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The October 2017 Bank Lending Survey in Spain

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The results of the Bank Lending Survey show that during the third quarter of 2017 credit standards in the households segment eased somewhat in both Spain and the euro area, while they tightened slightly for enterprises in Spain and remained virtually unchanged for enterprises in the euro area. Demand for loans to enterprises remained stable in Spain, whereas it increased across the euro area as a whole, and household demand grew in both areas. Spanish and euro area banks alike generally perceived unchanged or improved wholesale market access conditions, while in the case of retail markets, a slight deterioration in access conditions was perceived in Spain, which was not observed across the euro area as a whole. Meanwhile, the banks in the survey replied that the ECB's expanded asset purchase programme has generally helped improve the financial situation over the last six months, except in the case of profitability in the euro area, which has been adversely affected. They also reported that the programme is continuing to encourage an easing of lending conditions for the private non-financial sector. Spanish and euro area banks alike reported that the ECB's negative deposit facility rate caused a reduction in net interest income in the last six months, having a moderately negative impact on interest rates and the mark-ups on loans to households and businesses, and a positive (albeit small) effect on lending volumes.

THE OCTOBER 2017 BANK LENDING SURVEY IN SPAIN

The author of this article is Irene Roibás, of the Directorate General Economics and Statistics.

Main results

This article presents the results of the October 2017 Bank Lending Survey (BLS),[1] which provides information on credit supply and demand conditions in the third quarter, and on the outlook for the following three months. This edition includes a number of ad hoc questions on wholesale and retail funding market access conditions, and on the effects of the ECB's expanded asset purchase programme and the impact of the negative interest rate on the deposit facility.[2] This section discusses the main results obtained from the replies by the ten Spanish institutions participating in the survey, comparing them with the results for the euro area as a whole, while the following sections review the results for Spain in more detail.[3]

The results of the survey for the third quarter of 2017 show that in both Spain and the euro area, credit standards eased somewhat in the household loans segment, in both the case of loans for house purchase and consumer credit and other lending (see Chart 1). Credit standards for lending to non-financial corporations tightened somewhat in Spain, while remaining virtually unchanged in the euro area. In Spain, the margins on average loans did not alter in the case of lending to enterprises, while in that of loans to households for house purchase and consumer credit and other lending, they narrowed somewhat. In the euro area they continued to contract for all loan types. For the current quarter, Spanish and euro-area banks alike expect credit standards for loans to enterprises to remain stable. In the households segment, by contrast, euro area banks anticipate a slight easing of standards, while Spanish banks do not envisage any changes.

According to the replies from the responding banks, enterprises' demand for credit remained stable in Spain in the third quarter of 2017 (although in terms of the net percentage, there was a slight increase),[4] while it increased across the euro area as a whole. Loan applications grew in both segments of lending to households (see Chart 1). For the fourth quarter, responding banks expected an increase in overall demand for loans in both areas.

The dispersion of domestic banks' replies on credit standards, relating to the latest period observed, was small in all segments. In the case of demand, dispersion was moderate in the financing of households and somewhat greater in the case of loans extended to enterprises.

As regards the ad hoc questions included in the survey, Spanish banks reported in reply to the first question that, during the third quarter of 2017, they had perceived a slight

1 Banks replied to this survey in the last week of September.

2 The Banco de España has published these results on its website (http://www.bde.es/webbde/es/estadis/infoest/epb.html), in tandem with the publication of this article and with the ECB's publication of the results for the euro area. Also available at this address are the time series of the aggregate indicators by bank, relating to the regular questionnaire, along with additional information about the BLS. A more detailed analysis of the results for the euro area as a whole can be found in the ECB's regular notes on its website (http://www.ecb.int/stats/money/lend/html/index.en.html).

3 The analysis of the results conducted in this article is based on so-called "diffusion indices", which are calculated with a weighting based on the degree of improvement/worsening or of easing/tightening reported by each bank in its replies, unlike indicators calculated in terms of net percentages, which do not apply a weighting in this way.

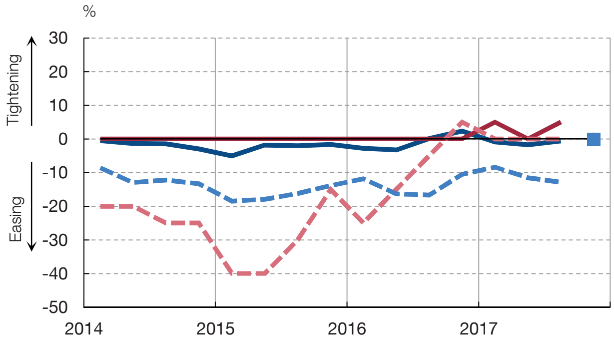
4 See footnote 3.

CHANGES IN SUPPLY AND DEMAND

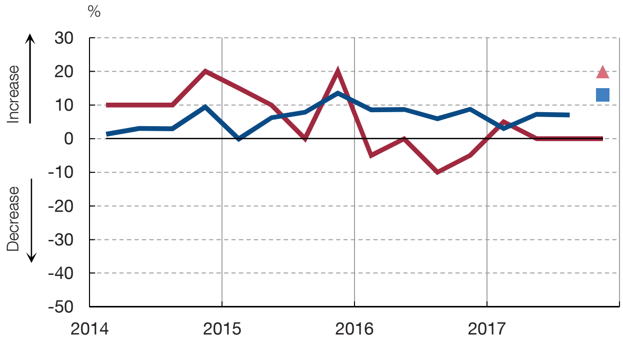
CHART 1

1 LENDING TO NON-FINANCIAL CORPORATIONS

1.1 CHANGE IN CREDIT STANDARDS AND MARGINS APPLIED TO LOANS (a)

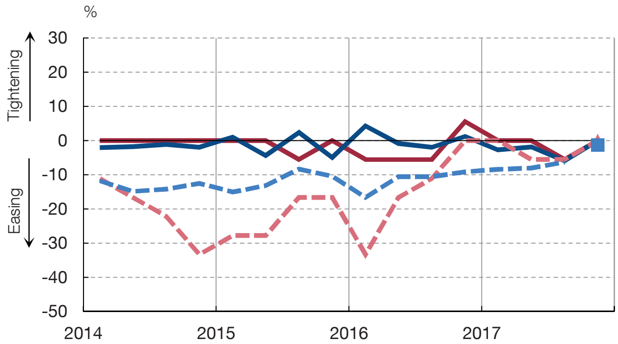


1.2 CHANGE IN DEMAND (b)

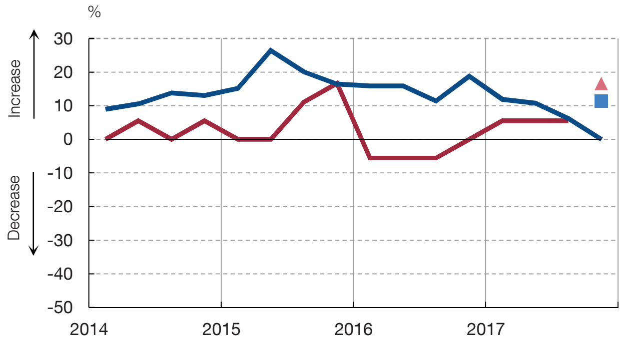


2 LOANS FOR HOUSE PURCHASE

2.1 CHANGE IN CREDIT STANDARDS AND MARGINS APPLIED TO LOANS (a)

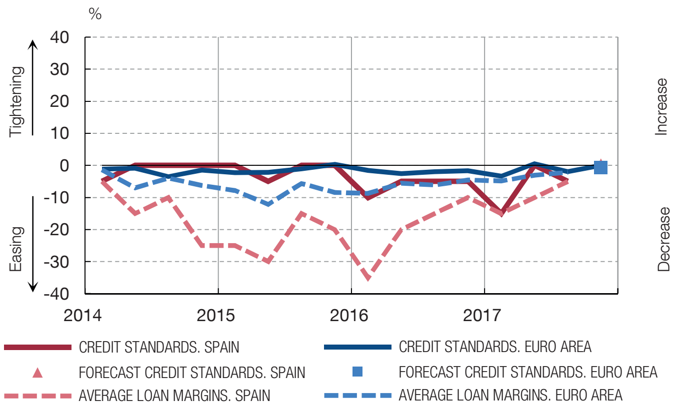


2.2 CHANGE IN DEMAND (b)

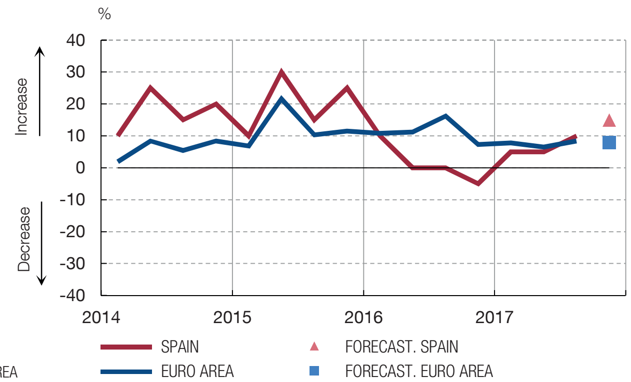


3 CONSUMER CREDIT AND OTHER LENDING

3.1 CHANGE IN CREDIT STANDARDS AND MARGINS APPLIED TO LOANS (a)



3.2 CHANGE IN DEMAND (b)



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks that have tightened their credit standards, or widened their margins considerably × 1 + percentage of banks that have tightened their credit standards, or widened their margins somewhat × 1/2 – percentage of banks that have eased their credit standards or narrowed their margins somewhat × 1/2 – percentage of banks that have eased their credit standards or narrowed their margins considerably × 1.

b Indicator = percentage of banks reporting a considerable increase × 1 + percentage of banks reporting some increase – percentage of banks reporting some decrease × 1/2 – percentage of banks reporting a considerable decrease × 1.

worsening in retail market access conditions, alongside stability in almost all wholesale markets, except in those for short-term debt securities, in which an improvement was detected (see Chart A.1). Euro area banks reported favourable developments both in the case of wholesale and retail markets.

Responding banks in both areas replied that, over the last six months, the ECB's expanded asset purchase programme (APP) has contributed to improving their financial position in terms of liquidity (primarily due to sales of marketable assets), funding and solvency conditions (see Chart A.2). Spanish banks' profitability has also improved, whereas in the euro area as a whole it has been adversely affected. The banks also reported that the programme helped ease credit terms and conditions for the private non-financial sector in both geographical areas, although somewhat more markedly in Spain. By contrast, the APP had no impact on approval criteria in Spain and only a small impact across the euro area.

Both in Spain and in the euro area as a whole, the liquidity deriving directly or indirectly from this programme was mainly used to grant loans, and to a lesser extent to substitute for other liabilities (see Chart A.3). Lastly, in the ad hoc question about the impact of the ECB's negative deposit facility rate, banks in both areas reported it to have caused a drop in net interest income over the last six months (see Chart A.4). Its effect on interest rates and margins on loans was moderately negative in both areas, while the impact on volumes of new lending was positive, but small.

Supply and demand conditions

A closer analysis of Spanish banks' replies to the regular questionnaire reveals that, within the segment of loans to non-financial corporations, credit standards tightened somewhat in the third quarter of 2017, in the case of both lending to SMEs and to large firms. The breakdown by maturity also shows this same trend over all maturities. In terms of the factors underlying this pattern, the higher costs relating to the level of capital and banks' lower risk tolerance contributed to a slight tightening of the standards, whereas the improved outlook for economic activity, and lower perceived risks of the collateral required, brought about some easing (see Chart 2.1.1).

For their part, the general conditions of new lending have tightened somewhat due to banks' lower risk tolerance. This is despite the slightly easing impact of increased competitive pressure and the more favourable cost of funds and balance sheet constraints. The more detailed information shows wider margins on riskier loans, an increase in non-interest rate charges and a shortening of maturities, while other conditions remained unchanged (see Chart 2.1.2). The breakdown by firm size reveals something of a tightening of overall terms and conditions of loans to SMEs and large firms. The proportion of rejected loan applications rose slightly between June and September, after having declined steadily over the previous seven quarters.

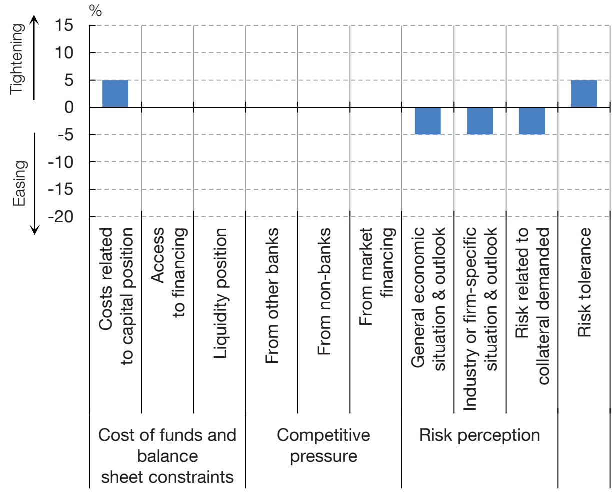
In the case of demand for loans to enterprises, the responding banks reported no change in the demand from SMEs in the third quarter of 2017, while demand from large firms decreased. The breakdown by maturity shows applications for short-term loans to have been stable, while applications for long-term loans have decreased slightly. The factors driving up credit demand included higher funding requirements for inventories and working capital, lower overall interest rates and, to a lesser extent, increased funding needs for fixed investments and reduced recourse to alternative funding sources. Meanwhile increased use of loans from other banks and the decrease in debt restructuring transactions had an effect in the opposite direction (see Chart 3.1).

FACTORS THAT AFFECT CREDIT STANDARDS AND CONDITIONS FOR LOANS. SPAIN

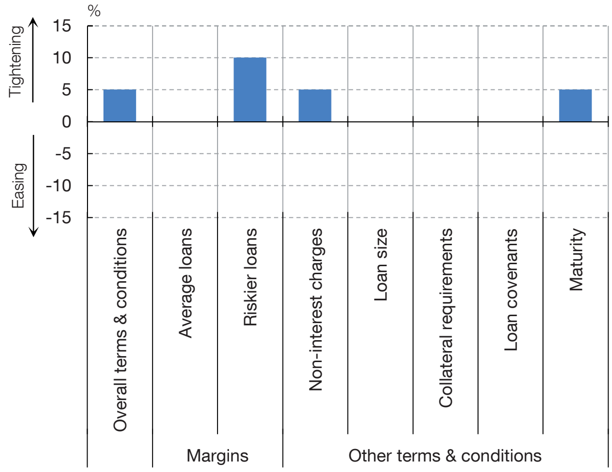
CHART 2

1 LOANS TO NON-FINANCIAL CORPORATIONS

1.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)

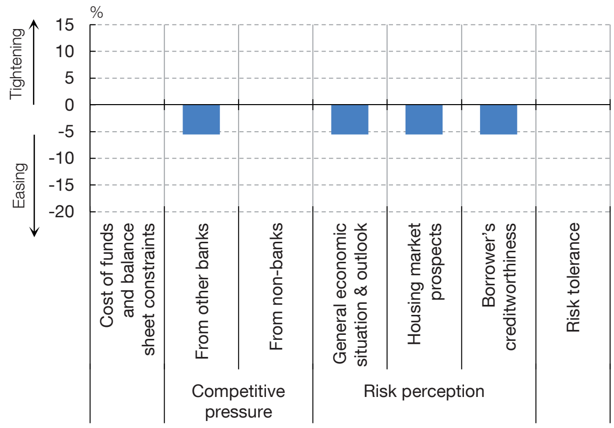


1.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

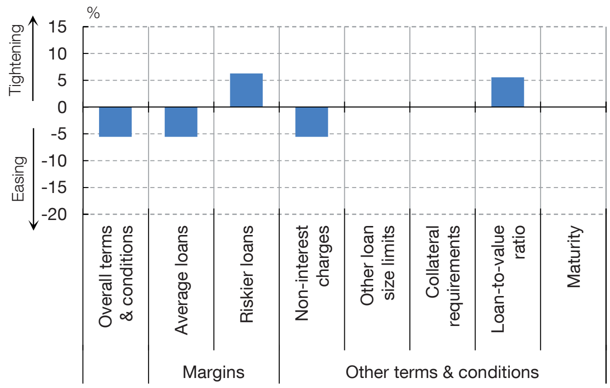


2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE

2.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)

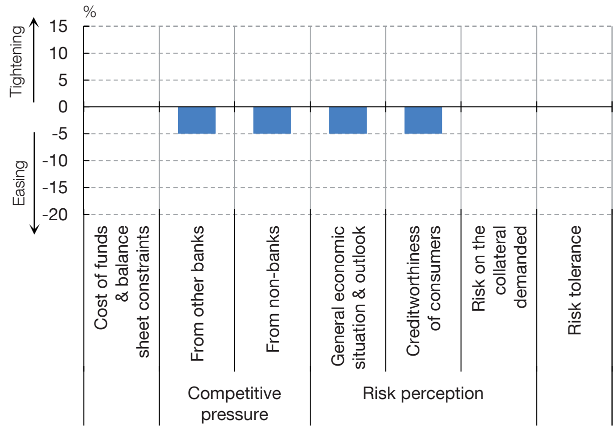


2.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)

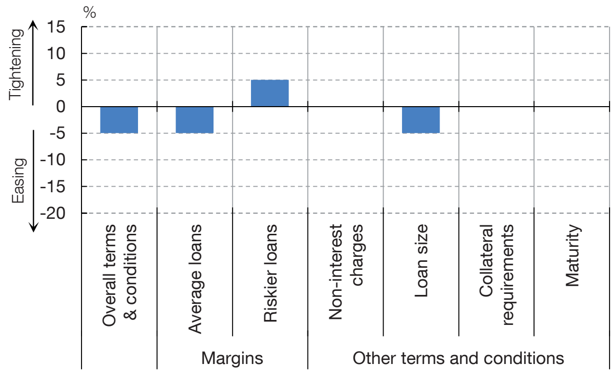


3 CONSUMER CREDIT AND OTHER LENDING

3.1 CONTRIBUTION OF FACTORS TO CHANGE IN CREDIT STANDARDS (a)



3.2 CHANGES IN TERMS AND CONDITIONS ON LOANS (b)



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the factor has contributed considerably to the tightening of credit standards × 1 + percentage of banks reporting that it has contributed somewhat to the tightening of credit standards × 1/2 – percentage of banks reporting that it has contributed somewhat to the easing of credit standards × 1/2 – percentage of banks reporting that it has contributed considerably to the easing of credit standards.

b Indicator = percentage of banks that have considerably tightened their conditions × 1 + percentage of banks that have somewhat tightened their conditions × 1/2 – percentage of banks that have somewhat eased their conditions × 1/2 – percentage of banks that have considerably eased their conditions.

According to the replies received, credit standards for loans to households for house purchase eased somewhat in the third quarter of 2017. This change was driven by increased competitive pressure, the better general economic outlook and housing market prospects, and borrowers' improved creditworthiness (see Chart 2.2.1). Overall terms and conditions applied to these loans were eased further, mainly on the back of an improvement in cost of funds and balance sheet constraints. A more detailed analysis reveals mixed developments in the various terms and conditions, since a decline in the margins applied to average loans and in non-interest rate charges was reported on one hand, and, on the other, a decline in the LTV ratio, and an increase in the margins applied to riskier loans (see Chart 2.2.2). The share of loan rejections fell once again, and at a somewhat faster pace than in the previous quarter.

The demand for loans for house purchase increased slightly. According to the responding banks, the growth in loan applications was driven by the improved housing market outlook, coupled with more buoyant consumer confidence, a drop in the general level of interest rates and, to a lesser extent, the rise in debt restructuring operations, although these effects were partly offset by the increase in internal financing or loans from other institutions, and by regulatory and fiscal changes in the market (see Chart 3.2).

Credit standards for consumer credit and other lending eased slightly in the third quarter of 2017. This was driven by increased competitive pressure and the improvement in both the general economic outlook and the perception of borrowers' creditworthiness (see Chart 2.3.1). Additionally, the overall conditions for this type of loan eased slightly, mainly as a result of greater competition. In particular, the margins on average loans narrowed and loan sizes increased (see Chart 2.3.2). By contrast, the margins applied to riskier loans have risen slightly. The percentage of rejected loan applications fell again in the third quarter, albeit at a somewhat slower pace than in the previous quarter.

Applications for consumer credit and other lending rose in the third quarter. According to the replies received from the responding banks, the main drivers of this growth in applications were more buoyant consumer confidence, increased spending on consumer durables and lower interest rates. Meanwhile, the rise in loans from other institutions and higher internal financing out of savings exerted an effect in the opposite direction (see Chart 3.3).

Ad hoc questions

In their replies to the ad hoc question on access to retail and wholesale funding, Spanish banks reported that, during the third quarter of 2017, they perceived a slight worsening in retail market access conditions, and stability in almost all wholesale markets, except in that for debt securities, in which they saw a slight improvement, particularly in the case of medium and long-term securities (see Chart A.1).

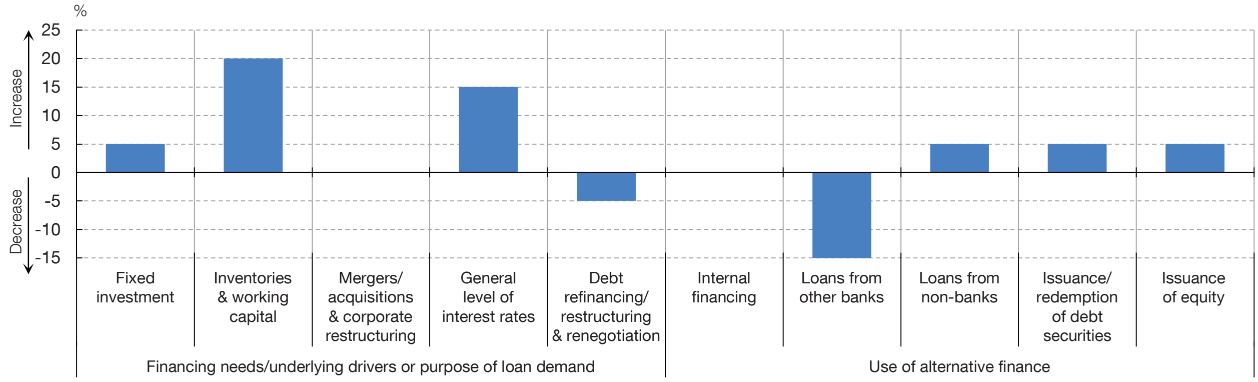
Responding banks reported that over the last six months the ECB's expanded asset purchase programme had enabled an improvement of their financial situation in terms of liquidity (primarily due to the sales of marketable assets), financing, and, to a lesser extent, profitability (due to the capital gains from the sale of marketable assets) and solvency (see Chart A.2). The banks participating in the survey also reported that the programme had been conducive to a slight decrease in their assets. It had no impact on credit standards in any segment, but had contributed to an easing of terms and conditions on loans.

Banks reported that they mainly used the liquidity obtained directly or indirectly as a result of the programme to grant loans to the private non-financial sector and, to a lesser extent,

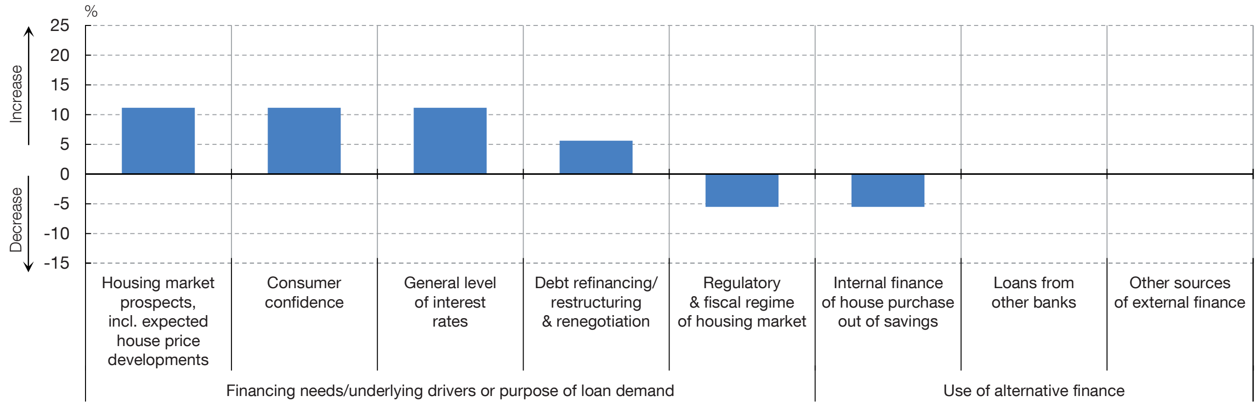
CONTRIBUTION OF FACTORS TO THE CHANGE IN DEMAND. SPAIN

CHART 3

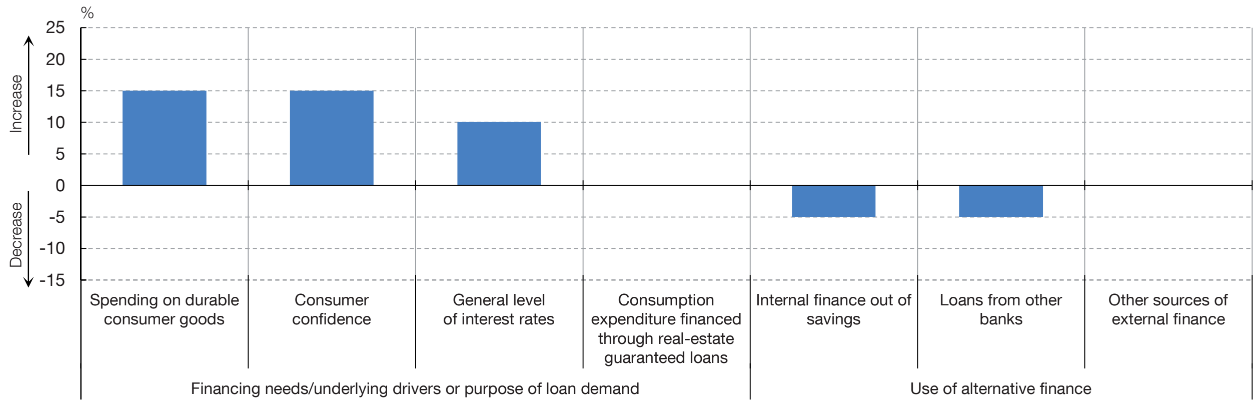
1 LOANS TO NON-FINANCIAL CORPORATIONS (a)



2 LOANS TO HOUSEHOLDS FOR HOUSE PURCHASE (a)



3 CONSUMER CREDIT AND OTHER LENDING TO HOUSEHOLDS (a)



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reporting that the factor has contributed considerably to increasing demand × 1 + percentage of banks reporting that it has contributed somewhat to increasing demand × 1/2 – percentage of banks reporting that it has contributed somewhat to reducing demand × 1/2 – percentage of banks reporting that it has contributed considerably to reducing demand.

to substitute for other sources of finance (claimable debt, interbank lending and Eurosystem refinancing operations, and to cover deposit withdrawals)(see Chart A.3). Banks also reported that they had used some of this liquidity to purchase euro area marketable securities, other than sovereign bonds, albeit marginally.

Lastly, in the case of the ad hoc question about the impact of the ECB's negative deposit facility rate, Spanish banks reported that it had contributed to a drop in net interest income over the last six months (see Chart A.4). The impact on loan interest rates and the margins applied was negative, but moderate, in all segments. Finally, the measure contributed to raising the volume of lending slightly.

As regards the current quarter, responding Spanish banks did not expect any change to their credit standards in the case of either loans to enterprises or households (see Chart 1). On the demand side, if their forecasts prove right, applications for all types of lending will increase.

In retail and wholesale funding markets the banks' outlook for the fourth quarter of 2017 was a slight improvement in conditions of access to retail and fixed income markets, and stability in other markets (see Chart A.1).

Outlook

As a consequence of the ECB's expanded asset purchase programme, responding banks expect their liquidity position, and to a lesser extent, financing conditions, to improve over the next six months. They also expect this measure to contribute to a slight decrease in the size of their balance sheets, and to a moderate reduction in their profitability (see Chart A.2). However, they do not think it will lead to changes in their capital levels. As regards the terms and conditions on loans to households and enterprises, the banks expect the programme to continue favouring an easing, and, in this case, they think it could also contribute to a slight relaxation in credit standards. The responding banks stated that they intended to devote the liquidity obtained directly or indirectly as a result of the programme mainly to granting loans to the private non-financial sector and, to a lesser extent, to replacing debt close to maturity and interbank lending (see Chart A.3).

Lastly, banks participating in the survey anticipate that, over the next six months, the ECB's negative deposit facility rate will contribute to a further drop in their net interest income, and a moderate decline in interest rates and margins on loans, together with a slight increase in the volume of lending (see Chart A.4).

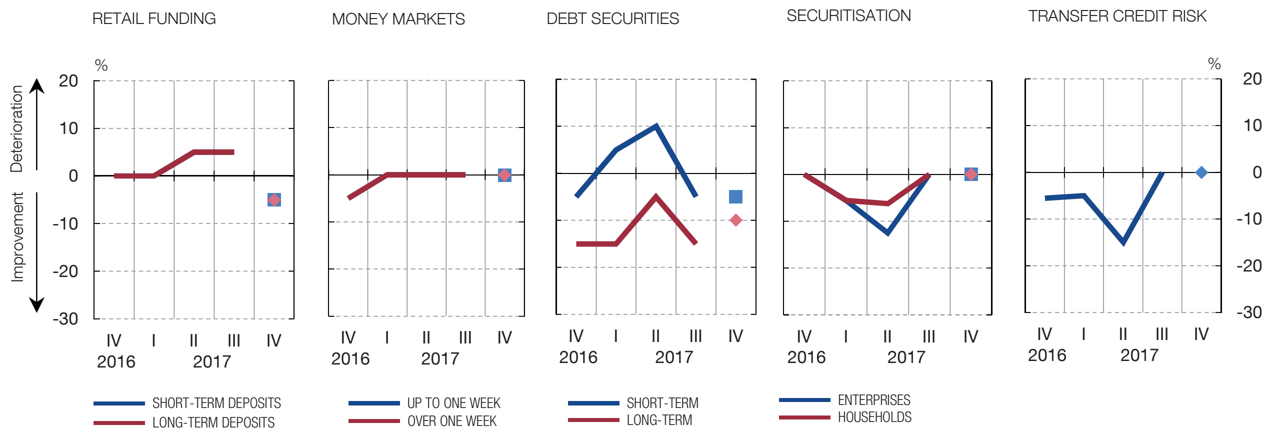
24.10.2017.

ANNEX WITH CHARTS OF MAIN RESULTS FOR THE AD HOC QUESTIONS

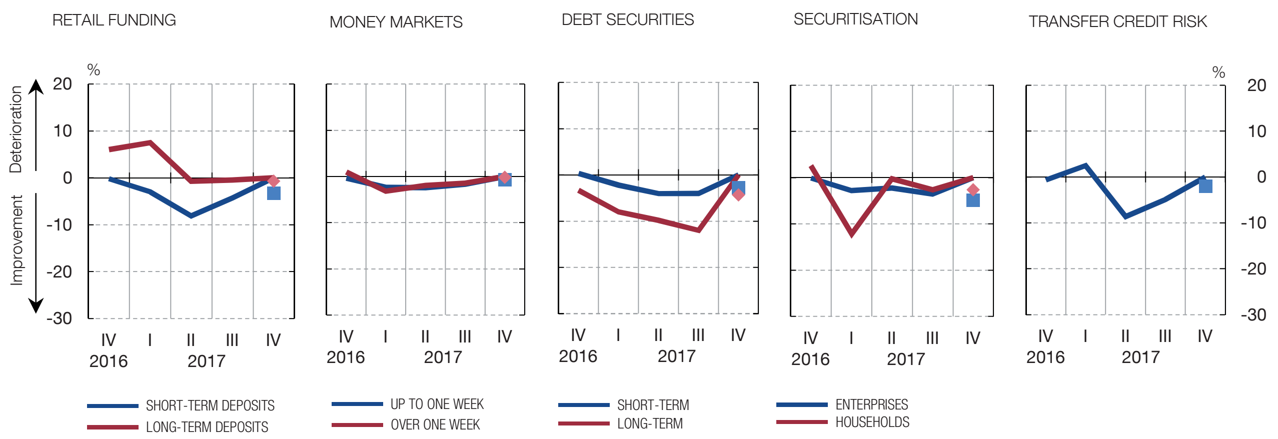
CHART A.1

MARKET ACCESS FOR RETAIL AND WHOLESALE FUNDING (a) (b)

1 SPAIN



2 EURO AREA



SOURCES: ECB and Banco de España.

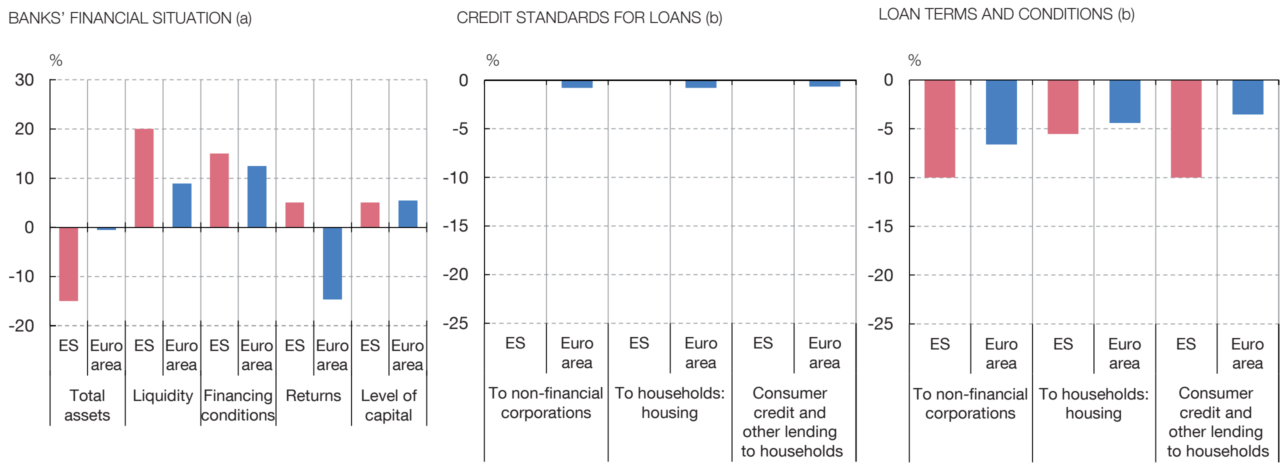
a Indicator = percentage of banks that have perceived a considerable deterioration in their market access × 1 + percentage of banks that have perceived some deterioration × 1/2 – percentage of banks that have perceived some easing × 1/2 – percentage of banks that have perceived a considerable easing × 1.

b ◆,■ Forecast.

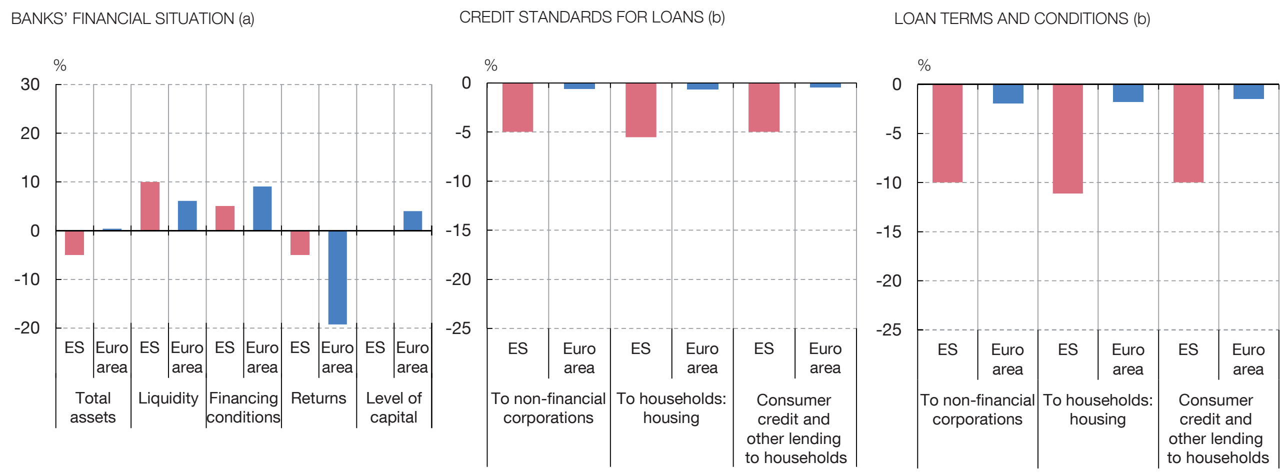
IMPACT OF THE ECB'S EXPANDED ASSET PURCHASE PROGRAMME

CHART A.2

1 LAST SIX MONTHS



2 NEXT SIX MONTHS



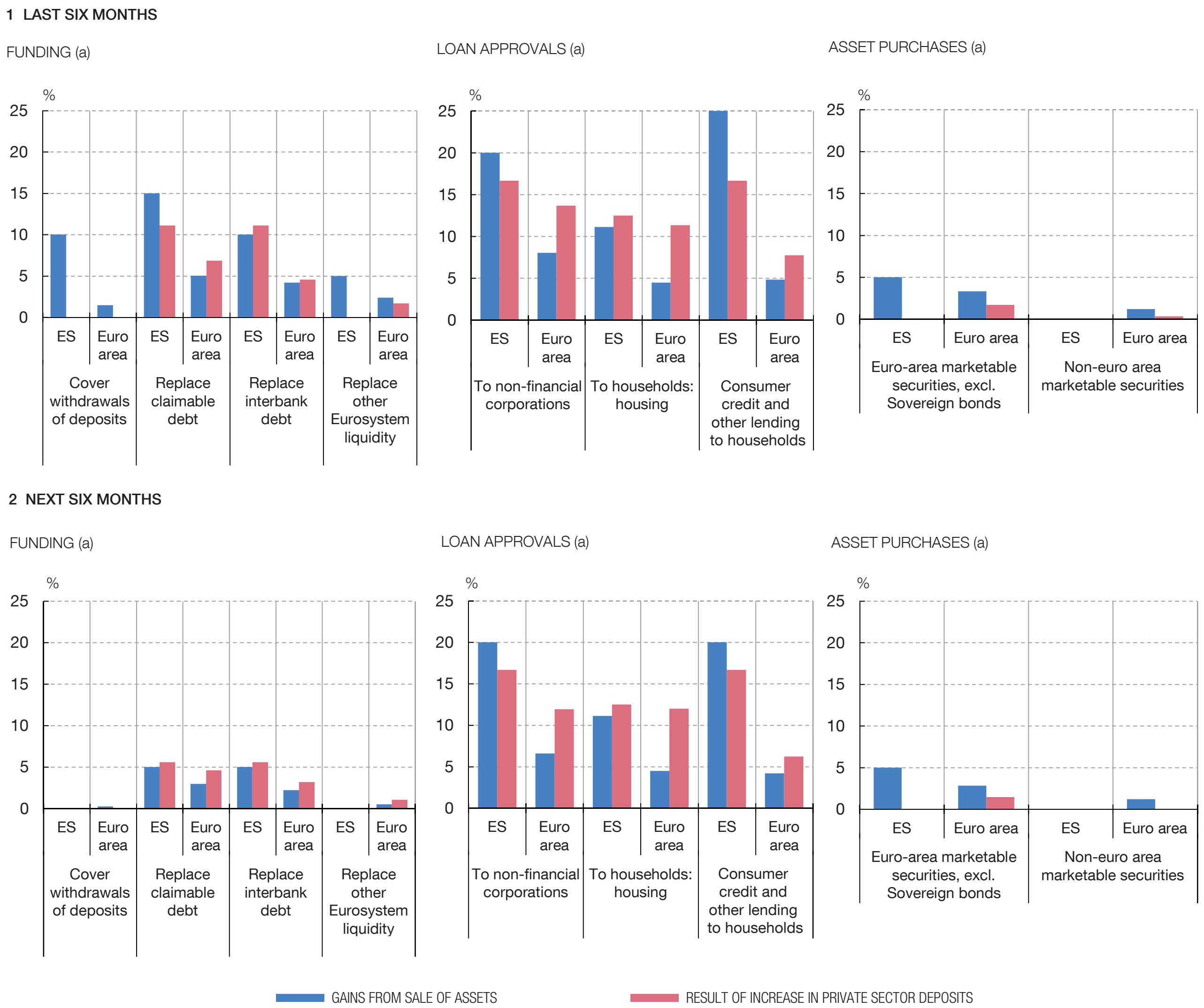
SOURCES: ECB and Banco de España.

a Indicator = percentage of banks stating that the programme contributed strongly to an increase or improvement x 1 + percentage of banks stating that it contributed somewhat to an increase or improvement x 1/2 - percentage of institutions stating that it contributed somewhat to a decline or deterioration x 1/2 - percentage of banks stating that it contributed considerably to a decrease or deterioration.

b Indicator = percentage of banks stating that the programme contributed considerably to tightening credit stantards or loan terms and conditions x 1. + percentage of banks stating that it contributed somewhat to a tightening x 1/2 - percentage of banks stating that it contributed somewhat to an easing of credit standards or loan terms and conditions x 1/2 - percentage of banks stating that it contributed to a considerable easing x 1.

USES OF THE FUNDS OBTAINED FROM THE ECB'S EXPANDED ASSET PURCHASE PROGRAMME

CHART A.3



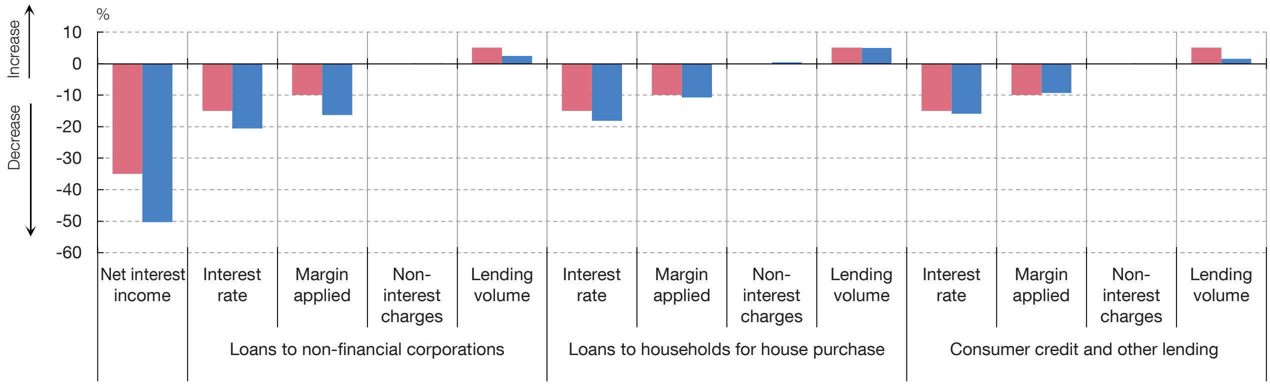
SOURCES: ECB and Banco de España.

a Indicator = percentage of banks stating that the funds obtained and/or envisaged contributed considerably to this goal x 1 + percentage of banks stating tht the contributed somewhat × 1/2.

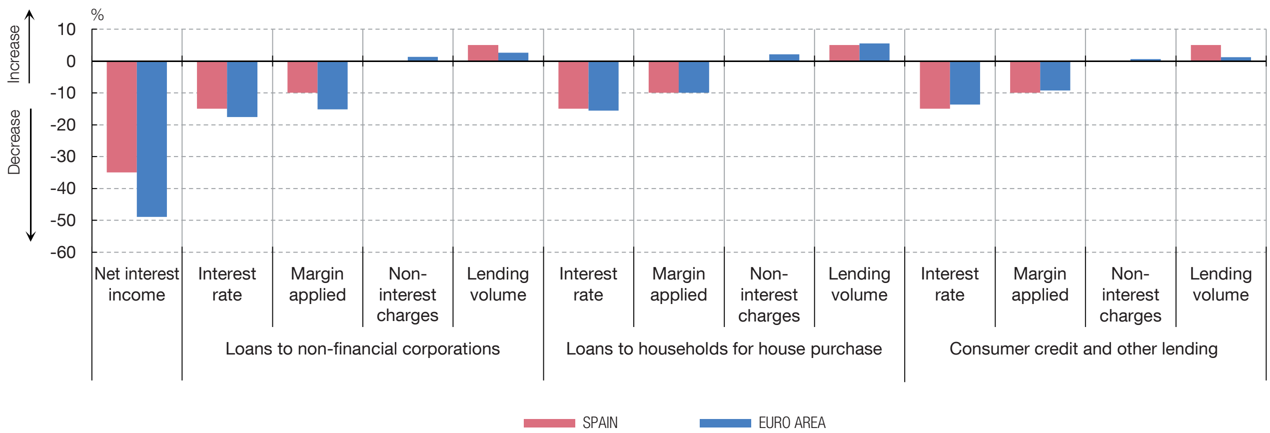
IMPACT OF ECB'S NEGATIVE DEPOSIT FACILITY RATE

CHART A.4

1 LAST SIX MONTHS



2 NEXT SIX MONTHS



SOURCES: ECB and Banco de España.

a Indicator = percentage of banks reportring a considerable increase × 1 + percentage of banks reporting a certain increase × 1/2 –percentage of banks reporting a slight decrease × 1/2 + percentage of entities reporting a considerable decrease × 1.