long-term loans. The increase in demand was primarily driven by enterprises' significant liquidity needs, amid a sharp fall-off in income due to the effects of the health crisis, after the state of alert was declared on 13 March. These loans were requested essentially to meet financing needs (inventories and working capital, debt restructuring operations) and, to a lesser degree, to replace other sources of internal and external funding, the use of which had declined (debt securities and share issuances; see Chart 3). Conversely, there was a drop in loan applications for new fixed capital investment and mergers and acquisitions.

Loans to households for house purchase

The banks' responses show that credit standards for loans to households for house purchase in Spain tightened in 2020 Q2 (see Chart 2). This was essentially due to a worsening outlook for both the general economic situation and the housing market, along with a perceived decline in borrowers' creditworthiness. The overall terms and conditions on these loans also tightened slightly, as a result of higher perceived risk, which prompted an increase in the margins both on average and riskier loans, and a certain decline in the loan-to-value ratio. Lastly, the percentage of rejected loan applications decreased slightly.

Demand for loans for house purchase fell sharply between April and June 2020, primarily owing to a very marked drop in consumer confidence and, to a lesser degree, the worsening outlook for the housing market. By contrast, an increase in debt restructuring operations prompted slight demand growth in this segment (see Chart 3).

Consumer credit and other lending to households

Credit standards for consumer credit and other lending tightened during 2020 Q2, continuing the pattern observed since 2018 Q4, albeit with a more marked change. Based on the responses given, these developments in supply were mainly due to the worsening general economic outlook and the decline perceived in borrowers' creditworthiness and, to a lesser degree, to the banks' lower risk tolerance and greater perceived risk on the collateral demanded (see Chart 2). The overall terms and conditions on this type of credit also tightened, mainly as a result of increased perceived risk and lower risk tolerance among banks, which resulted in higher margins both on average and riskier loans, a decline in loan volumes, shorter maturities and larger collateral requirements. The percentage of rejected loan applications once again grew moderately in 2020 Q2.

Demand for loans in the consumer credit and other lending segment fell very sharply between April and June 2020. According to the responses given, these developments

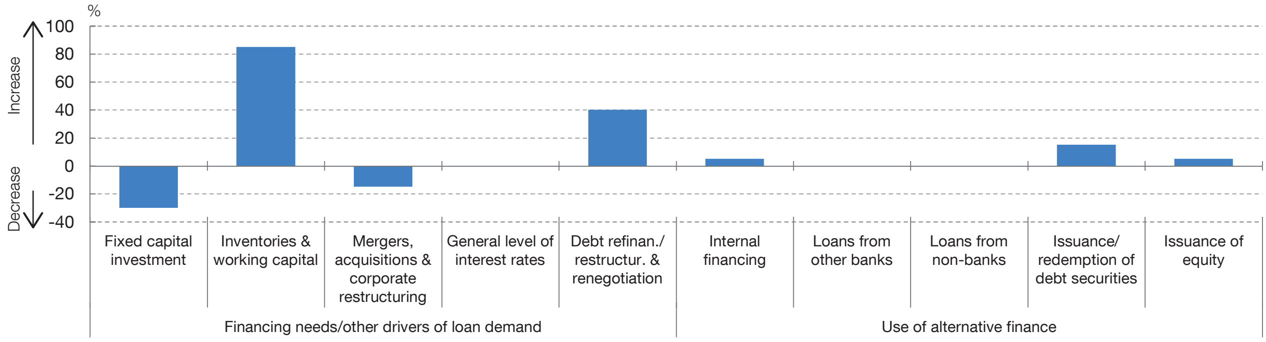
Chart 3

GREATER LIQUIDITY NEEDS EXPLAIN THE ROBUST INCREASE IN DEMAND FOR LOANS FROM ENTERPRISES IN SPAIN (a)

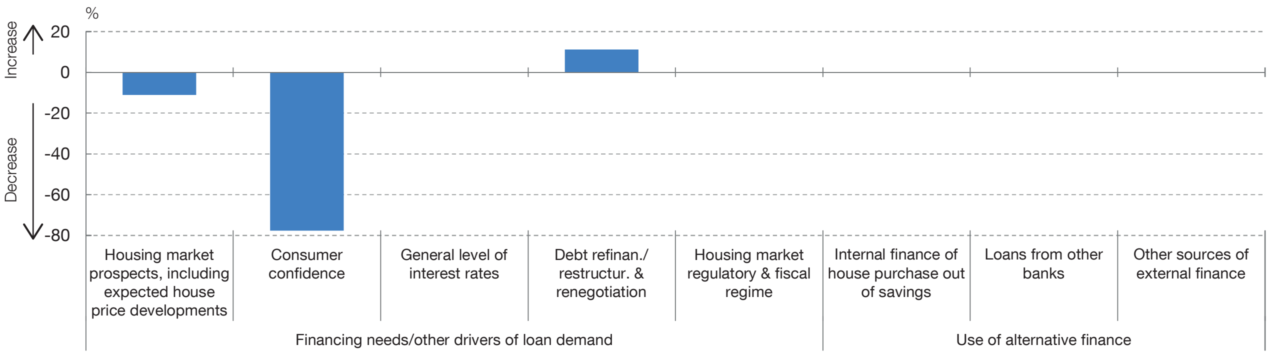
The increase in demand was primarily driven by enterprises' significant liquidity needs, amid a sharp fall-off in income due to the effects of the health crisis. These loans were requested essentially to finance inventories and working capital, and debt restructuring operations. The loss of consumer confidence is the main reason explaining the sharp drop in loan applications in the two household segments.

1 FACTORS AFFECTING DEMAND FOR LOANS

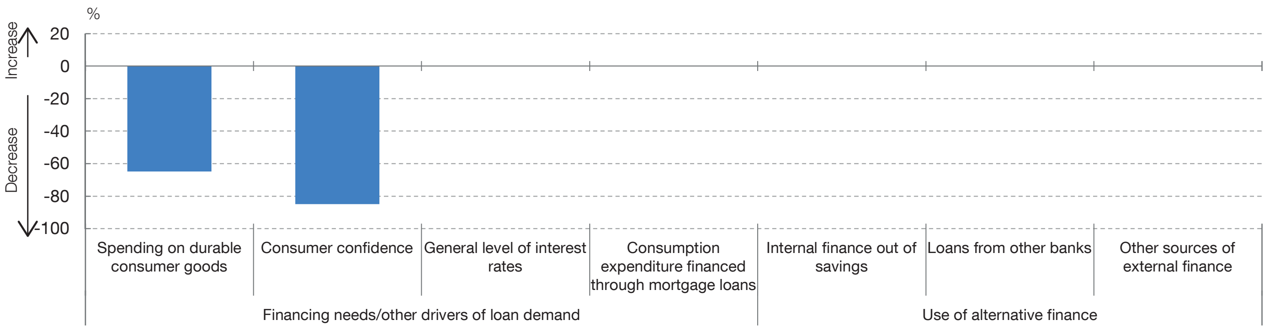
1.1 LOANS TO NON-FINANCIAL CORPORATIONS



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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were prompted by an abrupt decline in consumer confidence and a marked fall in spending on consumer durables (see Chart 3).

Ad hoc questions

Spanish banks perceived a general worsening in access to wholesale funding markets in 2020 Q2 (see Chart A.1). This deterioration was more pronounced in the case of debt securities markets and in the capacity to transfer risk off the balance sheet, while it was more moderate in the securitisation and long-term money markets. By contrast, access improved somewhat in retail funding markets.

In response to the ad hoc question on the impact of the banks' NPL ratios on their lending policies, the banks noted that, in 2020 H1, these ratios contributed to a tightening of supply that mainly affected lending to households, and within this segment, especially consumer credit and other lending (see Chart A.3). The factors behind these developments were, above all, banks' higher risk perception and lower risk tolerance and, to a lesser degree, other factors associated with the cost of funds and balance sheet constraints.

Lastly, in response to the question on developments in credit supply and demand by sector, the participating banks reported a perceived easing of credit standards during the last six months in virtually all sectors (except for real estate activities, where credit standards were unchanged or had tightened slightly), whereas the terms and conditions applied had tightened somewhat or remained unchanged. A clear increase in demand was reported in all sectors of activity, with the exception of real estate activities, where changes in demand remained negligible.

Outlook

For the current quarter, the banks surveyed anticipated a tightening of credit standards in all segments, which would be somewhat more intense in consumer credit and other lending to households (see Table 1 and Chart 1). On the demand side, the banks foresaw a decline in loan applications from enterprises, following the marked increase recorded in Q2, and slight growth in loan applications from households.

In the funding markets, the banks anticipated a slight worsening in access to retail funding markets and the capacity to transfer risk off the balance sheet in 2020 Q3, while they expected the debt securities markets to record a slight improvement (see Chart A.1).

Regarding the impact of the NPL ratio, the banks expected the level of this ratio to prompt a tightening of credit supply across all categories in 2020 H2, particularly in lending to enterprises and in consumer credit and lending to households for purposes other than house purchase (see Chart A.2). As for the factors through which the NPL ratio would come to bear, the banks indicated that their higher risk perception and lower risk tolerance and, to a lesser degree, factors associated with the cost of funds and balance sheet constraints, would trigger the anticipated tightening of credit standards.

Lastly, as regards developments in credit supply and demand by sector of activity in 2020 H2, the banks envisaged a tightening both in credit standards and the terms and conditions applied to loans across all sectors of activity (see Chart A.3). A slight decline in demand was anticipated in practically all sectors, with the exception of the manufacturing industry where it was expected to remain stable.

14.7.2020.

Chart A.1

ACCESS TO WHOLESALE FUNDING MARKETS WORSENED IN SPAIN AND IN THE EURO AREA WHEREAS RETAIL FUNDING MARKETS WERE PERCEIVED TO IMPROVE SLIGHTLY (a) (b)

Access to wholesale funding markets worsened across the board in Spain and the euro area. This deterioration had a more pronounced effect on debt securities markets and the capacity to transfer risk off the balance sheet and, in the case of the euro area, on long-term money markets. By contrast, access to retail funding markets improved somewhat, in Spain and in the euro area overall.

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.

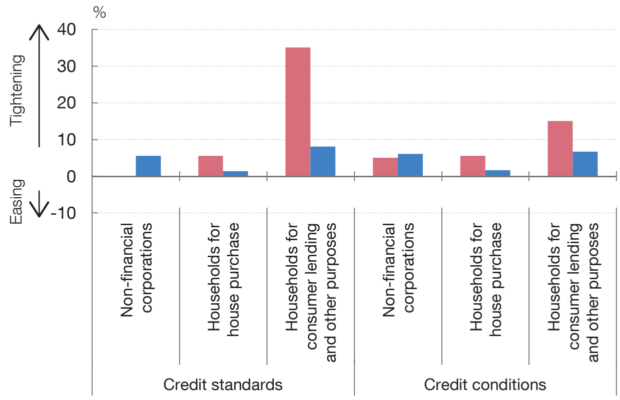
Chart A.2

THE NPL RATIO PROMPTED A SLIGHT TIGHTENING OF SUPPLY ESPECIALLY IN THE CONSUMER CREDIT AND OTHER LENDING SEGMENT (a)

Both Spanish and euro area banks reported that NPL levels in 2020 H1 were conducive to a widespread tightening of the credit supply. This was somewhat more marked in consumer credit to households, especially in Spain. In both areas it was expected that these effects may continue through the second half of the year.

1 IMPACT OF THE NPL RATIO ON LENDING POLICY

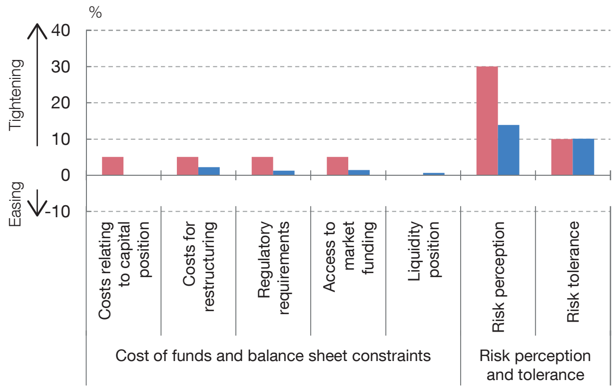
1.1 LAST SIX MONTHS



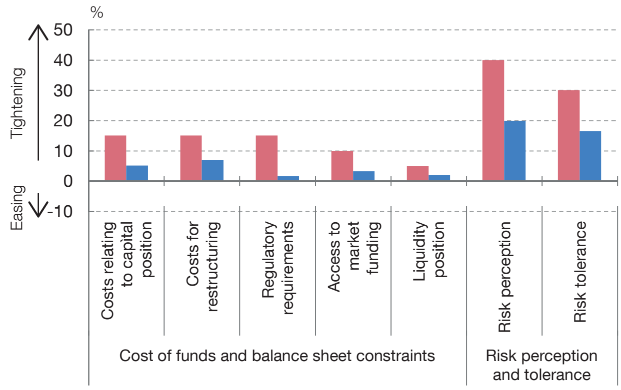
1.2 NEXT SIX MONTHS

2 CONTRIBUTION OF FACTORS

2.1 LAST SIX MONTHS



2.2 NEXT SIX MONTHS



SPAIN EURO AREA

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.

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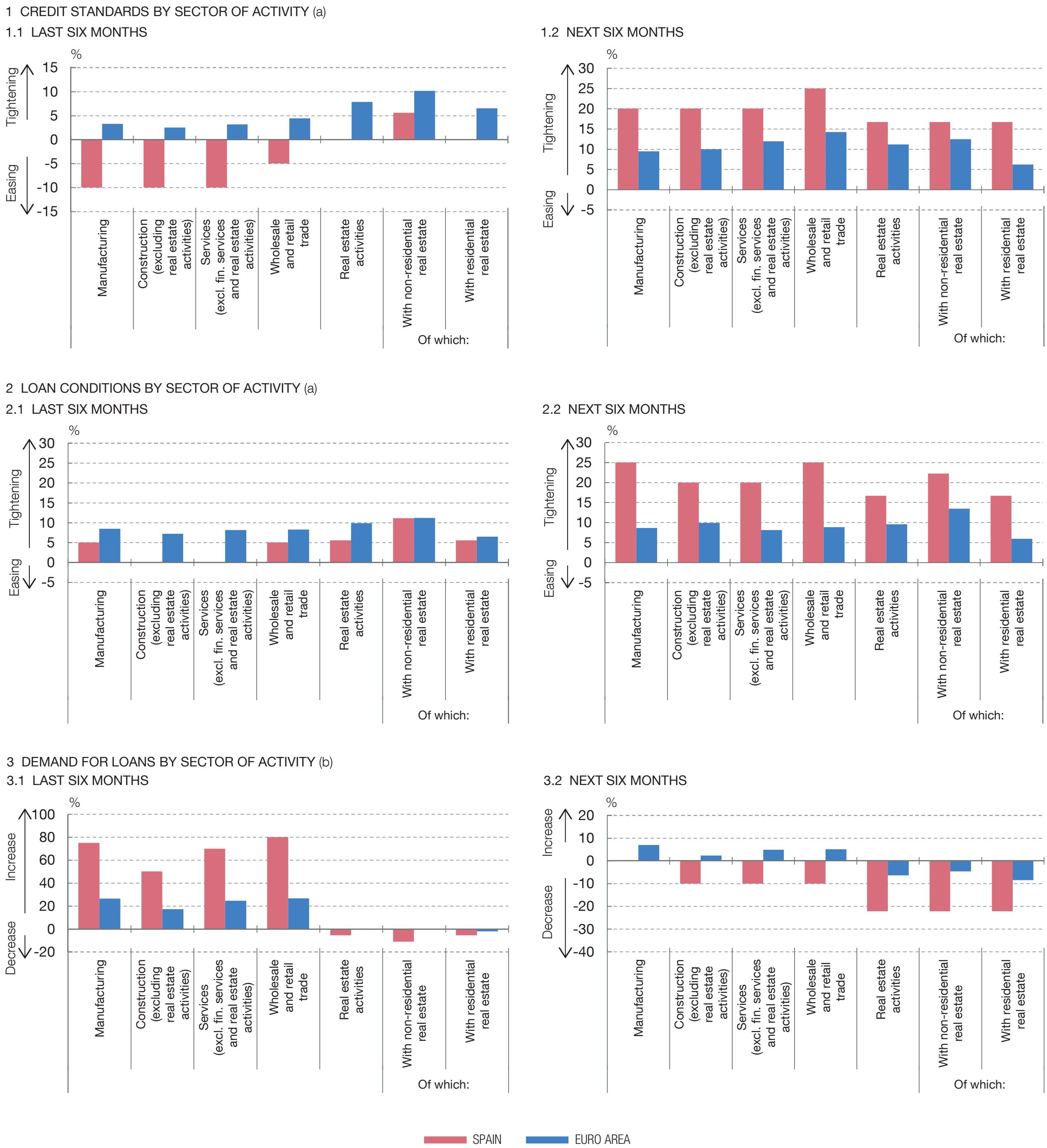
Chart A.3

EASING OF CREDT STANDARDS IN SPAIN AND INCREASE IN DEMAND IN ALMOST ALL SECTORS OF ACTIVITY

Spanish banks perceived an easing of credit standards in almost all sectors in 2020 H1, with the exception of real estate activities, whereas credit conditions were perceived to have tightened slightly or remained unchanged. In the euro area, a certain degree of tightening of the credit supply across all areas of activity was perceived. Demand grew in all sectors (save in the case of real estate activities where it had remained stable), although this demand growth was more pronounced in Spain than in the euro area.



SOURCES: ECB and Banco de España.

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

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

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