Box 2.1

MONITORING OF LOANS WITH PUBLIC (ICO) GUARANTEE

Royal Decree-Law (RDL) 8/2020 of 17 March 2020 approved a public guarantee facility for firms and self-employed persons of up to €100 billion. The aim was to provide firms with access to the funding they needed to meet their liquidity needs generated as a result of the restrictions imposed on economic activity and mobility in response to the pandemic. RDL 25/2020 activated a second guarantee facility, of up to €40 billion, essentially to meet funding needs linked to investment.[1] RDL 34/2020 extended the deadline for application for guarantees to June 2021. It also extended, at the request of the firms concerned, the duration of the loans guaranteed up to eight years and the grace period up to 24 months (from five years and 12 months, respectively, in RDL 8/2020).

On data as at December 2020, the amounts guaranteed stood at around €88 billion, which represents total financing granted to non-financial corporations (NFCs) and sole proprietors of approximately €115 billion, including loans drawn (€93 billion) and credit facilities (€22 billion). The volume of credit drawn by firms and sole proprietors since March 2020 has risen by some €30 billion, largely as a result of the high volume of loans granted under the guarantee scheme, especially in 2020 Q2. In the second half of the year, the credit under the guarantee scheme and new loans outside the scheme were not sufficient to offset repayments and transfers to write-offs, resulting in a small but continuous decrease in this credit stock (see Chart 1).

A positive correlation is found between the growth in financing granted to NFCs and sole proprietors and the weight of the guarantee scheme in credit institutions' relevant portfolios (see Chart 2). Accordingly, it is observed that institutions with a higher level of participation in the guarantee scheme are associated with higher credit growth to business in 2020.

By comparing firms that obtained ICO-backed loans in 2020 with those that did not, it is possible to identify whether or not the firms that obtained such loans have characteristics

Chart 1
CHANGE IN CREDIT TO NFCs AND SOLE PROPRIETORS, MARCH-DECEMBER 2020
Individual data. Business in Spain. Deposit institutions

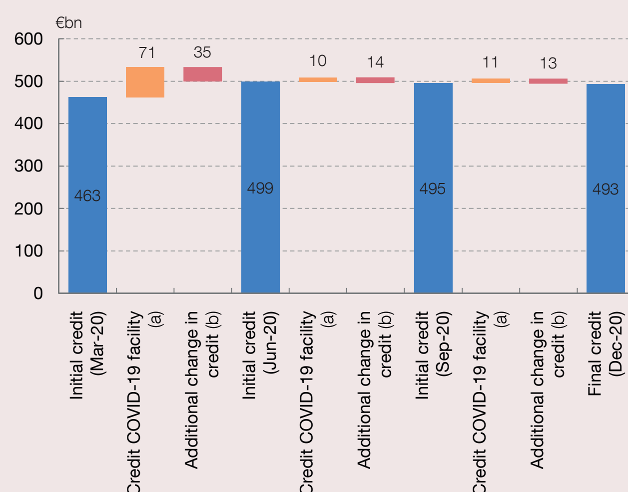
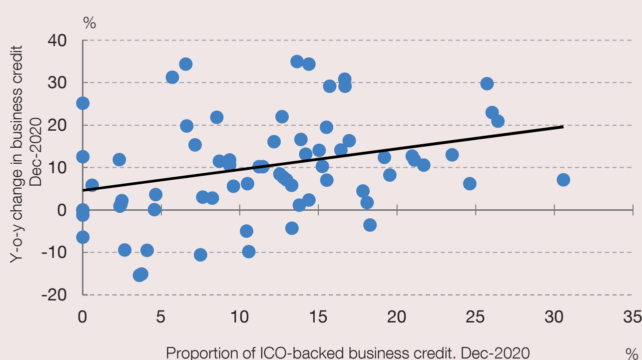


Chart 2
IMPLEMENTATION OF ICO GUARANTEE SCHEME AND GROWTH IN CREDIT FOR BUSINESS (c)
Individual data. Business in Spain. Deposit institutions



SOURCES: ICO and Banco de España.

a COVID-19 guarantee facility under RDL 8/2020 of up to €100 billion. Total financing granted under the guarantee facility up to December 2020: €115 billion. Total amount effectively drawn by NFCs and sole proprietors: €93 billion.
b The additional change in credit to NFCs and sole proprietors reflects the change in the credit stock that is not explained by the implementation of the COVID-19 guarantee programme, corresponding to the net difference between new lending outside the scheme and repayments and transfers to write-offs.
c Business credit includes loans to non-financial corporations and sole proprietors granted by deposit institutions.

1 Subsequently, resolutions of the Council of Ministers of 24 November and 22 December 2020, on execution of this guarantee facility, activated the second, third and fourth tranches, in an amount of €2.55 billion, €250 million and €500 million, respectively. The second tranche also covered meeting the liquidity needs of firms in the restructuring agreement stage of insolvency proceedings.

associated with greater risk.[2] For this purpose, the firms reporting to the Banco de España's Central Credit Register (CCR) in December 2019 that were not in default at that date (a pre-requisite for eligibility for the guarantee scheme) were taken and matched with the data held in the Banco de España's Central Balance Sheet (CBB) database at end-2018 (the last complete sample available). The findings show that the firms that took advantage of the guarantee scheme had a lower equity-to-asset ratio, a higher average cost of debt, a lower level of sales productivity (measured as sales to employees) and shorter bank debt maturities (see Chart 3). They were also smaller and younger, but their profitability and liquidity ratios were higher. All the above suggests that the firms that took advantage of the guarantee facilities had, ex ante, a somewhat higher risk profile than those that did not.[3] This conjecture is in keeping with their credit risk performance: up to the end of 2020 more of these firms were classified as at risk in the CCR (Stage 2, non-performing for subjective reasons or non-performing) than those that did not take advantage of the guarantee scheme. A multivariate econometric analysis that controls for all these and more characteristics – for example, firm sector and geographical location and identity of main lending bank – confirms all these findings.

Drawing on the set of firms and sole proprietors in the CCR (see Chart 4), it is observed that, for firms, 35,8% of the financing drawn linked to the ICO guarantee scheme corresponds to borrowers that have at least one Stage 2 loan in the system overall (29,4% for sole proprietors). Around 5% of the amount drawn with ICO guarantee corresponds to firms that have at least one loan that is non-performing for subjective reasons (2.5% for sole proprietors), and 5.5% to firms that have at least one non-performing loan (5.6% for sole proprietors).[4] Analysing the existence of impairment exclusively in the financing under the guarantee

Chart 3
FINANCIAL CHARACTERISTICS OF FIRMS MAKING USE OF THE ICO GUARANTEE SCHEME (a)

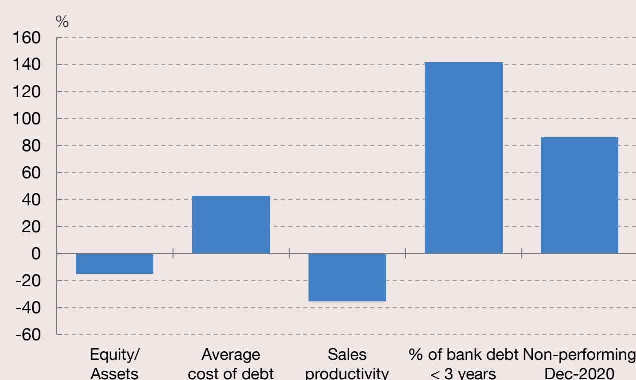
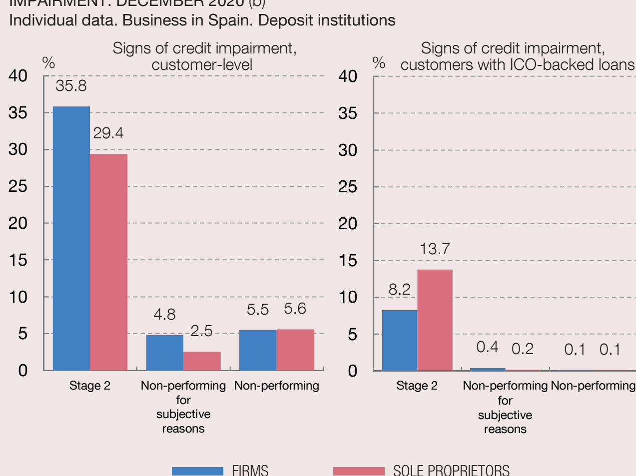


Chart 4
PROPORTION OF ICO-BACKED LOANS OF CUSTOMERS WITH SIGNS OF CREDIT IMPAIRMENT. DECEMBER 2020 (b)
Individual data. Business in Spain. Deposit institutions



SOURCE: Banco de España.

a For each financial characteristic, the chart shows the relative difference (expressed in %) between its average value for firms with an ICO-backed loan and its average value for firms with no ICO-backed loans.

b In the customer-level analysis, all possible loan impairment on all loans, whether or not with ICO backing, granted by any institution under the ICO guarantee scheme or not, are identified for each corporation or sole proprietor with an ICO-backed loan. Customers with troubled loans over a minimum materiality threshold are flagged as having signs of impairment. In the analysis of customers with guaranteed loans, only possible credit problems with their ICO-backed loans are analysed.

2 Sole proprietors have to be excluded from this analysis, as the necessary balance sheet and income statement data are not available for them.

3 Box 1.2 shows that, for business credit overall, firms with a lower risk profile were those that recorded the highest rate of growth. Here the comparison is different, with a higher proportion of firms at risk being observed among those taking advantage of the ICO guarantee scheme. It may be inferred, therefore, that had the scheme not been introduced, these firms could have faced credit constraints.

4 A materiality filter of 5% is applied to borrowers' total credit exposure in the system to determine whether or not it is a problem exposure. This indicator does not seek to determine a pulling effect in accordance with accounting standards, but to identify general signs that would permit early detection of credit quality impairment.

Box 2.1

MONITORING OF LOANS WITH PUBLIC (ICO) GUARANTEE (cont'd)

Chart 5
NEW LOANS SUBJECT TO PUBLIC GUARANTEE SCHEMES BY MATURITY AND GUARANTEE COVERAGE
Consolidated data. Deposit institutions. December 2020

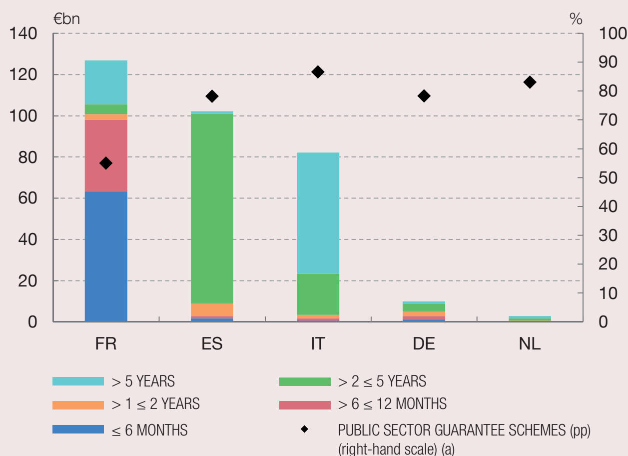
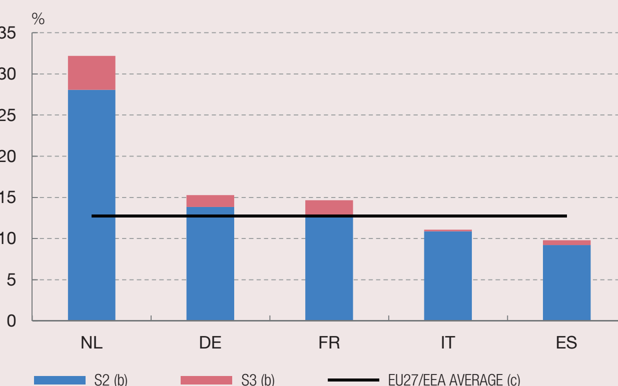


Chart 6
NEW LOANS SUBJECT TO PUBLIC GUARANTEE SCHEMES BY CREDIT QUALITY STAGE
Consolidated data. Deposit institutions. December 2020



SOURCE: EBA.

a Public guarantee denotes the percentage of cover that public guarantees offer these new loans.
b S2 (Stage 2) denotes a significant increase in credit risk, but not default status or classification as non-performance for subjective reasons which would correspond to S3 (Stage 3).
c The EBA data include Iceland. From 2020 Q1 the aggregated EU data no longer include the figures of UK banks, but they do include data from their subsidiaries in EU countries.

scheme, the problem loan percentages are much lower: for firms, Stage 2 loans account for some 8% of the credit guaranteed (around 14% for sole proprietors), while the volume of non-performing loans is well below 1% (and it is even lower for sole proprietors). It is important to note that many of these guaranteed loans had a grace period that will probably not yet have come to an end.

At the European level, on consolidated balance sheet data and the latest data published by the EBA in its risk map as at December 2020, new loans to NFCs under public guarantee schemes amounted to €342.9 billion. They were concentrated primarily at banks in France, Spain and Italy, which together accounted for 90.7% of the total. However, although in the case of French banks the amount guaranteed was close to 50% and most of the loans had maturities of less than 12 months, in Spain and Italy the sums guaranteed amounted to 80% and most were medium and long-term loans (see Chart 5). In addition, most new loans backed by public guarantee schemes were S1 (performing) loans. Thus, new S2 (significant increase in credit risk) and S3 (non-performing) loans at the European level accounted for 12.7% of the total. The high share of new S2 and S3 loans in the Netherlands (32%) stands out (see Chart 6).[5]

5 The EBA uses the IFRS9 S1, S2 and S3 credit risk categories (which are similar to the performing, significant increase in credit risk and non-performing categories).