ANALYTICAL ARTICLES
Economic Bulletin

1/2021

BANCO DE ESPAÑA
Eurosistema

RECENT DEVELOPMENTS IN FINANCING AND BANK LENDING TO THE NON-FINANCIAL PRIVATE SECTOR

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ABSTRACT

Financing conditions for households and businesses have remained accommodating in the second half of 2020, assisted by the support measures introduced by the economic and monetary authorities to contend with the fallout of the COVID-19 pandemic. However, there are signs of some tightening in credit standards, linked to financial institutions' increased risk concerns. The recovery in economic activity since the summer has favoured a more dynamic flow of credit to individuals, while, after the large volume of financing granted to productive activities over the spring, new lending to this sector declined significantly. The strong negative impact of the COVID-19 pandemic on economic activity did not filter through in any significant way into the quality of deposit institutions' private sector credit portfolio until 2020 Q3. Although the decline in non-performing loans observed in previous years generally slowed across portfolios in 2020, and despite the pick-up in specific portfolios, such as those relating to consumer credit, total non-performing loans have continued to decline on a year-on-year basis. Growth in the volume of public guarantees for lending to business eased in the second half of the year and the volume of credit subject to non-expired moratoria, which is concentrated mostly in banking association schemes, stabilised.

Keywords: financing, lending, households, non-financial corporations, deposit institutions, non-performing loans ratio, public guarantees, moratoria.

JEL classification: E44, E51, G21, G23, G28.

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Introduction

This article examines recent developments in funds raised by the Spanish non-financial private sector from an aggregate standpoint (second section) and resident deposit institutions' (DIs) credit exposure to this sector (third section). Developments in these approaches will not necessarily coincide, since households and non-financial corporations (NFCs) do not only receive funding from these financial intermediaries. Households, in particular, may also receive consumer credit from specialised lending institutions (SLIs), while non-financial corporations may issue debt in the capital markets.[1] The article concludes with a section analysing the quality of the credit on DIs' balance sheets, paying special attention to changes in non-performing loans (NPLs). It also includes two boxes. The first breaks down the growth in lending to households and firms into supply and demand-side factors by applying a structural VAR model. The second box describes in detail developments in the current stock of credit granted by DIs subject to moratoria.

Funds raised by the non-financial private sector

During 2020 H2, financing conditions for the Spanish economy's non-financial private sector have continued to be highly conditioned by the course of the COVID-19 pandemic and by the economic and monetary authorities' response to it. Thus, monetary policy has continued to underpin the loosening of financial conditions through two increases to the initial envelope of the Pandemic Emergency Purchase Programme (PEPP), the improvement of conditions and the extension of refinancing operations with counterparties, and the prolongation of the European Central Bank's (ECB) collateral easing measures until June 2022. Additionally, the launch of a second public guarantee facility managed by the Official Credit Institute (ICO) amounting to €40 billion,[2] the improvement of conditions (extension of the grace period from 12 to 24 months and of the maturity from five to eight years) and the

1 For a detailed explanation of the differences between the two approaches and other statistical aspects, see Box 1, "Statistical information for the analysis of outstanding balances of financing and credit", in Alves et al. (2019).

2 See Royal Decree-Law 25/2020 of 3 July 2020 on urgent measures to support economic recovery and employment.

extension of the application deadline[3] for the first facility, amounting to €100 billion,[4] to June 2021 also appear to have contributed to improving access to financing and conditions for businesses and the self-employed.

Against this backdrop, the cost of new lending to households and businesses remained at very low levels and recorded further declines during 2020 H2, leading it to stand at all-time lows in most segments towards the end of the year (see Chart 1.1). In any event, in many credit categories these declines were somewhat smaller than the reduction in market rates,[5] with the spread between the two widening since the summer (see Chart 1.2).

The average cost of long-term corporate debt issues decreased by roughly 40 basis points (bp) during 2020 H2 to around pre-pandemic levels by the end of 2020. The spread between this cost and the swap rate for the same maturity (the latter being a proxy for the financing costs of financial institutions with high credit quality) has also fallen in recent months, although at end-2020 it was some 25 bp above pre-health crisis levels.

Credit standards tightened across the board in H2 as a result of financial institutions' increased risk perception, according to the Bank Lending Survey (BLS).[6] This appears to have resulted in a larger share of rejected loan applications in 2020 Q4 across all credit segments. In the case of lending to households, the tightening in the loans for house purchase segment appears to have been moderate and to have occurred only in Q3 (no change was observed in Q4) as a result of financial institutions' reduced risk tolerance and the overall weak outlook for economic activity. These two factors, together with the perceived deterioration of borrowers' creditworthiness, would explain the tightening in the consumer credit and other lending segment, which seems to have been more pronounced than that observed in the loans for house purchase segment (see Chart 1.3).

In the case of lending to businesses, financial institutions have tightened credit standards due to increased risk perception associated with the poorer outlook for economic activity in general and the prospects of certain sectors or companies, together with higher risks regarding the collateral requirements. This tightening occurred despite the support of public guarantee facilities, although the improvement in their conditions and the implementation of the second facility near the end of the year may have contributed to lessening the degree of tightening in 2020 Q4.[7] In line

3 See Royal Decree-Law 34/2020 of 17 November 2020 on urgent measures to support business solvency and the energy sector and on tax matters.

4 On data at end-2020, about €13 billion in guarantees were still available from the first facility.

5 Market rates are proxied by the swap rate curve.

6 See Menéndez and Mulino (2021).

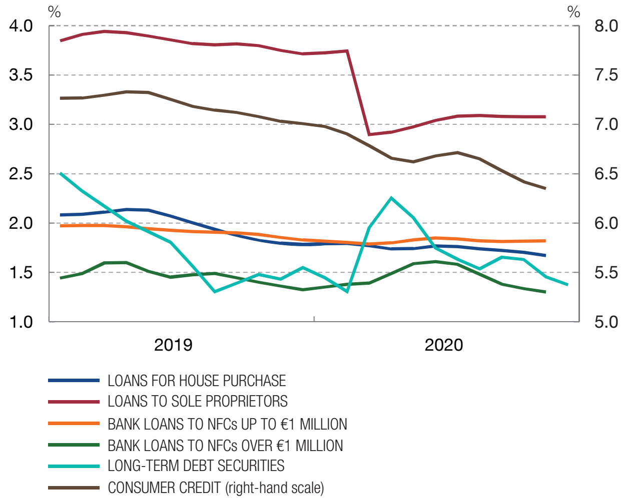
7 To date, two tranches of the second facility, amounting to €10.55 billion, have already been mobilised, which may be used not only to cover liquidity needs but also for productive investment.

Chart 1

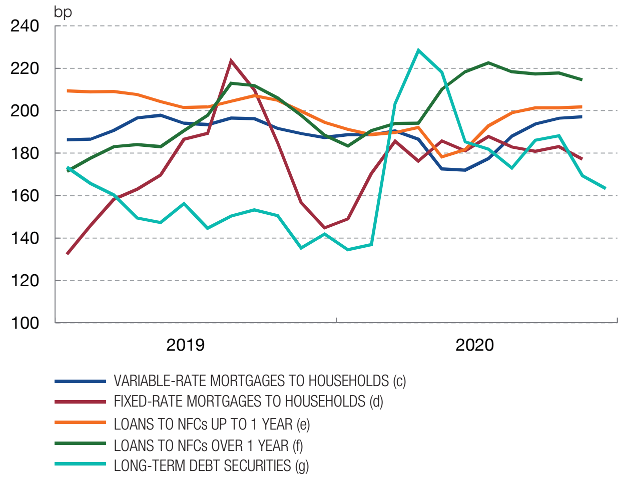
FINANCING COSTS HAVE DECLINED SLIGHTLY IN RECENT MONTHS, BUT ACCESS TO BANK LOANS HAS TIGHTENED (a)

Average financing costs for the non-financial private sector declined slightly in 2020 H2, although in some sectors they did so to a lesser extent than market interest rates. Simultaneously, credit standards tightened overall in the same period, while demand for loans fell, most sharply among corporations, following the considerable increase observed in the spring.

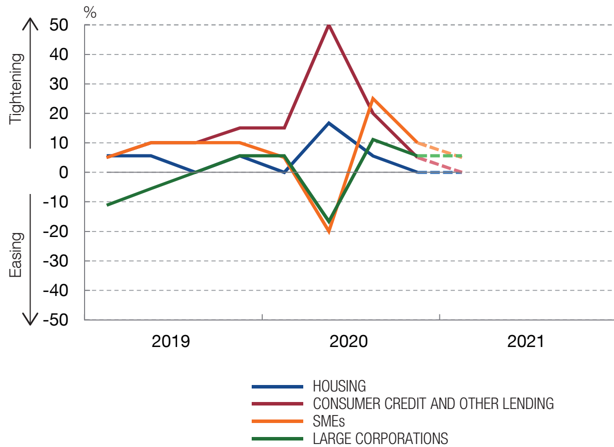
1 FINANCING COSTS: NON-FINANCIAL PRIVATE SECTOR (b)



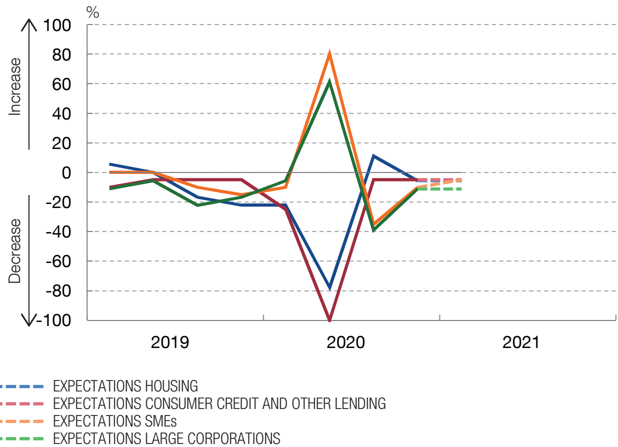
2 SPREAD BETWEEN BANK AND MARKET INTEREST RATES (b)



3 BLS: CHANGE IN CREDIT STANDARDS (h)



4 BLS: CHANGE IN DEMAND FOR LOANS (i)



HOUSING
CONSUMER CREDIT AND OTHER LENDING
SMEs
LARGE CORPORATIONS
EXPECTATIONS HOUSING
EXPECTATIONS CONSUMER CREDIT AND OTHER LENDING
EXPECTATIONS SMEs
EXPECTATIONS LARGE CORPORATIONS

SOURCES: Thomson Reuters Datastream, ECB and Banco de España.

- **a** Credit transactions include those with deposit institutions and with specialised lending institutions.
- **b** Interest rates on bank loans are NDER (narrowly defined effective rate), i.e. excluding fees, and are adjusted for the seasonal and irregular component (that is, small changes in the series with no recognisable pattern in terms of periodicity or trend).
- **c** Spread with respect to the previous month's 12-month EURIBOR.
- **d** Spread with respect to the same month's 20-year interest rate swap.
- **e** Spread with respect to the previous month's 3-month EURIBOR.
- **f** Spread with respect to the same month's 3-year interest rate swap.
- **g** Spread with respect to the same month's 10-year interest rate swap.
- **h** Indicator = percentage of banks that have tightened their standards considerably × 1 + percentage of banks that have tightened their standards somewhat × 1/2 – percentage of banks that have eased their standards somewhat × 1/2 – percentage of banks that have eased their standards considerably × 1.
- **i** 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.

with these results, in the latest round of the ECB's Survey on the Access to Finance of Enterprises (SAFE) in the euro area, Spanish SMEs expected a deterioration in their access to bank loans for the period from October 2020 to March 2021, following the improvement observed in this respect in the previous six months.[8]

Similarly, the BLS also shows a tightening of the overall terms and conditions for businesses and households in the consumer credit and other lending segment in 2020 H2, while they would have remained unchanged in the case of loans for house purchase. Thus, in terms of prices, the margins applied have reportedly widened, in both average and riskier loans, while financial institutions have limited the amounts of loans and lines of credit and have increased collateral requirements for lending.

The restrictions on movement imposed on account of the pandemic were lifted from the summer onwards, paving the way for the recovery in economic activity and for greater buoyancy in lending to individuals. Thus, there was a year-on-year increase in the volume of new loans for house purchase and a slowdown in the pace of contraction of lending to households for other purposes (see Chart 2.1). In the loans for house purchase segment, these developments seem to be due mainly to the increase in demand, as indicated by the BLS (see Chart 1.4), partly as a result of the materialisation of purchase decisions that had to be postponed during the spring lockdown. In the consumer credit segment, the year-on-year rate of decline in new lending has eased since the summer, although it gathered pace again in the last months of the year as the second wave of the pandemic surged and uncertainty mounted. According to the BLS, these developments could be a consequence both of the contraction of supply and of the fall in demand. In both segments, the moratoria schemes are tending to temper household borrowing needs.

By contrast, new lending for business contracted sharply in H2 on a year-on-year basis (see Chart 2.2). After the large volume of bank financing raised by NFCs and sole proprietors over the spring to cover their liquidity needs and build up liquid assets, demand for corporate bank financing fell in H2, according to the BLS. Indeed, in 2020 Q3 the fall in demand for loans was reportedly the sharpest since 2009. The incipient use of these liquidity buffers, the grace periods of the guaranteed financing obtained and the longer maturities would be partly behind the lower demand. Together with the tightening of credit supply, this would explain recent developments in new lending to businesses. The results of an econometric model confirm that the loss of momentum in bank financing for NFCs since the summer may be explained by both supply and demand-side factors (see Box 1).

The flow of new credit for business between March and November amounted to €268 billion, compared with €248 billion in the same period a year earlier. Just over

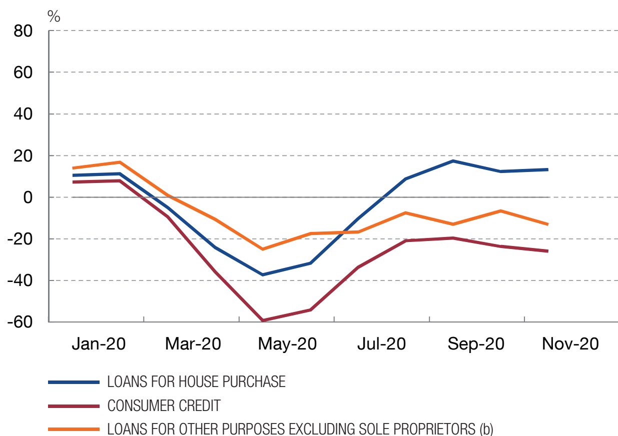
8 See Box 3, "Recent developments in Spanish SMEs' access to external finance according to the ECB's six-monthly survey", in "Quarterly report on the Spanish economy", *Economic Bulletin,* 4/2020, Banco de España.

Chart 2

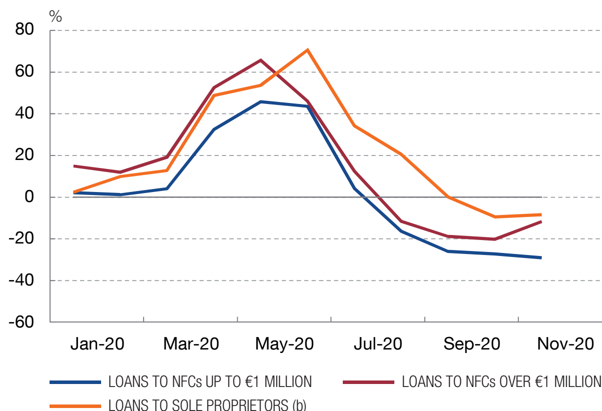
NEW LENDING TO INDIVIDUALS SHOWED GREATER BUOYANCY AND NEW LENDING TO BUSINESS DECLINED IN 2020 H2

The lifting of the restrictions on movement from the summer onwards was conductive to greater buoyancy in new lending to individuals, particularly in the case of loans for house purchase, partly as result of the materialisation of purchase decisions that had to be postponed during the spring. A contraction in new lending to productive activities has been observed in recent months, following the high volume of bank financing raised by businesses and sole proprietors during lockdown to cover their most pressing liquidity needs. These developments in financing flows have fed through to the behaviour of outstanding credit amounts.

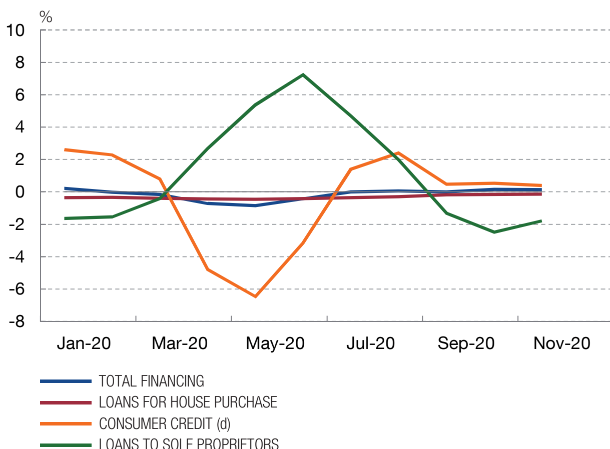
1 NEW LENDING TO INDIVIDUALS (a)
Y-o-y change in 3-month cumulative flows



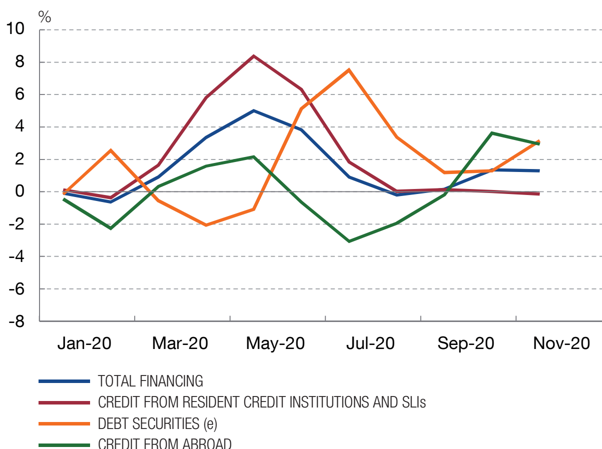
2 NEW LENDING TO PRODUCTIVE ACTIVITIES (a)
Y-o-y change in 3-month cumulative flows



3 FINANCING TO HOUSEHOLDS. OUTSTANDING AMOUNTS (a)
Q-o-q change (c)



4 FINANCING TO NFCs. OUTSTANDING AMOUNTS (a)
Q-o-q change (c)



SOURCE: Banco de España.

a Bank financing series (credit or loans) include financing granted by deposit institutions and by specialised lending institutions (SLIs).
b Includes renegotiations of previous loans.
c Seasonally adjusted rates.
d Excludes securitised lending.
e Includes issues by resident subsidiaries of non-financial corporations.

DOWNLOAD

40% of new transactions during this period were channelled through the public guarantee facilities managed by the ICO. This has allowed businesses and the self-employed not only to cover their most pressing liquidity needs, but also to build up liquid assets and improve their financing conditions, as the funds raised through the use of these public guarantees were obtained under more favourable conditions than those usually available on the market in terms of grace and repayment periods and cost, as explained above.[9]

These developments in bank finance flows were reflected in the behaviour of outstanding amounts. Thus, in seasonally adjusted quarter-on-quarter rates,[10] the amount of lending granted to households went on to expand slightly at a rate of 0.1% in November (the latest available figure), following the 0.4% decline in June (see Chart 2.3). This was the result of the moderation of the rate of decline of loans for house purchase (which recorded a quarter-on-quarter fall of 0.1% in November, 0.3 percentage points (pp) less than in June) and of the pick-up in the growth of consumer credit (which expanded at a quarter-on-quarter rate of 0.4% in November, compared with the decline of 3.2% five months earlier). In any case, these changes in outstanding amounts are also influenced by the moratoria on loans to individuals[11] (see Box 2), without which the amount of repayments would have been higher, reducing the momentum of the outstanding amount.

Meanwhile, lending to business grew at a significantly more subdued pace during the second half of the year (see Chart 2.4). Thus, in quarter-on-quarter terms, the outstanding amount of sole proprietors' bank debt shrank in November (the latest available figure) at a pace of 1.8%. The amount of credit extended by resident financial institutions to NFCs has also slowed sharply since the summer, with quarter-on-quarter growth rates reaching slightly negative values in November (-0.2%). Corporate financing on the capital markets also lost momentum during 2020 H2, albeit to a lesser extent than bank financing (it grew at a pace of 3.2% quarter-on-quarter in November, compared with 7.5% in July). Conversely, financing from abroad, which is usually more volatile, has started to grow (2.9% in November, quarter-on-quarter, compared with a decline of 3.1% in July). Consequently, the balance of corporate debt has continued to expand, albeit at a more moderate pace (1.3% in November, quarter-on-quarter, compared with 3.8% in June).

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9 See Box 1, "The role of the public guarantee programme in the recent buoyancy in lending to the self-employed and non-financial corporations", in Alves et al. (2020).

10 These rates are calculated by comparing the amount for one month with that observed three months earlier and applying a seasonal-adjustment procedure.

11 Two legislative moratoria for economically vulnerable individuals have been approved for mortgage debts (see Royal Decree-Law 8/2020 of 17 March 2020) and for non-mortgage credit agreements (see Royal Decree-Law 11/2020 of 31 March 2020), and a banking sector moratorium that extends the range of beneficiary individuals and allows deferrals to be extended when the legislative moratorium expires (see Royal Decree-Law 19/2020 of 26 May 2020).

Lending by the resident banking sector

The stock of loans granted by DIs in Spain to the resident private sector[12] in September 2020 increased by 2.6% year-on-year (see Chart 3.1). This represents a virtual stabilisation with respect to the 2.5% rate observed in June 2020. However, the expansion of credit since the outbreak of the pandemic stalled in 2020 Q3. As in the case of financing to the non-financial private sector as a whole, the behaviour of credit granted by DIs from March to September 2020 has been strongly influenced by the COVID-19 crisis, which has pushed up firms' demand for funds, and by the measures adopted by the authorities to mitigate the economic and social impact of the pandemic. These include, in particular, the public guarantee facilities aimed at facilitating access to credit and liquidity for businesses and the self-employed, which have also prompted an increase of 1.8 pp in the weight of lending to this segment as a proportion of the total credit extended by DIs to the private sector (see Chart 3.2).[13]

As discussed in the previous section, developments in lending have differed significantly by institutional sector and activity. Credit granted by DIs in Spain to NFCs and sole proprietors recorded a year-on-year growth rate of 8.4% in 2020 Q3 (see Chart 4.1), despite having declined slightly from June to September. The high year-on-year rate is mainly explained by the expansion of this stock between March and June. Loans to households continued to decline year-on-year (-1.5%), albeit somewhat less than in Q2. Notable in this segment is the contraction in consumer credit and other lending to households (-0.3%). Conversely, loans for house purchase moderated their year-on-year decline to -1.8% in September 2020 (a decline 0.3 pp lower than in June) (see Chart 4.2).

With regard to the sectors of activity, the year-on-year decrease in lending to the real estate sector (construction and real estate activities) quickened to 3.6% in September 2020 (compared with a year-on-year decline of 2.9% in June 2020). Other non-real estate lending to NFCs and sole proprietors grew by 12.4% year-on-year, up on the 11.3% observed in Q2, although it decreased in Q3. In any event, it should be taken into account that 65% of the public guarantee facility linked to Royal Decree-Law 8/2020 and managed by the ICO was granted between March and June 2020, driving growth in other non-real estate lending to NFCs and sole proprietors in that quarter (and over the last 12 months as a whole). As compared with 2019, the distribution of year-on-year growth in business lending among DIs has clearly shifted towards more positive values, remaining relatively stable between 2020 Q2 and Q3 (see Chart 5.1). Also

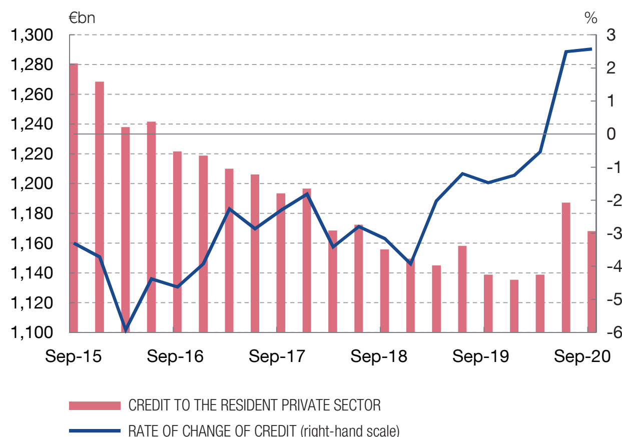
12 The resident private sector includes the following institutional sectors: non-financial corporations, households (which include sole proprietors), non-profit institutions serving households (NPISH) and other finance companies.

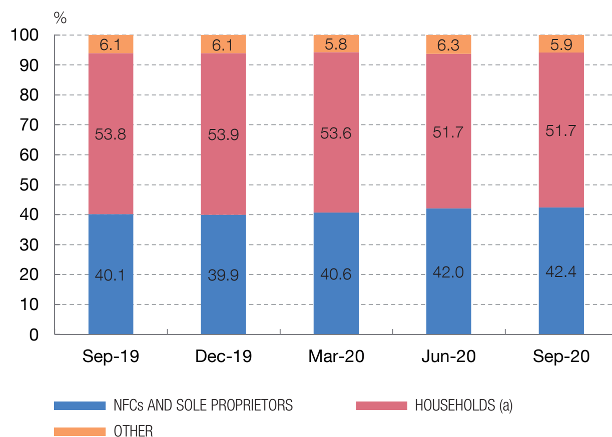
13 See Royal Decree-Law 8/2020 of 17 March 2020 on urgent extraordinary measures to address the economic and social impact of COVID-19, which establishes a guarantee scheme for a maximum of €100 billion. Additionally, Royal Decree-Law 25/2020 establishes a second guarantee facility to support business investment, for a maximum amount of €40 billion.

Chart 3

DI LENDING TO THE RESIDENT PRIVATE SECTOR, WHICH GREW STRONGLY SINCE THE START OF THE PANDEMIC, SLOWS ITS EXPANSION IN 2020 Q3

The expansion of DI lending to the resident private sector in 2020 Q2, supported by the measures adopted to address the adverse effects of COVID-19, stalled in 2020 Q3. The relative weight of the non-financial corporation and sole proprietor segment, which concentrated the year-on-year expansion, experienced a slight additional increase (0.4 pp) in 2020 Q3.





SOURCE: Banco de España.

a Excluding lending for business activities, which is classified as lending to sole proprietors.

noteworthy is that the dispersion among institutions of such distribution has become wider as lending increased from 2020 Q2, indicating that not all DIs appear to have made a comparable contribution to the growth in business lending over recent quarters.

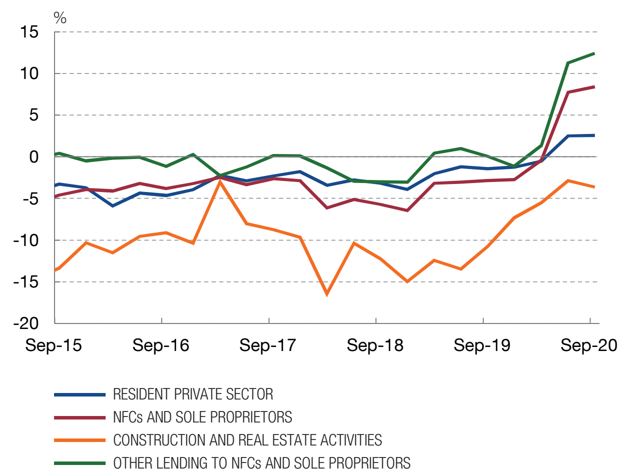
Box 1 breaks down the changes in lending in the households and NFCs sectors since 2005 into supply and demand-side factors, whose identification is essential to correctly interpreting the economic consequences of these credit growth patterns. Unlike the widespread and persistent adverse supply and demand shocks identified during the different stages of the global financial crisis for both NFCs and households, a very different pattern for the two groups is observed in this crisis. In the case of households, Q2 witnessed negative supply and demand shocks — the former likely tied to institutions' heightened risk perception and the latter associated with restrictions on movement and uncertainty — which, for the time being, do not seem to have continued. In the case of NFCs, the initial phases of the pandemic saw positive supply shocks, linked to economic policy support, and sizeable positive demand shocks related to their increased liquidity needs. The materialisation of negative supply shocks in the NFCs sector in 2020 Q3 signals a possible petering out of the effect of the support measures on supply and DIs' greater risk perception, and must be monitored closely over the coming months.

Chart 4

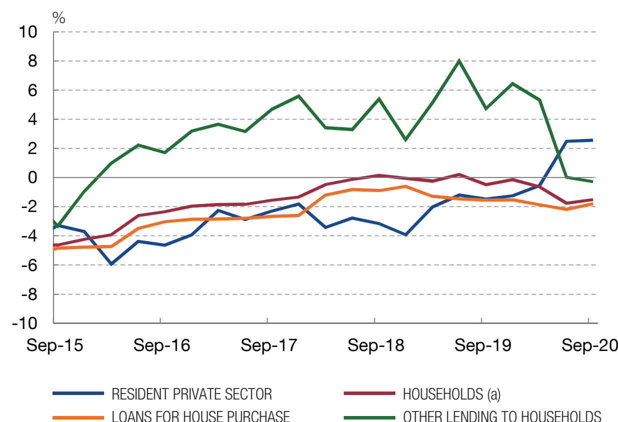
DESPITE THE SLOWDOWN IN 2020 Q3, THE YEAR-ON-YEAR GROWTH RATE OF LENDING FOR BUSINESS ACTIVITIES REMAINS HIGH, WHILE THE DECLINE IN LENDING TO HOUSEHOLDS STAYED IN CHECK

The year-on-year expansion of lending to non-financial corporations and sole proprietors (8,4%) observed in September 2020 is largely due to the deployment of approximately 65% of the COVID-19 guarantee facility pursuant to Royal Decree-Law 8/2020 until 30 June, rather than to the performance in Q3. The construction and real estate activities sector stepped up its decline, with a year-on-year rate of -3.6% (-2.9% in June 2020). Lending to households slowed its year-on-year decline, owing to a smaller reduction in loans for house purchase, which more than offset the shift into negative territory in other lending to households.

1 Y-O-Y RATE OF CHANGE IN LENDING TO NFCs AND SOLE PROPRIETORS. DIs



2 Y-O-Y RATE OF CHANGE OF LENDING TO HOUSEHOLDS. DIs



SOURCE: Banco de España.

a Excluding lending for business activities, which is classified as lending to sole proprietors.

Lending to the sectors most affected by the restrictions on movement imposed on account of the COVID-19 pandemic[14] has grown year-on-year significantly more than business lending as a whole. Specifically, lending to these sectors recorded year-on-year growth of 16.4% in September 2020 (4 pp more than average growth in other non-real estate lending to NFCs and sole proprietors). The sectors whose bank-based financing has shown greater momentum include the accommodation and food service activities and arts, entertainment and recreation sector, which has grown by 30.6% year-on-year. However, in Q3, lending to the sensitive sectors as a whole shrank slightly (-0.2% in quarter-on-quarter terms), but contracted less than in 2019 Q3.[15] Lending by DIs to accommodation and food service activities and recreation continued to grow in Q3, albeit at a far more moderate quarterly rate (1.7%), which, nevertheless, compares favourably with the quarterly contraction observed in 2019 Q3 (see Chart 5.2).

14 The sectors most sensitive to the physical restrictions stemming from the COVID-19 pandemic include manufacturing (except the manufacture of food products and beverages); wholesale and retail trade; repair of motor vehicles and motorcycles; transportation and storage; and accommodation and food service activities and arts, entertainment and recreation.

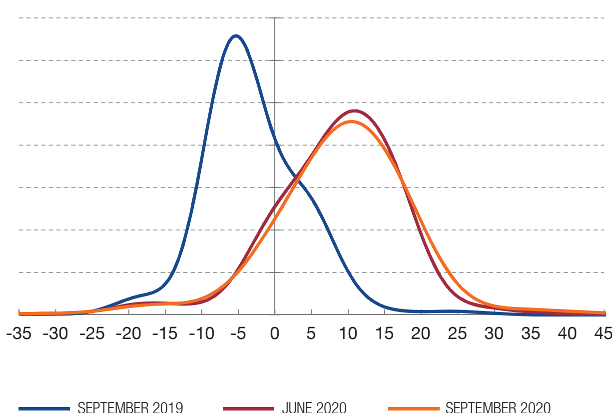
15 In this section, the quarterly growth rates are not seasonally adjusted and their 2019 and 2020 values are shown using this definition to enable their interpretation.

Chart 5

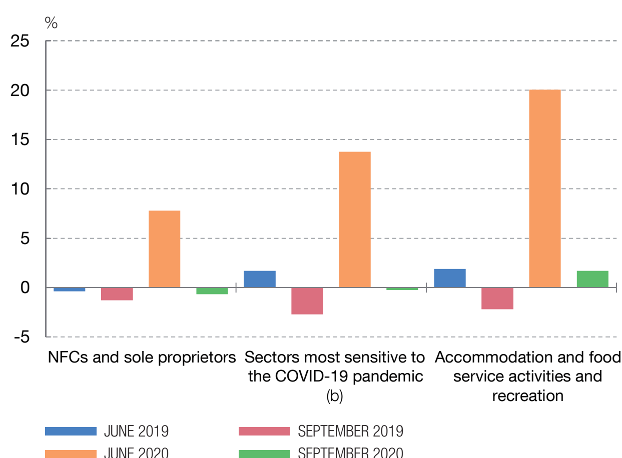
GROWTH IN LENDING TO BUSINESS SINCE THE ONSET OF THE PANDEMIC HAS BEEN WIDESPREAD AMONG INSTITUTIONS AND PARTICULARLY STRONG IN SENSITIVE SECTORS, ALTHOUGH IT ALSO MODERATED SUBSTANTIALLY FOR THESE SECTORS IN 2020 Q3

The change in the distribution among DIs of the year-on-year growth in lending to business shows an across-the-board shift towards positive values in 2020, but a marked dispersion among the DIs. Lending to the sectors most sensitive to the COVID-19 pandemic hardly grew in 2020 Q3 in comparison with the strong growth seen in 2020 Q2. Among the most sensitive sectors, only the accommodation and food service activities and arts, entertainment and recreation sector grew in Q3 (1.7%).

1 DISTRIBUTION OF Y-O-Y RATE OF CHANGE IN LENDING TO NFCs AND SOLE PROPRIETORS (%). DIs (a)



2 QUARTER-ON-QUARTER RATE OF CHANGE IN LENDING, BY SECTOR. DIs



SOURCE: Banco de España.

a The chart shows the density function of the year-on-year changes in lending to NFCs and sole proprietors, weighted by the amount of lending corresponding to each DI. This density function is approximated through a kernel estimator which allows a non-parametric estimate of the density function, yielding a continuous and smoothed graphical representation of that function.

b The total for the sectors most sensitive to the COVID-19 pandemic includes the joint behaviour of manufacturing, wholesale and retail trade, motor vehicle repairs, transport and storage, and accommodation and food service activities and recreation.

As mentioned above, most of the COVID-19 guarantee facility was deployed in 2020 Q2, aimed mostly at SMEs and the self-employed (70% of the total) to cover their liquidity needs. The drawdowns against lending to business secured by a public guarantee totalled €81.5 billion to September 2020, €71.5 billion of which had already been granted in 2020 Q2[16] (see Chart 6.1). If we also take into account the new drawable funds (lines of credit, etc.) secured by the guarantees under Royal Decree-Law 8/2020, total financing associated therewith amounted to €102 billion in September 2020. The amount guaranteed totalled €87 billion in December 2020 (latest available figure), which has enabled NFCs to obtain total financing of €114.6 billion associated with the guarantee scheme under Royal Decree-Law 8/2020, including both increases in drawn credit and new amounts drawable against lines of credit and similar instruments granted by the DIs to NFCs. To December 2020, two tranches of guarantees to support business investment for a joint amount of €10.5 billion were also activated as part of the scheme

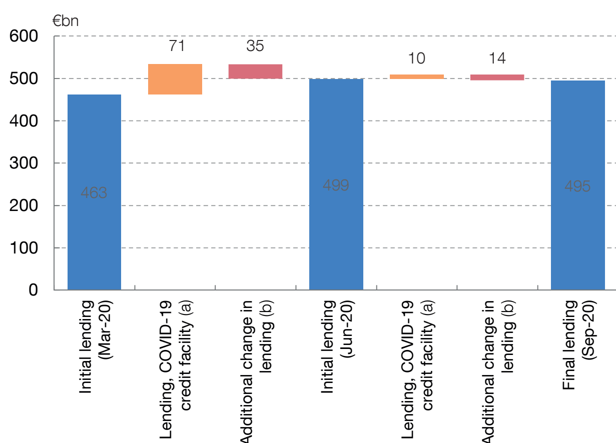
16 The inclusion of fuller information on the COVID-19 guarantee facility increases the amount drawn down in June 2020 from €62 billion (previously estimated and published in "Recent developments in financing and bank lending to the non-financial private sector", Analytical Articles, *Economic Bulletin,* 4/2020, Banco de España) to the current €71.5 billion figure.

Chart 6

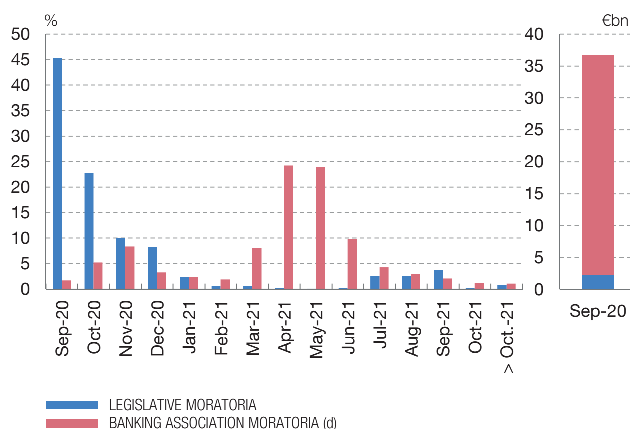
THE COVID-19 GUARANTEE FACILITY HAD A SMALLER IMPACT ON GROWTH IN LENDING TO BUSINESS IN 2020 Q3 THAN IN Q2. BANKING ASSOCIATION MORATORIA PREDOMINATE THE NON-EXPIRED MORATORIA, WITH MOST SET TO EXPIRE IN 2021 Q2

Further implementation in 2020 Q3 of the COVID-19 guarantee facility established under Royal Decree-Law 8/2020 was unable to counter the drop in the stock of lending to NFCs and sole proprietors. 94% of the €36.7 billion under non-expired moratoria in September 2020 related to banking association moratoria. Most legislative moratoria expired in September and October 2020 (68%), whereas banking association moratoria (sector-wide and individually established moratoria) are due to expire in April and May 2021 (48.1%).

1 CHANGE IN LENDING TO NFCs AND SOLE PROPRIETORS BETWEEN MARCH AND SEPTEMBER 2020. DIs



2 EXPIRY OF THE MORATORIA. DIs AND SLIs (c)
Expirations by month and year as a % of total expirations



SOURCES: ICO and Banco de España.

a COVID-19 guarantee facility established under Royal Decree-Law 8/2020, with a limit of €100 billion. Total lending under this public guarantee scheme to September 2020 amounted to €102 billion, of which NFCs and sole proprietors had drawn down €81 billion.
b The additional change in lending to NFCs and sole proprietors reflects the change in the stock of lending drawn down unexplained by the implementation of the COVID-19 guarantee scheme, corresponding to the net difference between new loans not subject to the guarantee scheme and repayments and transfers to write-offs.
c The volume of non-expired moratoria in September 2020 corresponded mainly to DIs (96%). The remainder (4%) corresponded to SLIs.
d Banking association moratoria include both those under a sector-wide agreement and individual moratoria established by institutions with their customers in accordance with the principle of freedom of contract under the Spanish Civil Code.

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under Royal Decree-Law 25/2020. In turn, Royal Decree-Law 34/2020 allowed business owners that had accessed financing secured under the Royal Decree-Law 8/2020 scheme up to 18 November to apply for an extension of up to three years of the related maturity and of 12 months of the grace period.[17]

Moratoria on loan repayments have, first, helped defer payment obligations associated with lending to individuals and, second, constituted additional support measures for the productive sectors most sensitive to the COVID-19 pandemic, as in the case of the moratoria for the tourism and transport sectors.[18] With data to September 2020, the stock of loans under these moratoria amounted to around €36.7 billion, accounting

17 Royal Decree-Law 34/2020 also extends the application deadline for the schemes under Royal Decree-Law 8/2020 and Royal Decree-Law 25/2020 to 1 June 2021.

18 The moratorium relating to the tourism sector is regulated by Royal Decree-Law 25/2020 of 3 July 2020 on urgent measures to support economic recovery and employment. The moratorium relating to transport is regulated by Royal Decree-Law 26/2020 of 7 July 2020 on economic recovery measures to address the impact of COVID-19 on transport and housing. These two new moratoria apply to both natural and legal persons.

for around 3.4% of total lending to the resident private sector.[19] Box 2 presents a more detailed analysis of the flows of moratoria granted, the transition from legislative moratoria to banking association moratoria and the change in the outstanding stock of loans under moratoria between March and September 2020.

Chart 6.2 shows the terms to expiration for the non-expired moratoria in September 2020. Given the shorter terms to expiration of the legislative moratoria, most were due to expire in the months closest to that reference date, such that 45% of them were due to expire in September and up to almost 70% at the end of October 2020. Due to the longer terms to expiration of banking association moratoria, around 45% of them are due to expire in April and May 2021.

Quality of bank lending

Despite the heavy adverse impact on economic activity triggered by COVID-19, the former is yet to feed through to the quality of DIs' stock of loans. The resident private sector's NPLs continued to fall in year-on-year terms, albeit at a slower pace. In September 2020 they decreased by 9.8% year-on-year (-11.9% in June 2020). These developments were driven by the measures adopted in response to the pandemic, in particular, the COVID-19 guarantee facilities and the legislative and bank association moratoria.[20] In addition, the 3.4% decrease in NPLs in Q3, compared with the quarter-on-quarter growth of 0.7% observed in June 2020 (positive for the first time since 2014) was influenced by the sale of NPL portfolios conducted by some DIs (in particular, mortgage portfolios). This decline is, however, smaller than the 5.6% decrease in 2019 Q3.

NPLs of NFCs and sole proprietors have continued to decrease in year-on-year terms (–12% in September 2020), but the decline has moderated (–15.5% in June 2020). The construction and real estate activities sector once again recorded the largest decrease in NPLs (-24.5% in year-on-year terms), while those in other non-real estate lending to NFCs and sole proprietors fell by 7% (See Chart 7.1).

19 These figures relate to the volume of non-expired moratoria at that date, and not the cumulative flow of loans benefitting from these schemes since their launch. The figures in this article thus differ from those included in the briefing notes on moratoria published by the Banco de España, which do present the amount of the loans under moratoria since the schemes were launched, irrespective of whether or not they have expired (see Briefing note on moratoria, December 2020).

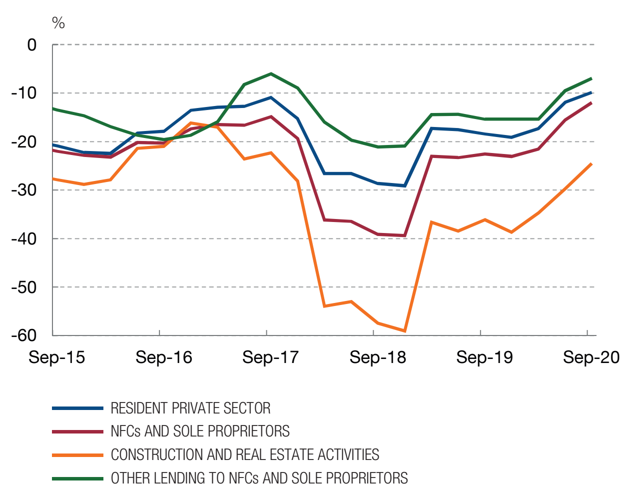
20 See Royal Decree-Law 8/2020 of 17 March 2020 on urgent extraordinary measures to address the economic and social impact of COVID-19; Royal Decree-Law 11/2020 of 31 March 2020 adopting urgent complementary social and economic measures to address COVID-19; Royal Decree-Law 19/2020 of 26 May 2020 adopting supplementary measures on agricultural, scientific, economic, employment and social security and taxation matters to alleviate the effects of COVID-19; Royal Decree-Law 25/2020 of 3 July 2020 on urgent measures to support economic recovery and employment; Royal Decree-Law 26/2020 of 7 July 2020 on economic recovery measures to address the impact of COVID-19 on transport and housing; and Royal Decree-Law 34/2020 of 17 November 2020 on urgent measures to support business solvency and the energy sector and on tax matters.

Chart 7

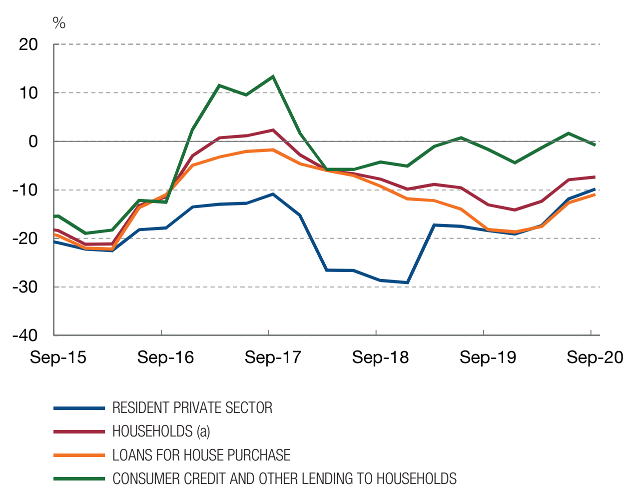
THE PACE OF THE DECLINE IN NPLs CONTINUED TO SLOW IN 2020 Q3 IN THE NFCs AND SOLE PROPRIETORS AND HOUSEHOLDS SECTORS

The decline in NPLs observed in recent years continued to slow in 2020 Q3 in the non-financial corporations and sole proprietors and, to a lesser extent, households sectors. This deceleration was widespread across business sectors. Among the various purposes of the lending to households, of note is the year-on-year change of almost zero in September 2020 in NPLs relating to consumer credit and other lending to households.

1 Y-O-Y RATE OF CHANGE IN NPLs, NFCs AND SOLE PROPRIETORS. DIs



2 Y-O-Y RATE OF CHANGE IN NPLs, HOUSEHOLDS. DIs



SOURCE: Banco de España.

a Excluding lending for business activities, which is classified as lending to sole proprietors.

In lending to households, as in Q2, NPLs behaved differently depending on the purpose of the loan. The NPLs in consumer credit and other lending to households held relatively stable in September 2020 (-0.8% in year-on-year terms), despite consumer credit NPLs growing by 18.5% year-on-year (down 4.4 pp from Q2), thanks to the better relative behaviour of the NPLs relating to other lending to households (acquisition of garages, land, securities, debt consolidation and other). The decline in NPLs relating to loans for house purchase moderated (–10.9% in year-on-year terms, compared with –12.7% in June 2020), although, as stated above, the steep drop in Q3 (–6.3%) was influenced by sales of mortgage portfolios (see Chart 7.2).

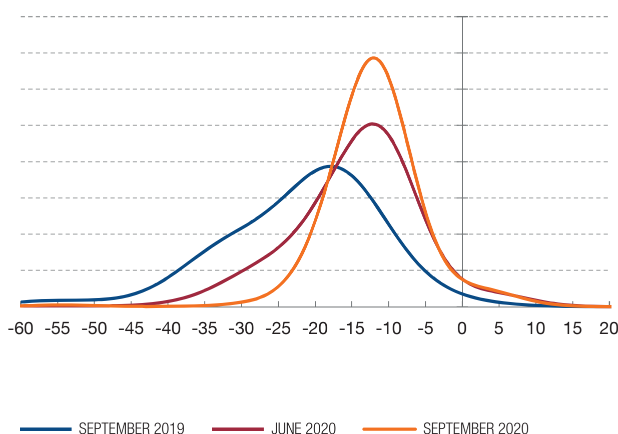
The shift towards less negative values in the distribution of the annual percentage changes in overall NPLs relating to NFCs and sole proprietors points to the moderation of the decline in this type of troubled asset as compared with 2019 being widespread among institutions (see Chart 8.1). NPLs relating to the sectors most sensitive to the restrictions on movement imposed on account of the COVID-19 pandemic declined 6.1% year-on-year, slightly under the decrease in NPLs relating to the non-real estate corporate sector as a whole (-7%). However, of note is the increase in NPLs relating to the accommodation and food service activities and arts, entertainment and recreation sector (1.4% in year-on-year terms), despite the decline

Chart 8

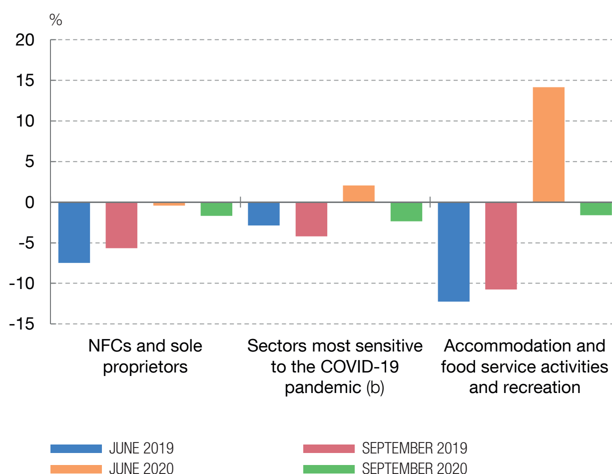
NPLs RELATING TO LENDING TO BUSINESS, INCLUDING THE SECTORS MOST SENSITIVE TO THE COVID-19 PANDEMIC, DECLINED IN 2020 Q3

NPLs relating to NFCs and sole proprietors fell at a faster rate in 2020 Q3 than in 2020 Q2, although at slower quarterly rates of change than in 2019. Unlike in 2020 Q2, the sectors most sensitive to the COVID-19 pandemic recorded negative rates. Worthy of note is the quarterly change in the accommodation and food service activities and recreation sector, with a drop in NPLs, compared with a significant increase in Q2. However, in year-on-year terms, DIs recorded slower rates of decline in NPLs in relation to business lending as a whole than those observed in 2019.

1 DISTRIBUTION OF THE Y-O-Y RATE OF CHANGE IN NPLs, LENDING TO NFCs AND SOLE PROPRIETORS. DIs (a)



2 QUARTER-ON-QUARTER RATE OF CHANGE IN NPLs, BY SECTOR. DIs



SOURCE: Banco de España.

a The chart shows the density function of the year-on-year changes in NPLs relating to NFCs and sole proprietors, weighted by the amount of lending corresponding to each DI. This density function is approximated through a kernel estimator which allows a non-parametric estimate of the density function, yielding a continuous and smoothed graphical representation of that function.

b The total for the sectors most sensitive to the COVID-19 pandemic includes the joint behaviour of manufacturing, wholesale and retail trade, motor vehicle repairs, transport and storage, and accommodation and food service activities and recreation.

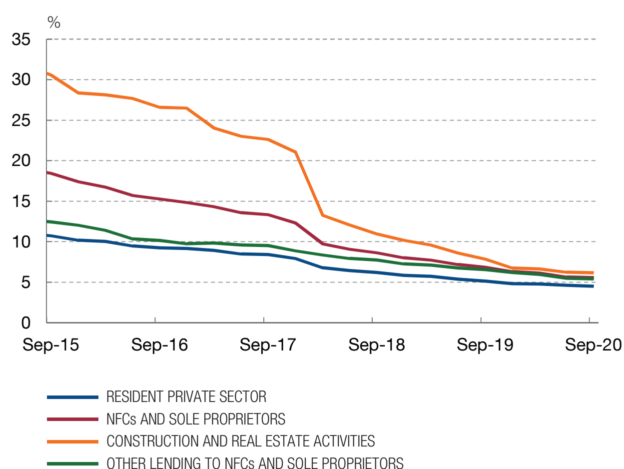
recorded in this sector in Q3 (-1.6%), which was insufficient to offset the significant increase — of close to 15% — observed between March and June. Growth in 2020 Q2 and Q3 contrasts with the steep declines — exceeding 10% — observed in the same quarters of 2019, prior to the outbreak of the pandemic. In September 2020, unlike in Q2, the NPLs relating to the group of sectors most sensitive to the COVID-19 pandemic declined quarter-on-quarter; however, this decrease was far smaller than that observed in the same quarter of 2019 (see Chart 8.2).

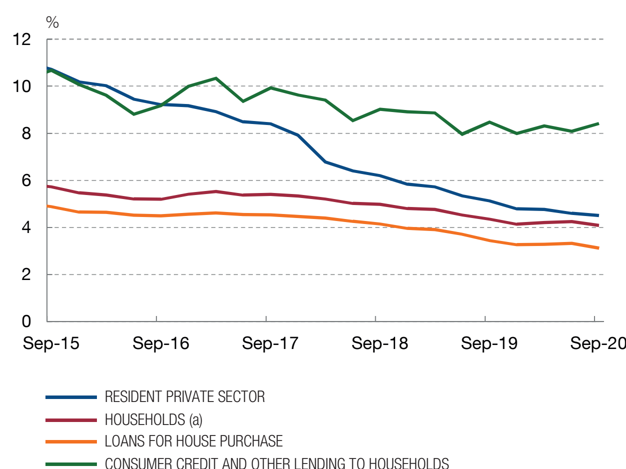
The developments observed in relation to both total lending and NPLs relating to the resident private sector has taken the NPL ratio to 4.5% in September 2020 (down 0.1 pp from June 2020). In the case of lending to NFCs and sole proprietors, the NPL ratio has held relatively stable across all sectors, with a quarterly decline of 0.1 pp in the construction and real estate activities sector (to 6.1% in September 2020) and in other non-real estate lending to NFCs and sole proprietors (to 5.4% in the same month) (see Chart 9.1). The NPL ratio in the sectors most sensitive to the COVID-19 pandemic decreased from 6.3% in June 2020 to 6.2% in September 2020. In lending to households, the NPL ratio relating to loans for house purchase declined by 0.2 pp

Chart 9

THE NPL RATIO CONTINUED TO DECLINE IN YEAR-ON-YEAR TERMS, CONTAINED IN PART BY THE ECONOMIC MEASURES ADOPTED IN RESPONSE TO THE PANDEMIC

The broad-based cross-institutional-sector and cross-sector-of-activity decline in NPL ratios pre-COVID-19 pandemic has levelled off and in 2020 Q3 the ratio's numerator and denominator both fell. However, in lending to households, the NPL ratio for consumer credit and other lending to households, which continues at a high level (above 8%), rose in 2020 Q3.





SOURCE: Banco de España.

a Excluding lending for business activities, which is classified as lending to sole proprietors.

to 3.1% in September 2020, while the NPL ratio relating to consumer credit and other lending to households grew by 0.3 pp to 8.4% (see Chart 9.2).

The coverage ratio (the ratio of loan loss provisions to NPLs) relating to the resident private sector continued on the upward trajectory it commenced in December 2019, reaching 45% in September 2020. The 3.8 pp increase in the coverage ratio in the first nine months of 2020 was influenced by DIs' provisioning against the backdrop of COVID-19, in expectation of an increase in the NPL ratio.

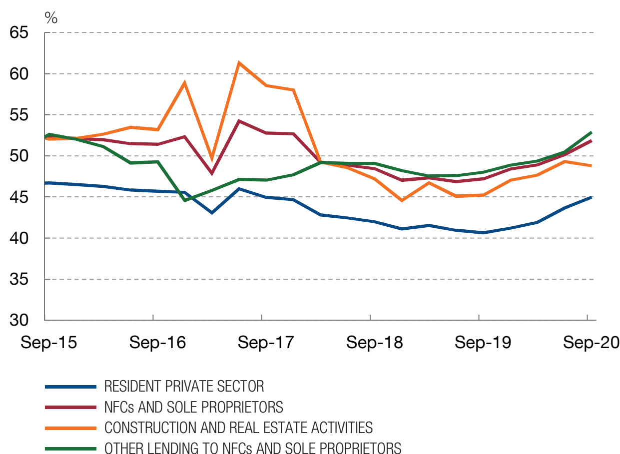
In lending to NFCs and sole proprietors, the coverage ratio stood at 51.9% in September 2020, above the coverage ratio for lending to households (37.4%), in relation to which over 80% of the stock of loans are secured by a mortgage. Although the coverage ratio stands at similar levels across all sectors, in the construction and real estate activities sector it decreased (48.8%, down 0.5 pp from June 2020), while in other non-real estate lending to NFCs and sole proprietors (including the sectors most sensitive to the COVID-19 pandemic) it increased (52.9%, up 2.4 pp from June 2020) (see Chart 10.1). Turning to lending to households, the coverage ratio for loans for house purchase decreased by 0.3 pp to stand at 29.9% in September 2020, while the coverage ratio for other lending to households increased by 1.9 pp to 49.8% (65.8% for consumer credit) (see Chart 10.2).

Chart 10

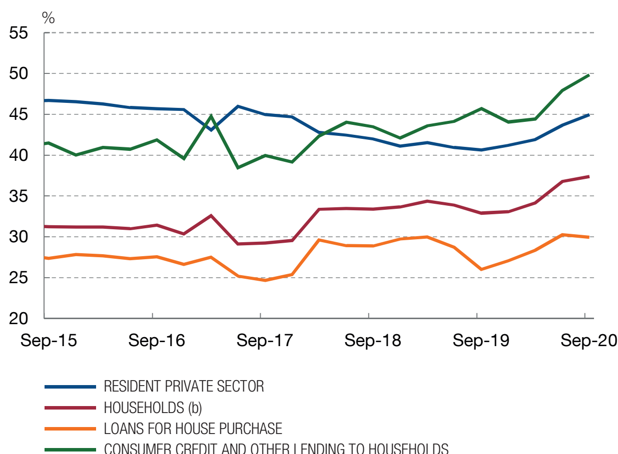
COVERAGE RATIOS CONTINUED TO RISE IN 2020 Q3, EXCEPT FOR THOSE RELATING TO LENDING TO CONSTRUCTION AND REAL ESTATE ACTIVITIES AND TO LOANS FOR HOUSE PURCHASE

The NPL coverage ratios relating to the resident private sector increased in 2020 Q3 in the NFCs and sole proprietors sector and in the households sector. However, the NPL coverage ratios fell in construction and real estate activities and in loans for house purchase.

1 NPL COVERAGE RATIO, NFCs AND SOLE PROPRIETORS. DIs (a)



2 NPL COVERAGE RATIO, HOUSEHOLDS. DIs (a)



SOURCE: Banco de España.

a The coverage ratio is defined as loan loss provisions as a percentage of non-performing loans.
b Excluding lending for business activities, which is classified as lending to sole proprietors.

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Lastly, lending to the resident private sector subject to forbearance measures totalled €52.5 billion in September 2020, distributed equally between NFCs and sole proprietors and households. Except for forborne consumer credit, which grew 19.3% in year-on-year terms (16.1% in June 2020), the decline in the stock of forbearance loans stabilised, with a year-on-year decrease of 14% in Q3 (14.1% in June 2020).

29.1.2021.

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Box 1

DEVELOPMENTS IN LENDING TO HOUSEHOLDS AND FIRMS IN SPAIN: ANALYSIS OF THE SUPPLY AND DEMAND-SIDE FACTORS INVOLVED

Analysing the extent to which fluctuations in the volume of bank loans are a consequence of changes in the demand for or the supply of credit is of great importance to the economic authorities. The implications for economic growth and the general price level differ depending on which of these factors predominates, as also does the optimal economic policy response to these fluctuations.

This box analyses the supply and demand-side shocks to lending to households and firms using a structural vector autoregressive model (SVAR). The framework allows simultaneous modelling of the relationships established between the change in lending and in the loan-deposit spread, and estimation of the contemporaneous effects on these two variables of shocks associated with supply and demand-side factors.[1] For this purpose, changes in lending and in the interest rate spread at a given moment in time are expressed in this model as a function of the changes in these same variables in the past, multiplied by different coefficients. That is to say, a dynamic relationship between the variables of interest is considered.

To identify the model's structural lending supply and demand shocks, sign restrictions are imposed on the coefficients associated with them that are in line with economic theory. Intuitively, this identification is based on the assumption that a shock to the supply of credit will move the volume of credit and the interest rate spread in different directions, while a demand-side shock will move them in the same direction. For example, if demand increases and the funds available to lend do not, the interest rate spread will widen. Conversely, if the supply of available funds increases while demand is unchanged, the interest rate spread will narrow.

Two models are estimated independently for this box, one for lending to households and the other for lending to firms. Data are used on new lending to households, which include sole proprietors for this analysis, and on lending to non-financial corporations, as well as on the spread between weighted average rates on new lending in each of these sectors and the deposit rates for households and non-financial corporations.[2] Quarterly rates for the period 2003 Q1- 2020 Q3 are used for this purpose, obtained from the euro area financial statements for Spain.[3]

Chart 1 presents a breakdown of the contribution of supply and demand-side factors (in cumulative annual terms) to the growth in lending to households between 2004 and 2020. It can be seen that, before the global financial crisis (GFC), the growth in this type of lending was explained by both supply and demand-side factors, with a slightly larger contribution from the supply-side ones. During the crisis, the supply-side factors were more important, explaining to a greater extent the decline in lending both in the initial phase of the GFC from late 2007 until 2009 and in the subsequent period from 2010 to 2014, which contains the peak of the European sovereign debt crisis. After these crisis episodes, in recent years demand-side factors have been more relevant in the recovery of lending to households, to which positive supply-side shocks have also contributed.

After the outbreak of the pandemic, the effects of which became obvious from March 2020, lending to households stalled in Q1 and declined sharply in Q2, mainly due to demand-side factors. In Q3, the flow of lending to households stabilised, with a positive contribution of close to zero by both the supply and the demand-side factors. When interpreting this finding, it should be taken into account that, although lending to households includes lending to sole proprietors, which benefits from the programme of public guarantees[4] for business lending, notably improving its supply-side conditions, this represents a small percentage of lending to households and would not offset the growth in lending for house purchase, consumer credit and other lending to households.[5]

At the same time, although lending to businesses has also experienced a cycle of contraction and expansion

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1 The model estimates the short-term relationship between lending and interest rate spreads, allowing for contemporaneous shocks between these two variables. The model is estimated by Bayesian inference using a Gibbs and Minnesota priors sampling algorithm. As this is a statistical model, it should be interpreted as an approximation of the dynamics of the variables in question, with the consequent uncertainty in the inferences made on the basis of them.

2 New lending does not include renegotiations, overdrafts or credit card balances.

3 The model is estimated using the growth rates of quarterly flows of new lending and of their associated lending-deposit spreads. The growth rates of quarterly flows are seasonally adjusted and expressed in real terms.

4 Royal Decree-Law 8/2020 establishes a guarantee facility of up to €100 billion to cover the liquidity requirements of the corporate sector, while Royal Decree-Law 34/2020 extends the deadlines for applications for guarantees and improves their conditions. Also, Royal Decree-Law 25/2020 establishes a second guarantee facility to support business investment.

5 Lending to sole proprietors represented approximately 6.5% of the total stock of lending to households of Spanish deposit institutions in September 2020.

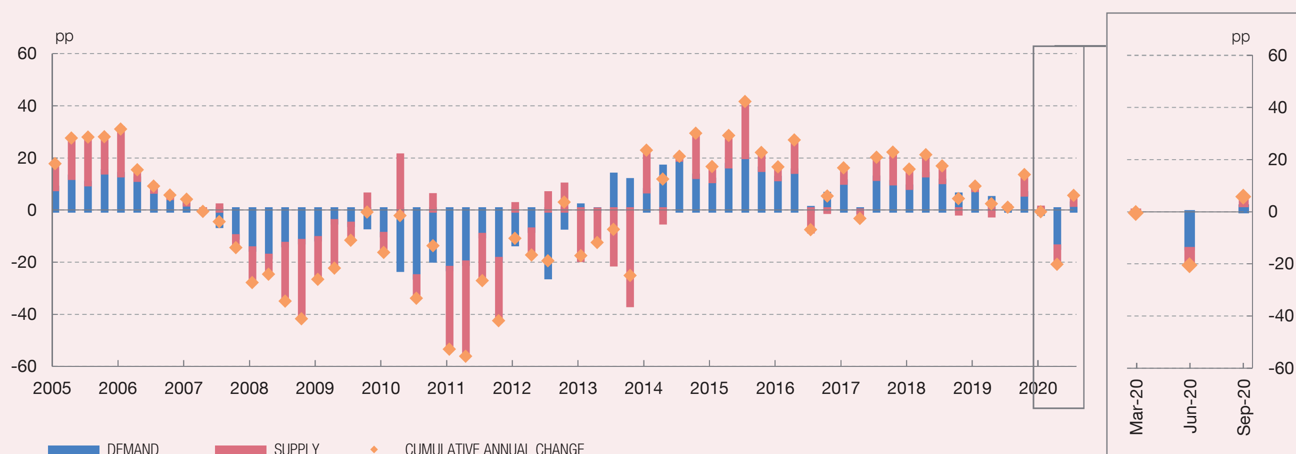
associated with the GFC and the end of this crisis, the factors that have explained its behaviour are somewhat different (see Chart 2). For this category of lending, demand-side factors have been more important, and they explain both the growth before the GFC and its decline during the crisis years. Following the European sovereign debt crisis the determinants of the behaviour of this type of credit have been somewhat more volatile than lending to households, with changes in the supply and demand-side factors. During the three months prior to the pandemic, new lending to firms was growing, mainly due to demand-side factors.

However, unlike lending to households, this type of financing continued to grow following the start of the pandemic, owing to demand-side and, especially, supply-side factors. This appears to be a result of firms' demand for liquidity, given the sharp fall in their revenues, and the improvement in supply conditions, essentially as a consequence of the guarantee programmes implemented in response to the pandemic and the expansion of the ECB's financing programmes, such as TLTROs. However, in 2020 Q3 there was a decline in lending that appears to have been caused by supply-side factors and that may signal the waning stimulation capacity of assistance programmes, the extension of which was approved at the end of last year.

The results for lending to firms are qualitatively comparable to the trends observed in the Bank Lending Survey (BLS) since the start of the pandemic (see Chart 1 in the main text), with positive developments in supply and demand conditions in 2020 Q2 that are reversed in 2020 Q3.[6] Also, the growth in lending to households is dominated in both sets of results by adverse demand developments in 2020 Q2, when supply conditions also showed negative developments.

Overall, the different analyses considered point to the changes in demand conditions (related to the mobility restrictions in the case of households and the demand for liquidity in that of firms) and to the stimulus of the supply of credit by the policies adopted (programme of guarantees for business lending, expansion of the ECB's financing programmes, such as TLTROs) as being the main factors explaining the behaviour of lending to households and businesses in Spain since the start of the pandemic.

Chart 1
BREAKDOWN OF THE GROWTH IN LENDING TO HOUSEHOLDS IN SPAIN INTO SUPPLY AND DEMAND-SIDE FACTORS

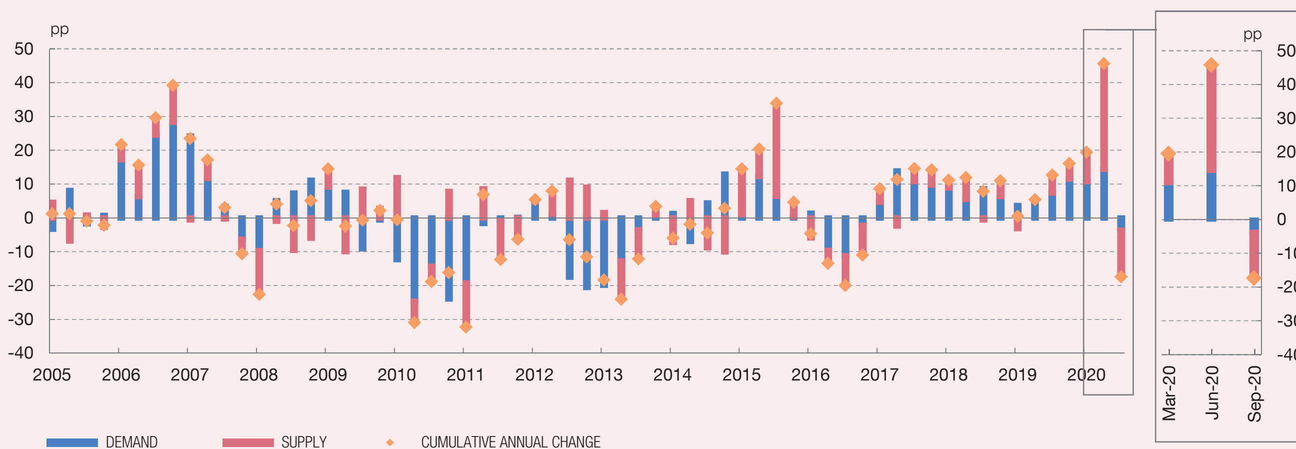


SOURCE: Banco de España calculations.
NOTE: Cumulative annual change. Supply and demand-side effects are estimated using an SVAR model applied to the new lending data in euro area statements, using 5,000 MCMC (Monte Carlo Markov Chain) extractions out of a total of 50,000 iterations.

6 The results are not quantitatively comparable: in the case of the BLS they correspond to diffusion indices which reflect the number of credit institutions reporting a certain sign for the behaviour of supply or demand conditions, and the model used in this box models the aggregate behaviour of the volume of new lending.

These general developments would not amount to an immediate risk for the prudential authorities. However, the adverse developments in the supply of credit to firms in 2020 Q3 may indicate a weakening of the capacity of banks to finance the economic activity of the non-financial private sector. It is, therefore, necessary to continue to monitor this variable over the coming quarters to confirm if this supply weakness is temporary or if its effect grows.

Gráfico 2
BREAKDOWN OF THE GROWTH IN LENDING TO NON-FINANCIAL CORPORATIONS IN SPAIN INTO SUPPLY AND DEMAND-SIDE FACTORS



SOURCE: Banco de España calculations.
NOTE: Cumulative annual change. Supply and demand-side effects are estimated using an SVAR model applied to the new lending data in euro area statements, using 5,000 MCMC (Monte Carlo Markov Chain) extractions out of a total of 50,000 iterations.

Box 2

DEVELOPMENTS IN EXISTING LOAN MORATORIA

This box analyses the flows of moratoria granted and developments in the stock of existing loan moratoria, including the transition from one of the main types to the other (legislative moratoria and banking association moratoria).[1] The information for the box is taken from the Banco de España's Central Credit Register (CCR) and refers to September 2020.[2, 3] Consequently, the data set out below measure the changes in bank exposures under moratoria since the entry into force of the legislative moratoria (March 2020) up to September 2020.

On data from the CCR at that date, the current stock of loans under moratoria stood at around €36.7 billion, with the bulk of this amount being under banking association moratoria (94%) and legislative moratoria only representing 6%.

Although the amount of the legislative moratoria saw a strong rise in the first months following their entry into force, banking association moratoria have subsequently become increasingly significant. This is in part due to some banking association moratoria conditions being more favourable for borrowers (chiefly, longer terms) and the possibility of converting legislative moratoria into banking association moratoria at the end of their term. Thus, the difference between the outstanding stock of legislative moratoria and that of banking association moratoria is much greater than in the cumulative stock of applications received and granted.

The flows of moratoria granted, up to the position recorded in September, are presented below. First, Chart 1 shows the flow of exposures under moratoria that have been granted each month since March 2020. Specifically, it shows that the total volume of legislative moratoria granted up to September 2020 stands at just over €27 billion, whereas total banking association moratoria slightly exceed €25 billion.

The pattern in granting the different moratoria also varies; as already mentioned, the granting of legislative moratoria was concentrated in the first months following the entry into force of the corresponding Royal Decrees, whereas that of banking association moratoria peaked in May and June (see Chart 1). For both types of moratoria, the volume granted in Q3 was notably lower than in Q2. Chart 2 depicting the cumulative total moratoria shows that applications granted for moratoria accelerated up to May (close to €40 billion) and then gradually slowed, with the volume of the moratoria remaining stable in the last two months.

The intensity of the moratoria expiry flows (encompassing both repayments and withdrawn applications, which we shall refer to jointly as "extinctions") also varied considerably during those months, influencing the volume of existing exposures under moratoria.

Chart 3 shows that the extinctions in the total volume of legislative moratoria exceed €11 billion, whilst in the other moratoria they are just over €4.5 billion. As the legislative moratoria had a three-month expiry, the bulk of extinctions in these moratoria occurs from June onwards, chiefly in July. By contrast, the extinctions in banking association moratoria do not show a clearly defined pattern and are distributed more or less uniformly over time to the present date.

Chart 4 depicts the total volume of the extinctions and how their trend is driven by developments in legislative moratoria, given the weight of these moratoria in total extinctions (over 70% of the total).

Table 1 shows details of the volume of existing moratoria at present. To this end, the volume of moratoria arranged between March and September (€52.6 billion, in line with Chart 2) must be taken into account. The volume of extinctions (€15.9 billion, in line with Chart 4) must be subtracted from this figure in order to obtain the stock of existing moratoria in the Spanish banking system at September 2020 (€36.7 billion).

Further, in order to ascertain how the foregoing volume of exposures is distributed between the different types of

1 The legislative moratoria have been established in Royal Decree-Laws 8/2020, 11/2020, 25/2020 and 26/2020 and may be applied to both loans to individuals and loans to businesses in specific sectors (tourism and transport). The banking association moratoria include those contracted between the parties under the sectoral agreements signed by lenders through the banking sector associations as envisaged in Royal Decree-Law 19/2020 of 26 May 2020, which includes special moratorium arrangements under a sectoral framework agreement, and other moratoria agreed between the parties which are covered by the freedom of contract principle in the Civil Code.

2 The data contained in this box differ from those offered in the briefing notes on moratoria published by the Banco de España as they identify flows of granted moratoria and repayments and the volume of moratoria that remain in force at the date of study, whereas the briefing notes data exclusively include the cumulative volume of moratoria applications received and granted since the launch of the scheme, irrespective of whether or not they continue to be in force.

3 See the latest briefing note published with data up to end-December. Each briefing note is based on the information available at the date of publication in the institutions' reports on the moratoria scheme. The information in the CCR includes up-to-date information, at the latest date available, on the changes in each loan under moratoria since the moratorium was granted.

Box 2
DEVELOPMENTS IN EXISTING LOAN MORATORIA (cont'd)

Chart 1
FLOW OF LOAN MORATORIA GRANTED, BY MONTH

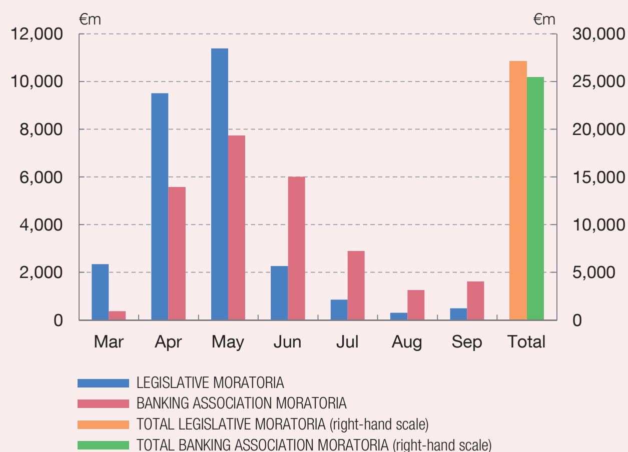


Chart 2
CUMULATIVE TOTAL LOAN MORATORIA GRANTED

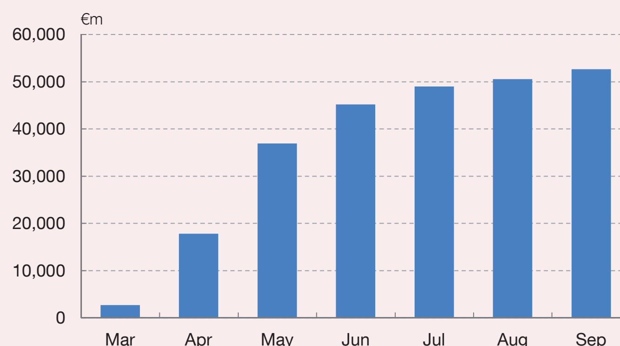


Chart 3
FLOW OF LOAN MORATORIA THAT HAVE EXPIRED OR WHOSE APPLICATION WAS WITHDRAWN, BY MONTH

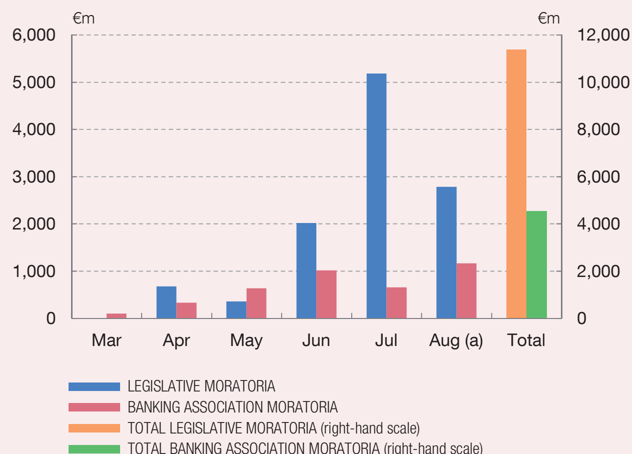
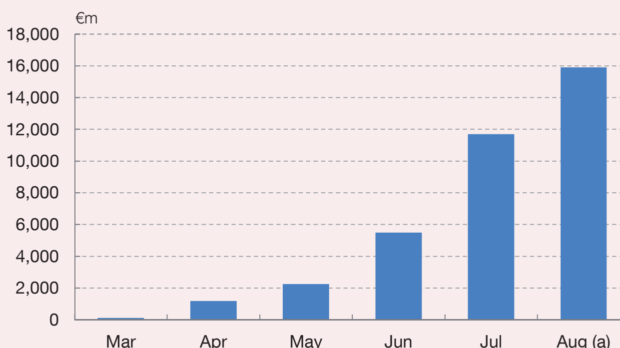


Chart 4
CUMULATIVE TOTAL LOAN MORATORIA THAT HAVE EXPIRED OR WHOSE APPLICATION WAS WITHDRAWN



SOURCE: Banco de España.

a The data on extinctions have been included up to August, in line with the criterion used to calculate outstanding moratoria in September (expiry is not considered until the end of the month, irrespective of whether they expire during that month).

Table 1

VOLUME OF EXPOSURE BY MORATORIA TYPE, MORATORIA GRANTED, EXTINCTIONS AND TRANSFERS BETWEEN MARCH AND SEPTEMBER 2020

	Moratoria granted	Extinctions	Transfers between moratoria	Total existing moratoria at September 2020
Legislative moratoria	27,150	-11,357	-13,513	2,279
Banking association moratoria	25,459	-4,540	13,513	34,433
Total	52,609	-15,897		36,712

SOURCE: Banco de España.

Box 2
DEVELOPMENTS IN EXISTING LOAN MORATORIA (cont'd)

moratoria, the transfers between them must be taken into account. In other words, how many legislative moratoria have become banking association moratoria, and vice versa. Table 1 shows that €13.5 billion of exposures under legislative moratoria have been transferred to banking association moratoria (be they under the sectoral framework agreements or not). Specifically, one-half of legislative moratoria were converted into banking sector or individual moratoria between March and September. Consequently, the combination of extinctions and transfers of moratoria has led to the disappearance of 84% of the legislative moratoria granted.

The analysis of developments in existing loan moratoria will require following up over the coming months as, in view of the uncertainty currently surrounding changes in economic activity, it can be presumed that measures such as moratoria will continue to exist for some time. Indeed, the European Banking Authority (EBA) recently reactivated its Guidance on the application of moratoria.[4] The experience gained from these months shows that these schemes are flexible and can be activated and withdrawn relatively quickly. At the same time, they must be used prudently so as to simultaneously ease possible liquidity problems and maintain appropriate repayment incentives.

4 The EBA guidelines on moratoria clarify that the application of a moratorium to a loan does not automatically lead to forbearance classification, and they establish a series of criteria and reporting requirements for appropriately measuring the risk associated with the exposures subject to moratoria.