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Issue 35 of the Financial Stability Review, published on the Banco de España website (www.bde.es), presents the following articles:

“Non-performing loans and euro bank lending behavior after the crisis”, by John Fell, Maciej Grodzicki, Julian Metzler and Edward O’Brien

Non-performing loans (NPLs) remain high on the policy agenda in Europe. Their persistence at elevated levels after the financial crisis gave rise to financial stability concerns, including possible adverse impacts on bank intermediation. Using a novel bank-level data set for large euro area banks, the authors find evidence that the stock of NPLs relative to banks’ shock-absorbing capacity, measured by bank capital, has been a significant factor in explaining bank-specific loan origination. The effect is found to be more significant for corporate than for household lending.

The article concludes that dedicated policies aimed at reducing NPL stocks are required to avoid adverse impacts on the real economy, as indicated by the Single Supervisory Mechanism in the guidance given to banks on their NPL strategies. Finally, the authors underscore the need for complementary measures to address impediments to NPL resolution, such as the weaknesses in judicial frameworks and in insolvency regulations in the different countries.

“Macroprudential policy in Portugal: experience with borrower-based instruments”, by Ana Cristina Leal and Diana Lima

The article explains an innovative and complex macroprudential policy measure adopted in Portugal in February 2018. What it involves is a series of recommendations on credit standards for new loans for households, including both mortgage and consumer credit. Specifically, the Portuguese central bank recommends limits to LTV ratios, DSTI ratios and maturities on new loans, along with avoiding grace periods in the repayment of principal and/or interest on the loans subject to the recommendations. The measure is aimed at preventing excessive risk-taking by banks and other financial intermediaries, promoting the resilience of the financial system and fomenting prudent standards for household access to loans for house purchase. The authors analyse the Portuguese measure in light of the risks identified, the goals of this measure and the timing of its implementation.

“The Second Payment Services Directive”, by Alberto Javier Tapia Hermida

This article offers a succinct overview of Directive (EU) 2015/2366 on payment services (PSD2). First, it describes general aspects of PSD2 within its considerable geographical, transitional, regulatory framework of reference along with its legislative policy purpose and its regulatory background. Next, it sets out the regulatory structure of payment services in the EU and the different types of service providers and users these services involve. Further, it describes how payment services function in the EU under the PSD2, starting with the proper identification of the agreements arising from these services. Finally, the author sets out the rules on transparency and the legal status of the parties involved, comprising their rights and obligations when payment transactions are authorised and carried out.

“A new regime for access to payment accounts: PSD2”, by Carlos Conesa, Sergio Gorjón and Gregorio Rubio

This article presents Directive (EU) 2015/2366 on payment services (PSD2). The authors consider its possible consequences in the finance industry, since the Directive has added a further competitive challenge, on top of growing digitalisation. The article analyses the emergence of a new type of payment service provider, authorised under PSD2, that acts as an information “aggregator” or as a payment transaction initiator. These emerging entities are now able to establish a direct relationship with the customers of credit institutions, which enables them to gain access to information of undoubted commercial value. These entities can conduct transactions on behalf of bank customers, without having to manage themselves a payment account. The authors conclude that this new landscape heralds a foreseeable change in banks’ current statu quo and business models, which will boost the development of new value propositions benefiting both their customers and society as a whole.

“Virtual and local currencies: are paracurrencies the new form of money?”, by Maria Ángeles Nieto Giménez-Montesinos and Joaquín Hernáez Molera

The growing expansion at the global level of virtual and local currencies, called paracurrencies in the article, has prompted regulators and supervisors to begin to pay particular attention to them. The authors contend that, at present, they should not be considered as money and, despite their potential money substitution intentions, they will not foreseeably be so considered in the future. The article highlights the fact that paracurrencies entail far from negligible risks for consumers, even when they are used in a limited area, as is the case at present. However, the authors affirm that the risks identified in relation to the stability of the financial system are so far limited, although the growing popularity of paracurrencies might lead to an increase in such risks in the future. To date, supervisors’ and regulators’ efforts have focused on the assessment of the phenomenon, and the monitoring of the possible risks, with the purpose of evaluating whether to adopt measures to mitigate them and the advisability of developing a specific regulatory framework for paracurrencies.

“The impact of the interest rate level on bank profitability and balance sheet structure”, by Carlos Pérez and Alejandro Ferrer

The authors study the sensitivity of bank profits and balance sheet structure to changes in the level of interest rates in Spain during the 2000-2016 period. To do so they estimate autoregressive distributed lag (ARDL) models on aggregate series which include the effect of the business cycle and of interest rate levels for the aggregate time series of the main asset and liability categories (credit, financial securities, time deposits, etc.) and profit components (returns on assets and liabilities, provision charges, etc.). The authors find a non-linear relationship between interest rates and net interest income, which is positive at low interest rate levels. This relationship is driven by the effect of interest rates on asset and liability returns, on credit growth, and on the bank mix of credit, deposits and financial securities. Broader profit measures also present a non-linear relationship to interest rates, which may even be negative for low interest rate levels if provisioning charges are high enough.

“Spanish household debt defaults: results of the Spanish Survey of Household Finances (2002-2014)”, by José María Casado and Ernesto Villanueva

The proportion of indebted households that had incurred a debt default over the 12 previous months increased by 7 pp from 2002 to 2014, according to the Spanish Survey of Household Finances. This article identifies the population groups among whom debt payment defaults have most increased. It also analyses the change in defaults over the economic cycle in the face of declines in the income and changes in the labour market status of household members. The results suggest that the declines in household income and job loss by the main household breadwinner are significant factors when seeking to understand the increase in debt defaults over the period considered. The authors conclude that the course of household debt payment defaults during the recession was closely linked to changes in their disposable income.