ANALYTICAL ARTICLES
Economic Bulletin

4/2020

BANCO DE ESPAÑA
Eurosistema

RECENT DEVELOPMENTS IN FINANCING AND BANK LENDING TO THE NON-FINANCIAL PRIVATE SECTOR

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ABSTRACT

The COVID-19 pandemic has significantly altered the financing of the non-financial private sector. Financing of the self-employed and businesses has risen as a consequence of both the increase in demand, stemming from greater liquidity needs and from the perceived increase in refinancing risks, and the expansion of supply, stimulated by the introduction of public guarantee programmes and by the European Central Bank's policies on the provision of liquidity to credit institutions. In contrast, new lending to individuals has fallen, largely as a consequence of the deterioration in the macroeconomic outlook, which has reduced the supply and demand for credit in this segment. The adverse impact of the COVID-19 crisis on the credit quality of deposit institutions' portfolios is currently being mitigated by the measures taken by the economic authorities and the institutions themselves (in particular, the public guarantee programme and legislative and banking sector moratoria). However, non-performing loans have increased since the start of the pandemic, both in the case of lending to non-financial corporations and to households. The non-performing loans ratio of deposit institutions has, however, held steady since March, as the expansion in lending (the denominator of the ratio) has offset the increase in the volume of non-performing loans (the numerator).

Keywords: financing, lending, households, non-financial corporations, deposit institutions, non-performing loans ratio, public guarantees, moratoria.

JEL classification: E44, E51, G21, G23, G28.

RECENT DEVELOPMENTS IN FINANCING AND BANK LENDING TO THE NON-FINANCIAL PRIVATE SECTOR

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Introduction

This article analyses the behaviour, since the beginning of the COVID-19 pandemic, of the financing raised by the Spanish non-financial private sector (second section) and of the resident deposit institutions' (DIs) portfolio of loans to this sector (third section). The behaviour of these variables does not completely coincide, since households and non-financial corporations (NFCs) do not only obtain funds from these financial intermediaries. In particular, households may obtain funding from specialised lending institutions (SLIs), while NFCs issue debt on the capital markets.[1] The last section of the article focuses on an analysis of the quality of the credit on DIs' balance sheets. The article includes two boxes. The first one analyses the role of the public guarantee programme in the buoyancy of lending to the self-employed and NFCs, as well as its contribution to covering their liquidity needs, while the second studies the effect of the loan moratoria introduced to temporarily relieve the debt burden of borrowers (essentially individuals), in particular those belonging to the groups hardest hit by the pandemic.

Financing raised by the non-financial private sector

The COVID-19 pandemic has significantly altered the macro-financial setting of the Spanish economy, with important implications for supply and demand conditions on funding markets. On the supply side, the higher risks associated with the worsening of the macroeconomic outlook and the heightened uncertainty serve to increase financial tightening. So far, the swift and determined actions of the economic authorities appear to have largely countered these forces, albeit with varying effects in the different segments.[2] The ECB introduced new refinancing programmes for counterparties and enhanced the conditions of the existing ones, at the same time

1 For a more detailed analysis of the differences between the two approaches and other statistical aspects, see Box 1 of the analytical article "Recent developments in financing and bank lending to the non-financial private sector", *Economic Bulletin,* 3/2019, Banco de España.

2 For more details see Chapter 3, "The role of economic policies internationally in the face of the pandemic", *Annual Report 2019,* Banco de España.

as it eased the collateral eligibility rules and capital and liquidity requirements. These measures aim to provide sufficient liquidity to financial institutions and to encourage them to grant funding to households and NFCs. In addition, the ECB extended its existing asset purchase programme and introduced a new one: the Pandemic Emergency Purchase Programme (PEPP), with an envelope of €1.35 trillion. The aim of the PEPP is to prevent the tightening of financing conditions in the capital markets. For its part, in March the Spanish government approved a public guarantee facility for loans to businesses and the self-employed, followed by a second one in July, for up to €100 billion and €40 billion, respectively. These guarantee facilities are intended to encourage lending to these sectors, with the Spanish State assuming part of the risks that banks incur in their credit transactions with these agents.[3]

To date, these measures taken by the economic authorities would appear to have helped to prevent a significant increase in the cost of new lending. Thus, since the onset of the pandemic, average interest rates on bank loans have remained relatively low and stable, and have even declined in some segments. In particular, the cost of credit to sole proprietors has fallen significantly, by around 80 basis points (bp) (see Chart 1.1), partly influenced by the launch of the first public guarantee facility, which has enabled the self-employed and businesses to obtain funding at a lower cost and with longer maturities (see Box 1). Nevertheless, since May, financing costs in general have risen somewhat, slightly more markedly in the loans to NFCs over €1 million segment, which essentially includes loans to large corporations.

In contrast to the case of bank financing, NFCs' financing costs in the capital markets initially rose significantly, although this pattern subsequently reversed, largely owing to the launch of the ECB's new asset purchase programme and the various announcements linked to the new recovery fund agreed by the European Council. Nevertheless, in August the average interest rate on these transactions was some 20 bp above the pre-pandemic level[4] (see Chart 1.2).

The introduction of the public guarantee facility for loans to the self-employed and businesses also appears to have helped ease credit standards for lending to these sectors in 2020 Q2. According to the results of the Bank Lending Survey (BLS), between April and June the credit supply to businesses recorded the most growth in a quarter since the series began in 2002[5] (see Chart 1.3). By contrast, over the same period, credit standards for loans to households recorded the strongest tightening since 2008, although below the levels observed in that year following the collapse of Lehman Brothers which triggered the global financial crisis. The supply of credit appears to have contracted much more sharply in the consumer credit and

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3 For more details see Chapter 4, "The impact of the pandemic in Spain and the economic policy response", *Annual Report 2019,* Banco de España.

4 For more details on the recent performance of corporate debt markets see Box 6, "The Spanish corporate debt market during the COVID-19 crisis" in "Quarterly Report on the Spanish Economy", *Economic Bulletin* 3/2020, Banco de España.

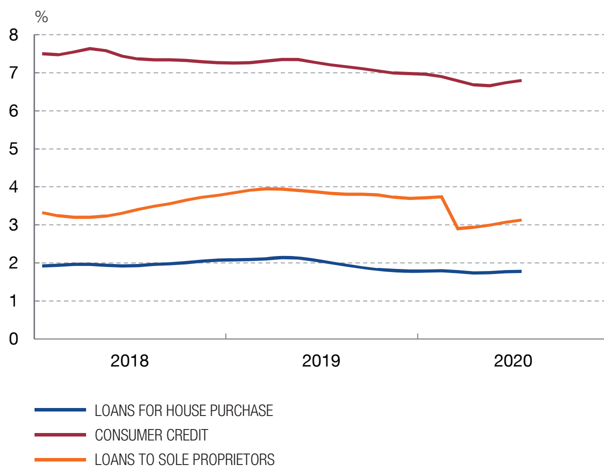
5 The BLS does not include information on the supply of credit to the self-employed.

Chart 1

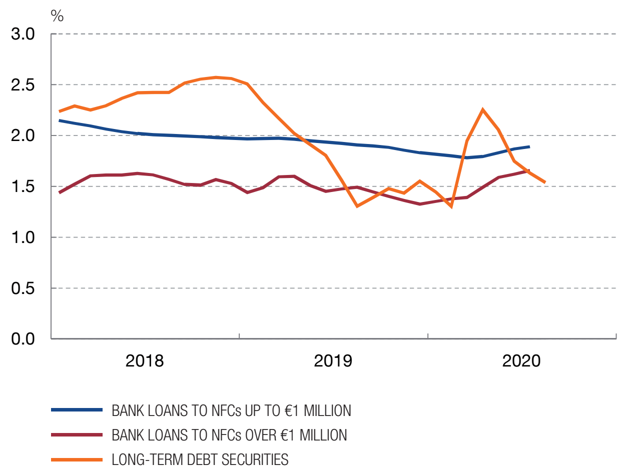
MARKED CHANGES IN THE SUPPLY OF AND DEMAND FOR CREDIT, WHILE FINANCING COSTS HAVE REMAINED RELATIVELY STABLE (a)

The measures taken by the economic authorities to mitigate the effects of the COVID-19 crisis have so far staved off a significant increase in both bank and market financing costs, which remain low. Thanks to the public guarantee facilities, interest rates have declined in some segments and the supply of credit to businesses has eased, in a setting in which loan applications have risen sharply as a result of high liquidity needs. Conversely, credit standards for households have tightened acutely, at the same time as household demand for loans has collapsed.

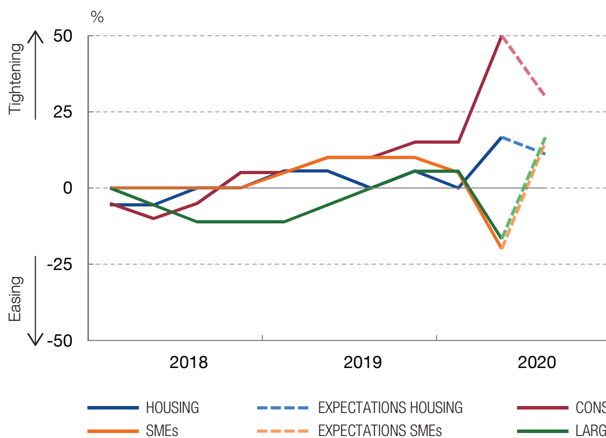
1 FINANCING COSTS: HOUSEHOLDS (b)



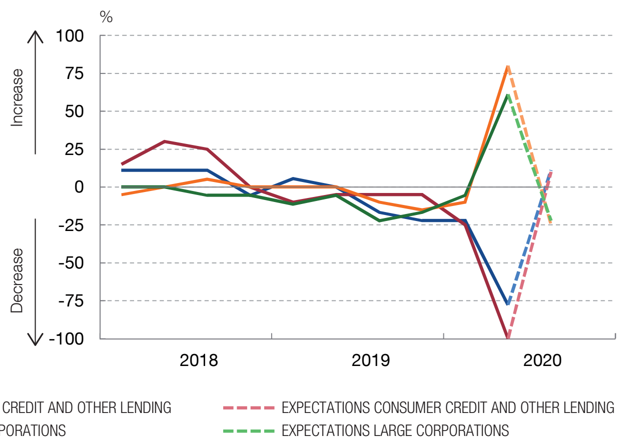
2 FINANCING COSTS: NON-FINANCIAL CORPORATIONS (b)



3 BLS: CHANGE IN CREDIT STANDARDS (c)



4 BLS: CHANGE IN DEMAND FOR LOANS (d)



HOUSING | EXPECTATIONS HOUSING | CONSUMER CREDIT AND OTHER LENDING | EXPECTATIONS CONSUMER CREDIT AND OTHER LENDING
SMEs | EXPECTATIONS SMEs | LARGE CORPORATIONS | EXPECTATIONS LARGE CORPORATIONS

SOURCES: Thomson Reuters Datastream and Banco de España.

a Credit transactions include those with deposit institutions and with specialised lending institutions.
b Interest rates on bank loans are NDER (narrowly defined effective rate), i.e. excluding fees, and are seasonally and irregular component-adjusted.
c Bank Lending Survey. Indicator = percentage of banks that have tightened their credit standards considerably × 1 + percentage of banks that have tightened their credit standards somewhat × 1/2 – percentage of banks that have eased their credit standards somewhat × 1/2 – percentage of banks that have eased their credit standards considerably × 1.
d Bank Lending Survey. Indicator = percentage of banks reporting a considerable increase × 1 + percentage of banks reporting some increase × 1/2 – percentage of banks reporting some decrease × 1/2 – percentage of banks reporting a considerable decrease × 1.

other lending segment than in loans for house purchase.[6] In both cases, the tightening appears to have been due to lenders' higher risk perception. Looking ahead to 2020 Q3, in June financial institutions expected the credit supply to households to tighten further, albeit more moderately than in Q2, while in the case of financing for businesses the supply of credit was expected to shrink, following the growth observed in the previous quarter, according to the expectations of the banks surveyed. In any event, this could be partly influenced by the fact that, at end-June, banks had already taken up almost 70% of the €95.5 billion made available in public guarantees.[7] It should be noted, however, that when the banks responded to this survey, the new guarantee facility for loans to the self-employed and businesses with a total of €40 billion was yet to be approved.[8]

The BLS also signals that there were strong moves in both directions in demand for loans in 2020 Q2, according to the sector in question (see Chart 1.4). The lockdown measures, the worsening of the macroeconomic outlook and the heightened uncertainty all triggered an unprecedented fall in households' bank loan applications. By contrast, businesses' demand for loans rose sharply as a result of their higher liquidity needs and the greater concern over refinancing risks linked to the effects of the health crisis.[9]

In line with the supply of and demand for credit described above, there was a marked difference in credit activity between the loans granted by deposit institutions and specialised lending institutions to individuals and those granted to productive activity. Thus, between March and May, new lending to households for house purchase and consumer credit collapsed, recording very high rates of contraction (see Chart 2.1). Conversely, in the same period, the rate of growth of new bank lending to sole proprietors and NFCs reached all-time highs. In June, these moves tended to moderate significantly, bringing loan volumes closer to pre-pandemic levels. The latest data available (for July) show a reversal in these tendencies, as the volume of loans to businesses fell year-on-year while the volume of loans to households for house purchase increased. In turn, after contracting at the start of the health crisis, new financing raised by businesses in the capital markets by means of issuance of debt securities subsequently showed greater momentum, in keeping with the easing of the tight conditions in those markets (see Chart 2.2).

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6 For a more detailed analysis of the results of this survey, see "Bank Lending Survey in Spain: June 2020", Analitycal Articles, *Economic Bulletin* 3/2020, Banco de España.

7 The last and final tranche of the public guarantee facilities linked to Royal Decree-Law 8/2020, with a value of €15.5 billion, was activated in mid-June. The total guarantee facility authorised under the Royal Decree-Law amounts to €100 billion, in five tranches made available between 24 March and 16 June. See the Resolution of the Council of Ministers of 16 June 2020.

8 See Royal Decree-Law 25/2020 of 3 July 2020 on urgent measures to support economic recovery and employment. At the date of publication of this article the tranches activated of this new guarantee facility amount to €8 billion.

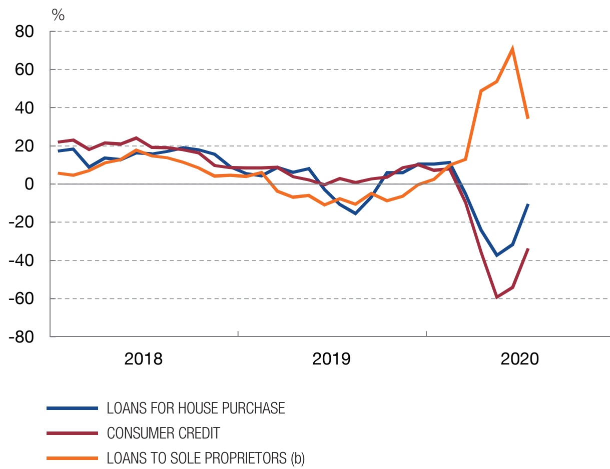
9 For a more detailed analysis of Spanish non-financial corporations' liquidity needs in the wake of the pandemic, see *"Spanish non-financial corporations' liquidity needs and solvency after the COVID-19 shock"*, Occasional Paper No 2020, Banco de España.

Chart 2

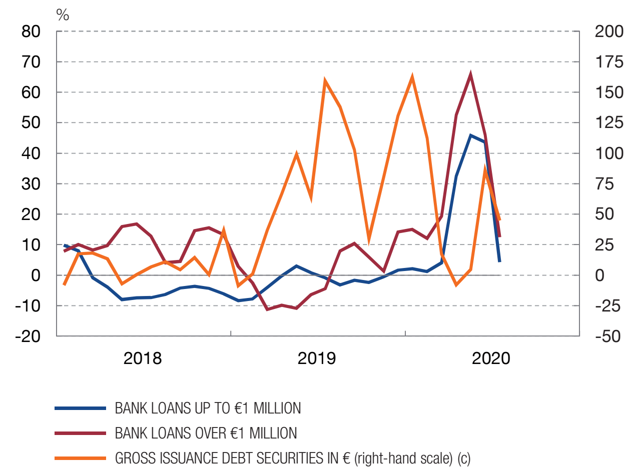
CONTRACTION IN FINANCING FOR INDIVIDUALS; GROWTH IN FINANCING OF PRODUCTIVE ACTIVITY

New loans for house purchase and consumer credit slumped following the onset of the health crisis, while the rate of growth of loans to sole proprietors and non-financial corporations reached all-time highs. Firms' capital markets financing initially contracted, but then subsequently expanded at a strong pace. This new lending momentum was reflected in outstanding amounts.

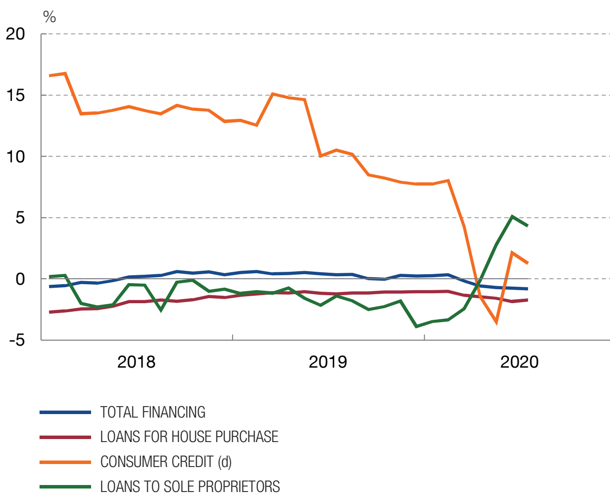
1 NEW LENDING TO HOUSEHOLDS (a)
Y-o-y change in 3-month cumulative flows



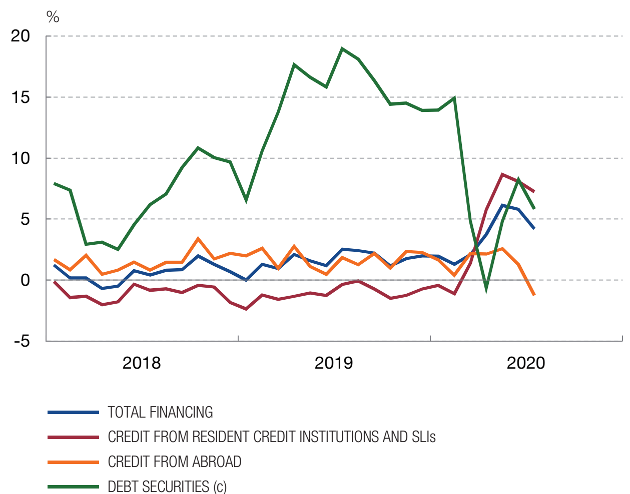
2 NEW FINANCING TO NON-FINANCIAL CORPORATIONS (a)
Y-o-y change in 3-month cumulative flows



3 FINANCING TO HOUSEHOLDS (a)
Y-o-y change



4 FINANCING TO NON-FINANCIAL CORPORATIONS (a)
Y-o-y change



SOURCE: Banco de España.

a Bank financing series (credit or loans) include financing granted by deposit institutions and by specialised lending institutions (SLIs).
b Including renegotiated loans.
c Including issues by resident subsidiaries.
d Not including securitisation.

These changes in financing flows were reflected in outstanding amounts. Accordingly, the outstanding amount of lending to households fell by 0.8% year-on-year in June, compared with an increase of 0.3% in February (see Chart 2.3). This was due to the higher rate of decline in loans for house purchase (down 1.9% in June, 0.9 percentage points (pp) more than in February) and the sharp deceleration in consumer credit (which rose by barely 0.3% year-on-year in June, 7.8 pp less than four months earlier). In any event, loan moratoria for households have helped smooth the decline in the outstanding amount of bank debt in this sector, insofar as they have reduced repayments of outstanding loans (see Box 2). The latest data (for July) show that the year-on-year rate of contraction in the outstanding amount of lending to households remained steady.

By contrast, lending to productive activities rose at a strong pace. Thus, the rate of growth of sole proprietors' outstanding credit obligations ceased to fall, and indeed rose by 4.8% year-on-year in June. In turn, lending by resident financial institutions to NFCs expanded by 8.1% year-on-year in June, the largest increase since end-2008 apart from the May 2020 figure (see Chart 2.4). Financing from abroad also increased, although the rates of growth were lower (1% year-on-year in June). Recourse to corporate debt issuance rose also, although at more moderate rates than before the pandemic (7.7% mid-year, compared with 14.9% in February). As a result of all the above, total financing to NFCs was up 5.6% at the 2020 H1 close, a rate of growth not observed since mid-2009 (excluding the May 2020 figure which was marginally higher). The most recent data available (for July) show a lower rate of year-on-year growth in financing raised by sole proprietors and NFCs.

The lending activity of the resident banking sector[10]

The outstanding amount of credit granted by DIs in Spain to the resident private sector rose by 2.4% between June 2019 and June 2020 (see Chart 3.1), as a consequence of the sharp increase in the last three months of the period. Before the start of the pandemic, credit was growing at negative annual rates, although these were easing (–1.2% in December 2019). In 2020 Q1 this variable increased slightly (by 0.3%) from December 2019, largely due to the use of credit facilities by businesses to moderate the initial impact of the COVID-19 crisis in the latter weeks of March. Between the end of March and June this year, credit granted by DIs to the non-financial private sector grew by an additional 4.2%, increasing the total outstanding amount in the first half of 2020 by €50 billion.

In line with the previous section, the lending on the balance sheets of DIs in Spain displayed different trends, according to the institutional sector of the borrower. On

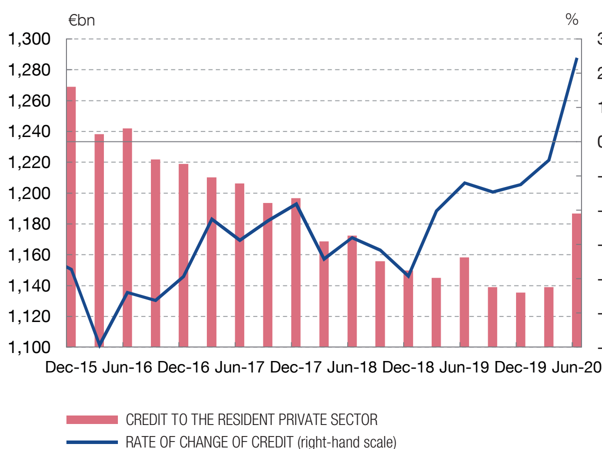
10 This section focuses on the credit exposure of DIs to households and non-financial corporations. SLIs are not included.

Chart 3

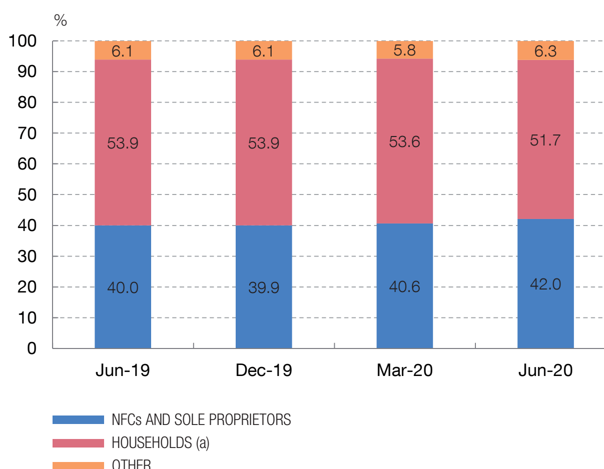
LOANS GRANTED BY RESIDENT DIs HAVE GROWN STRONGLY SINCE THE START OF THE PANDEMIC, INCREASING THE RELATIVE WEIGHT OF CREDIT TO NFCs AND SOLE PROPRIETORS

In June, the year-on-year change in total credit stood in positive territory, after the increases observed in this series since the beginning of the pandemic. In the first half of 2020, the proportion of credit to NFCs and sole proprietors increased by more than 2 pp to 42% of total credit to the resident private sector.

1 VOLUME OF CREDIT AND YEAR-ON-YEAR RATE OF CHANGE. DIs



2 COMPOSITION OF CREDIT BY INSTITUTIONAL SECTOR. DIs



SOURCE: Banco de España.

a Excluding lending for business activities, which is classified as lending to sole proprietors.

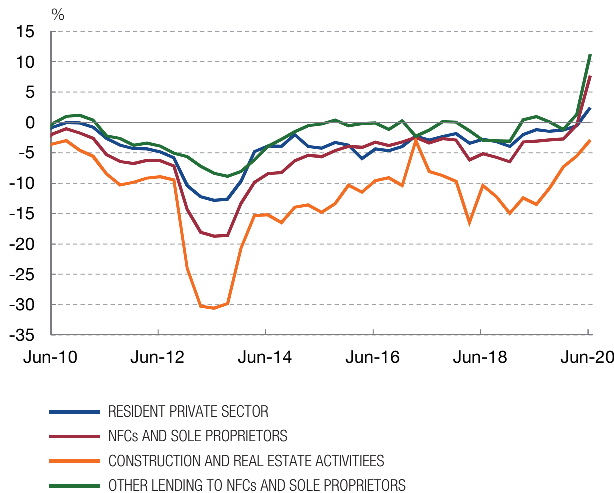
one hand, credit to NFCs and sole proprietors increased by 7.7% year-on-year in June 2020 (see Chart 4.1). It is important to note that in December 2019 this rate stood at -2.7% and, therefore, this variable rebounded sharply in the first half of 2020. By contrast, the downward trend in the outstanding amount of credit to households intensified from December 2019, falling by 1.8% year-on-year in June 2020. There was a notably sharp slowdown in the amount granted for purposes other than house purchase, a portfolio that had been growing strongly in the years leading up to the pandemic, albeit with a smoothly slowing profile. The behaviour of this series is largely explained by the fall in demand for consumer credit as a result, initially, of the confinement and, subsequently, of the uncertainty surrounding the future economic situation of households, combined with the increase in the risk of these transactions as a result of that uncertainty. As regards credit for house purchase, the total amount decreased in June by 2.2% year-on-year, a larger decline than in the preceding quarters.

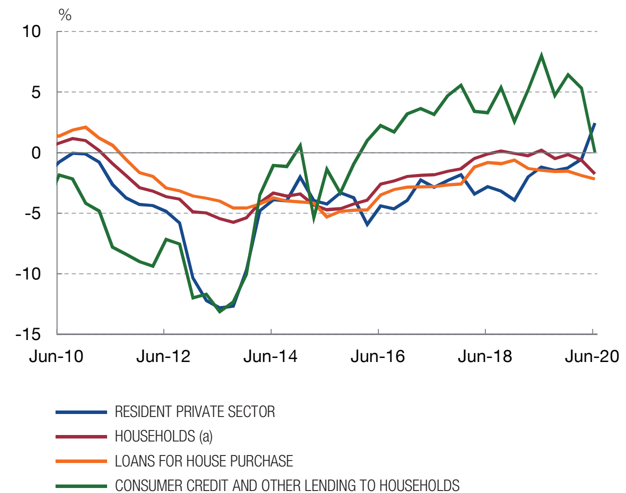
The progressive activation of the tranches of the Official Credit Institute's (ICO) guarantee facility for NFCs and sole proprietors, which was approved to relieve the economic impact of the COVID-19 crisis, has played a very important role in this behaviour of DI credit, as analysed in greater detail in Box 1. Chart 5.1 shows the outstanding amount of credit to NFCs and sole proprietors between the end of

Chart 4

IN Q2, THERE WAS A NOTABLE EXPANSION IN THE STOCK OF DIs' CREDIT TO NFCs AND SOLE PROPRIETORS, IN CONTRAST TO THE DECLINE IN THEIR CREDIT TO HOUSEHOLDS DUE TO THE CONTRACTION OF CONSUMER CREDIT

Lending for business activities increased notably during Q2, to reach a year-on-year rate of 7.7% in June, partly due to the guarantee programme approved by the Government. It should be noted that this increase was especially apparent in sectors other than construction and real estate activities. Meanwhile, the fall in lending to households accelerated, as a result of the further decline in loans for house purchase and, especially, the sharp slowdown in consumer credit.





SOURCE: Banco de España.

a Excluding lending for business activities, which is classified as lending to sole proprietors.

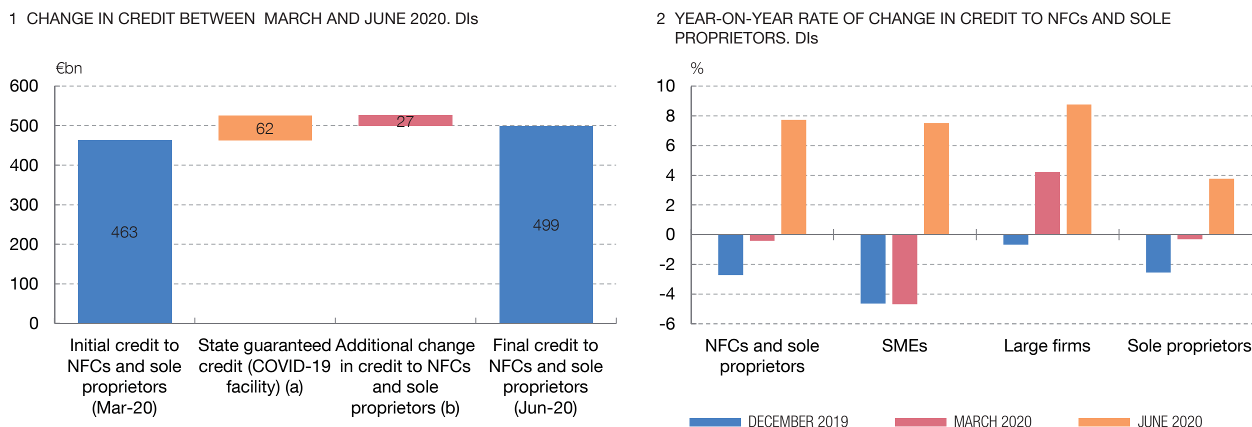
March and June 2020, the period in which the bulk of the guarantee programme became available. As can be seen, the outstanding amount of credit to this sector grew during this period by almost €36 billion. In the same period, the credit drawn down under transactions guaranteed by the ICO facility amounted to approximately €62 billion. The change in the outstanding amount of credit to NFCs and sole proprietors, excluding new amounts drawn down associated with the public guarantee facility provided in response to COVID-19, is thus a negative amount of €27 billion in that same period.

In the second half of the year, credit for productive activity is not expected to show similar growth to that observed in the first half of 2020. On one hand, most of the ICO guarantee facility associated with Royal Decree-Law 8/2020 has already been made available and businesses have taken advantage of the greater availability of financing to build up liquidity buffers (their deposits with financial institutions have increased by around €30 billion over the period). On the other hand, net repayment of outstanding debt not associated with the guarantee programme can be expected to continue.

Chart 5

THE ICO GUARANTEE FACILITY HAS HAD A DECISIVE IMPACT ON THE GROWTH OF LENDING TO NFCs AND SOLE PROPRIETORS, WHICH HAS BEEN BROAD-BASED ACROSS DIFFERENT FIRM SIZES

In Q2, credit to NFCs and sole proprietors increased in all size categories. The increase in credit to NFCs and sole proprietors observed between March and June was due to the guarantees granted by the ICO's COVID-19 facilities. The additional change in the quarter in the stock of credit to NFCs and sole proprietors, associated with other credit flows, is negative and partially offsets the impact of the guarantee programme.



SOURCE: Banco de España.

a The guarantee facility of RDL 8/2020 with a ceiling of €100 billion. The total amount of credit granted with a guarantee up to June 2020 (the latest data available as at the cut-off date of this article) was €87 billion, the amount actually drawn down by NFCs and sole proprietors being €62 billion.

b The additional change in credit to NFCs reflects the change in the stock of credit not explained by the implementation of the guarantee programme, which corrresponds to the net difference between new lending outside the guarantee programme and repayments and write-offs.

The breakdown of the behaviour of the outstanding amount of credit to NFCs, according to their size (see Chart 5.2), shows that the strong increase in the latest quarter is observed in all size categories, and that SMEs experienced the largest difference between the situation before and after activation of the ICO guarantee facilities.[11] In the case of large firms, the change in trend in credit growth was already clearly apparent in the latter weeks of March.

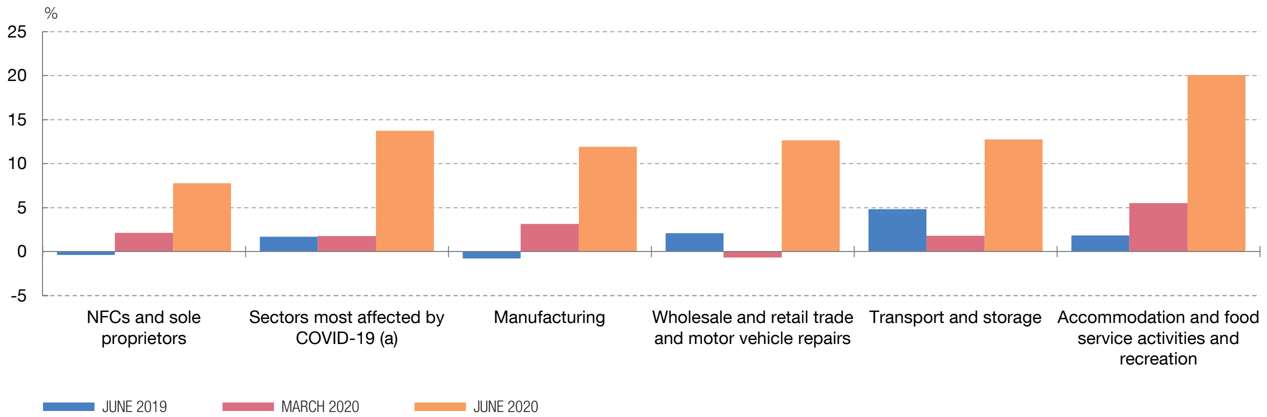
Lastly, Chart 6 shows the recent behaviour of credit to businesses belonging to those sectors most directly affected by the COVID-19 crisis. These include manufacturing (except food), wholesale and retail trade and motor vehicle repairs, transport and storage, and accommodation and food service activities and recreation. In all these industries, the growth recorded in the latest quarter (13.7% for the affected sectors as a whole) widely exceeded the average growth of credit to NFCs and sole proprietors (7.7%), with the expansion in credit to accommodation and food service activities and recreation particularly standing out (20%). In the

11 This is consistent with the distribution of the ICO guarantee facility by activity and by firm size: €67.5 billion to SMEs and the self-employed, €25 billion to large firms and €2.5 billion to tourism and related activities.

Chart 6

THE GROWTH OF CREDIT TO NFCs AND SOLE PROPRIETORS WAS MORE PRONOUNCED IN THE SECTORS MOST AFFECTED BY THE COVID-19 CRISIS

In those sectors most affected by COVID-19, credit grew strongly in Q2, at almost twice the growth rate for total credit to NFCs and sole proprietors. In particular, credit to accommodation and food service activities and recreation grew by 20% between March and June 2020. In 2020 Q1, credit to these sectors grew in line with total credit to NFCs and sole proprietors.



SOURCE: Banco de España.

a The total for sectors most affected by COVID-19 includes the joint behaviour of manufacturing, wholesale and retail trade, motor vehicle repairs, transport and storage, accommodation and food service activities and recreation.

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previous quarter, the growth of credit to these sectors had been in line with that observed for all NFCs.

Quality of bank lending

The health crisis triggered by the COVID-19 pandemic is having a highly adverse impact on economic activity, which could lead to a worsening of firms' and households' financial positions. This would undermine their ability to discharge their payment obligations to DIs. Yet the forceful and coordinated economic policy response (specifically, the implementation of the ICO guarantee facilities and moratorium schemes) appears to have helped alleviate this impact.[12] Moreover, the adaptation of prudential and accounting regulations to the circumstances of the COVID-19 crisis also seems to have helped prevent a greater increase in non-performing bank loans.[13]

That said, March to June 2020 saw the first quarterly increase in the volume of non-performing loans (NPLs) since the end of the global financial crisis. Even so, the

12 See Box 1.1 of the Spring 2020 *Financial Stability Report.*

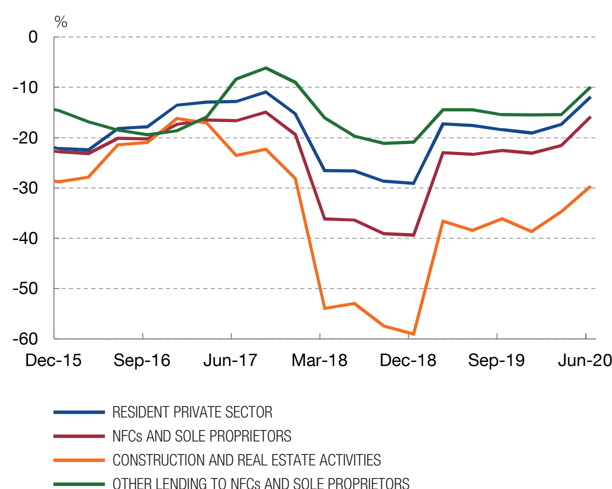
13 See Chapter 3 of the Spring 2020 *Financial Stability Report.*

Chart 7

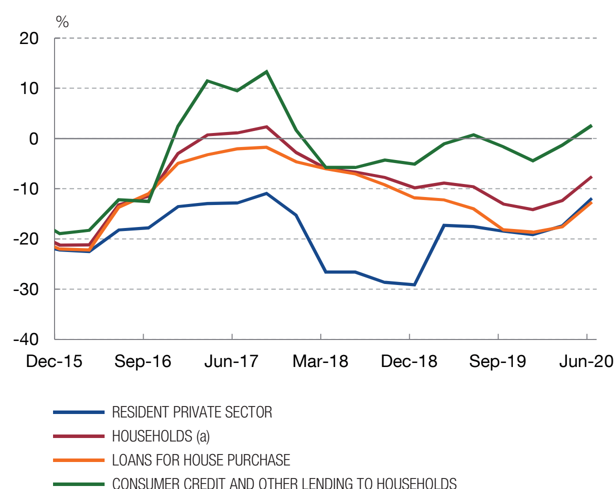
THE PACE OF THE DECLINE IN NON-PERFORMING BANK LOANS SLOWED IN 2020 Q2 BOTH FOR NFCs AND SOLE PROPRIETORS AND FOR HOUSEHOLDS

The decline in non-performing loans observed in recent years slowed in Q2 both for NFCs and sole proprietors and for households. This was widespread across business sectors, although some loss of momentum had already been observed in Q1 in construction and real estate activities. Across the various purposes of the loans to households, of note was the positive year-on-year change in June 2020 in non-performing loans in other lending to households.

1 Y-O-Y RATE OF CHANGE OF NFCs' AND SOLE PROPRIETORS' NON-PERFORMING LOANS. DIs



2 Y-O-Y RATE OF CHANGE OF HOUSEHOLDS' NON-PERFORMING LOANS. DIs



SOURCE: Banco de España.

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a Excluding lending for business activities, which is classified as lending to sole proprietors.

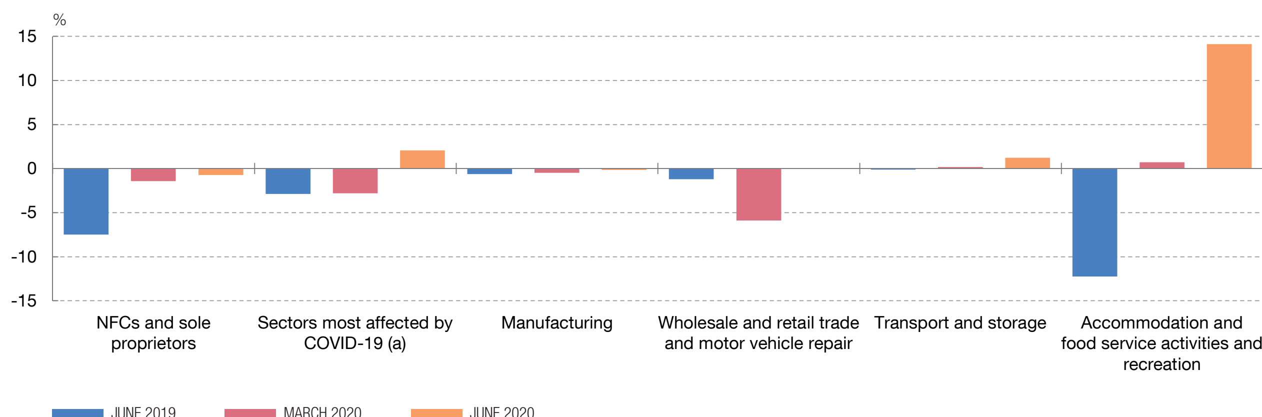
year-on-year rate of growth remained negative (-11.9%) in 2020 H1, albeit to a lesser degree than in prior quarters, in which the year-on-year declines exceeded 17% (see Chart 7). In turn, the NPL ratio in 2020 Q2 was slightly lower than in Q1 (4.8%), although this was because the increase in the denominator resulting from the growth of credit analysed in the preceding sections more than offset the increase in the numerator.

The decline in non-performing loans recorded in recent years moderated across all institutional sectors, with those of NFCs and sole proprietors decreasing at twice the rate as those of households (15.8% year-on-year versus 7.6%). The largest reduction in non-performing loans was once again observed in construction and real estate activities (29.6%), while in the remaining sectors they fell by 9.9% (see Chart 7.1).

The negative performance in the sectors hardest hit by the COVID-19 pandemic was notable in the latest quarter. These sectors' non-performing loans increased by 2% in quarter-on-quarter terms, compared with the decline observed for NFCs as a whole (0.8%). The accommodation and food service activities and recreation sector recorded the largest quarter-on-quarter growth of non-performing loans (14.1%) (see Chart 8). This trend in non-performing loans in the sectors hardest hit by the pandemic is in stark contrast to the downward trajectory observed in 2020 Q1, with

Chart 8
NON-PERFORMING LOANS INCREASED IN Q2 IN THE SECTORS MOST SENSITIVE TO THE COVID-19 CRISIS, COMPARED WITH THE DECLINE OBSERVED FOR NFCs AND SOLE PROPRIETORS

The non-performing loans of NFCs and sole proprietors fell slightly in Q2, although at a much slower pace than in the same quarter of 2019, while in the sectors most affected by COVID-19 they increased. The increase was particularly pronounced in the accommodation and food services activities and recreation sector, with a 14.1% quarter-on-quarter rate of change, in contrast to the sharp reduction in June 2019.



SOURCE: Banco de España.

a The total of the sectors most affected by COVID-19 includes the overall changes in manufacturing, wholesale and retail trade, motor vehicle repair, transport and storage, and accommodation and food service activities and recreation.

DOWNLOAD

the difference once again being particularly pronounced for the accommodation and food service activities sector.

In the households segment, non-performing loans for house purchase continued declining (year-on-year decrease of 12.7% in June 2020), although at a slower rate than in the preceding quarter (year-on-year drop of 17.6%). The year-on-year growth of non-performing loans to households for purposes other than house purchase was notable (2.6%) (see Chart 7.2). In particular, consumer credit once again recorded double-digit figures (23%).

The NPL ratio declined in both the NFC and sole proprietor sector and in the households sector to reach 5.6% and 4.3%, respectively, in June 2020 (7.2% and 4.5% in June 2019). By sector of activity, the decline was steeper in construction and real estate activities (2.4 pp to 6.2%) than in the others (1.3 pp to 5.4%) (see Chart 9.1). In the households segment, the NPL ratio of loans for house purchase (3.3% in June 2020) has fallen by 0.4 pp over the last year, while that of loans for other purposes has increased by 0.2 pp, to reach 8.2% in June 2020 (see Chart 9.2), and that of consumer credit has increased particularly sharply (5.6% in June 2020, compared with 4.6% in June 2019).

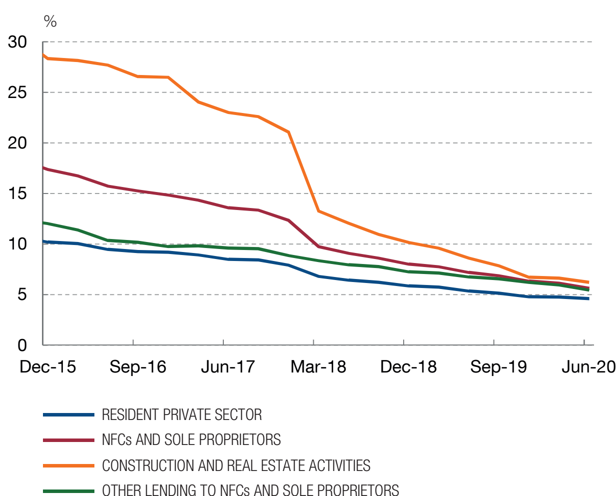
The ICO guarantee facility has helped to contain the NPL ratio of NFCs and sole proprietors via both the numerator (the liquidity provided to borrowers lessens the

Chart 9

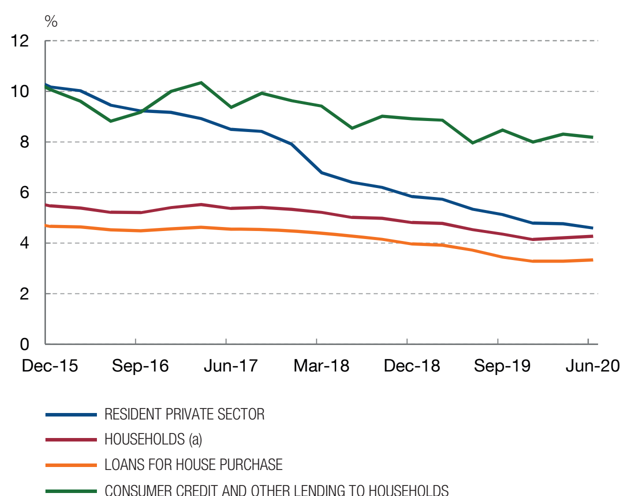
THE NPL RATIO DECREASED IN YEAR-ON-YEAR TERMS, ALTHOUGH THE OUTBREAK OF THE PANDEMIC HAS MODERATED ITS FALL AND EVEN HALTED IT IN THE HOUSEHOLDS SEGMENT

There was a widespread decrease in NPL ratios across institutional sectors and sectors of activity over the last 12 months, although it was concentrated in the months preceding the outbreak of the pandemic. The growth of lending to NFCs and sole proprietors in the ratio's denominator has been a determinant in maintaining a moderate fall since March 2020. The NPL ratio of loans to households increased slightly in Q2. Of note is the high level of 8% in consumer credit and other lending to households holding steady.

1 NPL RATIO OF LOANS TO NFCs AND SOLE PROPRIETORS. DIs



2 NPL RATIO OF LOANS TO HOUSEHOLDS. DIs



SOURCE: Banco de España.

a Excluding lending for business activities, which is classified as lending to sole proprietors.

inflow into non-performance of pre-existing payment obligations) and the denominator (the extension of loans backed by a public guarantee has led to growth of lending). In the case of households, the direct effects of the moratorium scheme mostly reduce the growth of the numerator (the inflow into non-performance), although the scheme also contributes to maintaining the size of the denominator due to a slower rate of repayments. These developments help to explain the moderate decline in the NPL ratio observed in 2020 Q2 (from 4.8% in March 2020 to 4.6% in June 2020).

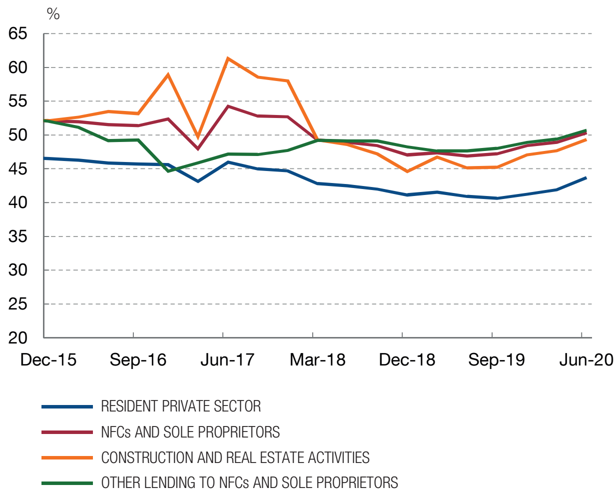
Despite the containment of the NPL ratio in 2020 H1, more sizeable increases could occur in the coming months. First, default patterns involve a lag between when borrowers suffer the adverse shock to their income flows and when they default on their payment obligations. Additionally, the end of the support schemes could result, should no further mitigating measures be introduced, in defaults being concentrated at the point when the moratoria expire, in the case of households, and the grace period related to the guarantees lapses, in the case of sole proprietors and NFCs.

The NPL coverage ratio (the percentage of non-performing loans covered by provisions) of the resident private sector increased over the last year in all institutional sectors, reaching 43.7% in June 2020 (40.9% in June 2019). This increase was more

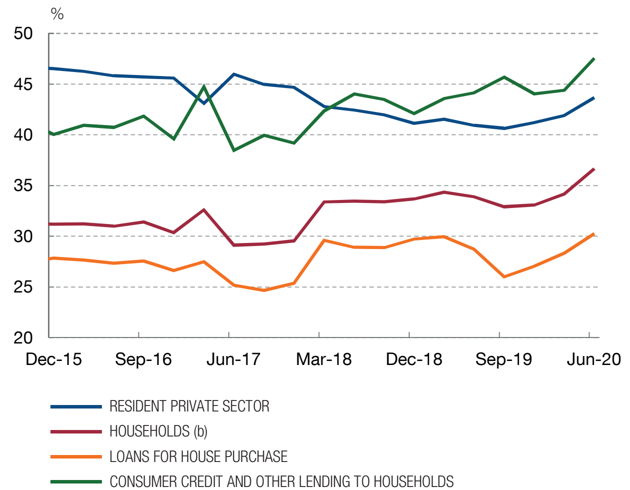
Chart 10
NPL COVERAGE RATIOS FOR THE VARIOUS PORTFOLIOS ROSE IN Q2

NPL coverage ratios for the various portfolios rose across the board in Q2. This was the result of the additional drop in NPLs (albeit smaller than in preceding periods) and increased provisioning by institutions ahead of possible further impairment of the NPLs of households, NFCs and sole proprietors due to the economic downturn triggered by the pandemic.

1 NPL COVERAGE RATIO, NFCs AND SOLE PROPRIETORS. DIs (a)



2 NPL COVERAGE RATIO, HOUSEHOLDS. DIs (a)



SOURCE: Banco de España.

a The coverage ratio is defined as loan loss provisions as a percentage of non-performing loans.
b Excluding lending for business activities, which is classified as lending to sole proprietors.

pronounced in the latest quarter as a result of greater provisioning by DIs (4.9% in quarter-on-quarter terms) in anticipation of the foreseeable further impairment of non-performing loans granted to NFCs and households owing to the economic shocks triggered by the COVID-19 pandemic (see Chart 10).

In the NFC segment, the NPL coverage ratio is similar in the construction and real estate activities sectors and in the other sectors (49.3% and 50.7%, respectively, in June 2020, 4.3 pp and 3.1 pp higher than in June 2019) and, in both cases, higher than that of households (36.7% in June 2020, 2.8 pp higher than in June 2019) (see Chart 10.1), although as regards the latter it must be taken into account that a large portion of these exposures is backed by mortgages. Indeed, in the households segment the coverage ratio of non-performing loans for house purchase is lower than that of loans for other purposes, 30.2% and 47.5%, respectively, in June 2020 (28.7% and 44.1%, respectively, in June 2019) (see Chart 10.2).

Lastly, forborne[14] resident private sector loans totalled €54.1 billion in June 2020, up €0.3 billion from the previous quarter. Thus, although in year-on-year terms

14 Forbearance refers to changes to the terms and conditions (maturities, prices, etc.) of loan agreements between borrowers and financial institutions, and may be a sign of a deterioration of the former's creditworthiness if the aim of these changes is to avoid a likely default under the previous contractual terms.

forbearance continued declining, it did so at a considerably slower pace (14.2%) than in March (19.7%). Consolidated foreclosed assets of DIs stood at €28.5 billion in June 2020, 29.1% less than in June 2019. However, foreclosed assets declined by €2.2 billion in 2020 H1, a significantly smaller decline than in 2019 H2 (€9.4 billion).

23.9.2020.

Box 1

THE ROLE OF THE PUBLIC GUARANTEE PROGRAMME IN THE RECENT BUOYANCY IN LENDING TO THE SELF-EMPLOYED AND NON-FINANCIAL CORPORATIONS

On 17 March, the government approved a public guarantee programme for loans to firms and the self-employed,[1] which has been activated sequentially in different tranches for a total amount of €95.5 billion.[2] These guarantees, which are managed by the Official Credit Institute (ICO, by its Spanish abbreviation), cover up to 80% of the potential losses on bank finance extended to the self-employed and SMEs, and up to 70% or 60% of financing extended to firms that do not meet the European Commission's definition of an SME (hereinafter, large enterprises), depending on whether they are new loans or rollovers. The programme aims to stimulate the supply of credit by financial institutions against a backdrop of possible reluctance to lend on their part, in the wake of the high level of uncertainty and the increased risk perception stemming from the COVID-19 crisis. This would allow the strong increase in demand for credit from non-financial corporations (NFCs) and the self-employed (hereinafter, sole proprietors) to be met, at least in part; this greater demand derives from their higher liquidity needs as a result of the abrupt fall in their turnover and possibly also the worsening in their perception of future lending conditions. This box reviews the extent to which the public guarantee facility managed by the ICO (hereinafter, the ICO facility) has helped stimulate lending to NFCs and sole proprietors in recent months and meet their liquidity needs.

Chart 1 shows the changes in new credit, drawn and undrawn, to sole proprietors and NFCs between March and June 2020, distinguishing the portion arranged through the ICO facility.[3] Over this period, financial institutions drew an amount of close to €65 billion in guarantees (somewhat less than 68% of the total volume of this programme). Lending to these sectors in March to June amply exceeded that recorded in the same period a year earlier; these differences are most pronounced in the case of NFCs, where the amounts were higher than those from a year earlier in each month analysed. The increase is chiefly explained by loans linked to the ICO facility, representing around 46% of new credit to NFCs and close to 52% of that granted to sole proprietors (see Chart 2). These transactions were concentrated in April, shortly after the entry into force of the programme, and thus reveal the high efficiency of the action taken by all the agents involved. This is in part the result of the experience gained with similar, albeit much smaller, programmes during the global financial crisis; it was probably also due to the desire of credit applicants to build up liquidity early to cover future payments and debt maturities, in view of the uncertainty surrounding the duration and effects of the pandemic.

Chart 2 shows that, as was to be expected, the ICO facility has a comparatively greater share in the segments with the worst conditions of access to credit: SMEs (64%), firms operating in the sectors most affected by the health crisis (60%) and riskier firms based on their probability of default (65%).[4] Conversely, public guarantees have been used to a lesser extent in lending to large enterprises and less risky firms, for which the ICO facility accounted for 36% and 38%, respectively.

Chart 3 shows that, on average, credit obtained between March and June helped to cover around 34% of firms' estimated liquidity needs between March and December 2020.[5] Loans arranged through the ICO facility helped to cover the bulk of these needs (19%). Indeed, this type of credit has been especially important in addressing SMEs'

1 Royal Decree-Law 8/2020 of 17 March 2020.

2 Including one tranche for SMEs and the self-employed in the tourism sector and related activities, and another to finance the purchase, operating lease and finance lease of new road transport motor vehicles for professional use.

3 The data for the ICO facility are provided by the ICO itself, while the figures for other lending are obtained from the Banco de España Central Credit Register.

4 The sectors most affected by the health crisis are transport, accommodation and food service activities, recreation and motor vehicles. Riskier companies are those with an estimated credit quality step (CQS) of 6, 7 or 8, meaning a probability of default of over 2%. Credit quality is estimated under the assumption of a gradual recovery in activity following the end of the state of alert. For further details, see R. Blanco, S. Mayordomo, Á. Menéndez and M. Mulino (2020): "Spanish non-financial corporations' liquidity needs and solvency after the COVID-19 shock", *Occasional Paper* No 2020, Banco de España.

5 Only credit transactions maturing after 2020 are considered, as those maturing within the year would have to be refinanced. Amounts drawn on credit lines are not included, but new undrawn credit is included. This analysis only considers firms with liquidity needs, including fund shortfalls (i.e. where payments exceed collections) deriving from firms' ordinary activities, repayments of outstanding debt and fixed asset investment. These liquidity needs have been obtained under the assumption of a gradual recovery in activity following the end of the state of alert. For further details, see R. Blanco, S. Mayordomo, Á. Menéndez and M. Mulino (2020): "Spanish non-financial corporations' liquidity needs and solvency after the COVID-19 shock", *Occasional Paper* No 2020, Banco de España.

liquidity shortages, covering more than 36% of such shortages (compared with nearly 11% covered by credit not linked to this facility). Conversely, loans extended to large enterprises under the public guarantee programme covered barely 10% of their financing needs, while other credit accounted for close to 17%. Further, in terms of total bank credit (with or without a guarantee), large enterprises covered a smaller percentage of their liquidity needs with bank loans (27%) than SMEs (47%). This could be due to a greater diversification in large

Chart 1
NEW CREDIT TRANSACTIONS TO FINANCE PRODUCTIVE ACTIVITY (a)

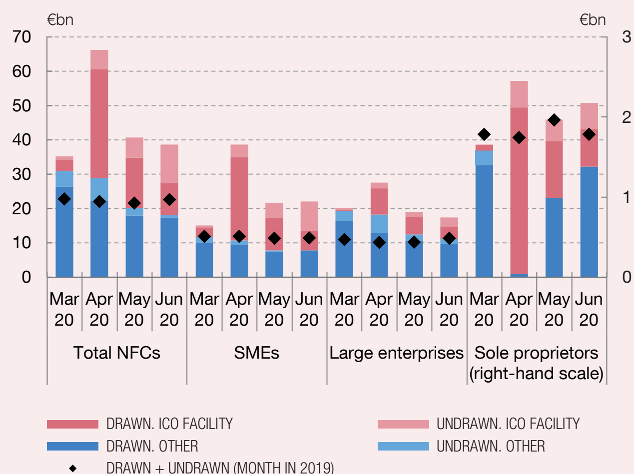


Chart 2
DISTRIBUTION OF NEW CREDIT TRANSACTIONS BY TYPE OF NFC. MARCH-JUNE 2020 (a)

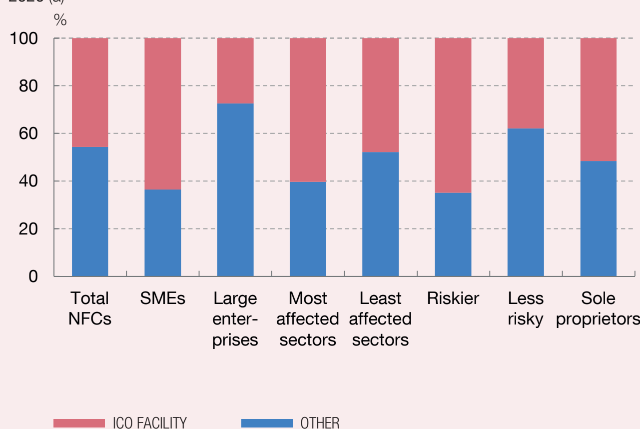


Chart 3
COVERAGE OF LIQUIDITY NEEDS BY NFCs' SIZE AND RISK. MARCH-JUNE 2020 (a) (b)

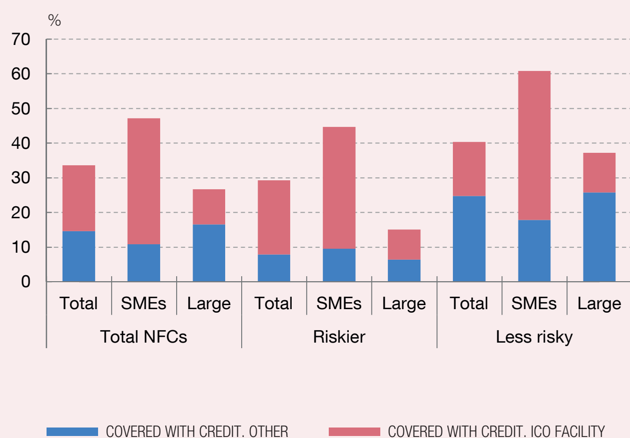
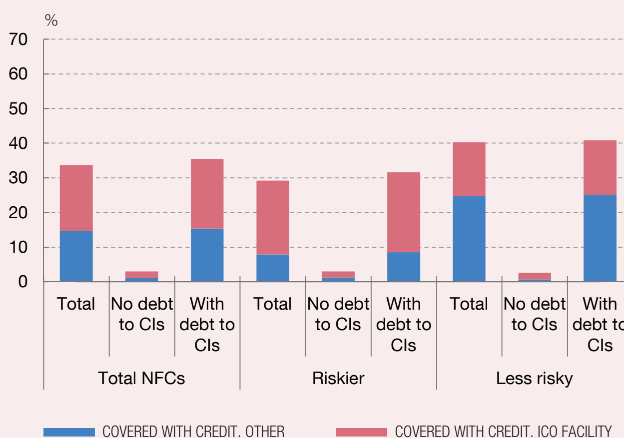


Chart 4
COVERAGE OF LIQUIDITY NEEDS BY NFCs' PREVIOUS BORROWINGS FROM CREDIT INSTITUTIONS (CIs) AND RISK. MARCH-JUNE 2020 (a) (b)



SOURCE: Banco de España.

a Includes new credit transactions (drawn and undrawn), but not drawdowns on credit lines. Size is defined in line with the European Commission Recommendation. Small firms forming part of a business group are not classified as SMEs. Riskier companies are those with a credit quality step (CQS) of 6, 7 or 8, meaning a probability of default of over 2%. The sectors most affected by the health crisis are transport, accommodation and food service activities, recreation and motor vehicles. Lastly, firms with no debt to credit institutions are those that had no credit drawdowns nor held any credit lines in early February 2020, on the information available in the Banco de España Central Credit Register.
b Only credit transactions maturing after 2020 are considered, as those maturing within the year would have to be refinanced. Firms' liquidity needs are identified based on a simulation of their ordinary activities during 2020 and debt repayments between March and December 2020. Firms with no debt to credit institutions are those that had no credit drawdowns nor held any credit lines in early February 2020, on the information available in the Banco de España Central Credit Register.

enterprises' financing sources, and particularly to their recourse to debt security issuances.[6]

Between March and June, riskier large enterprises barely covered 15% of their liquidity needs with bank loans, significantly below the figure for firms as a whole (34%). This could reflect greater difficulties in accessing bank financing.

Chart 4 shows that firms that had no borrowings from financial institutions at the onset of the health crisis only covered a very small proportion of their liquidity needs

Chart 5
INTEREST RATES ON NEW LOANS (a)

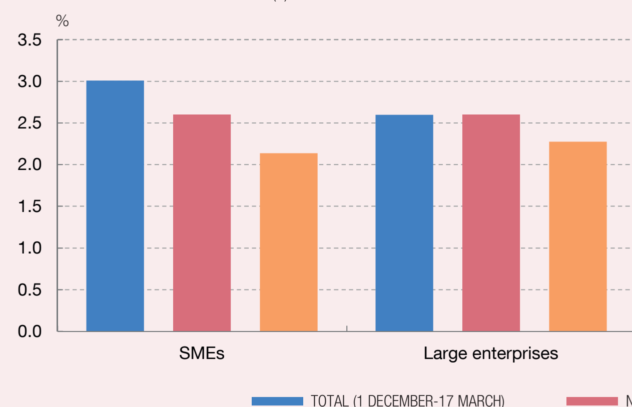
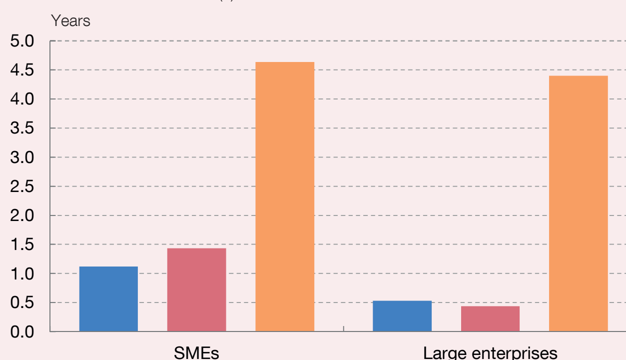


Chart 6
MATURITY OF NEW LOANS (a)



TOTAL (1 DECEMBER-17 MARCH) NON-ICO (18 MARCH-30 JUNE) ICO (18 MARCH-30 JUNE)

Chart 7
AMOUNT OF NEW LOANS (a)

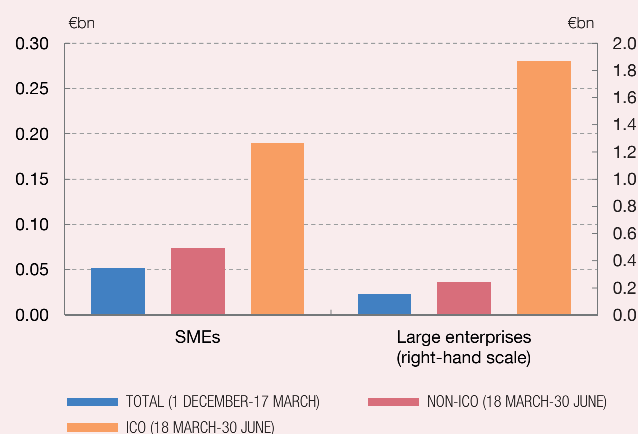
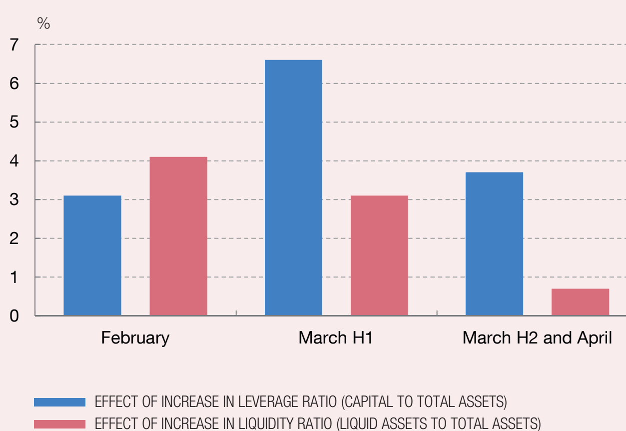


Chart 8
IMPACT ON NEW CREDIT AT FIRM LEVEL OF AVERAGE LEVERAGE AND LIQUIDITY RATIOS OF BANKS PROVIDING CREDIT AND LIQUIDITY (b)



SOURCE: Banco de España.

a ICO indicates credit arranged through the ICO facility; non-ICO refers to the other credit transactions. Credit includes the drawn and undrawn amount. Loans with a maturity of less than one month are excluded. Size (SMEs and large enterprises) is defined in line with the European Commission Recommendation. In accordance with the European Commission, small firms forming part of a business group are not classified as SMEs.

b The estimated marginal effect on the volume of new credit of an increase in 1 pp in banks' leverage and liquidity ratios, which determine the supply of credit, is displayed for each period. The marginal effect is measured as the additional percentage of credit extended associated with the increase in the ratios. The model is estimated using firm-level data and a regression, in which the dependent variable is the logarithm of the total volume of new credit extended in a specific period to each firm. Included as determinants are the financial characteristics of the firms and lending banks (capital ratio, liquidity, size, return on assets, NPL ratio, etc.).

6 For further details on changes in the corporate debt market during the COVID-19 crisis, see Box 6 "The Spanish corporate debt market during the COVID-19 crisis" in the *Quarterly report on the Spanish economy* 3/2020, Banco de España (2020).

through bank debt (less than 3%, compared with over 35% in the case of those that did have bank borrowings).[7] This could be a result of less demand for bank financing from this type of firm[8] and possible greater difficulties in accessing credit.

Charts 5, 6 and 7 compare the terms and conditions of the loans extended through the guarantee programme with those of other bank finance before and during the pandemic. Chart 5 shows that the average interest rate of ICO facility loans stood at 2.1% for SMEs and 2.3% for large enterprises. These are significantly lower than the interest rates on loans not linked to the ICO facility and arranged during the same period or in the weeks prior to the state of alert, which range from 2.6% to 3%.[9] Likewise, the average maturity of ICO facility credit for these two segments exceeds that of the other loans extended before and during the pandemic by more than three years (see Chart 6). Lastly, the amounts of the ICO facility loans are also clearly larger than those of the other loans (see Chart 7). A regression analysis comparing the terms and conditions on ICO facility loans against those of loans with no public guarantee, extended by the same bank and to the same company, and controlling for other characteristics of the loans, confirms that these differences are significant.

The amount and terms and conditions of the new credit obtained hinge both on the characteristics of the firm, as analysed in the foregoing paragraphs, and on the characteristics of banks that determine the supply of credit, specifically their solvency and liquidity levels.[10] As shown in Chart 8, the sensitivity of the new loans granted by each bank to its capital ratio doubled in the first half of March, returning to its initial position following the introduction of the ICO guarantee facilities.[11] This increased sensitivity in the first half of March suggests that banks required a higher level of solvency in order to maintain a constant flow of new credit after the outbreak of the pandemic. Conversely, the lower sensitivity in the latter period may be interpreted as evidence that the public guarantee programme paved the way for an expansion in banks' balance sheets following the onset of the COVID-19 crisis. This effect on credit supply may be explained chiefly through two channels. First, the regulation governing the calculation of capital requirements entails applying the guarantor's risk weighting (0% in the case of Spanish sovereign risk) to the proportion of the loan availing itself of the guarantee, with the result that loans arranged under the guarantee programme consume less own funds. Second, the loss given default (LGD) is lower on these loans, owing to the presence of the public guarantee.

The analysis also shows that, from the second half of March until the end of April, the liquidity position of the lending banks ceased to be an important determinant of the volume of new loans (see Chart 8). Conversely, a rise of 1 pp in banks' average liquidity ratio (liquid assets to total assets) in February and the first half of March was associated with respective increases of 4.1% and 3.1% in lending. Although this lower sensitivity of new credit to banks' liquidity ratio was largely shaped by the expansionary monetary policy measures taken by the European Central Bank, it is reasonable to consider that the launch of the guarantee programme also played a part. The widespread increase in firms' and sole proprietors' liquidity associated with the guarantee programme has lowered the aggregate probabilities of default. This means that lending presents not only a smaller risk to banks' solvency (bolstering the aforementioned effect on the capital ratio), but also a lesser risk of deterioration in lending banks' liquidity, thereby reducing the scale of the coefficient associated with this variable.

7 42% of firms in the Integrated Central Balance Sheet Data Office Survey had no bank debt in March 2020.

8 These firms have lower financing needs as they do not have to meet bank debt maturities. Given these lower financing needs, many may prefer to cover them using their liquid assets.

9 Although these interest rates do not include fees, the differences are likely to be virtually the same if they are included, given that the average front-end fee for ICO facility transactions stands at 0.2%.

10 Thus, a positive relationship is generally found between the volume of credit extended and solvency levels; this is largely explained by the existence of minimum regulatory capital requirements, resulting in financial institutions with less capital slack being less well-placed to expand their lending than those with higher capital ratios.

11 The estimated model uses firm-level data and applies a regression model, in which the dependent variable is the logarithm of the total volume of new credit extended in a specific period to each firm. Included as determinants are the financial characteristics of the firms and lending banks (capital ratio, liquidity, size, return on assets, NPL ratio, etc.). Thus, for each firm, the average characteristics of the relevant lending banks are calculated as a weighted average of the characteristics of each bank at end-2019, the weighting being the amount extended by each bank.

It should also be borne in mind that the design of the ICO facilities entails a positive relationship between the volume made available to each bank and their market share of total business loans before the introduction of the programme; this leads to the observation of a clear positive correlation between the two variables (97%). As indicated previously, the bank-firm relationship prior to the COVID-19 crisis has also affected the amount of financing that banks have extended with ICO guarantees. Thus, there is evidence that if the bank extending the guaranteed loan is the firm's main bank (in terms of credit volume), on average the amount of the loan would be close to 20% larger.

In short, the evidence presented in this box suggests that the State guarantee programme is contributing significantly to covering the liquidity needs of the companies hardest hit by the pandemic and that face the greatest difficulties in terms of access to credit. Moreover, the terms and conditions associated with these credit transactions, in terms of interest rates and in particular loan amounts and maturities, have been more favourable than those of transactions without a guarantee (before and during the pandemic). Furthermore, the results suggest that the introduction of the ICO facility may have stimulated the supply of credit by financial institutions as they needed less capital to expand their balance sheet.

Box 2
ANALYSIS OF THE LOAN MORATORIUM SCHEMES ADOPTED IN SPAIN IN RESPONSE TO THE COVID-19 CRISIS

To address the economic and social impact of the COVID-19 pandemic, various support measures have been implemented in Spain for workers, firms, households and vulnerable groups. These measures include the adoption of various types of loan moratoria, i.e. the suspension of repayment of principal and/or interest payments on different types of loan.

First, legislative moratoria on mortgage loans[1] and on obligations under non-mortgage loan agreements[2] were adopted in the second half of March 2020. In both cases, the moratorium suspends temporarily the obligations to pay loan instalments in the case of individuals who prior to the health crisis triggered by COVID-19 did not, among other conditions, earn income over a certain threshold and, as a result thereof, have subsequently found themselves in a situation of economic vulnerability.[3]

On a broader scale and in addition to the measures initially envisaged in the two aforementioned legislative moratoria, a special system was established in May for moratorium agreements between lenders and their customers through the banking sector associations.[4] These banking sector moratoria, on both mortgage and non-mortgage loans, extended the scope of beneficiaries beyond economically vulnerable individuals and provided for extension of the deferral after the term of the legislative moratoria lapses on 29 September 2020.[5] Lastly, in early July two further legislative moratoria were adopted, in this case applicable not only to individuals, as in the case of the previous ones, but also to legal persons. These moratoria concern the tourism sector[6] and the public transport of goods and the charter bus sector.[7]

These schemes have been applied by most European countries as an integral part of their response to the crisis. In this regard, the European Banking Authority approved a set of criteria to be fulfilled so that the loans on which these moratoria are applied may receive prudential treatment that is better suited to this type of crisis. These included a time limit for making use of the moratoria: September 2020.

For the first two types of legislative moratoria (mortgage and non-mortgage loans), and particularly for the banking sector moratoria, a very large number of applications has been submitted by individuals. Following the Recommendation of the European Systemic Risk Board (ESRB) of May 2020[8] on analysing and monitoring this measure, and on data to end-July, almost 268,000 applications for mortgage loan moratoria had been submitted, 438,500 for non-mortgage loan moratoria and more than 674,000 for banking sector moratoria. In aggregate terms, more than 1,380,000 applications for moratoria on loans to individuals had been submitted.

The vast majority of these applications satisfied the criteria of the moratorium schemes and were accepted: more than 221,000 mortgage loan moratoria, 375,000 non-mortgage loan moratoria and almost 595,000 banking sector moratoria, resulting in acceptance rates of 82.6%, 85.5% and 88.2%, respectively (see Chart 1). Furthermore, such high acceptance rates are widespread across institutions, as can be seen in the estimated distribution for this variable (see Chart 2). Conversely, at the cut-off date for this analysis, barely any applications for the moratoria adopted for the tourism and transport sectors

1 Royal Decree-Law 8/2020 of 17 March 2020 on urgent extraordinary measures to address the economic and social impact of COVID-19.

2 Royal Decree-Law 11/2020 of 31 March 2020, adopting urgent complementary social and economic measures to address COVID-19.

3 Under Article 16 of Royal Decree-Law 11/2020, all the following conditions must be satisfied in order to be in a situation of vulnerability: i) the borrower has become unemployed or, in the case of entrepreneurs, has suffered revenue losses of at least 40%; ii) the household unit's income did not exceed, in the month preceding the application for the moratorium, the limit of three times (this ratio increases in certain circumstances) a public income indicator; iii) mortgage instalments, plus basic expenses and utilities, exceed 35% of the household unit's net income; and iv) as a result of the health emergency, the household unit has suffered a considerable disruption to its economic circumstances and, consequently, its mortgage debt-to-income ratio has multiplied by at least 1.3.

4 Royal Decree-Law 19/2020 of 26 May 2020, adopting supplementary measures on agricultural, scientific, economic, employment and Social Security and taxation matters to alleviate the effects of COVID-19.

5 The banking sector moratoria broadly consider a deferral on repayments of principal of 12 months for mortgage loans and six months for personal loans.

6 Royal Decree-Law 25/2020 of 3 July 2020 on urgent measures to support economic recovery and employment.

7 Royal Decree-Law 26/2020 of 7 July 2020 on economic recovery measures to address the impact of COVID-19 on transport and housing.

8 Recommendation of the European Systemic Risk Board of 27 May 2020 on monitoring the financial stability implications of debt moratoria, and public guarantee schemes and other measures of a fiscal nature taken to protect the real economy in response to the COVID-19 pandemic (ESRB/2020/8).

had been submitted. Consequently, analysis thereof is postponed until future publications.[9]

For the different types of moratoria – whether legislative or banking sector – on loan repayments for individuals, Charts 3 and 4 depict the correlation between the number of applications received (the y-axis) and the total amount of credit granted by Spanish credit institutions in the loan portfolios covered by these schemes (the x-axis). A positive correlation is observed between these variables for all the types of moratoria, showing that, as was to be expected, the banks with higher credit volume (larger market share) are those that have received most applications for moratoria. The correlation is somewhat closer in the case of legislative moratoria, although in this correlation the big banks present a smaller number of applications than their size would warrant.

Wage and salaried workers account for the highest percentage of beneficiaries in all the types of moratoria, and represent more than 75% of the overall total. In the case of self-employed beneficiaries, the breakdown by sector shows that 57% of applications for moratoria granted to the self-employed are in the retail, accommodation and food service activities and other services sectors, followed at a considerable distance by professional, scientific and technical activities, transportation and storage, construction, and manufacturing activity (see Chart 5). These seven sectors of activity combined account for more than 83% of the total moratoria granted to the self-employed.

In terms of the amounts of the moratoria granted, the outstanding amount of mortgage loan repayments suspended verges on €20 billion, which is 4.2% of the total outstanding amount of mortgage credit to individuals in the banking sector (see Chart 6). The amount of individuals' non-mortgage loan repayments suspended by the legislative moratorium is almost €2.8 billion, which is 1.5% of the outstanding amount of such loans in the banking system. Loan repayments suspended through banking sector moratoria amount to more than €22.2 billion, which is 3.4% of the total outstanding amount of mortgage and non-mortgage loans to individuals. Overall, the outstanding amount of loan

Chart 1
APPLICATIONS, APPROVALS AND ACCEPTANCE RATE BY MORATORIUM

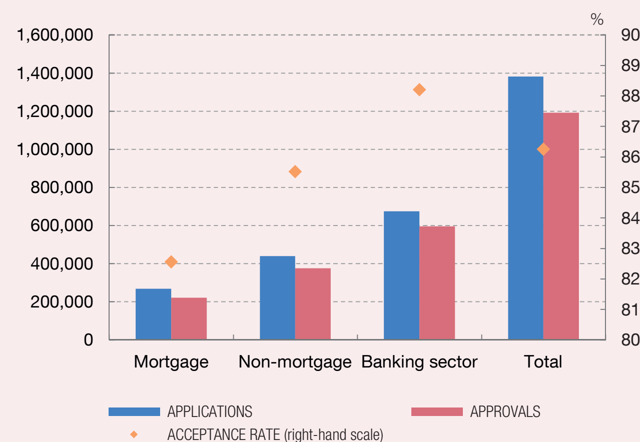
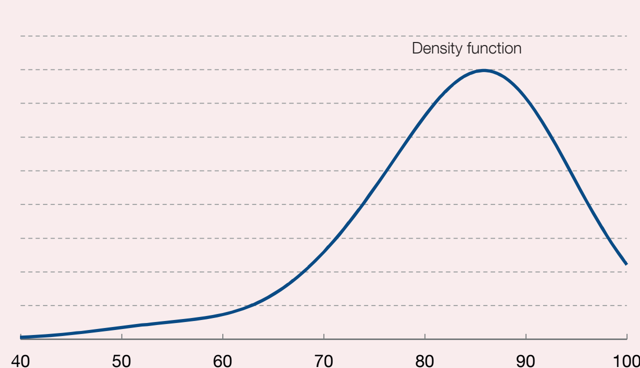


Chart 2
DISTRIBUTION OF ACCEPTANCE RATE, TOTAL MORATORIA (a)



SOURCE: Banco de España.

a The chart shows the density function of the acceptance rate of total moratoria for Spanish deposit institutions, with the estimated probability mass for each institution based on the amount of lending extended. The density function is approximated using a kernel estimator, which enables a non-parametric estimation of the density function, providing a continuous and smooth graphical representation thereof.

9 On data to end-July, 96 applications for moratoria related to the tourism sector had been submitted, 22 of which had been approved (an acceptance rate of 22.9%) and 123 applications for moratoria associated with the transport sector, 90 of which had been approved (an acceptance rate of 73.2%). The brief period elapsed since this measure was adopted and the existence of more specific requirements may contribute to its limited implementation, which will be monitored in the coming months.

Chart 3
LEGISLATIVE MORATORIA APPLICATIONS AND TOTAL CREDIT IN QUALIFYING PORTFOLIOS (a)
Deposit and specialised lending institutions

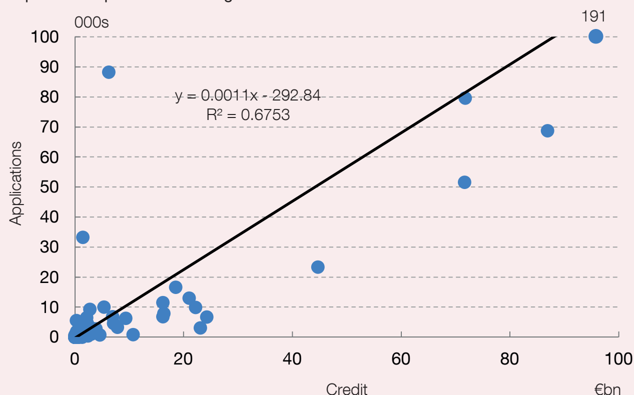
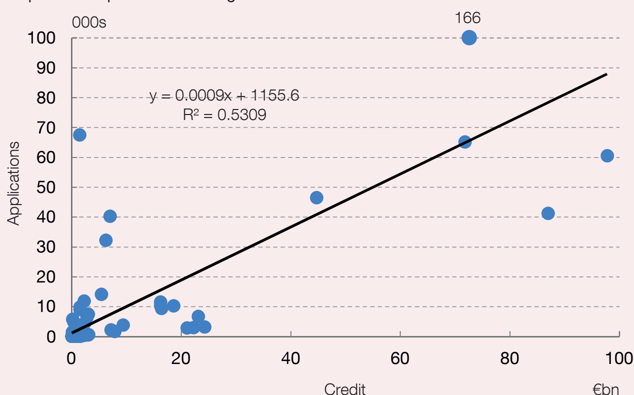


Chart 4
BANKING SECTOR MORATORIA APPLICATIONS AND TOTAL CREDIT IN QUALIFYING PORTFOLIOS (a)
Deposit and specialised lending institutions



SOURCE: Banco de España.

a In each chart, the x-axis depicts the total pre-existing credit in the portfolios covered by the moratorium schemes (mortgage and non-mortgage loans to individuals) and the y-axis the number of applications received for the relevant scheme.

Chart 5
DISTRIBUTION BY SECTOR OF SELF-EMPLOYED BORROWERS BENEFITING FROM MORATORIA (a)

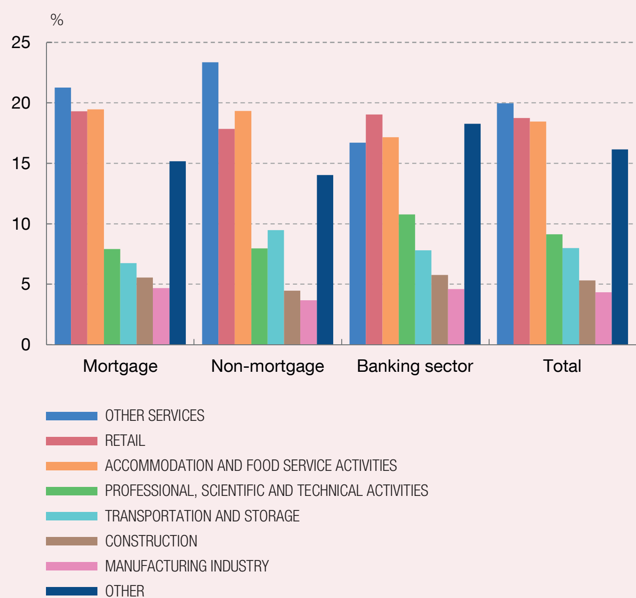
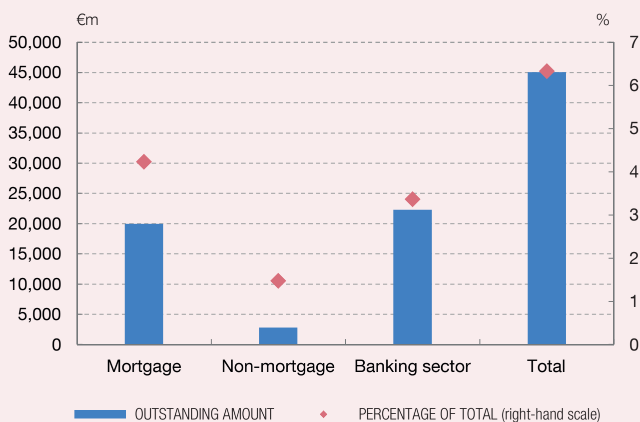


Chart 6
OUTSTANDING AMOUNT OF LOAN REPAYMENTS SUSPENDED BY MORATORIA AND PERCENTAGE OF TOTAL CREDIT GRANTED IN QUALIFYING PORTFOLIOS



SOURCE: Banco de España.

a The chart shows, for each type of moratorium, the self-employed in each sector of activity as a percentage of the total successful applications for moratoria made by the self-employed.

repayments suspended across all the types of moratoria[10] is in excess of €45 billion, which is more than 6% of the current outstanding amount of credit granted by Spanish credit institutions in the loan portfolios that qualify for moratoria.

Chart 7 presents the distribution of borrowers by region, both in terms of the amount of mortgage loan repayments suspended and the total outstanding amount of those loans in the Spanish banking system (loans granted and currently on the balance sheet of Spanish deposit institutions).[11] The two distributions are very similar, which reflects a significant degree of geographical uniformity in the implementation of the moratoria on mortgage loan repayments. Among the regions that account for a larger proportion of the volume of loan repayments suspended than of the total amount of mortgage credit granted, Andalusia, the Canary Islands and the Balearic Islands

Chart 7
DISTRIBUTION OF OUTSTANDING AMOUNT OF MORTGAGE LOANS FOR HOUSE PURCHASE SUSPENDED BY MORATORIA AND OF TOTAL MORTGAGE LOANS GRANTED BY REGION

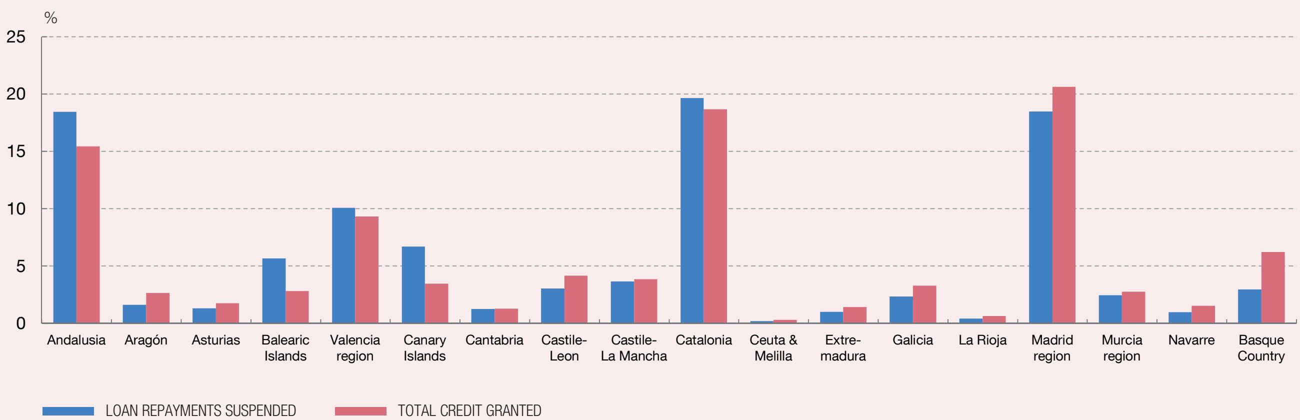


Chart 8
PERCENTAGE OF OUTSTANDING AMOUNT OF MORTGAGE LOANS FOR HOUSE PURCHASE SUSPENDED BY MORATORIA BY REGION AND PERCENTAGE OF POPULATION BY REGION

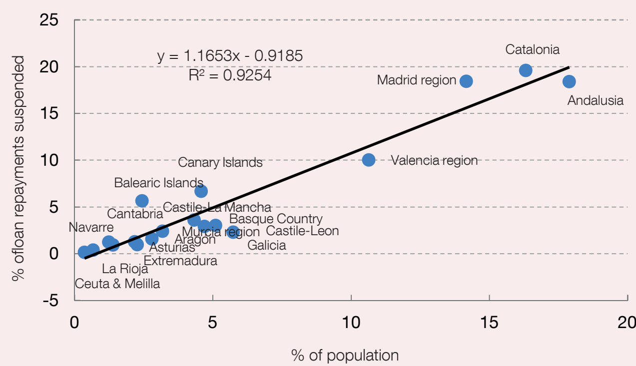
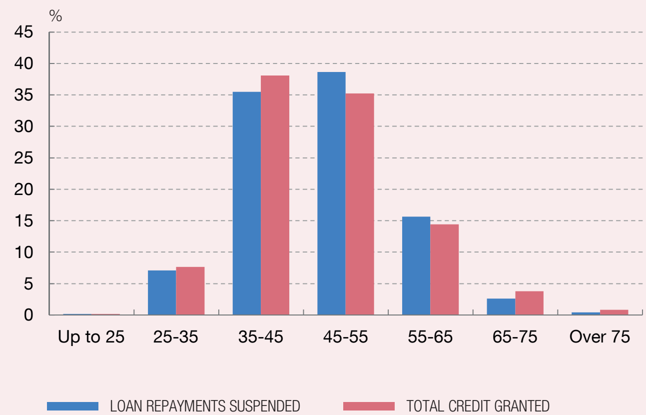


Chart 9
PERCENTAGE OF OUTSTANDING AMOUNT OF MORTGAGE LOANS FOR HOUSE PURCHASE SUSPENDED BY MORATORIA AND OF TOTAL MORTGAGE LOANS GRANTED BY AGE OF BORROWER



SOURCES: Banco de España and INE.

10 As indicated above, applications for and granting of the latest two moratoria adopted are, to date, very limited. Thus, the outstanding amount of loan repayments suspended by moratoria reaches barely €8.4 million in the tourism sector and €9.8 million in the transport sector.

11 The analysis focuses on mortgage loans (which qualify both for legislative and banking sector moratoria) because, according to the Central Credit Register, they account for more than 80% of the total amount of loan repayments suspended. The majority of mortgage loans (almost 70% of the total amount of repayments suspended) are for house purchase.

stand out (all areas in which the tourism sector is particularly relevant). Conversely, the Madrid region and the Basque Country account for a lower percentage of the volume of loan repayments suspended than their total share of mortgage loans would warrant.

Chart 8 depicts the percentage of the outstanding amount suspended together with the percentage of population of each region. It shows a very significant positive correlation, such that regions with a higher percentage of population present larger amounts suspended via the different types of moratoria. This confirms the significant level of cross-regional uniformity visible in Chart 7.

Similar conclusions on the lack of asymmetry are drawn from the comparison of the distribution of the amount of repayments suspended and the total amount in the banking system by age of beneficiary (see Chart 9), although the 45 to 65 age groups appear to be slightly overrepresented.

To sum up, the different loan moratorium schemes adopted since March in response to the health crisis have given rise to a large number of applications (approximately 1.4 million), with a high rate of acceptance (over 86%) by banks. In consequence, over the space of just a few months, loan repayments suspended by these moratoria have amounted to more than €45 billion (more than 6% of total credit granted by Spanish credit institutions for the loan portfolios that qualify for the moratoria). This entails significant benefits for borrowers, enabling them to meet their financial obligations and boosting the short-term liquidity available, in keeping with the objectives set for these schemes.

The analysis also shows that, in general, the moratoria have been proportional, by bank, region and age group, to the share of total credit granted pre-pandemic, with no significant concentration of moratoria in specific segments of the banking system. This relatively uniform distribution suggests that the moratorium schemes have had a widespread impact on their target public. Over the coming months, careful analysis will be required of how borrowers qualifying for moratoria are able to exit these measures and resume their loan repayments, in accordance with developments in the health crisis and macroeconomic conditions. In any event, it is important to note that these schemes aim to prevent short-term liquidity problems that could exacerbate the economic shock created by the pandemic, but that longer-term restructuring of payment obligations is beyond their scope.