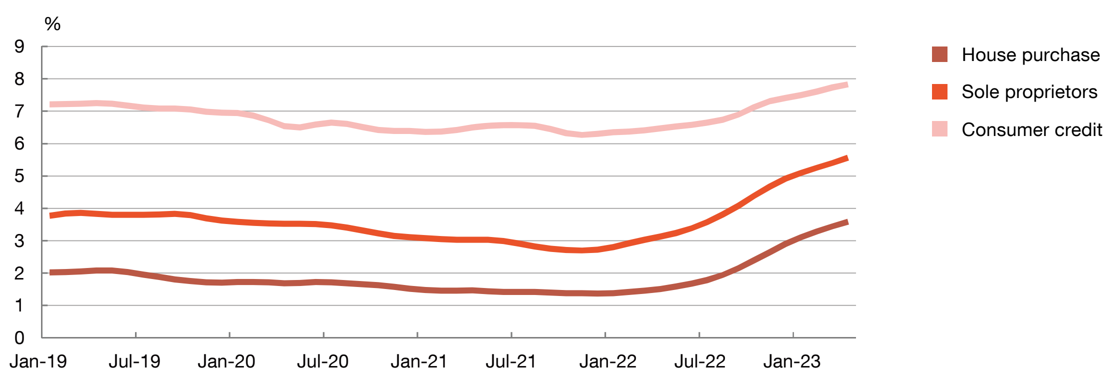
1 Household borrowing costs have continued to rise ...

— Spanish credit institutions have been steadily passing through market rate rises to new loans to households since early 2022. This pass-through accelerated in 2022 H2 and affects all loan types (see Chart 1.a).

— In the case of loans for house purchase, which make up the bulk of new lending, rates are being passed through more slowly than was the case in past episodes of monetary tightening (see Chart 1.b).[1] Thus, in April 2023, the cost of this type of loan stood 1.3 percentage points (pp) below what would be expected based on historical regularities.

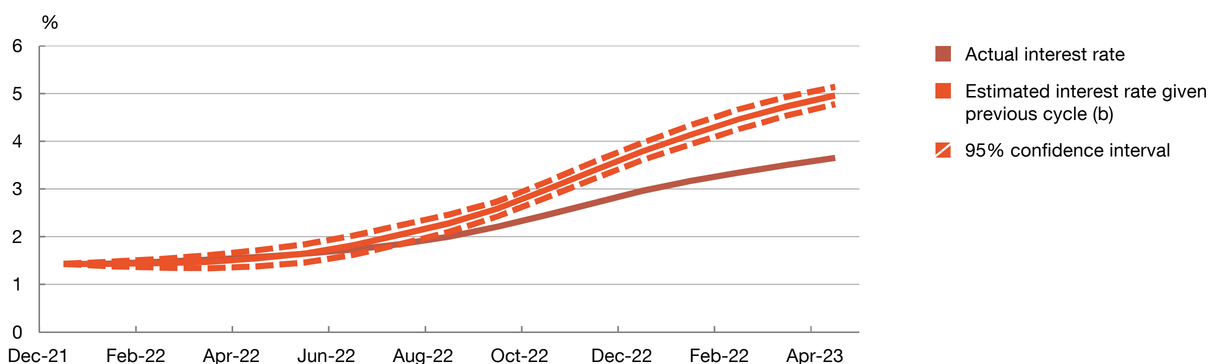
Chart 1

1.a Cost of new bank lending (a)



House purchase
Sole proprietors
Consumer credit

1.b Pass-through to interest rates for loans for house purchase compared with previous cycles (a)



Actual interest rate
Estimated interest rate given previous cycle (b)
95% confidence interval

SOURCE: Banco de España.

a Interest rates are narrowly defined effective rates (NDERs), i.e. they exclude related charges, such as repayment insurance premiums and fees, and are adjusted seasonally and for the irregular component (small changes in the series with no recognisable pattern in terms of periodicity or trend).
b Resulting bank interest rate if the current cycle's increase in the market interest rate were passed through similarly to the previous cycle, according to standard error-correction models estimated for the period between January 2003 and August 2007. A model is estimated for short-term (up to one year) and long-term (more than one year) interest rates and shown is the composite interest rate weighted by volume of new lending.

1 For more details, see Sergio Mayordomo and Irene Roibás (2023). “La traslación de los tipos de interés de mercado a los tipos de interés bancarios”. Documento Ocasional, 2312, Banco de España.

2 ... and credit availability is dropping

— The bank lending survey (BLS) shows that credit standards tightened in 2022 and continued to do so in 2023 Q1 (see Chart 2.a). The percentage of rejected applications also rose. Banks expect the loan supply to shrink again in 2023 Q2, although to a lesser extent this time.

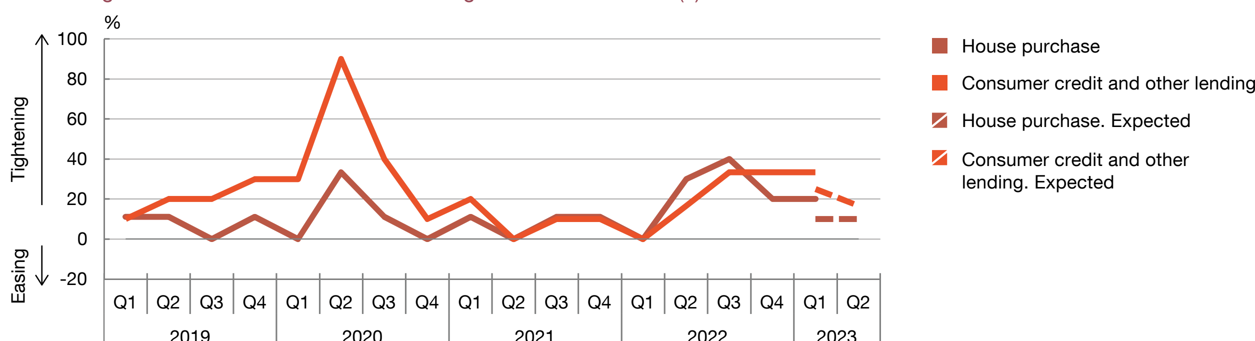
— They attribute this to their reduced tolerance for risk, the downturn in the economic outlook and in the housing market, and the worsening of borrowers' creditworthiness.

— The European Central Bank's (ECB) Consumer Expectations Survey (CES) also shows that households believe access to credit has become harder since early 2022 (see Chart 2.b). They expect their access to credit will worsen further over the next 12 months, albeit more slowly.

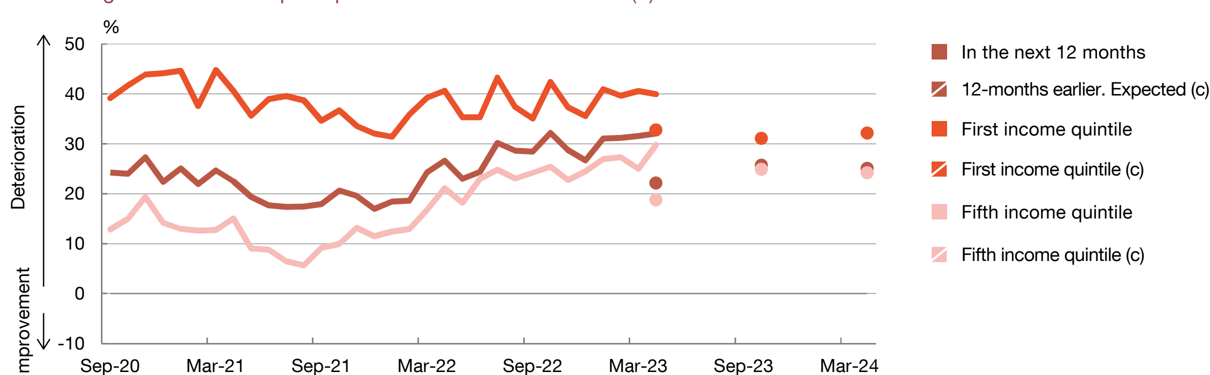
— According to the CES, lower-income households perceive a more severe tightening in access to credit than those with higher income, although the gap between the two groups appears to have narrowed of late.

Chart 2

2.a Change in credit standards for bank lending to households. BLS (a)



2.b Change in households' perception of access to credit. CES (b)



SOURCES: ECB and Banco de España.

a Percentage of institutions reporting tightening less those reporting easing.
b Percentage of households having more difficulty accessing credit less those noting less difficulty. Data are available from September 2020.
c Each dot represents households' response 12 months earlier regarding their expectations for credit access over the following 12 months.

DESCARGAR

3 The rising cost of borrowing has curtailed demand for loans to households in recent months

— The BLS shows a contraction in demand for loans to households since mid-2022, a trend that accelerated in 2023 Q1, with the sharpest drop coming in loan applications for house purchase (see Chart 3.a).

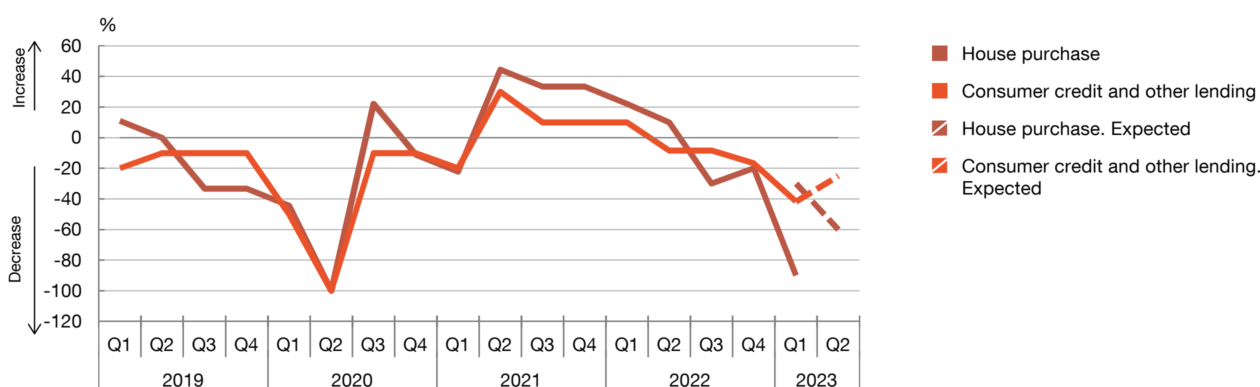
— According to the banks, this is mainly a consequence of rising interest rates, waning consumer confidence and, in the case of consumer credit and other lending, greater use being made of alternatives to fund purchases. Banks anticipate a further reduction in household credit applications in 2023 Q2.

— According to the CES, the proportion of households that have a high expectation of applying for an auto loan in the next twelve months dropped further in 2023 Q1, continuing the pattern in place since mid-2021.

— The percentage of households that have a high expectation of applying for a loan for house purchase in the next 12 months has remained stable in recent quarters, although it is below 2021 H2 levels. If these expectations are borne out, they would check the fall in lending for house purchase.

Chart 3

3.a Demand for loans to households. BLS (a)



SOURCE: Banco de España.

a Percentage of institutions reporting an increase less those reporting a decrease.

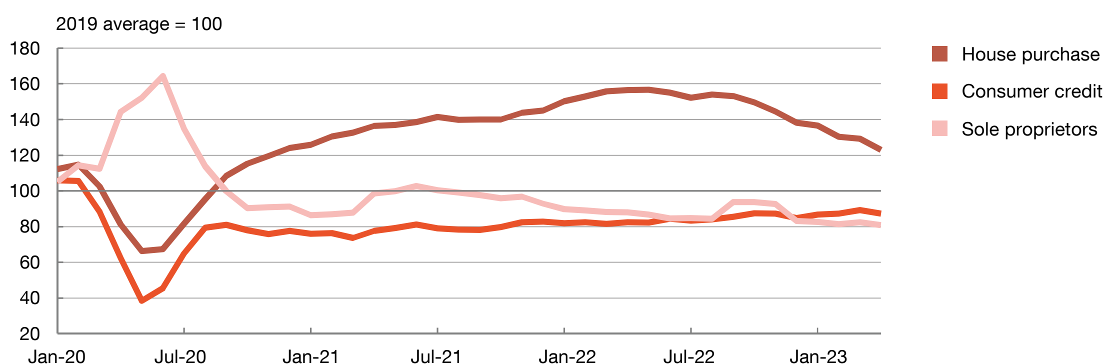
4 All of the above has contributed to a drop in new lending to households and a decline in the outstanding balance

— Since summer 2022, new lending to households for house purchase has dropped sharply, although in April 2023 it still stood 23% higher than its 2019 level (see Chart 4.a). Lending to the self-employed fell more moderately, while consumer credit displayed greater stability. New lending amounts stood below their 2019 averages for both categories.[2]

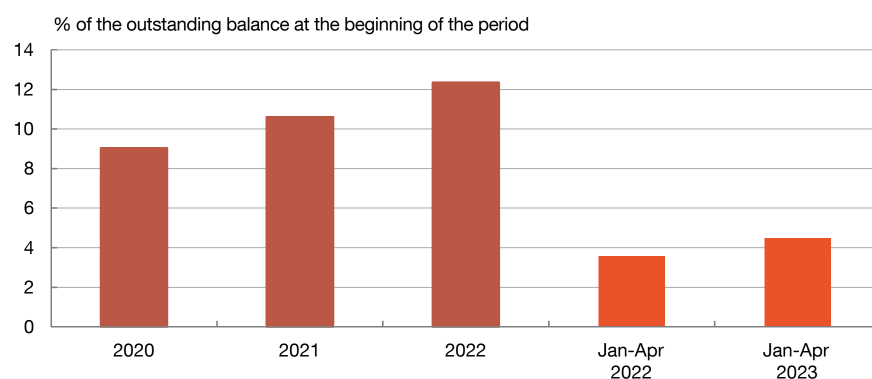
— The increasing gap between the cost of outstanding variable-rate loans and the expected profitability of lower-risk investments has been conducive to growth in early repayments on mortgages (see Chart 4.b). Alongside a reduced rate of new lending, this has led to a fall in the outstanding amounts of bank loans.

Chart 4

4.a New lending (a)



4.b Repayments on loans for house purchase (b)



SOURCE: Banco de España.

a Seasonally adjusted three-month cumulative flows. Excludes renegotiations but includes creditor subrogation.
b Early repayments are calculated by subtracting net financing flows from new lending (which does not include renegotiations but does include creditor subrogation).

2 New lending does not include renegotiations of existing loans with the same credit institution, but does include creditor subrogation.

5 There has been a progressive reduction in households' loss of purchasing power, but the adverse effect of interest rates rises on borrowers' income is amplified

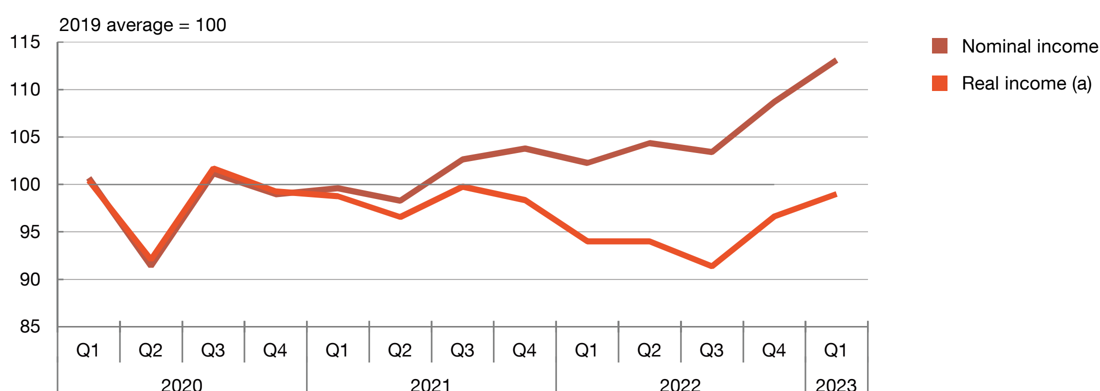
— Household nominal income has grown notably in 2022 Q4 and 2023 Q1, underpinned, to a large extent, by rising wages and robust economic activity. This increase and the more stable consumer prices seen since mid-2022 have allowed the recovery of a large part of the purchasing power lost since 2021 due to inflation (see Chart 5.a).

— The average cost of outstanding bank loans to households rose to 3.8% in April, compared with 2.3% in December 2021. This is an increase of 65% in interest payment per unit of debt. Net interest payments rose by 1.1% of the sector's annual gross disposable income (GDI) in that period. This uplift is borne by borrowers with variable-rate loans, who represent 29% of households and 51% of all borrowers (see Chart 5.b).

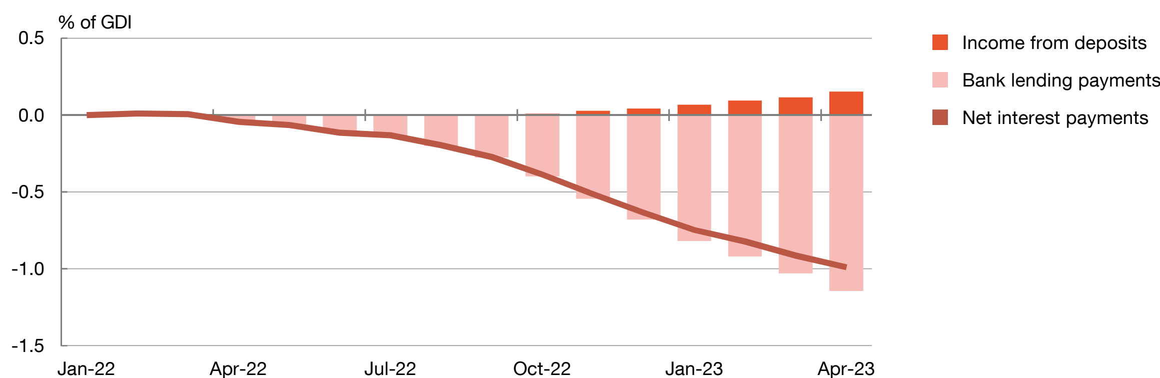
— Lower-income households were worse placed to contend with inflation and the rising cost of debt servicing (see Box 2).

Chart 5

5.a Quarterly household GDI (seasonally adjusted)



5.b Change in households' net interest payments since December 2021 (b)



SOURCE: Banco de España.

a Deflating nominal income based on the seasonally adjusted CPI.
b Approximated using bank lending rates for outstanding loan amounts and household deposits.

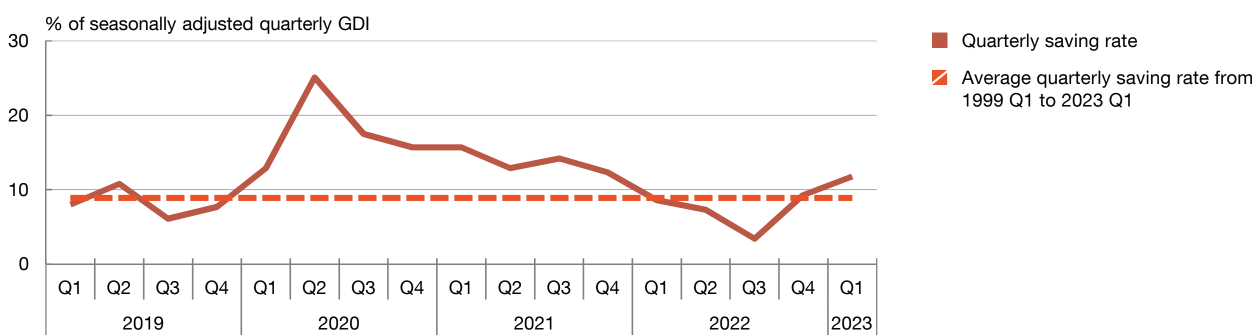
6 The household saving rate has increased again, standing at levels above its historical average in 2023 Q1. At the same time, households have rebalanced their liquid asset portfolio

— The improvement in household purchasing power, along with shrinking consumption, have checked the downward trend seen in the household saving rate since the COVID-19 containment measures were lifted (see Chart 6.a).

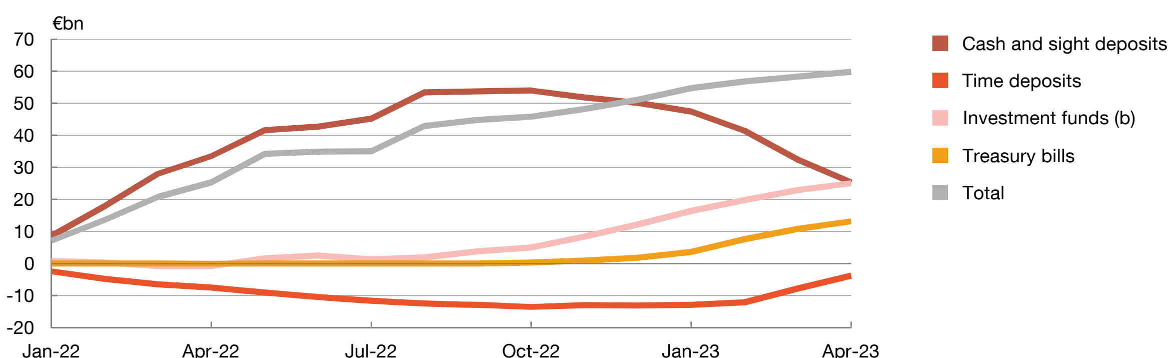
— The fall in the saving rate in recent years is consistent with households' accumulation of liquid assets (see Chart 6.b). This portfolio has undergone rebalancing since late 2022, with a shift away from cash and sight deposits to more profitable instruments, such as Treasury bills, investment funds and time deposits.

Chart 6

6.a Saving rate of Spanish households (a)



6.b Net flows of liquid assets. Cumulative from January 2022 (a)



SOURCES: INE and Banco de España.

a Seasonally adjusted data.
b Net subscriptions (excluding valuation effects).

7 Households' wealth has grown and their debt ratio has dropped

— The slowdown in housing prices meant that the real estate component ceased to underpin the increase in nominal wealth (see Chart 7.a). However, nominal wealth has continued to rise as a result of net asset acquisition and financial asset revaluation.

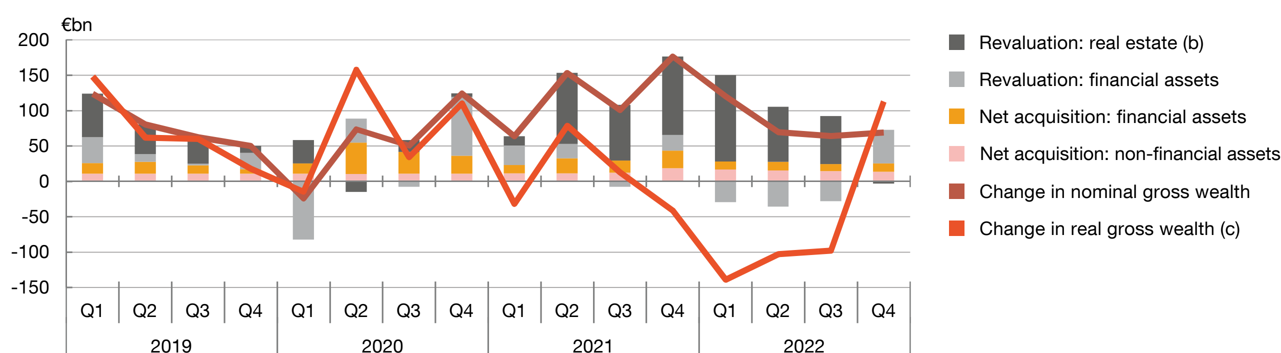
— In real terms, wealth recovered in late 2022, following falls in previous quarters, thanks to inflation easing.

— The household debt ratio has fallen significantly, standing in early 2023 at levels not seen since 2003. This decline is mainly down to the rise in nominal income (see Chart 7.b), driven by job creation and accelerating wages – linked, in part, to the surge in inflation.

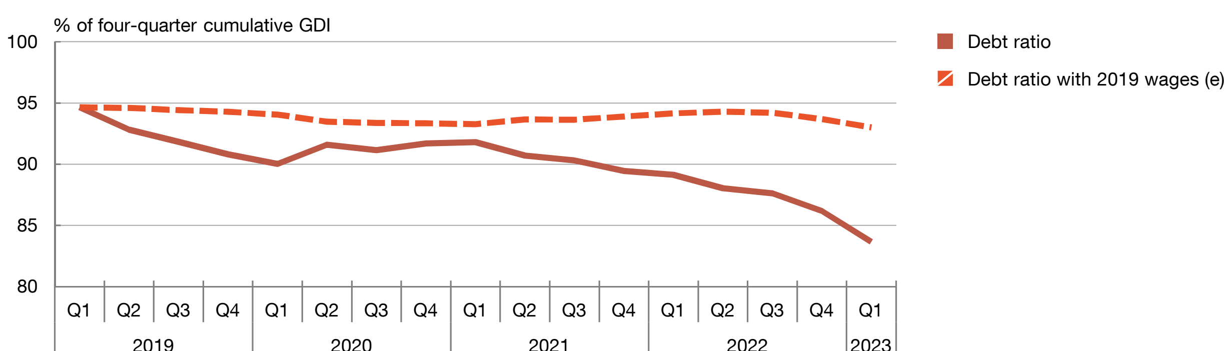
— In spite of the drop in the debt ratio, households with variable-rate loans (29%, according to 2020 data) and particularly those in the lower income segment, appear to have lost some of their ability to service their debt or keep up with other expenses (see Box 2).

Chart 7

7.a Change in gross wealth by components (a)



7.b Debt ratio (d)



SOURCES: INE and Banco de España.

a Seasonally adjusted flows.
b Only includes residential real estate.
c Obtained by deflating CPI by the stock of quarterly nominal gross wealth.
d Seasonally adjusted outstanding amount.
e Calculated by dividing the outstanding balance by the four-quarter cumulative GDI in March 2019.

8 Non-performing loans to households continued to fall, while Stage 2 loans have risen

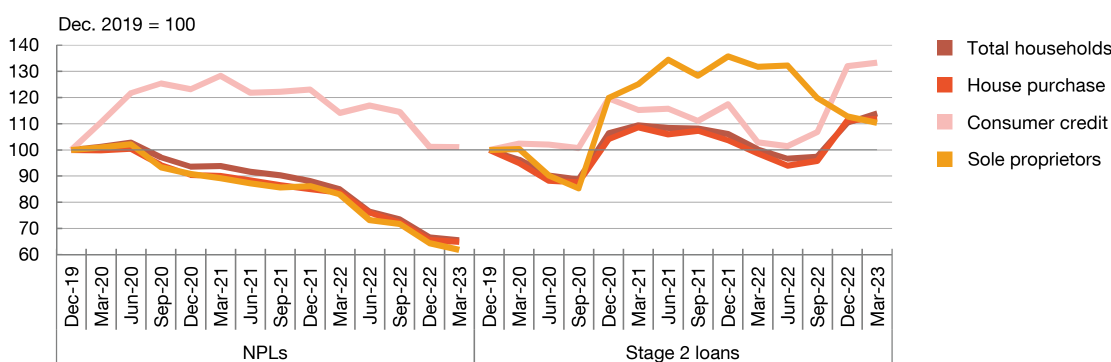
— Non-performing loans (NPLs) to households have continued to fall in recent quarters, with a year-on-year drop in March of 22.5% (see Chart 8.a). The drop is broad-based across categories (housing loans, consumer loans and loans to sole proprietors).

— However, Stage 2 loans have rebounded since late 2022, with growth of 18% year-on-year in March 2023. The increase affected both loans for house purchase and, to a greater extent, consumer loans. In contrast, lending to sole proprietors continued to drop.

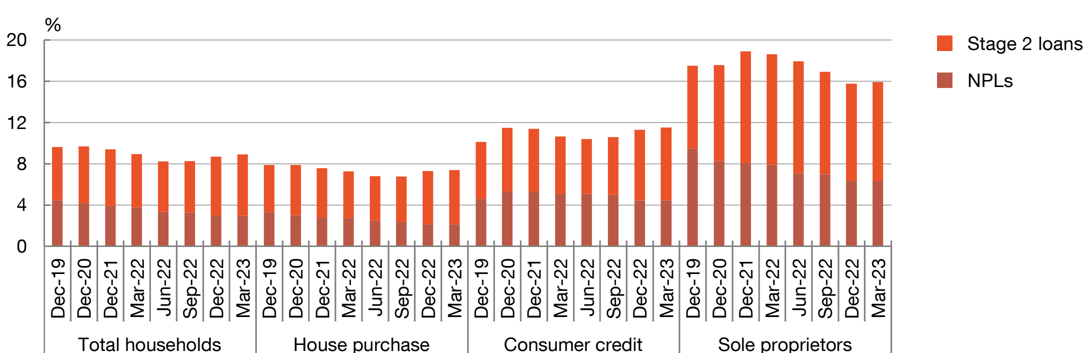
— The NPL ratio stood at 3% in March 2023 for the household sector (a year-on-year fall of 0.8 pp) (see Chart 8.b). The ratios fell across all loan types. However, Stage 2 loans rose significantly: 0.8 pp – to 6% for all households – 0.7 pp in housing loans, 1.5 pp in consumer loans and 1.1 pp in loans to sole proprietors. In the case of loans to sole proprietors, the increase is the result of the fall in the outstanding balance.

Chart 8

8.a NPLs and Stage 2 loans to households (a)



8.b NPL and Stage 2 ratios for households



SOURCE: Banco de España.

a Loans are classified as non-performing either when they are in default, i.e. there are amounts more than 90 days past due, or else when there are indications that the loan is unlikely to be paid (e.g. the equity of a firm is negative). Stage 2 loans are those for which the credit risk has risen significantly since they were originated, but which do not meet the conditions for classification as non-performing. Generally, they include loans with amounts more than 30 days past due.

9 The cost of new financing has also continued to rise for firms ...

— The speed and intensity with which this increase has taken place has been uneven across maturities and instruments.

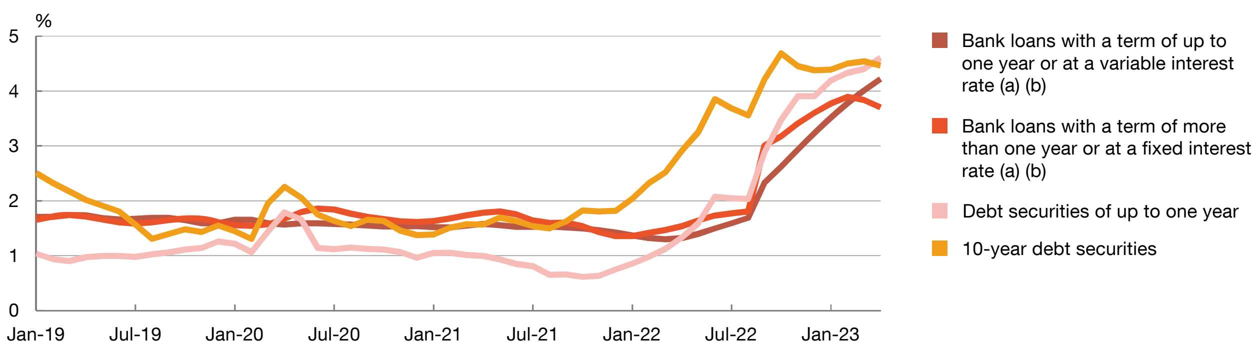
— Bond issuance costs increased earlier and more sharply than borrowing costs, in line with risk-free interest rate developments following the shift in monetary policy stance at end-2021 (see Chart 9.a).

— Long-term bond issuance costs stopped rising from October 2022, while short-term bonds continued to increase in 2023 and ultimately outstripped the former.

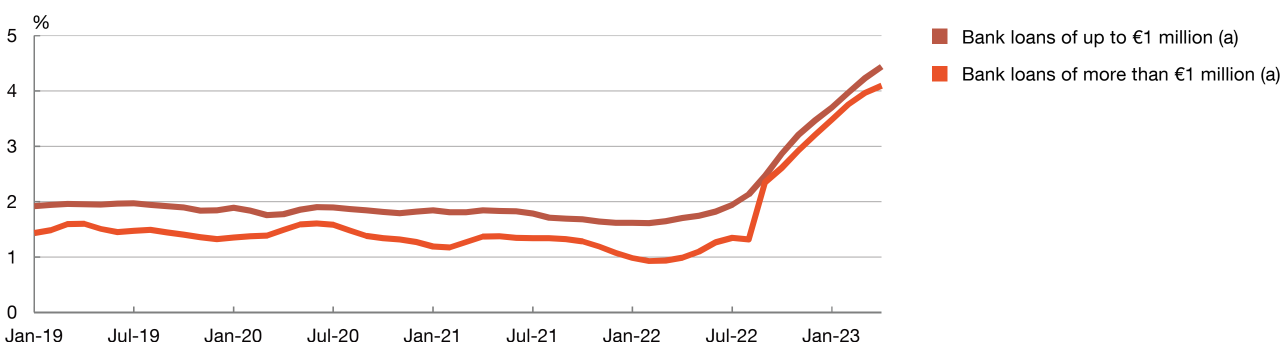
— Meanwhile, bank lending rates have risen more gradually across all maturities, in line with historical patterns. The cost of loans of more than €1 million, generally granted to large firms, increased more than that of smaller loans (see Chart 9.b).

Chart 9

9.a Cost of new financing to NFCs by maturity and instrument



9.b Cost of new loans to NFCs by loan size



SOURCES: Bloomberg Datalicense and Banco de España.

a Narrowly defined effective rates (NDER) adjusted seasonally and for the irregular component (small changes in the series with no recognisable pattern in terms of periodicity or trend).
b The term refers to the interest rate reset period.

10 … and their access to bank credit has deteriorated

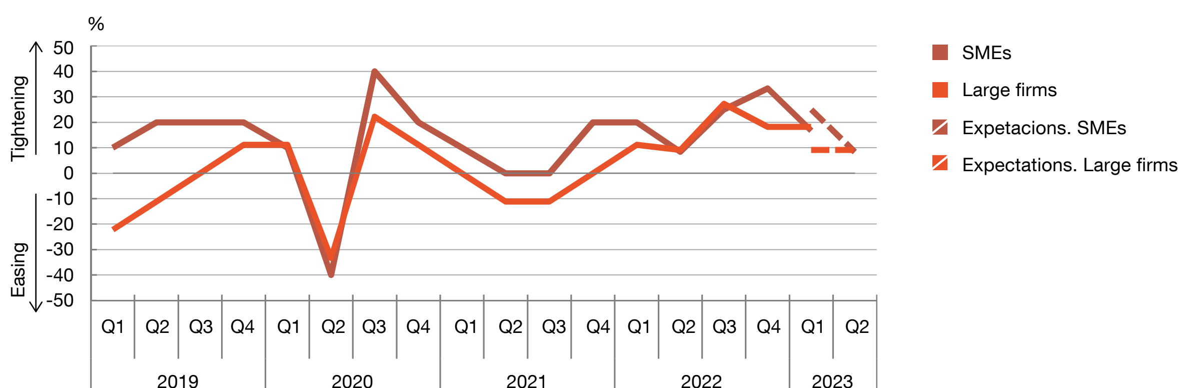
— According to the BLS, the tightening of credit standards continued in 2023 Q1 and was greater for SMEs in cumulative terms since end-2021. Banks expect this trend to continue in Q2, albeit at a slower pace (see Chart 10.a), mainly as a result of the worsening economic outlook.

— The euro area Survey on the Access to Finance of Enterprises (SAFE) also reveals that Spanish SMEs' perception of bank credit availability has worsened since early 2022 (see Chart 10.b). Conversely, access to financing appears to have remained largely unchanged for large enterprises between April 2022 and March 2023.

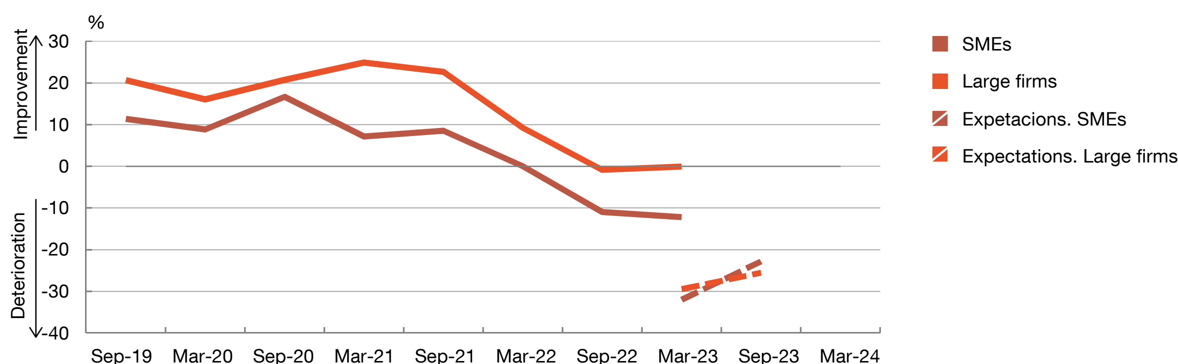
— According to the SAFE, smaller, younger and more vulnerable firms have had greater difficulties in obtaining financing (see Box 1).

Chart 10

10.a Change in credit standards for loans to NFCs. BLS (a)



10.b Change in firms' perceived bank loan availability. SAFE (b)



SOURCES: ECB and Banco de España.

a Percentage of banks reporting a tightening less percentage of banks reporting an easing.
b Percentage of SMEs reporting an improvement less percentage of SMEs reporting a deterioration.

11 Firms' demand for bank credit appears to have declined

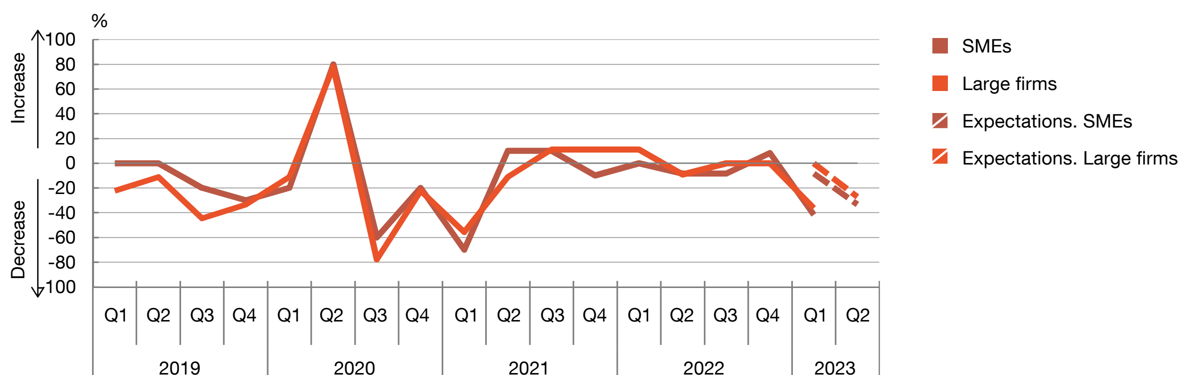
— In the BLS, banks reported a lower demand for credit across all firm sizes in 2023 Q1 (see Chart 11.a).

— This fall would mainly be due to higher interest rates and lower financing needs for fixed asset investment. Banks expect this trend to continue in 2023 Q2.

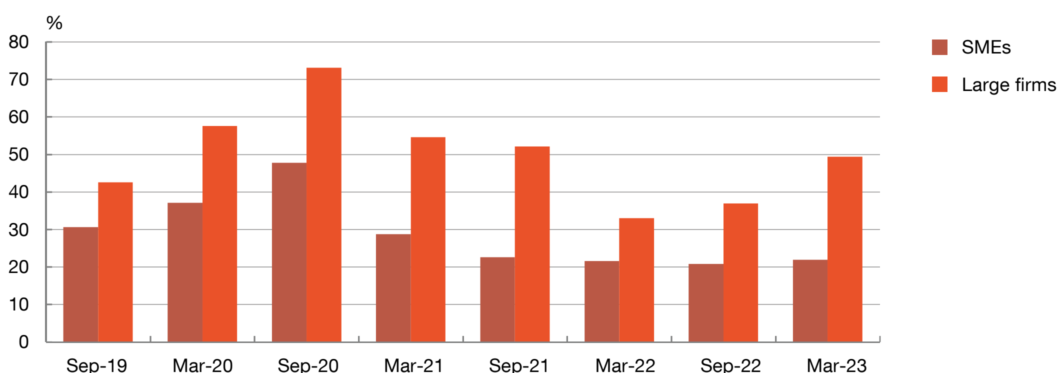
— However, the latest SAFE information – for the period October 2022 to March 2023 – does not show a decline in loan applications from SMEs or large enterprises (see Chart 11.b). The different responses of banks and firms could be explained, at least in part, by the different period to which they refer. In any event, the share of SMEs that applied for a bank loan between October 2022 and March 2023 remained low.

Chart 11

11.a Change in NFCs' demand for bank loans. BLS (a)



11.b Firms applying for bank loans. SAFE



SOURCES: ECB and Banco de España.

a Percentage of banks reporting an increase less percentage of banks reporting a decrease.

12 The decline in credit supply and demand has led to a significant decrease in new financing raised by firms

— The decline in the demand for credit, along with the greater difficulty in accessing it, has translated into a significant decrease in new financing raised by firms via bank loans and debt securities since September 2022 (see Chart 12.a).

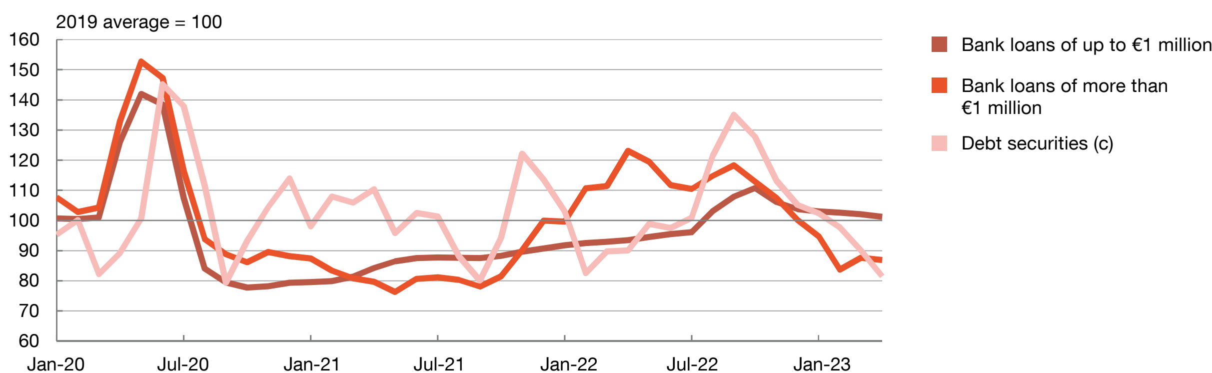
— The slowdown in bank financing is sharper for loans of more than €1 million.

— The fall in funds raised through debt securities is due to lower issues with maturities of up to one year, while those with longer maturities increased slightly, reversing the trend observed at the start of the monetary tightening cycle, against a background of greater stability in financing costs in recent months.

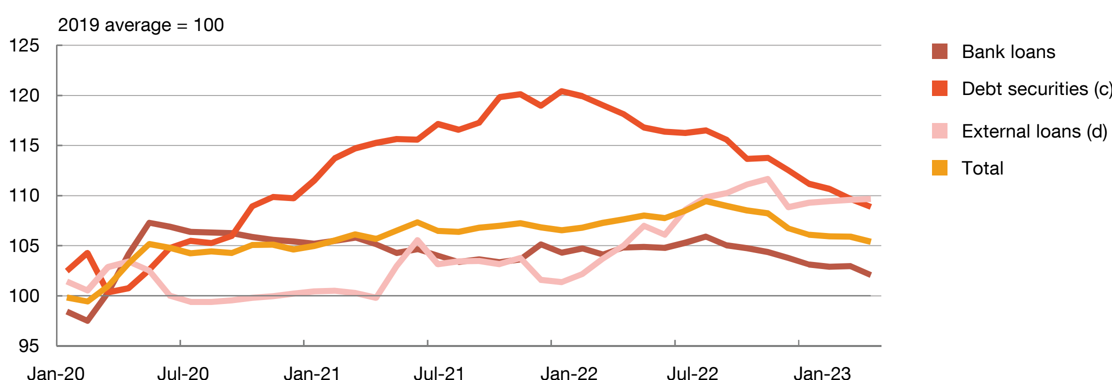
— The decline in the flow of new transactions has led to a reduction in firms' outstanding debt balance. However, this balance remained above pre-pandemic levels (see Chart 12.b).

Chart 12

12.a New financing raised by NFCs (a)



12.b Adjusted financing balances (b)



SOURCE: Banco de España.

a Three-month cumulative seasonally adjusted flows. Due to the lack of available data on renegotiations by loan amount, the figures include renegotiations of previously arranged loans.
b The adjusted balance is calculated by accumulating seasonally adjusted financing flows starting from the outstanding balance at December 2018, with the net flow calculated as the difference between new loans and repayments made.
c Including issues by resident and non-resident financial subsidiaries of NFCs in Spain.
d Excluding net issues of debt securities by non-resident subsidiaries of NFCs in Spain.

13 Non-financial corporations' (NFCs) turnover continued to increase rapidly in 2023 Q1

— According to the Spanish Tax Revenue Service (AEAT, by its Spanish acronym),[3] the nominal value of sales increased by 11% in 2023 Q1. This growth was somewhat more moderate than that recorded in both the same period of 2022 and the year as a whole (22.9% and 20.8%, respectively). Sales increased across all sectors, albeit in almost all cases somewhat less so than a year earlier (see Chart 13.a).

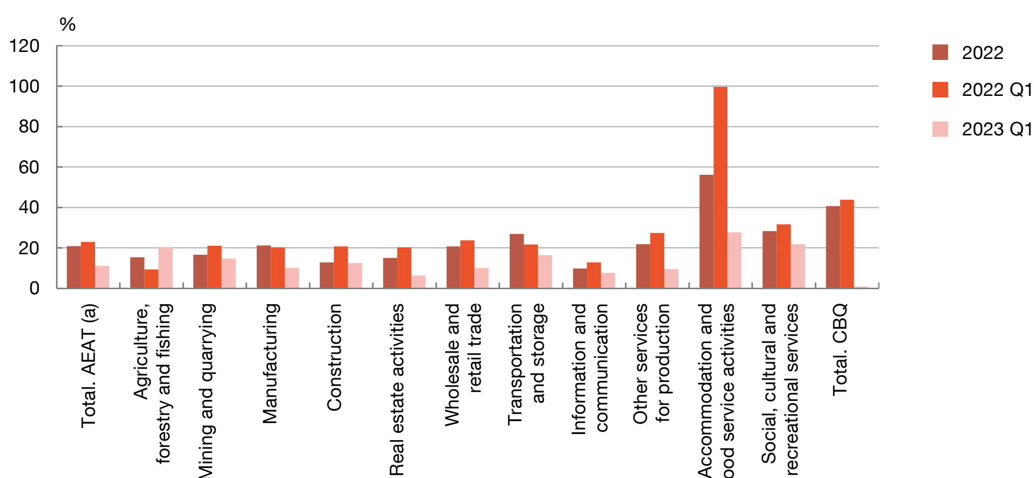
— The Central Balance Sheet Data Office Quarterly Survey (CBQ)[4] points to much more subdued sales growth between January and March (of only 0.7%). However, this figure is strongly influenced by the performance of a number of large energy sector firms, a sector of activity not included in AEAT data. The median sales figure, which better reflects developments at most firms, recorded a year-on-year increase of 6.2%.

— Other sectors with high CBQ coverage saw increases in sales ranging from 4% to 7%.

— Qualitative information from the Banco de España Business Activity Survey (EBAE, by its Spanish acronym) points to greater turnover buoyancy in 2023 Q2.

Chart 13

13.a Sales. Spanish NFCs. Year-on-year rates of change



SOURCES: AEAT and Banco de España.

a Excludes the energy, education, health, public administration and financial and insurance activities sectors.

3 The AEAT has data on just over one million firms. See statistics on sales, employment and wages at large firms and SMEs at https://sede.agenciatributaria.gob.es/Sede/datosabiertos/catalogo/hacienda/Informe_Ventas_Empleo_y_Salarios_en_Grandes_Empresas_y_Pymes.shtml.

4 The CBQ contains information on the 916 (mainly large) firms that had reported their 2023 Q1 data by 15 June. The sample represents 12.1% of the gross value added (GVA) of the entire NFC sector.

14 Average margins on sales appear to have picked up in 2023 Q1, albeit unevenly across sectors

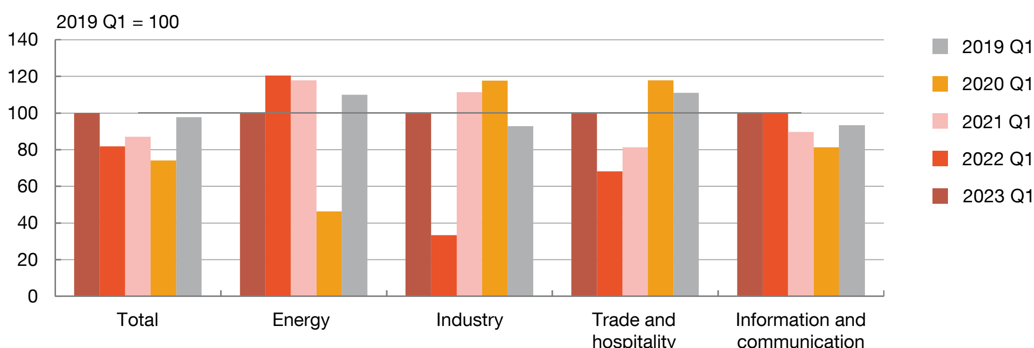
— According to the CBQ, the average margin on sales, calculated as the ratio of gross operating profit (GOP)[5] to net turnover, rose in 2023 Q1 with respect to the same period of 2022, reversing the fall of a year earlier (see Chart 14.a).

— By sector there was considerable heterogeneity. The energy sector saw the greatest increase, which largely offset the sharp fall of a year earlier, largely due to the performance of the sub-sector of free-market electricity and natural gas suppliers. Many of these companies were negatively affected in 2022 by the increase in energy costs, as they could not fully pass it on to their customers due to the existence of contracts with fixed prices in the short term. Their margins recovered as they updated their selling prices and their costs decreased.

— In the information and communication sector, the average margin on sales increased, putting an end to the downward trend of recent years. Conversely, in industry it declined, driven by the oil refining sub-sector. Excluding it, margins increased, after the fall recorded a year earlier, reflecting the difficulties faced by many firms in this sector in passing on the increase in their costs to customers. Lastly, in the trade and hospitality sector, margins fell slightly following the rise in 2022.

Chart 14

14.a Margin on sales. Breakdown by sector. CBQ (a)



SOURCE: Banco de España.

a Defined as GOP / Net turnover. Calculations based on quarterly flow.

5 GOP is obtained by subtracting input and personnel costs from output.

15 Against this backdrop, firms' operating surplus continued to grow, although with significant sectoral heterogeneity

— According to the CBQ, GOP grew at an annual average rate of 32.8% in 2023 Q1, up from 20.4% a year earlier (see Chart 15.a).

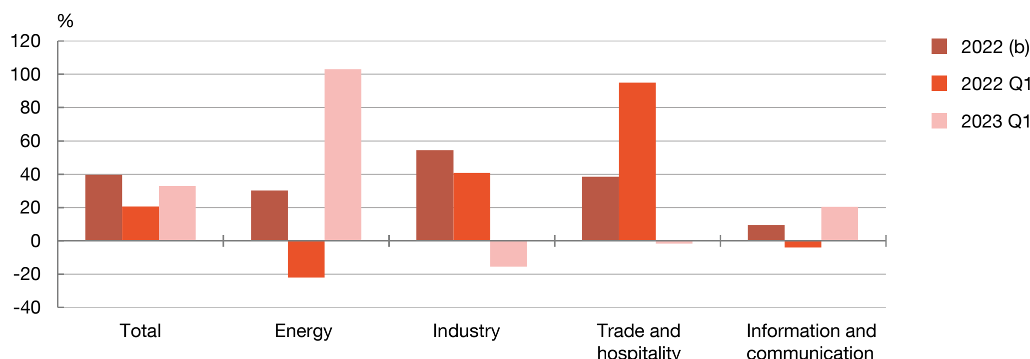
— However, the sectoral breakdown is highly uneven. GOP grew sharply in the information and communication sector (20.3%) and, above all, in the energy sector (103%). The sharp rise recorded by energy firms was driven by the positive performance of sales margins, discussed in the previous page.

— Conversely, GOP fell by 1.7% in the trade and hospitality sector and to a greater extent (by 15.6%) in the industrial sector, following the sharp rises of a year earlier, prompted by the expansionary behaviour of the oil refining sub-sector in 2022. GOP decreases between January and March 2023 have been concentrated precisely in this sub-sector, together with the chemical industry; meanwhile, the other industrial sub-sectors have seen increases.

— In any event, it should be borne in mind that these results are based on the CBQ sample, which comprises a small number of generally large firms. The qualitative information from the SAFE shows smaller firms' profits performed worse.

Chart 15

15.a GOP. Year-on-year rate of change. CBQ (a)



SOURCE: Banco de España.

a GOP is defined as operating income less operating expenses and personnel costs.
b Calculated as the weighted average of quarterly data.

16 However, the higher average cost of debt is beginning to dampen growth in profit after interest

— According to the CBQ, the ratio approximating the average cost of financial debt rose to 2.3% in 2023 Q1, up 0.8 pp on a year earlier. The sectoral breakdown shows broad-based increases of between 0.4 pp and 1.4 pp.

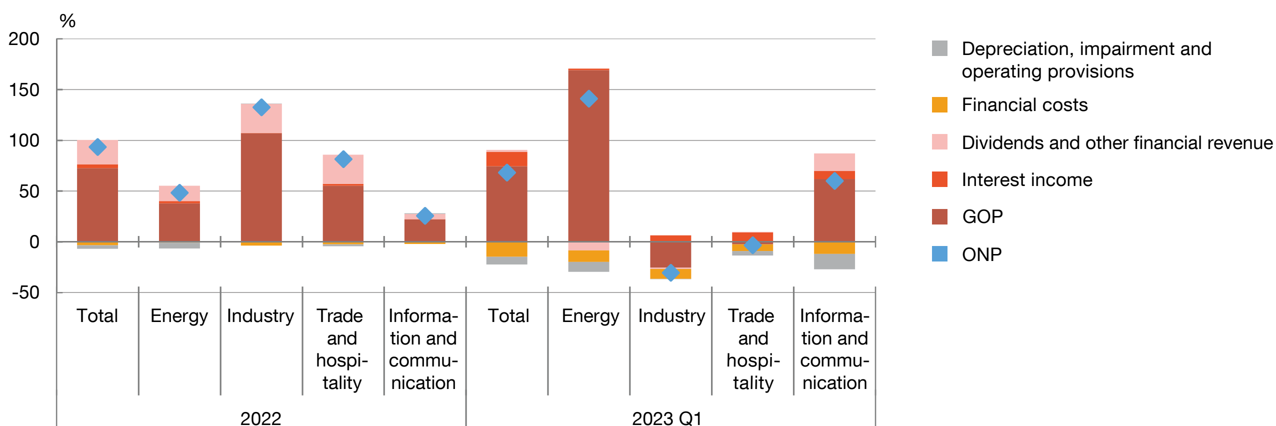
— In most sectors, the rise in the average cost of outstanding debt has contributed to curbing the growth in profit after interest, which is approximated by ordinary net profit (ONP).[6] Specifically, in 2022 net interest expenses (expenses less income) had barely any impact on growth in ONP, whereas in 2023 Q1 they curbed year-on-year ONP growth by between 3.3 pp and 9.9 pp, depending on the sector (see Chart 16.a).

— The depreciation, impairment and operating provisions item also tempered ONP growth in most sectors. Conversely, dividends received and other financial revenue made a positive contribution.

— As a result, the CBQ data show ONP growth of 68.1% in 2023 Q1. The sectoral breakdown reveals heterogeneity, with ONP rising in information and communication (59.7%) and energy (140.8%), but falling in industry (30.8%) and in trade and hospitality (3.7%). In industry, the contraction in ONP was concentrated in the sub-sectors of oil refining, chemicals and computer and electronic products.

Chart 16

16.a Year-on-year ONP growth (a). Contribution by components. CBQ



SOURCE: Banco de España.

a ONP is GOP plus net financial revenue less net depreciation, impairment and operating provisions.

6 ONP is calculated as GOP plus financial revenue (primarily from interest and dividends received), less financial costs (mainly interest expenses) and less depreciation and operating provisions.

17 Higher ordinary profit translated into corporate profitability gains

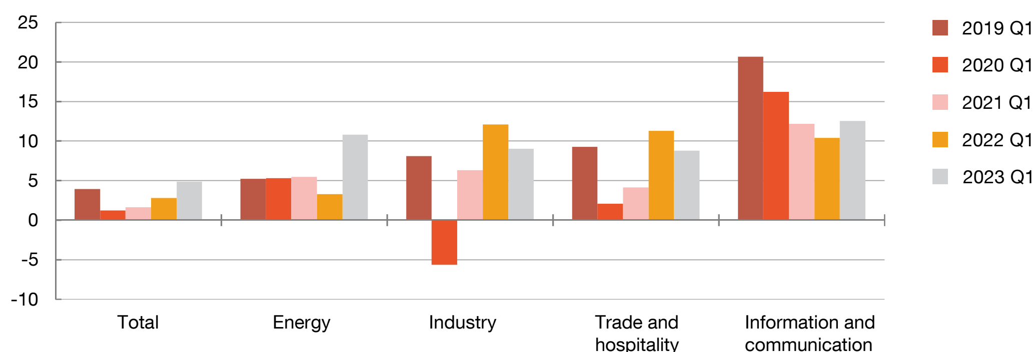
— On CBQ data, in 2023 Q1 return on equity (ROE)[7] stood at 4.8%, up by 2 pp on the same quarter in 2022 and slightly above pre-pandemic levels (see Chart 17.a).

— The sectoral breakdown reveals uneven profitability developments. For instance, profitability was up in the energy and information and communication sectors, but down both in the trade and hospitality sector and in industry. With the exception of information and communication, the 2023 Q1 figures were above or very close to those of 2019 Q1.

— In 2023 Q1, median ROE – which captures the representative firm's performance – was up even more sharply than average ROE, climbing by 2.6 pp on a year earlier to 8% and also outstripping the 6% recorded in 2019 Q1.

Chart 17

17.a Return on equity. CBQ (a)



SOURCE: Banco de España.

a Ratio defined as ONP / equity.

7 ROE is calculated as ONP / equity.

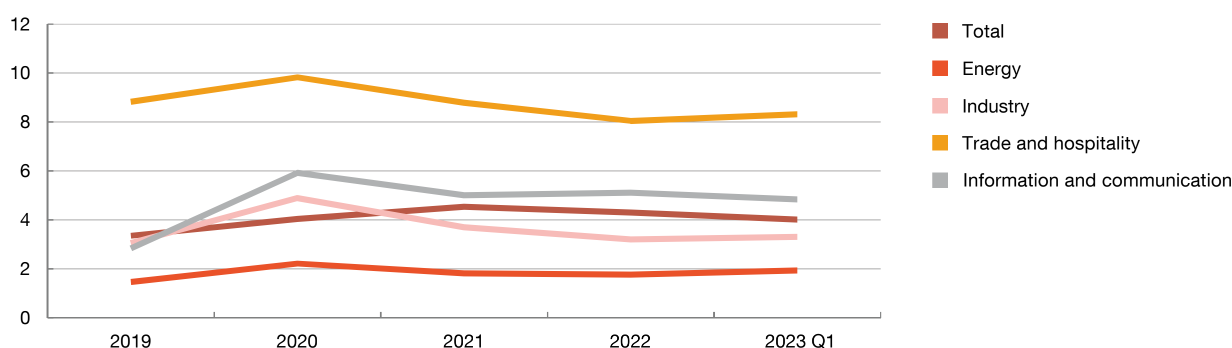
18 Firms' liquidity buffers have held stable over recent months and remain above 2019 levels

— According to the CBQ, firms' average liquidity ratio[8] was virtually unchanged in 2023 Q1. The sectoral breakdown reveals some heterogeneity, with this ratio exceeding 2019 levels virtually across the board (see Chart 18.a).

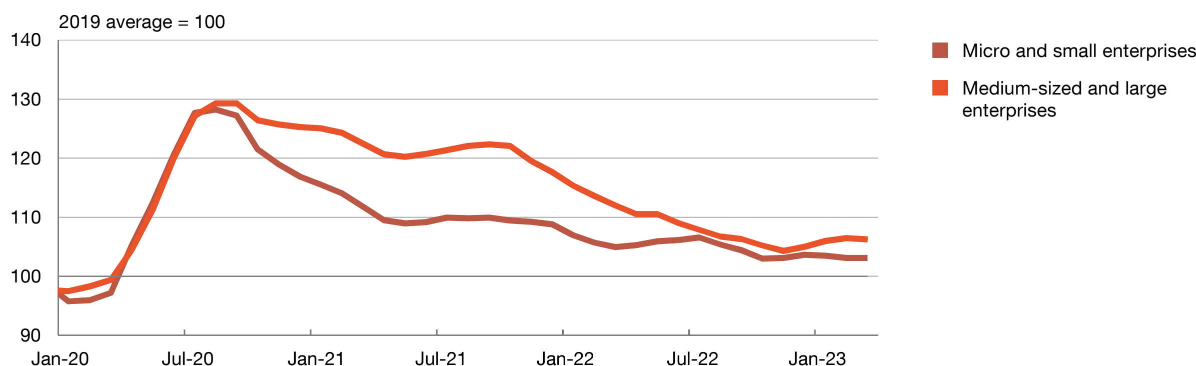
— Also stable was the ratio of firms' undrawn credit to outstanding debt, which stood just above 2019 levels, as it did at the start of the year (see Chart 18.b). The proportion of firms with this type of liquidity buffer is higher among larger firms (26%) than among their smaller counterparts (19%).

Chart 18

18.a Liquidity ratio. Sectoral breakdown. CBQ (a)



18.b Availability of bank credit lines. Undrawn credit as a proportion of total bank debt (b)



SOURCE: Banco de España.

a Ratio defined as cash and cash equivalents / total assets.
b Median of the ratio of undrawn credit to total drawn and undrawn credit for different firm sizes. This ratio is obtained for the sub-sample of firms with undrawn credit based on the monthly information drawn from the Banco de España's central credit register (CCR). Firms are classified by size based on the information available in the Banco de España's business register (DIBE). The three-month moving average is shown to smooth the series, with normalisation to the 2019 average.

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8 The liquidity ratio is calculated as cash and cash equivalents / total assets.

19 Firms' debt-to-income ratio declined further, although their debt burden has risen slightly

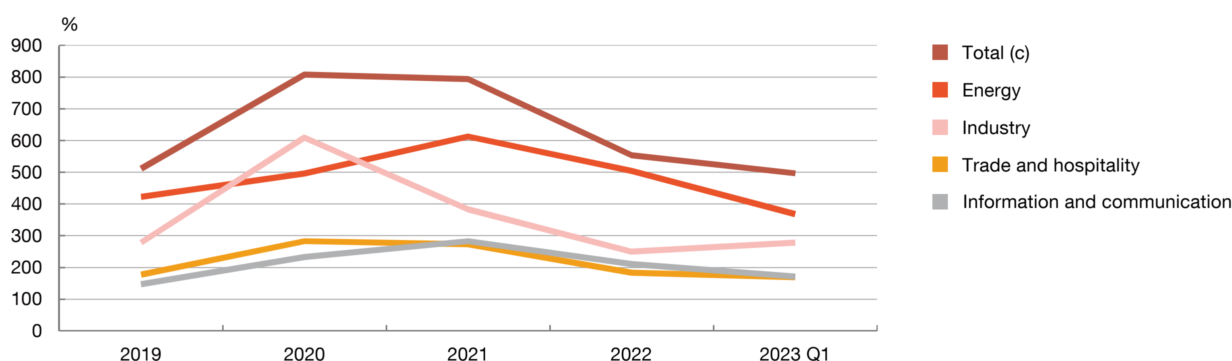
- In the period January-March 2023, the average ratio of debt to ordinary profit (GOP plus financial revenue) of CBQ firms declined further, continuing the trend of recent years. This is consistent with the more aggregate national accounts data and was driven by both improved profits and lower debt (see Chart 19.a).

- The sectoral breakdown shows declines across all sectors of activity, with the exception of industry where there was a moderate increase.

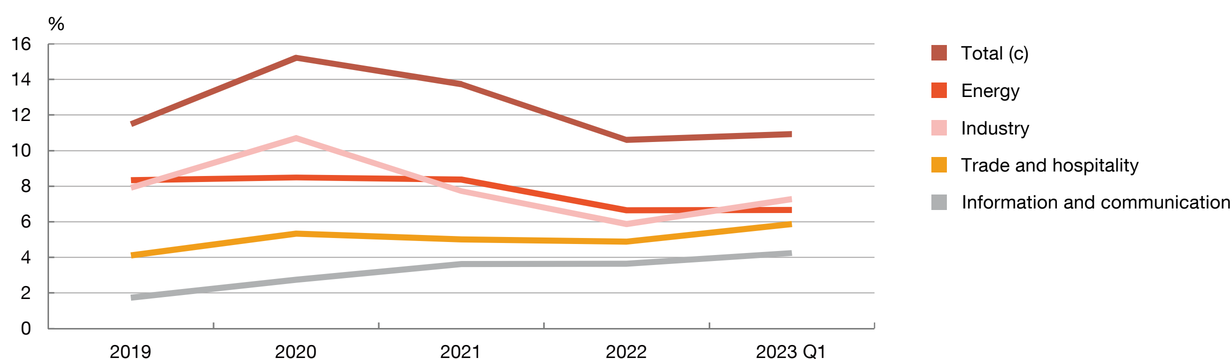
- Conversely, the average debt burden ratio (the ratio of interest expenses to ordinary profit) climbed slightly in 2023 Q1, reversing the downward trend of previous years (see Chart 19.b). This owed to higher financial costs linked to the increase in the average cost of debt, which slightly outpaced the growth in ordinary profit. According to the sectoral breakdown, this ratio rose moderately across all sectors.

Chart 19

19.a Debt ratio. Sectoral breakdown. CBQ (a) (b)



19.b Interest burden. Sectoral breakdown. CBQ (b) (d)



SOURCE: Banco de España.

a Ratio defined as interest-bearing borrowing / (GOP + financial revenue).
b The revenue and costs included in these ratios are calculated based on four-quarter cumulative amounts.
c Includes, in addition to the sectors shown, transportation and storage, activities with limited representation in the sample (e.g. construction) and other services, which include holding companies (which have higher debt and financial burden ratios, leading to the total figure being higher than the sum of the other sectors shown).
d Ratio defined as interest on borrowed funds / (GOP + financial revenue).

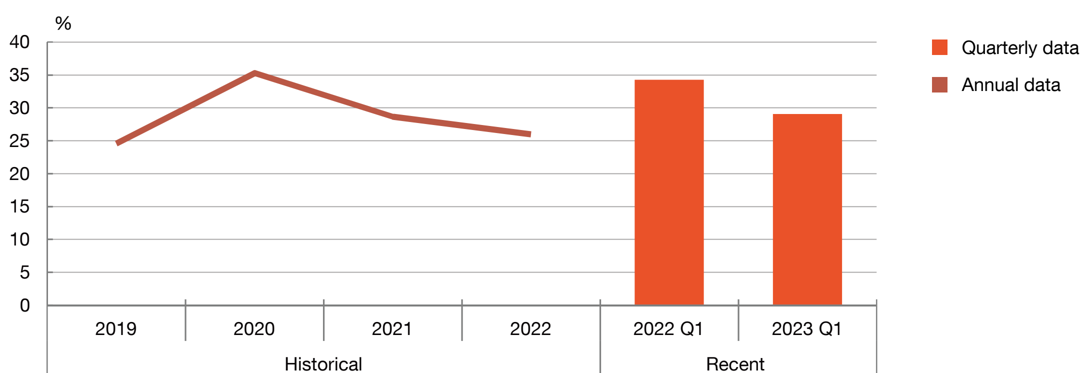
20 Against this background, in 2023 Q1 the percentage of financially vulnerable firms declined, returning to pre-pandemic levels

— In 2023 Q1, the percentage of CBQ firms with negative ONP declined to 29%, well below the 34.3% of a year earlier (see Chart 20.a).

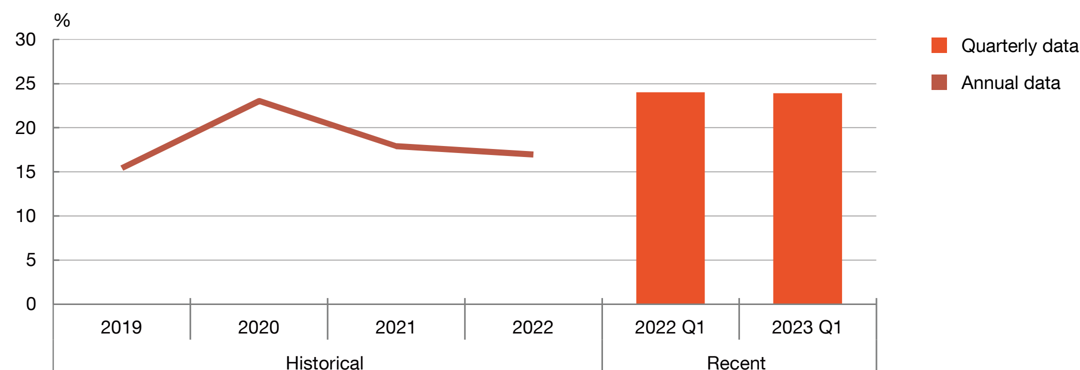
— The percentage of highly-indebted firms – those with a net debt-to-earnings ratio higher than 10 or that are loss-making – also declined in 2023 Q1, albeit very slightly, down by 0.1 pp on a year earlier (to 23.9%) (see Chart 20.b).

Chart 20

20.a Percentage of firms with negative ONP. CBQ



20.b Percentage of highly-indebted firms. CBQ (a)



SOURCE: Banco de España.

a Net financial debt is defined as interest-bearing borrowing less cash and cash equivalents. Highly-indebted firms are those with a ratio of net financial debt / (GOP + financial revenue) higher than 10, or with positive net financial debt and zero or negative profits.

21 Firms' credit quality shows no signs of deterioration

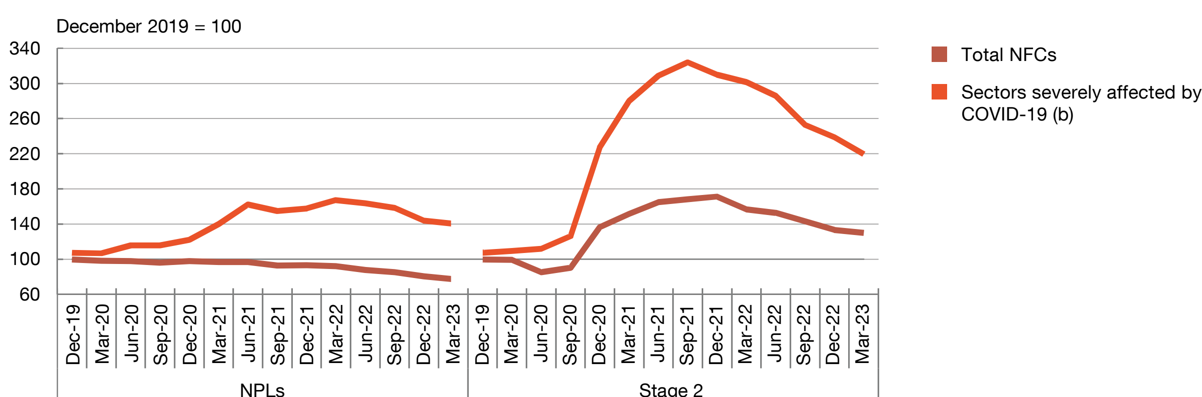
- Non-performing loans (NPLs) to NFCs declined further, falling by 14.9% year-on-year in March, 10 pp more than a year earlier (see Chart 21.a). The sharpest decreases came in the sectors hardest hit by the pandemic (16.9%), whose ability to pay improved as economic activity bounced back once the restrictions on movement were lifted.

- The significant reduction in Stage 2 loans also continued, with a drop of 17.1% in March 2023. The sectors most affected by the pandemic recorded the largest declines (28.3%).

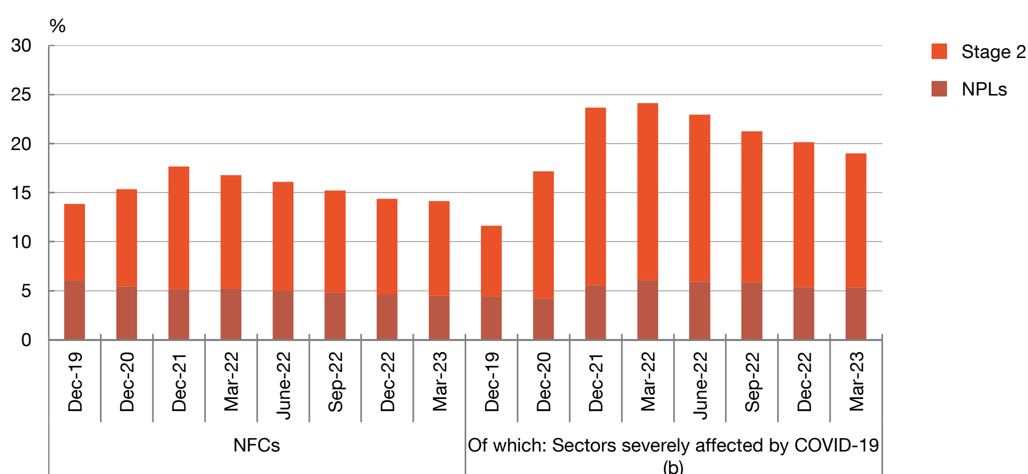
- As compared with a year earlier, in March 2023 the NPL ratio was down by 0.7 pp (to 4.5%) and the Stage 2 ratio by 1.9 pp (to 9.7%) (see Chart 21.b). This same pattern was repeated in the sectors hardest hit by the pandemic, where the NPL ratio fell to 5.3% and the Stage 2 ratio to 13.7%.

Chart 21

21.a NPLs and Stage 2 loans to NFCs (a)



21.b NPL and Stage 2 ratios for NFCs



SOURCE: Banco de España.

a Loans are classified as non-performing either when they are in default, i.e. there are amounts more than 90 days past due, or else when there are indications that the loan is unlikely to be paid (e.g. the equity of a firm is negative). Stage 2 loans are those for which the credit risk has risen significantly since they were originated, but which do not meet the conditions for classification as non-performing. Generally, they include loans with amounts more than 30 days past due.

b Lending to the hardest-hit sectors is proxied by that to the sectors with a fall in turnover of more than 15% in 2020, which can be identified in the FI-130 regulatory return. In particular, the most affected sectors include hospitality, manufacture of refined petroleum products, social services and recreation, transporation and storage and manufacture of transport equipment.

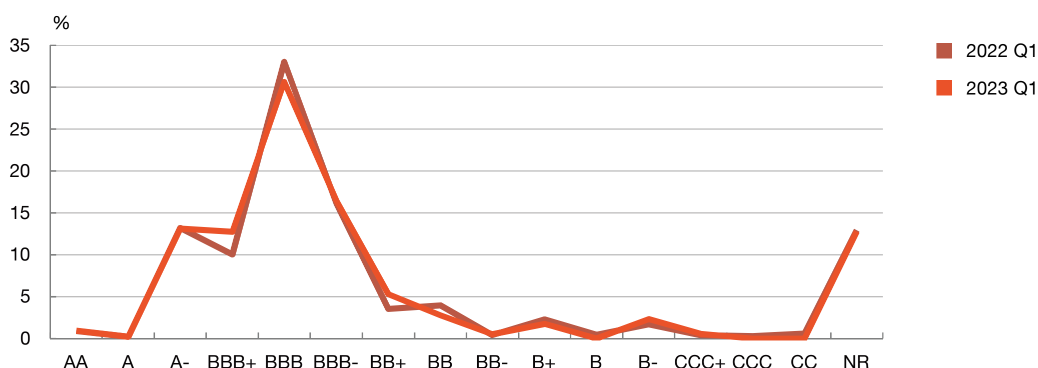
22 There was no deterioration in the credit rating of bonds issued by Spanish companies ...

— In 2023 Q1, the credit rating distribution of the outstanding bonds issued by Spanish NFCs and their subsidiaries, both resident and non-resident, was virtually unchanged on a year earlier. This is because there have been practically no rating changes. Nor have the ratings agencies placed Spanish firms on negative watch.

— That said, more than 47% of the outstanding bonds have a credit rating of BBB or BBB- (see Chart 22.a), i.e. just above the high-yield category (BB+ or lower). Therefore, the current credit quality structure of Spanish corporate bonds represents a vulnerability in the event of future adverse shocks, which could result in a significant share of NFC bonds losing their investment grade rating. This would significantly drive up financing costs.

Chart 22

22.a Breakdown of the outstanding balance of Spanish NFC bonds. By credit rating (a)



SOURCES: ECB, Eikon and Banco de España.

a Shown is the best credit rating assigned by the rating agencies. The results are presented based on the scale used by S&P and Fitch; the ratings used by Moody's and DBRS are standardised to that scale. NR = Not Rated. Data for ratings and outstanding bonds as at 31 March 2022 and 31 March 2023. The outstanding balance of a given firms' bonds is calculated based on those issued by the parent and by its resident and non-resident subsidiaries.

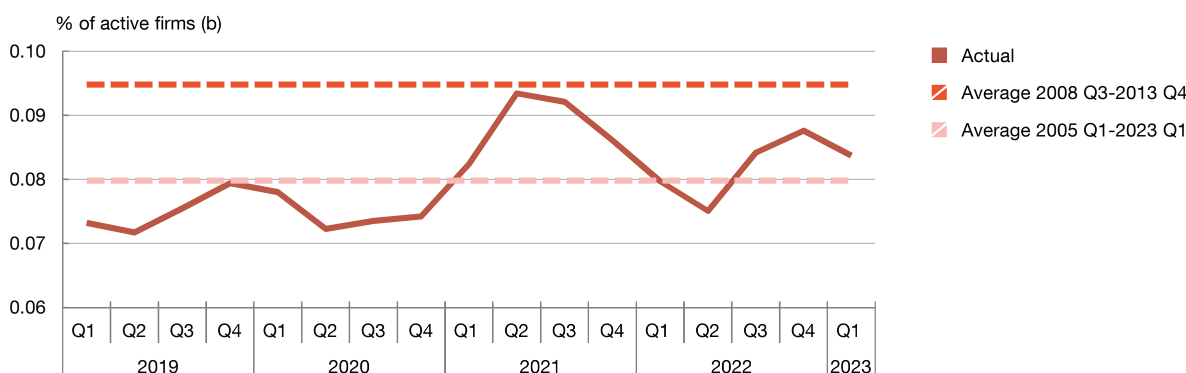
23 … nor any uptick in corporate insolvencies

- The number of firms in insolvency proceedings increased in 2022 H2, influenced by the end of the insolvency moratorium (see Chart 23.a).[9] In 2023 Q1, the insolvency rate (as a percentage of active firms) stood slightly above the average since 2005, but below the rates observed during the global financial crisis.

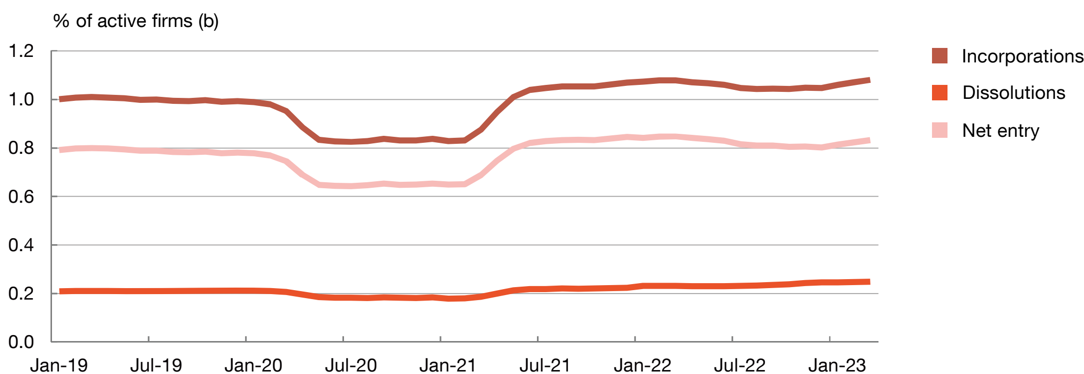
- The liquidation rate has risen in recent months but remains very low (0.25% of all active firms in April). Further, new company incorporations maintained the head of steam that followed the normalisation of activity in 2021, with the net entry rate standing at 0.83% in April, above the 2019 levels (see Chart 23.b).

Chart 23

23.a Number of insolvencies. NFCs (a)



23.b Incorporations, dissolutions and net entry of firms (c)



SOURCES: INE and Colegio de Registradores.

a Four quarter moving averages.
b The figure for total active firms is drawn from the central business directory (DIRCE) and is the sum of (i) public limited companies, (ii) limited liability companies, (iii) limited partnerships, (iv) incorporated partnerships, (v) joint ownerships and (vi) cooperatives.
c 12-quarter moving averages. The series of incorporations, dissolutions and net entry of firms (incorporations less dissolutions) is shown as a percentage of the number of active firms at 1 January of each year.

9 In April 2020, the Government approved an insolvency moratorium for all debtors, be they firms or individuals, suspending until 31 December 2020 debtors' duty to file for insolvency and preventing their creditors from filing a creditor's petition before that date. The moratorium ultimately expired on 30 June 2022.