Box 4

CHANGES IN FINANCIAL CONDITIONS IN THE SPANISH ECONOMY IN VIEW OF THE ECB'S COMMUNICATION AND DECISIONS IN RECENT MONTHS

At its 12 September meeting, the ECB Governing Council adopted a series of monetary policy measures aimed at increasing the degree of monetary accommodation in the euro area.[1] Three months earlier, in a speech in Sintra[2] (Portugal) on 18 June, the ECB President had already advanced the central bank's readiness to adopt additional stimulus measures, such as cuts in the policy interest rate or a restart of the asset purchase programme.

Taking this last date as a reference, this box analyses how financial conditions in the Spanish economy have changed in recent months, to assess the extent to which they have been affected by the latest monetary policy decisions and by the ECB's communication in the months leading up to those decisions.[3] Specifically, the box examines how the cost of financing has changed for the public sector, households and non-financial corporations, both for new lending and outstanding amounts. The macroeconomic implications differ: while a decline in the cost of new lending is relevant for expenditure decisions that rely on obtaining borrowed funds, a fall in the cost of outstanding debt boosts the purchasing power of indebted agents as it eases their debt burden.

After ECB President Draghi's speech at the annual central banking forum in Sintra, the investor perception that the low interest rate scenario would continue for some time was reinforced. The financial markets began to expect new monetary stimulus measures, giving rise, from then on, to declines in interbank market rates at the different maturities (although it is difficult to discern which part of the changes observed is a direct consequence of monetary easing and which is due to other factors).

As Chart 1 shows, from 18 June 3-month EURIBOR fell by 13 bp to a new all-time low of -0.45% at the start of September, and then recovered slightly. At the start of December it stood at -0.39%, which is a cumulative drop of 7 bp since 18 June (similar in scale to the 10 bp cut in the ECB deposit facility following the September meeting). 12-month EURIBOR, which is the main variable rate mortgage loan reference index in Spain, records a cumulative fall of 9 bp. For their part, long-term interest rates had been falling since October 2018, as a consequence of the worsening economic outlook and the weakening inflation expectations in the euro area. Since the Sintra meeting to date, the 10-year swap rate records a cumulative decline of 10 bp.[4, 5]

The fall in interbank market rates has passed through to the government and corporate debt markets, resulting in further declines in the cost of funding via debt securities for general government and non-financial corporations (which costs had been falling since the start of the year). Between 18 June and 10 December, the Spanish 10-year government bond yield fell by 2 bp, while the issue price of non-financial corporations' 10-year debt securities fell by 23 bp (see Chart 2). At 10 December, these financing costs stood at 0.46% and 1.54%, respectively, both of which are extraordinarily low levels from an historical standpoint.

Interest rates on new bank lending in Spain have also fallen in most segments, down to very depressed levels close to their all-time lows. As Chart 3 shows, between June and October the cost of new loans extended to households for house purchase and, albeit to a lesser extent, of new consumer credit fell, by 26 bp to 1.82% and by 13 bp to 7.14%, respectively (in both cases, seasonally-adjusted). In the case of non-financial corporations, financing costs only decreased (by 5 bp) for loans over €1 million, with interest rates at 1.40% in October. By contrast, the cost of smaller loans granted to firms rose slightly.

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1 These measures notably included the 10 bp cut in the deposit facility rate, the strengthening of forward guidance and the restart of net asset purchases. For more details, see https://www.ecb.europa.eu/press/pr/date/2019/html/ecb.mp190912~08de50b4d2.en.html.

2 See https://www.ecb.europa.eu/press/key/date/2019/html/ecb.sp190618~ec4cd2443b.en.html.

3 In addition to the Sintra speech, another important milestone in the ECB's communication on the imminent adoption of stimulus measures was the Governing Council meeting on 25 July when the ECB announced its willingness to adjust all of its instruments to achieve its inflation aim.

4 Swap rates approximately capture investor expectations of future moves in 3-month interbank market rates, measured in the case of the euro area through the EURIBOR index.

5 In mid-August the fall was 53 bp. The subsequent increase in these interest rates is possibly on account of a certain degree of steadying of the economic outlook compared with the deterioration observed earlier.

Box 4

CHANGES IN FINANCIAL CONDITIONS IN THE SPANISH ECONOMY IN VIEW OF THE ECB'S COMMUNICATION AND DECISIONS IN RECENT MONTHS (cont'd)

The latest monetary policy decisions have also helped drive down the cost of the outstanding debt of the different institutional sectors. In the case of general government, the interest rate on outstanding debt has decreased by 14 bp, down to 2.21% in October (see Chart 4). In the case of bank debt of households and firms, interest rates on outstanding debt have fallen slightly, by 3 bp to 2.60% and by 1 bp to 1.82%, respectively.

The changes in the cost of financing described are consistent with the impact to be expected of the various monetary policy decisions adopted and announcements made. But a degree of caution is required, since it is not possible to establish an exact link between the announcements and decisions and the changes observed. These will most likely have also been influenced by a variety of other factors pulling in different directions, such as macroeconomic developments, further monetary easing in the United States or the latest developments in the US-China trade conflict or in the outlook on Brexit.

Chart 1
MARKET INTEREST RATES. SHORT AND LONG TERM

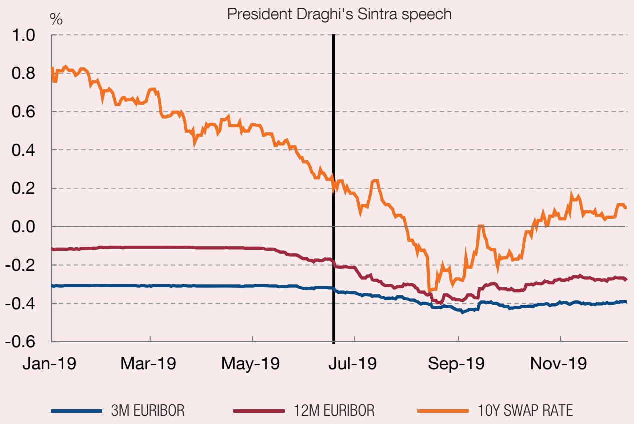


Chart 2
ISSUE PRICE OF GOVERNMENT AND CORPORATE DEBT

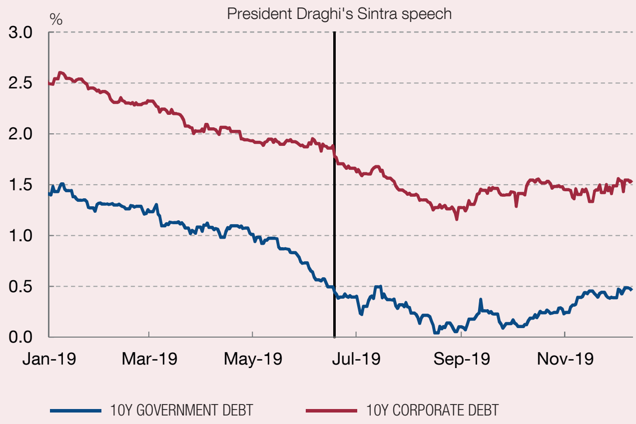


Chart 3
COST OF FINANCING FOR NEW BANK LENDING (a)

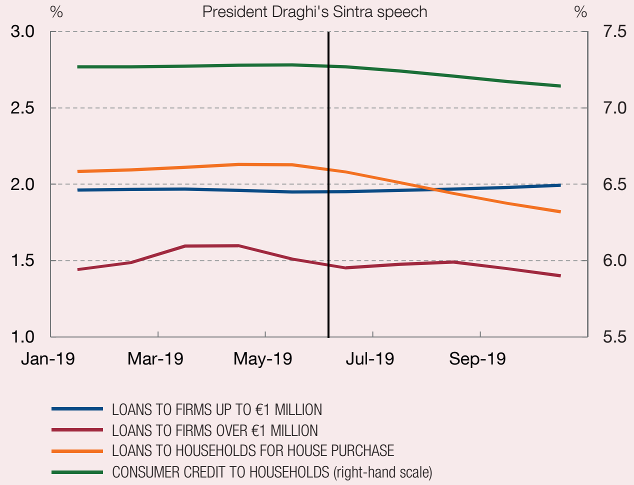
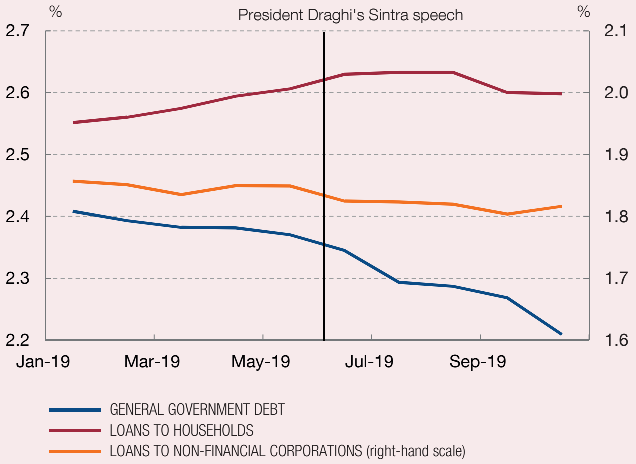


Chart 4
AVERAGE COST OF OUTSTANDING DEBT



SOURCES: Banco de España and Bloomberg Data License.

a Cyclical trend component of interest rates in new lending (irregular component and seasonally adjusted).