

# The July 2018 Bank Lending Survey in Spain

Álvaro Menéndez Pujadas



24 July 2018

The results of the Bank Lending Survey show that during 2018 Q2 credit standards for new loans eased slightly in all segments, both in Spain and in the euro area. Household demand for credit grew in both areas, while that from enterprises did so only in the euro area, holding stable in Spain. As regards funding, both Spanish and euro area banks generally perceived some improvement in access conditions to retail markets and a slight deterioration in practically all wholesale markets. During the first half of 2018, regulatory and supervisory measures are estimated to have been conducive, in both areas, to some increase in capital levels, and, in the case of the euro area, also in assets. According to Spanish banks, these measures are not expected to have appreciably impacted either their funding conditions or lending standards or margins on loans. In the case of the euro area, they provided for some easing in institutions' funding conditions, along with a slight tightening in credit standards, not significantly affecting the margins applied in most segments. Banks in both areas highlighted, as the key factors for the setting of their margins, the search for yield and competitive pressures. Finally, the NPL ratio has not significantly affected Spanish institutions' lending policies during the first half of 2018, while it has contributed to some tightening in the euro area.

## THE JULY 2018 BANK LENDING SURVEY IN SPAIN

The author of this article is Álvaro Menéndez Pujadas of the Directorate General Economics, Statistics and Research.

### Main results

This article presents the results of the July 2018 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in Q2, and on the outlook for the coming three months. This edition includes several ad hoc questions on wholesale and retail funding market access conditions, on the impact of regulatory and supervisory measures, on the significance of certain factors in the setting of margins and on the impact of the NPL ratio on banks' lending policies.<sup>1</sup> 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.<sup>2</sup>

The results of the survey show that in 2018 Q2 lending standards eased slightly in all segments analysed, both in Spain and in the euro area (see Charts 1.1.1, 1.2.1 and 1.3.1). The general conditions applied to lending also eased across the board in both areas, albeit with greater intensity in Spain, especially in the case of loans to households for consumer credit and other lending and in that of loans to enterprises. For the current quarter, both Spanish and euro area banks foresaw credit standards continuing to ease slightly in all segments.

According to the replies received, in 2018 Q2 the demand for loans grew in the two household lending segments, in Spain and the euro area alike, with the rise significantly sharper in Spain in the case of funds intended for consumer credit and lending other than for house purchase. Conversely, in loans to enterprises, applications increased in the euro area and held stable in Spain (see Charts 1.1.2, 1.2.2 and 1.3.2). For Q3, the banks participating in the survey forecast that applications for funds would increase across the board in both areas.

The dispersion of domestic banks' replies on credit standards, with reference to the latest period observed, was very limited in all segments. In the case of demand, the change was somewhat greater, especially in loans to enterprises and in household loans for house purchase.

As regards the ad hoc questions included in the survey, in response to the first, both Spanish and euro area banks reported that they perceived a slight improvement in 2018 Q2 in conditions of access to practically all retail markets (except, in the case of the euro area, for the long-term deposits segment, which worsened slightly), while in wholesale markets stability or some worsening was observed (see Chart A.1). As regards the questions on the effect of regulatory and supervisory measures, domestic banks reported

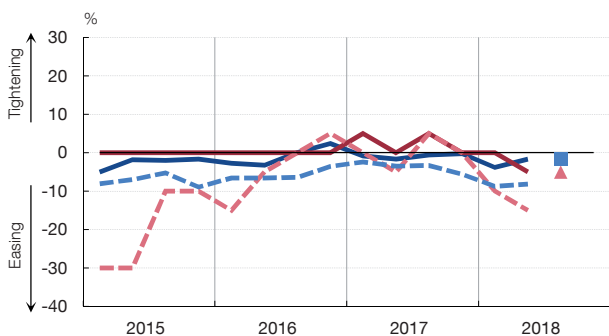
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1 The Banco de España has published these results on its website (<http://www.bde.es/webbde/es/estadis/infoest/epb.html>), in tandem with the publication of this article and with the ECB's publication of the results for the euro area. Also available 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>).

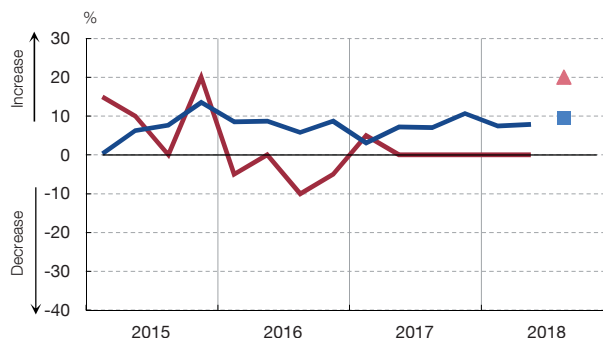
2 The analysis of the results conducted in this article is based on the so-called "diffusion indices", which are calculated with a weighting based on the degree of improvement/worsening or of easing/tightening reported by each bank in its replies, unlike indicators calculated in terms of net percentages,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

1 LENDING TO NON-FINANCIAL CORPORATIONS

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

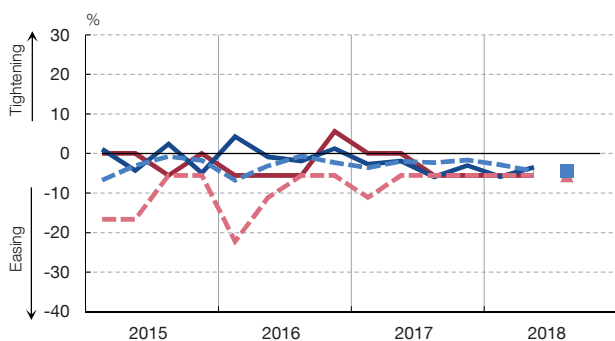


1.2 CHANGE IN DEMAND (b)

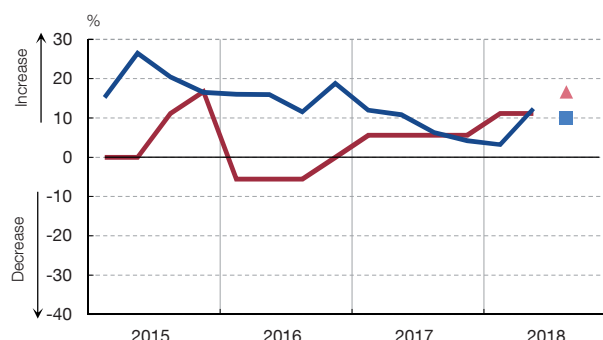


2 LENDING TO HOUSEHOLDS FOR HOUSE PURCHASE

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

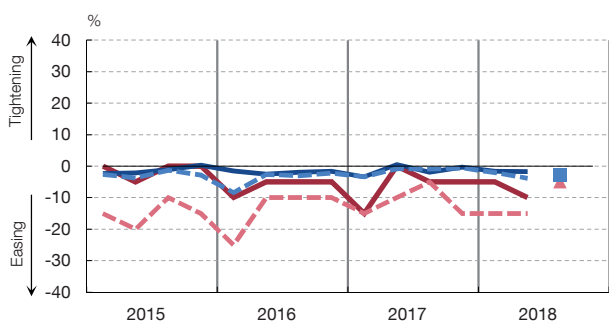


2.2 CHANGE IN DEMAND

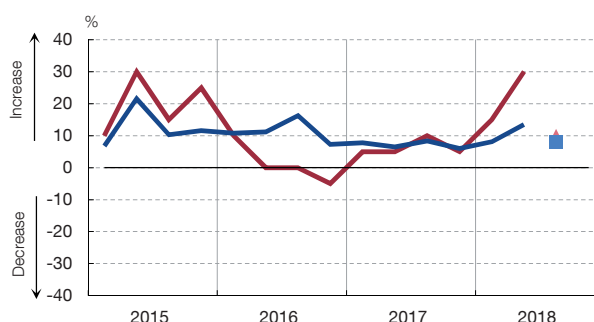


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

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



3.2 CHANGE IN DEMAND (b)



— STANDARDS. SPAIN      — STANDARDS. EURO AREA  
▲ FORECAST STANDARDS. SPAIN      ■ FORECAST STANDARDS. EURO AREA  
- - - CONDITIONS. SPAIN      - - - CONDITIONS. EURO AREA  
— SPAIN      — EURO AREA  
▲ FORECAST. SPAIN      ■ FORECAST. EURO AREA

SOURCES: ECB and Banco de España.

- a Indicator = percentage of banks that have tightened their credit standards or terms and conditions considerably × 1 + percentage of banks that have tightened their credit standards or terms and conditions somewhat × 1/2 – percentage of banks that have eased their credit standards or terms and conditions somewhat × 1/2 – percentage of banks that have eased their credit standards or terms and conditions considerably × 1.
- b Indicator = percentage of banks reporting a considerable increase × 1 + percentage of banks reporting some increase – percentage of banks reporting some decrease × 1/2 – percentage of banks reporting a considerable decrease × 1.

that, during the first half of 2018, such measures had no bearing on the level of assets, while those of the euro area perceived there was a slight increase both in total assets and in risk-weighted assets (see Chart A.2). Further, these measures are estimated to have been conducive, in both areas, to an increase in their capital levels. In Spain, these measures are not expected to have borne significantly on lending standards and on the margins on loans in any segment, nor to have influenced banks' funding conditions. In the euro area, by contrast, they prompted some easing in intermediaries' funding conditions and a slight tightening of lending standards, without significantly affecting the margins applied, except in the segment of loans to households for house purchase, where margins will have increased somewhat as a result. As to the questions on the importance of certain factors in the setting of the margins applied, both Spanish and euro area banks stressed that the search for yield and competitive pressures were the most significant factors during the previous six months, in all segments, with these factors moreover being those that had gained most in importance from 2014 to 2017 (see Chart A.3). Lastly, in the ad hoc question analysing the impact of the NPL ratio on lending policy, domestic banks reported that NPLs scarcely affected lending standards and the conditions applied in the first half of 2018. On the contrary, in the period from 2014 to 2017, NPLs had prompted a slight tightening in standards and in the conditions applied to loans in some segments, owing mainly to the higher costs of capital and of balance-sheet restructuring operations, and to the increase in regulatory requirements (see Chart A.4). Euro area banks, for their part, perceived a somewhat greater influence of the NPL ratio on their lending policies. Hence, both from 2014 to 2017 and, to a lesser extent, in the first half of 2018, the level of doubtful loans prompted some tightening in standards and in the conditions applied in all segments, an effect due mainly to the impact of NPLs on risk perception and banks' tolerance of such risks, and to the costs associated with balance-sheet restructuring operations.

#### Supply and demand conditions

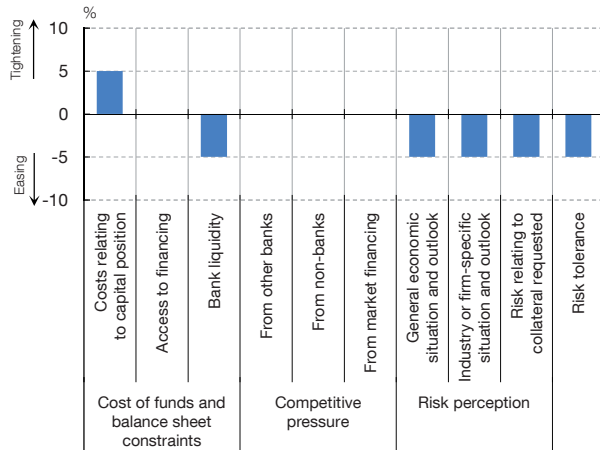
A more detailed analysis of Spanish banks' replies to the regular questionnaire shows that, in the segment of loans to non-financial corporations, lending standards eased slightly in 2018 Q2, both in short- and longer-term operations. The breakdown by size reveals that this pattern of loans granted is confirmed for large corporations, while in the case of SMEs standards were practically unchanged. Having regard to the factors behind this behaviour, the improvement in banks' liquidity position, lower risk perception and greater risk tolerance by banks are estimated to have prompted some easing, with these effects having been partly offset by higher costs relating to capital levels (see Chart 2.1.1).

According to the replies received, the general conditions on new lending business eased, owing mainly to the increase in competitive pressures and, to a lesser extent, to lower funding costs, to a greater availability of funds, to the decline in perceived risks and to banks' greater risk tolerance. More detailed information reveals a decline in the margins applied on ordinary loans and some increase in maturities and in the amounts granted, whereas, on the contrary, there was a slight increase in the margins applied to higher-risk loans and an increase in charges, excluding interest, with the remaining conditions holding stable (see Chart 2.1.2). The breakdown by company size shows that the general conditions of new loans eased somewhat, both in those intended for SMEs and in those granted to large corporations. The proportion of rejected loan applications increased slightly in Q2.

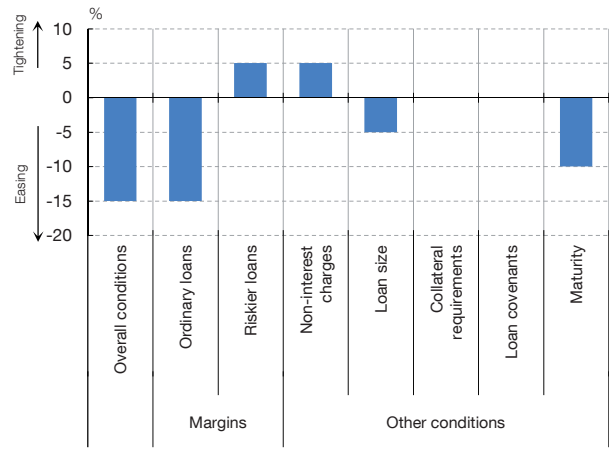
As regards demand, applications by companies for funds scarcely varied in 2018 Q2, both in the case of SMEs and of large corporations. The breakdown by maturity shows stability in the applications for short-term loans and some reduction in those for longer-dated loans. This behaviour of demand was the outcome of factors with mixed effects. While the decline in the overall level of interest rates and greater requirements to finance stocks and

1 LOANS TO NON-FINANCIAL CORPORATIONS

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

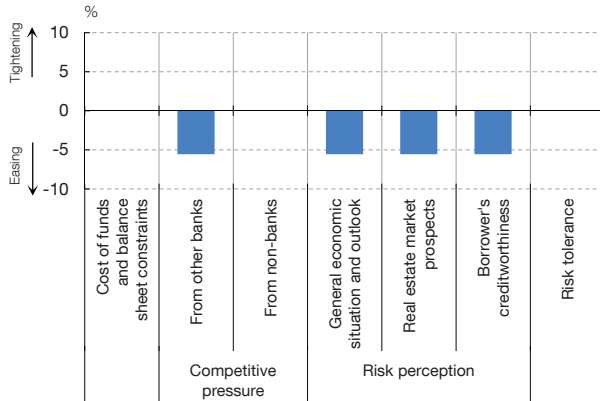


1.2 CHANGES IN LOAN CONDITIONS (b)

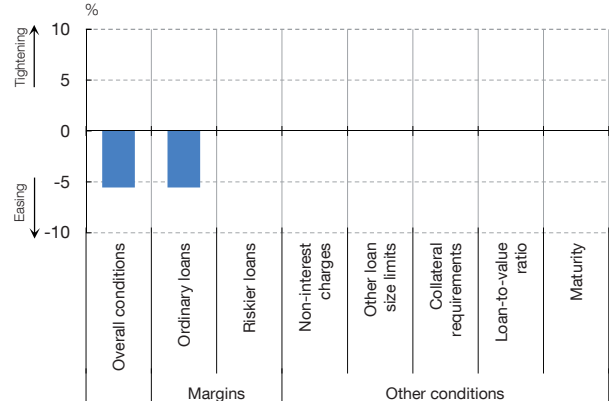


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

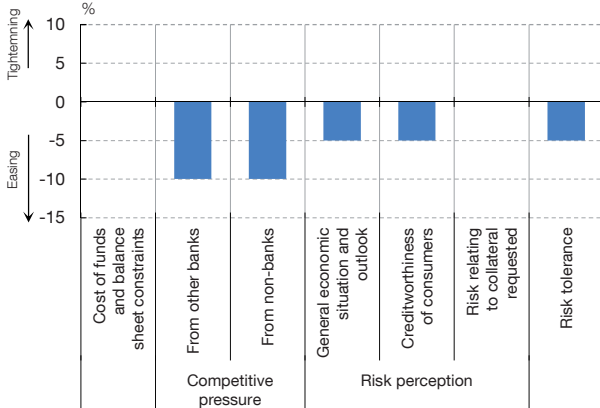


2.2 CHANGES IN LOAN CONDITIONS (b)

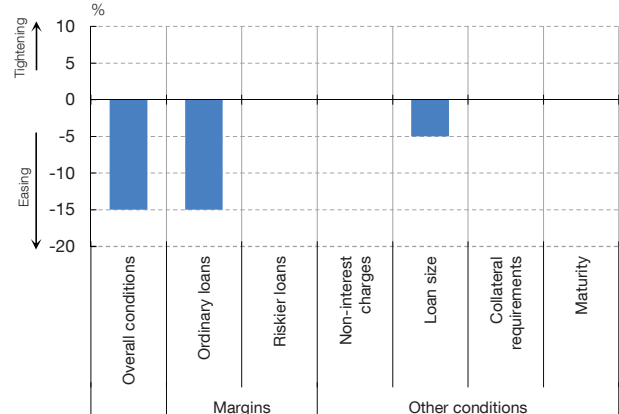


3 CONSUMER CREDIT AND OTHER LENDING

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



3.2 CHANGES IN LOAN CONDITIONS (b)



SOURCES: ECB and Banco de España.

- a Indicator = percentage of banks reporting that the factor has contributed considerably to the tightening of credit standards × 1 + percentage of banks reporting that it has contributed somewhat to the tightening of credit standards × 1/2 – percentage of banks reporting that it has contributed somewhat to the easing of credit standards × 1/2 – percentage of banks reporting that it has contributed considerably to the easing of credit standards.
- b Indicator = percentage of banks that have considerably tightened their terms and conditions × 1 + percentage of banks that have somewhat tightened their terms and conditions × 1/2 – percentage of banks that have somewhat eased their terms and conditions × 1/2 – percentage of banks that have considerably eased their terms and conditions.

working capital, along with lower issuance or share repurchases, contributed to increasing demand, the decline in funds required for investment in fixed capital and, to a lesser extent, the reduction in debt restructuring operations and the greater use of loans from other banks are estimated to have exerted an effect in the opposite direction (see Chart 3.1).

Based on the replies received, credit standards for loans to households for house purchase eased once more to some extent during 2018 Q2. The factors contributing to this were the increase in competition, the brighter overall outlook in the economy and in the housing market, and the greater perceived creditworthiness of borrowers (see Chart 2.2.1). The general conditions applied to these loans also eased once again, owing essentially to the increase in competitive pressures and to diminished perceived risks. A more detailed analysis reveals a decline in the margins applied to ordinary loans, with the remaining conditions holding stable (see Chart 2.2.2). Finally, the proportion of rejected loan applications fell once more.

The demand for funds for house purchase increased once again in Q2. According to the respondent banks, the decline in the overall level of interest rates, a brighter outlook for the housing market and greater consumer confidence contributed to the increase in applications, effects which were partly offset by the increase in own-funds financing and, to a lesser extent, by the regulatory and fiscal changes in the market<sup>3</sup> and by the rise in other sources of external financing (see Chart 3.2).

Lending standards for consumer credit and other lending again eased somewhat in 2018 Q2. This came about as a result of the increase in competitive pressures, from institutions' greater risk tolerance and from the improvement both in the broad economic outlook and in borrowers' perceived creditworthiness (see Chart 2.3.1). Also, the general conditions on this type of lending eased once more, further to greater competition and, to a lesser extent, to a decline in the risks perceived by banks. In particular, the margins applied to ordinary loans narrowed and the amounts of operations increased somewhat (see Chart 2.3.2). The remaining conditions held stable. As regards the proportion of rejected loan applications, this fell once again in 2018 Q2.

Applications for consumer credit and other lending continued to increase in 2018 Q2, and did so at a notably higher rate than three months earlier. According to the replies received, the rise in spending on consumer durables, greater consumer confidence and, to a lesser extent, the lower levels of interest rates were the main factors contributing to the increase in applications, while the rise in internal financing through saving would have had the opposite effect (see Chart 3.3).

#### Ad hoc questions

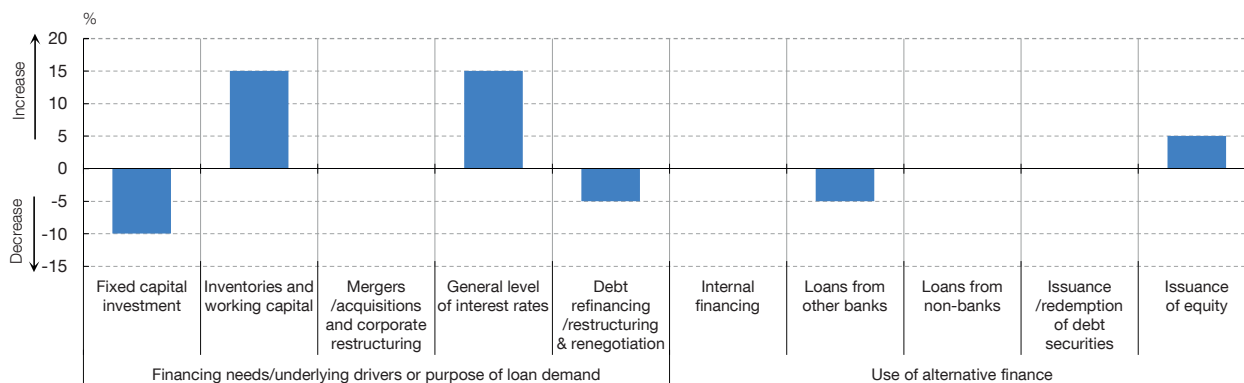
In the response to the ad hoc question on the conditions of access to funding, banks replied that they perceived, during 2018 Q2, some improvement in conditions of access to retail markets, while the attendant conditions for money markets held stable and those for the remaining wholesale markets worsened somewhat (see Chart A.1).

In the questions relating to the effect of regulatory and supervisory measures, banks replied that, during the first half of 2018, these measures did not have a significant impact either on the level of total assets or on that of liquid assets (see Chart A.2). Nor did they prompt changes in risk-weighted assets, although that would be a consequence of a slight

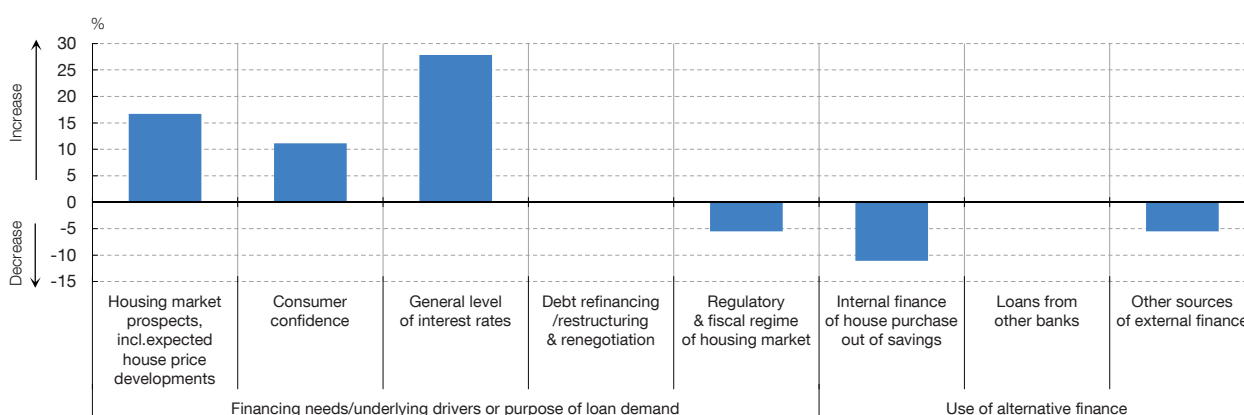
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<sup>3</sup> The future Mortgage Law, which is currently in passage through Parliament, may, according to some respondent banks, have adversely influenced applications for new loans for house purchase, delaying these until the regulations come into force (they will foreseeably do so during this year).

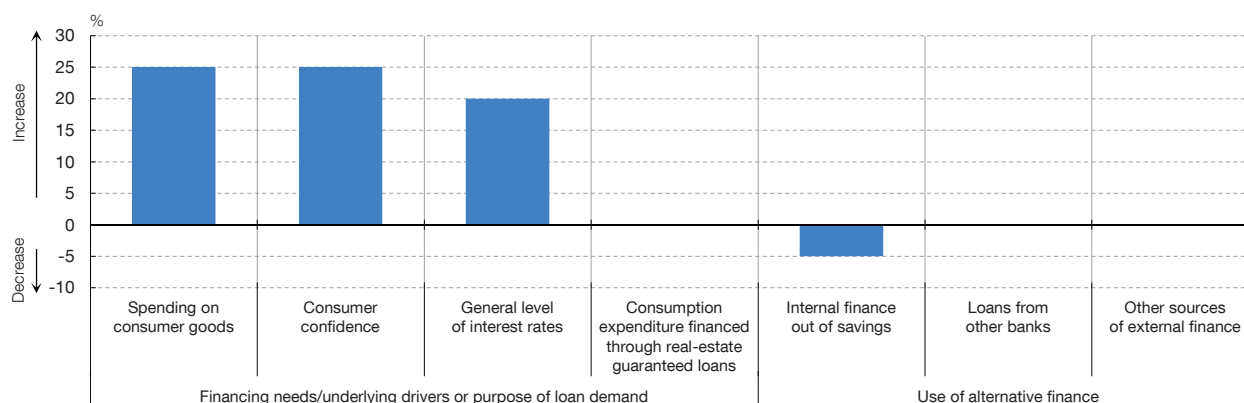
1 LOANS TO NON-FINANCIAL CORPORATIONS (a)



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.

increase in ordinary loans, offset by a decline in higher-risk loans. Also, they signalled that these measures had a positive impact on their capital levels, both through the issuance of shares and through the retaining of profits. According to the respondent banks, these measures exerted no significant influence either on lending standards or their margins, and nor did they affect banks' funding conditions.

As to the most significant factors in the setting of the margins applied during the first half of 2018, banks noted that these were, in all segments, the search for yield, competitive pressures, costs relating to the level of capital and risk perception (see Chart A.3). Regarding the change in the importance assigned to these factors, from 2014 to 2017, the search for yield and the pressure of competition were those that had gained most in weight in this period, while others, such as the liquidity position or access to market funding, were those which in virtually all cases diminished in significance.

Lastly, in the ad hoc question analysing the impact of the NPL ratio on banks' lending policy, banks reported that NPLs scarcely affected lending standards and the conditions applied in the first half of this year. By contrast, in the period from 2014 to 2017 NPLs prompted, in net terms<sup>4</sup>, a slight tightening in standards and in the conditions applied to loans granted to households for house purchase, and in the lending standards for loans to corporations (see Chart A.4). As regards the factors exerting influence, banks that highlighted a tightening in the 2014-2017 period associated with NPLs indicated that this would have been principally driven by the higher costs related to the level of capital and to balance-sheet restructuring operations, as well as by the increase in regulatory requirements. Conversely, banks that eased standards as a result of the decline in their NPL ratios reported that this was caused by the effect exerted by the improvement in access to market funding and in the liquidity position, and on the decline in perceived risks.

## Outlook

With a view to the current quarter, the Spanish reporting banks anticipated that lending standards would continue to ease slightly in all segments (see Chart 1). On the demand side, if their forecasts are met, applications for funds are expected to increase for all types of loans.

On the retail and wholesale funding markets, the outlook for banks for 2018 Q3 was one of a slight improvement in conditions of access to bond markets, to securitisation markets and in the capacity to transfer risk off the balance sheet, and of stability in all other markets (see Chart A.1).

As a result of the regulatory and supervisory measures, respondent banks expected, for the second half of 2018, a slight decline both in total balance sheet size and in risk-weighted assets, along with an increase in the level of capital, owing both to new capital issues and to the growth of undistributed profits (see Chart, A.2). The banks did not expect these measures to prompt changes in lending standards, but they foresaw a rise in the margins applied to loans in all segments. As to the impact on their funding conditions, they anticipated a slight improvement.

Regarding the impact of the NPL ratio on banks' lending policy, banks did not foresee, for the second half of 2018, significant effects either on standards or on the conditions applied to loans granted, in any of the segments analysed (see Chart A.4).

24.7.2018.

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<sup>4</sup> The aggregate developments shown by the standards and conditions applied, in this indicator, were the outcome of the tightening indicated by certain banks, which was partly offset by the easing reported by other banks, as a result of the changes in the level of NPLs

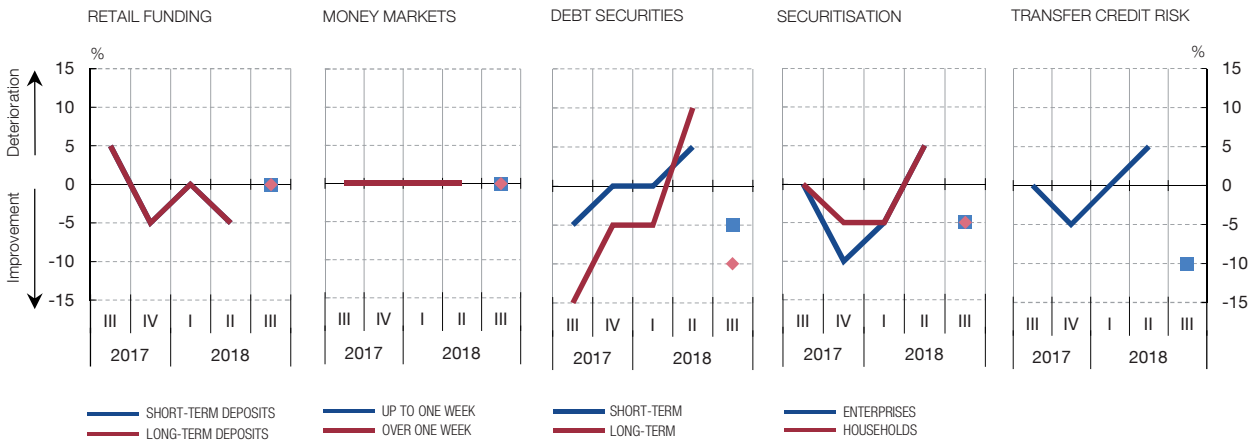


ANNEX WITH CHARTS OF MAIN RESULTS FOR THE AD HOC QUESTIONS

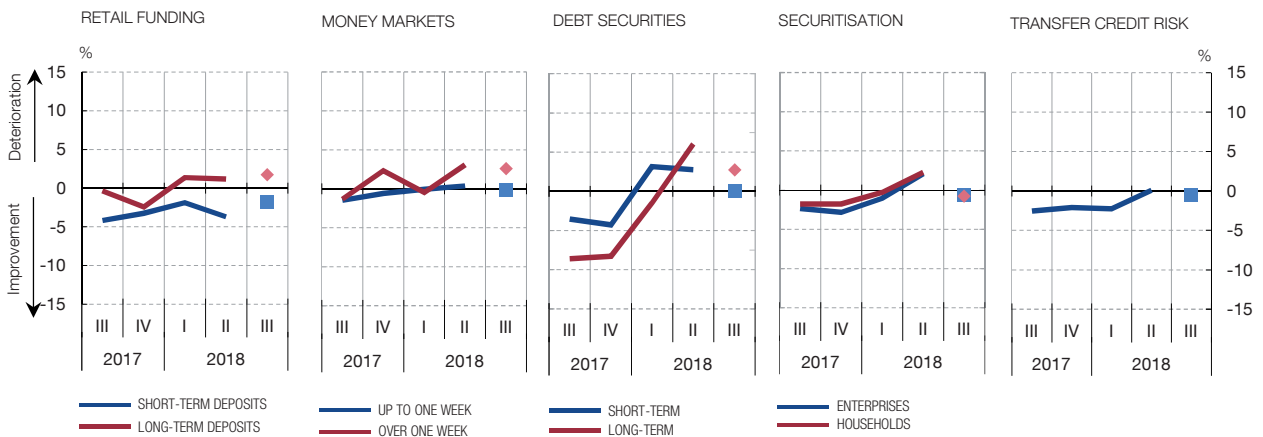
MARKET ACCESS FOR RETAIL AND WHOLESALE FUNDING (a) (b)

CHART A.1

1 SPAIN



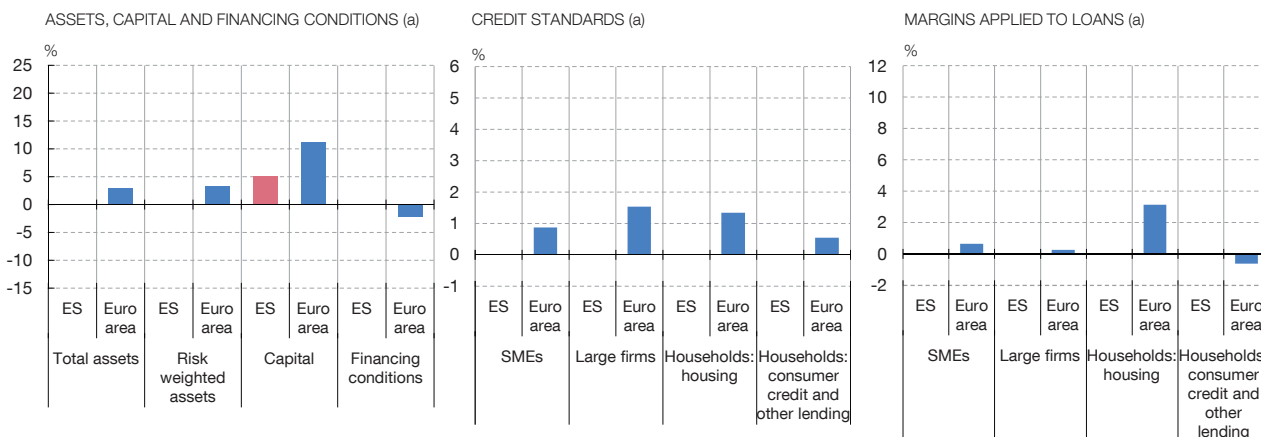
2 EURO AREA



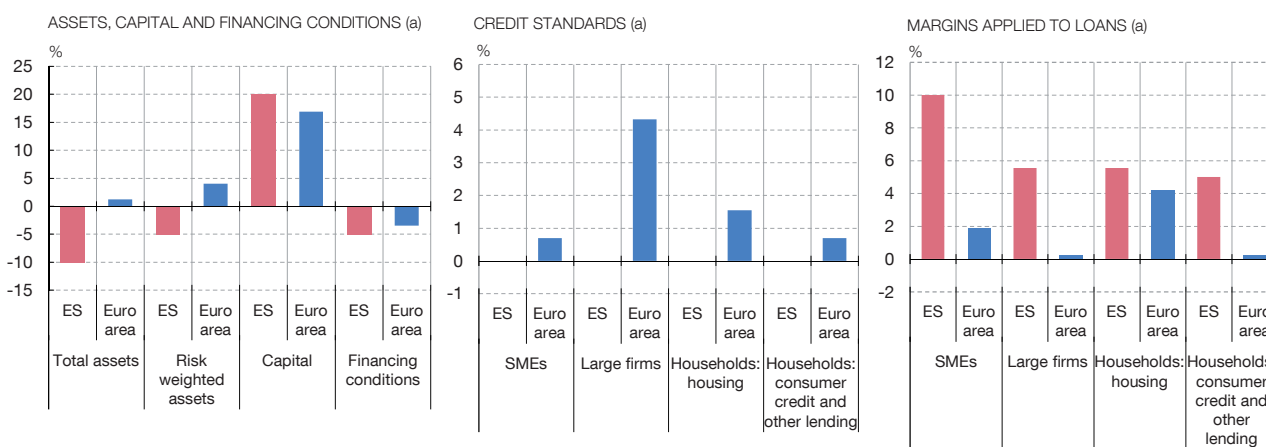
SOURCES: ECB and Banco de España.

- a Indicator = percentage of banks that have perceived a considerable deterioration in their market access x 1 + percentage of banks that have perceived some deterioration x 1/2 – percentage of banks that have perceived some easing x 1/2 + percentage of banks that have perceived a considerable easing x 1.
- b ♦, ■ Forecast.

1 LAST SIX MONTHS



2 NEXT SIX MONTHS

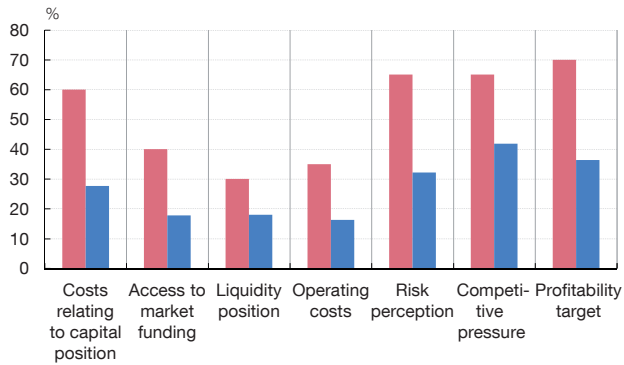


SOURCES: ECB and Banco de España.

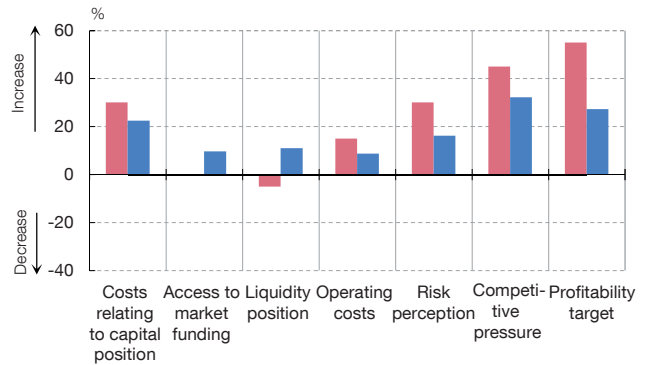
a Indicator = percentage of banks reporting an increase or tightening (depending on the item analysed), minus the percentage of those reporting a decrease or easing (depending on the item analysed), weighting considerable changes by 1 and minor changes by 1/2.

1 LENDING TO NON-FINANCIAL CORPORATIONS

1.1 IMPORTANCE IN THE PAST SIX MONTHS (a)

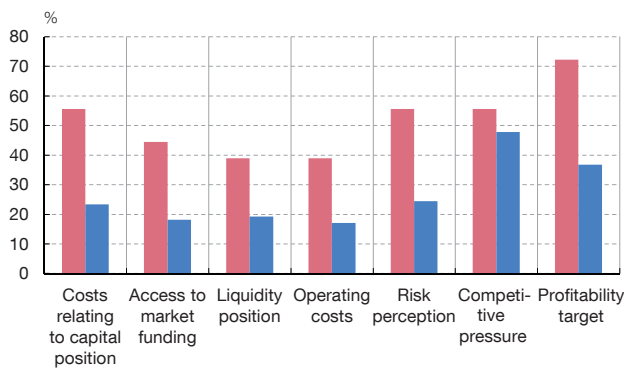


1.2 CHANGE IN IMPORTANCE FROM 2014 TO 2017 (b)

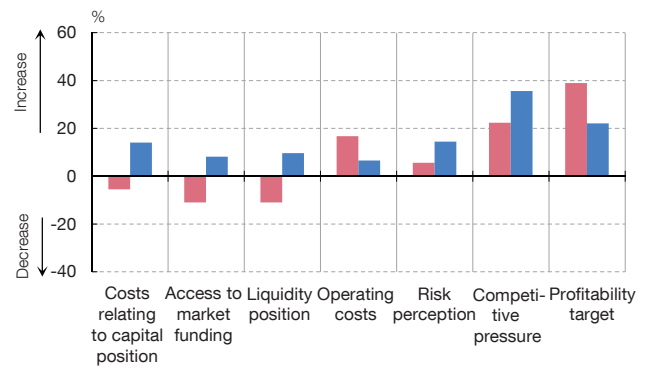


2 LENDING TO HOUSEHOLDS FOR HOUSE PURCHASE

2.1 IMPORTANCE IN THE PAST SIX MONTHS (a)

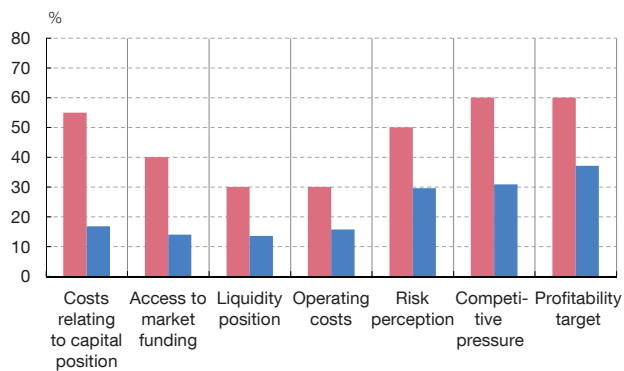


2.2 CHANGE IN IMPORTANCE FROM 2014 TO 2017 (b)

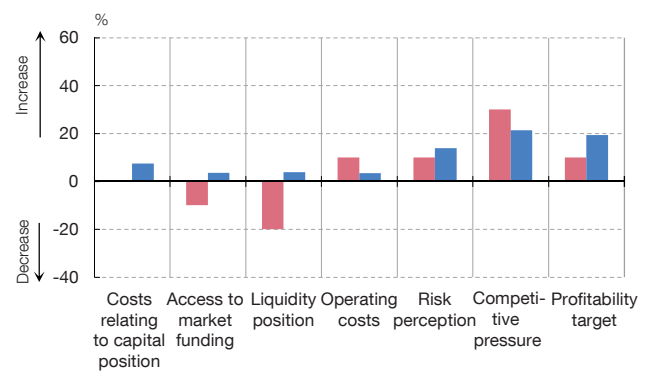


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

3.1 IMPORTANCE IN THE PAST SIX MONTHS (a)



3.2 CHANGE IN IMPORTANCE FROM 2014 TO 2017 (b)



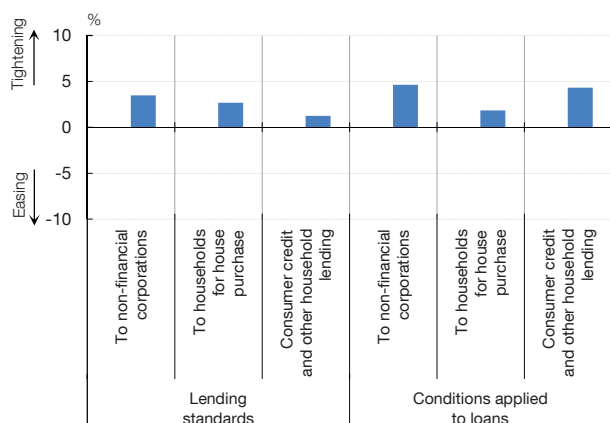
SPAIN EURO AREA

SOURCES: ECB and Banco de España.

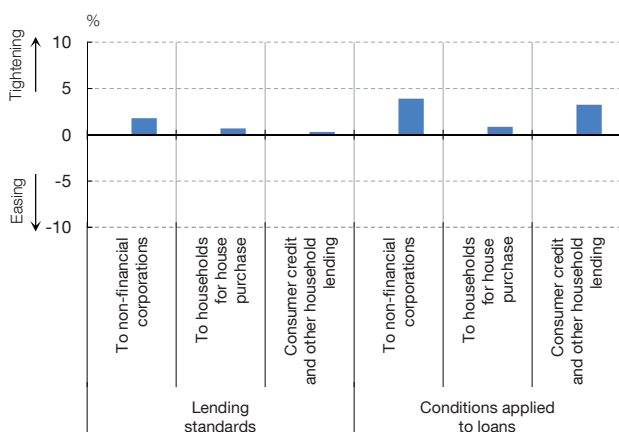
a Indicator = percentage of banks reporting that the factor is considerably important × 1 + percentage of banks reporting that it is moderately important × 1/2.  
 b Indicator = percentage of banks reporting a considerable increase in the importance of the factor × 1 + percentage of banks reporting some increase – percentage of banks reporting some decrease × 1/2 – percentage of banks reporting a considerable decrease × 1.

1 IMPACT

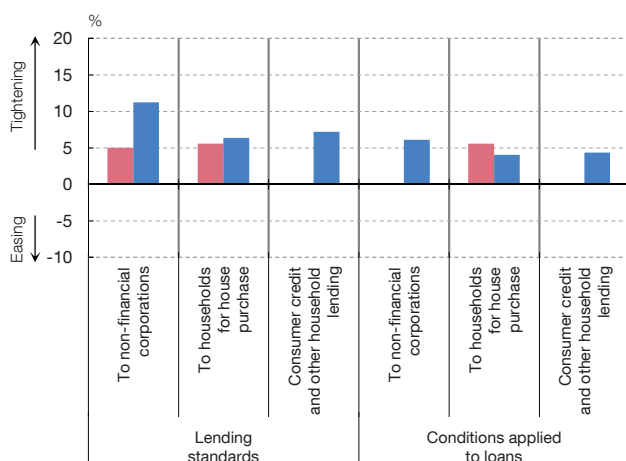
1.1 PAST SIX MONTHS



1.2 NEXT SIX MONTHS

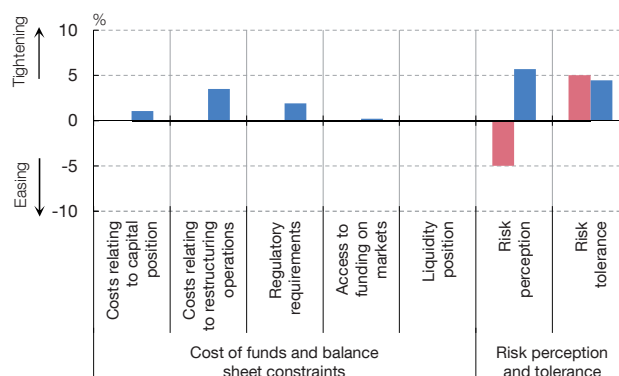


1.3 BETWEEN 2014 AND 2017

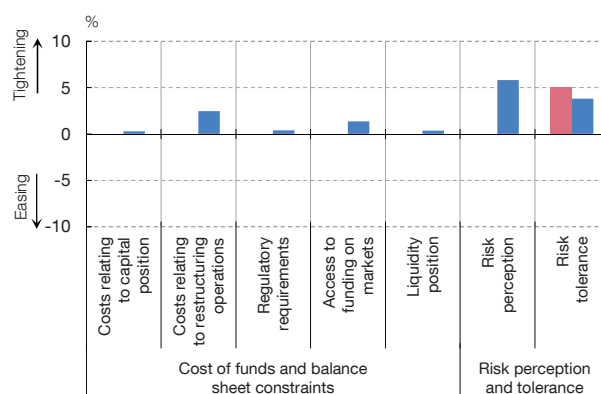


2 CONTRIBUTION OF FACTORS

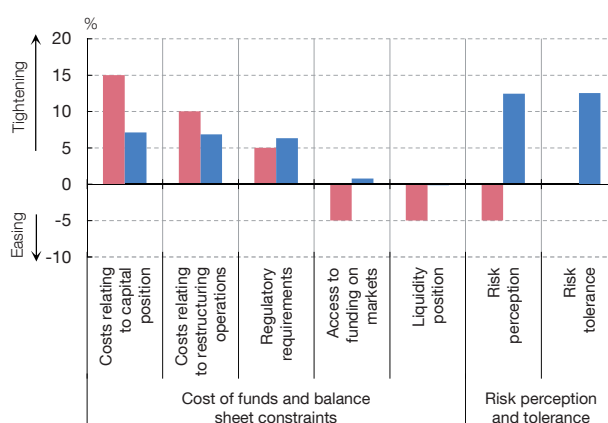
2.1 PAST SIX MONTHS



2.2 NEXT SIX MONTHS



2.3 BETWEEN 2014 AND 2017



SPAIN EURO AREA

SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that it has contributed considerably to the tightening of lending policy × 1 + percentage of banks reporting that it has contributed to some extent to tightening × 1/2 – percentage of banks reporting that it has contributed to some extent to easing × 1/2 – percentage of banks reporting that it has contributed considerably to easing × 1.