

BOND FINANCING OF SPANISH NON-FINANCIAL CORPORATIONS: RECENT DEVELOPMENTS AND DRIVERS

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ROADMAP

- **Determinants of bond financing**
- **Recent developments in bond financing in Spain**
- **Main drivers**
- **Challenges**

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DETERMINANTS OF BOND FINANCING (I)

- Data
 - European Records of IFRS Consolidated Accounts (ERICA)
 - It contains detailed balance-sheet information at consolidated level on European listed non-financial corporations.
 - Sample:
 - 8 countries (Austria, Belgium, France, Germany, Greece, Italy, Portugal and Spain).
 - Period: 2009 - 2015
- Regression analyses:

$$\text{Bonds}(0/1)_t = f(\text{Firm}_{t-1}, \text{Country}_{t-1}, \text{Industry}_{t-1}) \quad (1)$$

$$\frac{\text{Bonds}}{(\text{Bonds}+\text{Loans})_t} = f(\text{Firm}_{t-1}, \text{Country}_{t-1}, \text{Industry}_{t-1}) \quad (2)$$

DETERMINANTS OF BOND FINANCING (II)

	Bonds (0/1)	Bonds / Loans + Bonds
Large Group (0/1)	0.546*** [0.026]	0.357*** [0.020]
Medium-sized Group (0/1)	0.150*** [0.023]	0.061*** [0.013]
High Risk Z-Score	0.177*** [0.019]	0.092*** [0.013]
Financial Leverage	0.003 [0.002]	-0.000 [0.001]
Net Cash Flow / TA	-0.287*** [0.094]	-0.160** [0.076]
Fixed Tangible Assets / TA	0.081* [0.048]	-0.049* [0.027]
High Opacity	-0.025 [0.016]	-0.020** [0.010]
Log(#branches/10,000 adults)	-0.053*** [0.018]	-0.051*** [0.012]
Market Cap Listed Dom/ GDP	0.002*** [0.000]	0.001*** [0.000]
Bond - Loan Rates	-0.043*** [0.011]	-0.037*** [0.007]
Sector FE	YES	YES
Observations	6,446	6,113
Adj. R-squared	0.284	0.291

DETERMINANTS OF BOND FINANCING (III)

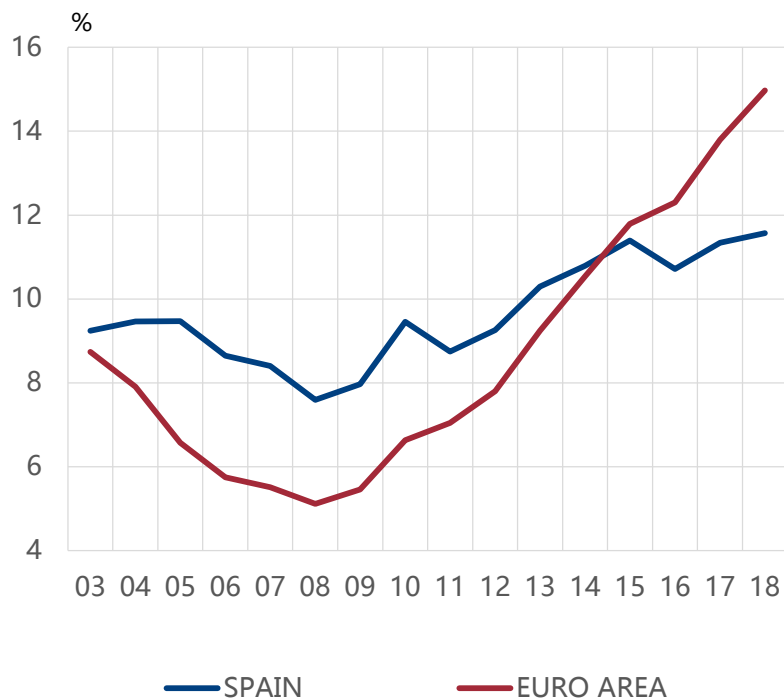
Explanatory power of variables (% R2)

	Bonds (0/1)	Bonds / Loans + Bonds
Group Size	74.69	79.00
Group Risk (High Risk Z-Score + Leverage)	13.74	7.04
Other Firm Characteristics	3.40	1.99
Log(#branches/10,000 adults)	1.16	3.07
Market Cap Listed Dom/ GDP	1.15	0.65
Bond - Loan Rates	1.77	3.15
Industry FE	4.10	5.10

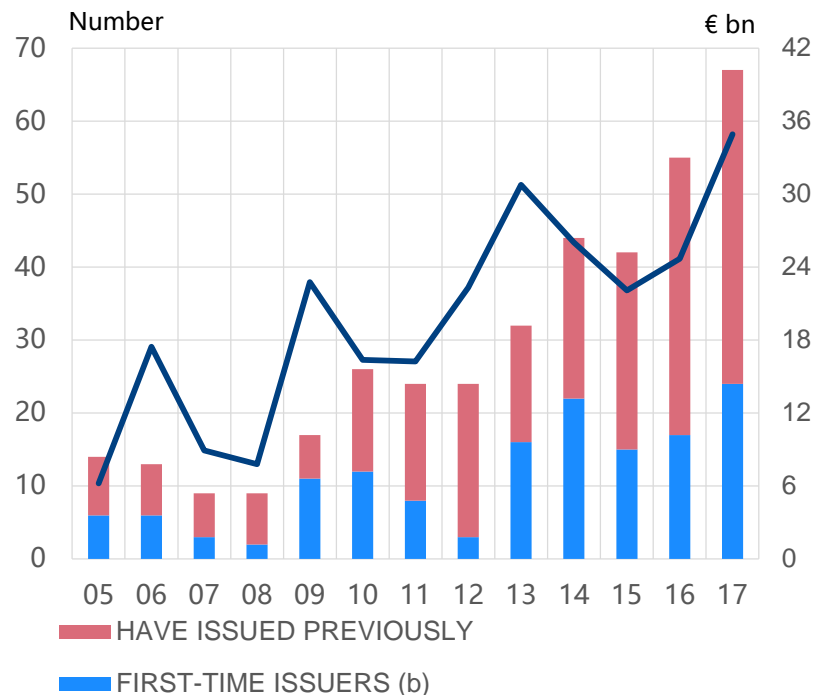
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THE SHARE OF FIXED-INCOME SECURITIES IN NON-FINANCIAL CORPORATIONS' DEBT HAS BEEN INCREASING SINCE 2008

DEBT SECURITIES AS A PROPORTION OF DEBT



ISSUANCE OF DEBT SECURITIES IN SPAIN



Sources: ECB and Banco de España.

a. Debt securities include issuance by resident and non-resident subsidiaries

b. Owing to the lack of historical data, first-time issuers are considered to be those firms issuing debt securities for the first time since 2005, with no outstanding balances in 2005 of prior years' issuance.

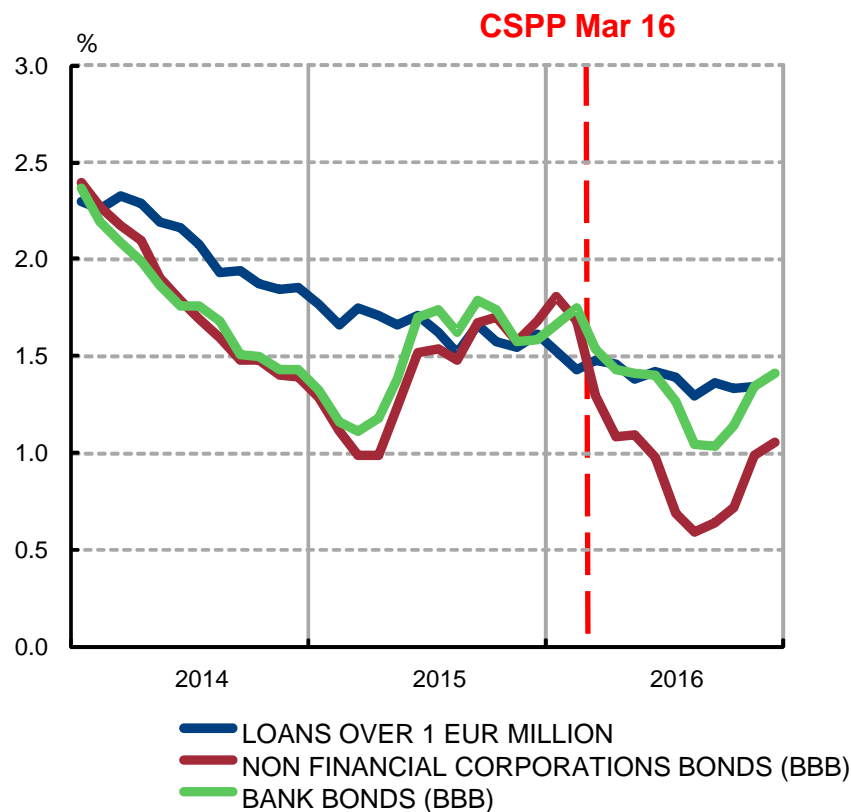
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MAIN DRIVERS

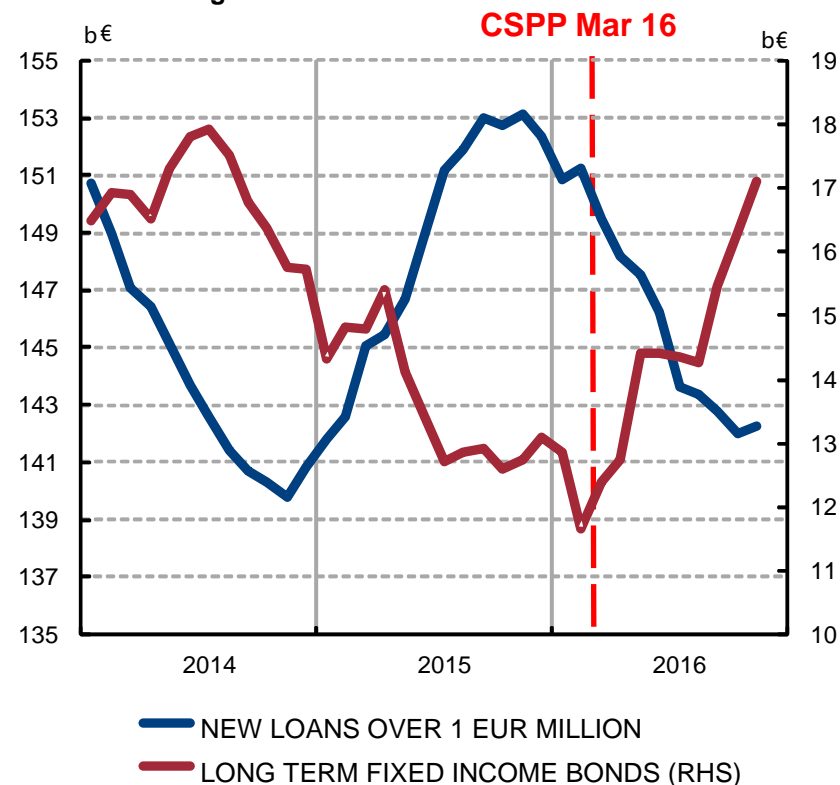
- Temporary factors
 - The role of unconventional monetary policies (CSPP)
- Permanent factors
 - The new international banking regulation
 - The launch of an alternative market for fixed-income securities (MARF)
 - The changes in domestic regulation

THE IMPACT OF THE CORPORATE SECTOR PURCHASE PROGRAMME (CSPP) (I)

INTEREST RATES. CORPORATIONS



LOANS AND FIXED INCOME GROSS ISSUANCE 12 month average



Source: Banco de España

THE IMPACT OF THE CORPORATE SECTOR PURCHASE PROGRAMME (CSPP) (II)

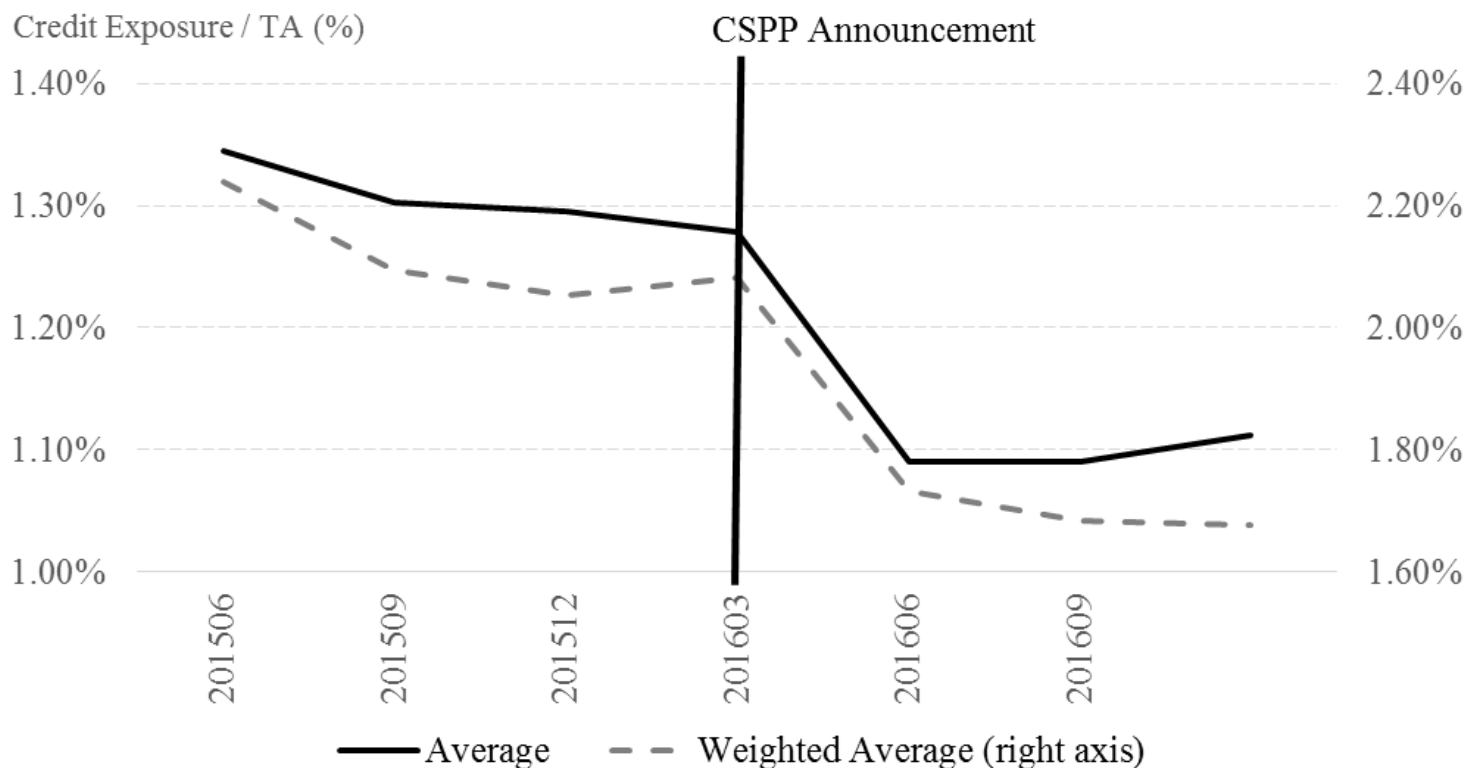


Figure 2: Relative credit exposure of resident credit institutions to debt issuer groups around and after the announcement of the CSPP.

Arce, O., Gimeno, R., and Mayordomo, S. (2017) "Making room for the needy: The credit-reallocation effects of the ECB's Corporate QE". Working Paper

THE IMPACT OF THE NEW INTERNATIONAL BANKING REGULATION

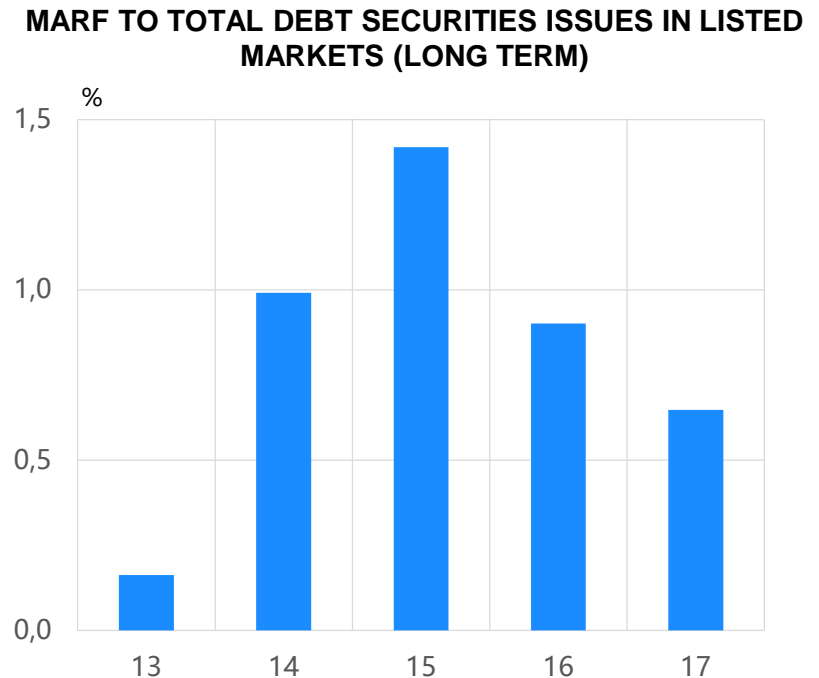
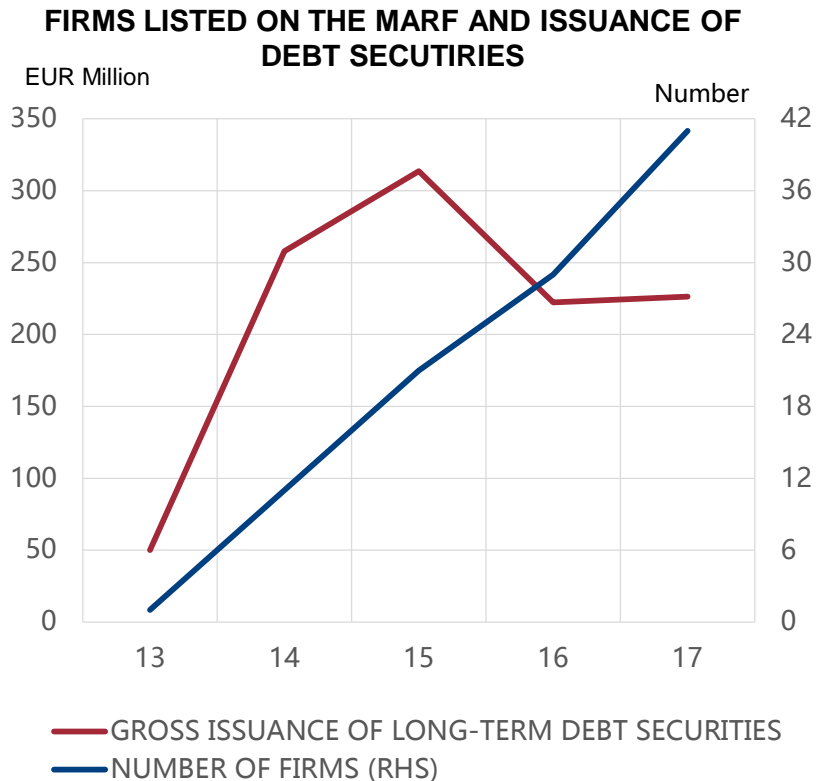
- The new international banking regulation, with tighter capital requirements, may have contributed to bank disintermediation.
- Although tighter capital requirements enhance financial stability, they could also damage bank credit supply:
 - Francis and Osborne, 2009; Cosimano and Hakura, 2011; Hyun and Rhee, 2011; Aiyar, Calomiris, and Wieladek, 2014; Aiyar et al, 2014; Bridges et al., 2014; Schoenmaker and Peek, 2014; Fraise, Lé, and Thesmar, 2015).
 - Mayordomo and Rodríguez-Moreno (2017)

THE LAUNCH OF AN ALTERNATIVE MARKET FOR FIXED-INCOME SECURITIES (MARF) (I)

- MARF is a multilateral trading facility set up in 2013 to channel funds mainly to SMEs through fixed-income securities.
 - Alternative market for equity (MAB) was set up in 2006.
- Requirements for accessing this market are more flexible than those for the regulated official markets.
- To support this initiative, amendments to the legislation governing insurance companies and pensions funds was introduced to allow them to purchase securities listed on this fixed-income market.

THE LAUNCH OF AN ALTERNATIVE MARKET FOR FIXED-INCOME SECURITIES (MARF) (II)

- The activity of firms on the alternative market has trended upwards in recent years...
- ... but the volume of funds raised in relative terms compared with the total fixed-income markets is still very low.



Sources: MARF and Banco de España.

THE CHANGES IN THE DOMESTIC REGULATION

- Law 7/2015, 27 April, of *Fomento de la Financiación Empresarial* changed the bond issuance regime in the following two ways:
 1. The quantitative limit on the issuance of debt securities that applies to non-listed public limited companies (Spanish SAs) is lifted.
 - Previous limit: paid-up share capital plus reserves.
 2. Private limited companies (Spanish SLs) are allowed to issue debt securities (with a limit, unless the issuance is secured).

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CHALLENGES

- The bank disintermediation process is contributing to the diversification of non-financial corporations' funding structure.
- Progress with the CMU initiative may further support the bank disintermediation process.
- But direct access to capital markets by SMEs will probably continue to be difficult due to their small size.
- Securitisation of loans to SMEs is probably a more promising avenue for their indirect access to capital markets.
- Another challenge is the development of liquid and integrated fixed-income markets in Europe.