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The July 2017 Bank Lending Survey in Spain

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The results of the Bank Lending Survey show that during 2017 Q2 credit standards for new loans in Spain held stable in all segments, while in the euro area they eased slightly both in loans to enterprises and in loans to households for house purchase, holding virtually unchanged in consumer credit and other lending to households. Enterprises' demand for credit held stable in Spain and increased in the euro area as a whole, while household demand grew in both areas and in both segments. Spanish and euro area banks alike generally perceived unchanged or improved wholesale market access conditions, while in the case of retail markets in Spain, Spanish banks perceived a slight deterioration in access conditions which was not observed for the euro area as a whole. Regulatory and supervisory actions were conducive, in both areas, to some increase in banks' total assets and in their capital levels. Finally, targeted longer-term refinancing operations (TLTROs) appear to have contributed, both in Spain and in the euro area, to an improvement in banks' financial situation, to some easing in credit standards and to a softening of the conditions applied.

THE JULY 2017 BANK LENDING SURVEY IN SPAIN

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Main results

This article presents the results of the July 2017 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in Q2, and on the outlook for the following three months. This edition includes the ad hoc questions on wholesale and retail funding market access conditions, on the impact of the regulatory and supervisory actions in relation to capital, leverage and liquidity, and on the effects of the ECB's targeted longer-term refinancing operations (TLTROs).[1] This section discusses the main results obtained from the replies by the ten Spanish institutions participating in the survey, comparing them with the results for the euro area as a whole, while the following sections conduct a more detailed analysis of the results for Spain.[2]

The results of the survey for 2017 Q2 show that credit standards remained unchanged on average in Spain in all segments (see Chart 1). In the euro area, by contrast, standards eased slightly both on loans to enterprises and on loans to households for house purchase, while they were virtually unchanged for consumer credit and other lending to households. As to the margins on average loans, in Spain these did not alter for lending to enterprises, while in loans to households they declined somewhat in the two segments. In the euro area they continued to contract for all loan types. For the current quarter, Spanish banks envisaged a slight tightening in credit standards for loans to households, anticipating no changes in loans to enterprises, while euro area banks foresaw a slight easing in standards in all segments.

According to the replies of the survey respondents, enterprises' demand for credit in 2017 Q2 is estimated to have held stable in Spain, while increasing in the euro area as a whole. In the two segments for households, it is expected to have grown in both areas (see Chart 1). For Q3, it was foreseen that the demand for funds would increase across the board both in Spain and in the euro area.

The dispersion of domestic banks' replies on credit standards, relating to the latest period observed, was zero in the segment of loans to enterprises and low in those of loans to households. In the case of demand, dispersion was moderate in the financing of households and somewhat greater in the case of loans extended to enterprises.

As regards the ad hoc questions included in the survey, Spanish banks reported in the first of these that, during 2017 Q2, they perceived a slight worsening in retail market access conditions, and stability or a slight improvement in almost all wholesale markets, except in

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

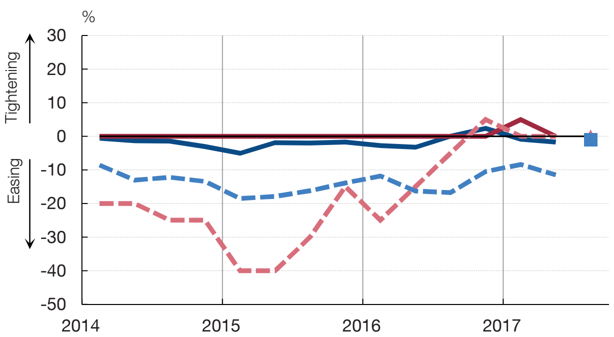
2 The analysis of the results conducted in this article is based on so-called "dissemination indicators", which are calculated with a weighting based on the degree of improvement/worsening or of easing/tightening reported by each bank in its replies, unlike indicators calculated in terms of net percentages, which do not take into account the aforementioned weighting.

CHANGES IN SUPPLY AND DEMAND

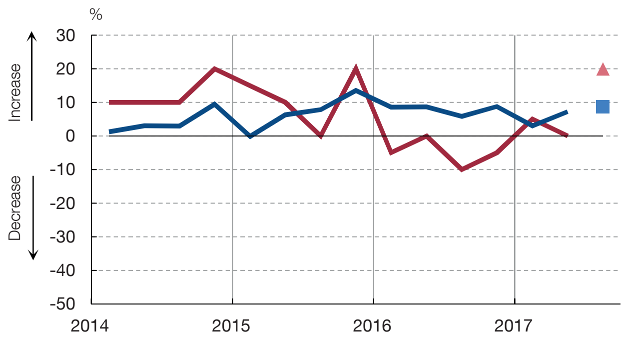
CHART 1

1 LOANS TO NON-FINANCIAL CORPORATIONS

1.1 CHANGE IN CREDIT STANDARDS AND MARGINS (a)

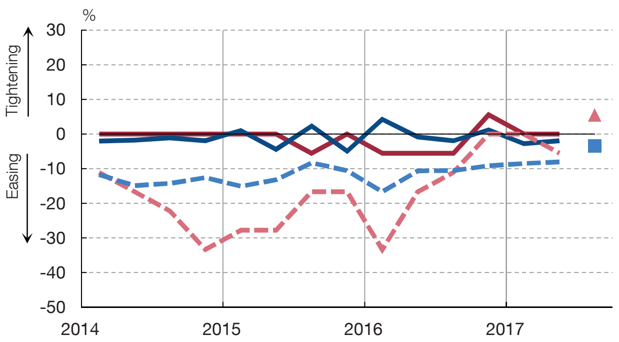


1.2 CHANGE IN DEMAND (b)

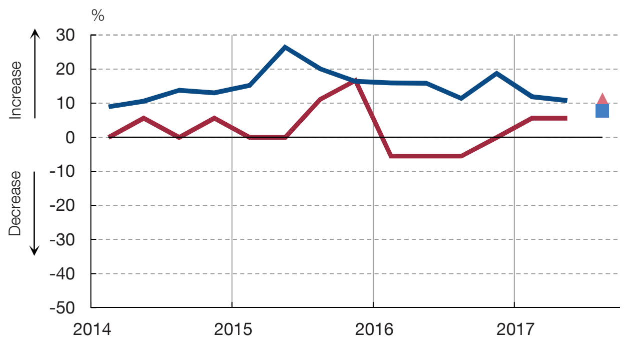


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

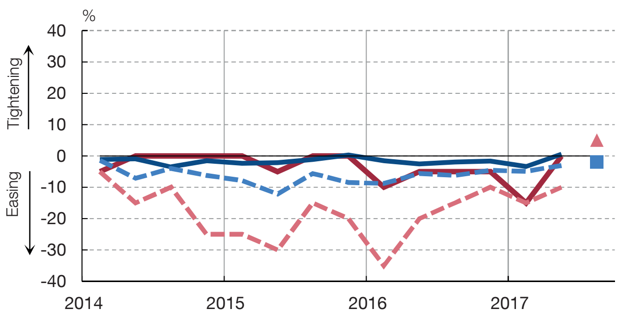


2.2 CHANGE IN DEMAND (b)

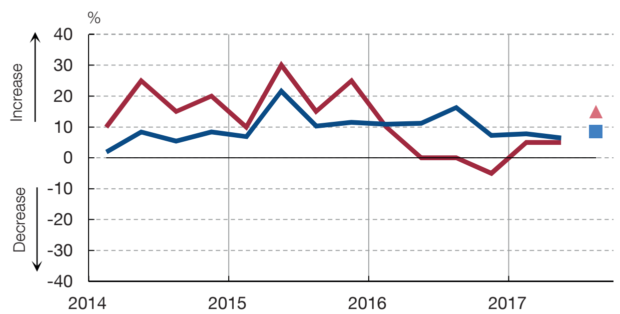


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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



3.2 CHANGE IN DEMAND (b)



CREDIT STANDARDS. EURO AREA
EXPECTED CREDIT STANDARDS. SPAIN
AVERAGE LOANS MARGIN. SPAIN
CREDIT STANDARDS. SPAIN
EXPECTED CREDIT STANDARDS. EURO AREA
AVERAGE LOANS MARGIN. EURO AREA
SPAIN
EURO AREA
EXPECTED. SPAIN
EXPECTED. EURO AREA

SOURCES: ECB and Banco de España.

a Indicator = percentage of banks that have tightened their credit standards, or widened their margins considerably × 1 + percentage of banks that have tightened their credit standards, or widened their margins somewhat × 1/2 – percentage of banks that have eased their credit standards or narrowed their margins somewhat × 1/2 – percentage of banks that have eased credit standards or narrowed their margins considerably × 1.

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

that for short-term debt securities (see Chart A.1). Euro area banks reported favourable developments both in the case of wholesale and retail markets. As to the questions on the effect of regulatory and supervisory actions in relation to capital, leverage and liquidity, the banks in both areas responded that, during the first half of 2017, these actions led to some increase in their total assets (this was not the case for risk-weighted assets in the euro area as a whole, which fell slightly) and in their capital levels (see Chart A.2). For domestic banks, these actions do not appear to have significantly influenced either their funding conditions or the credit standards for loans or their margins, except in the case of loans for house purchase, where the actions appear to have prompted some tightening. Conversely, euro area banks reported that these actions prompted a slight easing in their funding conditions and in credit standards, in all segments, and a reduction in margins on all loan types, except on loans to households for house purchase, for which they reported an increase. As to the questions on the ECB's TLTROs (see Charts A.3, A.4 and A.5), 40% of Spanish bank respondents participated in the fourth and final TLTRO-II, a smaller proportion than in the euro area sample (63%). In both areas, the funds obtained from past TLTROs had chiefly been used for replacing other avenues of funding and for granting loans to the private sector. Moreover, according to their replies, both in Spain and in the euro area, TLTROs contributed to improving their financial situation and bringing about some easing in credit standards on loans to enterprises and households, although under this loan type the impact on house purchase loans was zero in Spain and very mild in the euro area. Finally, this funding also prompted, in both areas, an easing of the terms and conditions applied to loans, in all segments.

Supply and demand conditions

A more detailed analysis of Spanish banks' replies to the regular questionnaire shows that, within the segment of loans to non-financial corporations, credit standards in 2017 Q2 remained unchanged for SMEs, easing slightly for large corporations. The breakdown by maturity evidences a slight easing in short-term loans and stability in longer-term ones. This behaviour was the result of opposite effects since, on one hand, the higher costs relating to the level of capital contributed to a slight tightening of the standards, whereas, on the other hand, greater competition or the improvement both in the overall economic situation and in the solvency of certain sectors or firms brought about some easing (see Chart 2).

The overall terms and conditions on new loans appear to have eased somewhat, and this despite the slightly unfavourable effect associated with the higher cost of funds and tighter balance sheet constraints, a development countered by the impact, in the opposite direction, of greater competitive pressures (see Chart 2). The more detailed information evidences mixed developments, reflecting an increase in the margins on riskier loans, in non-interest rate charges and in collateral requirements, and a decrease in maturities and in the amounts of the loans extended, while other conditions remained unchanged. The breakdown by company size shows that the overall terms and conditions of loans did not alter in operations with SMEs, tightening somewhat in those entered into with large corporations. The proportion of loan applications that were rejected fell for the seventh quarter running.

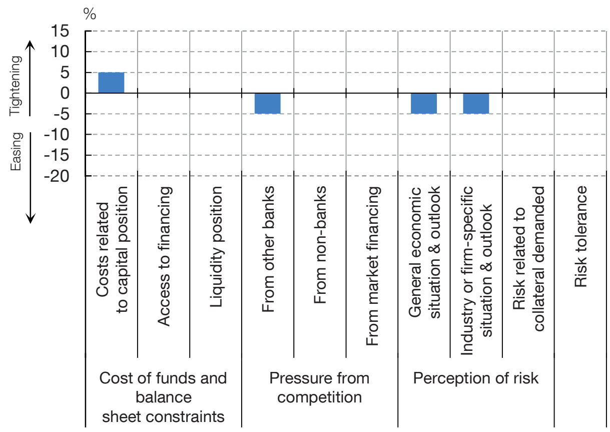
According to the respondent institutions, in 2017 Q2 the demand for funds by enterprises were unchanged in the short-term loans segment, while the demand for longer-dated operations fell slightly. The breakdown by firm size shows that SMEs' loan applications did not change, while those of large corporations fell somewhat. The main factors conducive to the increase in demand were the rise in inventories and working capital, the decline in the general level of interest rates, and merger operations and, to a lesser extent, higher

FACTORS THAT AFFECT CREDIT STANDARDS AND CONDITIONS FOR LOANS. SPAIN

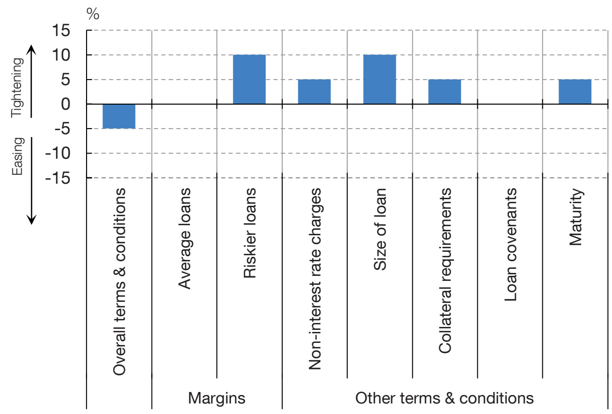
CHART 2

1 LOANS TO NON-FINANCIAL CORPORATIONS

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

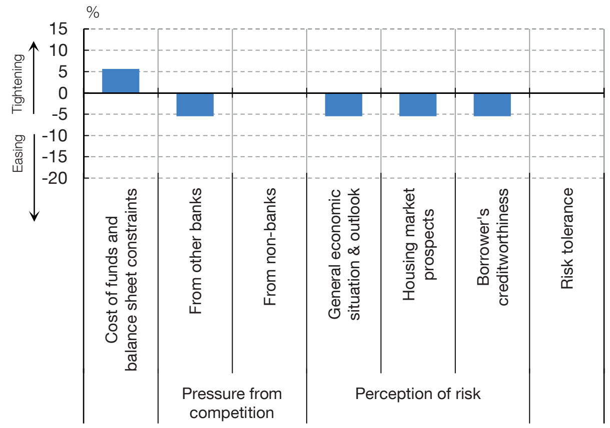


1.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

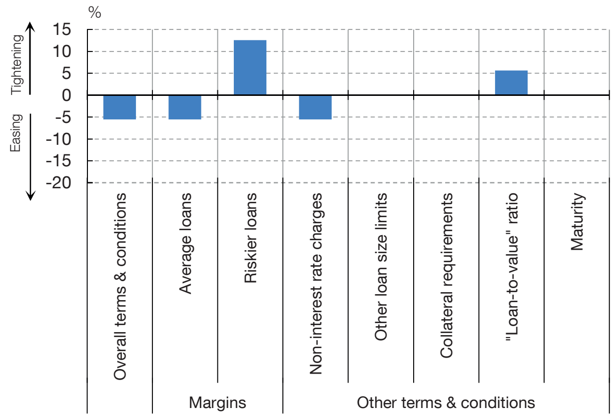


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

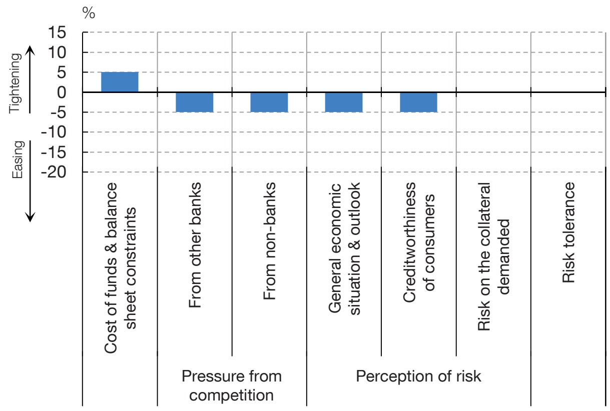


2.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

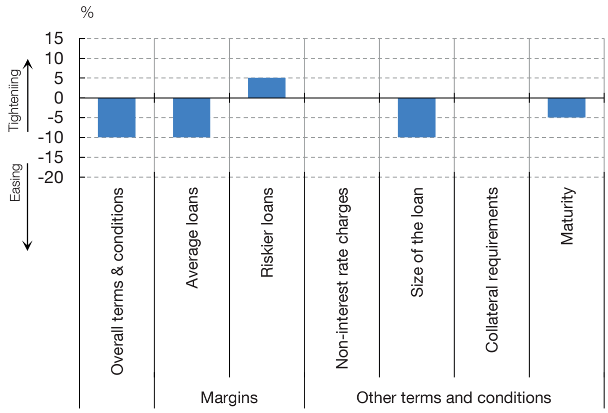


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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



3.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the factor has contributed considerably to the tightening of credit standards × 1 + percentage of banks reporting that it has contributed somewhat to the tightening of credit standards × 1/2 – percentage of banks reporting that it has contributed somewhat to the easing of credit standards × 1/2 – percentage of banks reporting that it has contributed considerably to the easing of credit standards.

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

funding requirements for fixed investment, debt restructuring and the lower issuance of shares (see Chart 3). Conversely, the greater use of internal financing and of loans from other institutions exerted an influence in the opposite direction.

According to the replies received, credit standards for loans to households for house purchase were unchanged overall in 2017 Q2. Increased competition, the brighter overall outlook for the economy and for the housing market, and borrowers' greater solvency appear to have had a slightly positive influence on supply, although the effect was countered by the increase in funding costs perceived by some institutions (see Chart 2). By contrast, the overall terms and conditions applied to these loans were once again softened, owing essentially to the greater pressure of competition. A more detailed analysis reveals mixed developments in the various terms and conditions, since a decline in the margins applied to average loans and in non-interest rate charges was reported on one hand, and, on the other, a decline in the LTV ratio, and an increase in the margins applied to riskier loans. The proportion of applications for funds that were rejected fell relative to the previous quarter.

The demand for funds for house purchase increased slightly. According to the banks, the improved housing market outlook along with greater consumer confidence, the decline in the general level of interest rates and, to a lesser extent, the rise in debt restructuring operations contributed to the increase in loan applications, with such effects having been partly countered by the increase in internal financing or with loans from other institutions, and by regulatory and fiscal changes on the market (see Chart 3).

Credit standards for loans for consumer credit and other lending held stable in 2017 Q2. This was the outcome, first, of the positive effects derived from the increase in competitive pressures and in the improvement both in the overall economic outlook and in borrowers' creditworthiness, which were offset by higher funding costs and balance sheet constraints (see Chart 2). By contrast, the overall conditions for this type of loan eased, owing essentially to greater competition. In particular, new loan amounts increased and their maturities lengthened, and the margins applied to average loans narrowed. By contrast, those applied to riskier loans increased slightly and the remaining conditions did not change. The proportion of applications for funds that were rejected fell once again, at a somewhat greater pace than in the previous quarter.

Applications for loans for consumer credit and other lending rose slightly. According to the replies received, greater consumer confidence, lower interest rate levels and the increase in spending on consumer durables were the main factors contributing to the increase in applications, while the rise in loans from other institutions and higher internal financing out of savings exerted an effect in the opposite direction (see Chart 3).

Ad hoc questions

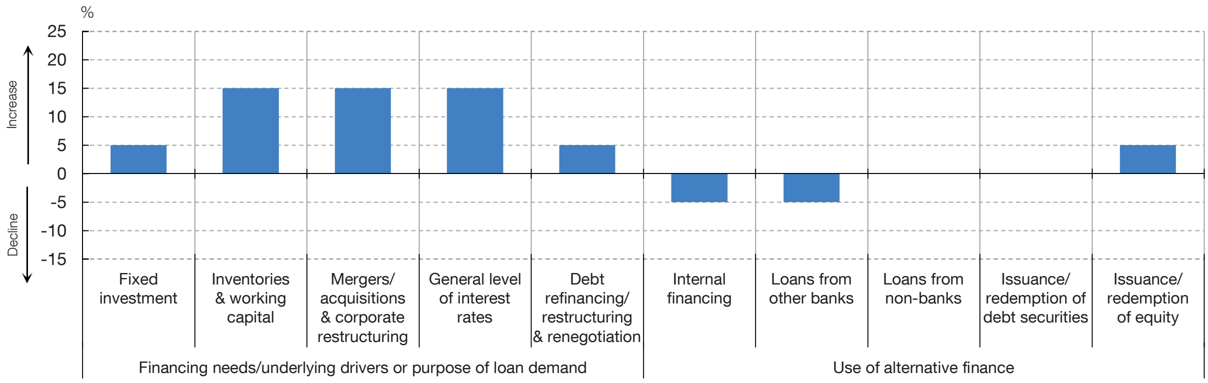
In their answers to the ad hoc question on market access for retail and wholesale funding, Spanish banks stated that they perceived an easing in 2017 Q2 in market access in the case of long-term debt securities and securitisation and an improvement in the ability to transfer credit risk off balance sheet, while they observed a certain deterioration in market access in the case of retail funding and short-term debt securities, and did not perceive any significant changes in relation to other sources of funding (see Chart A.1).

As regards the question on the effect of regulatory and supervisory actions in relation to capital, leverage and liquidity (in force or in the process of implementation), institutions answered that, in the first half of 2017, they led to some increase in their total assets and

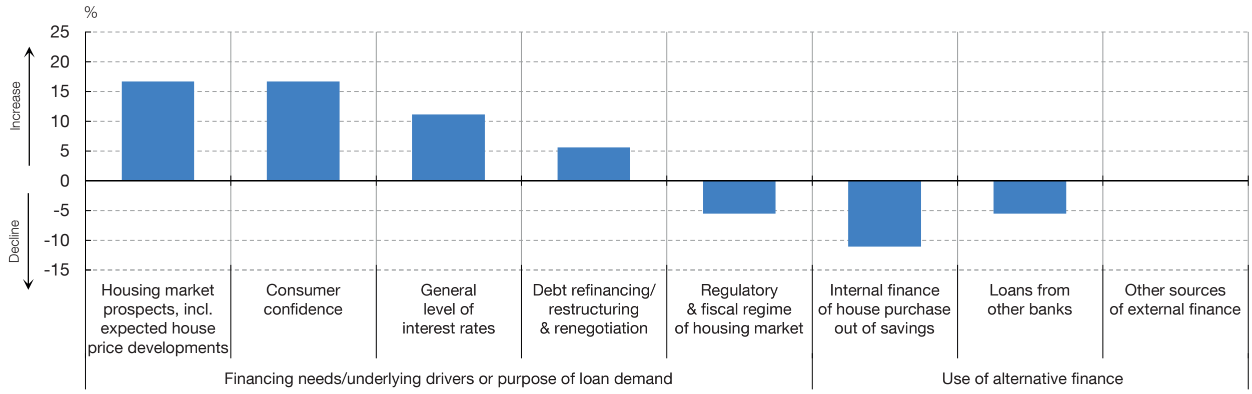
CONTRIBUTION OF FACTORS TO THE CHANGE IN DEMAND. SPAIN

CHART 3

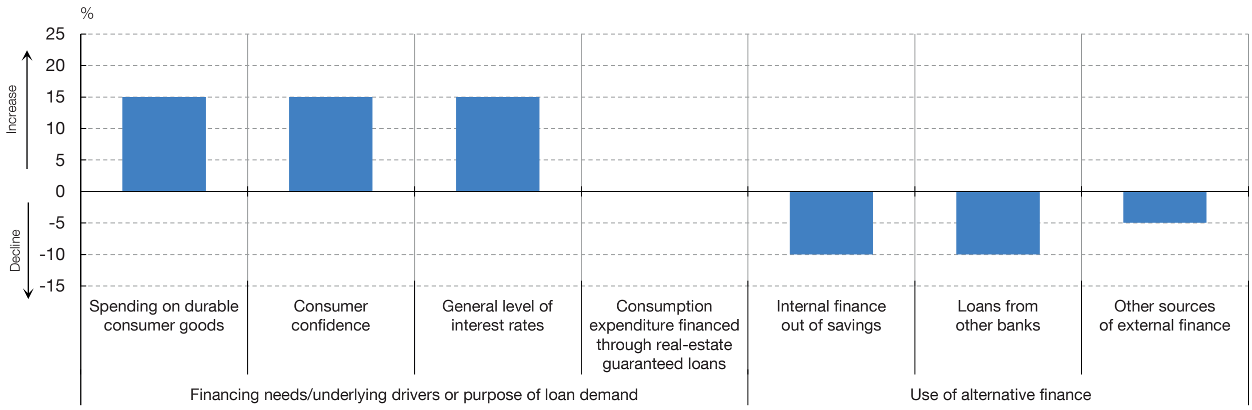
1 LOANS TO NON-FINANCIAL CORPORATIONS (a)



2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE (a)



3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS (a)



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the factor has contributed considerably to increasing demand × 1 + percentage of banks reporting that it has contributed somewhat to increasing demand × 1/2 – percentage of banks reporting that it has contributed somewhat to reducing demand × 1/2 – percentage of banks reporting that it has contributed considerably to reducing demand.

in their risk-weighted assets, particularly average loans, while they had no effect on riskier loans (see Chart A.2). They also stated that these actions had a positive impact on capital levels, both through share issues and retained earnings. According to the reporting banks, these actions led to some tightening in credit standards and margins for loans to households for house purchase, while they had no significant impact either on their credit standards or margins in other segments or on their funding conditions.

Finally, in response to the ad hoc questions on the ECB's TLTROs (see Chart A.3), four of the ten reporting Spanish institutions stated that they participated in the fourth TLTRO-II (held in March 2017), indicating the profitability motive as the main reason for doing so (they considered that its conditions were attractive). Among those that did not participate, the majority indicated that the main reason for not doing so was the absence of funding constraints or their comfortable liquidity position, or else that they had previously obtained the maximum amount permitted. At the same time, the institutions that have made use of this facility indicated that they had used the funds obtained to replace maturing debt, other Eurosystem liquidity operations and interbank lending, and to grant loans to non-financial corporations and consumer credit and other lending to households, and, to a lesser extent, to grant loans to households for house purchase and to purchase domestic sovereign bonds (see Chart A.4). Only a small proportion of institutions stated that they had used the funds to purchase other financial assets, or to make good deposit shortfalls. With regard to the impact of past TLTROs, the institutions considered that they had improved their financial situation, principally in terms of profitability, liquidity and market financing conditions and that, to a lesser extent, they had led to an increase in their level of capital and to a decline in their need to deleverage (see Chart A.5). According to the responses, past TLTROs also contributed somewhat to easing credit standards on loans to enterprises and on consumer credit and other lending to households, as well as to an easing of the terms and conditions on all segments, albeit to a lesser extent in the case of loans to households for house purchase. In general, the banks' responses to these questions have changed little from those six months ago.

Outlook

As regards the current quarter, the reporting Spanish institutions did not expect any change to their credit standards for loans to enterprises, while in the case of households they anticipated some tightening (see Chart 1). On the demand side, if their forecasts are realised, requests for all types of lending will increase.

In the retail and wholesale funding markets, the institutions' expectations for 2017 Q3 were for stability or slight improvement in conditions in all cases (see Chart A.1).

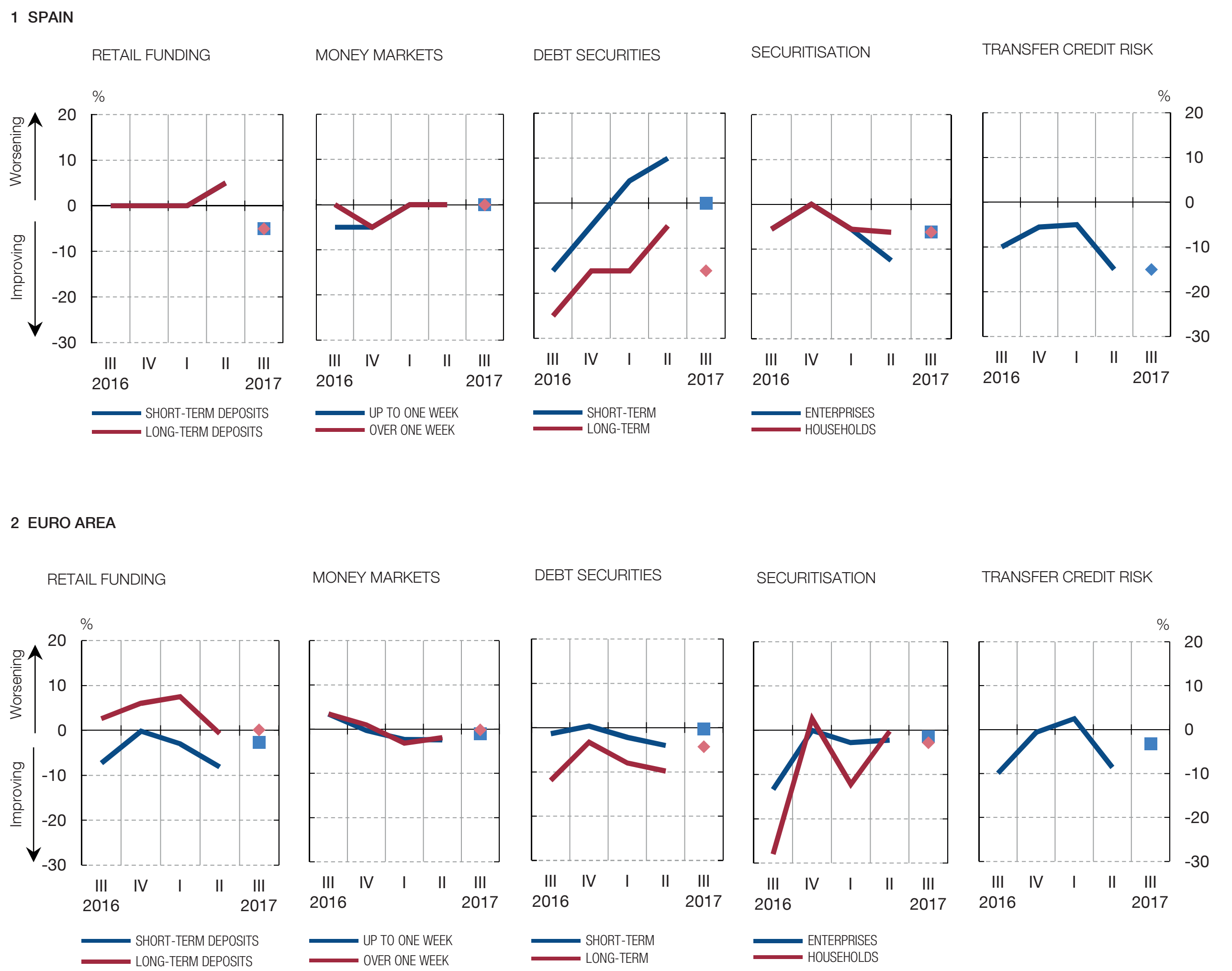
As a consequence of the regulatory and supervisory actions on capital, leverage and liquidity, the reporting institutions expected, in 2017 Q2, a slight increase in total assets and in risk-weighted assets, as well as an increase in capital, mainly through growth in retained earnings (see Chart A.2). Also, they considered that these actions would lead to a slight tightening in standards and margins in the case of loans to households for house purchase and would be conducive to a slight easing in standards for loans to SMEs. By contrast, they did not expect them to affect either credit standards or credit margins for other lending, or their own funding conditions.

18.7.2017.

ANNEX WITH CHARTS OF MAIN RESULTS FOR THE AD HOC QUESTIONS

MARKET ACCESS FOR RETAIL AND WHOLESALE FUNDING (a) (b)

CHART A.1



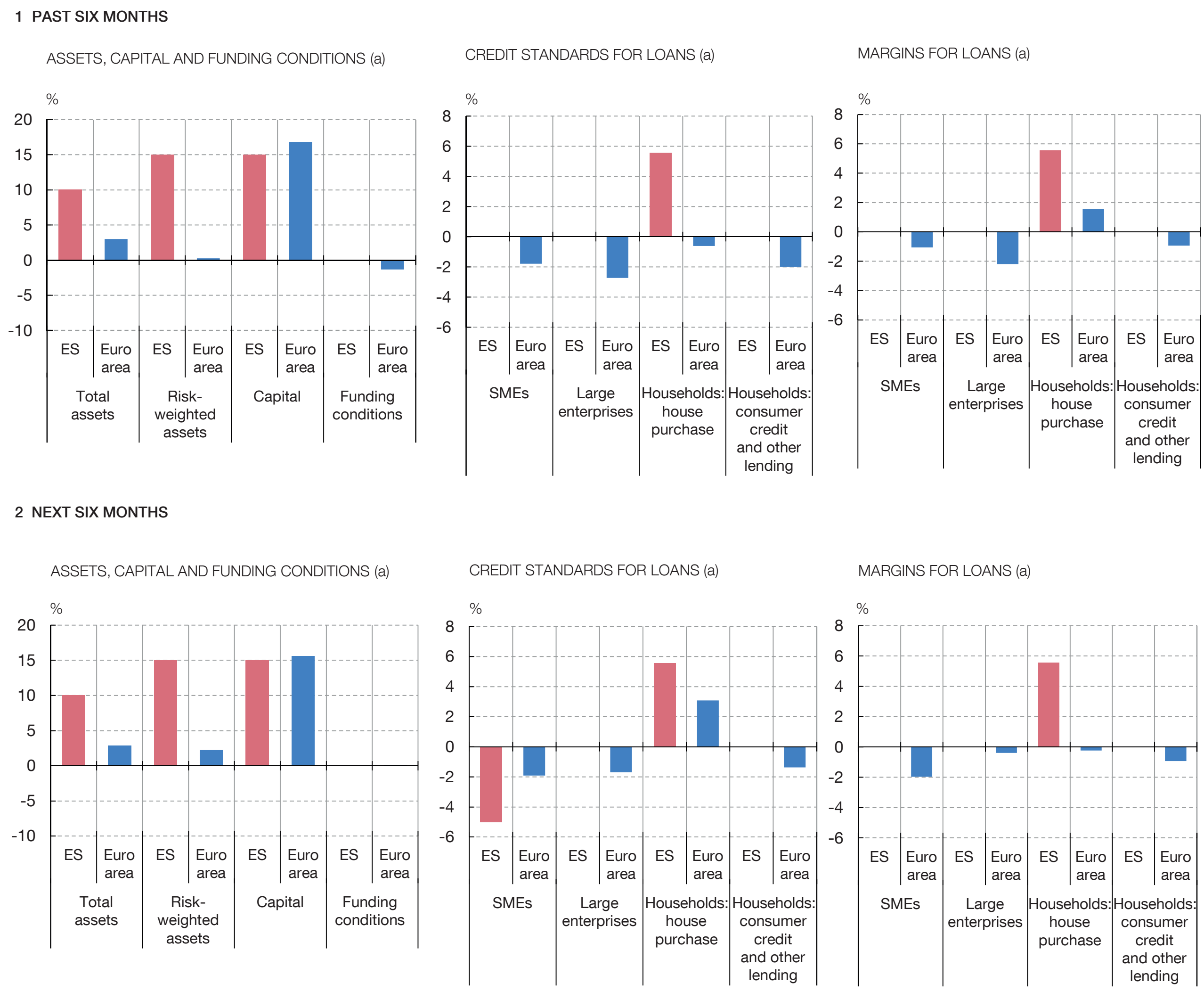
SOURCES: ECB and Banco de España.

a Indicator = percentage of banks that have appreciated a considerable deterioration in their market access × 1 + percentage of banks that have appreciated some deterioration × 1/2 – percentage of banks that have appreciated some easing × 1/2 – percentage of banks that have appreciated a considerable easing × 1.

b ◆, ■ Forecast.

IMPACT OF NEW REGULATORY AND SUPERVISORY ACTIONS

CHART A.2

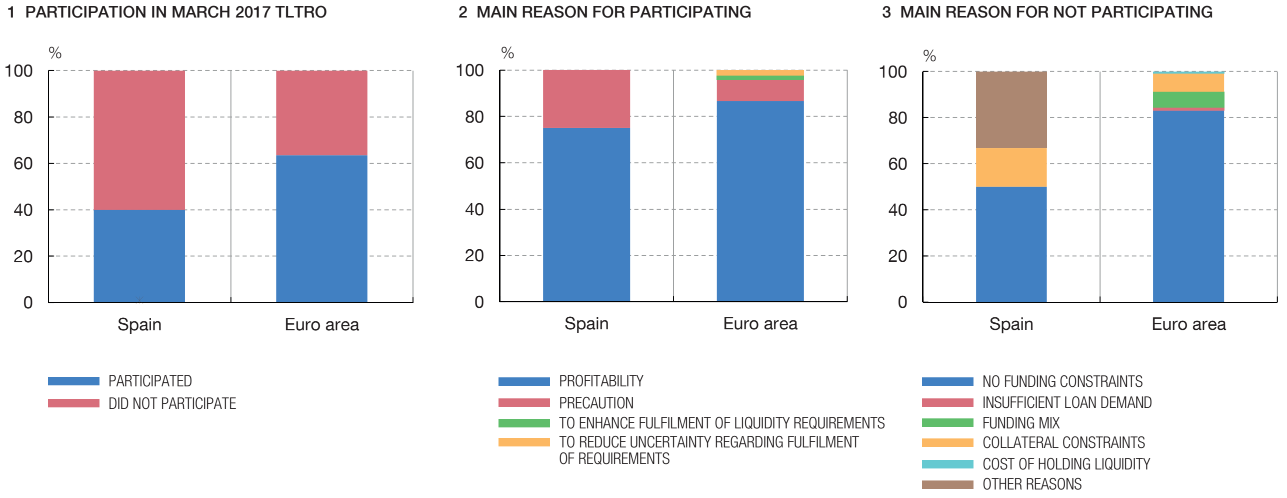


SOURCES: ECB and Banco de España.

a Indicator = percentage of banks that reporting an increase or tightning (as applicable), less the percentage of those reporting a decline or easing (as applicable), with considerable changes given a weight of 1 and smaller changes 1/2.

PARTICIPATION IN TARGETED LONGER-TERM REFINANCING OPERATIONS (TLTROs) (a)

CHART A.3

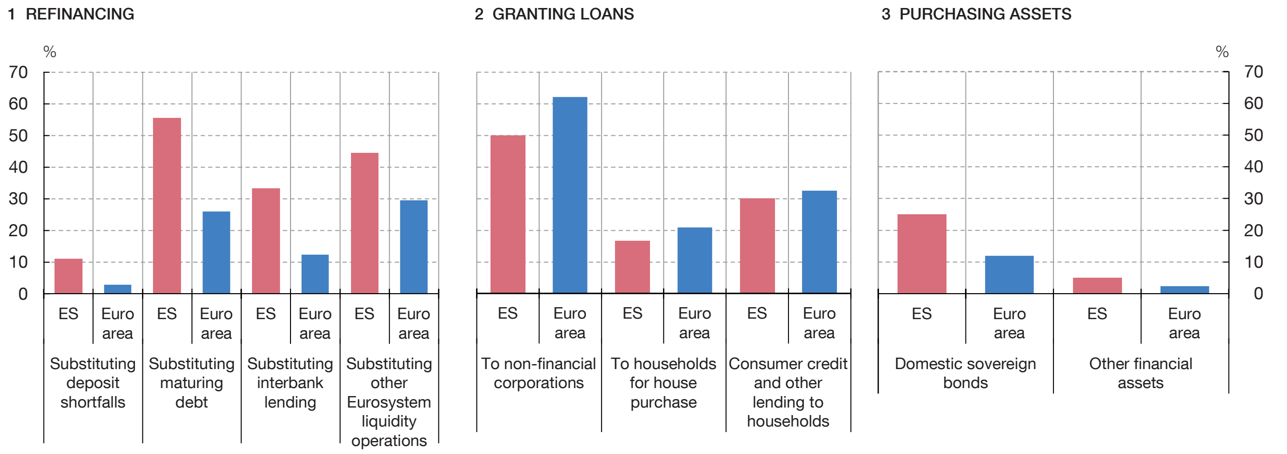


SOURCES: ECB and Banco de España.

a Percentage of banks.

PURPOSES FOR WHICH FUNDS OBTAINED FROM TARGETED LONG-TERM REFINANCING OPERATIONS (TLTROs) USED (a)

CHART A.4

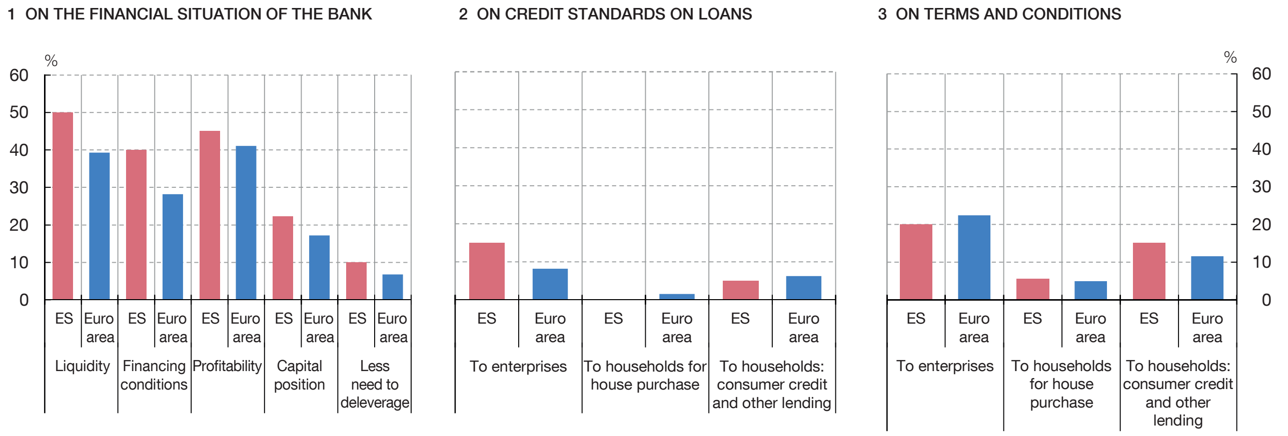


SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the funds obtained contributed considerably to this purpose × 1 + percentage of banks reporting that they contributed somewhat × 1/2 .

IMPACT OF TARGETED LONG-TERM REFINANCING OPERATIONS (TLTROs) (a)

CHART A.5



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting a considerable improvement or easing x 1 + percentage of banks reporting some improvement or easing x 1/2.