

Financial Systems Flash

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Economic Analysis

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New lending to corporates closed 2013 with growth of 7%

When it comes to evaluating the performance of credit to the private sector, we have to differentiate between live balance (stock) and new transactions (flow). The former is important because it gives us an insight into the level of indebtedness of economic agents by sector, to make international comparisons and assess vulnerabilities. However, flows are very closely related to economic activity. In recent months, the growth in new credit shows signs of profound differences with that of the accumulated stock of credit: while the flows show a tendency to recover positive growth, the stock continues to contract, in the context of the necessary deleveraging of the private sector in Spain¹.

The flow of new lending in Spain has improved substantially in recent months, particularly loans to corporates, while credit to households is still in the process of adjustment (with the exception of consumer lending). Corporate and household consumer loan portfolios closed the year with positive YoY growth

New lending to corporates has expanded substantially since September 2013, more than we expected. The trend in corporates requesting loans of more than EUR1mn has improved, and in the past two months the YoY growth has been substantially higher than in earlier months, closing the year at +6.1% YoY. Growth in new loans of less than EUR1mn, generally associated with SMEs, reached 9.6% YoY, also a huge improvement over the growth registered earlier in the year. December was the fourth month of positive growth, confirming the turning point identified in the trend in these portfolios during the early part of the summer of 2013 and establishing what looks like a positive trend, at least for the first quarter of 2014.

Growth in new household lending was mixed at the end of 2013: a sharp contraction in mortgage and other loans, but increases in consumer credit. New household lending fell 35.6% YoY in December, but performance differed by customer segment.

1: The statistics for credit flows include both the new transactions on new business generated during the period and existing loans where terms and conditions have been changed (maturity date, guarantees, interest rate, principal amount, etc.), including refinancings. Thus the new lending statistics are not a perfect indication of new business, as the proportion of refinancings is not disclosed. All in all, statistical analysis indicates the presence of very considerable seasonality and a high component of unpredictability which means that the average volatility of YoY variations is more than 8% (see Chart 1). In general, refinancings are decisions that can increase the probability of a borrower repaying a loan. However, they are inappropriate when the financial institutions try to mask or delay the recognition of a solvency problem. For this reason, on 30 April 2013, the Bank of Spain published a letter in which it recommended reviewing the portfolios of refinanced loans in order to reclassify them by applying stricter risk criteria. This recommendation presumably gave rise to some cleaner flow statistics than observed until then, as the refinancing process was penalised.

- **New mortgage lending is still in negative territory**, although not to the same extent as indicated by the December figure (-57.8%), which is distorted by the push factor of the withdrawal of tax breaks in December 2012. Thus the average YoY variation in 2013 was -31.9% vs. 2012. Nonetheless, the weakness of household demand will continue to put downward pressure on this type of lending.
- **New consumer lending, which has been trending upwards since the beginning of the year, closed December with an increase of 32.4%.** Nonetheless, this growth trend is showing signs of exhaustion, as the present rates of growth are lower than those estimated for previous months.
- **The outlook for new other household lending continues to improve, although still in negative territory** around -18% YoY, in spite of starting the year with a YoY variation nearly 10 points higher than the previous month (-9.6%).

In future, total new lending will post positive growth hand in hand with the economic recovery, driven by the trend in the corporate portfolio.

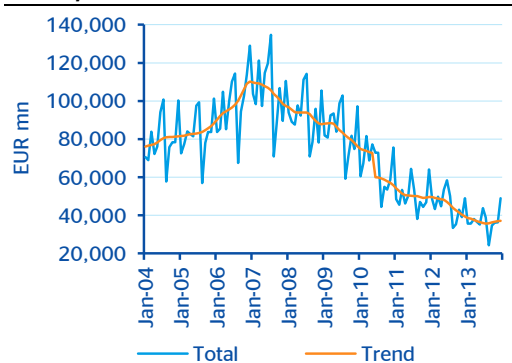
Table 1
New lending, corporates and households

| Month | Total new lending | Corporates | | | Households | | | | |
|---------------------|-------------------|------------|--------------|------------------|------------|----------|----------|--------|--|
| | | Total | Up to EUR1mn | More than EUR1mn | Total | Mortgage | Consumer | Other | |
| Jul-13 | 38,838 | 33,851 | 12,442 | 21,409 | 4,987 | 2,117 | 1,316 | 1,554 | |
| Aug-13 | 24,238 | 21,049 | 8,577 | 12,472 | 3,189 | 1,301 | 1,043 | 845 | |
| Sep-13 | 34,700 | 31,288 | 10,517 | 20,771 | 3,412 | 1,418 | 1,047 | 947 | |
| Oct-13 | 36,164 | 31,837 | 12,273 | 19,564 | 4,327 | 1,907 | 1,246 | 1,174 | |
| Nov-13 | 36,268 | 31,869 | 11,584 | 20,285 | 4,399 | 1,962 | 1,171 | 1,266 | |
| Dec-13 | 48,992 | 43,853 | 12,775 | 31,078 | 5,139 | 2,233 | 1,511 | 1,395 | |
| % change YoY | | | | | | | | | |
| Jul-13 | -22.5% | -23.9% | -6.9% | -31.2% | -11.6% | -27.0% | 9.9% | 0.7% | |
| Aug-13 | -27.5% | -29.1% | -6.4% | -39.2% | -15.2% | -24.3% | 6.6% | -20.6% | |
| Sep-13 | -1.8% | -1.0% | -1.4% | -0.8% | -8.7% | -18.5% | 16.1% | -13.6% | |
| Oct-13 | -15.9% | -16.4% | 0.1% | -24.2% | -12.6% | -20.4% | 19.2% | -22.1% | |
| Nov-13 | -7.2% | -5.0% | 4.8% | -9.8% | -20.9% | -32.6% | 8.2% | -19.4% | |
| Dec-13 | 0.2% | 7.1% | 9.6% | 6.1% | -35.6% | -57.8% | 32.4% | -9.6% | |

Source: Bank of Spain & BBVA Research

Chart 1
New lending

Monthly flows



Source: Bank of Spain & BBVA Research

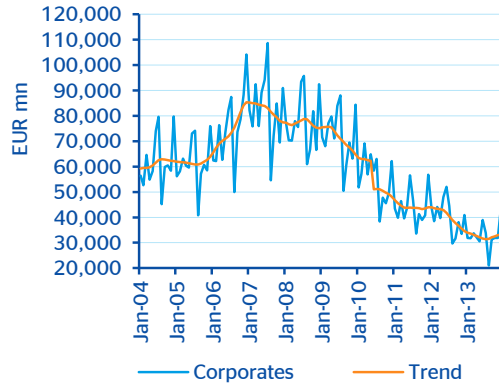
% variation YoY



Source: Bank of Spain & BBVA Research

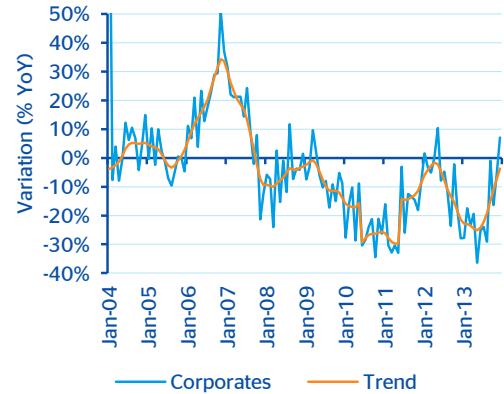
Chart 2
New corporate lending

Monthly flows



Source: Bank of Spain & BBVA Research

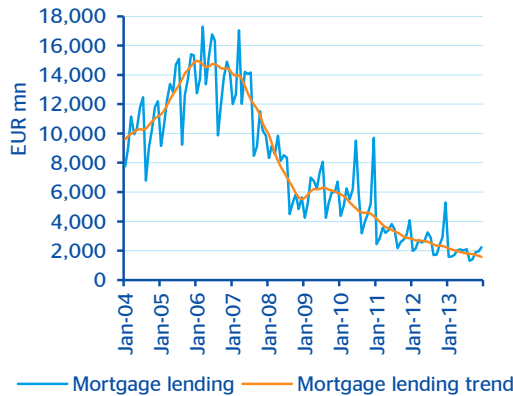
% variation YoY



Source: Bank of Spain & BBVA Research

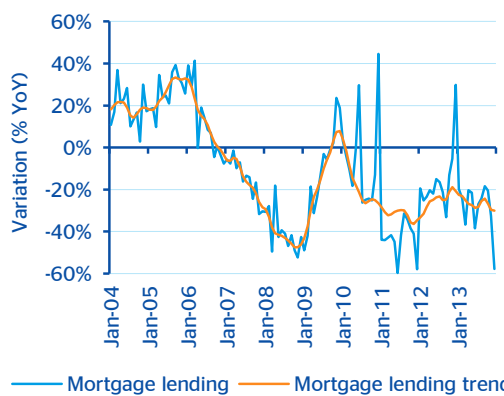
Chart 3
New household mortgage lending

Monthly flows



Source: Bank of Spain & BBVA Research

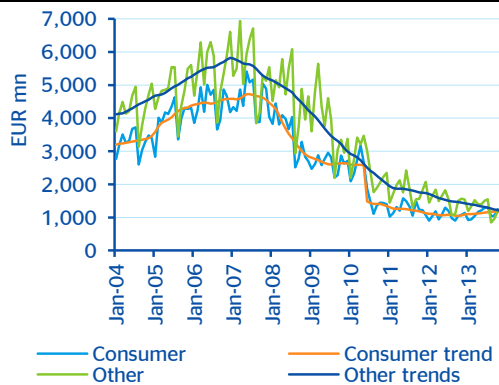
% variation YoY



Source: Bank of Spain & BBVA Research

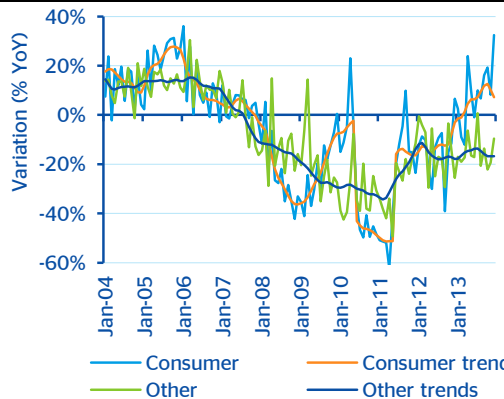
Chart 4
New household lending, consumer and other

Monthly flows



Source: Bank of Spain & BBVA Research

% variation YoY



Source: Bank of Spain & BBVA Research

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