BANK LENDING SURVEY APRIL

2015

Financial Stability Department

Monetary Department
Monetary Policy and Fiscal Analyses Division

CZECH NATIONAL BANK

I. INTRODUCTION AND SUMMARY

The Bank Lending Survey captures banks' opinions regarding the change in the supply of loans by means of credit standards and the terms and conditions for approving loans, and regarding the change in non-financial corporations' and households' demand for loans. This document summarises the results of the twelfth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2015 Q1 and their expectations in these areas for 2015 Q2. Eighteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 10 and 24 March 2015.[1,2]

The survey reveals that banks further eased their credit standards in all the monitored credit market segments in 2015 Q1. The easing of standards was due to competitive pressure, more favourable risk perceptions, lower bank financing costs and an improved liquidity situation. Banks eased both the interest and non-interest terms and conditions for approving loans, with average interest margins decreasing the most across the board. Demand for loans increased in all credit market segments in 2015 Q1. Non-financial corporations' demand for loans increased for the fourth quarter in a row, now due mainly to fixed investment financing, business restructuring, mergers and acquisitions, and working capital and inventories. Household demand for loans for house purchase and consumption also rose, mainly on the back of an improved outlook for the residential property market, growth in consumer confidence and higher household spending on durable goods. In 2015 Q2, banks expect credit standards to ease further and demand for loans to continue to rise in all credit market segments.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks' credit standards for **loans to non-financial corporations** were eased further in 2015 Q1 (an NP of 44% of the market). The easing concerned all types of loans and corporations in terms of size. The easing of standards was due to competitive pressure and more favourable risk perceptions (regarding the overall future economic situation, the outlook for individual industries and corporations and, for smaller corporations, also risks associated with required collateral). A better liquidity situation of banks and lower financing costs acted in the same direction. The easing of standards was also reflected in more favourable terms and conditions applied by banks to new loans. Almost one-half of the banking market lowered average interest margins and a quarter of the market also reduced margins on riskier loans. A part of the banking market also eased the non-interest conditions (e.g. maturity, collateral and loan size requirements).

[1] Four large banks, four medium-sized banks, two small banks, three foreign bank branches and five building societies took part in the survey. Data in Excel files, along with the questionnaire, a glossary and methodological guidelines, are available on the CNB website: (http://www.cnb.cz/en/bank_lending_survey/index.html).

[2] The questionnaire contained 17 questions regarding banks' credit standards, terms and conditions for approving loans and demand for loans perceived by banks, including the relevant factors. In the text and charts, the responses to the questions are expressed in the form of net percentages (NP) on the aggregate level. Net percentages are calculated as the difference between the market share of loans provided in the given segment by banks reporting that standards/conditions have been tightened (or perceiving increased demand) and the market share of loans provided in the given segment by banks reporting that standards/conditions have been eased (or demand decreased). A positive (negative) net percentage indicates an overall tightening (easing) of standards/conditions or an overall increase (decrease) in demand.

Non-financial corporations' demand for loans increased (an NP of 33% of the market). Demand rose for the fourth consecutive quarter, affected by fixed investment financing, business and debt restructuring, mergers and acquisitions, and working capital and inventories. The use of alternative forms of financing in the form of debt securities and the use of internal resources of corporations had an adverse impact on corporations' demand for loans. Demand for loans grew more for medium-sized and small corporations and most of all for long-term loans. Demand for short-term loans increased less broadly, due among other things to higher borrowing from financial corporations engaged in lending (e.g. leasing and factoring).

Banks expect credit standards for all types of corporate loans to ease further in 2015 Q2 (an NP of 41% of the market). According to banks' expectations, total corporate demand for loans will rise (an NP of 72% of the market), most broadly for medium-sized and small corporations (an NP of 88%, as compared to 59% for large corporations).

II.2 HOUSEHOLDS

Banks' credit standards for **loans to households for house purchase** were eased in part of the market in 2015 Q1 (an NP of 17% of the market). In particular, lower bank financing costs and competitive pressure from other banks acted in this direction. Banks expect credit standards to ease further in this credit market segment in the next quarter. As regards the terms and conditions for approving loans, average interest margins and banks' requirements for the loan-to-value ratio decreased, while banks' margins rose for riskier loans.

Household demand for loans for house purchase increased in Q1 (an NP of almost 62% of the market). An improved outlook for the residential property market and consumer confidence had a favourable effect on demand. A part of the market expects demand to grow further in 2015 Q2 (an NP of 22% of the market).

Credit standards for **consumer credit** to households were also eased across the board in 2015 Q1 (an NP of 56% of the market). This was due mainly to competitive pressure from other banks and non-banks and more favourable risk perceptions regarding expectations about future economic developments and the creditworthiness of clients. As for the terms and conditions for approving loans, banks reduced their average interest margins while increasing their margins on riskier loans.

Household demand for consumer credit rose (an NP of 30% of the market). Financing of households' spending on durable goods, consumer confidence and also consolidation of old loans had a positive effect on demand. Banks expect consumer credit demand to increase in 2015 Q2.

SUPPLY AND DEMAND CONDITIONS FOR LOANS TO NON-FINANCIAL CORPORATIONS

Chart 1 Changes in credit standards applied to loans to non-financial corporations (questions 1, 2 and 6)
(net percentages, positive value = tightening, negative value = easing)

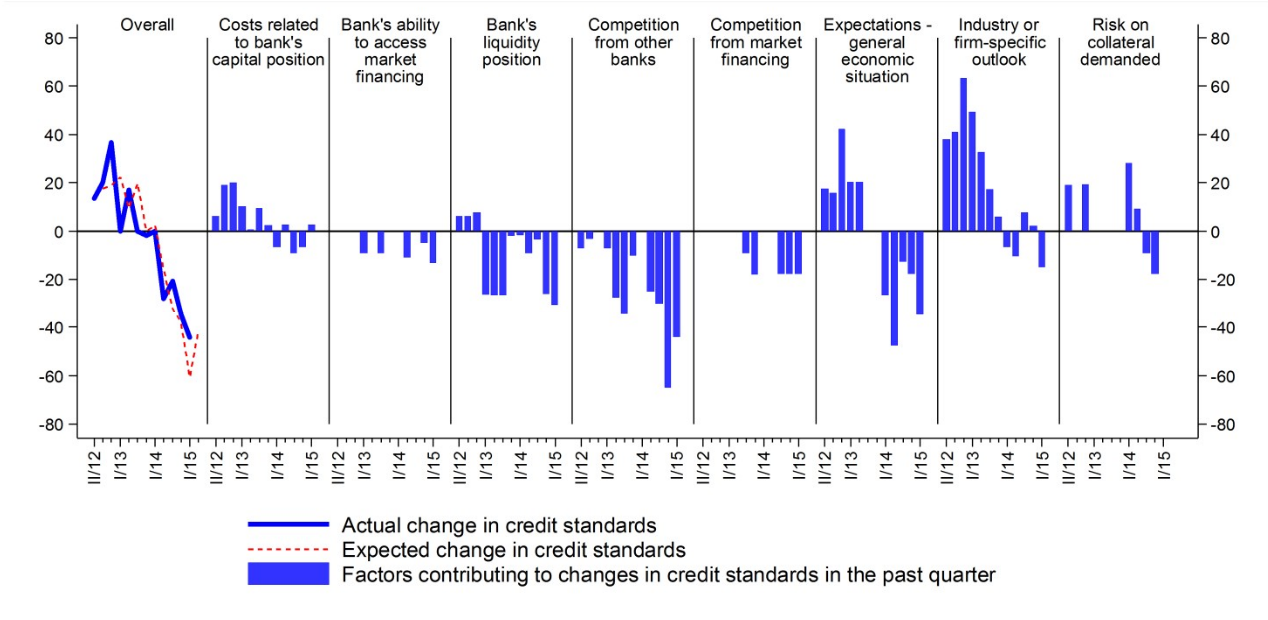


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)
(net percentages, positive value = tightening, negative value = easing)

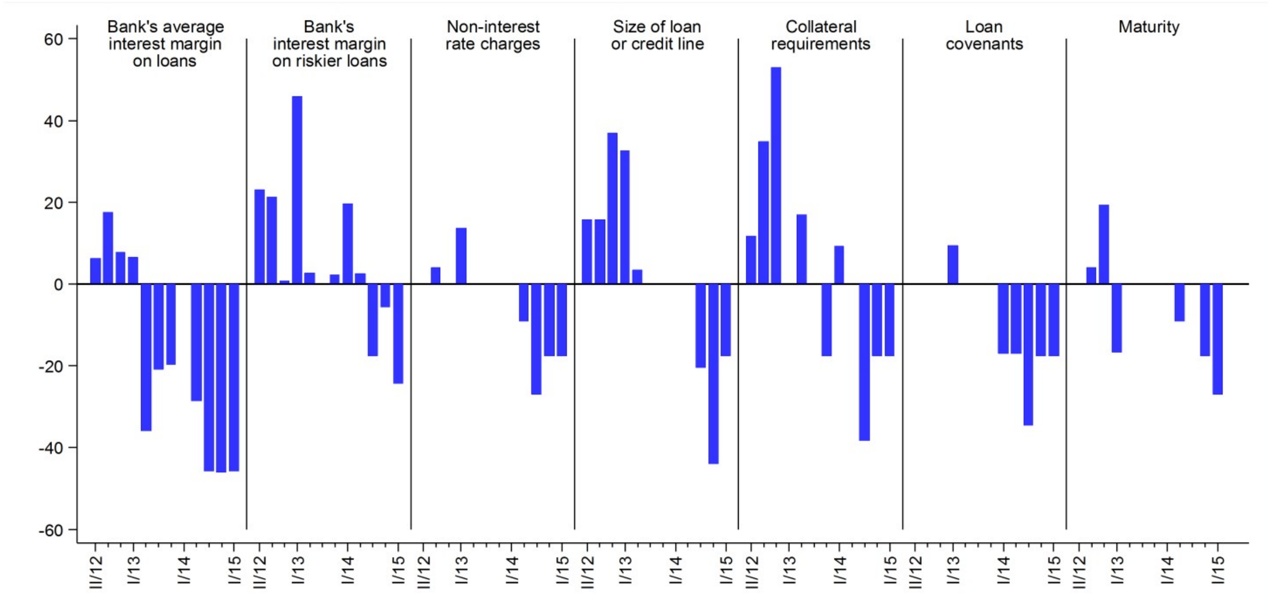
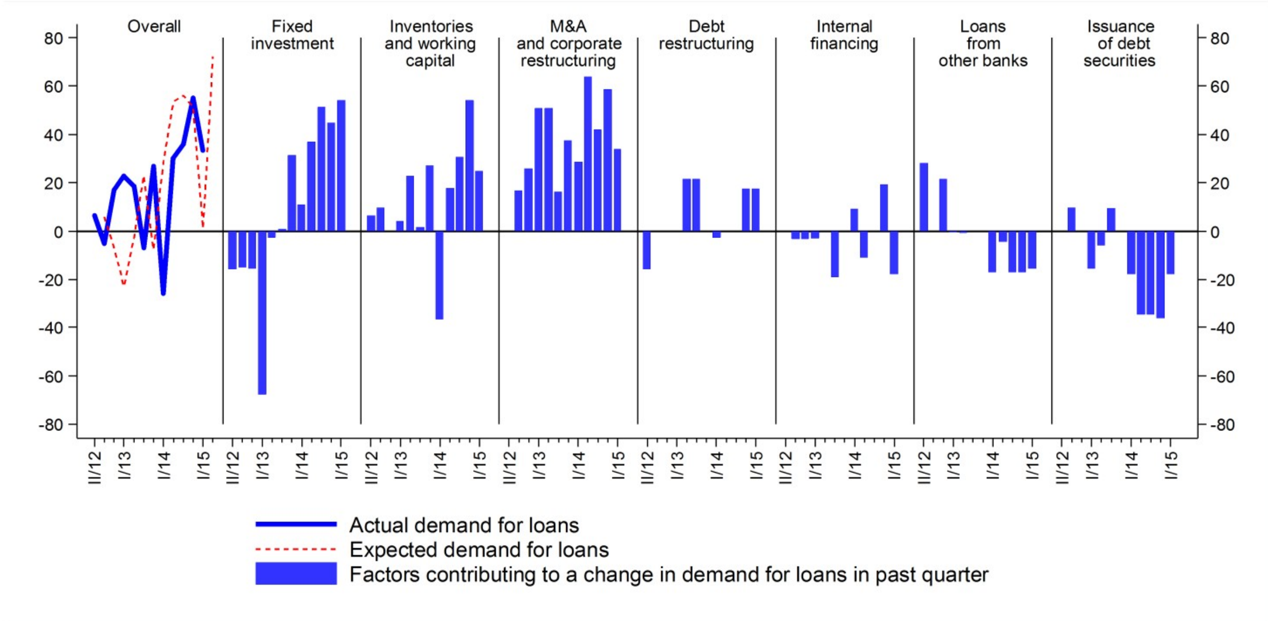


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR LOANS FOR HOUSE PURCHASE

Chart 4 Changes in credit standards applied to loans for house purchase
(questions 8, 9 and 16)
(net percentages, positive value = tightening, negative value = easing)

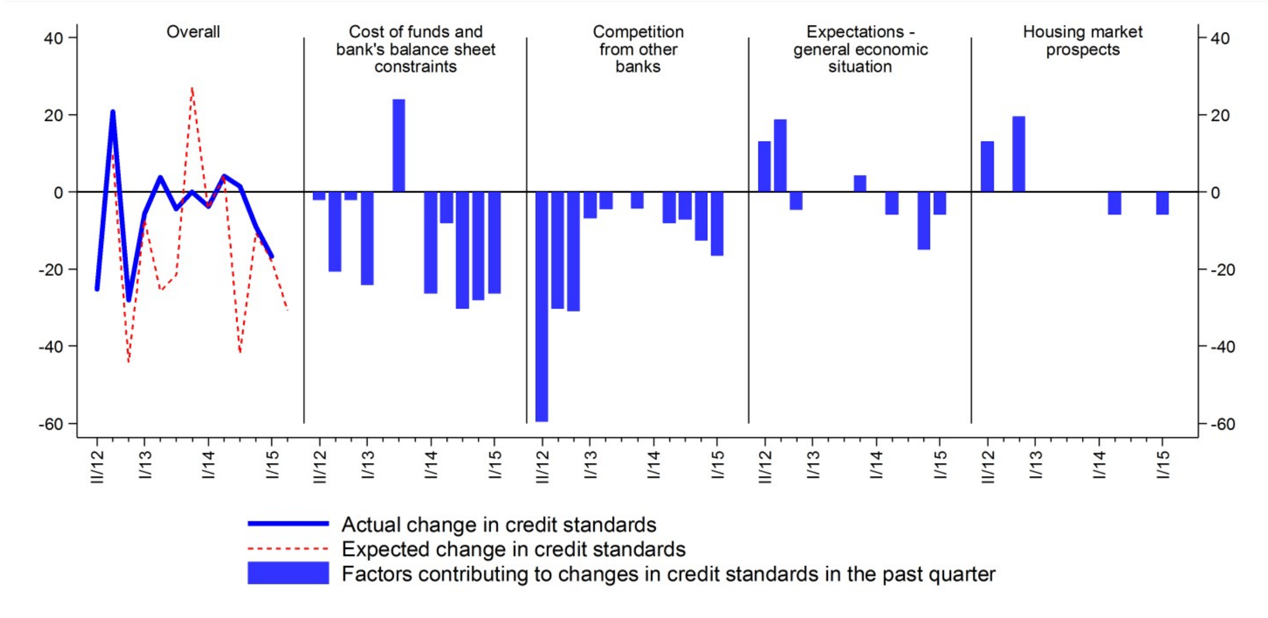


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

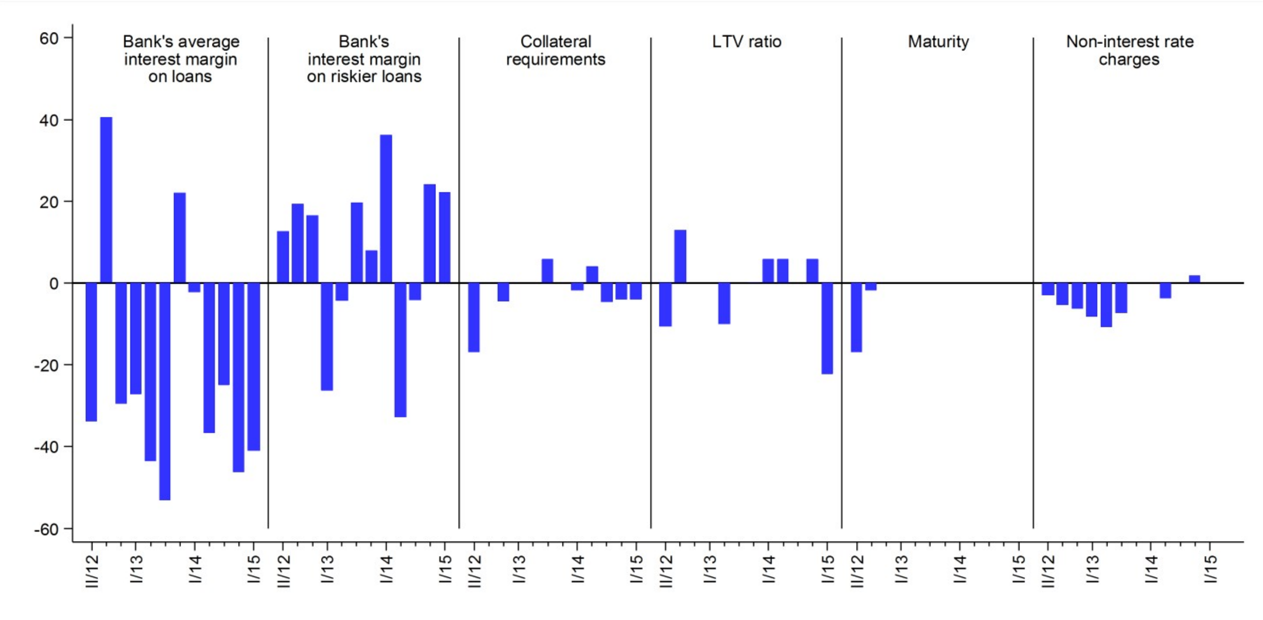
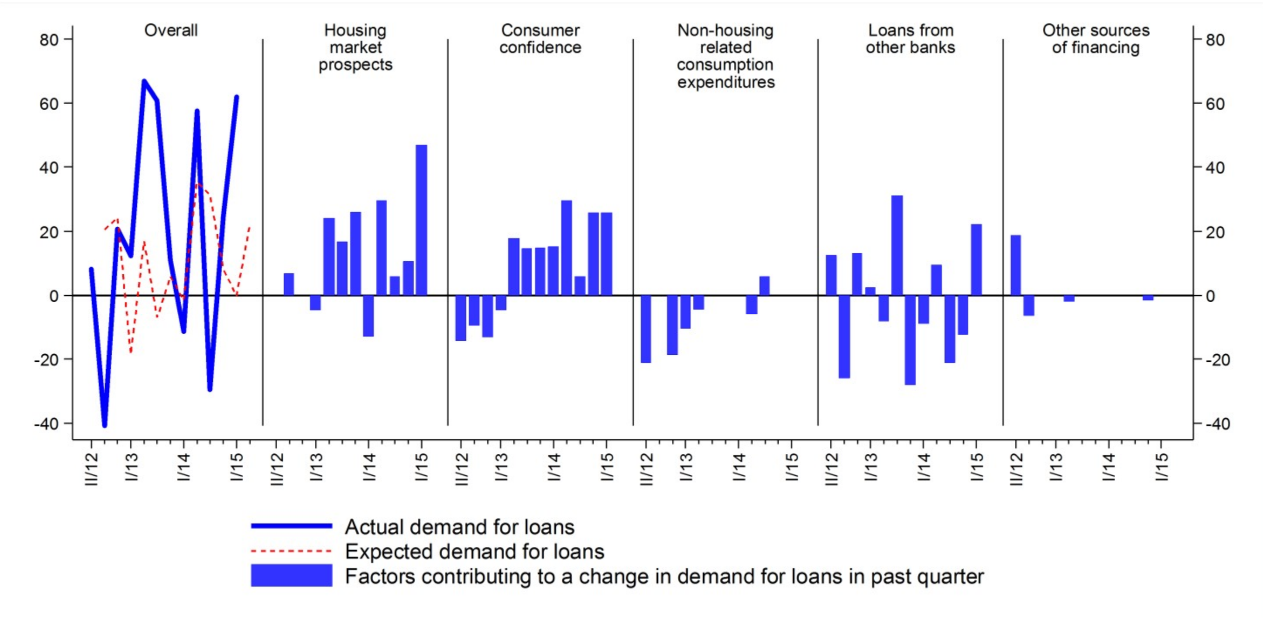


Chart 6 Changes in households' demand for loans for house purchase
(questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR CONSUMER CREDIT

Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)
(net percentages, positive value = tightening, negative value = easing)

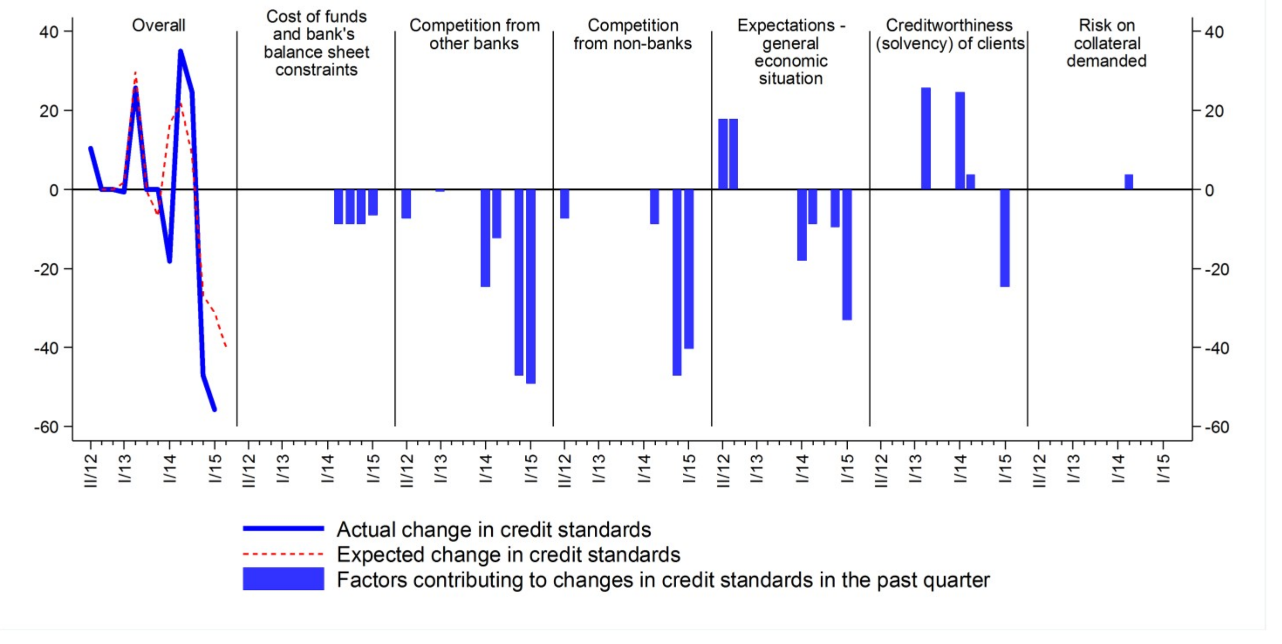


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

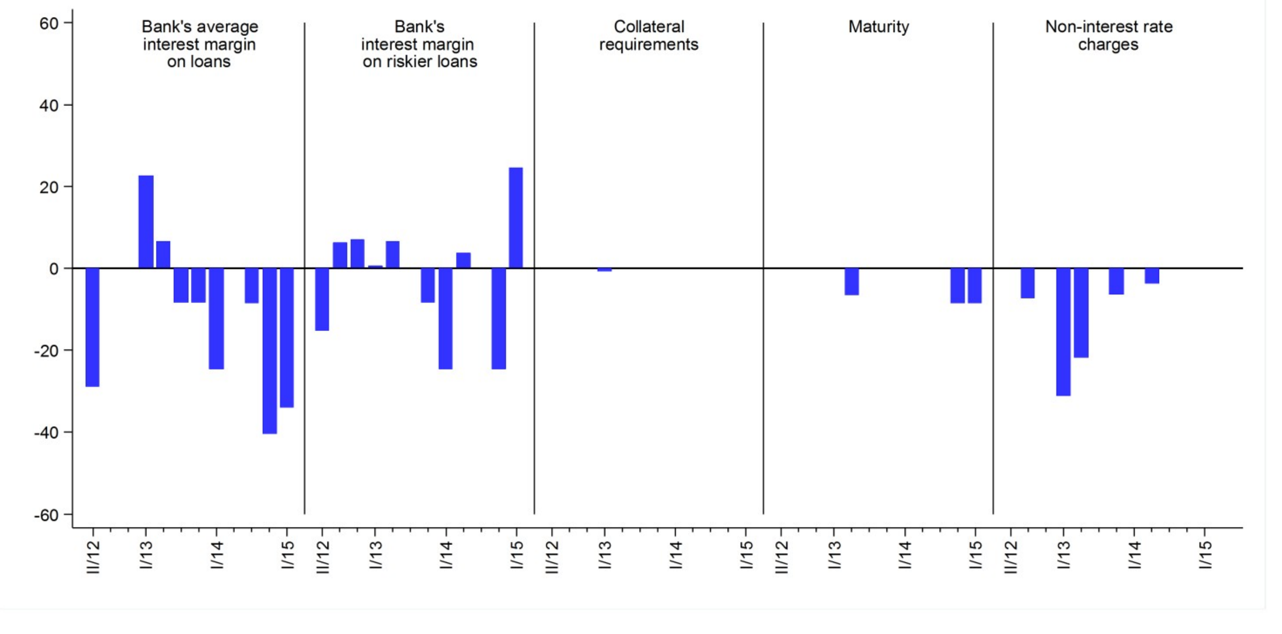


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)