Box 2.2

RECOURSE TO MATURITY AND PAYMENT HOLIDAY EXTENSIONS UNDER THE PUBLIC GUARANTEE PROGRAMME FOR LOANS TO FIRMS

Royal Decree-Law 34/2020 entered into force in November 2020. This amended the ICO guarantee programme (established under Royal Decree-Law 8/2020 and amended by Royal Decree-Law 25/2020), with a view to staving off liquidity problems at firms by permitting, in certain cases, the extension of maturities and of payment holidays. As Box 2.1 discusses, the programme has smoothed the provision of liquidity to the corporate sector during the pandemic. It has been used most intensively by firms with higher ex-ante credit risk and by banks with weaker balance sheets prior to the onset of the crisis. However, to gain a proper understanding of the risks to financial stability, the implications of the legislative changes introduced in November 2020 (through Royal Decree-Law 34/2020) must be analysed. These legislative changes allow debtors with an ICO-backed loan to extend, by agreement with the bank, the loan maturity to eight years from the previous maximum of five. They also provide for an additional extension of a debtor's payment holiday by up to 12 months, to a maximum of 24 months. Further, this new maturity can be directly applied to guarantees granted pursuant to Royal Decree-Law 25/2020 of 3 July 2020. This box aims to study firms' take-up of the option to extend maturities and payment holidays.

The analysis shows that the average maturity of outstanding ICO-backed loans increased from March 2021 and peaked in April 2021. A similar trend is evident for the average duration of payment holidays (see Chart 1). These developments may be picking up a composition effect (if new loans have longer maturities than loans) or that existing loans were taking the opportunity to extend maturities or payment holidays. The analysis of existing loans identifies effective recourse to the maturity extension envisaged in the legislative change introduced by Royal Decree-Law 34/2020. This came into effect from March 2021, when the maturity extension was applied to 6.5% of loans (of these, 3.8% had the maturity extended alone and 2.7% both the maturity and the payment holiday extended), while 0.8% had the payment holiday extended only. Overall, in March 2021, 7.3% of loans took advantage of the legislative change. This percentage climbed to 20.4% in May 2021 and subsequently declined to less than 1% in June. Thus, 41% of ICO-backed loans have made use of the maturity or payment holiday extension, which underlines the measure's importance. The high number of firms taking advantage of the extensions may signal a latent risk, which could potentially materialise from 2022 Q2 (when most payment holidays come to an

Chart 1
IMPACT OF ROYAL DECREE-LAW 34/2020 ON THE MATURITY AND PAYMENT HOLIDAY OF ICO-BACKED LOANS TO FIRMS (a)

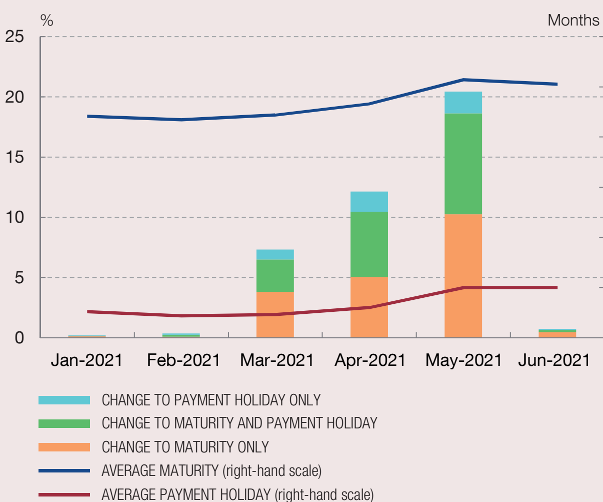
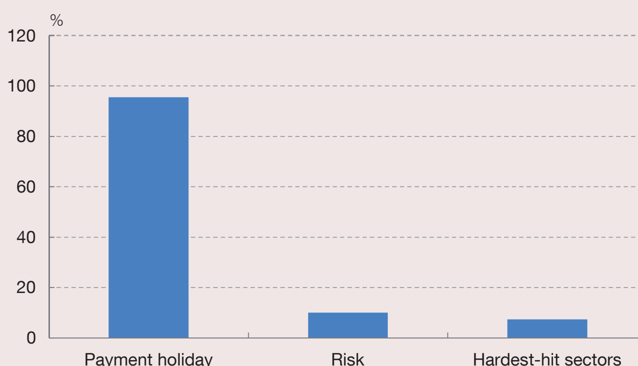


Chart 2
DETERMINANTS OF THE AVERAGE PROBABILITY OF A LOAN USING THE MATURITY EXTENSION UNDER ROYAL DECREE-LAW 34/2020 (b)



SOURCE: Banco de España.

a The right-hand scale shows the average residual maturity (in months) of outstanding ICO-backed loans at each date and the average payment period (in months) of outstanding loans with payment holidays at each date. Outstanding loans include both pre-existing and new loans. The left-hand scale indicates the percentage of ICO-backed loans whose maturity or payment holiday has been extended, out of those that were outstanding in the previous month.

b Results of a linear probability model with binary variables for sector, post code and bank controls. The risk variable is the firm's Z-score, calculated based on numerous firm-level economic-financial ratios, picking up the ex-ante credit risk.

Box 2.2

RECOURSE TO MATURITY AND PAYMENT HOLIDAY EXTENSIONS UNDER THE PUBLIC GUARANTEE PROGRAMME FOR LOANS TO FIRMS (cont'd)

end) should the prospects of economic recovery fail to take root.

The study of decisions to extend maturities and payment holidays is based on all guaranteed loans obtained from the Banco de España's Central Credit Register (CCR). Those data are complemented, at the firm level, by data drawn from the Banco de España's Central Balance Sheet Data Office (CBSO) and, at the bank level, from the institutions' regulatory reporting, in both cases relating to end-2019. This dataset is subject to an econometric analysis to assess the probability of an existing guaranteed loan taking advantage of Royal Decree-Law 34/2020 to extend either its maturity or payment holiday. Specifically, the estimates of a linear probability model (see Chart 2) indicate that the probability of extending the maturity or payment holiday is higher for loans with an existing payment holiday (95.4% higher than those without, indicating the complimentary use of these measures to defer payments). Bearing in mind the very widespread recourse to payment holidays, the relative importance of firm-level factors is comparatively lower. Thus, belonging to one of the sectors hardest hit by the pandemic increases this probability by 7.3%, while firms with higher ex-ante credit risk show an increase of 10% for each standard deviation decrease in the score. There is no overall pattern regarding the characteristics of the banks that have assented to these arrangements, and therefore their use appears prevalent across the banks.

The analysis of recourse to maturity and payment holiday extensions for ICO-backed loans suggests strong demand. Said demand is higher for loans with an existing payment holiday and for firms facing greater difficulties. The results indicate an improvement in the firms' liquidity profile, with the subsequent easing of short-term risks. However, they reinforce the importance of closely monitoring these loans during the recovery period, to ensure that any materialisation of risks to financial stability is detected at an early juncture.