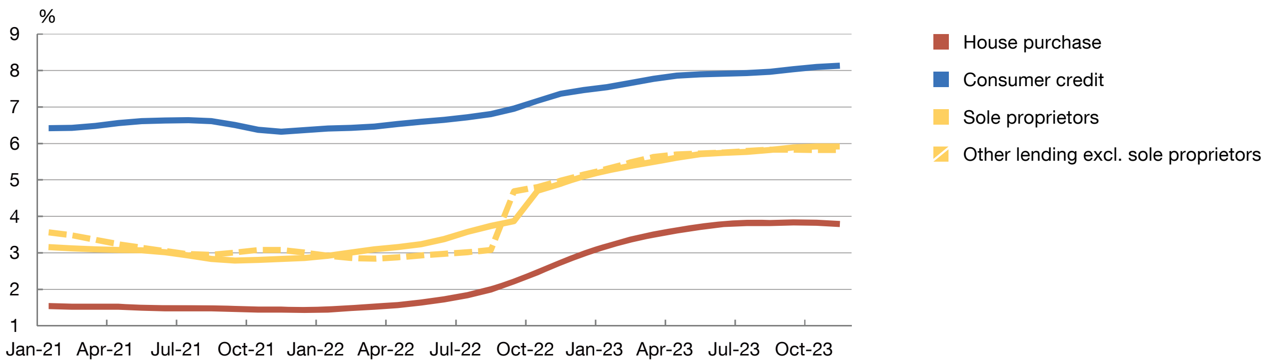
1 The cost of new financing to households continued to rise in 2023 H2, albeit at an increasingly slower pace, …

— Increases in market rates continued to be passed through to new bank loans (see Chart 1.a). However, these rate rises gradually slowed, as the monetary tightening cycle reached its peak.

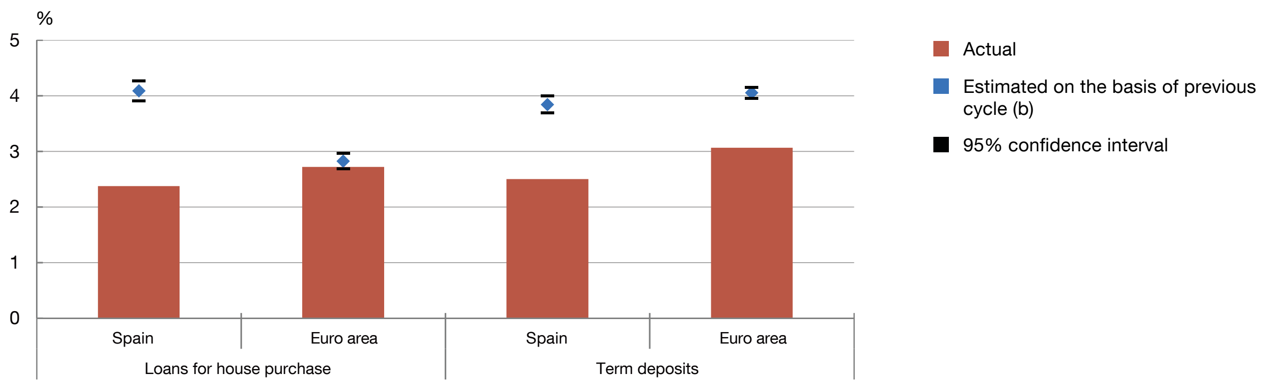
— Over the entire tightening period (since December 2021), the increase in interest rates on loans for house purchase has been weaker than might be expected based on historical regularities. This has not been the case for the euro area as a whole (see Chart 1.b). This lower pass-through in Spain could be related, among other factors, to the limited increase in the average household deposit rate in the current cycle.

Chart 1

1.a Cost of new bank lending (a)



1.b Cumulative change in bank interest rates. December 2021 to November 2023 (a)



SOURCES: ECB and Banco de España.

a Bank interest rates are narrowly defined effective rates, 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 had been passed through similarly to the previous cycle, according to standard error-correction models estimated for the period January 2003-August 2007. A model is estimated for short-term (up to one year) and long-term (more than one year) interest rates. The chart depicts the composite interest rate weighted by the volume of new lending.

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2 … as loan supply and demand continued to decrease

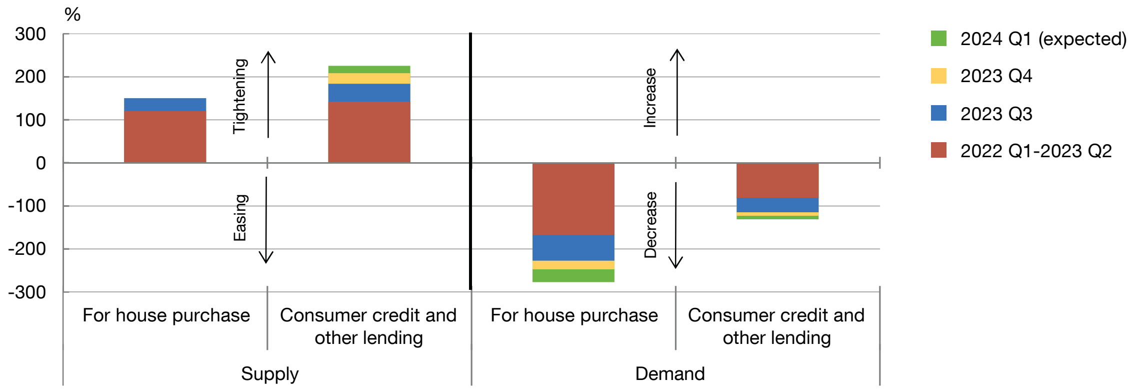
- The Bank Lending Survey (BLS) shows that credit standards for lending to households tightened across the board in 2023 Q3, while in Q4 they only tightened slightly in the consumer credit and other lending segment (see Chart 2.a).

- The BLS also indicates that loan demand decreased in 2023 H2 and is expected to continue doing so in early 2024, more sharply in the case of loans for house purchase. The decline in applications for consumer credit and other lending could be linked to the other lending segment, i.e. loans to the self-employed and non-profit institutions serving households, debt consolidation and loans for education purposes.

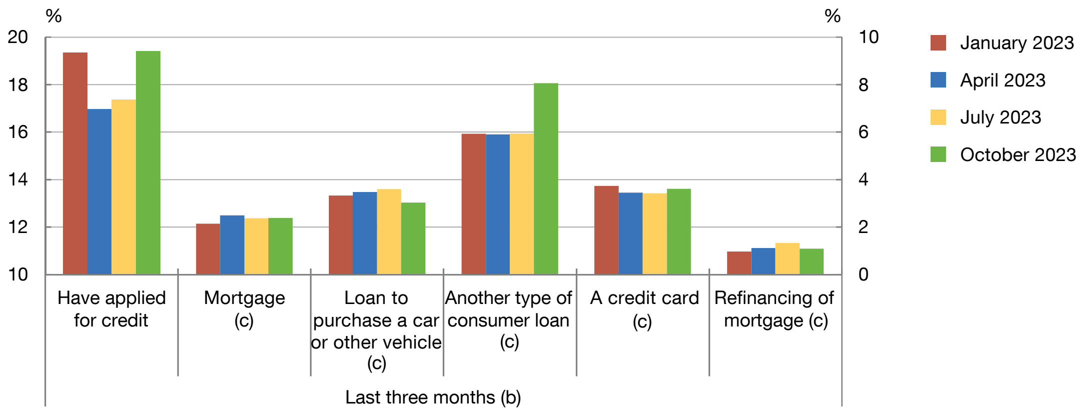
- The European Central Bank's (ECB) October Consumer Expectations Survey (CES) shows an increase in the percentage of households that applied for loans in Q3, due mainly to the greater number of applications for consumer loans unrelated to the purchase of a car or other vehicle (see Chart 2.b). Mortgage application numbers were low.

Chart 2

2.a Cumulative change in credit standards and demand for bank loans to households in Spain. BLS (a)



2.b Spanish households' demand for lending. CES



SOURCES: ECB and Banco de España.

a Percentage of banks reporting a tightening (an increase in the case of demand) less percentage reporting an easing (a decrease in the case of demand).
b Percentage of households that in the last three months have applied for: a mortgage to purchase a house or other real estate or a loan for home renovation, a loan to purchase a car, motorbike or other vehicle, another type of consumer loan or instalment debt, a leasing contract, a credit card or an account with an overdraft, a loan for education purposes, an increase in the limit of an existing loan and refinancing of their current mortgage.
c Right-hand scale.

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3 Loans for house purchase have remained weak over the past few months …

— In recent months, the flow of loans for house purchase has held relatively stable in Spain and the euro area, following its decline since mid-2022, which was sharper in the euro area (see Chart 3.a). In Spain the ratio of new mortgage loans to the stock of mortgage loans is relatively higher than in the euro area and exceeds its pre-pandemic level.

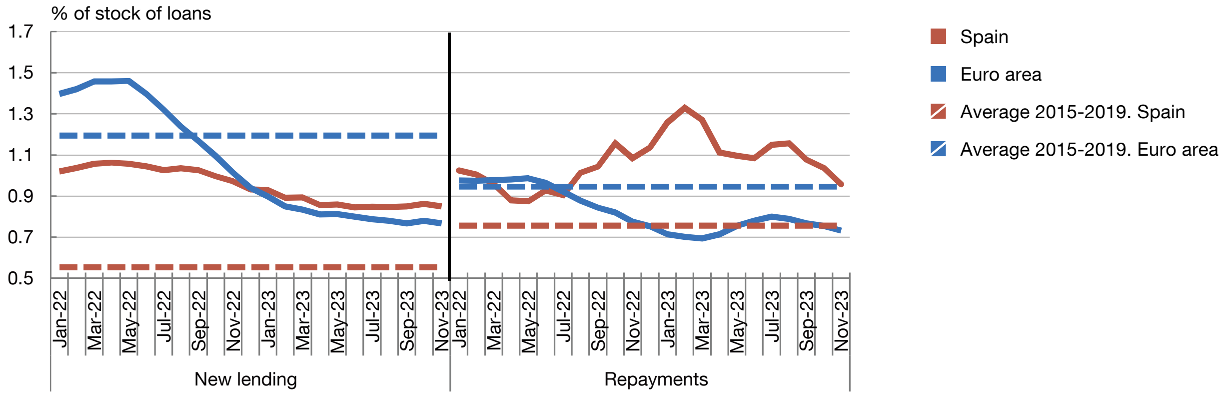
— The Central Credit Register (CCR) indicates that the weak performance of new mortgage loans in Spain is widespread across income levels, although it is more pronounced for households in postcode areas with upper quintile income, which concentrated 50% of the outstanding amount of mortgages in September 2023.

— Repayments have also been high in Spain, indicative of the incentives (in a high interest rate environment) to repay floating-rate mortgages, which account for a much higher share of the stock than the euro area average.

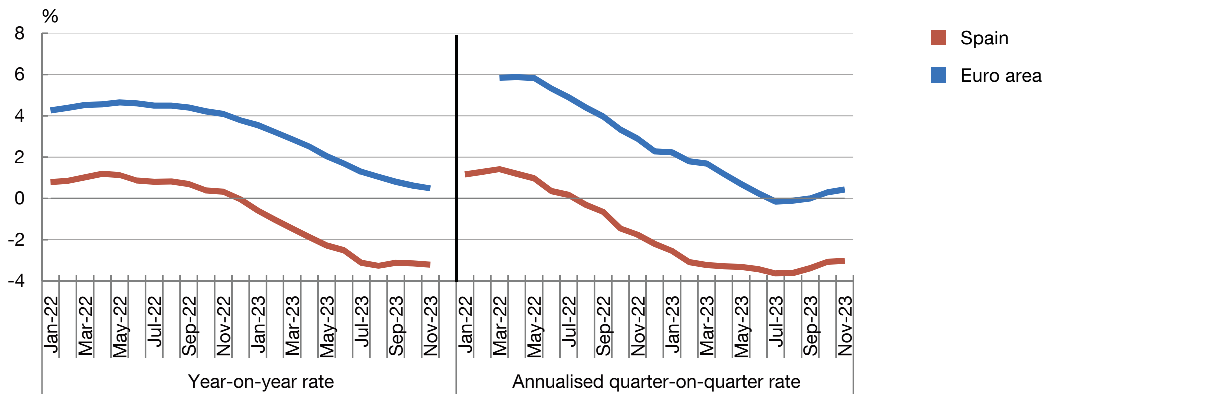
— As a result, the outstanding amount of mortgage loans has continued to contract in Spain (see Chart 3.b). The trend has been similar in the euro area, although no decreases have been recorded. However, the quarter-on-quarter rates have recovered since the summer.

Chart 3

3.a Volume of new lending and repayment of loans for house purchase (a)



3.b Outstanding amount of loans for house purchase (b)



SOURCES: ECB and Banco de España.

a Three-month average calculated using seasonally adjusted monthly data.
b Data adjusted for seasonality and securitisation. In the euro area the adjustment for securitisation is only available from December 2022.

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4 … while consumer credit has remained strong, albeit with some heterogeneity across income levels

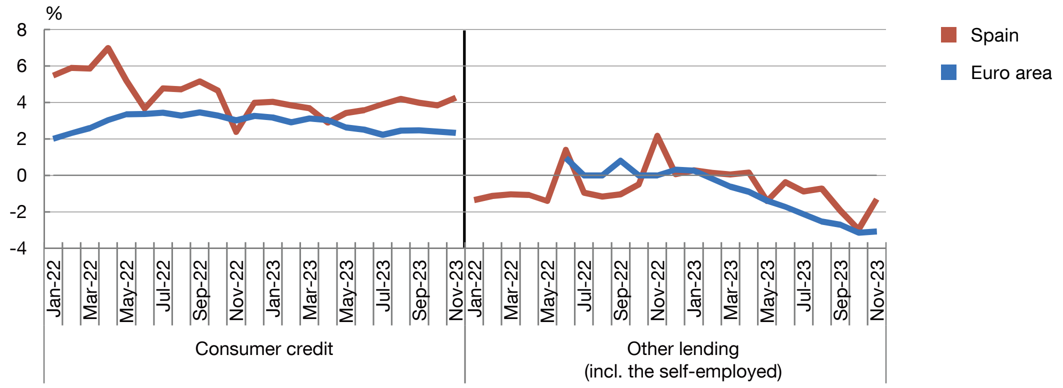
— Consumer credit in Spain (and the euro area) has continued to record positive year-on-year growth rates and strong momentum in recent quarters (see Chart 4.a). This appears to be associated with the financing of durable goods consumption.

— By contrast, other lending (i.e. not for house purchase or consumption) has continued to contract in Spain and the euro area, driven by the decline in lending to sole proprietors.

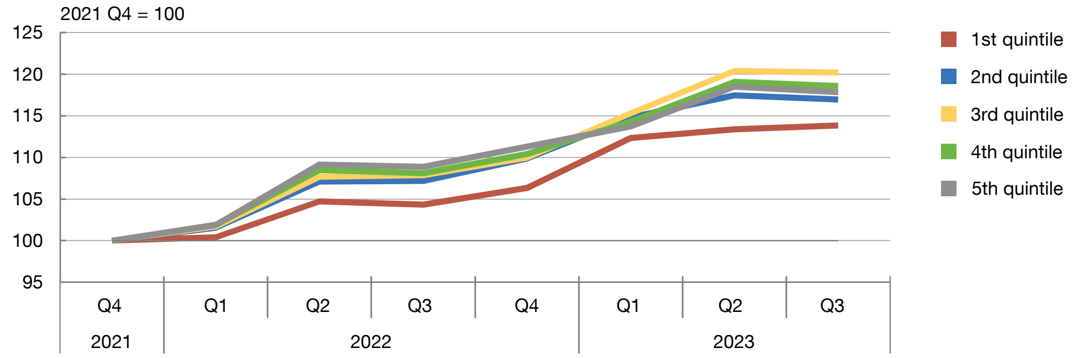
— On CCR data, over the last 18 months consumer credit has grown across the board, but more sharply in medium and high-income postcode areas (see Chart 4.b). Credit growth is due to the widespread increase in the number of new borrowers, which has been weaker in low-income postcode areas, rather than to a rise in the loans' average amount, which has decreased at a similar pace across all income brackets.

Chart 4

4.a Year-on-year rate of change of the outstanding amount of bank lending (a)



4.b Volume of new consumer credit, by income quintile. CCR (b) (c)



SOURCES: ECB and Banco de España.

a Data adjusted for seasonality and securitisation. In the euro area the adjustment for securitisation is only available from December 2022.
b The data include consumer loans and credit card financing and are not seasonally adjusted.
c Household income is proxied by the average income of the household's postcode district.

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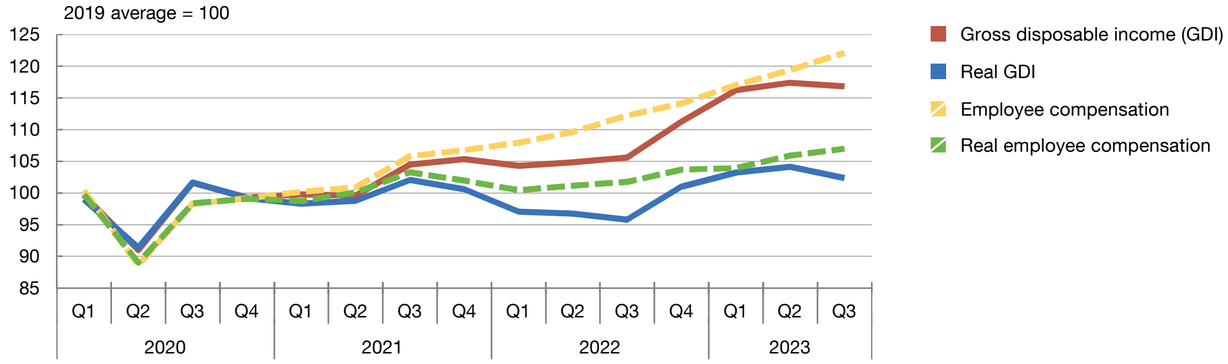
5 Employment and wage growth continued to drive household income

— In 2023 Q3 employment income continued to drive household income (see Chart 5.a). Adjusting for inflation, the year-on-year change in employee compensation stood at 5%, reaching a level around 6% above its pre-pandemic level.

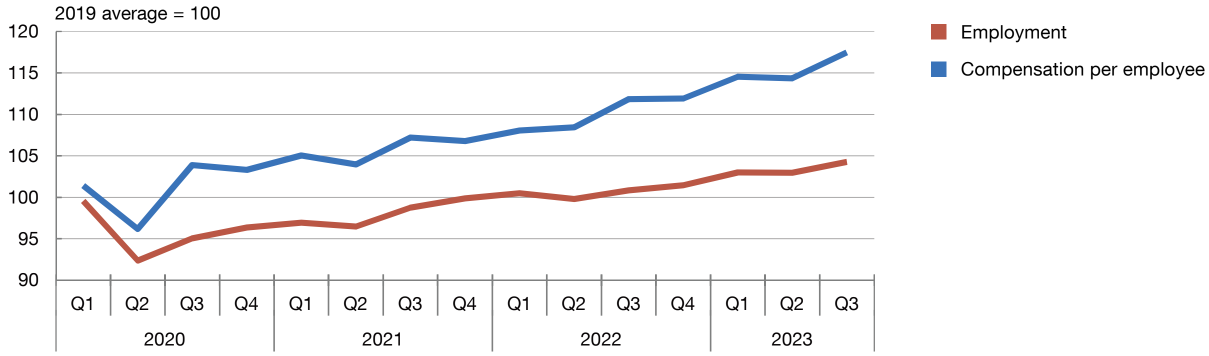
— The increase in aggregate wage income reflects both employment growth and growth in compensation per employee (see Chart 5.b). The growing contribution of foreign national workers to these developments should also be noted, in a setting in which foreign residents are driving population growth and growth in the number of households in Spain.

Chart 5

5.a Household income (a)



5.b Employment and compensation per employee (a)



SOURCES: INE and Banco de España.

a Seasonally adjusted time series. The private consumption deflator is used to obtain the real figures.

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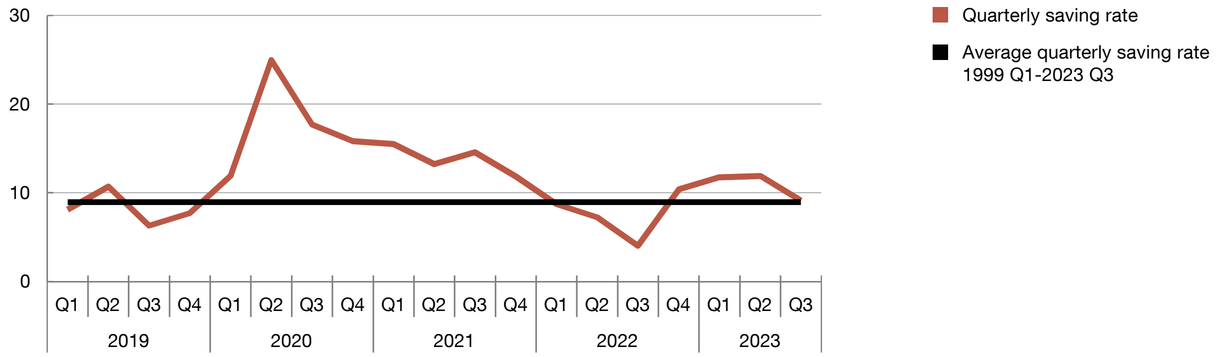
6 The household saving rate declined in 2023 Q3, while the reallocation of their portfolios to more profitable assets gathered pace

— Against the backdrop of strong nominal income, the sharp rise in consumer spending prompted a 2.8 percentage point (pp) decline in the sector's saving rate, to 9.1%. Despite this decrease, the saving rate remained slightly above its historical average (see Chart 6.a).

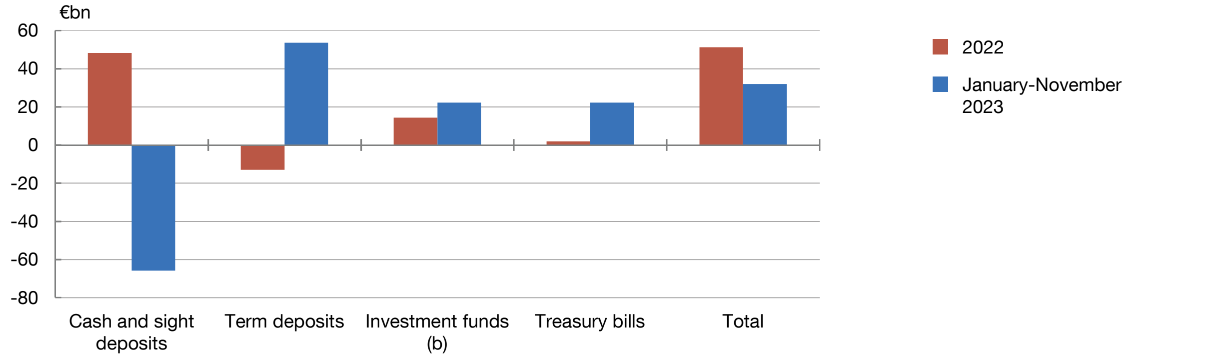
— Households have continued to increase their liquid asset holdings, while proceeding with the reallocation of their portfolios, shifting from cash and sight deposits to other liquid assets with higher expected returns, such as term deposits, Treasury bills and investment funds (see Chart 6.b).

Chart 6

6.a Spanish household saving rate (a)



6.b Cumulative net flows of liquid assets (a)



SOURCES: INE and Banco de España.

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

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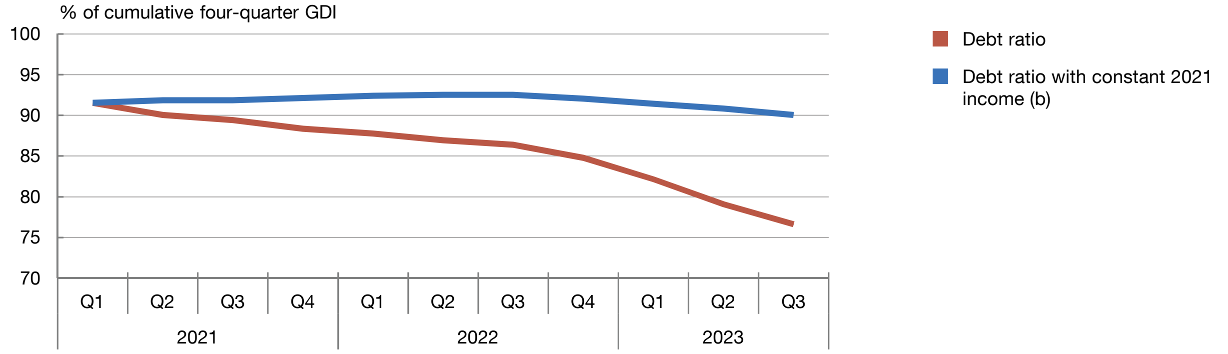
7 The average household debt ratio fell further and the gross wealth indicators improved

— Deleveraging and, above all, the effect of the rise in inflation on nominal income meant that the household debt ratio decreased to 76.6% of gross disposable income (GDI) in 2023 Q3 (see Chart 7.a), the lowest level since 2002 and 12 pp lower than the euro area average (89%).

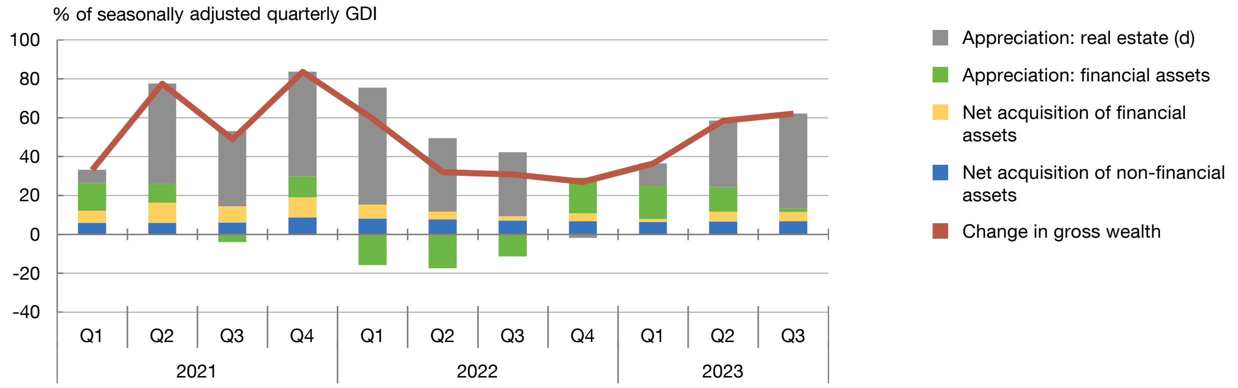
— The increase in gross household wealth picked up steam, due to both net asset purchases and asset appreciation (see Chart 7.b). Despite financing being more expensive, the year-on-year growth of nominal house prices rose to 4.5% in 2023 Q3, driven by the pick-up in new house prices (11%, the highest year-on-year rate of the last 16 years) amid supply shortages and the pass-through of past increases in the cost of building materials. Meanwhile, second-hand house prices grew strongly, at 3.2% year-on-year.

Chart 7

7.a Debt ratio (a)



7.b Change in gross wealth, by component (c)



SOURCES: INE and Banco de España.

a Seasonally adjusted outstanding amount.
b Calculated by dividing the outstanding amount by cumulative four-quarter GDI in March 2021.
c Seasonally adjusted flows.
d Only includes housing.

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8 Households' net interest burden continued to rise, although the percentage of vulnerable households grew only to a limited extent thanks to the strength of nominal income

— Households with variable-rate loans and those that have recently arranged loans faced higher interest expenses. The average cost of bank loans to households rose to 4.6% in November 2023, compared with 2.3% in December 2021.

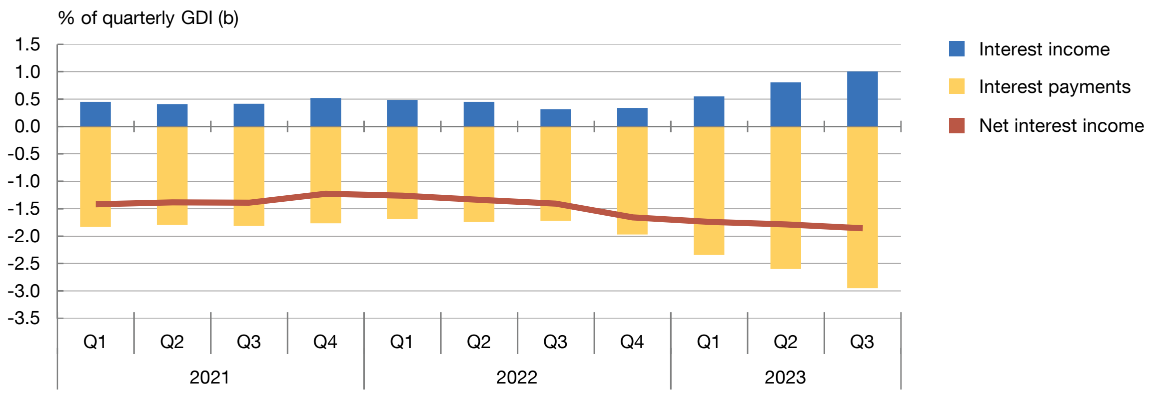
— Based on current market expectations, the transmission of monetary policy to interest payments on outstanding loans is virtually complete. Just 7% of the outstanding amount of variable-rate mortgages is exposed to an interest rate increase of 100 basis points (bp) or more between December 2023 and March 2024 (see Box 1). Conversely, nearly 10% of this mortgage segment could see their interest costs decline by at least 50 bp in the same period.

— The sector's net interest burden ratio has increased by 0.6 pp since end-2021, to stand at 1.9% of GDI in 2023 Q3 (see Chart 8.a).

— The mitigating effect of higher nominal income appears to have constrained the increase in the percentage of indebted households that are vulnerable (proxied by those who spend more than 40% of their income on debt servicing) associated with the cumulative increase in interest rates. According to estimates drawing on the 2020 Spanish Survey of Household Finances, this percentage rose from 10.5% in 2020 to 11.2% in 2023 Q3.

Chart 8

8.a Change in households' net interest burden (a)



SOURCES: INE and Banco de España.

a Seasonally adjusted income and payment flows. Calculated dividing income and payments by the quarterly GDI in the corresponding period.
b GDI excludes net interest income.

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9 Developments since March 2023 in non-performing and Stage 2 loans to households indicate subdued risk materialisation

— The stock of non-performing bank loans (NPLs) to households grew slightly (4.2%) between 2023 Q1 and Q3, driven by loans for house purchase and consumer credit. However, in September 2023 banks' stock of NPLs was still down by 7.1% year-on-year (see Chart 9.a).

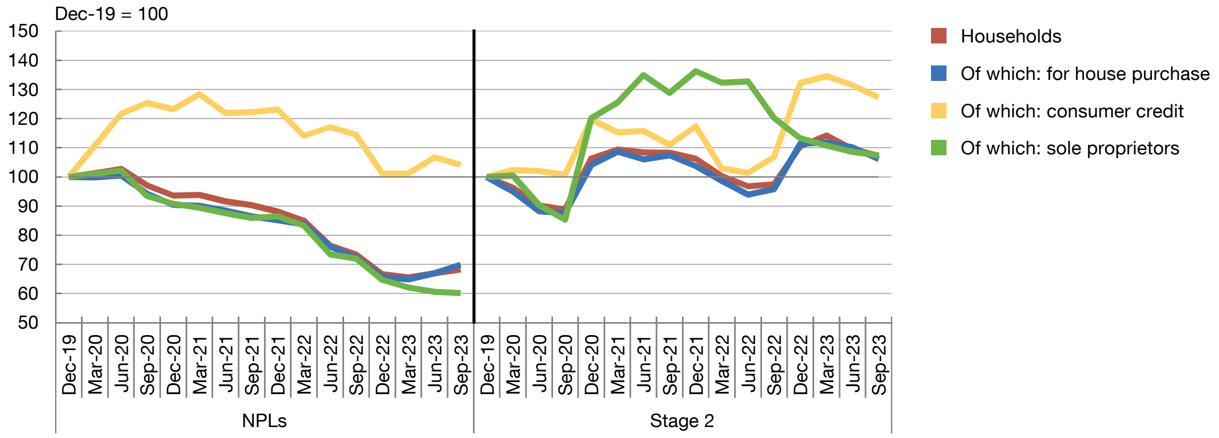
— By contrast, Stage 2 loans were down by 6.1% in the same period, with the declines widespread across all segments. Nonetheless, Stage 2 loans were still up by 10.1% on September 2022.

— In any event, the total stock of problem loans (NPLs and Stage 2 loans) to households on banks' balance sheets fell slightly between 2023 Q1 and Q3.

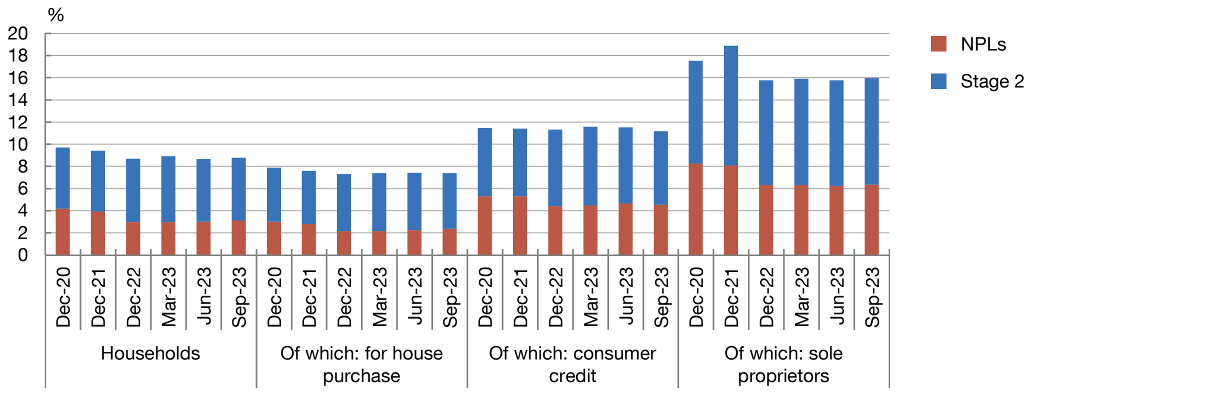
— The NPL ratio for households stood at 3.1% in September 2023, up slightly on the March figure (see Chart 9.b). Conversely, the ratio of Stage 2 loans declined somewhat compared with March, to 5.7% in September.

Chart 9

9.a Change in non-performing and Stage 2 loans to households (a)



9.b NPL and Stage 2 loan ratios. Households (a) (b)



SOURCE: Banco de España.

a NPLs and Stage 2 loans refer to the gross carrying amount of troubled assets in deposit institutions' portfolios. Loans are classified as non-performing when they are in default (there are amounts more than 90 days past due) or when there are indications that the loan is unlikely to be paid (e.g. the equity of a firm is negative). Loans are classified as Stage 2 when their credit risk has increased significantly since initial recognition, but they do not meet the requirements to be classified as non-performing. They generally include those with amounts more than 30 days past due.
b The NPL and Stage 2 loan ratios are calculated as the amount of those troubled loans to total loans held by deposit institutions.

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10 For firms, the cost of new bank lending has continued to rise, whereas bond issuance costs have fallen recently, ...

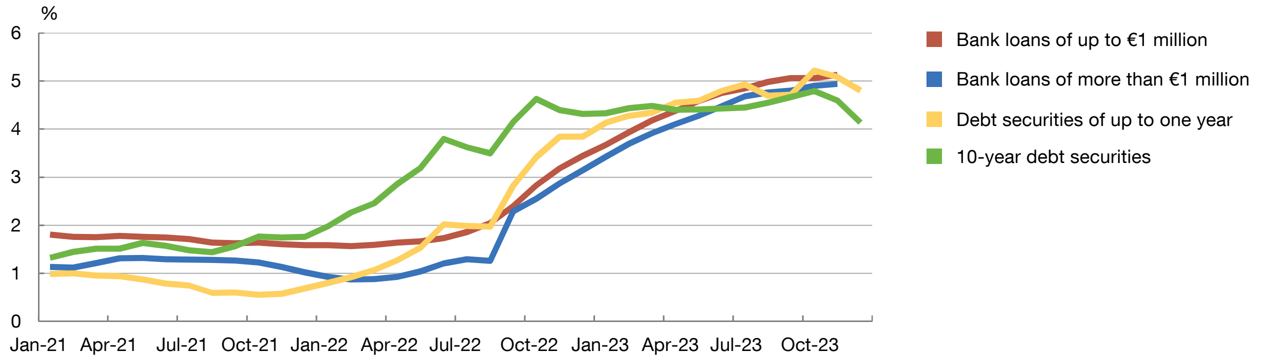
— The average interest rate on new lending stood at over 5% in November, up by 38 bp on the mid-2023 figure for loans of less than €1 million and up by 47 bp on that for larger loans (see Chart 10.a).

— Bond issuance costs rose in September and October, but subsequently decreased. This reflected movements in risk-free rates, shaped by changing monetary policy expectations, along with developments in term premia.

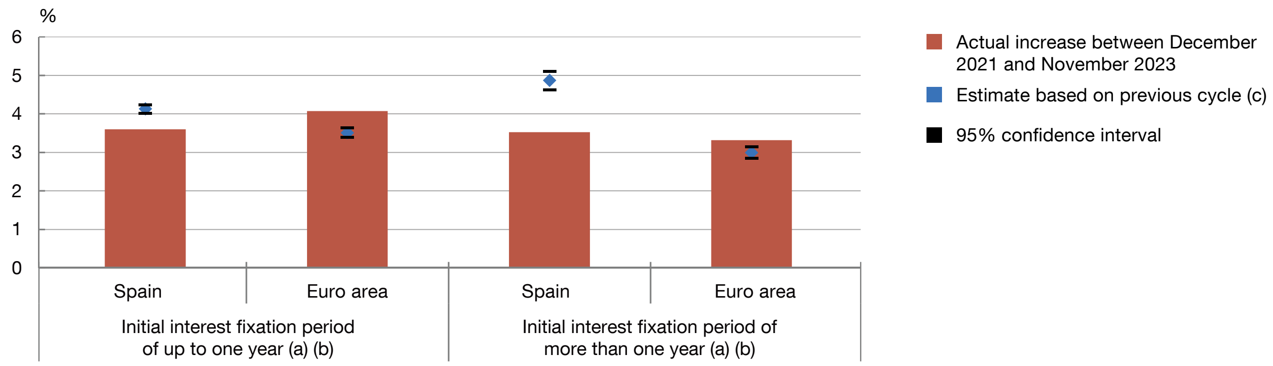
— In the current monetary tightening cycle, lending interest rates have risen somewhat less forcefully than the historical regularities would suggest due to a smaller than expected increase in recent months (see Chart 10.b). In the euro area, by contrast, the pass-through has remained more substantial.

Chart 10

10.a Cost of new financing to NFCs by loan size, maturity and instrument (a)



10.b Bank lending rates to firms during the monetary tightening cycle



SOURCES: Bloomberg Data License, ECB and Banco de España.

a The latest data are for November (bank loans) and December (debt securities). Bank rates are narrowly defined effective rates (NDERs), adjusted for seasonal and irregular components (small changes in the series with no recognisable pattern in terms of periodicity or trend).
b The maturity refers to the interest rate fixation period.
c Resulting bank interest rate if the current cycle's increase in the market interest rate had been passed through similarly to the previous cycle, according to standard error-correction models estimated for the period between January 2003 and August 2007.

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11 … and their access to credit deteriorated further in 2023 H2, particularly for SMEs

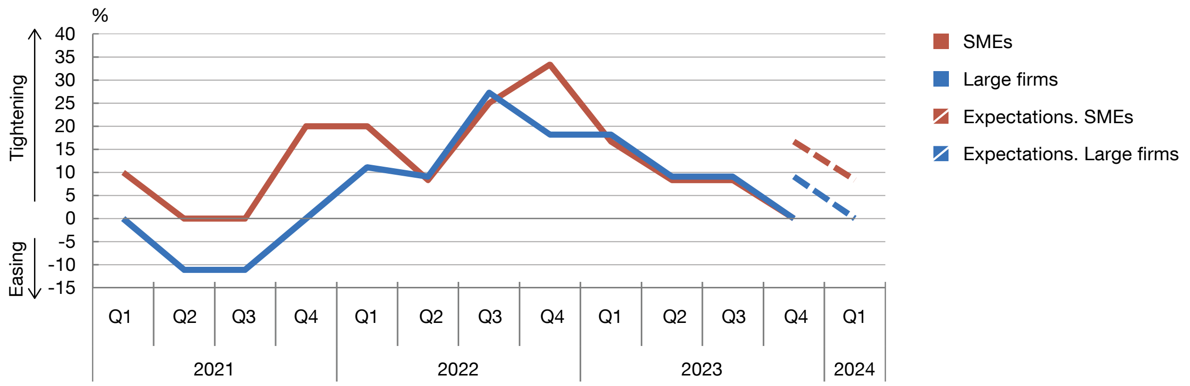
— According to the BLS, credit standards for firms tightened again in 2023 Q3 but held unchanged in Q4 (see Chart 11.a).

— In addition, the Survey on the Access to Finance of Enterprises (SAFE) in the euro area reveals that Spanish SMEs' perception of bank credit availability deteriorated further between April and September 2023, albeit less than anticipated six months earlier (see Chart 11.b).

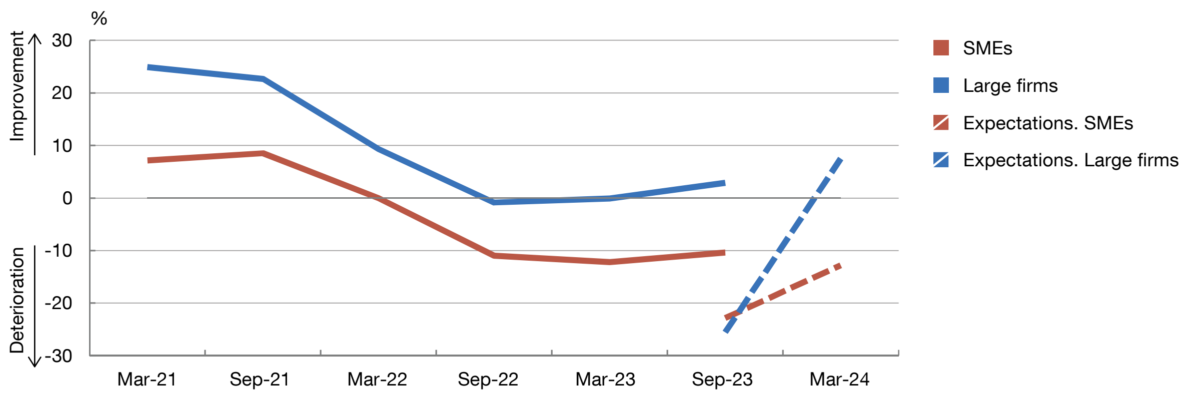
— Both the BLS and the SAFE point to the worsening economic outlook as the main reason for the lower loan supply. However, as the SAFE also shows, access to credit remains the least-reported major concern for firms' business. For instance, just 6.7% of the Spanish SMEs surveyed reported it as their main concern, one of the lowest levels in the survey's history.

Chart 11

11.a Change in bank lending standards for NFCs. BLS (a)



11.b Change in perceived bank loan availability among Spanish firms. 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.

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12 Firms’ demand for credit continued to decline

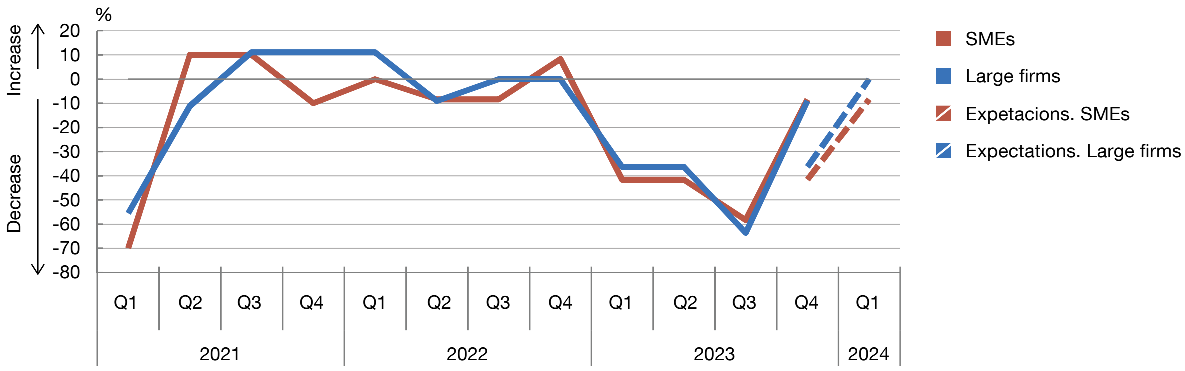
— The banks participating in the BLS reported a further drop in credit demand across all firm sizes in 2023 Q3. This decline extended into Q4, albeit softening considerably (see Chart 12.a). Looking ahead to 2024 Q1, the respondent banks expected demand to shrink only slightly in the SMEs segment and to remain unchanged among large firms.

— This drop in demand mainly owes to higher interest rates and lower financing needs for fixed investment.

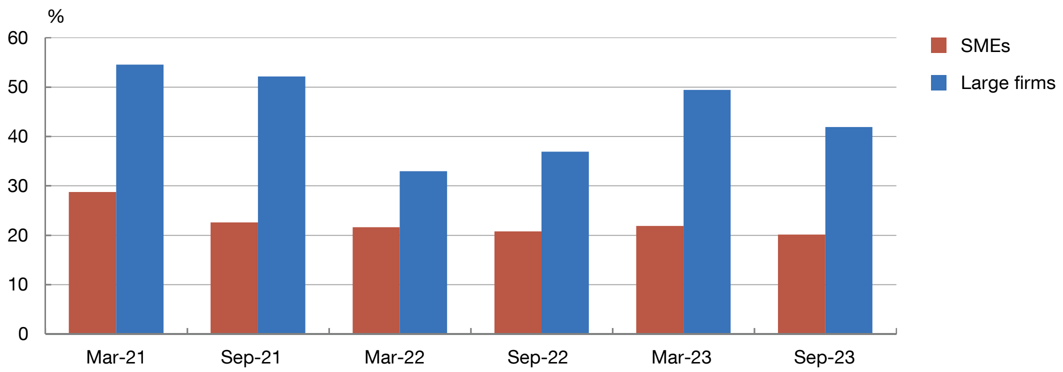
— The SAFE results likewise indicated a fall in the percentage of firms applying for bank loans between April and September 2023 (see Chart 12.b), with the figure for SMEs reaching its lowest level since the survey began in 2009.

Chart 12

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



12.b Spanish 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.

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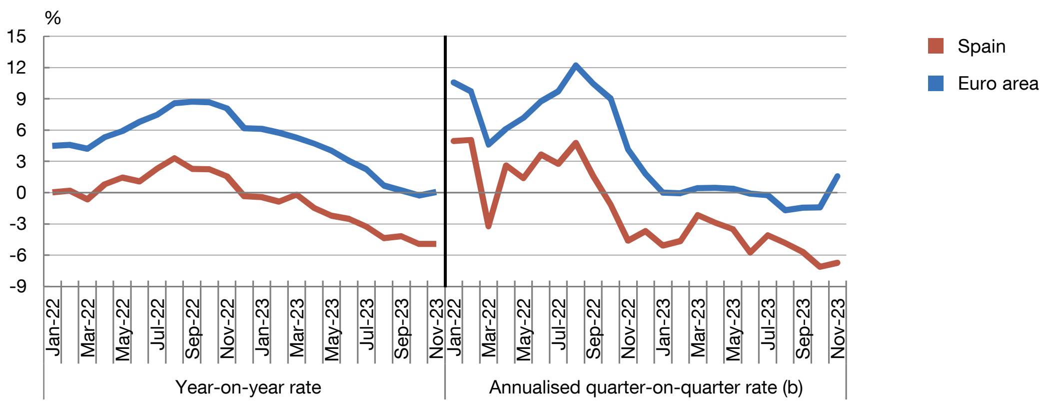
13 As a result, the decline in bank financing raised by Spanish firms has steepened in recent months

— The contraction in the stock of lending to firms deepened in recent months, recording year-on-year falls not seen since early 2015 (around 5%) (see Chart 13.a). The latest data also show this drop gaining momentum in annualised quarter-on-quarter terms. A similar moderating profile has been observed in the euro area, albeit starting from higher growth rates and with the stock of credit only shrinking in the last few months. The latest data available (for November) show a pick-up in credit in the euro area.

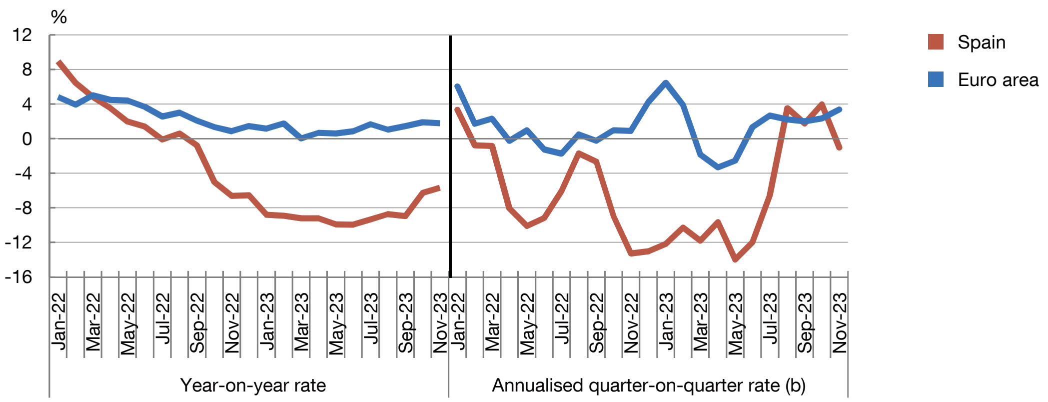
— Conversely, the year-on-year drop in financing raised by Spanish firms through bond issuance moderated somewhat, to 4.8% in November (see Chart 13.b). The most recent period even saw positive quarter-on-quarter rates. Bond financing in the euro area also appears to have picked up in recent months.

Chart 13

13.a Change in the stock of outstanding bank loans to NFCs (a)



13.b Change in the outstanding amount of debt securities issued by NFCs (c)



SOURCES: ECB and Banco de España.

a Securitisation adjusted data.
b Seasonally adjusted data.
c The data for Spain include issuances by non-resident subsidiaries, but the euro area data do not (they do include issuances within the euro area when the parent and subsidiary reside in different countries).

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14 Turnover grew in the first three quarters of 2023, but at a more moderate pace than a year earlier

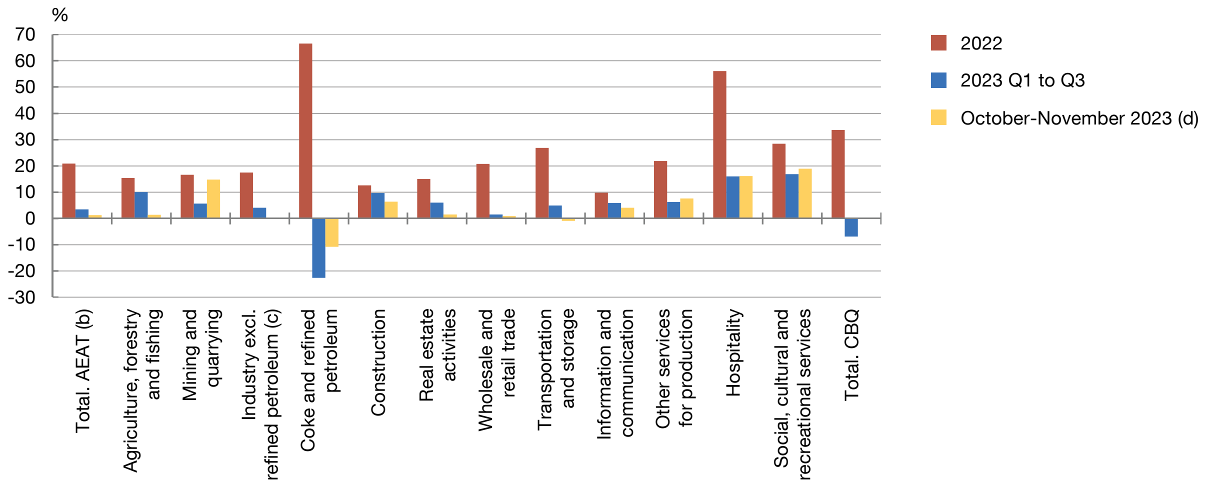
— According to the Spanish tax authorities (AEAT)[1] nominal turnover grew by 3.4% in the period January-September 2023, a more moderate rate than in the same period of 2022 (see Chart 14.a). Turnover was up across all sectors included in the statistic, except refined petroleum products, whose turnover fell following the extraordinary growth seen in 2022, conditioned by oil prices in both years. The October and November data for a sample of large firms[2] point to very slight turnover growth (1.2%). For nearly all sectors that increase would be similar or somewhat smaller than that recorded to September.

— In a similar vein, the Central Balance Sheet Data Office Quarterly Survey (CBQ)[3] shows that median turnover grew by 4.9% year-on-year in the first three quarters of 2023. Conversely, aggregate turnover was down by 7% due to the energy sectors (not included in the AEAT figures), refined petroleum products and fuel retailers, whose turnover contracted significantly as a result of lower prices.

— For Q4, the Banco de España Business Activity Survey (EBAE) indicates that turnover held stable compared with the previous quarter, albeit with notable cross-sector heterogeneity.

Chart 14

14.a Turnover. NFCs. Year-on-year rate of change (a)



SOURCES: AEAT (VESGEP, VESGE) and Banco de España.

a Sectoral breakdown taken from AEAT statistics, except for "Coke and refined petroleum", which is taken from the CBQ.
b The following sectors are not included: the energy sectors (mining and quarrying and electricity, gas and water supply), education, health, public administration and financial and insurance activities.
c Data unavailable for October and November 2023.
d AEAT data for a sample of some 30,000 large firms (turnover of more than €6.01 million in the calendar year).

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1 Data for over one million firms.

2 Drawn from the VAT returns of 30,000 large firms (those with annual turnover of more than €6.01 million).

3 Data for 938 firms that, at 22 November, had sent their data for the first three quarters of 2023 (12% of the sector's total gross value added, according to National Accounts).

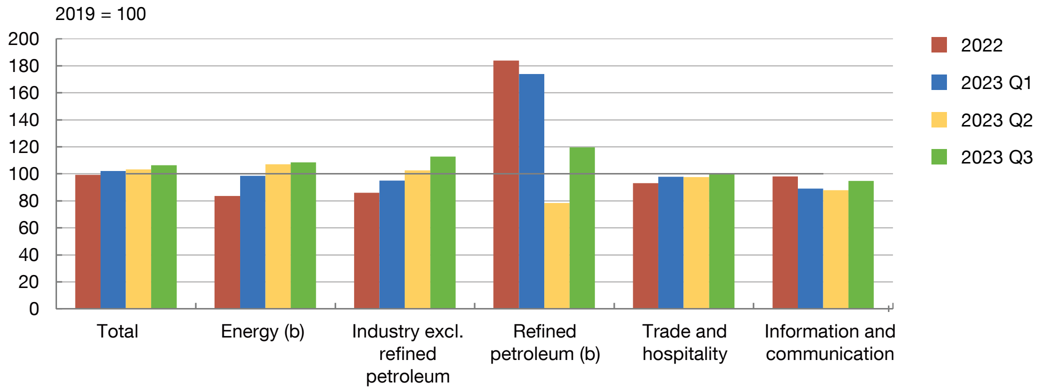
15 Margins on sales rose moderately in general, to slightly above pre-pandemic levels

— In 2023 Q3 margins on sales continued to increase moderately, both overall for the firms in the AEAT database and in most of the sectors analysed, to levels similar or slightly higher than in 2019 in almost all cases (see Chart 15.a).

— The refined petroleum products and information and communication sectors were the only two sectors whose margins on sales were lower in 2023 Q3 than a year earlier. However, while in the former this indicator continued to exceed pre-pandemic levels, in the latter it was still slightly below the 2019 value.

Chart 15

15.a Margins on sales (a). NFCs. AEAT data



SOURCES: AEAT (Tax returns for VAT and witholdings on labour income) and Banco de España.

a Defined as GOP (calculated as Turnover - Procurements - Wages) / Turnover. Calculations based on the moving sum of four quarters.
b Information from the CBQ.

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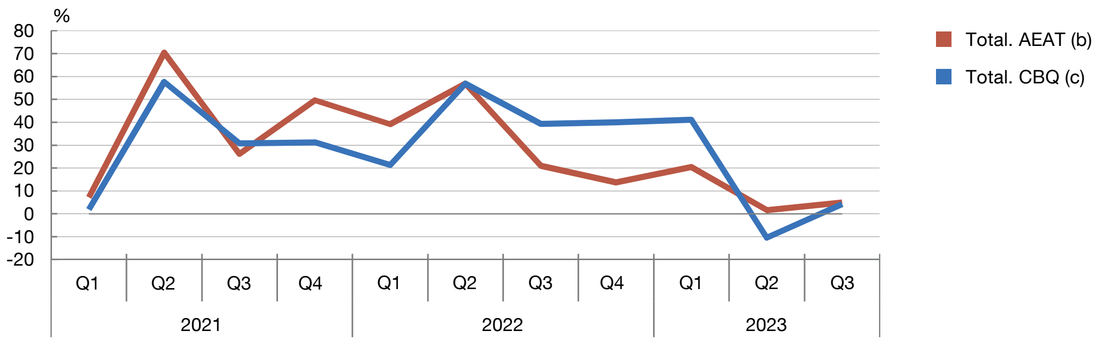
16 The increase in turnover and sales margins pushed up profit, although this profit growth slowed from Q2 onwards

— AEAT data[4] point to year-on-year growth in gross operating profit (GOP), in nominal terms, of 9% between January and September 2023, well below that recorded in the same period of the previous year. The quarterly profile shows a significant slowdown in Q2 and Q3 (see Chart 16.a). A very similar pattern emerges from the CBQ data.

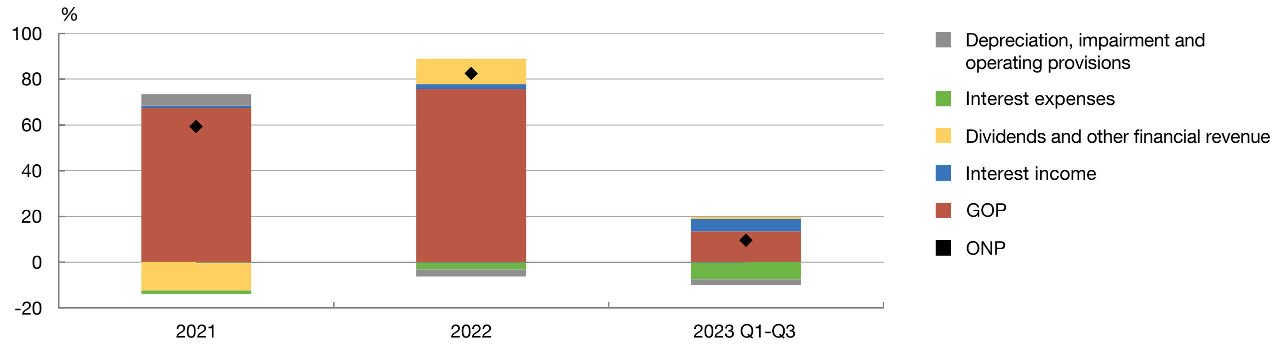
— According to the CBQ, the sharp increase in financial costs detracted 7.6 pp from average growth in ordinary net profit (ONP) over the first three quarters of 2023 (more than double its negative impact in the previous year). This effect was partially offset by higher interest and dividend income received and, above all, by the increase in GOP, resulting in a 13.4% increase in ONP in this period (see Chart 16.b).

Chart 16

16.a GOP (a). NFCs. Year-on-year rate of change



16.b Year-on-year ONP growth (d). Contribution by component. CBQ (c)



SOURCES: AEAT and Banco de España.

a GOP is obtained by subtracting intermediate consumption and personnel costs from output.
b The following sectors are not included: education, health, public administration, recreation, financial and insurance institutions and other services.
c CBI and CBQ data do not include holding companies.
d ONP is defined as GOP plus net financial revenue less net depreciation, impairment and operating provisions.

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4 Data for the refined petroleum and energy sectors are from the CBQ.

17 Firms' profitability improved on aggregate, with some sectoral heterogeneity, while liquidity buffers continued to decline

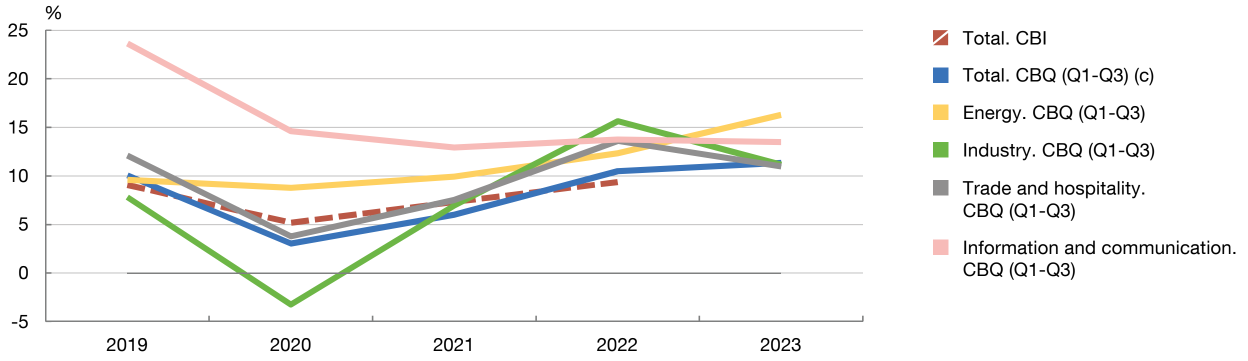
— The return on equity (ROE) of the CBQ sample (excluding holding companies) stood at 11.4% in the first three quarters of 2023, almost 1 pp higher than in the same period of 2022 and 1.3 pp higher than in the first three quarters of 2019 (see Chart 17.a).

— The sectoral breakdown shows mixed developments. For instance, profitability was up in the energy sector and remained unchanged in the information and communication sector, but was down both in the trade and hospitality sector and in industry.

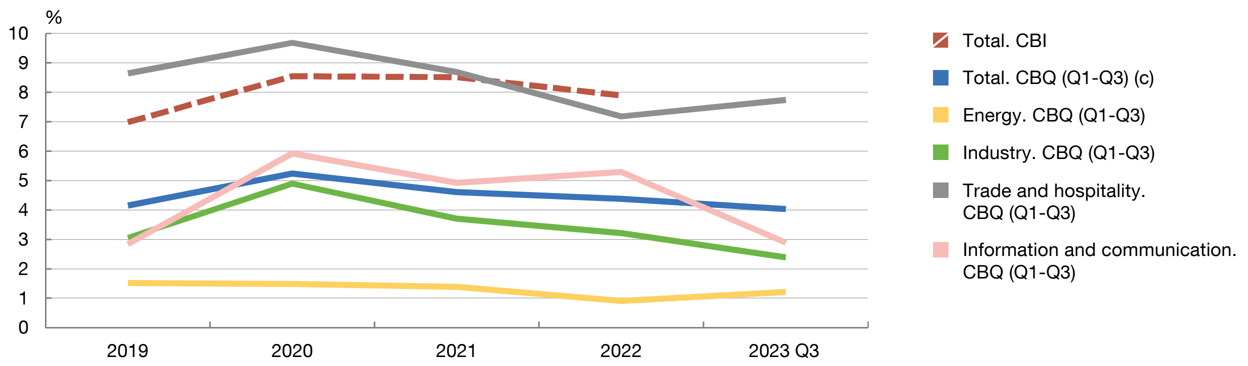
— According to the CBQ, in 2023 firms' average liquidity ratio[5] remained on the declining trend of a year earlier. However, there is some heterogeneity across sectors (see Chart 17.b).

Chart 17

17.a ROE (a). CBI and CBQ (b)



17.b Liquidity ratio (d). CBI and CBQ (b)



SOURCE: Banco de España.

a Ratio defined as ONP / Own funds.
b CBI and CBQ data do not include holding companies.
c In addition to the sectors shown in the chart, the CBQ total includes transportation and storage, activities with limited coverage (for example, construction) and other services, and this can lead to the total levels of some indicators being lower than the sum of the sectors depicted.
d Ratio defined as Cash and cash equivalents / Total assets.

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5 Defined as cash and cash equivalents divided by total assets. The average ratio for Central Balance Sheet Data Office integrated database (CBI) firms is higher than that of the CBQ because smaller firms, which account for a far larger share of the total in the CBI, have larger liquidity buffers.

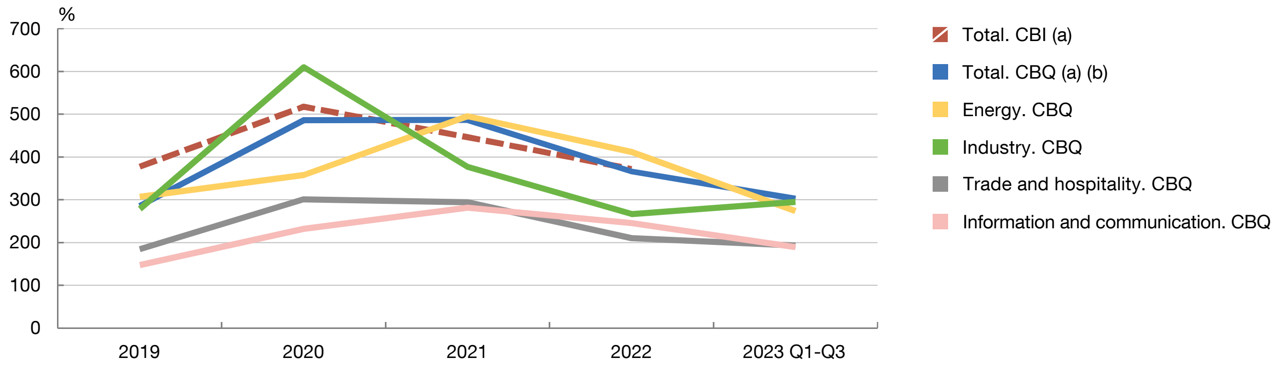
18 Firms' debt-to-income ratio continued to fall, despite the rising debt burden as interest expenses increased

— In the period January-September 2023, the average ratio of debt to ordinary profit (GOP plus financial revenue) for CBQ firms declined further across all sectors (see Chart 18.a). This was the result of both higher profit and lower debt. Aggregate data for the corporate sector follow a similar pattern, with the aggregate debt-to-GDP ratio standing at 65.6% in 2023 Q3, a level not seen since 2002 and 2.5 pp lower than the euro area average.

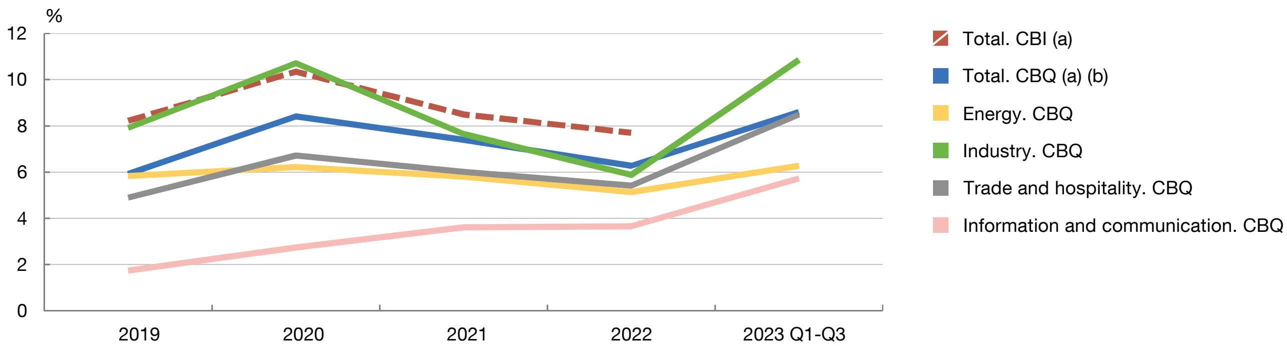
— Conversely, the average debt burden ratio (the ratio of interest expenses to ordinary profit) climbed slightly in the first three quarters of 2023, reversing the previous downward trend (see Chart 18.b). This owed to higher interest expenses, which slightly outpaced the growth in ordinary profit. The breakdown by sector shows this happened across the board. However, on aggregate and with current market expectations, monetary policy transmission to interest payments on outstanding loans is at a very advanced stage (see Box 1).

Chart 18

18.a Debt-to-income ratio: Interest-bearing borrowing / (GOP + Financial revenue)



18.b Debt burden: Interest on borrowed funds / (GOP + Financial revenue)



SOURCE: Banco de España.

a CBI and CBQ data do not include holding companies.
b In addition to the sectors shown in the chart, the CBQ total includes transportation and storage, activities with limited coverage (for example, construction) and other services, and this can lead to the total levels of some indicators being higher than the sum of the sectors depicted. Annual data have been calculated using the CBI. Quarterly data, which have been linked with the latest annual data, have been calculated using the CBQ.

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19 According to the CBQ, the percentage of vulnerable firms decreased in the first three quarters of 2023

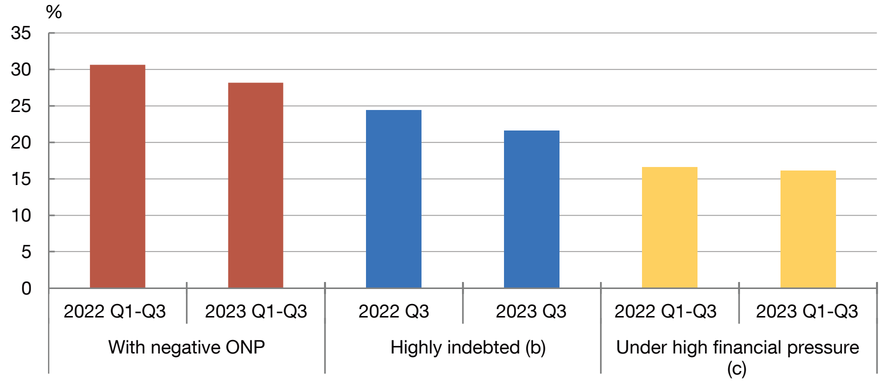
— According to the CBQ, there was a decrease in the percentage of firms with negative ONP or that are highly indebted or under high financial pressure (i.e. those whose earnings do not cover their interest expenses) (see Chart 19.a).

— However, given that the CBQ mainly includes large firms, Box 2 simulates how financial pressure would evolve for a more representative sample and shows that the percentage of firms under high financial pressure would increase in 2023 and stabilise in 2024, taking into account market expectations for interest rate developments.

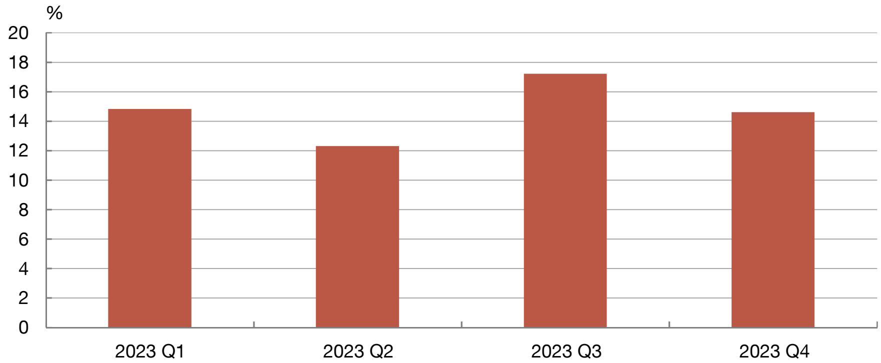
— Moreover, qualitative information from the EBAE suggests that the percentage of firms whose economic and financial situation deteriorated[6] rose in Q3 (to 18%), but partially corrected in Q4 to 15% (see Chart 19.b).

Chart 19

19.a Percentage of vulnerable firms, according to the CBQ (a)



19.b Percentage of firms whose economic and financial situation has deteriorated. EBAE (d)



SOURCE: Banco de España.

a Excluding holding companies.
b Net financial debt is defined as interest-bearing borrowing less cash and cash equivalents. Firms are classified as highly indebted if their ratio of Net financial debt / (GOP + Financial revenue) is higher than 10 or if they have positive net financial debt and zero or negative earnings.
c Firms under high financial pressure are proxied as those whose earnings do not cover their interest expenses.
d Firms whose economic and financial situation has deteriorated are defined as those simultaneously reporting a decrease in their turnover and profits in the current quarter, but not in their level of indebtedness (Debt / Total assets).

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6 Those that have reported a decline in their turnover and profit in a quarter, but whose level of indebtedness has not decreased.

20 NPLs to firms fell further in the period March-September 2023, while Stage 2 loans picked up in Q3

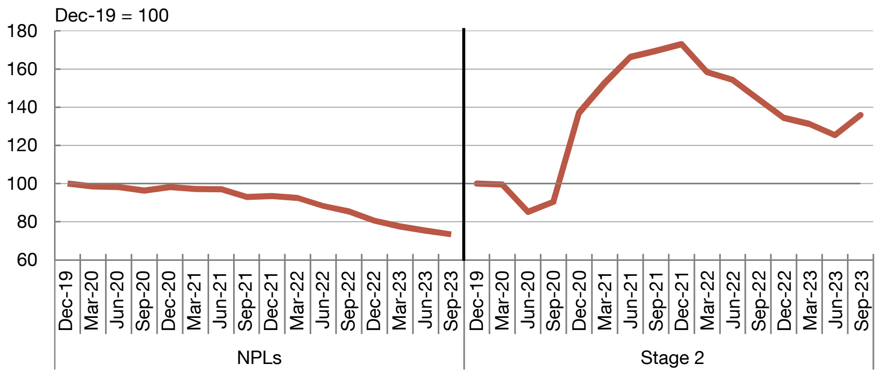
— NPLs to non-financial corporations (NFCs) in banks' credit portfolio continued to fall, albeit at a declining pace. There was a 5.5% reduction between March and September, bringing the year-on-year decline in Q3 to 13.8% (see Chart 20.a).

— However, Stage 2 loans picked up in 2023 Q3, although they still declined in year-on-year terms by 5.3%.

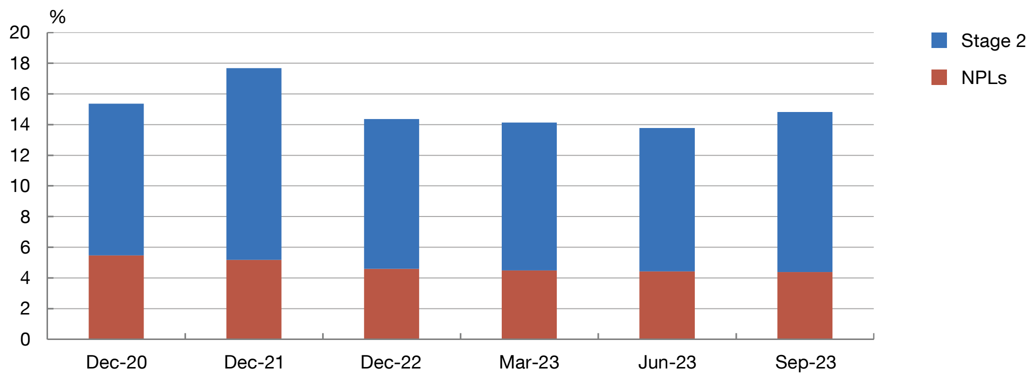
— The NPL and Stage 2 ratios stood at 4.4% and 10.4%, respectively, in September (see Chart 20.b). Although the NPL ratio for firms as a whole has held steady recently, the Stage 2 ratio increased by 1 pp compared with the previous quarter.

Chart 20

20.a Change in non-performing and Stage 2 loans to NFCs (a)



20.b NPL and Stage 2 loan ratios. NFCs (a) (b)



SOURCE: Banco de España.

a NPLs and Stage 2 loans refer to the gross carrying amount of troubled assets in deposit institutions' portfolios. Loans are classified as non-performing when they are in default (there are amounts more than 90 days past due) or when there are indications that the loan is unlikely to be paid (e.g. the equity of a firm is negative). Loans are classified as Stage 2 when their credit risk has increased significantly since initial recognition, but they do not meet the requirements to be classified as non-performing. They generally include those with amounts more than 30 days past due.
b The NPL and Stage 2 loan ratios are calculated as the amount of those troubled loans to total loans held by deposit institutions.

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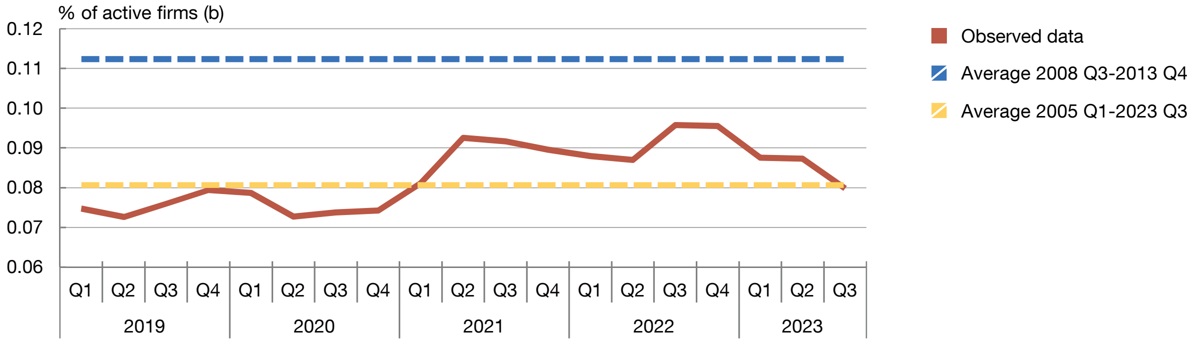
21 Insolvencies declined and net business creation picked up

— The number of NFC insolvencies declined in 2023 Q2 and, especially, Q3 (on a four-quarter moving average basis) (see Chart 21.a). Thus, in Q3, the insolvency rate (as a percentage of active firms) stood at levels similar to the historical average since 2005, and significantly below the figures seen during the global financial crisis.

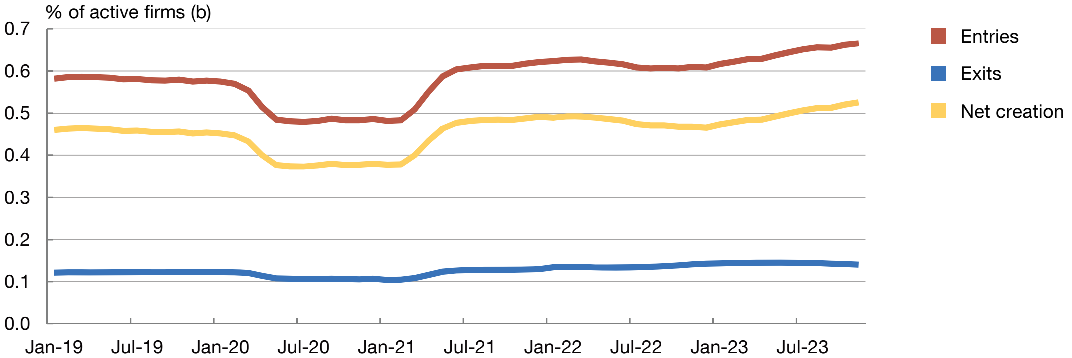
— The net business creation rate picked up, to stand at 0.5% of total active firms in September 2023. This is mainly explained by the rise in firm entries, since the number of exits remained relatively stable (see Chart 21.b). In September the number of active firms stood close to pre-pandemic levels.

Chart 21

21.a Number of insolvencies. NFCs (a)



21.b Firm entries, firm exits and net business creation (c)



SOURCES: INE and Colegio de Registradores.

a Latest observation: 2023 Q3. Moving four-quarter averages. The NFC insolvency series is shown as a percentage of the number of active firms at 1 January each year.
b The total number of active firms is taken from the the Central Business Register (DIRCE) and is the sum of (i) public limited companies, (ii) private limited companies, (iii) general partnerships, (iv) limited partnerships, (v) joint ownerships and (vi) cooperative societies.
c Latest observation: November 2023. Moving 12-month averages. The firm entries, firms exits and net creation (entries minus exits) series are shown as a percentage of the number of active firms at 1 January each year.

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