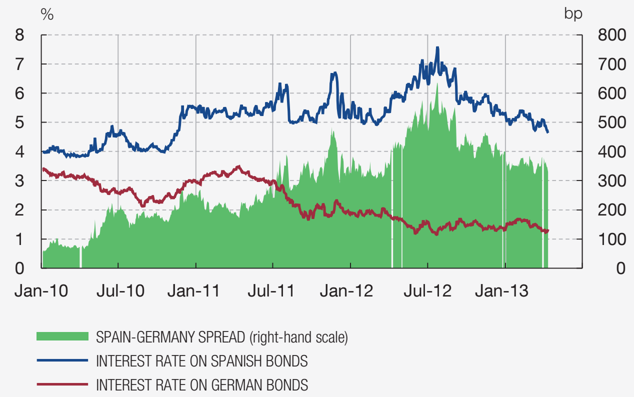
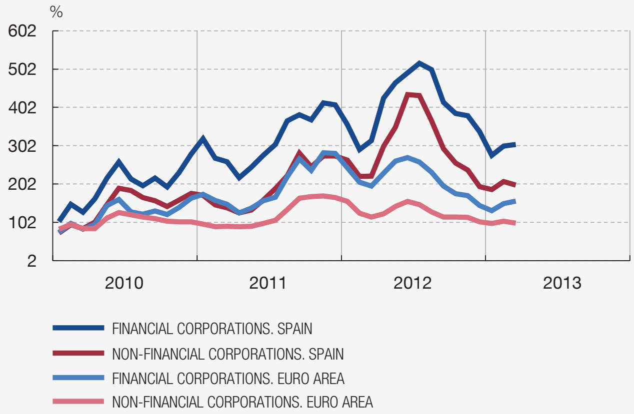
RECENT DEVELOPMENTS IN FINANCING CONDITIONS IN THE SPANISH ECONOMY

Since the worsening of the sovereign debt crisis in the euro area in mid-2011, the Eurosystem has eased its monetary policy significantly. Thus, official interest rates were cut on three occasions (November and December 2011 and June 2012) by a total of 75 basis points (bp) and the rate applied to the main refinancing operations reached 0.75%. Additionally, a series of non-conventional

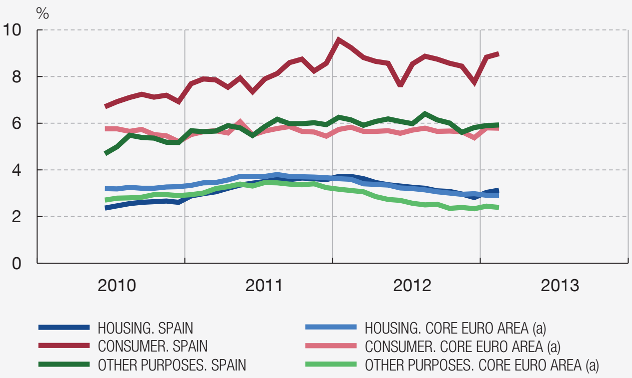
1 TEN-YEAR GOVERNMENT BOND YIELDS



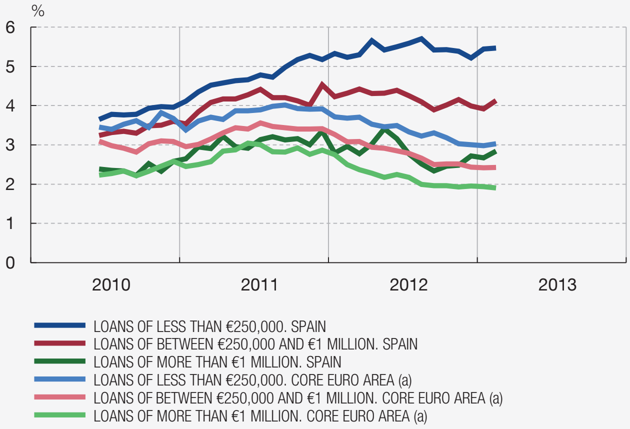
2 FIVE-YEAR CDS PREMIA



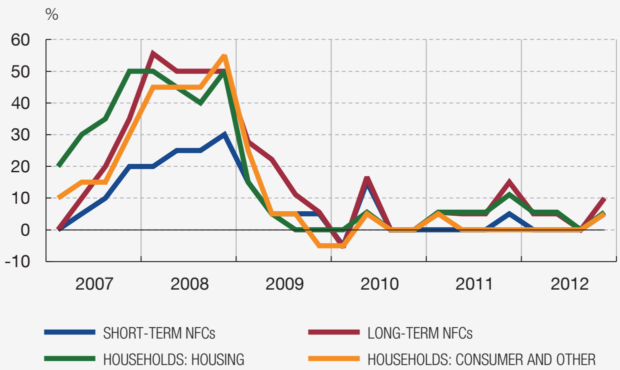
3 BANK INTEREST RATES. HOUSEHOLDS



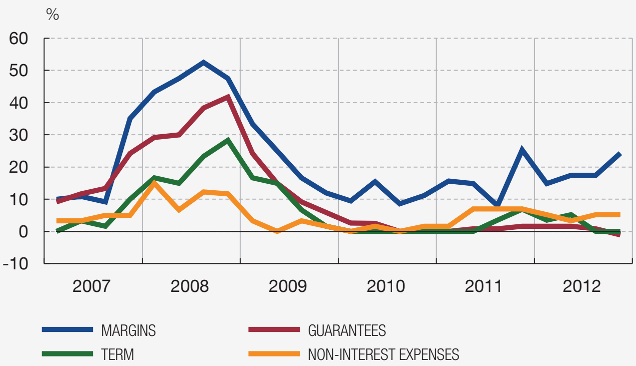
4 BANK INTEREST RATES. NON-FINANCIAL CORPORATIONS



5 CHANGES IN LENDING STANDARDS FOR NEW LOANS. BLS (b)



6 CHANGES IN CREDIT CONDITIONS. BLS (b)



SOURCES: AIAF, Datastream and Banco de España.

a Defined as the aggregate of Germany, France, the Netherlands, Belgium and Austria. To aggregate across the various maturities in each type of loan, the same weights are used (volume of operations) as in Spain, with the result that the comparison is not affected by differences between these weights in one area or another.

b Average of Spanish banks' responses to the Eurosystem's Bank Lending Survey. A positive (negative) value indicates a tightening (loosening) of standards and conditions.

measures were taken, including most notably: the revival of the government bond purchase programme in August 2011, the approval of a second covered bond purchase programme in November of that same year, the extension of the assets eligible as collateral in the Eurosystem's liquidity injecting operations on several occasions and, especially, the long-term refinancing operations (LTROs) in December 2011 and February 2012 and the Outright Monetary Transactions (OMTs) programme in September 2012.

Due to the foregoing, the three-month interbank market interest rates fell to levels of around 0.20% and the twelve-month ones to 0.55% (down 135 bp and 155 bp, respectively, on August 2011). These loose monetary conditions have also fed through to other markets in the core euro area countries (Germany, France, the Netherlands, Belgium, Austria, etc.), resulting in a more or less widespread decline in the financing costs of private and public agents as shown, for example, by the current historically low ten-year government bond yields in Germany and France (below 1.5% and around 2%, respectively, some 100 bp lower than in August 2011).

By contrast, these monetary conditions have fed through to a much lesser degree to the euro area countries most affected by recent tensions, which include Spain. For instance, the yield on Spanish ten-year government bonds held at the beginning of April 2013 at 60 bp lower than in August 2011, although a more marked improvement has occurred with respect to the situation at the beginning of summer 2012, when on occasions it exceeded 7% (see Panel 1 of the accompanying chart). Since then, the various decisions of the Eurosystem and the national and European economic authorities have triggered a drop of more than 200 bp in the spread with Germany which, nevertheless, remains above 300 bp as it has done throughout this period. These developments also condition the availability and cost of borrowed funds for private agents.

Since June-July 2012, private agents' access to wholesale markets has also clearly improved (see Panel 2 of the accompanying chart). However, once again here, the costs of debt financing (approximated by CDS premia) remained significantly higher than those seen for the euro area as a whole.

The above conclusion is strengthened even further when analysing households' and non-financial corporations' borrowing costs via bank loans in Spain, the latter being the main source of borrowed funds for private agents in our country. As shown in the two central panels of the accompanying chart, the easing of monetary policy in the euro area since mid-2011 has fed through to a very limited extent to Spanish credit institutions' customers. Thus, while for the core euro area countries average interest rates at the beginning of 2013 were clearly lower than those in August 2011 (between 90 bp and 105 bp, except for consumer loans to households, which remained at the same level), in Spain they stood, with the exception of loans for house purchase, above the levels then prevailing and above those in the core euro area countries. The increases are particularly notable in household consumer loans (85 bp) and in corporate loans of less than €250,000 (75 bp), which is an approximation of the borrowing costs of SMEs, given the typically lower value of loans to this type of companies. There was a decline in the cost of housing finance in this same period (45 bp), which was, nevertheless, lower than that seen in the other countries analysed (90 bp).

The Spanish banks' responses to the Eurosystem's Bank Lending Survey also show the demanding nature of households' and companies' financing conditions both in terms of prices and quantities (see lower panels of the accompanying chart). Thus, lending standards for new loans, after having tightened notably in 2007-2009, are estimated to have either remained relatively stable or to have tightened further since then. Credit conditions, according to the same survey, are also estimated to have become, during the last two years, more unfavourable for borrowers, particularly as regards the margins applied and other non-interest-related expenses.

This lack of pass-through (or incomplete pass-through) of the expansionary monetary impulses in Spain (as well as in other countries also affected by the recent financial strains) partly reflects the Spanish economy's more unfavourable position in the cycle, which justifies slightly higher risk premia. An indication of this is the fact that the differences observed in the behaviour of bank lending rates are particularly pronounced in riskier operations (due to their generally higher probability of default and lack of guarantees), such as consumer loans and lending to SMEs. However, the differences seen are of a very great magnitude and it is difficult to justify them exclusively in terms of cyclical divergences. The financial crisis has prompted a pronounced fragmentation of the euro area's financial system which has particularly affected banks in different countries, whose financing costs have tended to move sharply into line with developments in sovereign risks and relatively independently from the individual situation of each bank. This has translated into financing costs for banks (and, consequently, for the private agents they finance) that are too high for the single monetary policy stance in those economies which, like Spain's, have been hardest hit by the financial strains.