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BANK LENDING SURVEY IN SPAIN: OCTOBER 2019

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ABSTRACT

In 2019 Q3, according to the Bank Lending Survey, loan supply in Spain remained generally stable, with only credit standards for consumer credit to households tightening slightly, and terms and conditions on new loans for house purchase easing somewhat. By contrast, in the euro area, credit standards mostly eased while the overall terms and conditions tightened. In Spain, loan demand across all categories is estimated to have decreased, while demand from the two household segments appears to have increased in the euro area. Conditions of access to wholesale and retail funding markets remained stable or improved in nearly all cases during the quarter, both in Spain and in the euro area. In the last six months, the ECB's expanded asset purchase programme continued to have a positive effect on banks' liquidity and financing conditions, although the impact on banks' profitability in the euro area appears to have been negative. This programme also continued to contribute to an easing of the terms and conditions of loans, and to an increase in the volume of lending, in nearly all segments. Lastly, the ECB's negative deposit facility rate is estimated to have contributed, in the last six months, to the drop in the net interest income of Spanish and euro area banks, and to the lower interest rates applied to new loans. In the euro area, the negative interest rates also favoured a reduction in margins and an increase in lending volumes.

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

JEL codes: E51, E52, G21.

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Main results

This article presents the results of the October 2019 Bank Lending Survey (BLS), which provides information on loan supply and demand conditions in Q3, and on the outlook for the next three months. This edition includes ad hoc questions on the conditions of access to wholesale and retail funding markets, the impact of the ECB's asset purchase programme and the effects of the negative deposit facility rate on banks' earnings and lending policies. This section discusses the main results obtained, drawing on the replies of the 10 Spanish banks participating in the survey, and compares them with those for the euro area[1] as a whole. The following sections contain a more detailed analysis of the results for Spain.[2]

The results of the survey suggest that loan supply remained virtually unchanged in Spain in 2019 Q3. Thus, credit standards for consumer credit to households tightening slightly and the terms and conditions of new loans for house purchase eased somewhat (see Table 1 and Chart 1). In the euro area, credit standards eased (except for consumer credit), while the overall terms and conditions for loans tightened or remained unchanged. In Q3, loan demand declined in Spain for the three segments analysed, for the first time since 2013 Q2, while in the euro area, applications for loans to households increased and those for loans to enterprises remained stable.

For the current quarter, neither Spanish nor euro area banks anticipated any changes in credit standards. In Spain, demand for loans to enterprises was expected to continue falling, while loan applications for house purchase were expected to increase.

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

2 The analysis of the results reported in this article is based on so-called "diffusion indices" which are calculated by using weights 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 such weighting.

Table 1
BANK LENDING SURVEY
Main results. October 2019

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

SOURCES: Banco de España and ECB.

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

In the euro area, banks anticipated that the demand for loans to households would continue to grow.

Regarding the ad hoc questions included in the survey, banks in both areas reported that they perceived some stability or slight improvement in conditions of access to all wholesale markets in 2019 Q3, somewhat more pronounced in the case of debt securities markets (see Chart A1). Access to retail markets was also perceived to have improved, in both areas, in the case of short-term funding instruments, while access to those with maturities of more than one year had worsened somewhat in the euro area. With respect to the ECB's expanded asset purchase programme, banks both in Spain and in the euro area reported that it had contributed in the last six months to increasing their liquidity and improving their financing conditions, although it had a slightly negative impact on the profitability of banks in the euro area (see Chart A.2). The programme was also perceived to have led to an increase in lending volumes in both areas. Moreover, in Spain, it contributed to easing the terms and conditions for loans to enterprises and to households for house purchase. Lastly, in response to the ad hoc question about the impact of the ECB's negative deposit facility rate, banks in

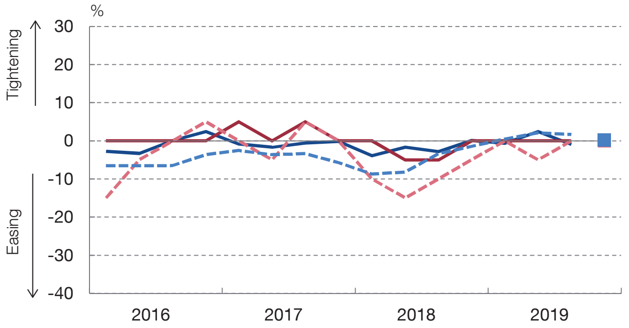
Chart 1

STABILITY OF CREDIT SUPPLY IN SPAIN. DEMAND FELL IN SPAIN, BUT CONTINUED TO RISE IN THE EURO AREA IN ALMOST ALL SEGMENTS

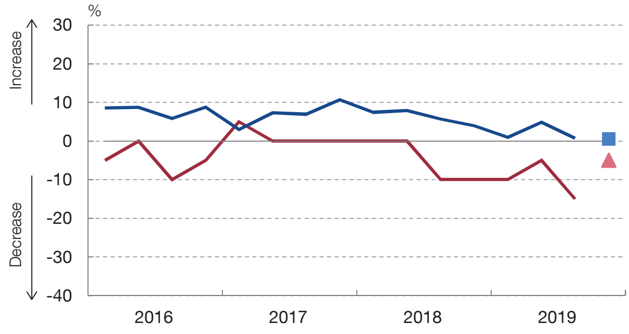
In 2019 Q3, credit standards for loans to households for consumer credit and other lending tightened slightly, both in Spain and in the euro area. In the euro area, the standards eased in the remaining segments. Demand fell across the board in Spain, while in the euro area loan applications grew in the two household segments and remained unchanged in that of enterprises.

1 LENDING TO NON-FINANCIAL CORPORATIONS

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

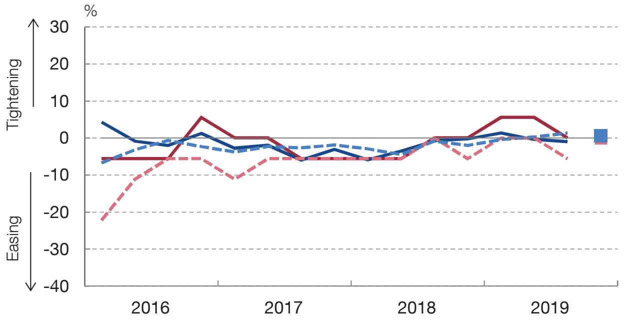


1.2 CHANGE IN DEMAND (b)

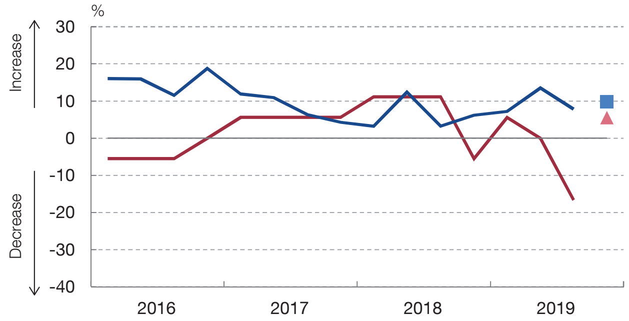


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

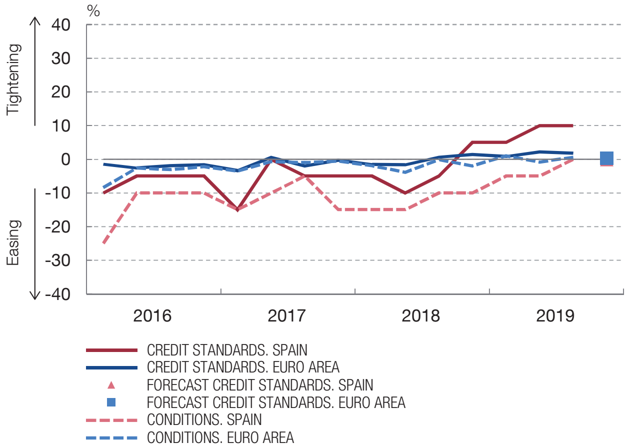


2.2 CHANGE IN DEMAND (b)

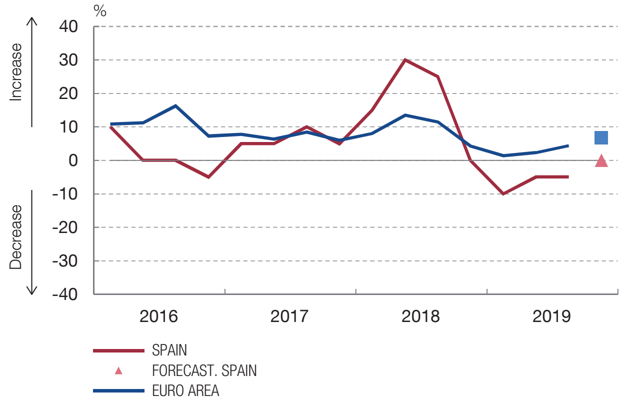


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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



3.2 CHANGE IN DEMAND (b)



SOURCES: Banco de España and European Central Bank.

a ndicator = 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 – porpercentage 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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both areas stated that this measure had contributed to a decrease in net interest income in the last six months. It was also conducive to a fall in lending rates across all segments, prompting a slight reduction in margins[3] and an increase in lending volumes in the euro area (see Chart A.3).

Supply and demand conditions in Spain

Lending to non-financial corporations

Analysis of the replies of Spanish banks shows that, in the segment of lending to non-financial corporations, credit standards remained without significant changes in 2019 Q3, although the breakdown by maturity reveals that credit standards had tightened somewhat in the case of longer-term loans. The breakdown by size also evidences a certain tightening of the criteria applied to loans extended to SMEs, while in the case of large enterprises, standards remained unchanged. Regarding the factors behind these developments, the higher costs relating to the level of capital and a worsening outlook, both for specific sectors and enterprises and with respect to the general economic situation, appear to have favoured a tightening of standards. By contrast, the liquidity position of banks and the high competition between them had the opposite effect (see Chart 2.1.1).

The overall terms and conditions for new loans to enterprises did not change in Q3, since the impact of the strong competitive pressures appears to have been offset by an increase in banks' risk perception. In particular, the more detailed information points to an increase in non-interest rate charges and a decline in loan covenants, while margins on riskier loans tightened somewhat (see Chart 2.1.2). The overall terms and conditions for new loans remained unchanged both for lending to SMEs and to large enterprises. The proportion of rejected loan applications held stable in 2019 Q3.

Demand from SMEs and large enterprises for both short and longer term loans (less than or equal to one year, and more than one year) fell between July and September 2019. The declining course of demand was chiefly due to lower fixed capital investment, to greater recourse to loans from other banks and to sources of non-bank financing (debt securities, issuance of new shares and internal financing). The drop in applications to finance inventories and working capital also had an effect on the fall in demand, albeit to a lesser degree. By contrast, both the low level of interest rates and the impact of some corporate restructuring prompted an increase in loan applications, partially offsetting the contractionary behaviour of demand (see Chart 3.1).

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

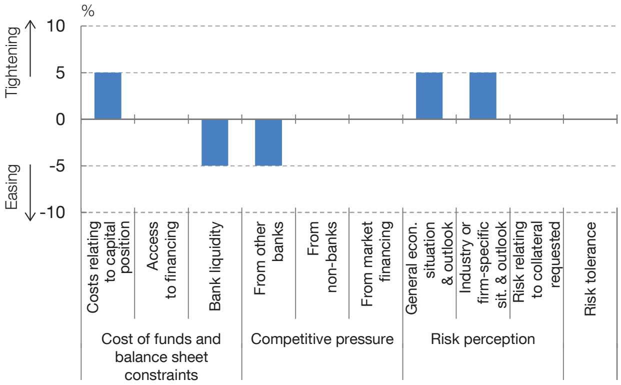
Chart 2

GREATER RISK PERCEPTION CONTRIBUTED TO THE TIGHTENING OF CREDIT STANDARDS IN CONSUMER SEGMENT. CONDITIONS EASED SOMEWHAT IN THAT OF HOUSEHOLDS FOR HOUSE PURCHASE

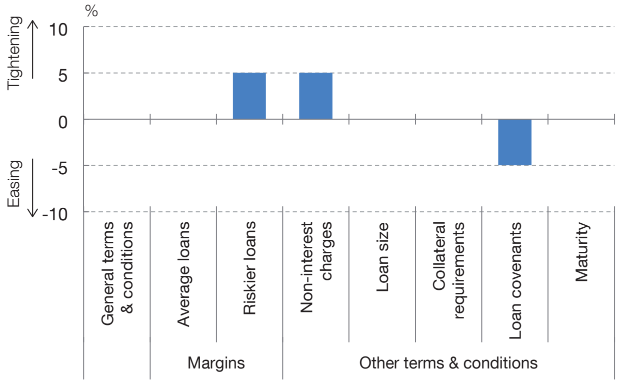
The slight tightening of credit standards in consumer credit to households was mainly due to heightened risk perception and a decline in banks' risk tolerance. By contrast, the terms and conditions applied to loans to households for house purchase eased; this was reflected in a certain narrowing of margins on average loans and a decrease in other non-interest charges.

1 LOANS TO NON-FINANCIAL CORPORATIONS

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

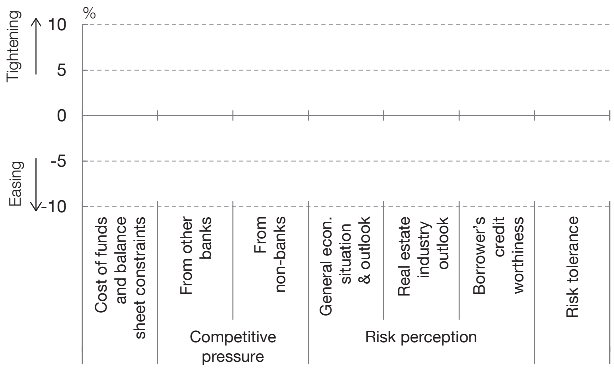


1.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

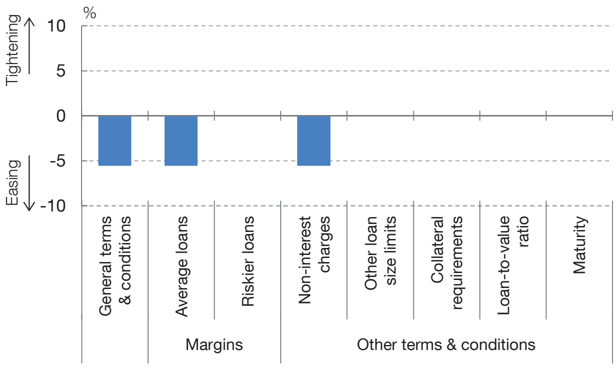


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

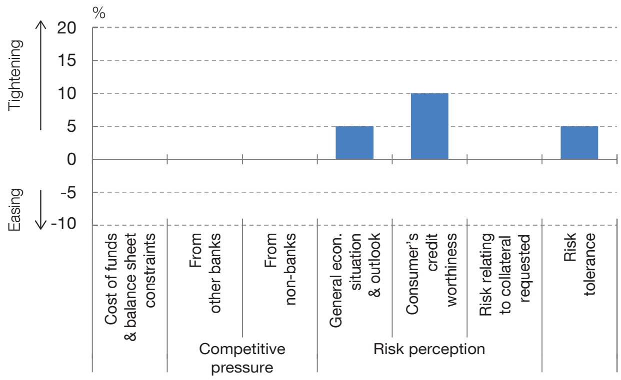


2.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

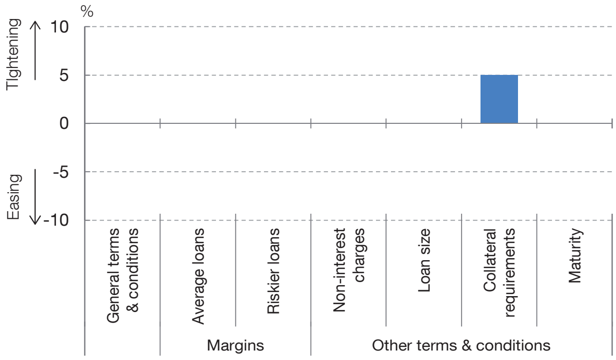


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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 European Central Bank.

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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Loans to households for house purchase

Credit standards for lending to households for house purchase remained unchanged in 2019 Q3, against a setting in which no explanatory factor had a significant impact (see Chart 2.2.1). In turn, the overall terms and conditions applied to these loans eased slightly, owing mainly to greater competitive pressure. A more detailed analysis reveals a slight reduction in the margins on average loans, and a decrease in non-interest charges (see Chart 2.2.2). Lastly, there was a slight increase in the percentage of loan applications rejected.

Demand for loans for house purchase fell in 2019 Q3. According to the banks, the main factors behind this decline were lower consumer confidence and regulatory changes. The worsening outlook for the housing market, the increase in self-financing and the greater recourse to loans from other banks also explain this decline, albeit to a lesser extent.

Consumer credit and other lending to households

Credit standards for consumer credit and other lending tightened again between July and September 2019, for the fourth consecutive quarter. According to the banks, this was the result of a deterioration in borrowers' creditworthiness and, to a lesser degree, to a decline in banks' risk tolerance and a worsening of the general economic outlook (see Chart 2.3.1). In turn, the overall terms and conditions for this types of loan remained largely unchanged, although detailed analysis reveals that collateral requirements rose slightly (see Chart 2.3.2). Lastly, the percentage of rejected loan applications was higher than in the preceding period.

Demand for consumer credit and other lending fell slightly in 2019 Q3. According to the replies received, this was due to a decline in customer confidence, lower spending on durable consumer goods and greater recourse to loans from other banks (see Chart 3.3).

Ad hoc questions

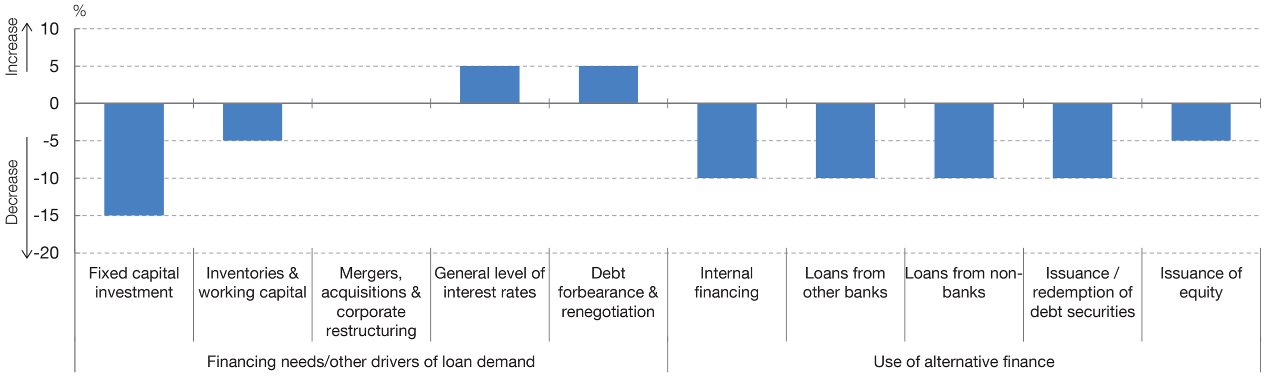
In relation to the conditions of access to retail and wholesale funding markets in 2019 Q3, Spanish banks reported that they perceived an improvement in their access to debt securities markets and securitisation. Turning to retail markets, banks observed a slight improvement in short-term instruments and stability in those with maturities of more than one year (see Chart A1.1).

Chart 3

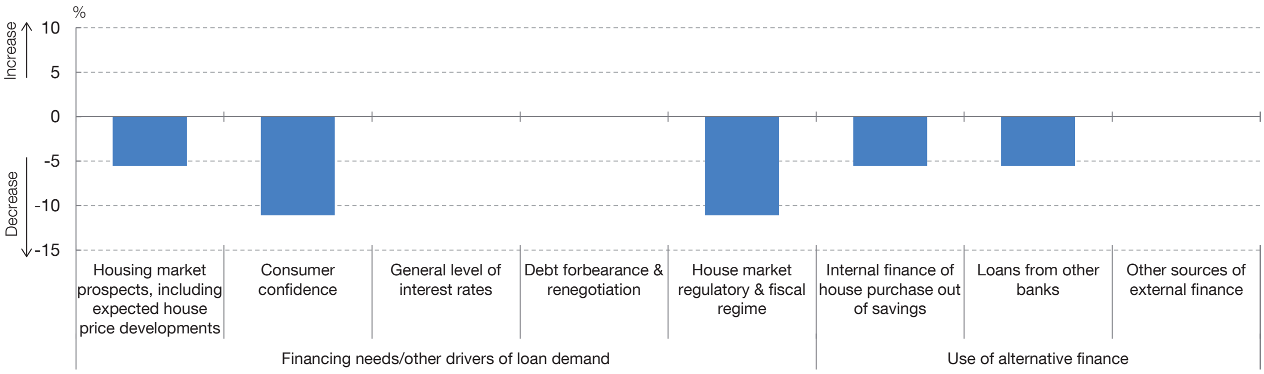
GREATER RECOURSE TO OTHER TYPES OF FINANCING AND LOWER FINANCING NEEDS GAVE RISE TO A CONTRACTION IN DEMAND FOR CREDIT (a)

Although the lower interest rate environment continued to drive the demand for credit, the lower financing needs, together with the decline in consumer confidence and the recourse to other types of financing, had the opposite effect, giving rise to a decrease in loan applications across the board.

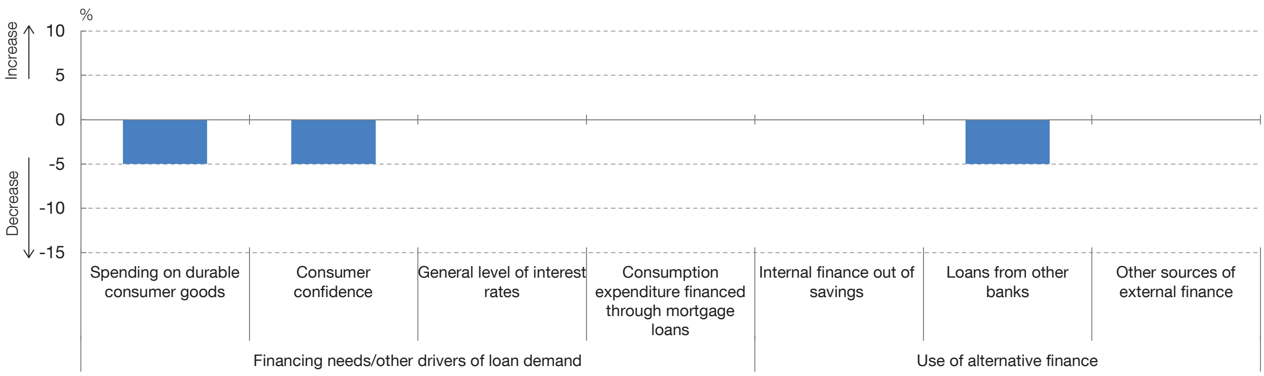
1 LOANS TO NON-FINANCIAL CORPORATIONS



2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE



3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS



SOURCES: Banco de España and European Central Bank.

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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.

In reply to the question on the impact of the ECB's expanded asset purchase programme, the Spanish banks participating in the survey reported that it had not affected their total assets (although their holdings of euro area sovereign bonds had declined somewhat), and that it had been conducive to improving their financial situation, in terms of liquidity and financing conditions, and to increasing their capital ratios, without a significant impact on their profitability (see Chart A2.1). The programme had no influence on credit standards, but did contribute to an easing of the terms and conditions on loans to enterprises and households for house purchase, and to an increase in the volume of lending in these two segments.

Lastly, in reply to the ad hoc question about the effects of the ECB's negative deposit facility rate, Spanish banks pointed out that this measure had contributed to a drop in net interest income in the last six months (see Chart A3.1). It also prompted a decline in interest rates on loans across all segments, but did not have a significant impact on the margins applied or on the volume of lending.

Outlook

As regards the last quarter of the year, the responding Spanish banks did not anticipate changes in credit standards in any segment (see Table 1 and Chart 1). On the demand side, the enterprises segment was expected to continue on a declining course, while that of households would see a slight increase in loan applications for house purchase and stability in those for consumer credit and other lending.

In retail and wholesale funding markets, banks expected to see a slight improvement in conditions of access to almost all wholesale markets in 2019 Q4, with the exception of the money market, which was expected to remain unchanged. In the case of retail markets, they anticipated a deterioration in that of long-term deposits, and no change in the short-term deposits (see Chart A1.2).

The surveyed Spanish banks expected that over the next six months the ECB's expanded asset purchase programme would continue to be conducive to improving their liquidity and financing conditions, and to a certain increase in their profitability (see Chart A2.2). They also thought that it would lead to an increase in their capital ratios. As regards the terms and conditions on loans to households and enterprises, banks expected the programme to continue favouring a slight easing of conditions and an increase in the volume of lending across all loan categories

Lastly, Spanish banks anticipated that, over the next six months, the ECB's negative deposit facility rate would contribute to a further drop in their net interest income and to a decline in interest rates on new loans in all segments (see Chart A3.2).

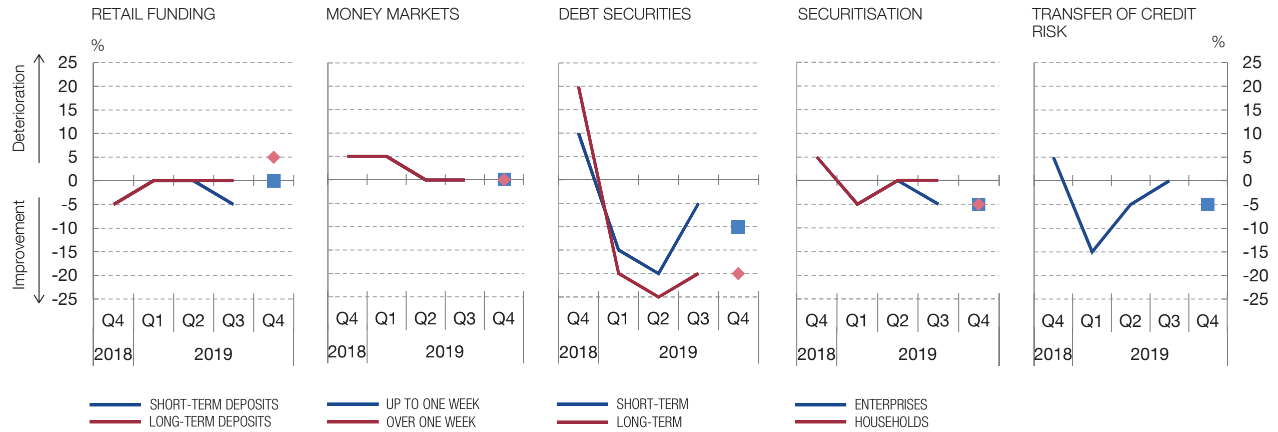
22.10.2019.

Chart A.1

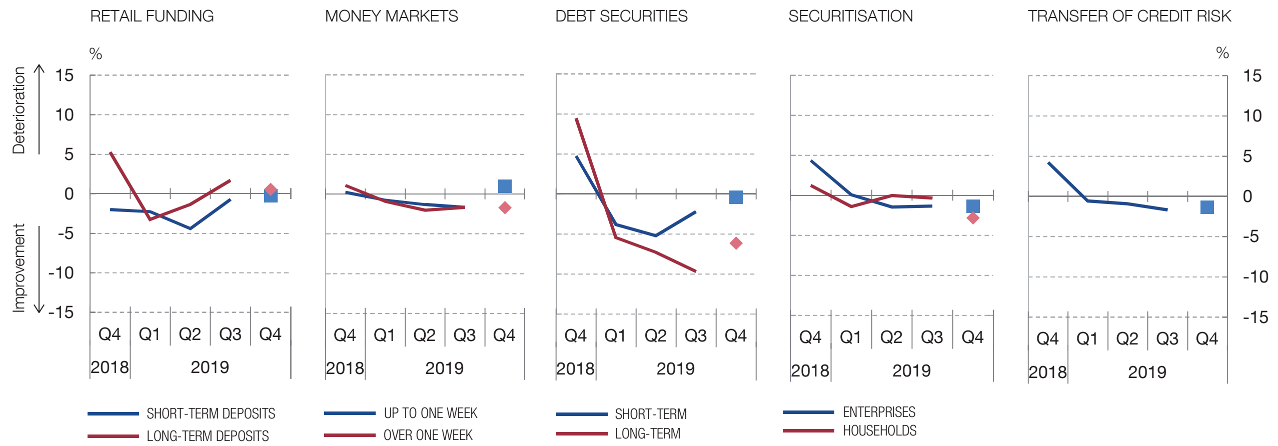
ACCESS TO WHOLESALE AND RETAIL MARKETS IMPROVED OR REMAINED STEADY IN ALL CASES, BOTH IN SPAIN AND THE EURO AREA. (a) (b)

In 2019 Q3, banks in both areas perceived an improvement across the board in conditions of access to wholesale markets (especially debt securities markets). In retail markets, an improvement was also observed in shorter-term instruments, while those with maturities of more than one year deteriorated somewhat in the euro area, while no appreciable change was noted in Spain.

1 ACCESS TO FUNDING. SPAIN



2 ACCESS TO FUNDING. EURO AREA



SOURCES: Banco de España and European Central Bank.

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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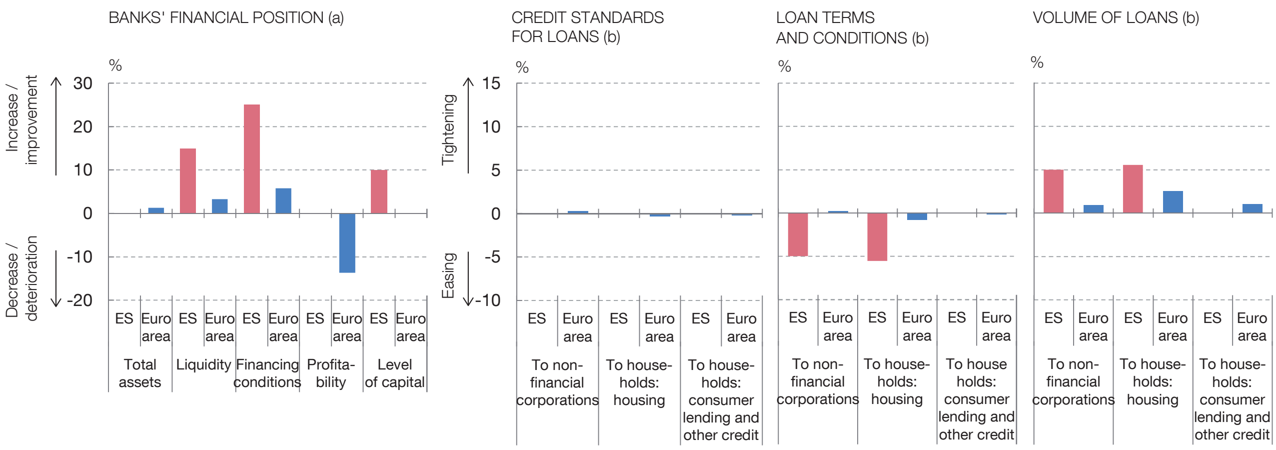
Chart A.2

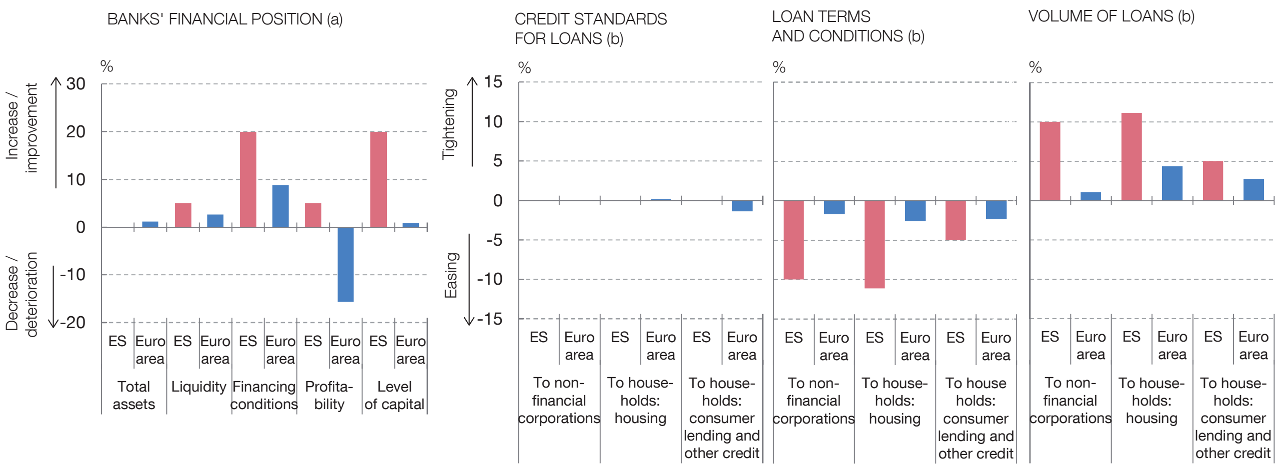
THE EXPANDED ASSET PURCHASE PROGRAMME CONTINUED TO HAVE AN OVERALL POSITIVE IMPACT ON THE SUPPLY OF CREDIT

Over the past six months, the programme has contributed to improving banks' liquidity and financing conditions in both areas. By contrast, the impact on profitability was negative in the euro area. The programme also favoured an increase in the volume of loans granted, in nearly all segments, and, in the case of Spain, an easing of loan terms and conditions applied in the segments of loans to enterprises and households for house purchase.

1 LAST SIX MONTHS' IMPACT



2 NEXT SIX MONTHS' IMPACT



SOURCES: Banco de España and European Central Bank.

a Indicator = percentage of banks reporting that the programme did or would contribute considerably to an increase or improvement × 1 + percentage of banks reporting that the programme did or would contribute somewhat to an increase or improvement × 1/2 – percentage of banks reporting that the programme did or would contribute somewhat to a decrease or deterioration × 1/2 – percentage of banks reporting that the programme did or would contribute considerably to a decrease or deterioration.

b Indicator = percentage of banks reporting that the programme did or would contribute considerably to a tightening of credit standards or loan terms and conditions, or to an increase in the volume of loans × 1 + percentage of banks reporting that it did or would contribute somewhat to a tightening or increase × 1/2 – percentage of banks reporting that it did or would contribute somewhat to the easing of credit standards or loan terms and conditions or to a decrease in volume × 1/2 – percentage of banks reporting that it did or would contribute to a considerable easing or decrease × 1.

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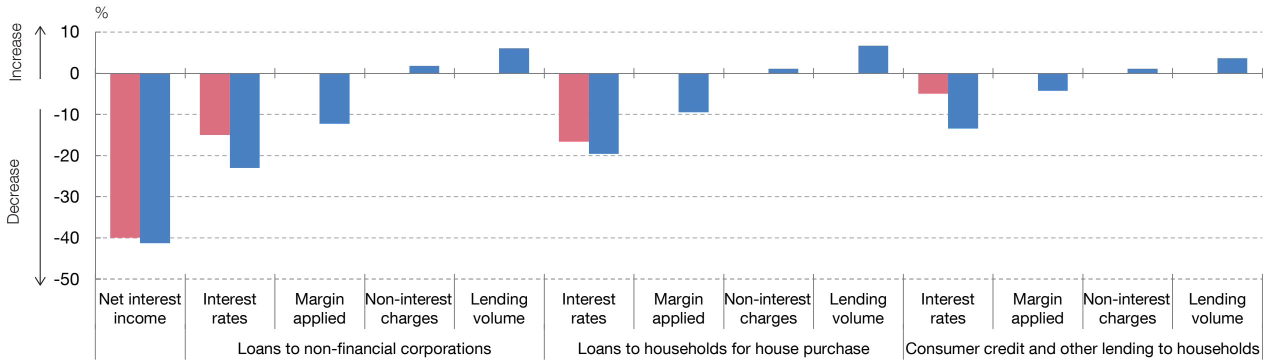
Chart A.3

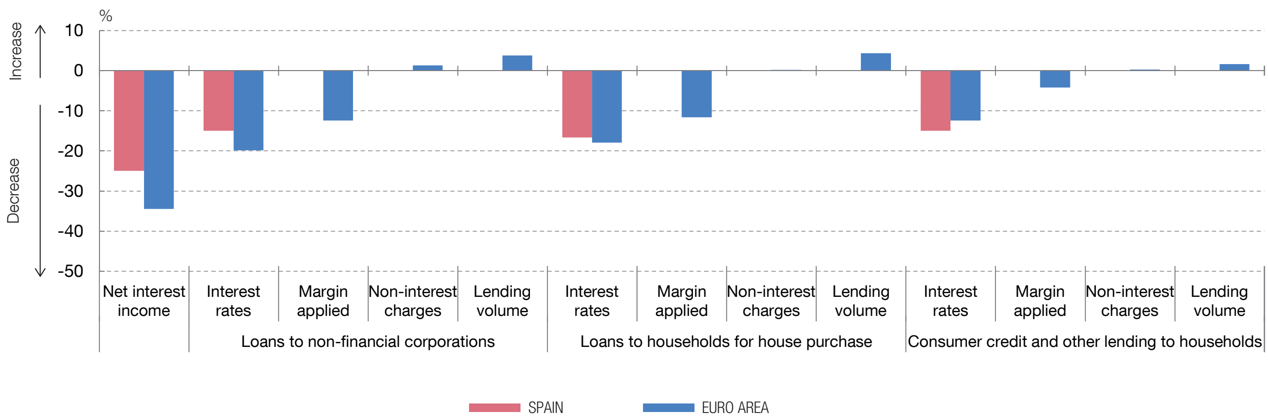
THE NEGATIVE DEPOSIT FACILITY RATE CONTINUED TO PROMPT A DECLINE IN NET INTEREST INCOME AND A DECREASE IN INTEREST RATES APPLIED TO LOANS (a)

Banks in both areas responded that in the past six months this measure contributed to a decrease in net interest income, and a certain decline in the interest rates and, in the case of the euro area, a decline in the margins applied and a slight increase in the volume of loans granted.

1 LAST SIX MONTHS' IMPACT



2 NEXT SIX MONTHS' IMPACT



SOURCES: Banco de España and European Central Bank.

a 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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