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# The April 2018 Bank Lending Survey in Spain

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The results of the Bank Lending Survey show that during 2018 Q1 credit standards for new loans in Spain eased slightly in loans to households, remaining unchanged in loans to enterprises, while credit supply in the euro area grew across the board, although unevenly by segment. In Spain demand for credit from households grew and from enterprises remained stable, while in the euro area applications for all types of loans increased. Access to the financial markets by credit institutions has barely changed in the two areas. Credit standards both in Spain and in the euro area are now somewhat stricter than those seen on average since 2003, while in almost all cases they are similar to, or slightly laxer than, the average levels posted since 2010. The ECB's expanded asset purchase programme has continued to contribute during the last six months to improving the liquidity and funding conditions of institutions in the two areas and to an easing of lending conditions, although it has also impacted profitability negatively. Spanish and euro area banks alike reported that the ECB's negative deposit facility rate caused a reduction in net interest income in the last six months, as well as a generalised fall in interest rates and margins on loans and a slight increase in the volume of loans granted.

# THE APRIL 2018 BANK LENDING SURVEY IN SPAIN

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## Main results

This article presents the results of the April 2018 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in Q1, and on the outlook for the following three months. This edition includes a number of ad hoc questions on wholesale and retail funding market access conditions, on the current versus historical strictness of credit standards, on the effects of the ECB's expanded asset purchase programme and on the impact of the negative interest rate on the deposit facility.[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 review the results for Spain in more detail.[2]

According to the responses received, credit standards for new loans in Spain eased during 2018 Q1 in the two household lending segments and remained unchanged in loans to non-financial corporations, while credit standards in the euro area eased across the board, although unevenly by type of loan (Chart 1). Credit conditions eased in all segments, both in Spain and in the euro area. For the current quarter, Spanish institutions did not envisage changes in credit standards in any of the loan types, while euro area institutions expected a new expansion of supply, very slight in the case of loans to enterprises and somewhat stronger in the two household lending segments.

The banks participating in the survey reported that in 2018 Q1 enterprises' demand for loans remained stable in Spain, while demand from the two household segments rose. In the euro area the growth of demand extended to all segments (see Chart 1). For Q2, it was foreseen that applications for loans would continue to increase across the board both in Spain and in the euro area.

The dispersion of domestic banks' replies on credit standards, with reference to the latest period observed, was zero in the case of loans to enterprises and low in that of loans to households. The dispersion of demand was slightly higher in all segments, particularly in loans to households for consumer credit and other lending.

As regards the ad hoc questions included in the survey, in response to the first question, both Spanish and euro area banks reported that during 2018 Q1 conditions of access to the financial markets barely changed. A slight improvement recorded in access to the medium to long-term debt securities market (offset, in the case of the euro area, by the worsening observed in the short-term securities market) and, in Spain, in access to the securitisation market stands out in this connection (see Chart A.1). Institutions in the two areas indicated that the current credit standards were moderately stricter than those seen

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 publication 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 about the BLS. A more detailed analysis of the results for the euro area as a whole can be found in the ECB's regular notes on its website (http://www.ecb.int/stats/money/lend/html/index.en.html).

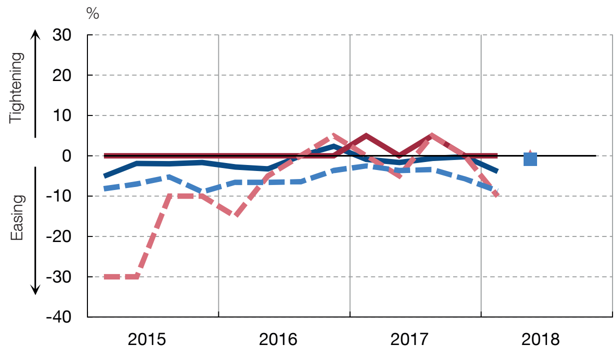
2 The analysis of the results conducted in this article is based on so-called "diffusion indices" which are calculated with a weighting based on the degree of improvement/worsening or of easing/tightening reported by each bank in its replies, unlike indicators calculated in terms of net percentages,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

## CHANGES IN SUPPLY AND DEMAND

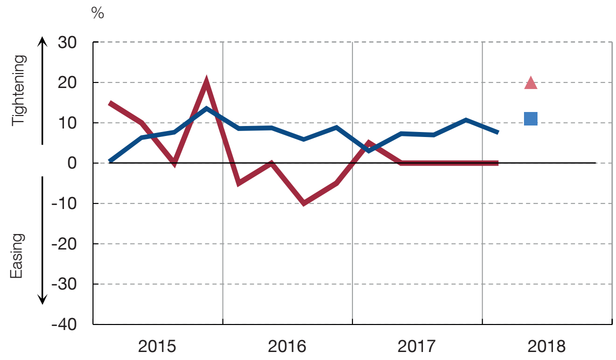
CHART 1

### 1 LENDING TO NON-FINANCIAL CORPORATIONS

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

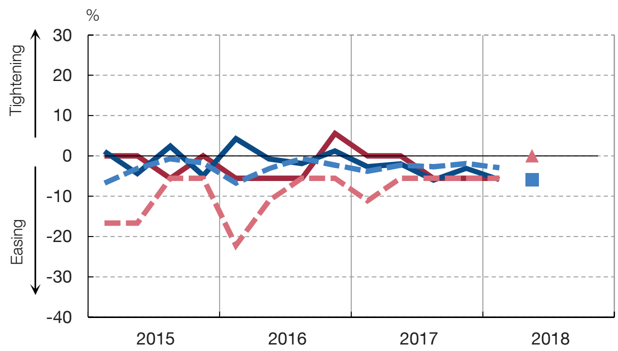



1.2 CHANGE IN DEMAND (b)

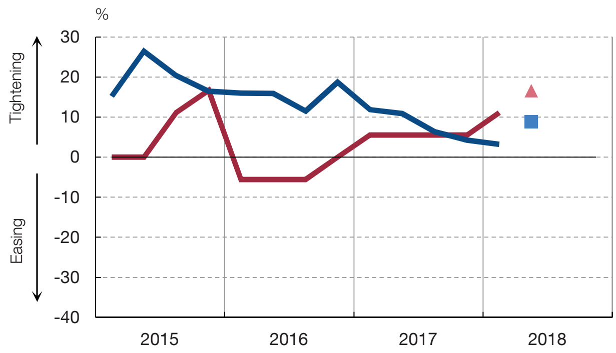



### 2 LOANS FOR HOUSE PURCHASE

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

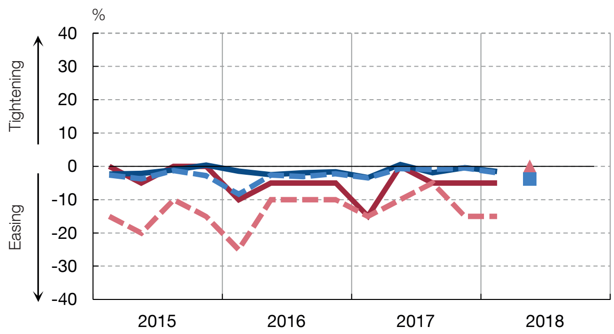



2.2 CHANGE IN DEMAND (b)

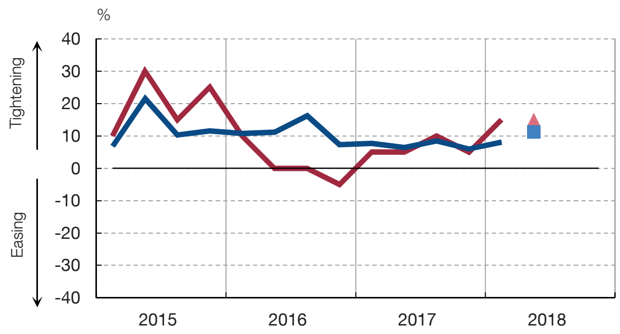



### 3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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




3.2 CHANGE IN DEMAND (b)




CREDIT STANDARDS. SPAIN
CREDIT STANDARDS. EURO AREA
FORECAST CREDIT STANDARDS. SPAIN
FORECAST CREDIT STANDARDS. EURO AREA
CONDITIONS. SPAIN
CONDITIONS. EURO AREA

SPAIN
FORECAST. SPAIN
EURO AREA
FORECAST. EURO AREA

SOURCES: ECB and Banco de España.

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

on average since 2003 (see Chart A.2). However, as compared with the average levels since 2010, they are similar or slightly laxer in most segments. As for the ECB's expanded asset purchase programme, the institutions surveyed in the two areas replied that, in general, it appeared to have contributed to improving their financial position in the last six months, except in the case of profitability, which was negatively affected, particularly in the euro area  (see Chart A.3). They also indicated that the programme contributed, in the two areas, to easing the conditions of loans to the non-financial private sector and to raising the volume of credit granted. By contrast, it had no impact on credit approval criteria in Spain and only a small impact across the euro area. Finally, as to the question on the impact of the ECB's negative deposit facility rate, banks in both areas responded that this measure contributed to a drop in net interest income over the last six months and to a slight increase in volumes of new lending and a certain decrease in the interest rates and margins applied (see Chart A.4).

### Supply and demand conditions

A closer analysis of Spanish banks' replies to the regular questionnaire reveals that credit standards in the loans to non-financial corporations segment remained unchanged in 2018 Q1, in the case of both lending to large firms and to SMEs. The breakdown by maturity also shows this same trend over all maturities. In terms of the factors underlying this pattern, the better outlook for economic activity in general, as well as for particular sectors, and the lower perceived risks affecting the collateral required, appears to have enabled a degree of easing, this effect being offset by the increased costs arising from higher capital levels (see Chart 2).

The overall terms and conditions on new loans appear to have eased somewhat, mainly owing to the increase in competitive pressures and, to a lesser extent, the more favourable cost of funds and balance sheet constraints. A more detailed analysis evidences a decline in the margins applied to average loans and a certain increase in the loan amounts granted, while, conversely, non-interest rate charges increased slightly, with the rest of conditions remaining stable (see Chart 2). The breakdown by size of enterprise reveals a slight easing of overall conditions of loans to SMEs, while remaining unchanged in loans to large firms. The percentage of rejected loan applications remained stable during the first three months of the year.

The responding banks indicated that overall demand from enterprises for loans in 2018 Q1 barely changed, although the detail by firm size evidences slight declines in the case of SMEs, while remaining stable in that of large corporations. The breakdown by maturity shows applications for short-term loans have decreased slightly, while applications for longer-term loans have been stable. This pattern of demand was the outcome of factors operating in opposite directions. The drop in the general level of interest rates and, to a lesser extent, the greater borrowing needs to finance inventories and working capital, as well as the decline in issuance of shares and debt securities, have contributed to boost demand. Meanwhile, greater recourse to internal financing and, to a lesser degree, greater use of loans from other banks and the decline in debt restructuring appear to have dampened demand (see Chart 3).

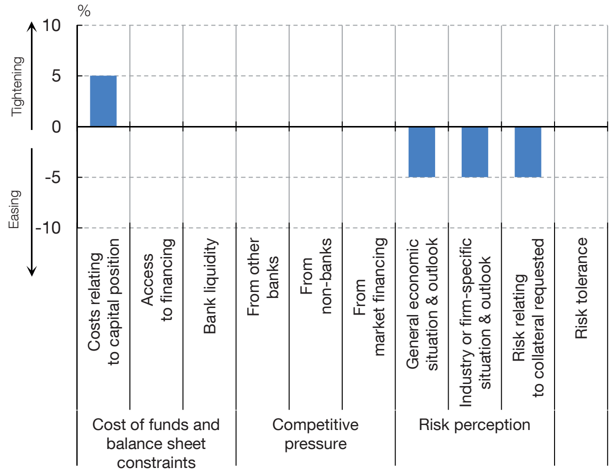
According to the replies received, credit standards for loans to households for house purchase once again eased somewhat in 2018 Q1. This change was driven by increased competitive pressure, the better economic outlook, both in general and, especially, in the housing market, and a perceived improvement in borrowers' creditworthiness (see Chart 2). The overall terms and conditions applied to these loans again eased further, mainly on the back of an improvement in cost of funds and balance sheet constraints, along with

FACTORS AFFECTING CREDIT STANDARDS AND LOAN CONDITIONS. SPAIN

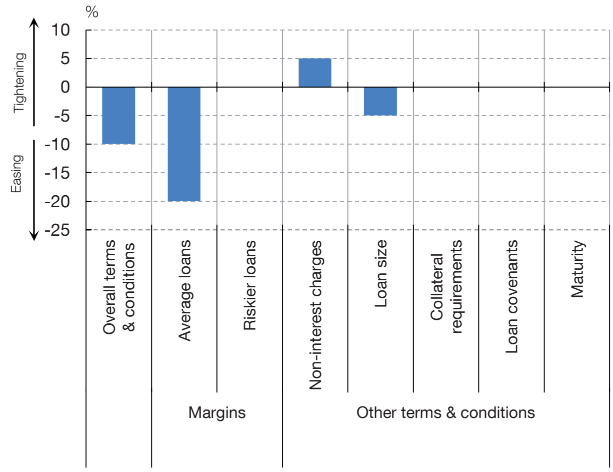
CHART 2

1 LOANS TO NON-FINANCIAL CORPORATIONS

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

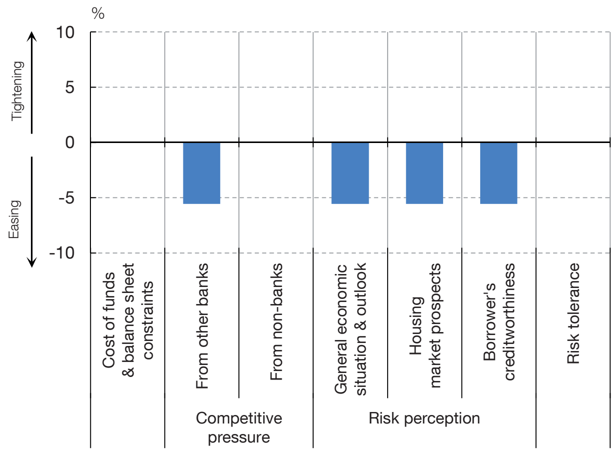



1.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

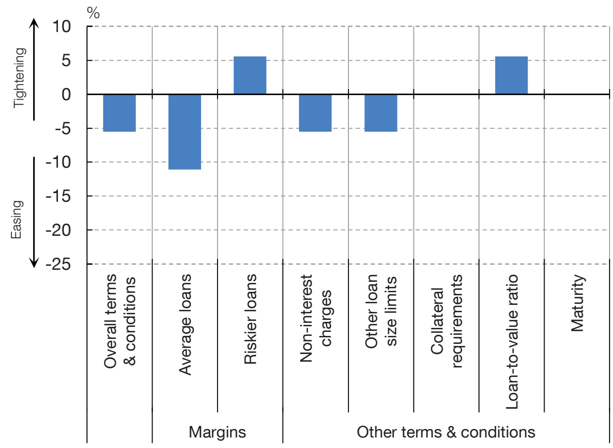



2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

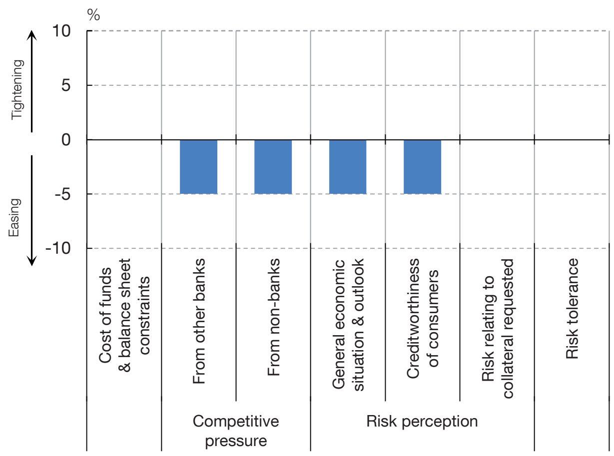



2.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

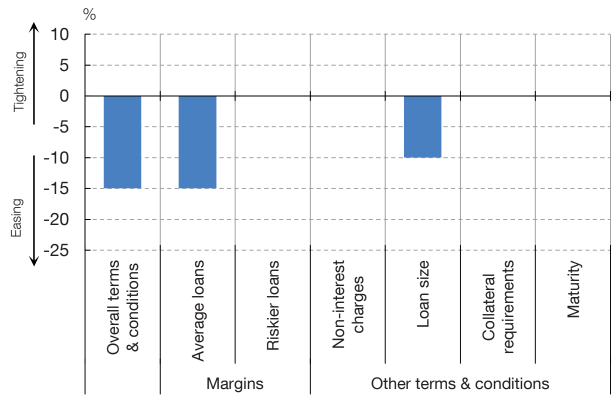



3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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

increased competitive pressure. A more detailed analysis reveals a drop in the margins applied to average loans and in non-interest rate charges, and the existence of fewer limits to loan size. By contrast, the margins on riskier loans increased slightly and the LTV ratio declined. The percentage of rejected loan applications fell again.

Demand for loans for house purchase increased slightly. According to the responding banks, the growth in loan applications was driven by the improved housing market outlook, a drop in the general level of interest rates and, to a lesser extent, the rise in refinancing and debt restructuring, although these effects would have been partly countered by the increase in internal financing and, to a lesser extent, by regulatory and fiscal changes in the market and the increase in loans from other banks and other sources of external financing (see Chart 3).

Lending standards for consumer credit and other lending again eased slightly in 2018 Q1. This was driven by increased competitive pressure and the improvement in both the general economic outlook and the perception of borrowers' creditworthiness (see Chart 2). Furthermore, the overall conditions for this type of loan again eased, as a result of increased competition and, to a lesser extent, lower funding costs and less balance sheet constraints. In particular, the margins applied to average loans narrowed and new loan amounts increased. The margins applied to riskier loans remained stable. The percentage of rejected loan applications declined again during the first three months of 2018.

Applications for consumer credit and other lending continued to rise in 2018 Q1. According to the replies received from the responding banks, the main drivers of this growth in applications were increased spending on consumer durables, more buoyant consumer confidence and, to a smaller extent, lower interest rates. Meanwhile, the rise in loans from other institutions, higher internal financing out of savings and, to a lesser degree, the greater use of other sources of external financing, exerted an effect in the opposite direction (see Chart 3).

**Ad hoc questions**

In their replies to the first ad hoc question in the survey on access to retail and wholesale funding, Spanish banks reported that in 2018 Q1 in general they perceived small changes, including most notably a slight improvement in the conditions of access to medium and long-term debt securities and securitisation markets, whereas for the rest of wholesale funding and for retail funding they detected a certain degree of stability (see Chart A.1).

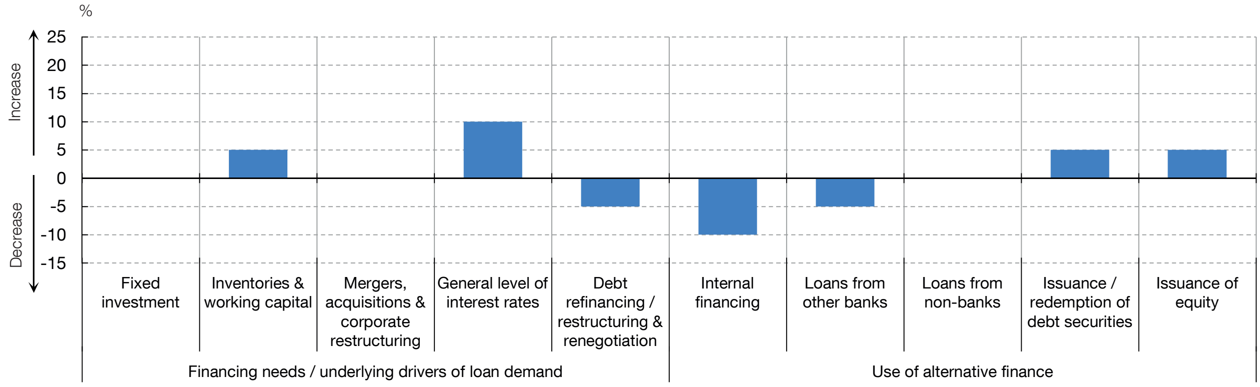
In reply to the question on the strictness of credit standards, most of the Spanish banks reported that these are currently moderately stricter than those seen on average since 2003 for all types of loans (see Chart A.2). As compared with the replies to this same question two years ago, there has been a shift towards lower credit standards, while the levels of strictness are very similar to those of the previous year. Meanwhile, as compared with the average value observed since 2010 Q2, credit standards appear to be slightly laxer in almost all segments, except in that of loans to households for house purchase, where they are slightly stricter, and in lending to large firms, where they are similar.

Responding banks reported that over the last six months the ECB's expanded asset purchase programme has resulted in an improvement of its liquidity and funding conditions while, in turn, posting a slight negative impact on profitability for the first time since the programme's inception, mainly owing to lower intermediation margins (see Chart A.3). Based on the replies received, the programme appears not to have had any effect on total asset volume or on capital levels. Also, it had no impact on credit standards in any segment,

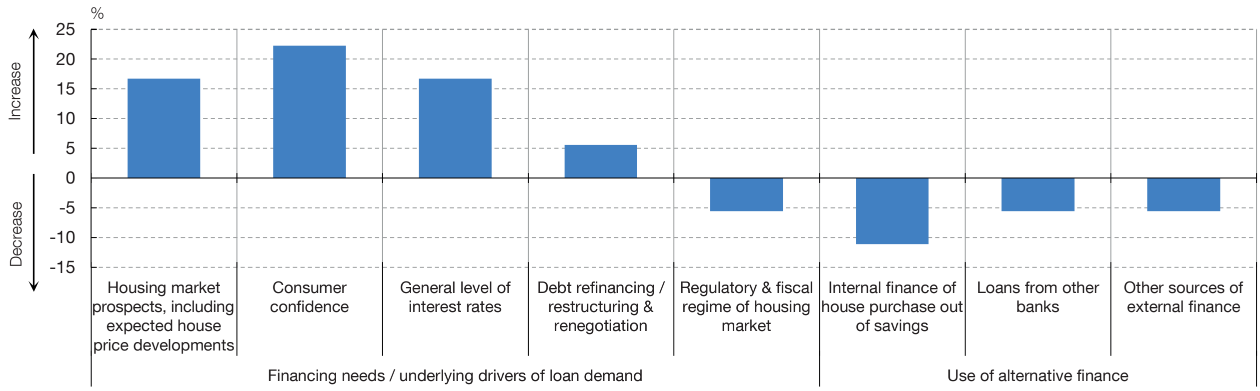
## CONTRIBUTION OF FACTORS TO THE CHANGE IN DEMAND. SPAIN

CHART 3

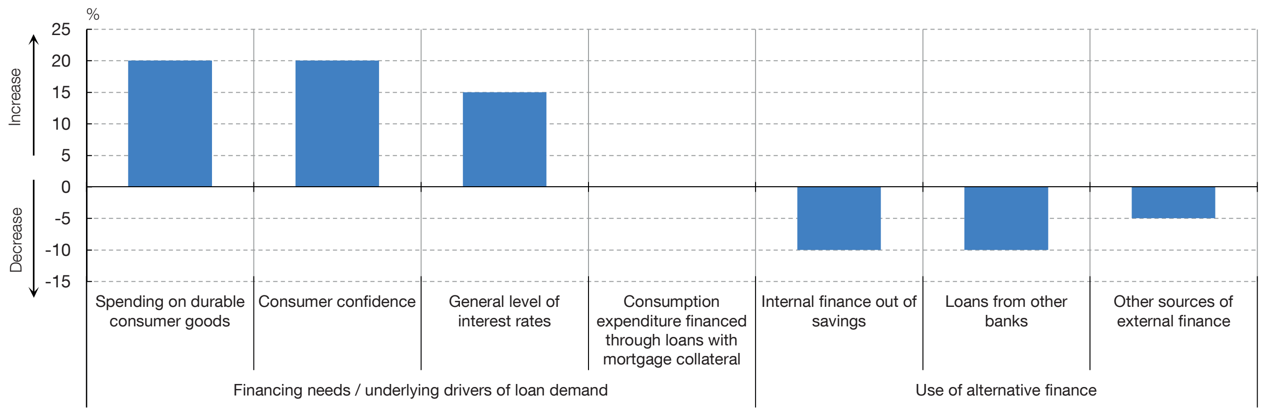
1 LOANS TO NON-FINANCIAL CORPORATIONS (a)




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.

but had in turn prompted some easing of terms and conditions on loans and an increase in new loan volumes.

Lastly, in the case of the ad hoc question about the impact of the ECB's negative deposit facility rate, the banks reported that it had contributed to a drop in net interest income over the last six months (see Chart A.4). The impact on loan interest rates and the margins applied was negative, albeit moderate, in all segments. Finally, the measure contributed to raising the volume of lending slightly.

## Outlook

As regards the current quarter, responding banks did not expect any change to their credit standards for loans to enterprises or households (see Chart 1). On the demand side, if their forecasts are met, applications for all types of lending will increase.

In the retail and wholesale funding markets, banks' expectations for 2018 Q1 were for a slight improvement in conditions of access to securitisation markets and in the capacity to transfer risk off the balance sheet, and for stability in all other markets (see Chart A.1).

As a consequence of the ECB's expanded asset purchase programme, responding banks expected their liquidity position, and to a lesser extent, financing conditions, to improve over the next six months (see Chart A.3). They also expected the programme to again contribute to a slight reduction in profitability. However, they do not think it will lead to changes in the amount of total assets or in their capital levels. The banks expected the programme to prompt an easing of credit standards and of the terms and conditions on loans to households and enterprises, and that it would contribute to an ongoing increase in volumes across all segments.

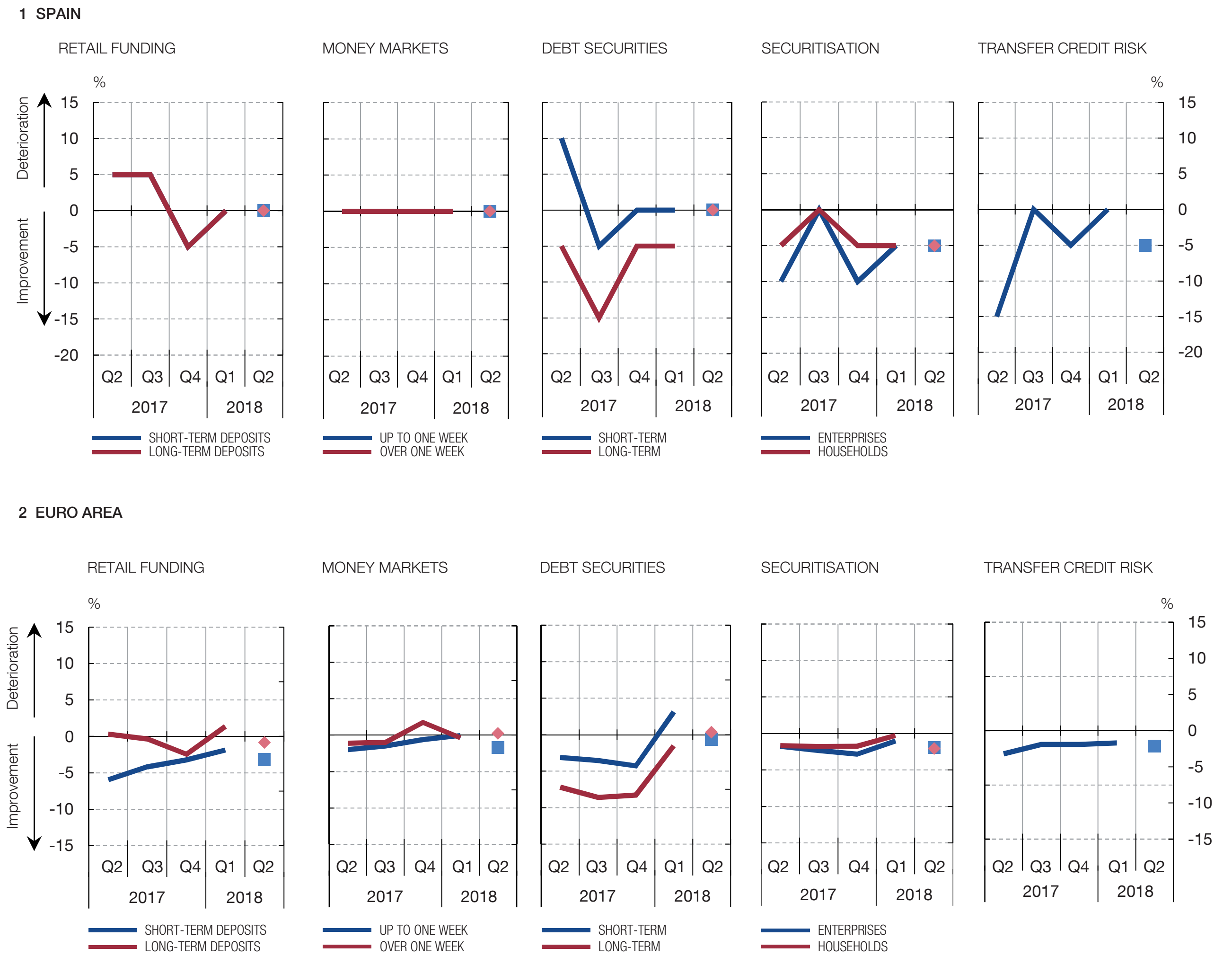
Lastly, banks participating in the survey anticipated that, over the next six months, the ECB's negative deposit facility rate will contribute to a further drop in their net interest income and a moderate decline in interest rates and margins on loans, together with a slight increase in the volume of lending (see Chart A.4).

24.4.2018.

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 perceived a considerable deterioration in their market access × 1 + percentage of banks that have perceived some deterioration × 1/2 – percentage of banks that have perceived some improvement × 1/2 percentage of banks that have perceived a considerable improvement × 1.

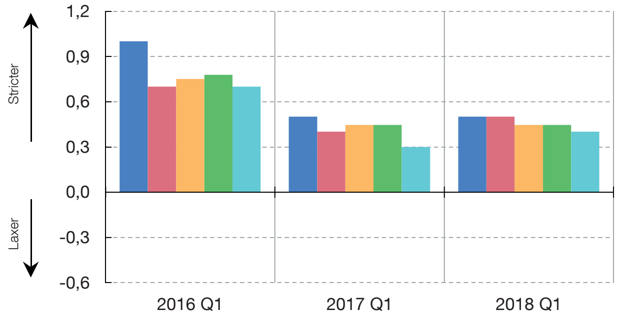
**b** ◆, ■ Forecast.

## CURRENT STRICTNESS OF CREDIT STANDARDS FOR NEW LOANS COMPARED WITH HISTORICAL LEVELS

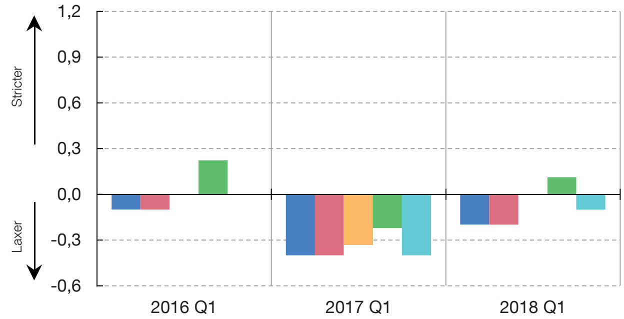
CHART A.2

1 SPAIN

PERIOD BETWEEN 2003 Q1 AND THE PRESENT (a)

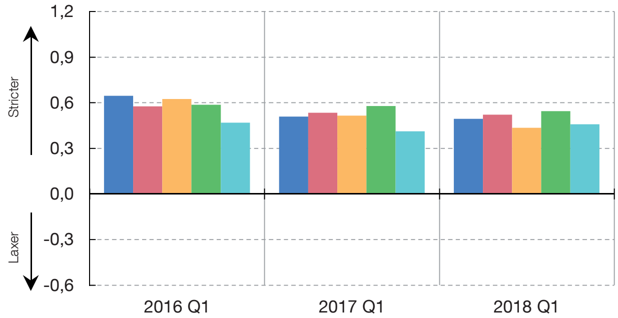



PERIOD BETWEEN 2010 Q2 AND THE PRESENT (a)

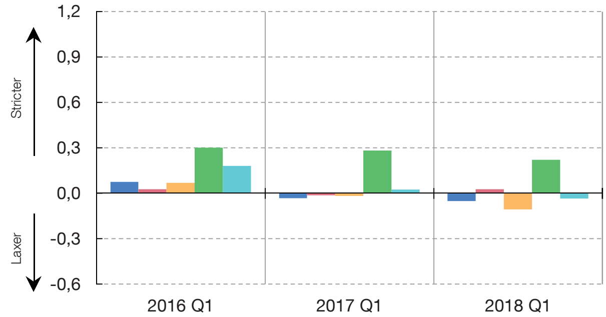



2 EURO AREA

PERIOD BETWEEN 2003 Q1 AND THE PRESENT (a)




PERIOD BETWEEN 2010 Q2 AND THE PRESENT (a)

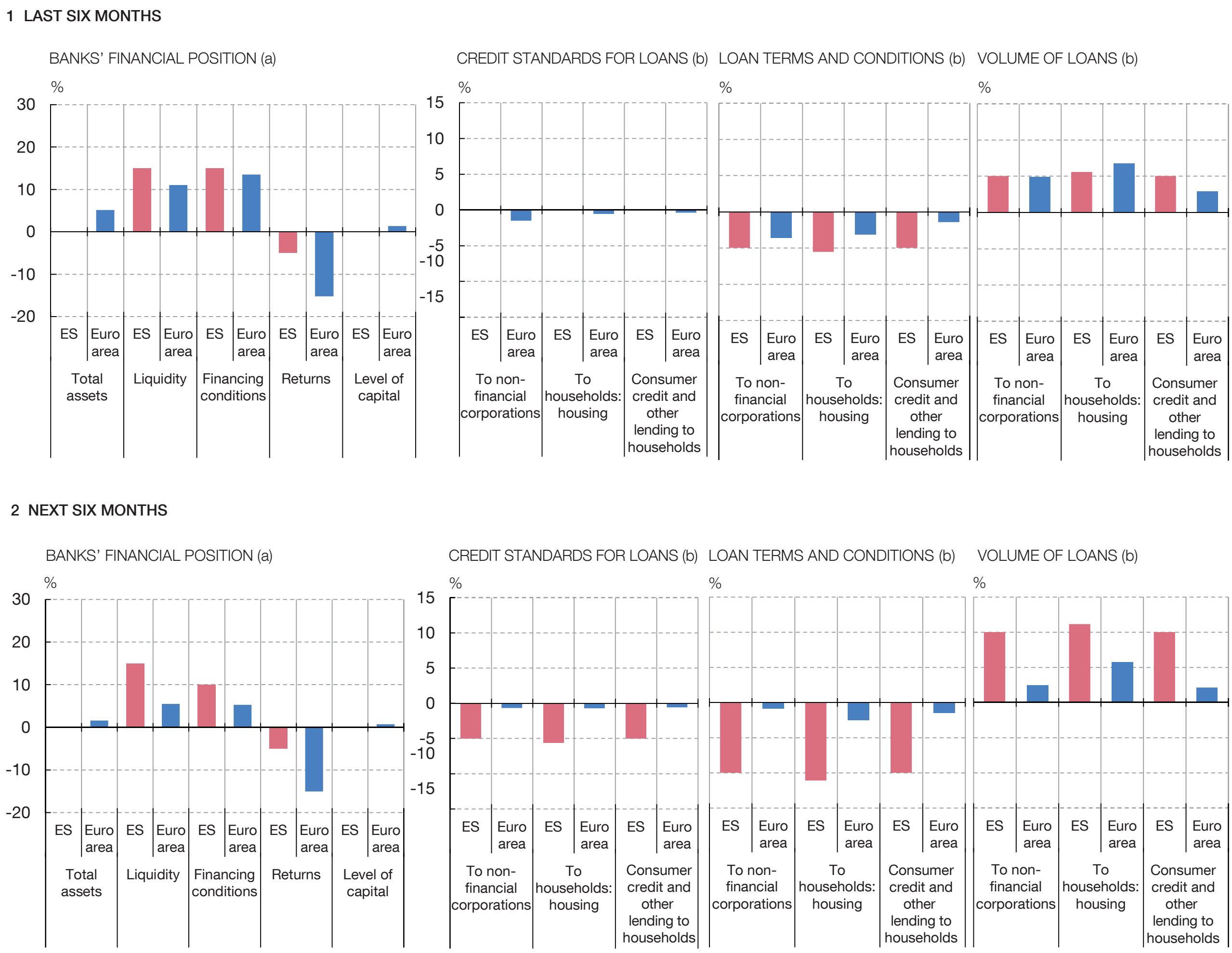




SOURCES: ECB and Banco de España.

**a** Average based on replies by participating banks. The following values are assigned to the replies. 3: the strictest level forthe period; 2: considerably stricter than the average level for the period; 1: moderately stricter than the average level for the period; 0: practically equal to the average level for the period or without changes during the period; –1: moderately laxer than the average level for the period; –2: considerably laxer than the average level for the period; –3: the laxest level for the period. The average level of credit standards for new loans for the period is defined as the intermediate point between the maximum and minimum levels of strictness of credit standards during that period.

IMPACT OF THE ECB'S EXPANDED ASSET PURCHASE PROGRAMME CHART A.3



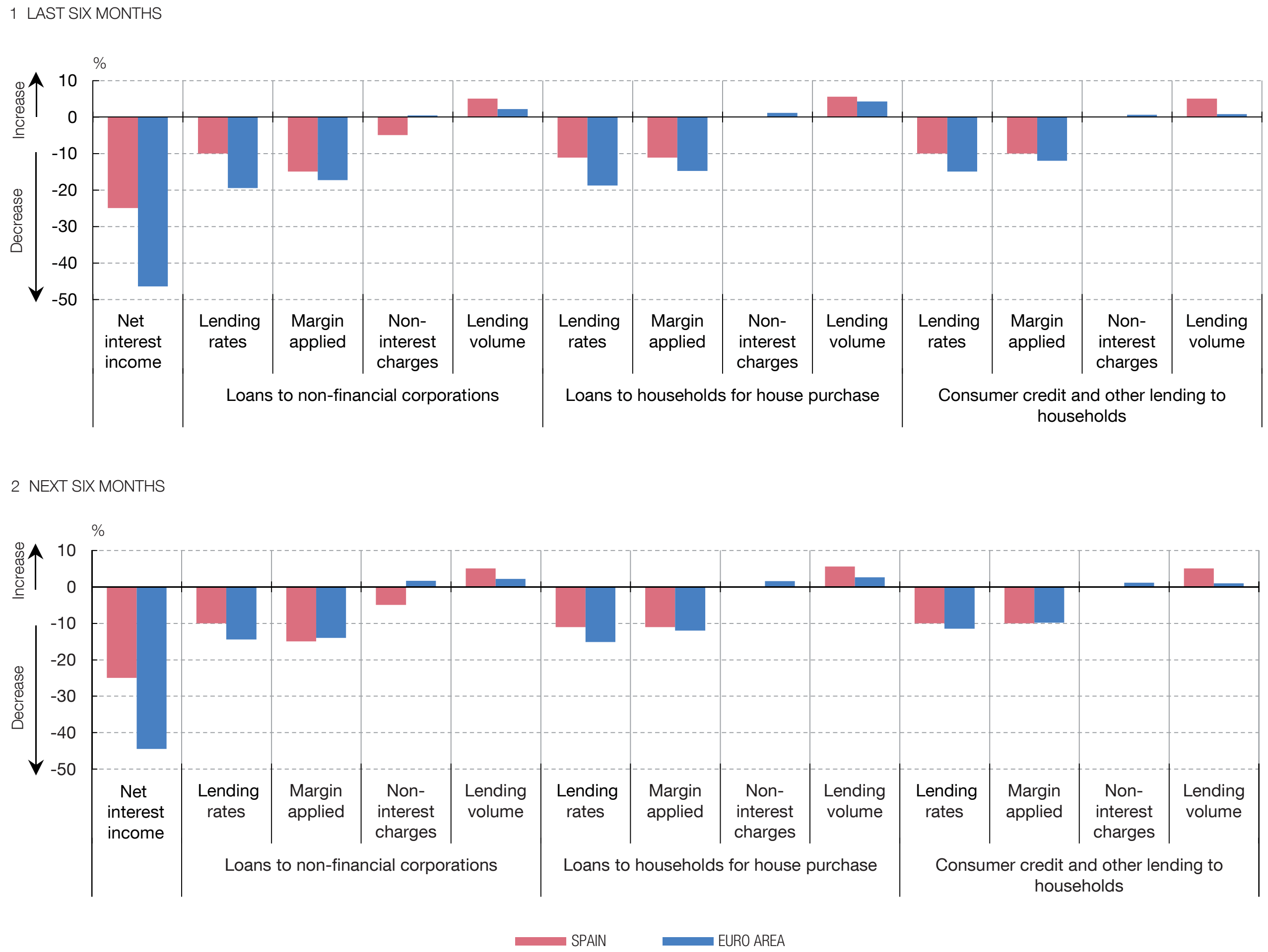

SOURCES: ECB and Banco de España.

a Indicator = percentage of banks stating that the programme contributed strongly to an increase or improvement × 1 + percentage of banks stating that it contributed somewhat to an increase or improvement × 1/2 – percentage of banks stating that it contributed somewhat to a decline or worsening × 1/2 – percentage of banks stating that it contributed strongly to a decline or worsening.

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

IMPACT OF ECB'S NEGATIVE DEPOSIT FACILITY RATE (a)

CHART A.4




SOURCES: ECB and Banco de España.

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