BANK LENDING SURVEY
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Financial Stability Department

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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 sixteenth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2016 Q1 and their expectations in these areas for 2016 Q2. The survey was conducted between 8 and 22 March 2016.

Starting with this round, the survey questionnaire was extended to include the effect of the interest rate level on demand for loans, an assessment of the overall lending conditions and an evaluation of the change in the LTI (loan-to-income) ratio for loans for house purchase. Four banks were added to the list of banks surveyed. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey.[1]

According to the survey results, banks' credit standards were almost unchanged in 2016 Q1. The easing of standards was fostered by strong competition, relatively high liquidity of banks and lower bank financing costs. However, a rather worse outlook for some firms and industries acted in the opposite direction. Banks continued to ease their credit conditions, most broadly for corporate loans. Part of the banking market tightened the conditions applied to loans for house purchase by decreasing the LTV (loan-to-value) ratio. Household demand for loans for house purchase and consumer credit rose across the board; a smaller part of the market also perceived an increase in demand in non-financial corporations. In 2016 Q2, banks expect credit standards to ease for corporate loans and consumer credit, but to tighten for loans for house purchase. According to banks' perceptions, loan demand will increase in all segments of the credit market.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Following a previous easing, banks' credit standards for **loans to non-financial corporations** were unchanged overall in 2016 Q1. However, standards for loans to large corporations and long-term loans were relaxed further. Competition and a good liquidity situation of banks fostered an easing of standards. A worse outlook for some firms and industries acted in the opposite direction. Banks further eased the terms and conditions for approving corporate loans (an NP of 24%). Average interest margins of banks decreased across the board (an NP of 70%). A smaller part of the banking market also reduced interest margins on riskier loans and eased some non-interest conditions (loan maturity etc.).

[1] The survey contained 17 standard and 3 additional questions. The standard questions related to banks' credit standards, terms and conditions for approving loans and demand for loans perceived by banks, including the relevant factors. The additional questions related to loans to non-resident non-financial corporations and the LTI (loan-to-income) ratio for loans for house purchase. 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 demand increased) 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. 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).

Corporate demand for loans rose further in 2016 Q1 (an NP of 10%). The growth in demand was less broad than in the previous period. There was an increase in demand for financing of mergers and acquisitions and corporate and debt restructuring, fostered by low interest rates. By contrast, demand for fixed investment financing decreased in part of the banking market (an NP of 5%).

In 2016 Q2, banks expect credit standards to ease and demand for corporate loans to rise (NP 13% and 22% respectively).

II.2 HOUSEHOLDS

Banks' credit standards for **loans for house purchase** remained broadly unchanged for the third consecutive quarter, or eased in only a tiny part of the market (an NP of 5%). The easing of standards was due to a decline in bank financing costs and competition. As for the terms and conditions for approving loans, average interest margins and margins on riskier loans both decreased. Part of the banking market tightened the credit conditions for the LTV ratio requirement for new loans (by lowering it). As regards the LTI (loan-to-income) ratio, banks' requirements remained broadly unchanged in 2016 Q1.

Household demand for loans for house purchase increased across the board in 2016 Q1 (an NP of 61%). Its growth even exceeded banks' expectations at the end of last year. The outlook for the residential property market, low interest rates and improved consumer confidence had a favourable effect on demand.

In 2016 Q2, banks expect credit standards to tighten for loans for house purchase (an NP of 35%), due mainly to the expected entry into affect of a new consumer credit act. An NP of 24% of the banking market expects demand for loans for house purchase to rise further in Q2.

Credit standards for **consumer credit** to households were relaxed in 2016 Q1 for a very small part of the market (an NP of 7%). The easing of standards was fostered by favourable perceptions of the overall economic situation and the creditworthiness of clients and also by competition. This gave rise to a further decline in the interest margins of banks.

Household demand for consumer credit rose further across the board in 2016 Q1 (an NP of 54%). Demand was positively affected by an increase in consumer expenditure, improved consumer confidence and a decline in interest rates in this credit market segment.

In 2016 Q2, banks expect similar trends for credit standards for consumer credit as before and a further broad increase in demand.

The replies to the **additional questions** regarding loans to non-resident non-financial corporations show that part of the banking market tightened its credit standards for these loans in 2016 Q1 and perceived a rise in demand for loans in this credit market segment.

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)

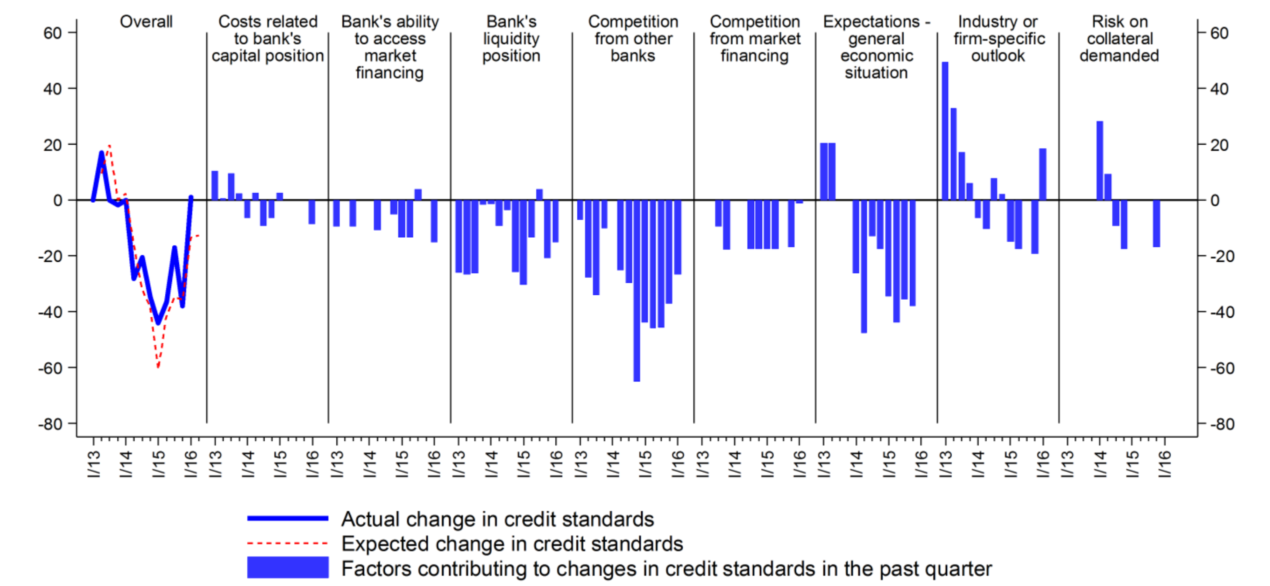


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

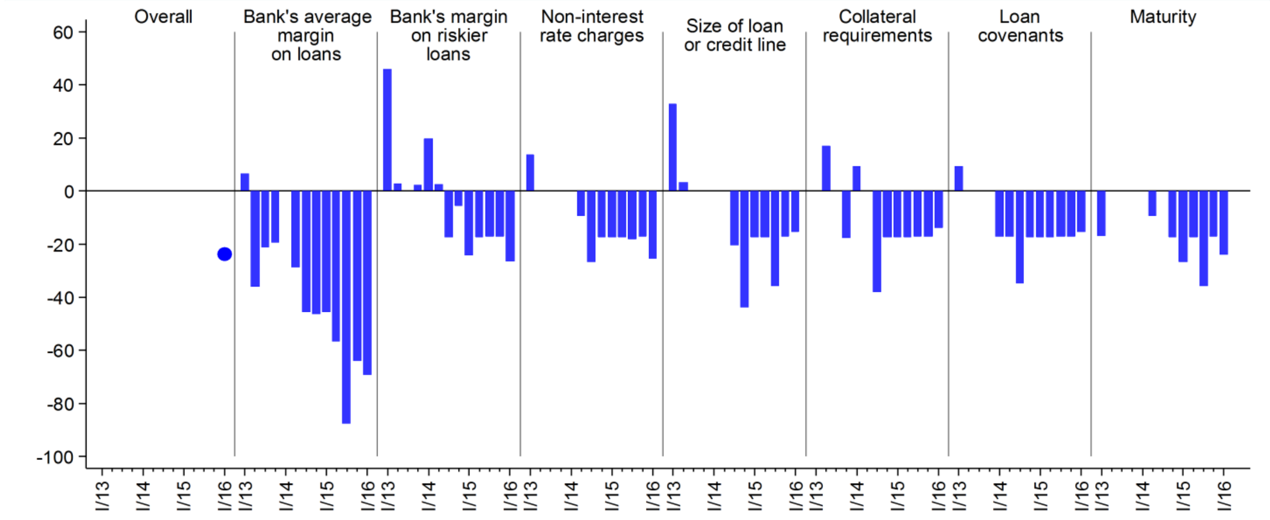
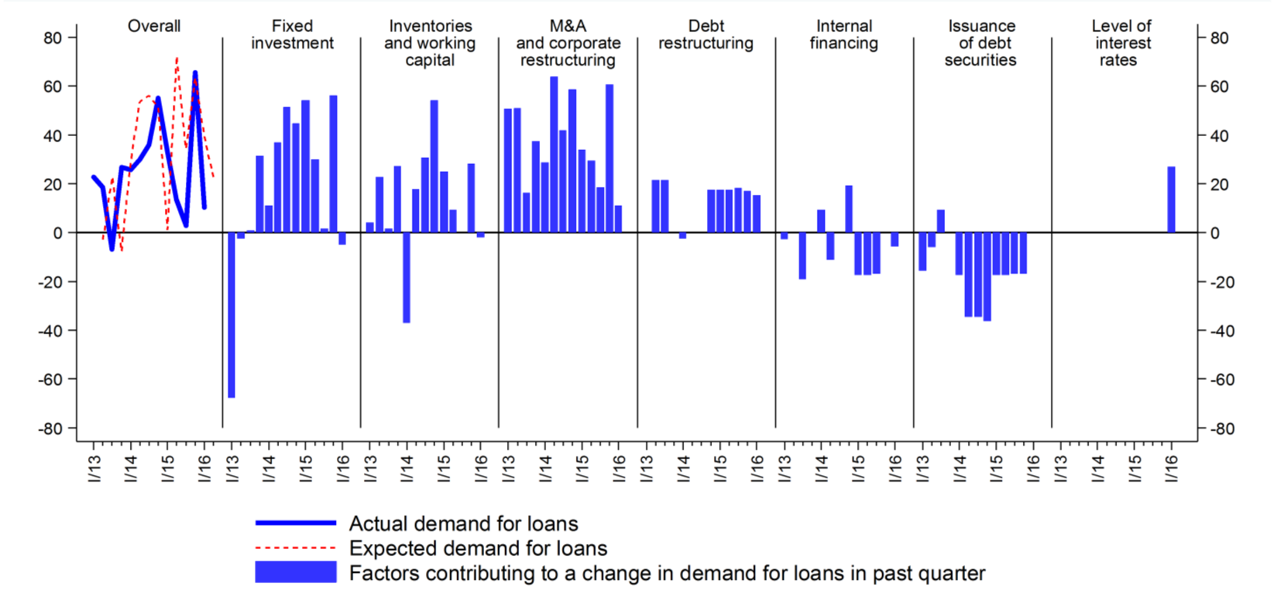


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth, negative value = demand decrease)



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)

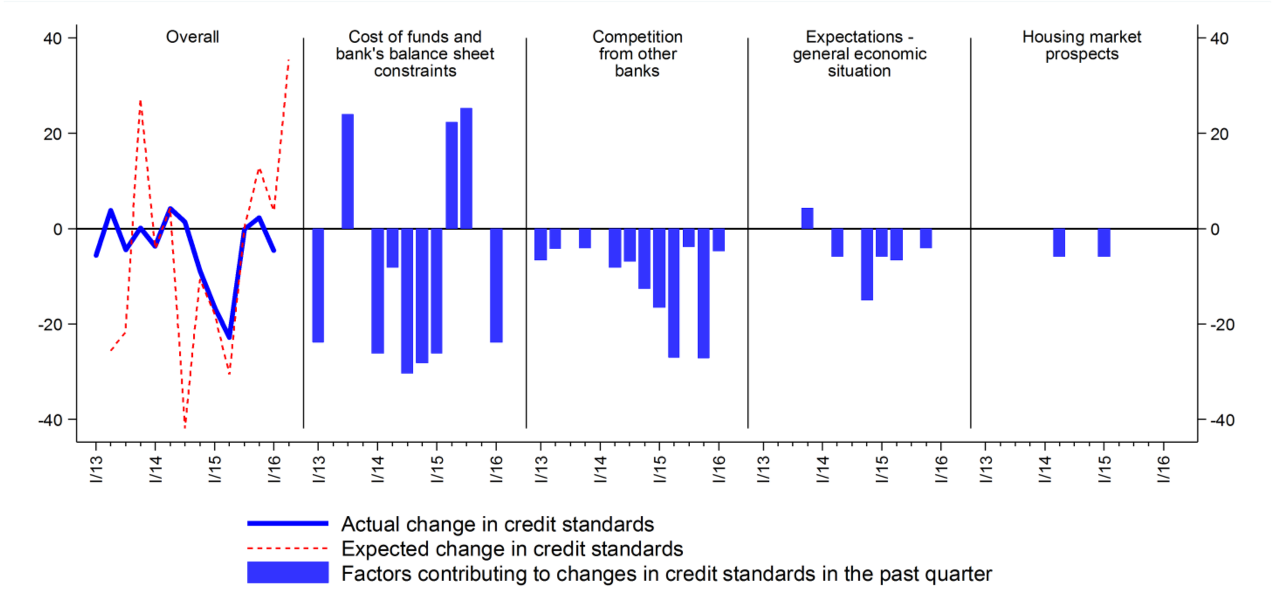


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

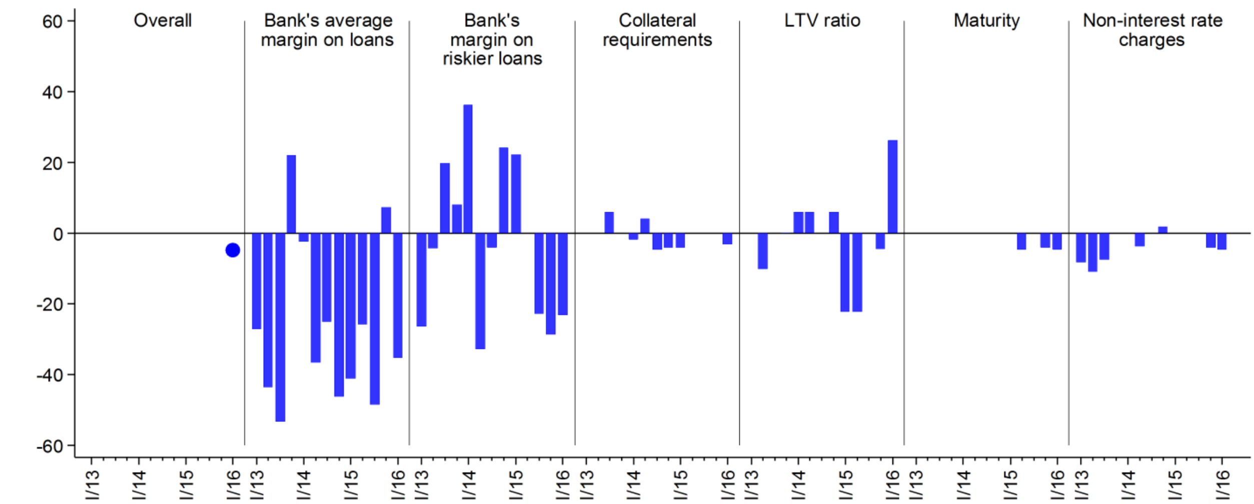
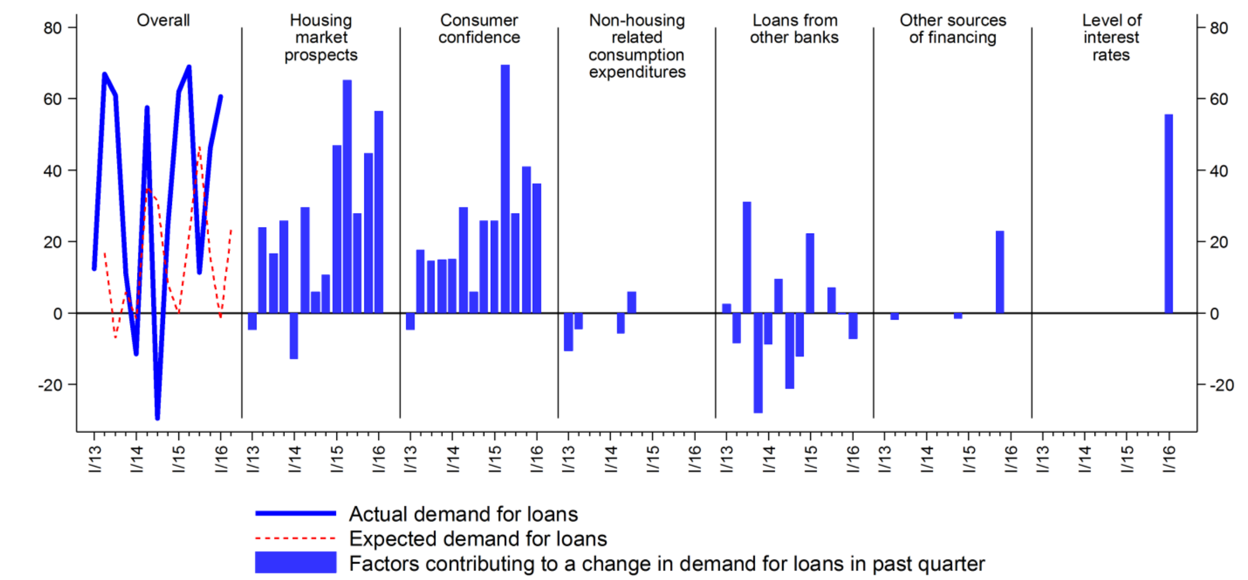


Chart 6 Changes in households' demand for loans for house purchase
(questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

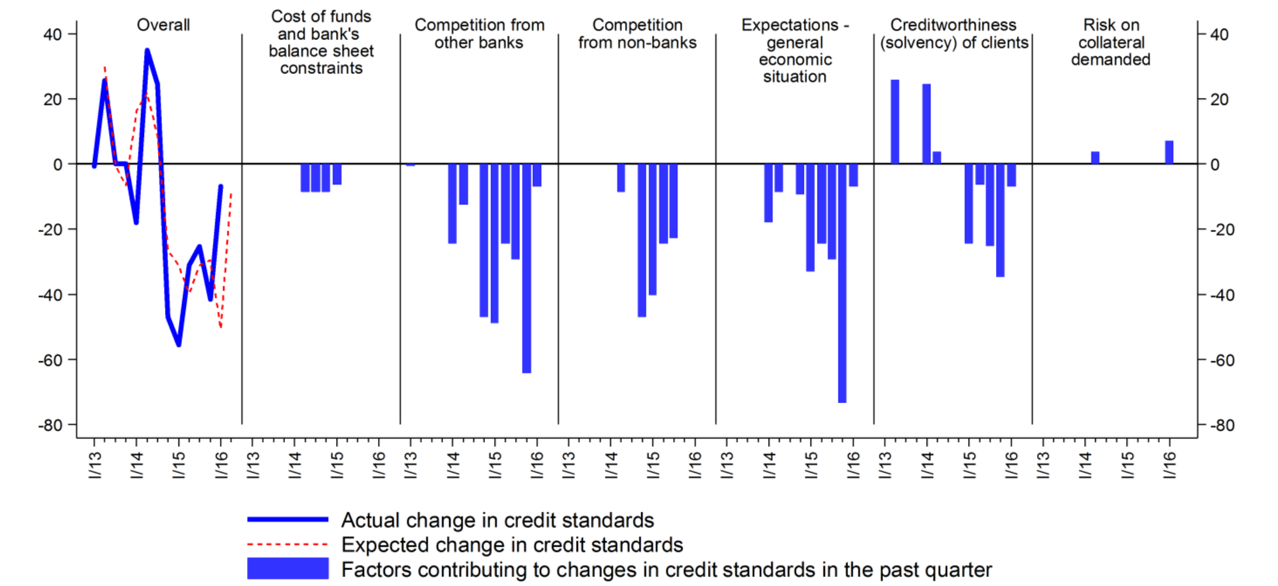


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

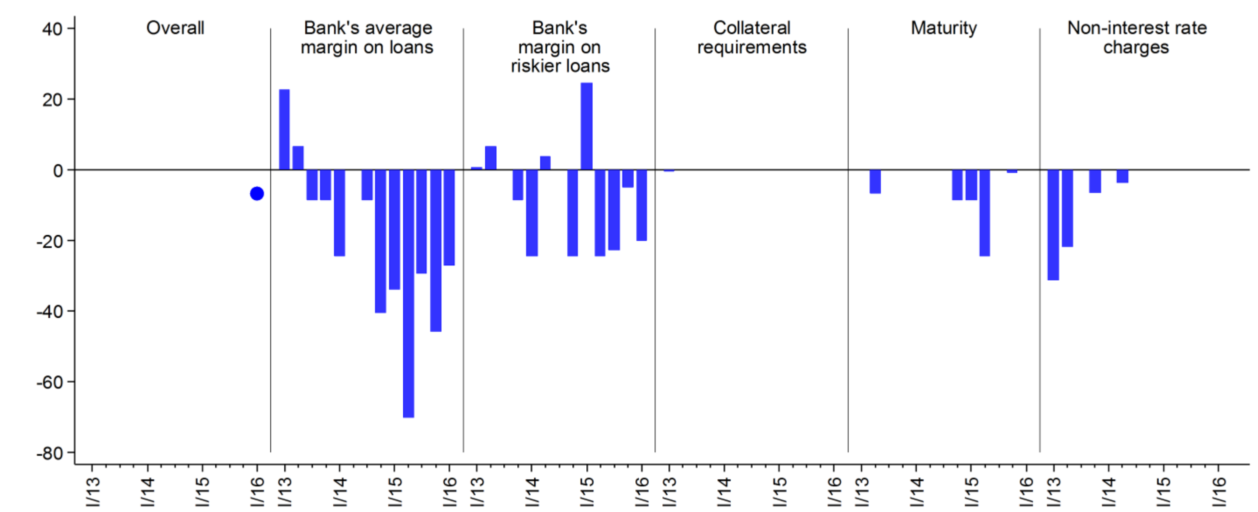


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)