

The October 2018 Bank Lending Survey in Spain

Álvaro Menéndez Pujadas

Abstract

In 2018 Q3, according to the Bank Lending Survey, credit standards for loans to enterprises eased somewhat, both in Spain and in the euro area, while the terms and conditions applied to such loans also eased. As for lending to households, Spanish banks reported an easing in the credit standards and terms and conditions for consumer credit and other lending to households, and no change in those for housing loans, while in the euro area banks reported no significant changes in the first of these segments and a slight easing in the second. The demand for loans to enterprises fell somewhat in Spain and increased in the euro area as a whole, while in the two segments of loans to households, loan applications increased in both areas. In Spain, banks' conditions of access to wholesale funding markets deteriorated, while their conditions of access to retail funding markets barely changed. In the euro area as a whole, on the other hand, the changes were very small in both cases. The ECB's expanded asset purchase programme continued to contribute, over the six month period prior to the survey, to improving the liquidity position and funding conditions of banks in both areas and to easing the terms and conditions for loans, while the impact on profitability was mildly positive in Spain and negative in the euro area as a whole. Both Spanish and euro area banks reported that the ECB's negative deposit facility rate had led to a reduction in net interest income over the previous six months, and a general fall in interest rates and margins on loans, as well as a slight increase in the volume of lending.

Keywords: funding, credit, supply of credit, demand for credit, credit standards for loans, terms and conditions for loans, financial markets.

JEL codes: E51, E52, G21.

THE OCTOBER 2018 BANK LENDING SURVEY IN SPAIN

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Main results

This article presents the results of the October 2018 bank lending survey (BLS), which provides information on credit supply and demand conditions in Q3, and on the outlook for the next three months. This edition includes ad hoc questions on the conditions of access to wholesale and retail funding markets, the effects of the ECB's expanded asset purchase programme and the impact of the negative deposit facility rate.¹ This section discusses the main results obtained from the replies by the ten Spanish banks 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

The results of the survey show that in 2018 Q3, the credit standards for loans eased somewhat in the segment of loans to enterprises, with easing of the terms and conditions for these loans also being reported, both in Spain and in the euro area (see Chart 1). As regards loans to households, Spanish banks reported an easing of the credit standards and terms and conditions in the segment of consumer credit and other lending to households, and no change in those for housing loans, while in the euro area as a whole there was a slight easing in the housing loan segment, and no change in the case of consumer credit and other lending to households. Neither Spanish banks nor euro area banks expected changes in the credit standards for loans to enterprises during the present quarter, but the banks of both areas did expect some easing in the two segments of lending to households.

The banks participating in the survey reported that in 2018 Q3 the demand for loans to enterprises fell slightly in Spain, while it increased somewhat in the euro area (see Chart 1). In the two segments of lending to households, loan applications increased both in Spain and in the euro area, with notable growth in Spain in the demand for consumer credit, which continued to grow at a high rate, although more moderately than in the previous quarter. The responding banks expected that loan applications would continue to increase in both areas across the board in Q4.

The dispersion of Spanish banks' replies on credit standards, with reference to the latest period observed, was zero in the case of housing loans, and low in the other two segments analysed. In the case of demand, the dispersion was moderate in all three segments.

With respect to the ad hoc questions included in the survey, the banks of both areas reported that, in 2018 Q3, they had perceived no change in the conditions of access to

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.

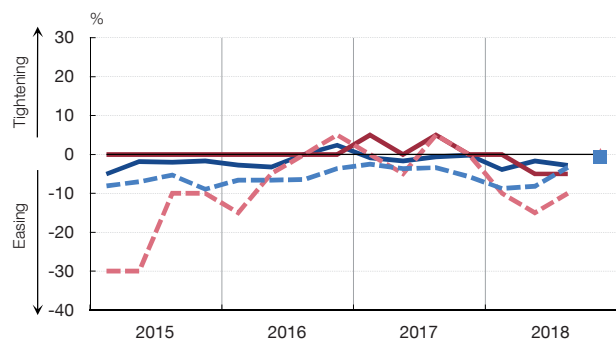
THE SUPPLY OF LOANS WAS UNCHANGED OR EXPANDED SLIGHTLY, WHILE DEMAND GREW IN ALMOST ALL SEGMENTS

CHART 1

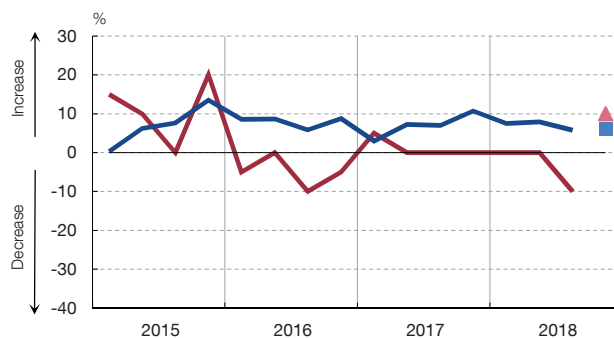
In 2018 Q3, credit standards for loans to enterprises and the terms and conditions applied to such loans eased both in Spain and in the euro area. In the case of consumer credit and other lending to households, credit standards and terms and conditions also eased in Spain, remaining unchanged in the euro area, while in the case of housing loans there were no significant changes in Spain and they eased very slightly in the euro area. Demand increased across the board in the euro area, while in Spain it increased in both the segments of lending to households and fell somewhat in that of loans to enterprises.

1 LENDING TO NON-FINANCIAL CORPORATIONS

1.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS FOR LOANS (a)

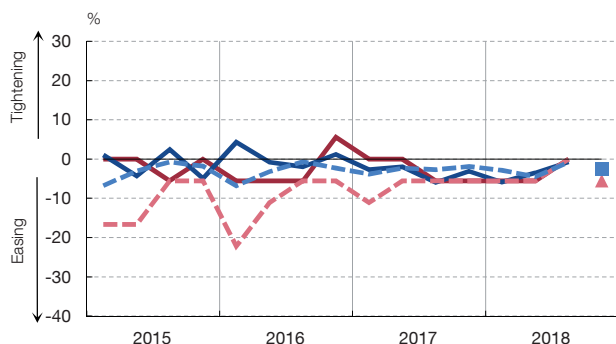


1.2 CHANGE IN DEMAND (b)

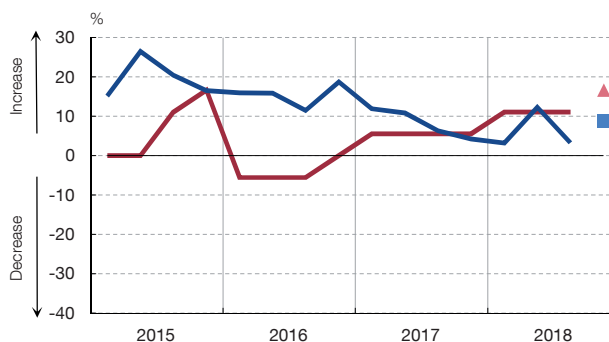


2 LENDING TO HOUSEHOLDS FOR HOUSE PURCHASE

2.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS FOR LOANS (a)

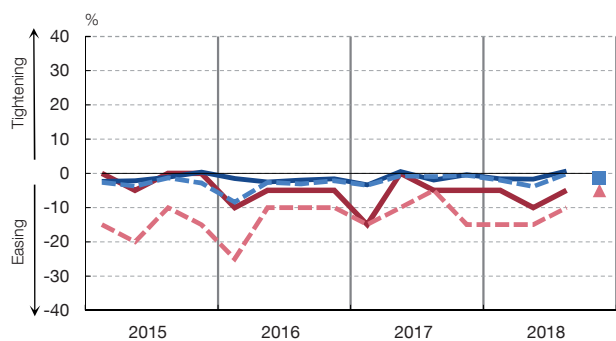


2.2 CHANGE IN DEMAND

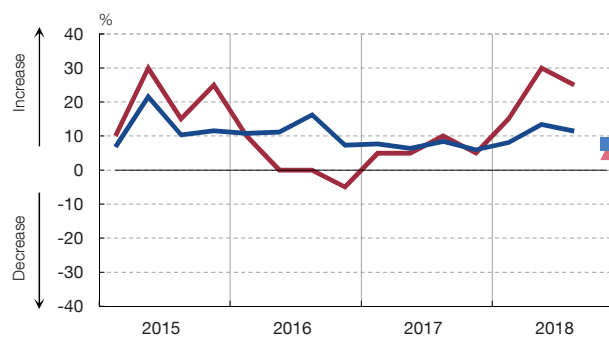


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

3.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS FOR 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 ▲ 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 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.

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retail funding markets (see Chart A1). As for wholesale funding markets, the conditions of access deteriorated somewhat in Spain, especially in the case of debt securities, while in the euro area a slight deterioration was perceived in the money markets and in debt securities, with a slight improvement in securitisation and transfer of credit risk. In relation to the ECB's expanded asset purchase programme, the surveyed banks of both areas reported that it had prompted, over the previous six months, a slight reduction in their assets, and that it had contributed to improve their liquidity position and funding conditions. In the case of profitability, the impact was slightly positive for Spanish banks and negative in the euro area as a whole. On the other hand, the banks of both areas reported that the programme was continuing to favour, in all segments, an easing of terms and conditions and an increase in lending volumes, these effects being somewhat stronger in Spain than in the euro area (see Chart 2). By contrast, the impact on credit standards has been practically zero in both areas. Finally, in response to the question on the impact of the ECB's negative deposit facility rate, the banks of both areas reported that this measure had contributed, over the previous six months, to the decline in net interest income, as well as a slight increase in the volume of lending and a certain decline in the interest rates and margins applied (see Chart A3).

Supply and demand conditions

A detailed analysis of Spanish banks' replies reveals that credit standards for loans to non-financial corporations eased somewhat in 2018 Q3 in the segment of loans to large firms, while no significant changes were observed in those to SMEs. The breakdown by maturity evidences that credit standards eased over all maturities. In terms of the factors underlying this pattern, greater competitive pressure and banks' higher risk tolerance appear to have contributed to an easing of the credit standards (see Chart 2). These factors, according to the replies received, also led to a slight easing of the overall terms and conditions on new loans. A more detailed analysis evidences a moderate decrease in the margins on average loans, a slight reduction in loan covenants and a lengthening of maturities, with the rest of the terms and conditions remaining stable (see Chart 2). The breakdown by size of enterprise reveals something of an easing of overall terms and conditions for loans to SMEs and large firms. The proportion of loan applications that were rejected remained stable between July and September.

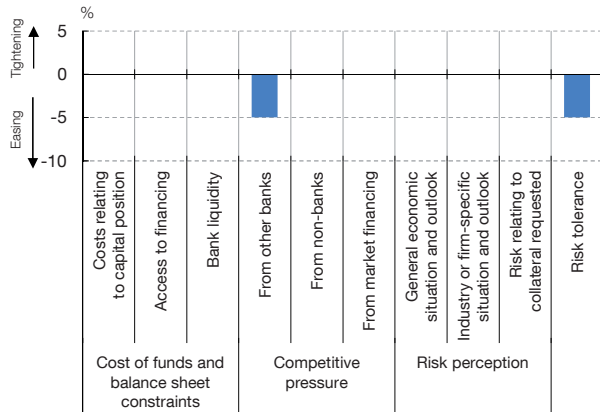
The responding banks stated that the demand for funds by enterprises decreased somewhat in 2018 Q3, although by firm size developments were mixed, with a slight increase in the case of SMEs which was offset by a decrease in demand from large firms. The breakdown by maturity shows applications for short-term loans to have been stable, while applications for long-term loans have decreased slightly. Factors contributing to reducing demand for credit included lower borrowing needs for fixed capital investment, greater recourse to internal financing, a decline in debt restructuring and greater use of loans from other banks, while the increase in applications to finance inventories and working capital and the low general level of interest rates had an effect in the opposite direction (see Chart 3).

According to the replies received, credit standards for loans to households for house purchase remained unchanged in 2018 Q3. This was the result of the stability shown by all the factors analysed, no significant changes having been posted by any of them (see Chart 2). The overall terms and conditions applied to these loans also remained unchanged, despite a degree of competitive pressure, which was insufficient to prompt their easing. A more detailed analysis reveals that neither margins (on both average loans and riskier loans) nor the rest of the terms and conditions changed during the period. The percentage of rejected loan applications fell again.

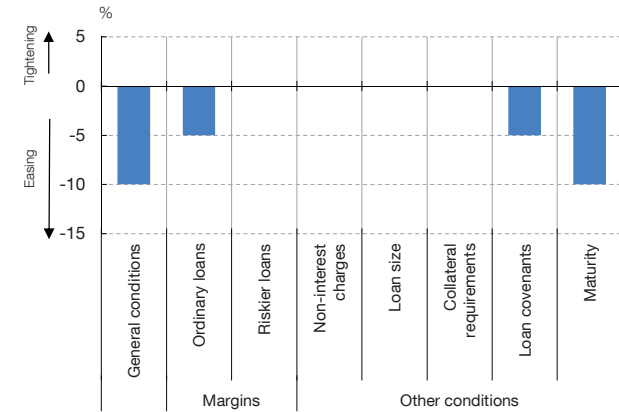
The increase in the pressure of competition and bank's greater tolerance of risk were the most notable factors explaining the easing of credit standards for loans in Spain, both in the segment of lending to enterprises and in that of consumer credit and other lending to households. Terms and conditions also eased somewhat in both these segments, which translated into a certain narrowing of margins on average loans.

1 SUPPLY OF LOANS TO NON-FINANCIAL CORPORATIONS

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

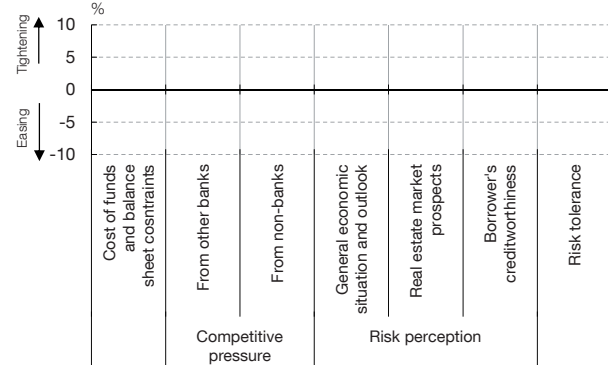


1.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

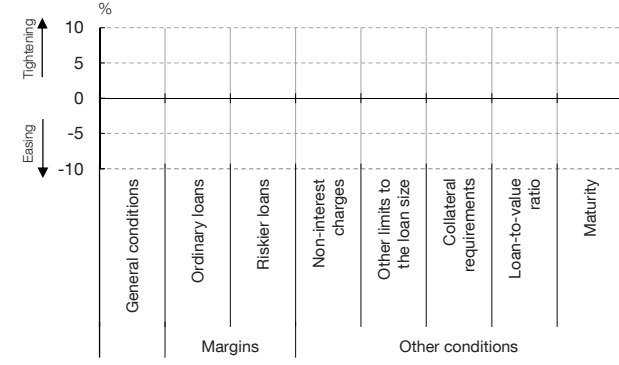


2 SUPPLY OF LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

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

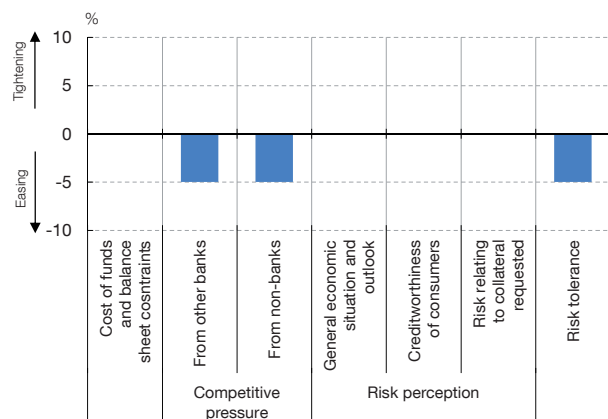


2.2 CHANGES IN TERMS AND CONDITIONS OF LOANS (b)

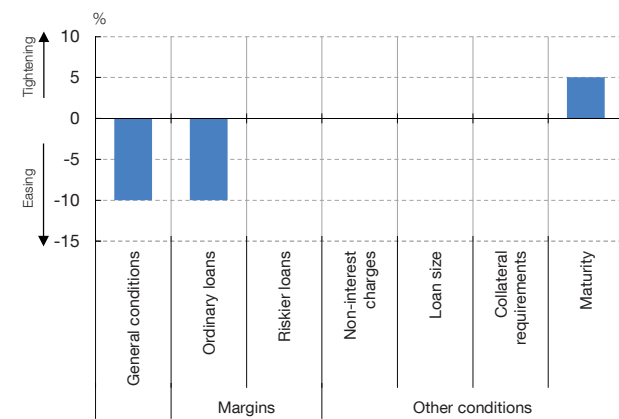


3 SUPPLY OF CONSUMER CREDIT AND OTHER LENDING

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



3.2 CHANGES IN TERMS AND CONDITIONS OF 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 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.



Demand for loans for house purchase continued to grow between July and September. According to the responding banks, the growth in loan applications was driven by the low general level of interest rates, greater consumer confidence and, to a lesser extent, improved housing market prospects, although these effects were partly countered by the increase in internal financing and the decrease in debt restructuring (see Chart 3).

Credit standards for consumer credit and other lending to households once again eased in 2018 Q3, although to a lesser extent than three months earlier. This was driven by increased competitive pressure (from both banking and non-banking institutions) and by banks' greater risk tolerance (see Chart 2). These two factors also explain the easing of overall terms and conditions on these loans, which led to a narrowing of the margins on average loans, although, in contrast, maturities shortened somewhat. The margins on riskier loans and the rest of the terms and conditions remained unchanged. The proportion of rejected loan applications remained unchanged in Q3.

According to the banks participating in the survey, the demand for consumer credit and other lending continued to grow at a high rate during 2018 Q3, although more moderately than three months earlier. The main drivers of growth in applications for loans in this segment were increased spending on consumer durables, low interest rate levels and greater consumer confidence (see Chart 3).

Ad hoc questions

In their replies to the first ad hoc question in the survey, Spanish banks reported that in 2018 Q3 in general they perceived a worsening in the conditions of access to wholesale markets, somewhat more marked in debt securities (especially long-term), with stability in those to retail markets (see Chart A1).

Responding banks reported that over the previous six months the ECB's expanded asset purchase programme had contributed to an improvement in their financial situation in terms of liquidity, financing, and, to a lesser extent, profitability (see Chart A2). The banks participating in the survey also reported that the programme had been conducive to a slight decrease in their assets, particularly in their holdings of euro area sovereign bonds. It had no impact on credit standards, but continued to contribute to an easing of terms and conditions on loans across all segments, and had a positive, albeit moderate, effect on the volume of loans granted.

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 A3). The impact on loan interest rates and on the margins applied was negative in all segments. Finally, this measure contributed to raising the volume of lending slightly.

Outlook

As regards the current quarter, responding banks expected a slight easing of credit standards in the two household lending segments and did not expect changes in loans to enterprises (see Chart 1). On the demand side, if their forecasts are met, applications for all types of lending will increase.

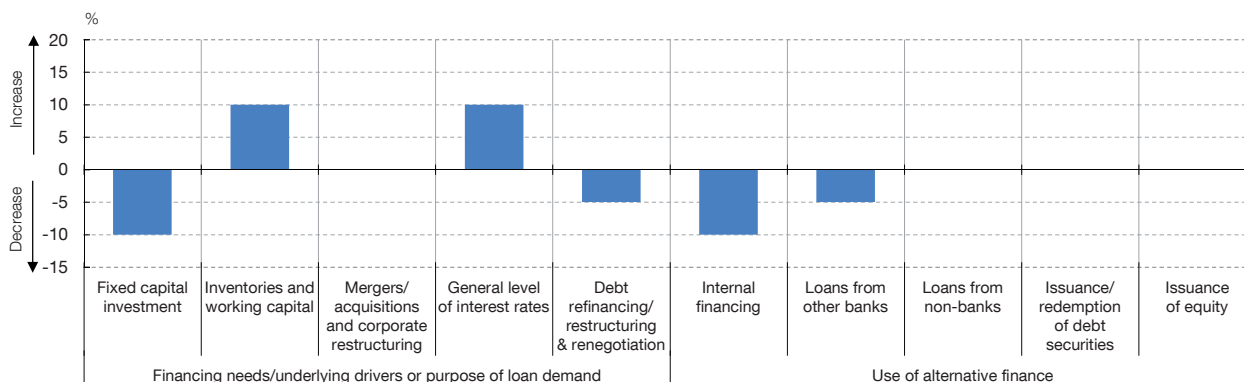
In the retail and wholesale funding markets, banks' expectations for 2018 Q4 were for a slight improvement in conditions of access to securitisation markets, a slight worsening in the money markets and for stability in all other markets (see Chart A1).

As a consequence of the ECB's expanded asset purchase programme, responding banks

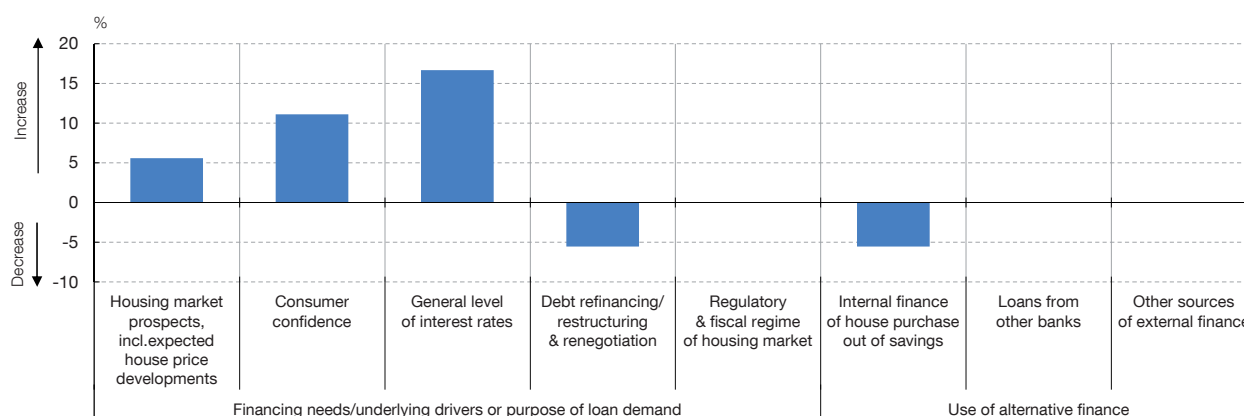
THE LOW LEVEL OF INTEREST RATES AND GREATER CONSUMER CONFIDENCE DROVE THE DEMAND FOR LOANS TO HOUSEHOLDS; LOWER INVESTMENT CONTRIBUTED TO REDUCING THE DEMAND FOR LOANS TO ENTERPRISES CHART 3

The low interest rate environment continued to drive the demand for loans across the board. However, in the segment of loans to enterprises this factor was offset by lower fixed investment and by the greater use of alternative finance. By contrast, the demand for loans to households continued to grow, also boosted by greater consumer confidence, positive real-estate market developments and more spending on durable goods.

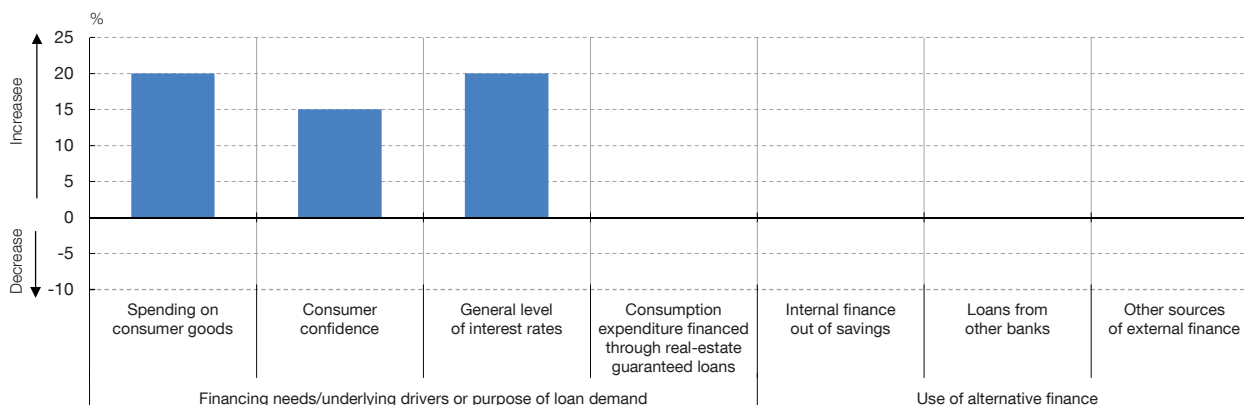
1 DEMAND FOR LOANS TO NON-FINANCIAL CORPORATIONS (a)



2 DEMAND FOR LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE (a)



3 DEMAND FOR 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.



expected their liquidity position and financing conditions to improve over the next six months, although they also expected it to contribute to some reduction in profitability (see Chart A2). However, they do not think it will lead to changes in their capital ratios. The banks also expected the programme to continue to prompt a slight easing of the terms and conditions on new loans and a moderate increase in the volume of lending, in 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 an increase in the volume of lending (see Chart A3).

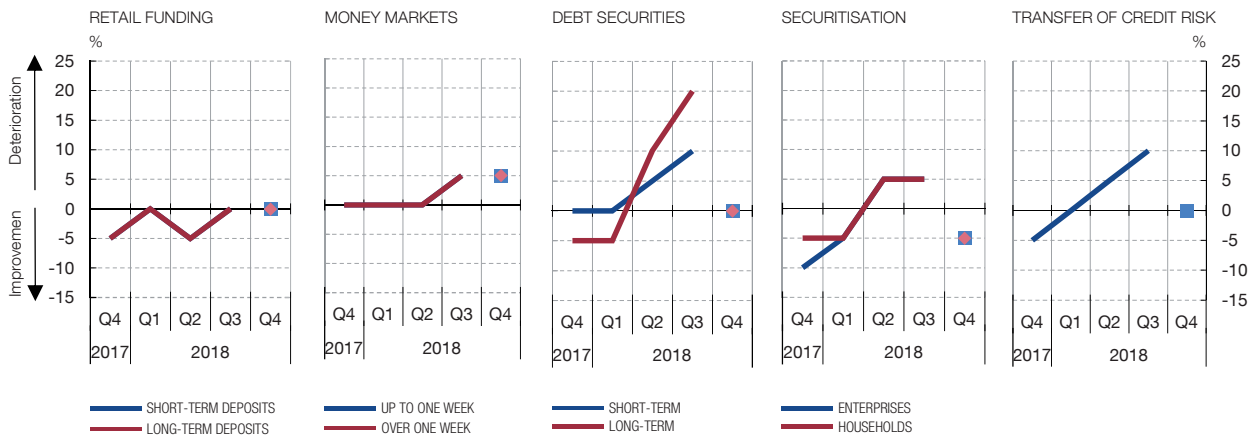
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ACCESS TO WHOLESALE MARKETS WORSENEA SOMEWHAT IN SPAIN, WHILE THERE WAS LITTLE CHANGE IN ACCESS TO RETAIL MARKETS (a) (b)

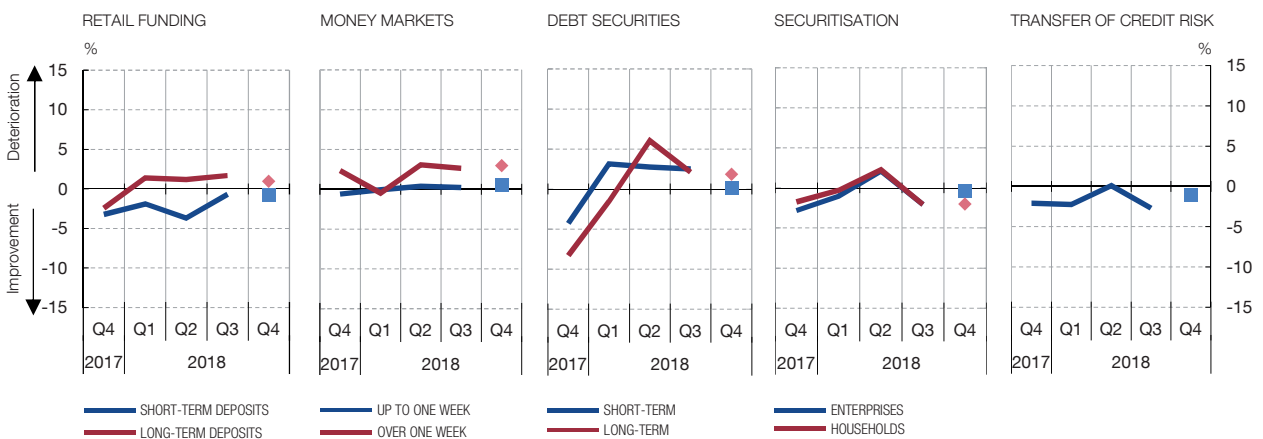
CHART A.1

The banks of both areas reported that, in 2018 Q3, conditions of access to retail markets were unchanged. As for wholesale markets, in Spain conditions of access worsened somewhat, especially in the case of debt securities, while in the euro area a certain deterioration was observed in money markets and in debt securities markets, with a slight improvement in securitisation markets and in those for the transfer of credit risk.

1 ACCESS TO FUNDING. SPAIN



2 ACCESS TO FUNDING. EURO AREA



SOURCES: ECB and Banco de España.

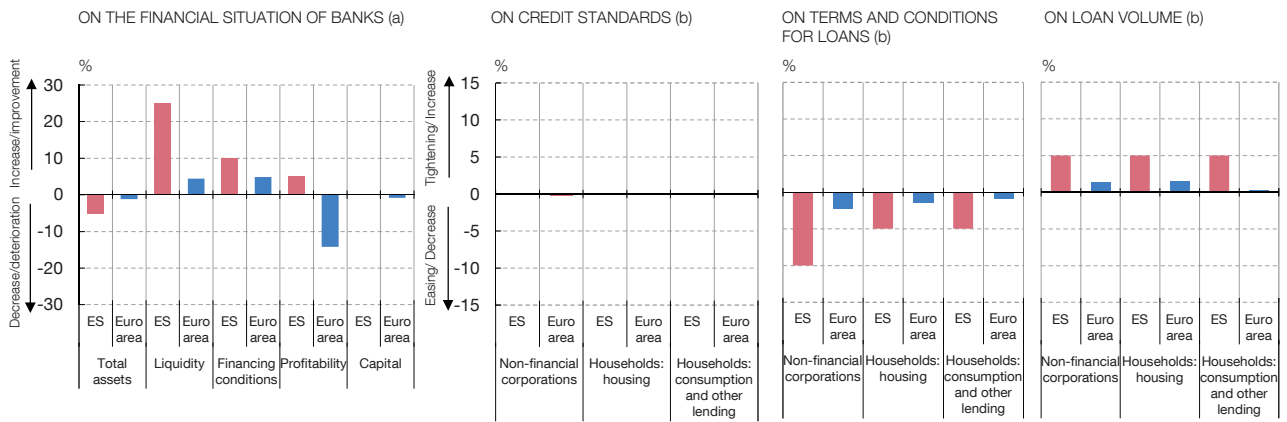
a Indicator = % of banks that have perceived a considerable deterioration in their market access × 1 + % of banks that have perceived some deterioration × 1/2 - % of banks that have perceived some easing × 1/2 + % of banks that have perceived a considerable easing × 1.

b ♦, ■ Forecast.

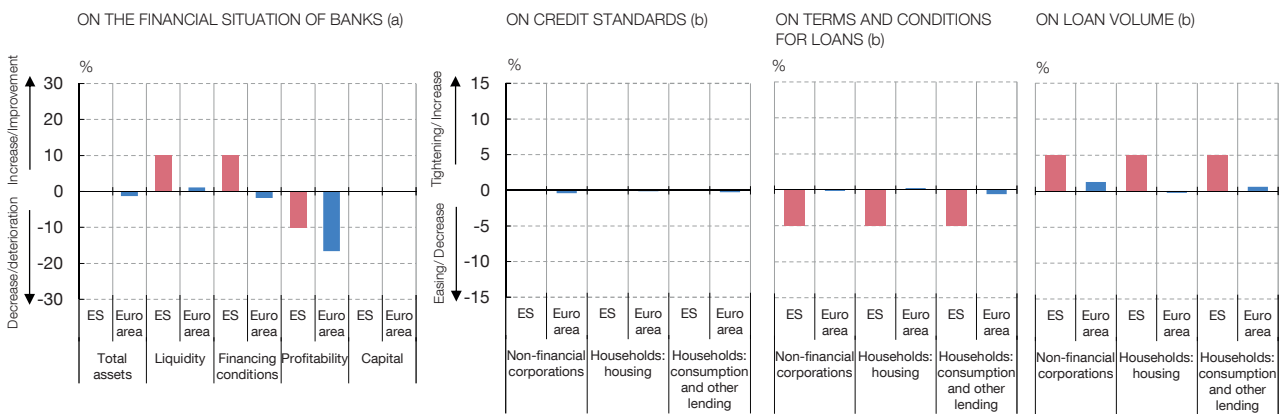


Over the last six months the programme contributed in the two areas to a slight reduction in banks' assets and to improving their liquidity positions and financing conditions. However, in the case of profitability, the impact was slightly positive for Spanish banks and negative for the euro area as whole. Additionally, the programme continued to prompt, in all segments, an easing of credit conditions and an increase in lending volume, effects which were more pronounced in Spain than in the euro area.

1 IMPACT OVER THE LAST SIX MONTHS



2 IMPACT OVER THE NEXT SIX MONTHS



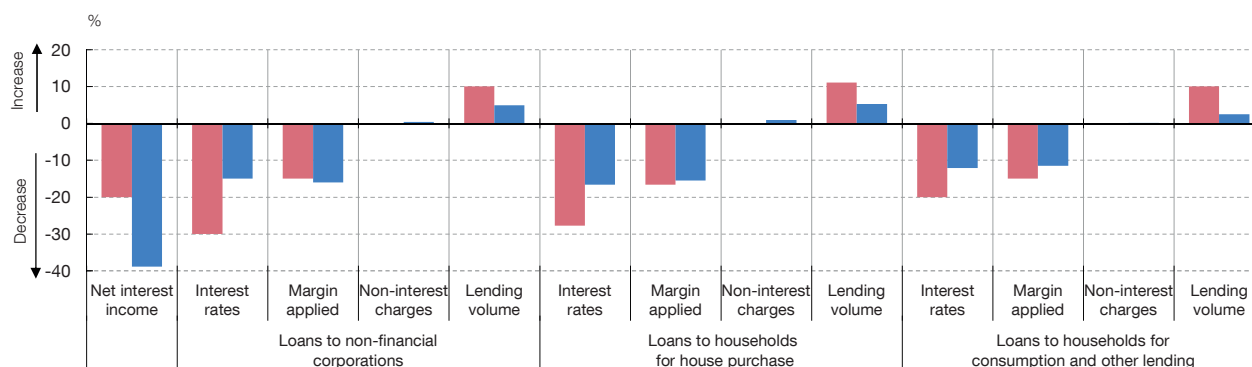
SOURCES: ECB and Banco de España.

- a Indicator = % of banks reporting that the programme has contributed or would contribute considerably to an increase or improvement × 1 + % of banks reporting that it has contributed or would contribute to some extent to an increase or improvement × 1/2 – % of banks reporting that it has contributed or would contribute considerably to a decrease or worsening.
- b Indicator = % of banks reporting that the programme contributed or would contribute considerably to a tightening of credit standards or terms and conditions, or to an increase in lending volume × 1 + % of banks reporting that it has contributed or would contribute to some extent to a tightening or increase × 1/2 – % of banks reporting that it has contributed or would contribute to some extent to an easing of credit standards or terms and conditions, or to a decrease in volume × 1/2 – % of banks reporting that it has contributed or would contribute considerably to an easing or decrease × 1.

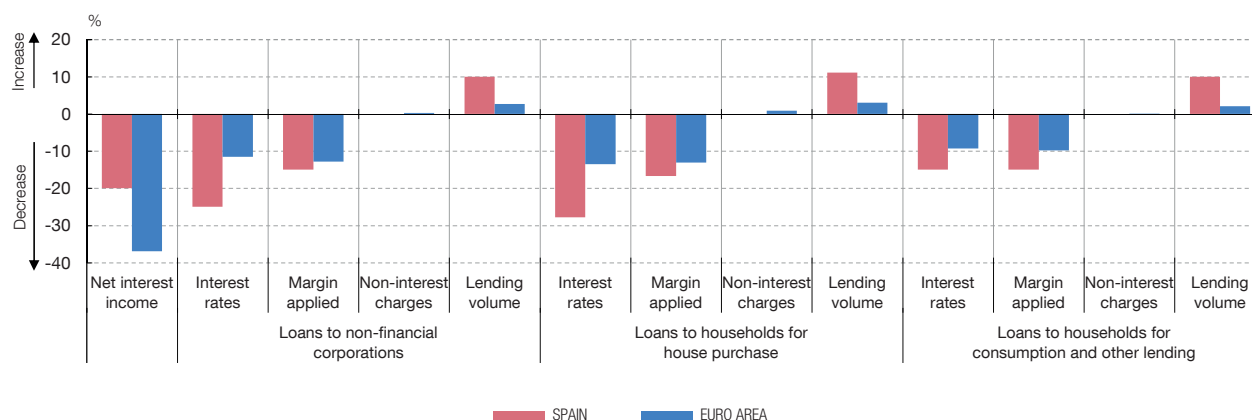


Banks in the two areas replied that this measure had contributed over the last six months to a decline in net interest income, to a certain decrease in interest rates and margins, and to a slight increase in lending volume.

1 IMPACT OVER THE PAST SIX MONTHS



2 IMPACT OVER THE NEXT SIX MONTHS



SPAIN EURO AREA

SOURCES: ECB and Banco de España.

a Indicator = % of banks reporting a considerable increase in the importance of the factor × 1 + % of banks reporting some increase – % of banks reporting some decrease × 1/2 – % of banks reporting a considerable decrease × 1.

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