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Introduction

Over the last ten years the Spanish credit market has undergone major changes. Activity in the credit market has been markedly cyclical, with strong momentum in the economic upswing, followed by a sharp decline during the crisis and a resurgence in the present recovery phase. In turn, the structure of the credit market has been shaped by several factors, such as, for instance, the different impact the crisis had on the different intermediaries or the restructuring of the financial system which resulted in a significant reduction in the number of institutions.

This article analyses how credit market activity and structure evolved in Spain between 2004 and 2015, based on the figures for the volume of new loans formalised by resident institutions obtained from interest rate statistics.¹ This information should better reflect the flow of new lending than outstanding amounts, since it is not affected by repayments of loans granted in the past. Another advantage of using this data source is that, in the case of lending to non-financial corporations, it draws a distinction between loans for more/less than €1 million, which may be taken as a proxy for different credit market trends according to firm size.

The analysis is broken down by institutional sectors – households and non-financial corporations – receiving lending. Additionally, in the first case a breakdown is made by loan purpose (home loans, consumer loans, other) and, in the second case, by loan size (more or less than €1 million). The data are explored at aggregate level, and also to detect possible differences in behaviour for different groups of institutions.

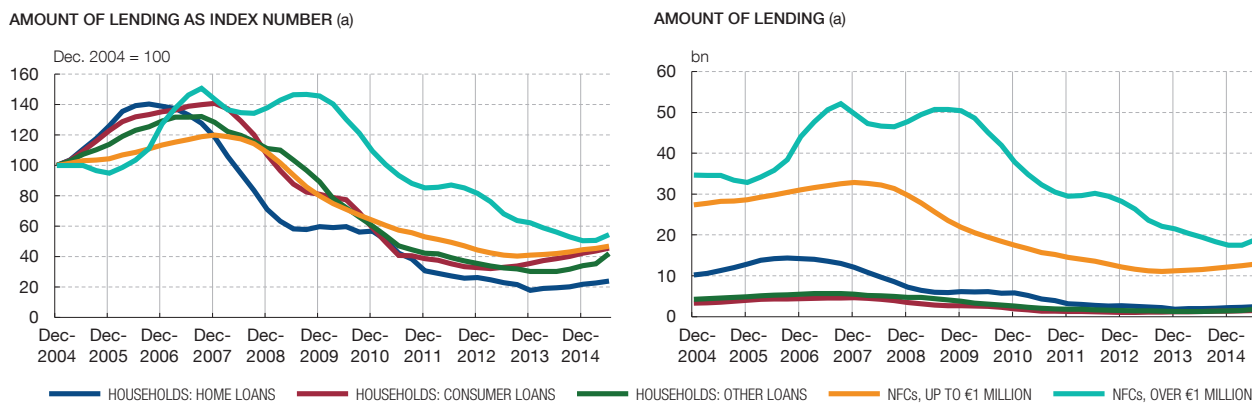
The article is split into five sections, including the introduction. The second section describes how aggregate credit market activity evolved in Spain between 2004 and 2015, and the third focuses on the breakdown by category of institutions. The fourth section analyses the progress made in the consolidation and resizing of the sector in that period, and the fifth summarises the main conclusions drawn.

Aggregate activity

The left-hand panel of Chart 1 tracks lending volume between December 2004 and June 2015, broken down between the main lending segments. The data are presented as an index number, with base 100 at the start of the sample, making it easier to observe the relative changes in volume.² As can be seen, over the last ten years credit market activity has been markedly cyclical across all the segments analysed. In particular, three clearly defined phases can be identified. In the first, essentially coinciding with the period of economic expansion that preceded the last crisis (2004-2007), the volume is on the increase. In the second, covering the economic contraction, it falls sharply, and in the third, from 2013 H2 to the end of the period analysed, it rebounds, coinciding with the

1 The returns containing the information that is sent to the ECB for compilation of the euro area bank interest rate statistics. The balance of loans used corresponds to the headings recording new loans granted in the month, not including outstanding amounts of revolving loans, which are recorded under other headings, or automatic loan extensions.

2 It should be noted that in June 2010 a change was made in the definition of lending of certain aggregates that particularly affected consumer lending, creating a statistical break around that date.



SOURCE: Banco de España.

a 12-month moving average.

economic recovery. Nevertheless, despite this resurgence, the most recent levels are still very short of the high points reached during the expansionary phase.

The intensity of these fluctuations in activity levels varies somewhat by credit market segment. The sharpest decline during the crisis was in the volume of lending to households and, especially, of home loans; this is linked to the extraordinary growth recorded in the pre-crisis period, the imbalances built up in the real estate market and its role in the crisis.

Loans under €1 million to non-financial corporations, which include loans to SMEs, display a less marked cyclical pattern than loans to households. Thus, in the expansionary phase that preceded the crisis, the flow of lending rose at a slower pace, and during the crisis the decline was less pronounced. The panel also shows that activity in this segment is more stable over time than lending in the other segments, probably as a result of its more recurring nature. In particular, and unlike households, firms are continuously rolling over their financing, as they have permanent debt positions at shorter terms. Moreover, smaller firms have more limited access to non-bank financing, which makes their lending flows more stable compared with those of large corporations.

In the case of loans over €1 million to non-financial corporations (more representative of loans to large corporations), the synchrony between activity and the business cycle is less evident. Thus, at the start of the sample, the volume of lending in this segment was heading down, in a period of economic expansion, and the recovery in the most recent phase began later than in the other segments. These differences are probably explained by the fact that large one-off transactions have more influence in this lending segment, and that large corporations have recourse to non-bank financing. Also, the decline during the crisis was more moderate than in the other segments, which is undoubtedly linked to the fact that large corporations were less severely hit by the crisis than SMEs.

Turning to activity levels, the right-hand panel of Chart 1, which presents the data in monetary units, shows that, throughout the period analysed, the highest amounts are in the two segments depicting lending to corporations. This is a result of the significance of this financing channel in terms of outstanding amounts, and of the high rotation linked to the large volume of short-term transactions, especially in the case of lending to large

Activity by category of institution

corporations. In lending to households, the highest level of activity is in home loans. However, as a result of the sharp fall during the crisis, the figures are now much closer to those of the other two household lending segments, where average loan duration is generally much shorter and, therefore, lending is relatively higher in terms of gross flows than in terms of outstanding amounts.

In order to determine to what extent activity levels in the different credit market segments vary by type of institution, this section analyses the separate patterns observed in each market segment for the following four categories: large institutions with significant business abroad and their Spanish subsidiaries; institutions that were classified as Groups 1 and 2 (hereafter, G1-G2) in the context of the process of restructuring and recapitalisation of the Spanish banking sector;³ all other Spanish institutions; and lastly, subsidiaries and branches of foreign institutions operating in Spain.

Chart 2 tracks how the volume of lending of each category has evolved in the different credit market segments⁴ (in terms of index numbers with base 100 in 2004 Q4, to facilitate comparison in relative terms). In general, the pattern is similar across all four categories, with the same three phases that are observed in the aggregate data. There are, however, certain significant differences in the intensity of the patterns in each phase.

Among the G1-G2 institutions, the volume of new lending in the expansionary phase that preceded the crisis showed much greater momentum than in the other categories, across almost all segments. The marked growth in lending in the boom period could indeed be one of the factors that made these institutions more vulnerable to adverse developments. During the crisis, the decline was comparatively more pronounced among these institutions; this is undoubtedly linked to the greater deterioration of their financial positions when the crisis first struck, which squeezed their ability to meet the demand for credit, and to the requirements arising from the subsequent restructuring plans.

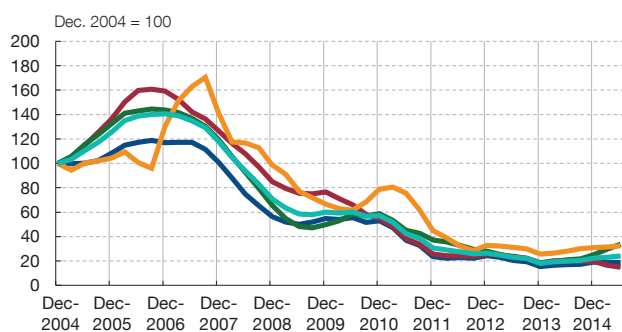
Lending by subsidiaries and branches of foreign institutions was less dynamic than market lending overall in the expansionary phase before the crisis, which may have made them less vulnerable to the subsequent adverse macroeconomic developments, in contrast to the case of the G1-G2 institutions. The lower relative impact of the crisis on subsidiaries and branches of foreign institutions, and the possible support from their parent institutions, may help explain why, during the crisis, the decline in their volume of lending was less pronounced than in the sector overall.

There are no significant differences between the other two categories of institutions in lending to households, with a pattern very similar to the sector aggregate. However, in the case of lending to corporations, the momentum is quite different. In loans under €1 million, large institutions' activity levels are on the decrease throughout the period analysed,

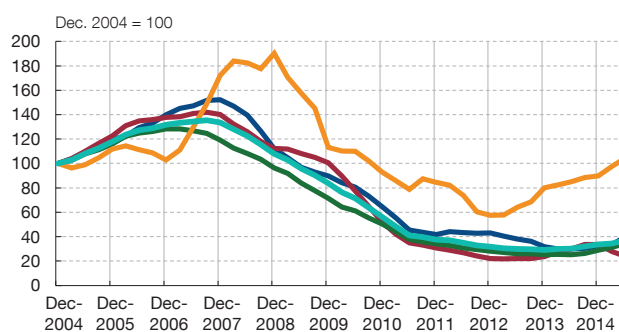
³ The G1-G2 institutions were those hardest hit by the crisis. Group 1 comprised the banks in which the FROB had a majority holding when the stress tests were conducted in 2012 (BFA/Bankia, Catalunya Caixa, NCG Banco and Banco de Valencia). Group 2 comprised the banks that had a capital shortfall, in light of the 2012 stress tests, and that were unable to address that shortfall without having recourse to State aid. In the case of banks that were a result of mergers with, or acquisitions of, other institutions that subsequently disappeared, the figures presented in this section are the sum of the volumes of the individual institutions that were merged. Another point to note is that in the most recent period, as a consequence of the culmination of the restructuring process, some of the G1-G2 institutions have been acquired by other institutions and have disappeared, resulting in lower aggregate activity for this category. However, this effect is only quantitatively significant in the last two quarters of the sample.

⁴ In order to simplify the presentation in the charts, household consumer loans and household other loans have been grouped together.

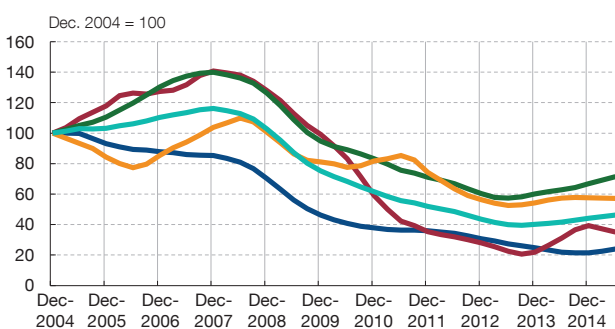
HOUSEHOLDS: HOME LOANS



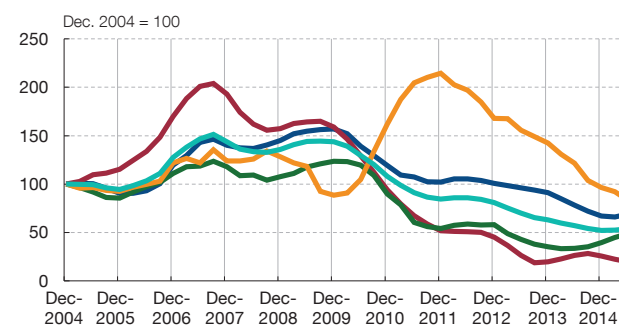
HOUSEHOLDS: CONSUMER AND OTHER LOANS



NON-FINANCIAL CORPORATIONS, UP TO €1 MILLION



NON-FINANCIAL CORPORATIONS, OVER €1 MILLION



— LARGE BANKS (b) — G1-G2 — OTHER SPANISH BANKS — FOREIGN BANKS AND SUBSIDIARIES — TOTAL

SOURCE: Banco de España.

a 12-month moving average.

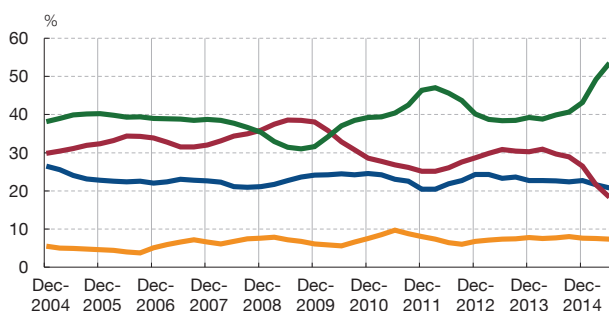
b Large Spanish institutions with a high percentage of business abroad. Includes their Spanish subsidiaries.

whereas in the category comprising all other Spanish institutions the pattern is more cyclical, in keeping with the overall market figures. In the case of loans over €1 million the picture is similar for both categories, although the decline during the crisis was more moderate among the large institutions.

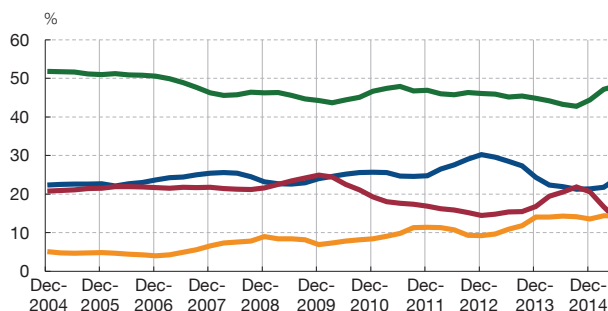
Naturally, the different lending patterns have affected the market shares of the different categories of institutions, measured by the sum of lending (see Chart 3). The category made up of foreign institutions has tended to gain share since the onset of the crisis, going from around 5% to close on 10% in the most recent period, and even somewhat higher in the segment of lending to households other than home loans. The G1-G2 institutions gained share from the start of the sample up to 2009 in most segments, especially in home loans, up to levels around 40%. Subsequently the opposite was the case, in light of the adjustment and restructuring process at the G1-G2 institutions. The most recent developments in their market share are shaped by a number of acquisitions of institutions that have led to their disappearance, their business being absorbed into the other categories.

In the case of the other two categories of Spanish institutions, the most striking feature as regards market share is the gradual decline in the large institutions' share in favour of the other national intermediaries in loans under €1 million, while in loans over €1 million the opposite occurs. This shows that over the period analysed the specialisation of institutions by type of customer has changed, as large institutions with significant business abroad

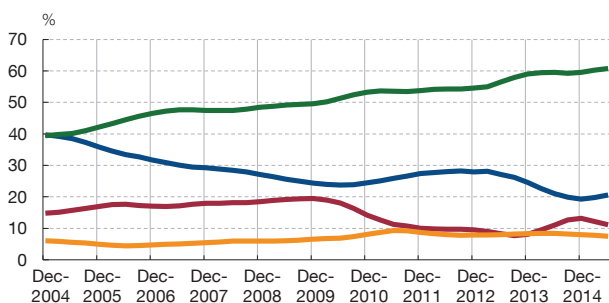
HOUSEHOLDS: HOME LOANS



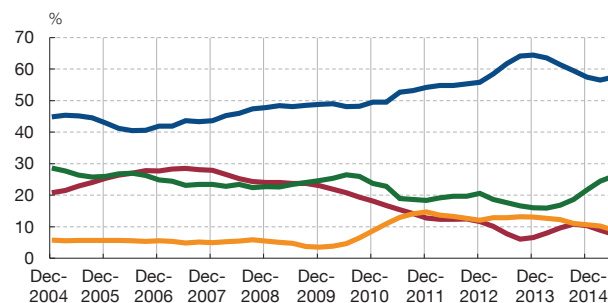
HOUSEHOLDS: CONSUMER AND OTHER LOANS



NON-FINANCIAL CORPORATIONS, UP TO €1 MILLION



NON-FINANCIAL CORPORATIONS, OVER €1 MILLION



— LARGE BANKS (b) — G1-G2 — OTHER SPANISH BANKS — FOREIGN BANKS (BRANCHES AND SUBSIDIARIES)

SOURCE: Banco de España.

a 12-month moving average.

b Large Spanish institutions with a high percentage of business abroad. Includes their Spanish subsidiaries.

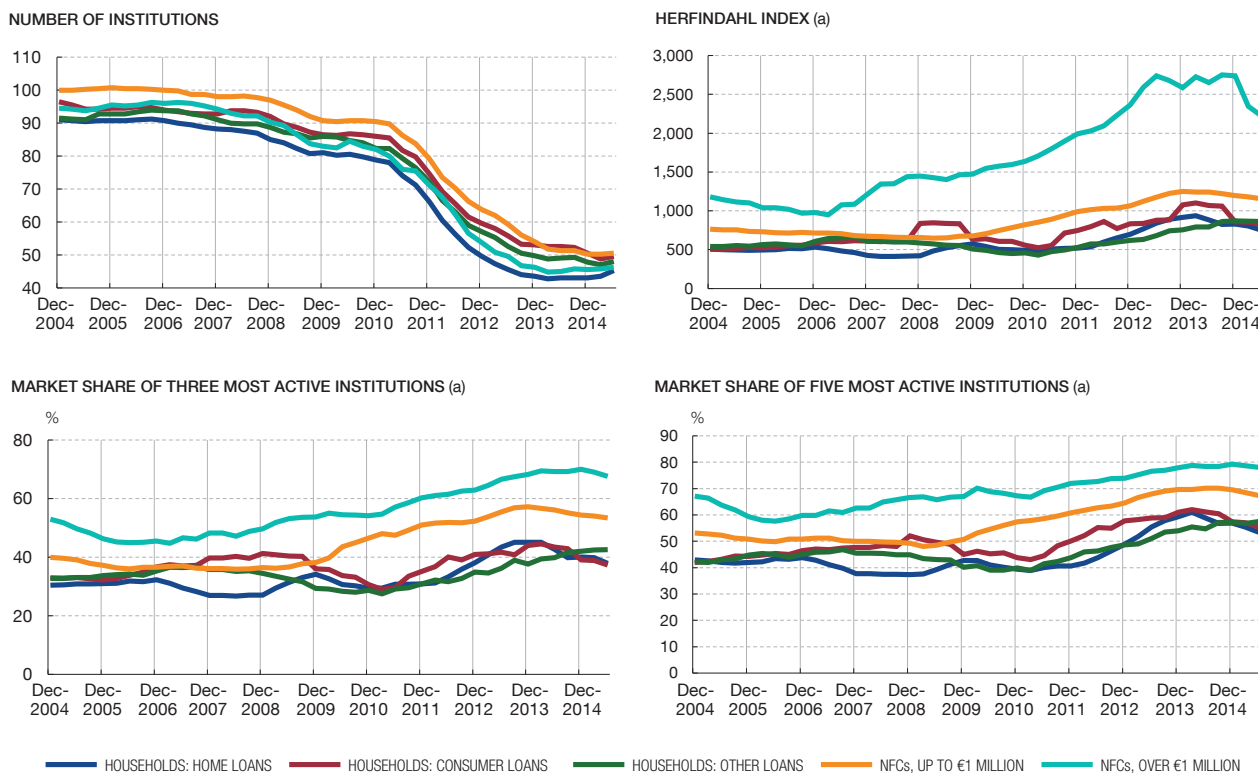
have tended to focus on lending to large corporations, while the other Spanish institutions have focused on lending to smaller firms.

Number of operational institutions

The top left-hand panel of Chart 4 shows how, after the onset of the crisis, the number of “operational” institutions in the credit market (understood as those which, in accordance with the regulations, report data on their new lending for the purposes of compilation of European bank interest rate statistics)⁵ has decreased across all segments, as a consequence of consolidation in the sector in the context of the restructuring undertaken as a result of the impact of the crisis. The sharpest drop was in the period 2011-2013; since then the number of institutions has been steady at 40 to 50, according to the segment, compared with 90 to 100 in the period 2004-2007.

The drop in the number of operational institutions naturally led to a gradual increase in the degree of concentration of activity on the credit market, as shown by the indicators in Chart 4. Thus, since the start of the crisis the market share of the three and five most active institutions (see two bottom panels) has grown, with a slightly larger increase in lending to corporations (16 pp - 21 pp) than in lending to households (1 pp - 12 pp). Moreover, in the case of lending to non-financial corporations, these indicators are higher. Thus, in the

⁵ It should be noted that since June 2010, the only institutions that report their lending activity are those which, at 31 December 2009, had total assets on the summary balance sheet (EMU 1) equal to or more than €1.5 billion and, on the EMU 2 return, deposits or loans in euro vis-à-vis euro area households and non-financial corporations equal to or more than €500 million (Banco de España Circular 1/2010). Previously only the second criterion applied (Banco de España Circular 4/2002).



SOURCE: Banco de España.

a Calculated on basis of 12-month moving average.

most recent period, the market share of the three and five most active institutions is 68% and 78%, respectively, in loans over €1 million to corporations, and 53% and 67%, respectively, in loans under €1 million to corporations. In the case of lending to households, the figures are approximately 40% and 55%, respectively.

Using the Herfindahl index (another indicator generally used to measure the degree of concentration that takes into account not only the market shares of the most active institutions but also those of the full sample),⁶ similar conclusions are obtained (see top right-hand panel).

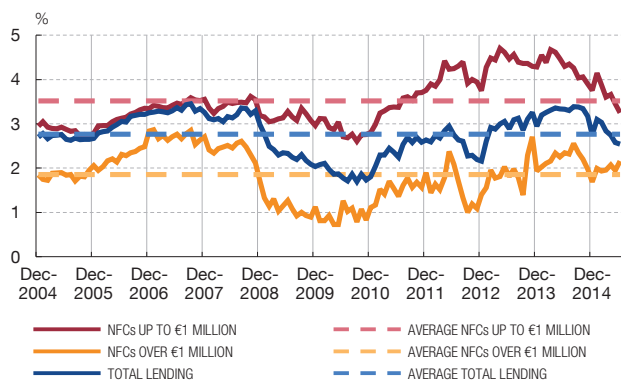
In any event, the data presented in Chart 4 suggest that the number of operational institutions is not the only factor on which the degree of concentration depends. Thus, for example, as Chart 4 shows, in loans over €1 million to firms, the various concentration indicators declined in the period 2004-2006, with no appreciable change in those years in the number of active institutions. Likewise, in the most recent period these indicators declined in several segments, with no associated increase in the number of intermediaries.

The rise, since the onset of the crisis, in the degree of concentration measured by the volume of lending can also be seen by analysing the series calculated on the basis of institutions' credit balances or the size of their balance sheets.⁷ The growth in the

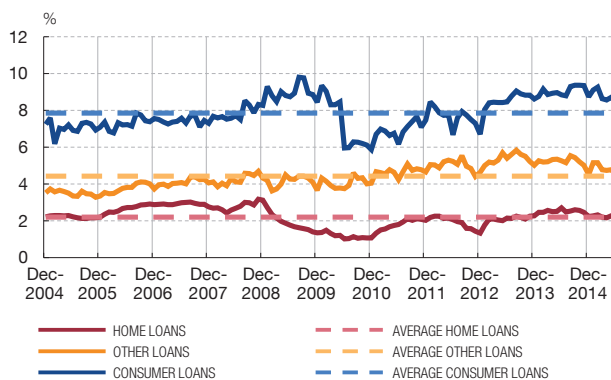
⁶ Specifically, the Herfindahl index is defined as the sum of the squares of the market shares of all the institutions. The higher the index, the higher the degree of concentration.

⁷ See, for example, ECB (2014) and Rubio and Zurita (2014).

TOTAL LENDING AND TO NON-FINANCIAL CORPORATIONS



LENDING TO HOUSEHOLDS



SOURCE: Banco de España.

a Average weighted interest rate in corresponding category minus synthetic deposit rate.

concentration indicators thus calculated has been more pronounced than that observed in other European countries, which is consistent with the greater intensity of the sector consolidation process in Spain, although it has to be borne in mind that the Spanish financial system set out from a comparatively lower base.⁸

It should be noted that this higher market concentration responds to the need identified post-crisis to correct the excessive size of the sector. To assess the impact on competition in the industry, analysis of indicators such as the spread between average interest rates on new lending in each segment and the synthetic rate on deposits received may also be useful. In this respect, the changes in this spread in recent years do not appear to signal that higher concentration in the Spanish credit market has been accompanied by lower competition. Thus, as Chart 5 shows, in most credit market segments these spreads are now close to the average values for the period analysed.⁹

Conclusions

This article illustrates the major changes observed in the Spanish credit market over the last ten years. Activity in the credit market has been markedly cyclical, with volumes of lending that were very high and on the increase during the expansionary phase, followed by a sharp fall during the crisis and a gradual recovery since end-2013. This most recent performance, achieved on the back of the improved economic and financial conditions, should continue in coming months, although there is still the high level of private sector debt to contend with. It would not, in any event, be either foreseeable or desirable for the figures to return to the levels reached in the expansionary phase, which led to the build-up of various imbalances and made the Spanish economy more vulnerable to adverse developments.

Over the period analysed the structure of the Spanish credit market also underwent major changes. The most significant development was undoubtedly the reduction in the number of operational institutions, essentially as a consequence of the restructuring process undertaken to solve the problem of the excessive size of the Spanish financial sector

8 There is no data available to compare the degree of concentration in Spain with that of other countries calculated on the basis of the volume of lending.

9 It should be noted that fluctuations in these indicators may respond to other factors apart from the level of competition, such as changes in perceived credit risk.

identified as a result of the crisis. The data presented here suggest, in addition, that these changes have not been accompanied by a decline in the level of competition, since the loan-deposit gap in most segments is now at average historical levels.

14.9.2015.

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