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OCTOBER 2022 BANK LENDING SURVEY IN SPAIN

Álvaro Menéndez Pujadas and Maristela Mulino

ABSTRACT

According to the Bank Lending Survey, in 2022 Q3 credit standards and loan terms and conditions tightened across the board, both in Spain and in the euro area as a whole, with the loans to households for house purchase segment seeing the most pronounced tightening. Meanwhile, loan applications in virtually all the categories declined in both areas. These developments unfolded against a backdrop of higher risks associated with the deterioration in the economic outlook and of monetary policy normalisation, which is translating into an increase in the cost of funds. This setting has also affected expectations for Q4, with banks expecting the contraction in loan supply to continue and demand to decline in all the segments analysed.

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

JEL classification: E51, E52, G21.

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Main results

This article presents the results of the October 2022 Bank Lending Survey, which provides information on loan supply and demand conditions in 2022 Q3 and on the outlook for Q4.[1] This first section discusses the main results obtained from the replies by the 12 Spanish banks participating in the survey and compares them with the results for the euro area overall. The subsequent sections present a somewhat more detailed analysis of the results for Spain.[2]

The survey results show that, in both Spain and the euro area, credit standards[3] and the overall terms and conditions[4] for new loans tightened further across the board in 2022 Q3 (see Table 1 and Chart 1). The decline in supply was steepest in the loans to households for house purchase segment, which recorded the sharpest drop since 2008. This contraction in supply is attributable both to banks' higher risk perception, essentially linked to the deterioration in the macroeconomic outlook, and, to a lesser extent, to the increase in their cost of funds as a result of monetary policy normalisation. The terms and conditions on loans tightened mainly through an increase in borrowing costs.

However, in most of the segments borrowing costs increased, on average, more slowly than the relevant reference market rate in each category, resulting in a narrowing of margins.[5] Loan demand fell in both areas across all segments, except for loan applications from non-financial corporations (NFCs) in the euro area. This weaker loan demand is attributable to the increase in borrowing costs and, in the

1 The survey was conducted between 16 September and 4 October 2022. In tandem with the publication of this article, the results for the euro area overall, in addition to those for Spain, are published by the European Central Bank (ECB) here. The time series of the aggregate indicators, for both the standard questionnaire and the ad hoc questions, are available at that link. A more detailed analysis of the results for the euro area overall can be found in the ECB's regular notes here.

2 The analysis conducted in this article is based on "diffusion indices" which are calculated with a weighting based on the degree of improvement/deterioration or easing/tightening reported by each bank in its replies, unlike net percentage indicators which do not factor in this weighting. This methodology is applied to the entire time series.

3 Credit standards refer to banks' internal guidelines or loan approval criteria.

4 Terms and conditions on loans mean banks' actual terms and conditions (interest rate, loan size, maturity, collateral requirements, etc.) agreed in the loan contract.

5 For the purposes of this survey, margins are calculated as the spread between the interest rates applied to new loans and the relevant market reference rates.

Table 1
BANK LENDING SURVEY
Main results. October 2022

	Credit standards	Overall terms and conditions on new loans	Loan demand
Spain			
Past three months			
Non-financial corporations	Tightening	Tightening	Decrease
Households for house purchase	Tightening	Tightening	Decrease
Consumer credit and other lending to households	Tightening	Tightening	Decrease
Expected for next three months			
Non-financial corporations	Tightening	(a)	Decrease
Households for house purchase	Tightening	(a)	Decrease
Consumer credit and other lending to households	Tightening	(a)	Decrease
Euro area			
Past three months			
Non-financial corporations	Tightening	Tightening	Increase
Households for house purchase	Tightening	Tightening	Decrease
Consumer credit and other lending to households	Tightening	Tightening	Decrease
Expected for next three months			
Non-financial corporations	Tightening	(a)	Decrease
Households for house purchase	Tightening	(a)	Decrease
Consumer credit and other lending to households	Tightening	(a)	Decrease

SOURCES: Banco de España and ECB.

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

case of households, also to lower consumer confidence affected by higher uncertainty.

For 2022 Q4, banks in the two areas expect a further across-the-board contraction in loan supply and demand as monetary policy normalisation is expected to continue amid a deterioration in the macroeconomic outlook.

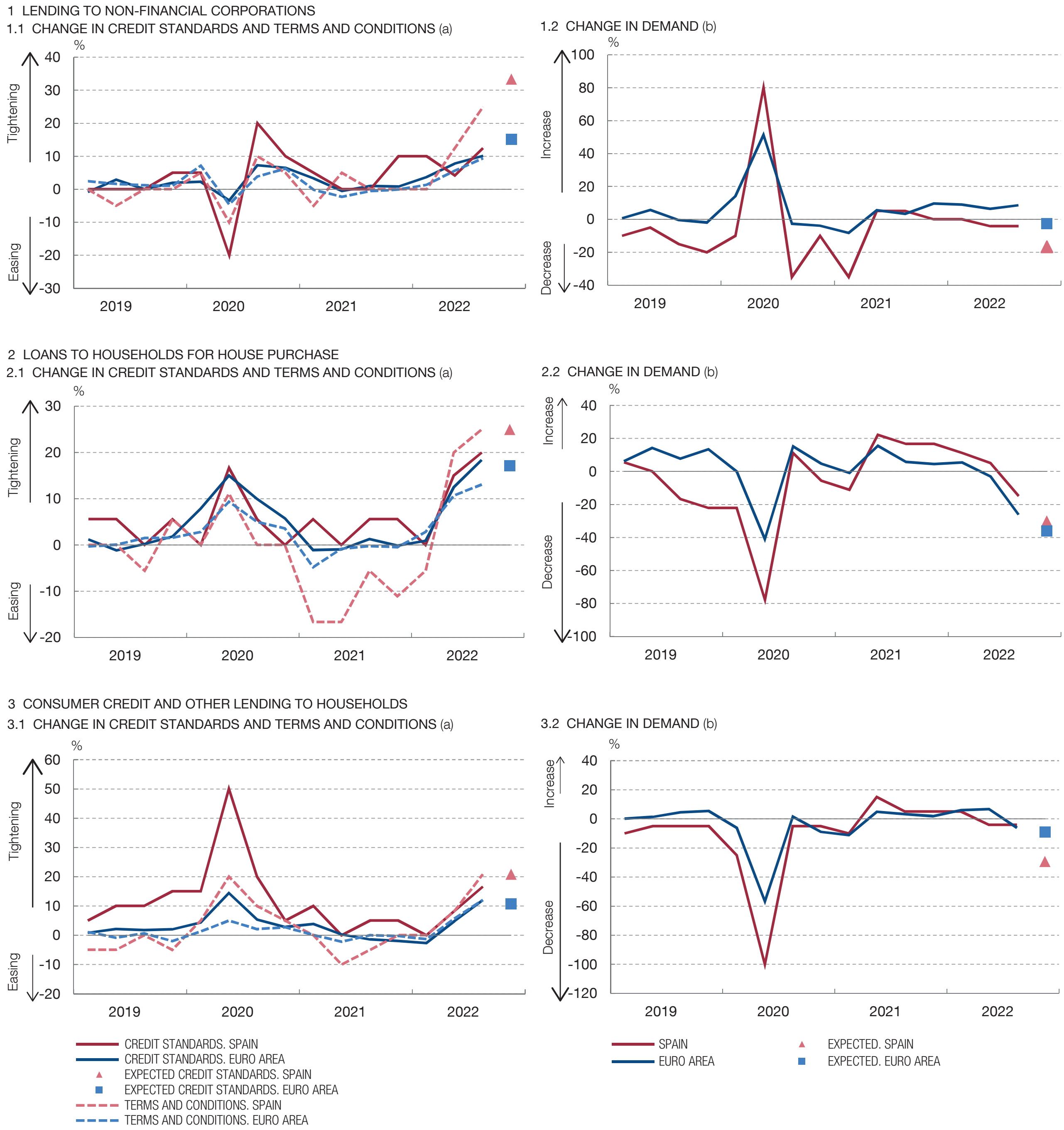
In response to the ad hoc questions included in the survey, banks reported that in 2022 Q3 their access to retail funding had worsened in the two areas. Spanish banks reported that their access to wholesale funding had deteriorated across the board, while euro area banks reported that it had worsened in almost all segments (see Chart A.1).

The other ad hoc questions are concerned with the impact of the ECB's non-standard monetary policy measures. The ending of net purchases under the Eurosystem's asset purchase programmes had, in both areas, a slightly negative impact on banks' financial situation and on their market financing conditions over the last six months

Chart 1

IN BOTH AREAS LOAN SUPPLY CONTRACTED AND LOAN DEMAND DECLINED VIRTUALLY ACROSS THE BOARD IN 2022 Q3

In 2022 Q3, credit standards and terms and conditions on loans tightened across the board in Spain and the euro area. Meanwhile, loan demand declined in virtually all categories (except for loans to NFCs in the euro area, which increased slightly). For 2022 Q4, Spanish and euro area banks expect a further contraction in loan supply and a widespread fall in demand, amid monetary policy normalisation and growing uncertainty associated with the deterioration in the economic outlook.



SOURCES: ECB and Banco de España.

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

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

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(see Chart A.2). Euro area banks reported that, between April and September, the deposit facility rate (which was negative for some of that period) continued to have a negative impact on bank profitability. Conversely, Spanish banks' replies indicate that, overall, the deposit facility rate exiting negative territory in July 2022 boosted their profitability slightly (see Chart A.3). Banks in both areas reported that over the last six months the funds obtained in targeted longer-term refinancing operations (TLTROs) continued to have a positive impact on bank profitability and to improve their market financing conditions, although the impact was smaller than six months ago (see Chart A.4). Lastly, in the euro area as a whole these three measures continued to prompt a slight easing of loan supply and an increase in lending volumes, albeit to a lesser extent than six months earlier, whereas in Spain the impact on lending policy and lending volumes was either already very small or zero.

Supply and demand conditions in Spain

Loans to non-financial corporations

In 2022 Q3, credit standards for loans to NFCs tightened for the fourth consecutive quarter, bearing out the expectations from the previous round (although they tightened less than predicted). This was mainly the result of banks' higher risk perception (linked to the deterioration in the economic outlook) and lower risk tolerance, although banks' increased cost of funds and balance sheet constraints also contributed, albeit less so (see Chart 2). The breakdown by firm size shows that credit standards tightened both in loans to SMEs and in lending to large corporations. In line with this contraction in the supply of credit to enterprises, the rejection rate for loans increased.

The overall terms and conditions on new loans also tightened between July and September. This mainly resulted in higher interest rates being applied to these loans,[6] amid an increase in banks' cost of funds. These developments were compatible with a slight narrowing of the margins on average loans, since the higher market reference rates were not fully passed through to the interest rates on those loans, due to strong pressure from competition. Also, collateral requirements increased slightly and maturities decreased moderately, as a result of some banks' higher risk perception and lower risk tolerance (see Chart 2).

According to the banks' responses, in 2022 Q3 firms' demand for loans fell slightly in the sample overall, in line with the expectations from the previous round. This

6 Interest rates are not referred to explicitly in the question on how terms and conditions have changed (mention is only made of margins, defined as the spread over relevant market reference rates). However, in this quarter several banks reported an increase in the rates applied in the "Other factors" section of this question, given that rates were raised yet margins remained unchanged or even narrowed (due to the greater increase in the relevant market reference rate).

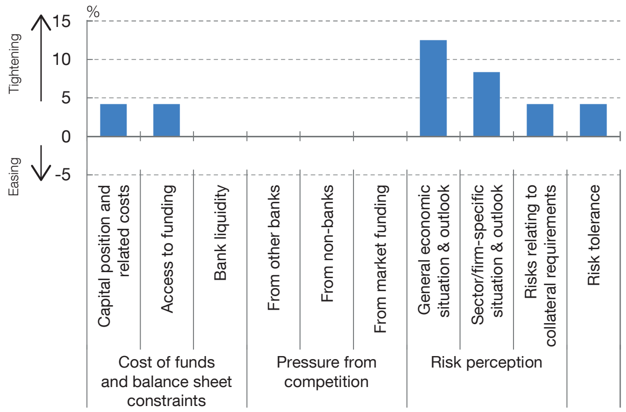
Chart 2

THE CONTRACTION IN LOAN SUPPLY IN SPAIN IN 2022 Q3 IS MAINLY EXPLAINED BY BANKS' HIGHER RISK PERCEPTION

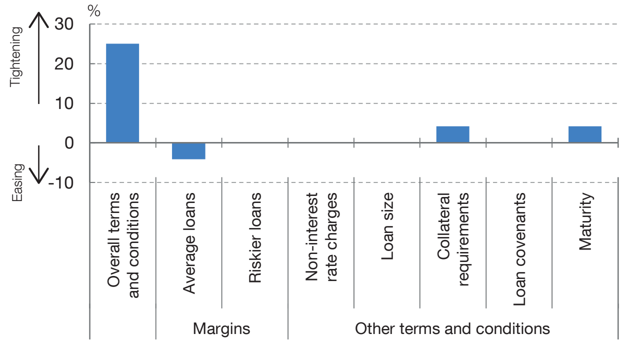
The tightening of credit standards in 2022 Q3 was due, mainly, to banks' higher risk perception and, to a lesser extent, to their lower risk tolerance, the increase in their cost of funds and reduced access to funds. The terms and conditions on loans also tightened, resulting in higher interest rates, which in many cases only partially reflected the increase in market rates, leading to a narrowing of margins.

1 LOANS TO NON-FINANCIAL CORPORATIONS. SPAIN. 2022 Q3

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

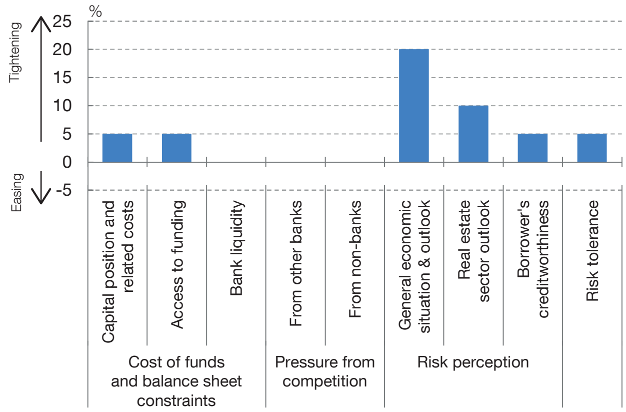


1.2 CHANGES IN TERMS AND CONDITIONS (b)

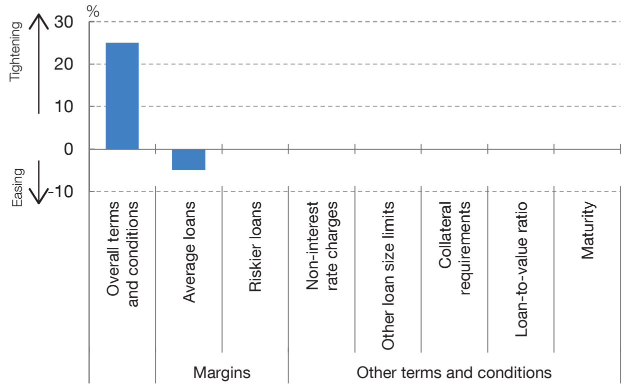


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE. SPAIN. 2022 Q3

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

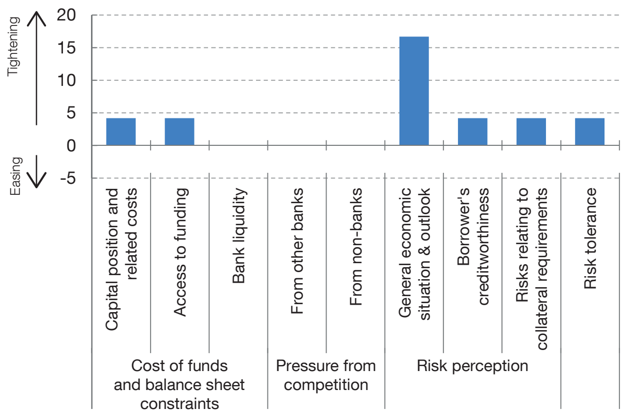


2.2 CHANGES IN TERMS AND CONDITIONS (b)

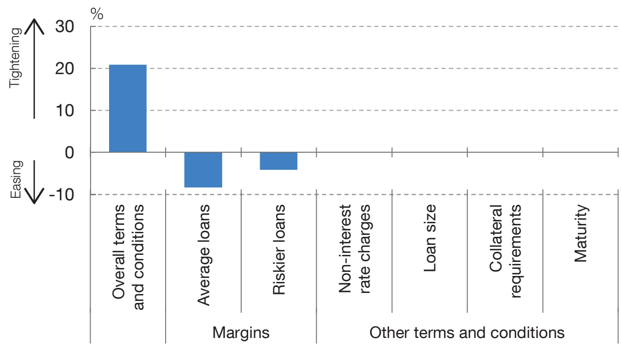


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS. SPAIN. 2022 Q3

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



3.2 CHANGES IN TERMS AND CONDITIONS (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 × 1.

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

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declining pattern was shaped by opposing effects. First, the increase in the general level of interest rates, the lower financing needs for capital investment, the increased use of internal financing and the decline in corporate restructuring operations all contributed to the decrease in loan applications (see Chart 3). However, this fall was partially offset by the increase in loan applications to finance inventories and working capital, against a background of higher commodity costs, along with the rise in debt refinancing operations and, in the case of large firms, the drop in financing raised through debt security issuance.

For 2022 Q4, the responding banks expect both the pattern of tightening credit standards and the decline in demand to intensify.

Loans to households for house purchase

Credit standards for loans to households for house purchase tightened again in 2022 Q3, just as banks had anticipated three months earlier (albeit somewhat more sharply than they had predicted). In fact, the quarterly contraction in supply in this segment was the sharpest since 2008. This owed essentially to increased risk perception, linked to the deteriorating outlook for the general economy and for the housing market, and, to a lesser extent, to the worsening of borrowers' creditworthiness and to banks' lower risk tolerance, higher cost of funds and tighter balance sheet constraints. In line with these supply-side changes, the rate of loan rejections increased.

The overall terms and conditions on these loans tightened between July and September, for the second consecutive quarter. This translated into higher interest rates applied to loans, chiefly as a result of banks' higher cost of funds and, to a lesser extent, higher risk perception[7] (see Chart 2). As was the case in the loans to enterprises segment, margins on average loans narrowed slightly for the sample as a whole, since in some cases higher market interest rates were only partially passed through to the cost of these loans due to strong pressure from competition.

According to the responding banks, demand for loans for house purchase decreased between July and September, in line with banks' expectations from the previous round, thus ending the steadily rising trend in this segment over the previous six months. This mainly owed to adverse impacts associated with the increase in interest rates, lower consumer confidence and, to a lesser extent, greater use of savings (see Chart 3).

In 2022 Q4, banks expect a faster decline in both the supply of, and demand for, housing loans.

7 See footnote 5.

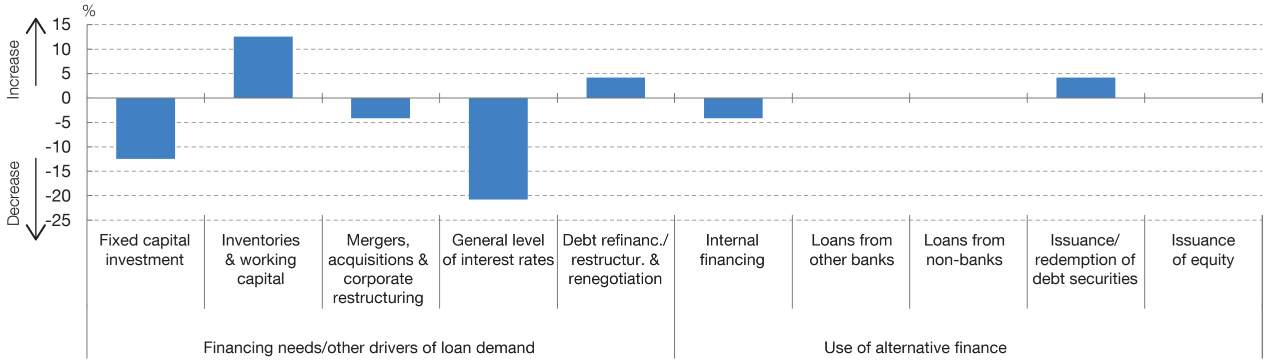
Chart 3

THE DECLINE IN LOAN DEMAND IN 2022 Q3 WAS ATTRIBUTABLE TO HIGHER INTEREST RATES, LOWER CONSUMER CONFIDENCE AND NFCs' LOWER FINANCING NEEDS

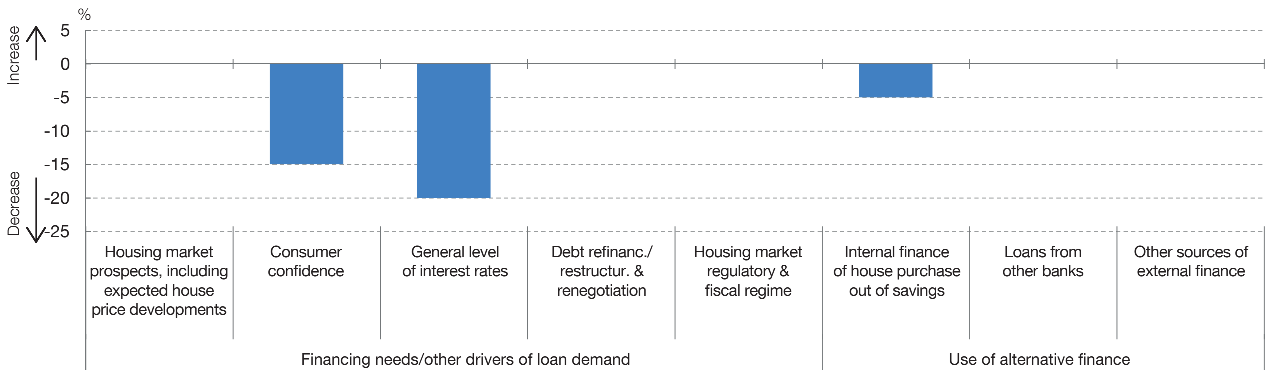
Loan demand fell in the loans to NFCs segment, mainly as a result of higher interest rates and lower fixed capital investment, although these factors were partially countered by the increase in loan applications to finance inventories and working capital and to offset the decrease in funds raised via the debt securities market. Loan demand also fell in the household segment, due to lower consumer confidence and the adverse effect triggered by the increase in interest rates.

1 FACTORS AFFECTING DEMAND FOR LOANS. SPAIN. 2022 Q3 (a)

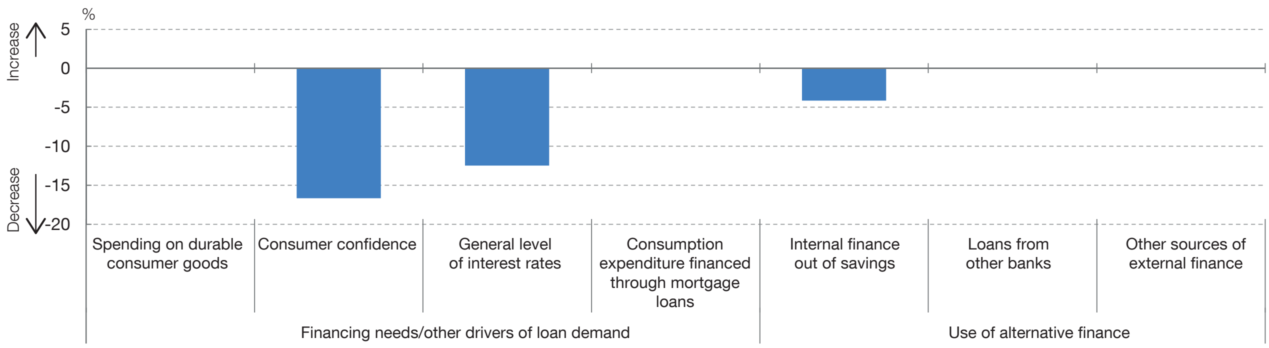
1.1 LOANS TO NON-FINANCIAL CORPORATIONS



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 × 1.

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Consumer credit and other lending to households

In consumer credit and other lending to households, credit standards tightened during 2022 Q3, in line with the expectations reported by banks in the previous quarter. As in the loans for house purchase segment, this owed essentially to increased risk perception, linked above all to the worsening of the general economic outlook and, albeit to a lesser degree, to a deterioration in borrowers' creditworthiness and higher risks relating to collateral requirements (see Chart 2). Other factors that also contributed to the contraction in supply, albeit less significantly, include banks' declining risk tolerance, higher cost of funds and tighter balance sheet constraints. Against this backdrop, the rate of rejected loan applications climbed in the period.

The overall terms and conditions for these loans also tightened, which, as was the case in all segments, translated into higher interest rates on new loans.[8] By contrast, the margins on average loans narrowed slightly, as some banks only partially passed the higher market interest rates through to the cost of such loans, amid strong pressure from competition (see Chart 2).

Based on the responses given, demand for consumer credit and other lending to households decreased slightly in 2022 Q3, in line with banks' expectations three months earlier. This was driven above all by lower consumer confidence, the adverse impact associated with the increase in interest rates and, albeit to a lesser degree, the greater use of savings to finance purchases (see Chart 3).

For 2022 Q4, banks expect a further contraction in both the supply of, and demand for, consumer credit and other lending to households, which in both cases would be sharper than that observed between July and September.

Ad hoc questions

In 2022 Q3, Spanish banks perceived a worsening in access to both retail and wholesale market funding, in a context of rising interest rates (see Chart A.1). Within wholesale markets, the deterioration was more pronounced in securitisations and long-term debt securities. Looking ahead to 2022 Q4, Spanish banks expect a further general tightening of access to funding.

In reply to the question on the impact of the ECB's asset purchase programmes, the participating Spanish banks indicated that, between April and September 2022, a period in which net asset purchases came to an end, these programmes had a slightly negative impact on their liquidity position, financing conditions and capital ratios, with no significant impact on their lending policy (see Chart A.2.1). The banks expect these trends to continue over the next six months (See Chart A.2.2).

8 See footnote 5.

As regards the impact of the ECB's deposit facility rate, Spanish banks overall reported a slightly positive impact on their profitability over the past six months, driven by the increase in net interest income (see Chart A.3). This owes to banks ceasing to pay for holdings in the facility from July, when the rate was raised out of negative territory. At the same time, the cost of a considerable portion of their liabilities (retail deposits in particular) barely reflected the increase in market rates.[9] The effect on loan supply was very marginal, with interest rates on new loans to NFCs up slightly.

Lastly, in reply to the ad hoc question on the ECB's TLTRO III, Spanish banks indicated that between April and September these operations had a positive impact on their financial situation (in terms of profitability), giving them access to funding on more favourable terms and conditions than presently available on the markets, and that they had no significant impact on their lending policy[10] (see Chart A.4.1). The banks expect these effects to continue over the next six months, albeit more moderately (see Chart A.4.2).

25.10.2022

9 For further information, see the box entitled "Pass-through of market interest rates to the cost of bank loans" in "Recent developments in financing and bank lending to the non-financial private sector. First Half of 2022", Analytical Articles, *Economic Bulletin* 3/2022, Banco de España.

10 With all operations concluded, this question is concerned only with the effects (direct and indirect) of the funds raised.

Chart A.1

IN 2022 Q3 ACCESS TO MARKET FINANCING WORSENED IN BOTH SPAIN AND THE EURO AREA

In 2022 Q3 access to retail funding markets deteriorated in both areas. In wholesale funding markets, the deterioration was across the board in Spain, while in the euro area it affected almost all segments, except for the short-term debt securities market, where conditions were unchanged, and the up-to-one-week money market, where they improved slightly. For 2022 Q4, banks in both areas expected this trend of across-the-board deterioration to continue.

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 ◆, ■ = expectation.

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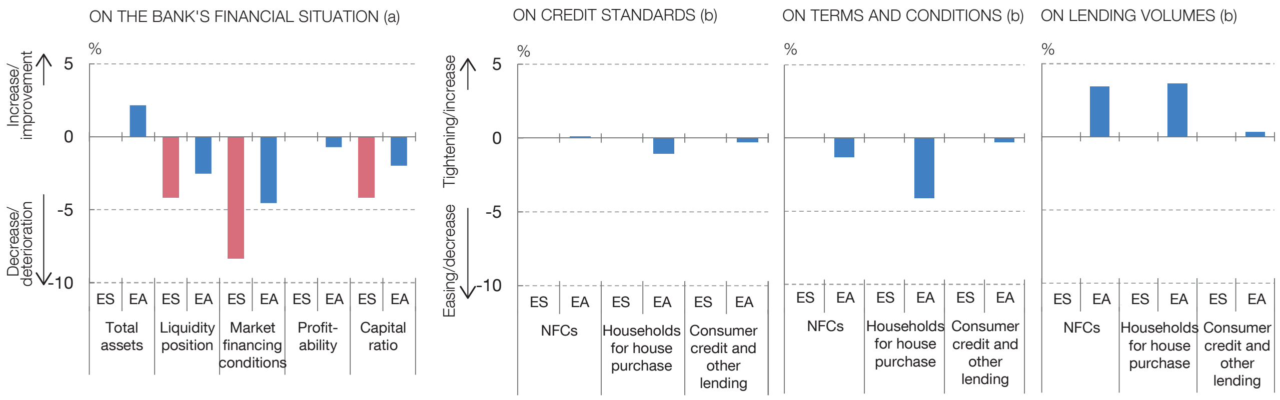
Chart A.2

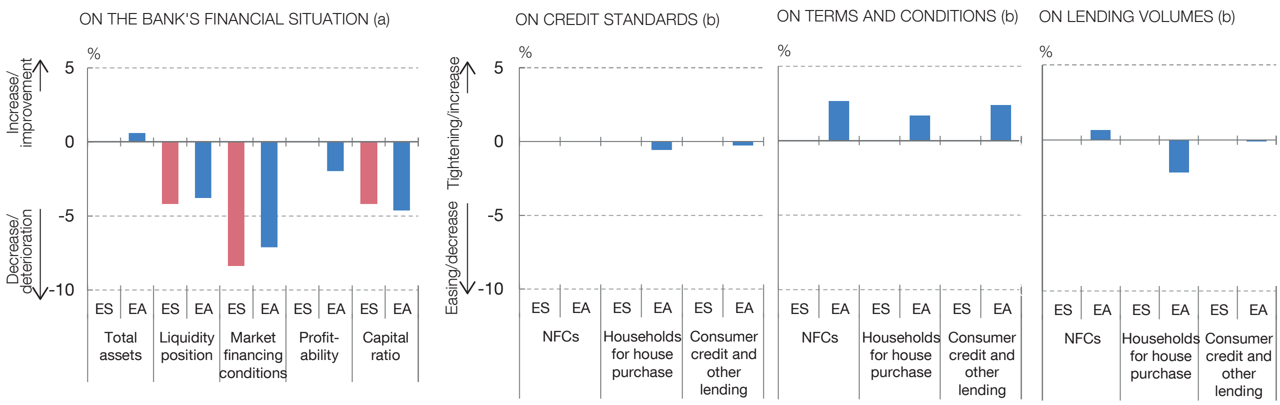
BETWEEN APRIL AND SEPTEMBER THE ENDING OF NET PURCHASES UNDER THE EUROSYSTEM'S ASSET PURCHASE PROGRAMMES HAD A SLIGHTLY NEGATIVE IMPACT ON BANKS' FINANCIAL SITUATION

Between April and September 2022, the ending of net purchases under the Eurosystem's asset purchase programmes prompted, in both areas, a slight worsening of banks' liquidity position and their market financing conditions, and a moderate decline in their capital ratios. In Spain, these programmes did not have any impact on lending policy during the same period, whereas in the euro area they continued to help ease slightly loan supply in some segments and increase lending volumes somewhat. For the next six months, the adverse impact on banks financial situation is expected to continue in both areas and, in the euro area, to lead to a moderate tightening of lending terms and conditions in all segments and a slight decline in lending volumes to households for house purchase.

1 IMPACT OF ASSET PURCHASE PROGRAMMES. LAST SIX MONTHS



2 IMPACT OF ASSET PURCHASE PROGRAMMES. 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 increase or improvement × 1 + percentage of banks reporting that it contributed or would contribute somewhat to an increase or improvement × 1/2 - percentage of banks reporting that it contributed or would contribute somewhat to a decrease or deterioration × 1/2 - percentage of banks reporting that it contributed or would contribute considerably to a decrease or deterioration × 1.

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

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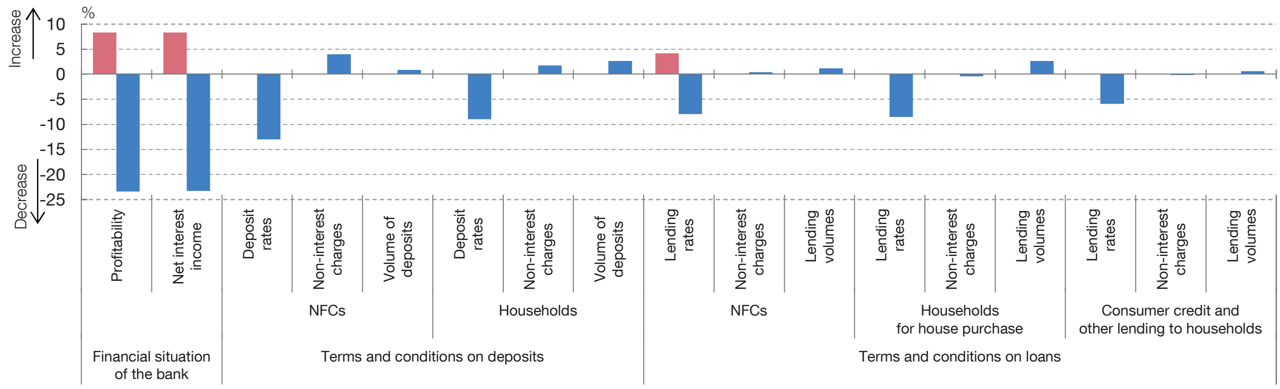
Chart A.3

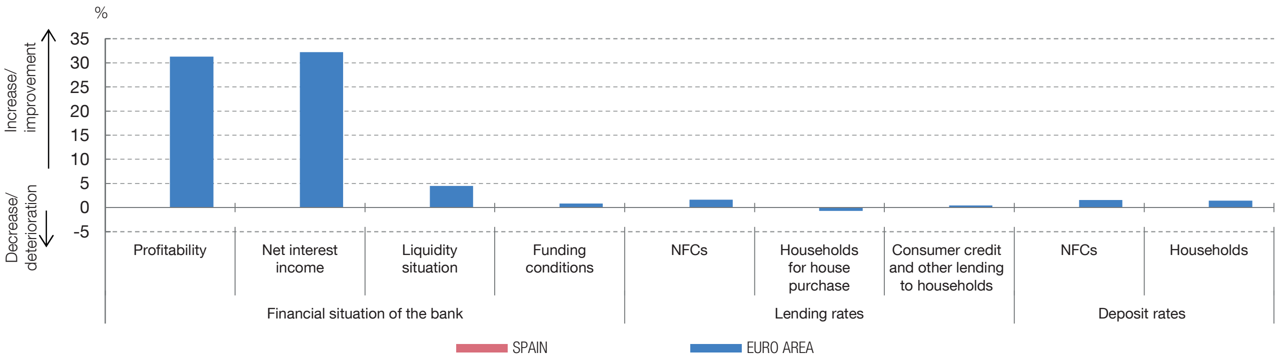
THE DEPOSIT FACILITY RATE MOVED OUT OF NEGATIVE TERRITORY IN JULY, HAVING A SLIGHTLY POSITIVE IMPACT ON SPANISH BANKS' PROFITABILITY

In the last six months, the deposit facility rate, which was negative for part of this period, continued to have an adverse impact on banks' profitability in the euro area overall. By contrast, Spanish banks as a whole reported that the deposit facility rate exiting negative values in July fostered a slight increase in their profitability. In the euro area, this measure was also conducive to lower lending and deposit rates. Lastly, the two-tier system for remunerating reserves at the central bank had a positive impact on the financial situation of euro area banks, while for Spanish banks the impact was negligible.

1 IMPACT OF THE NEGATIVE DEPOSIT FACILITY RATE. LAST SIX MONTHS (a)



2 IMPACT OF THE TWO-TIER SYSTEM FOR THE REMUNERATION OF RESERVES HELD AT THE CENTRAL BANK. LAST SIX MONTHS (a)



SOURCES: ECB and Banco de España.

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

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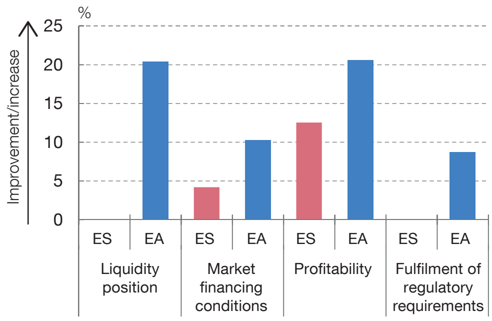
Chart A.4

IN THE PAST SIX MONTHS, THE FUNDS RAISED IN THE TLTRO III HELPED IMPROVE BANKS' FUNDING CONDITIONS AND PROFITABILITY

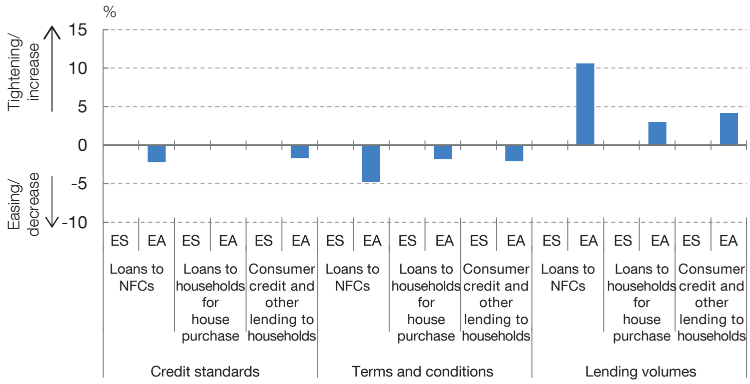
In the past six months, the funds obtained in targeted longer-term refinancing operations (TLTRO III) were again conducive to a moderate increase in banks' profitability and an improvement in their funding conditions, both in Spain and in the euro area. In the euro area, they also fostered higher liquidity and improved fulfilment of regulatory requirements, along with a slight reduction in loan supply and a moderate increase in lending volumes. In Spain, they had no impact on banks' lending policy. Banks expect these trends to continue over the next six months.

1 DIRECT AND INDIRECT REPERCUSSION OF TLTRO III OPERATIONS. LAST SIX MONTHS

1.1 ON BANKS' FINANCIAL SITUATION (a)

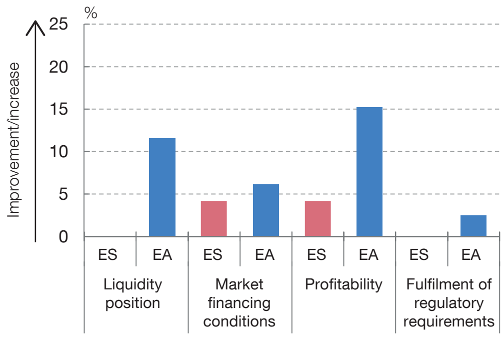


1.2 ON BANK LENDING (b)

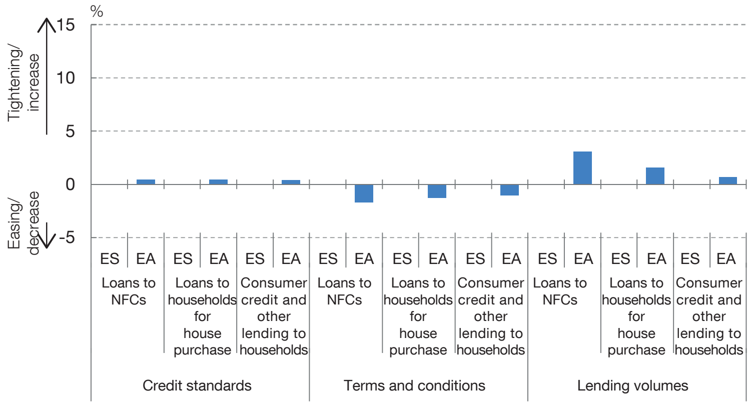


2 DIRECT AND INDIRECT REPERCUSSION OF TLTRO III OPERATIONS. NEXT SIX MONTHS

1.2 ON BANKS' FINANCIAL SITUATION (a)



2.2 ON BANK LENDING (b)



SOURCES: ECB and Banco de España.

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

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