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JULY 2022 BANK LENDING SURVEY IN SPAIN

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ABSTRACT

According to the Bank Lending Survey, during 2022 Q2 credit standards and credit terms and conditions tightened slightly, across all market segments, both in Spain and in the euro area. Meanwhile, loan applications declined or rose more moderately in both areas, in almost all segments. All this, against a backdrop of growing uncertainty (with a perception of increased risk) and monetary policy normalisation. This setting has also affected expectations for Q3, with banks expecting the contraction in credit supply to continue and demand to decline in almost all the segments analysed.

Keywords: funding, credit, loan supply, loan demand, credit standards, credit terms and conditions, financial markets.

JEL classification: E51, E52, G21.

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Main results

This article presents the results of the July 2022 Bank Lending Survey (BLS), which provides information on credit supply and demand conditions in 2022 Q2 and on the outlook for Q3.[1] This first section discusses the main results obtained from the replies provided by the twelve Spanish banks participating in the survey and compares them with the results for the euro area overall. The subsequent sections present a somewhat more detailed analysis of the results for Spain.[2]

The survey shows that, in 2022 Q2, credit standards[3] and credit terms and conditions[4] applied to new loans tightened overall, both in Spain and the euro area (see Table 1 and Chart 1). The contraction in loan supply is against a backdrop of higher perceived risk (partly linked to the inflationary tensions and the economic consequences of the war in Ukraine) and monetary policy normalisation. Meanwhile, loan demand fell in Spain, both in business lending and in consumer credit and other household lending, while loans to households for house purchase continued to grow, albeit at a slower pace than in previous quarters. In the euro area, applications for business loans increased, as did households' applications for consumer credit and other lending, while their applications for loans for house purchase decreased.

For 2022 Q3, banks in both areas expect the contraction in the supply of credit to continue and loan applications to decline moderately, in almost all segments (except consumer credit and other household lending in the euro area, where banks expect no significant change in demand).

In response to the first ad hoc question in the survey, Spanish banks reported that in 2022 Q2 access to retail markets deteriorated, while euro area banks reported

1 The survey was conducted between 10 and 28 June 2022. A more detailed analysis of the results for the euro area overall can be found in the ECB's regular notes on its website (https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/index.en.html). The time series of the aggregate indicators by bank, both for Spain and the euro area, may be consulted via the ECB's Statistical Data Warehouse (SDW).

2 The analysis conducted in this article is based on "diffusion indices" which are calculated with a weighting based on the degree of improvement/deterioration or easing/tightening reported by each bank in its replies, unlike indicators calculated in terms of net percentages which do not factor in this weighting. This methodology is applied to the entire time series.

3 Credit standards refer to all steps taken by banks to decide whether or not to approve loans.

4 Credit terms and conditions applied refer to the loan characteristics (interest rate, loan size, maturity, collateral requirements, etc.) agreed by the bank.

Table 1
BANK LENDING SURVEY
Main results. July 2022

	Credit standards	Overall terms and conditions on new loans	Loan demand
Spain			
Past three months			
Non-financial corporations	Tightening	Tightening	Decrease
Households for house purchase	Tightening	Tightening	Increase
Consumer credit and other lending to households	Tightening	Tightening	Decrease
Expected for next three months			
Non-financial corporations	Tightening	(a)	Decrease
Households for house purchase	Tightening	(a)	Decrease
Consumer credit and other lending to households	Tightening	(a)	Decrease
Euro area			
Past three months			
Non-financial corporations	Tightening	Tightening	Increase
Households for house purchase	Tightening	Tightening	Decrease
Consumer credit and other lending to households	Tightening	Tightening	Increase
Expected for next three months			
Non-financial corporations	Tightening	(a)	Decrease
Households for house purchase	Tightening	(a)	Decrease
Consumer credit and other lending to households	Tightening	(a)	Unchanged

SOURCES: Banco de España and ECB.

a The survey does not include questions on expected changes in loan terms and conditions.

that access was unchanged for long-term deposits and was somewhat improved for short-term deposits. As regards access to wholesale markets, banks in both areas perceived deterioration in all segments, against a backdrop of higher interest rates on money and capital markets, as a consequence of monetary policy normalisation (see Chart A.1). For Q3 banks expect to see a further overall tightening of access to funding markets.

Notable among the responses to the other ad hoc questions is the fact that the changes observed and anticipated in the non-performing loan (NPL) ratio had no impact on banks' lending policies in Spain in the first half of the year, while in the euro area they had a zero or slightly contractionary effect, except in the case of consumer credit where they eased credit terms and conditions somewhat (see Chart A.2). For the second half of the year, banks believe the NPL ratio could trigger some tightening of both credit standards and credit terms and conditions in all segments in both Spain and the euro area.

Lastly, within the business lending segment, the information by sector provided in the response to the third ad hoc question shows that, during the first half of the year,

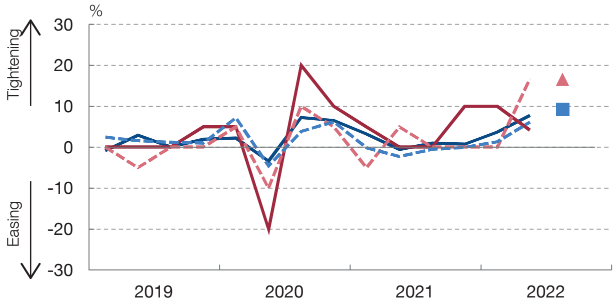
Chart 1

IN 2022 Q2, THE SUPPLY OF CREDIT CONTRACTED AND DEMAND DECLINED OR SLOWED IN BOTH AREAS

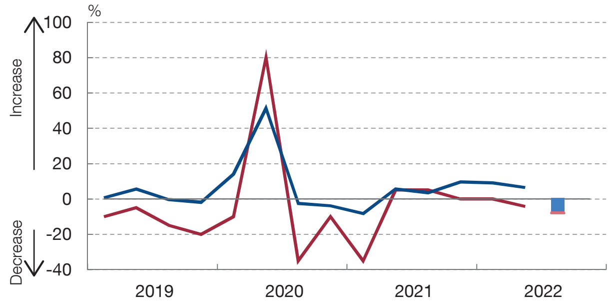
In 2022 Q2, credit standards and terms and conditions tightened across the board both in Spain and in the euro area. Loan demand fell or increased more moderately than in previous quarters (except in the euro area consumer credit segment). For Q3, loan supply is expected to contract in both areas, with a broad-based drop in demand, in a setting of growing uncertainty associated with the deteriorating economic outlook and monetary policy normalisation.

1 LENDING TO NON-FINANCIAL CORPORATIONS

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

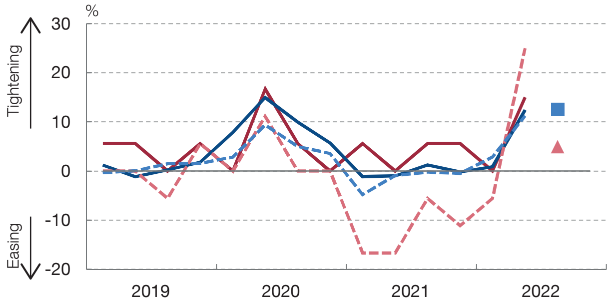


1.2 CHANGE IN DEMAND (b)

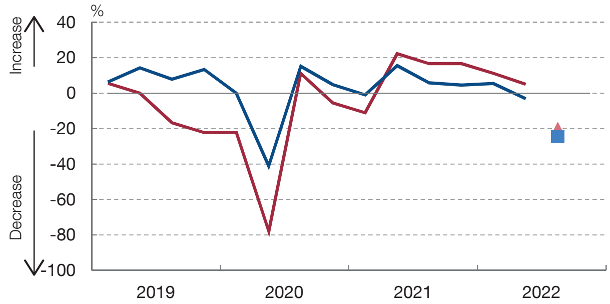


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

2.1 CHANGE IN CREDIT STANDARD S AND TERMS AND CONDITIONS (a)

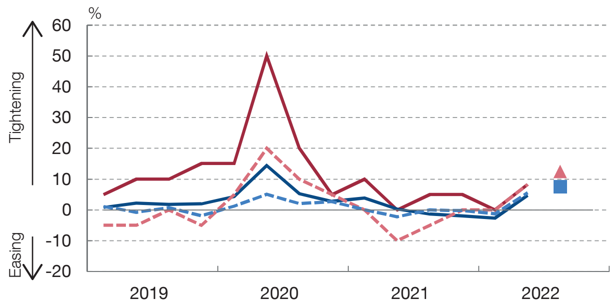


2.2 CHANGE IN DEMAND (b)

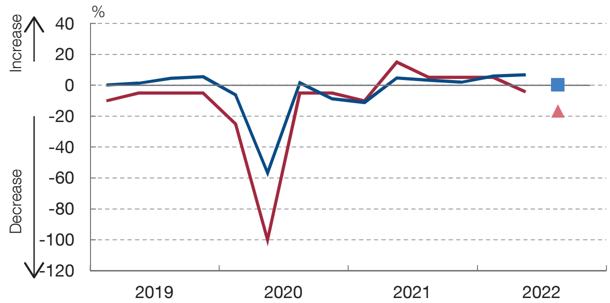


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS

3.1 CHANGE IN CREDIT STANDARDS AND TERMS AND CONDITIONS (a)



3.2 CHANGE IN DEMAND (b)



CREDIT STANDARDS. SPAIN
CREDIT STANDARDS. EURO AREA
EXPECTED CREDIT STANDARDS. SPAIN
EXPECTED CREDIT STANDARDS. EURO AREA
TERMS AND CONDITIONS. SPAIN
TERMS AND CONDITIONS. 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 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 × 1/2 – percentage of banks reporting some decrease × 1/2 – percentage of banks reporting a considerable decrease × 1.

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both credit standards and credit terms and conditions applied to new loans tightened somewhat in both areas in most economic sectors (see Chart A.3). Meanwhile, demand for loans changed little, but unevenly, in Spain while in the euro area loan applications were somewhat higher in almost all sectors.

Supply and demand conditions in Spain

Lending to non-financial corporations

Credit standards for lending to non-financial corporations tightened slightly in 2022 Q2 as a result of a certain increase in perceived risk (linked to the deterioration of the economic outlook) and banks' lower risk tolerance (see Chart 2). The breakdown by firm size shows that credit standards tightened in lending to SMEs and to large corporations. In line with this contraction in credit supply to firms, the percentage of rejected loan applications increased.

Overall terms and conditions on new loans also tightened in Q2. Against a backdrop of higher funding costs for banks, this translated into higher interest rates applied to the loans granted.[5] Margins also rose somewhat in the sample overall, on both average and riskier loans, as did collateral requirements (see Chart 2), explained in particular by the higher risks perceived and some banks' lower risk tolerance.

According to the responses given, demand from firms fell slightly in Q2, as a result of various opposite effects. On the one hand, higher demand for credit was prompted by the greater need for inventory and working capital financing (against a backdrop of rising commodity prices), the growth in corporate restructuring and debt refinancing and, in the case of large corporations, the decline in the issuance of debt securities (owing to the higher costs associated with this type of funding). On the other hand, higher interest rates in general, the drop in the need to fund investments in fixed assets and a greater use of internal financing triggered a decline in loan applications (see Chart 3).

For 2022 Q3, the Spanish banks surveyed expect credit standards to tighten further, and at a stronger pace than in Q2. They also anticipate a further, albeit moderate, fall in demand.

Loans to households for house purchase

Credit standards on loans to households for house purchase tightened in 2022 Q2. According to banks, this was mainly attributable to increased risk perception – linked

5 Interest rates are not explicitly mentioned in the question on how terms and conditions have changed (which refers only to margins, defined as the spread over a market reference rate). However, in this quarter, some banks included higher interest rates applied in the section headed "Other factors", given that rates had increased with no change in margins and even where margins had narrowed (owing to the higher increase in the market rate taken as reference).

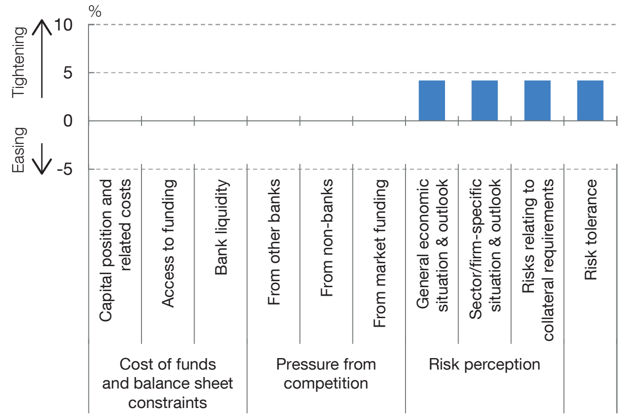
Chart 2

HIGHER RISK PERCEPTION AND LOWER RISK TOLERANCE LIE BEHIND THE CONTRACTION IN THE SUPPLY OF CREDIT IN SPAIN IN 2022 Q2

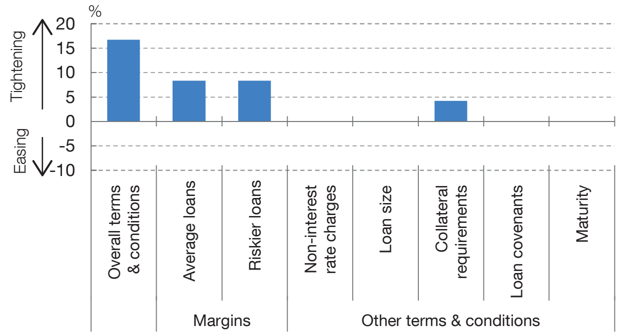
The tightening of credit standards in 2022 Q2 was mainly attributable to banks' higher risk perception and lower risk tolerance. Credit terms and conditions also tightened, leading to a widening of margins virtually across the board.

1 LOANS TO NON-FINANCIAL CORPORATIONS. SPAIN. 2022 Q2

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

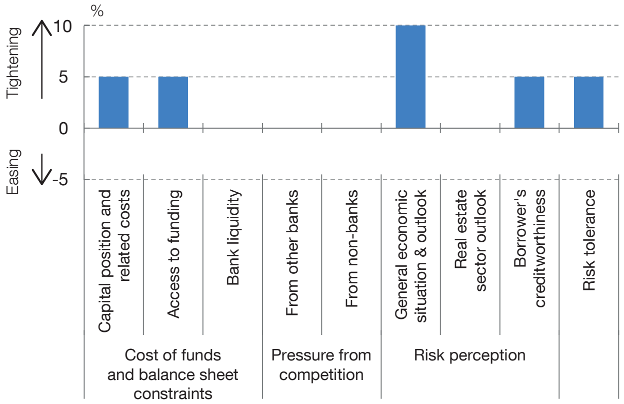


1.2 CHANGES IN CREDIT TERMS AND CONDITIONS (b)

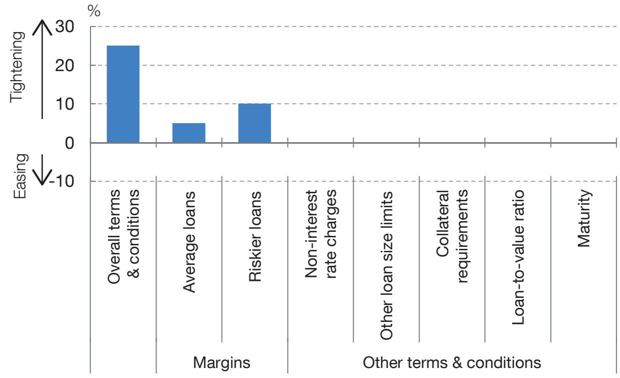


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE. SPAIN. 2022 Q2

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

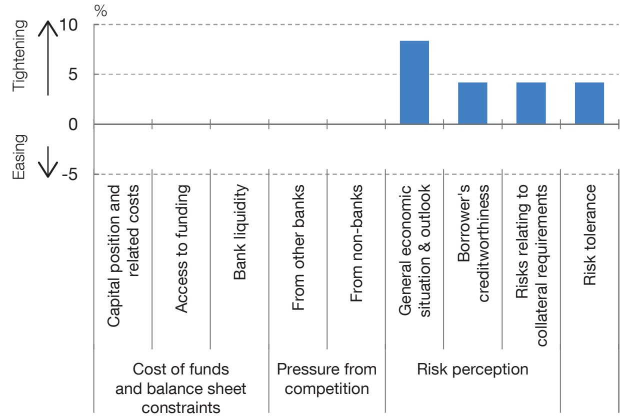


2.2 CHANGES IN CREDIT TERMS AND CONDITIONS (b)

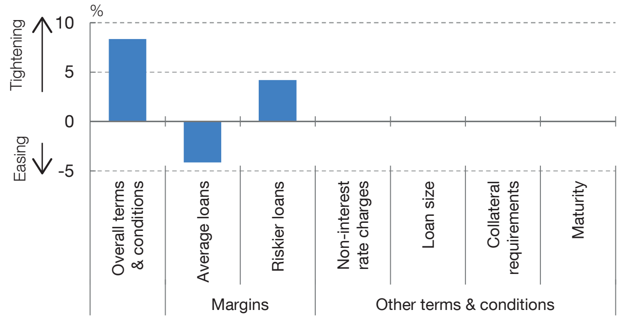


3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS. SPAIN. 2022 Q2

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



3.2 CHANGES IN CREDIT TERMS AND 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 x 1.

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

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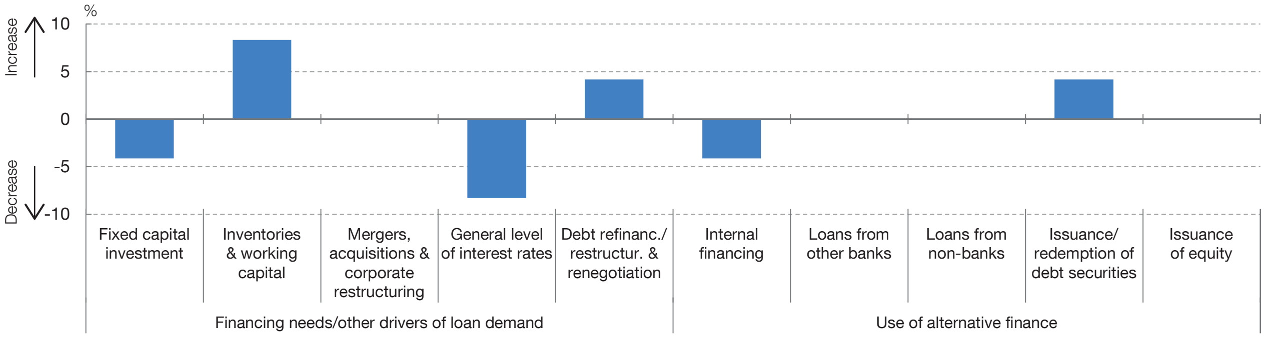
Chart 3

THE DECLINE IN DEMAND FOR LOANS TO FIRMS AND FOR CONSUMER CREDIT AND OTHER HOUSEHOLD LENDING OWED TO LOWER FINANCING NEEDS AND THE USE OF ALTERNATIVE SOURCES OF FINANCE

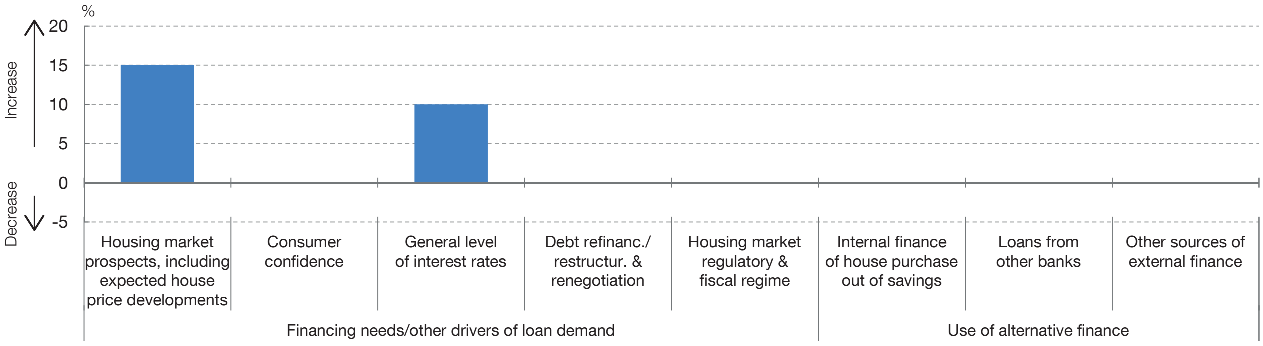
Demand for credit in the loans to firms segment fell, mainly due to the adverse impact associated with the progressive rise in interest rates, lower investment in fixed assets and the use of internal finance, although certain factors cushioned this decline. Applications for consumer credit and other household lending were also down, owing to lower consumer confidence and the use of savings. Conversely, demand for loans for house purchase continued to rise, albeit to a lesser degree, due both to the good housing market performance and the positive effect associated with low interest rates, underpinned by strong competition among banks.

1 FACTORS AFFECTING DEMAND FOR LOANS. SPAIN. 2022 Q2 (a)

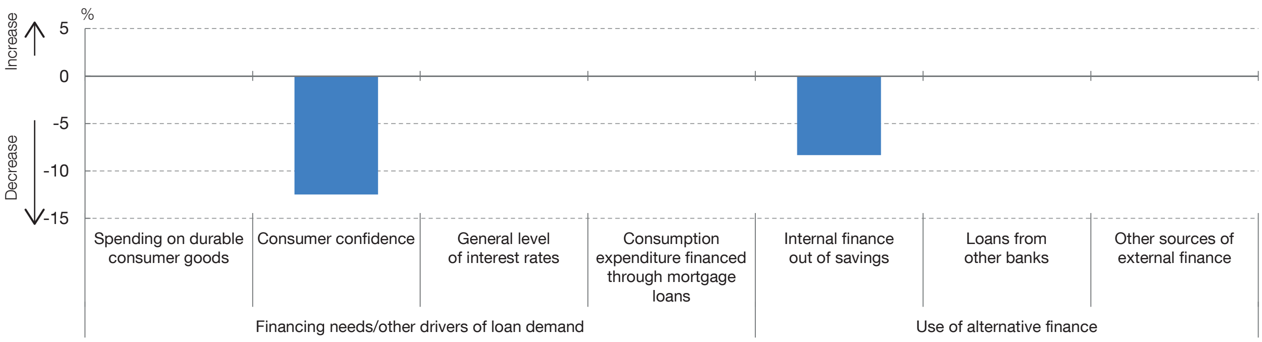
1.1 LOANS TO NON-FINANCIAL CORPORATIONS



1.2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE



1.3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS



SOURCES: Banco de España and ECB.

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 × 1.

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chiefly to the worsening general economic outlook and the decline in borrowers' creditworthiness – and also, albeit to a lesser extent, to banks' lower risk tolerance and higher funding costs. In line with these changes in supply, the share of loan rejections increased.

For the first time in two years, overall terms and conditions applied to these loans also tightened in the quarter, resulting in a slight widening of the margins on average loans and, in particular, on riskier loans (see Chart 2). This was mainly a consequence of the higher costs of bank funding and, to a lesser extent, banks' higher risk perception and lower risk tolerance. However, the strong competition in this segment prompted some banks to pass only part of their higher funding costs through to the interest rates applied to these loans.[6]

Banks perceived that demand for loans for house purchase continued to grow between April and June, albeit more moderately than in previous quarters. According to the banks, this was the result of the positive housing market situation and the favourable impact associated with low interest rates, some of which, as mentioned above, had yet to reflect the hike in reference rates for such loans (see Chart 3).

For 2022 Q3, banks expect credit standards on loans for house purchase to tighten further, albeit slightly, and demand to decline considerably, breaking the upward trend in this segment that dated back to 2021 Q2.

Consumer credit and other lending to households

In consumer credit and other lending to households, credit standards tightened during 2022 Q2. According to the responses received, this was due, as in the loans for house purchase segment, to the worsening general economic outlook and also, albeit to a lesser extent, to a decline in borrowers' creditworthiness and banks' lower risk tolerance. This also led the share of rejected loan applications to rise during Q2.

Overall terms and conditions for this type of loan also tightened, resulting in an increase in the interest rates applied to new loans[7] and a slight widening of the margins on riskier loans. By contrast, the margins on average loans narrowed somewhat, as some banks did not pass the increase in funding costs through to the interest rates applied to such loans, or they did so only partially, amid strong competition-related pressure (see Chart 2).

According to the responses received, demand in the consumer credit and other lending to households segment decreased slightly in 2022 Q2, owing above all to

6 See footnote 2.

7 See footnote 2.

lower consumer confidence and, to a lesser extent, to the greater use made of savings to finance consumer purchases (see Chart 3).

For 2022 Q3, banks expect credit standards in this segment to tighten further and loan applications to continue to decline.

Ad hoc questions

Spanish banks reported that they perceived a worsening in retail and wholesale market access conditions during 2022 Q2, in a setting of higher interest rates (see Chart A.1). Within the wholesale markets, the deterioration was somewhat more pronounced in the long-term debt securities market. Banks anticipate that access conditions will continue to worsen across the board in 2022 Q3.

As regards the impact of the NPL ratio on lending policy, in 2022 H1 it did not prompt any significant change in either credit standards or the terms and conditions applied to new loans (see Chart A.2). Conversely, for 2022 H2, some banks believe that changes in the NPL ratio could contribute to a slight contraction in loan supply on account of the impact of regulatory requirements, in a setting of increased risk perception and lower risk tolerance on the part of some banks.

Lastly, to the question on loan supply and demand by sector, banks replied that credit standards for lending to all sectors had tightened slightly in 2022 H1, and somewhat more strongly in manufacturing, trade and non-residential real estate activities. Credit terms and conditions also tightened a little, but only in construction, services and non-residential real estate activities. Meanwhile, demand increased in residential real estate activities and remained stable or decreased slightly elsewhere. For 2022 H2, banks expect supply to continue to contract almost across the board and loan applications to decline moderately in most sectors (see Chart A.3).

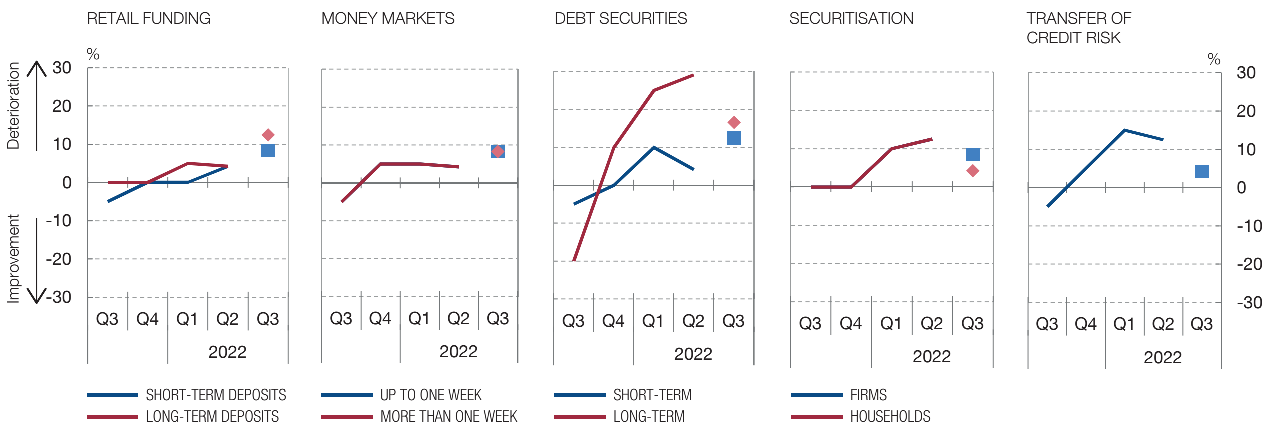
19.7.2022.

Chart A.1

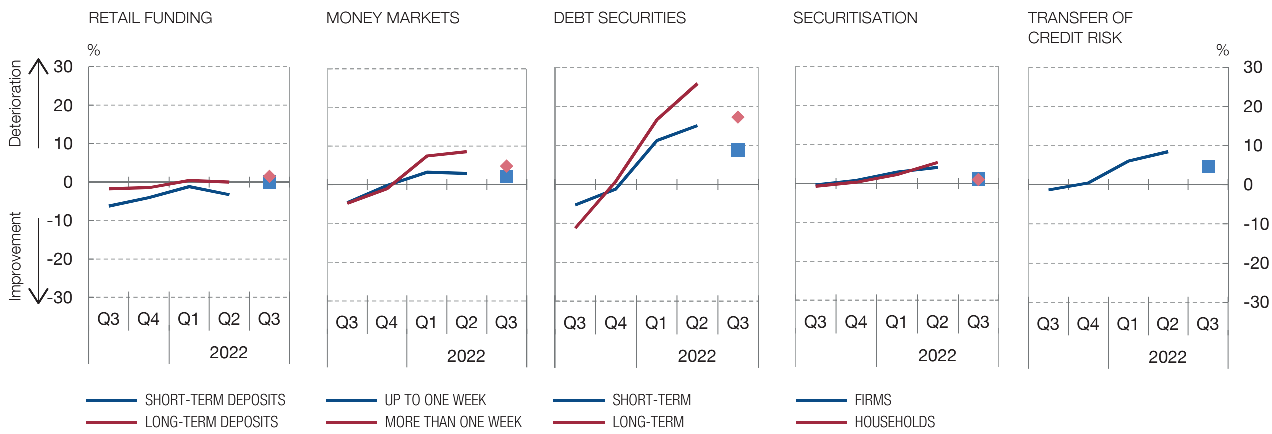
ACCESS TO WHOLESALE FUNDING MARKETS DETERIORATED IN 2022 Q2, IN BOTH SPAIN AND THE EURO AREA

In 2022 Q2, access to retail funding markets worsened in Spain, while holding stable or improving slightly in the euro area. Access to wholesale funding markets deteriorated both in Spain and the euro area, against a backdrop of rising interest rates. Both Spanish and euro area banks expect this trend of widespread deterioration to continue in Q3.

1 ACCESS TO FUNDING. SPAIN (a) (b)



2 ACCESS TO FUNDING. EURO AREA (a) (b)



SOURCES: Banco de España and ECB.

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

b ◆, ■ = expectation.

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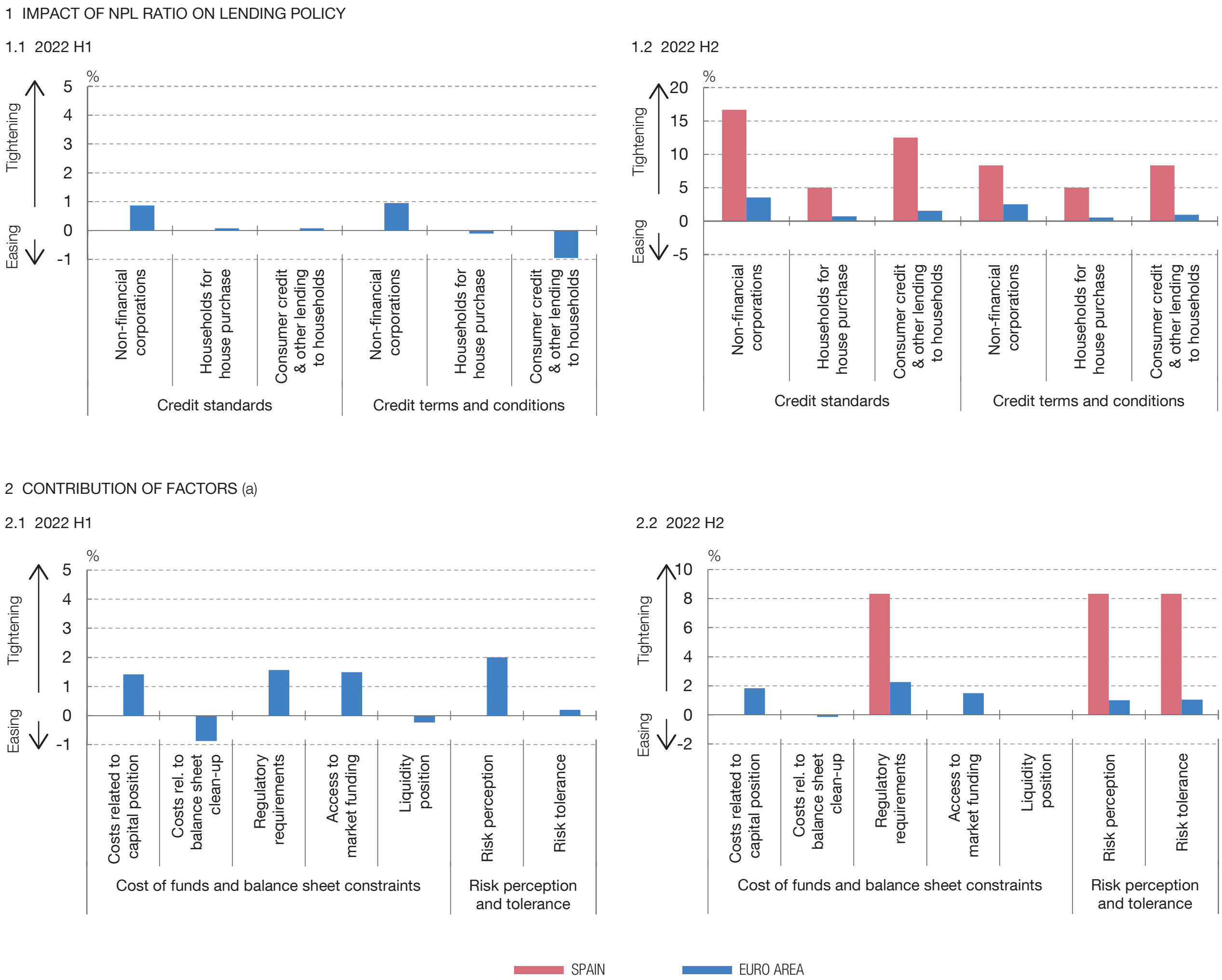
Chart A.2

BANKS IN BOTH AREAS EXPECT THE NPL RATIO TO CONTRIBUTE TO A SLIGHT TIGHTENING OF CREDIT STANDARDS IN 2022 H2

Spanish banks reported that the NPL ratio exerted no influence on lending policy in 2022 H1, while in the euro area it had no impact or was slightly contractionary (except in consumer credit, where terms and conditions eased slightly). For H2, banks in both areas believe that this ratio could prompt a tightening of credit standards and terms and conditions across all segments, mainly as a result of regulatory requirements, against a backdrop of higher risk perception and lower risk tolerance.



SOURCES: ECB and Banco de España.

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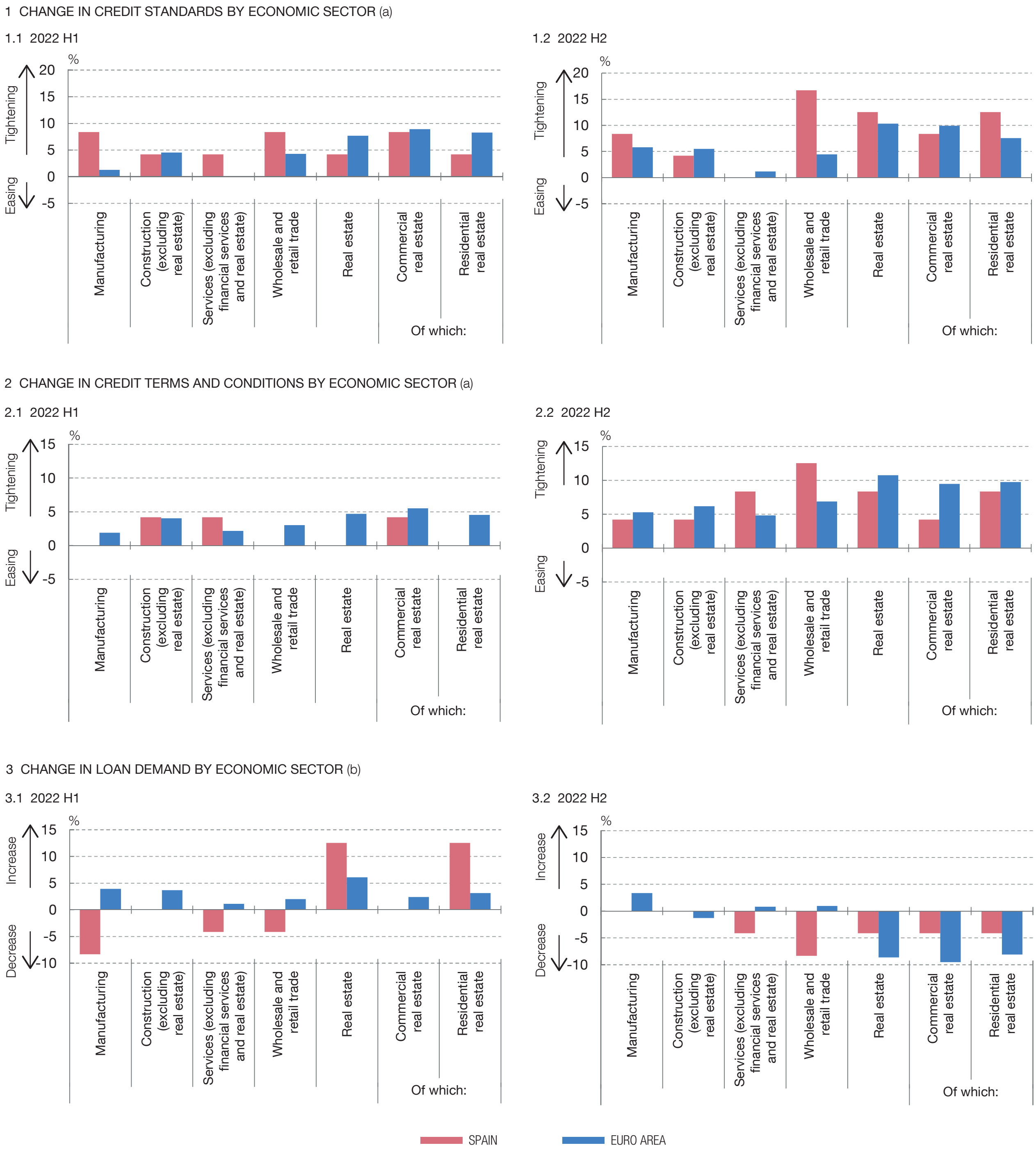
Chart A.3

IN 2022 H1, CREDIT SUPPLY CONTRACTED IN MOST SECTORS IN BOTH AREAS. DEMAND SHOWED MIXED DEVELOPMENTS IN SPAIN AND SLIGHT INCREASES IN THE EURO AREA

In 2022 H1, credit standards and terms and conditions tightened somewhat in most sectors in both areas. Loan demand in Spain showed mixed developments and minor changes, although declines predominated, while in the euro area there were slight increases across all sectors. For H2, a further broad-based contraction in supply is expected, along with decreasing demand in most sectors.



SOURCES: ECB and Banco de España.

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

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