BANK LENDING SURVEY
OCTOBER

2016

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 eighteenth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2016 Q3 and their expectations in these areas for 2016 Q4.[1] Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 6 and 20 September 2016.

The survey reveals that part of the banking market further eased the credit standards for loans to non-financial corporations and for consumer credit in 2016 Q3. As last year, credit standards for loans for house purchase were broadly unchanged. The easing of standards was fostered by competition, a good liquidity situation of banks and positive perceptions of risks regarding the expected overall economic situation. Banks also continued to ease credit conditions for approving loans, mainly through average interest margins. Demand for loans rose in all segments of the credit market. Here again, this was due to positive news from the economy, reflected mainly in rising corporate demand for long-term loans. Among other factors, rising consumer confidence, low interest rates and prospects for the property market played a role in the case of household demand. The banks surveyed indicate a broad-based tightening of standards for loans to households for house purchase in 2016 Q4 due to the entry into effect of the new consumer credit act and the CNB's recommendations regarding LTV limits. Part of the banking market also expects credit standards for consumer credit to tighten and those for loans to non-financial corporations to ease. According to banks' perceptions, demand for loans will increase further in Q4.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks' credit standards for approving **loans to non-financial corporations** were relaxed in 2016 Q3 (an NP of 15% of the market). The easing of standards was fostered by competition, low financing costs, a good liquidity situation of banks and positive perceptions of risks regarding the expected overall economic situation. These factors were also reflected in a further easing of the terms and conditions for approving corporate loans (an NP of 36%), mainly for loans to large corporations. The average interest margins of banks decreased the most. A smaller proportion of the banking market reported lower interest margins on riskier loans and easier non-interest conditions (non-interest fees, loan maturity, etc.).

[1] The survey contained 20 questions that related to 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 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, will be available on the CNB website on Monday, 17 October 2016: (http://www.cnb.cz/en/bank_lending_survey/index.html).

Corporations' demand for loans rose in 2016 Q3 (an NP of 52%, i.e. more than banks had expected in the previous round of the survey). This rise was observed in all market segments, albeit more widely for loans to large corporations and long-term loans. Banks attributed the demand growth mainly to the need to finance fixed investment and inventories and working capital. The low interest rates are also having a positive effect on demand. In 2016 Q4, part of the banking sector expects credit standards to ease further and demand to rise (NPs of 15% and 37% respectively).

II.2 HOUSEHOLDS

Credit standards for **loans to households for house purchase** were again broadly unchanged, with competition and low financing costs fostering an easing. Credit conditions for approving loans for house purchase were relaxed further overall (an NP of 20%), mainly via a decline in average interest margins. Household demand for loans for house purchase continued to rise in Q3 (an NP of 20%). Expected residential property market developments, low interest rates and improved consumer confidence had a favourable effect on demand. As regards the LTI (loan-to-income) ratio, banks' requirements were again unchanged in 2016 Q3.

Virtually the entire banking market is indicating a tightening of credit standards for loans for house purchase in 2016 Q4 (an NP of 94%). This is because of the incorporation of the requirements of the new consumer credit act as well as the CNB's recommendations regarding LTV limits for new loans for house purchase. According to banks' perceptions, demand for loans will continue to rise across the board (an NP of 65% of the market).

Credit standards for **consumer credit** to households were relaxed in 2016 Q3 in only a very small part of the market (an NP of 8%), with all factors having a neutral effect. Part of the market further lowered the average interest margin on normal and riskier loans, while non-interest conditions remained unchanged. Household demand for consumer credit rose further in 2016 Q3 (an NP of 42%). Demand was positively affected by an increase in the consumer expenditure of households, improved consumer confidence and a marked decline in interest rates in this credit market segment. In 2016 Q4, banks expect credit standards to tighten and demand to go up further.

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that banks did not change their credit standards for these loans in 2016 Q3 and demand in this segment remained at the previous quarter's level.

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)

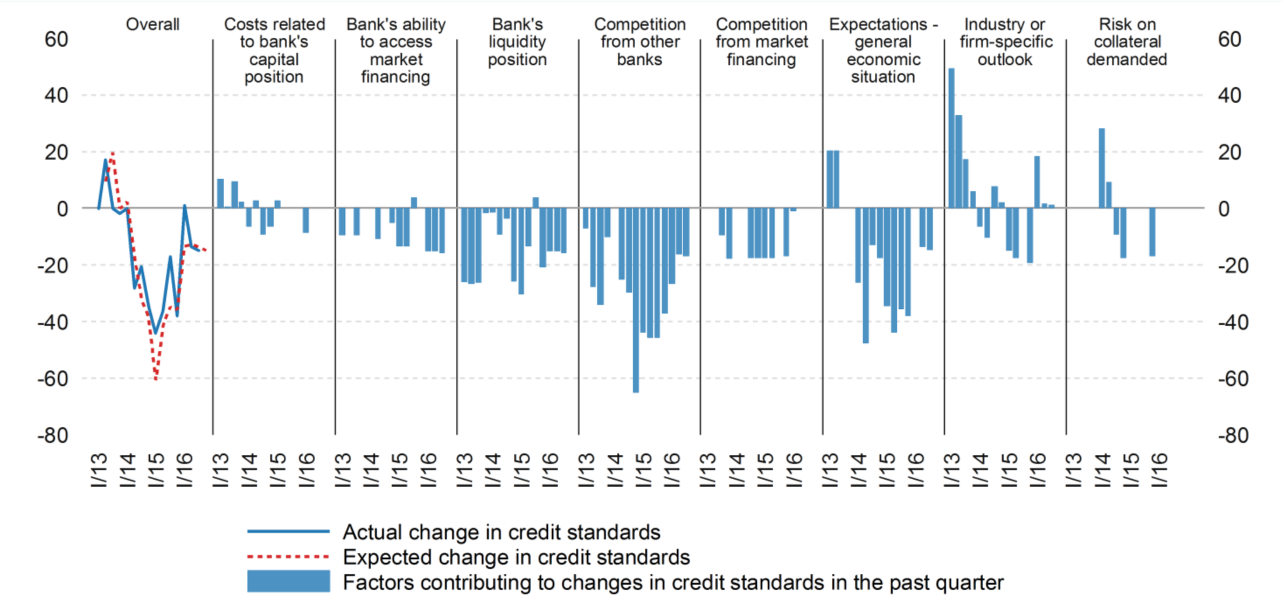


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

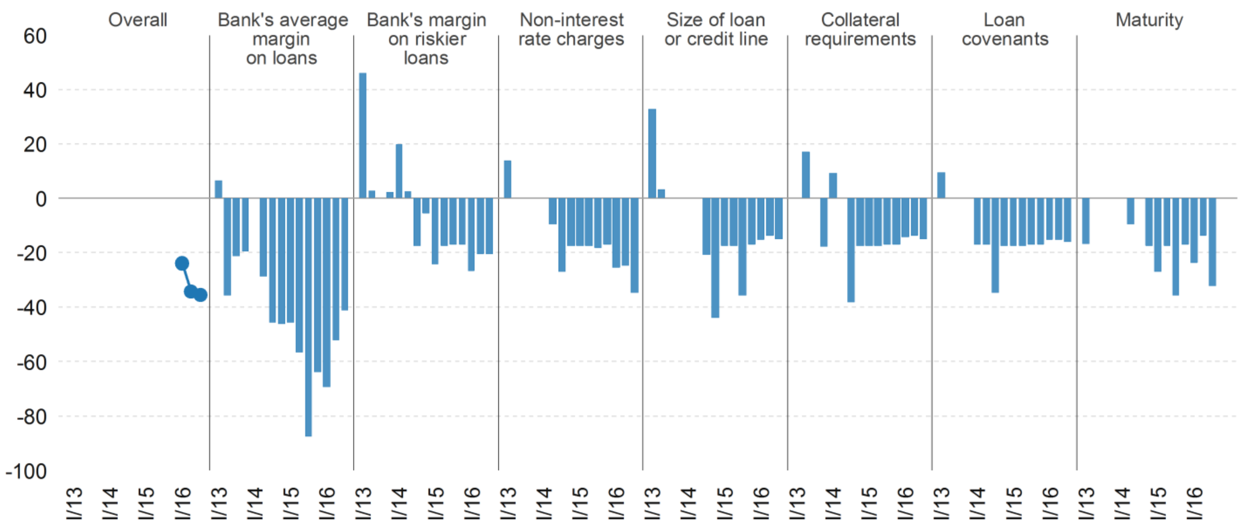
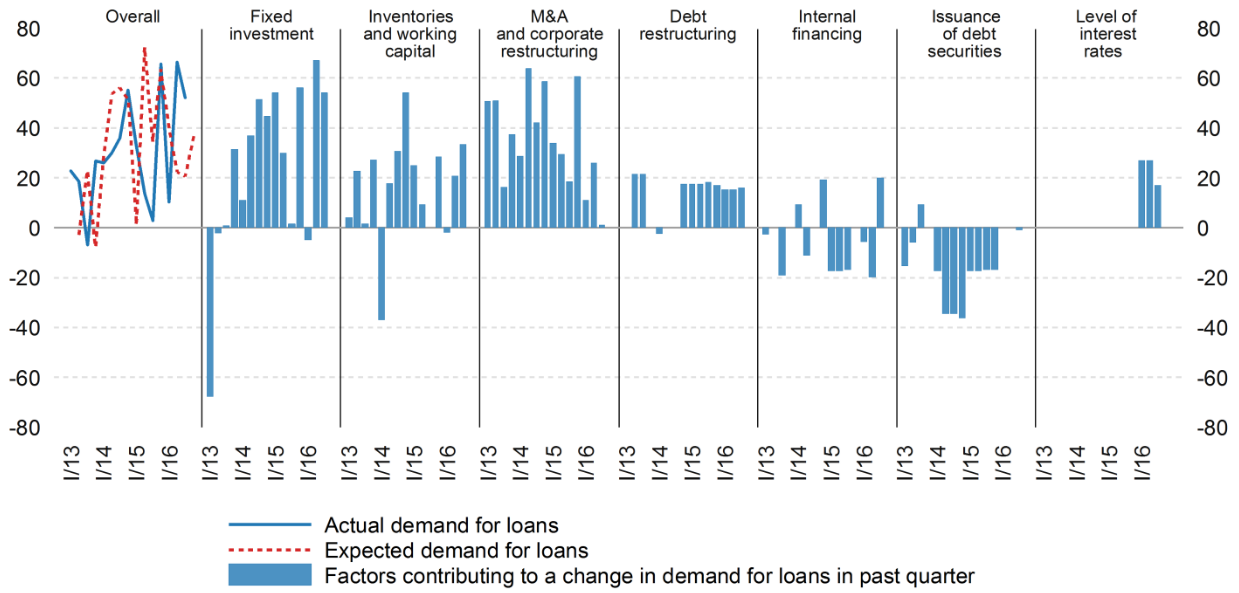


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth, negative value = demand decrease)



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)

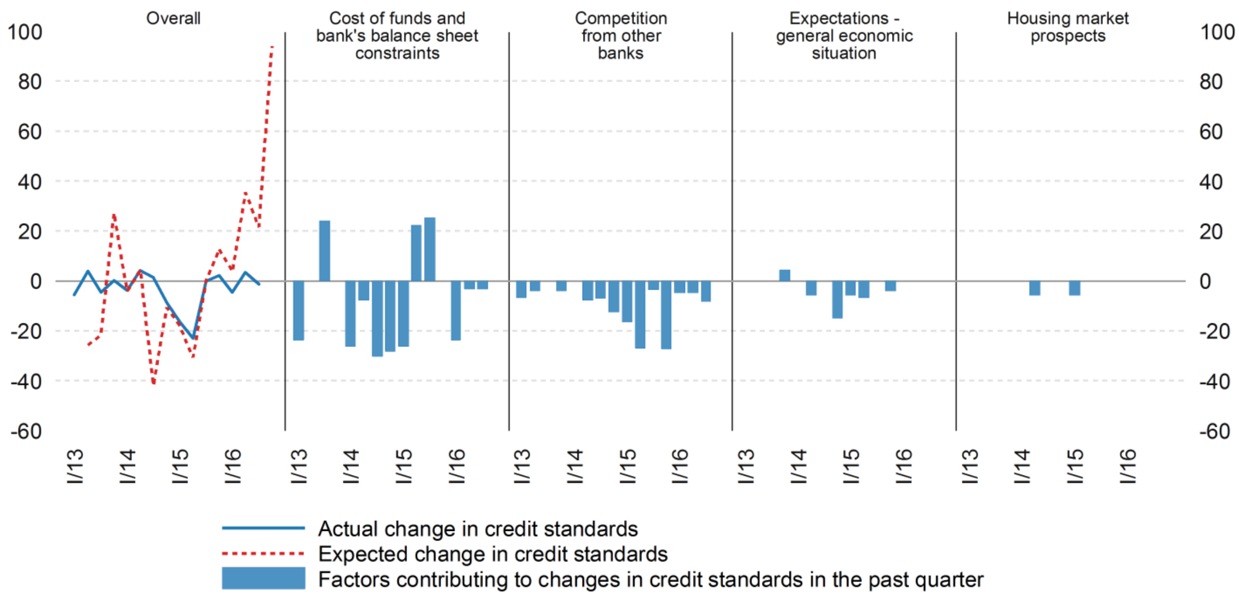


Chart 5 Changes in terms and conditions for approving loans for house purchase ([question 10](#))
(net percentages, positive value = tightening, negative value = easing)

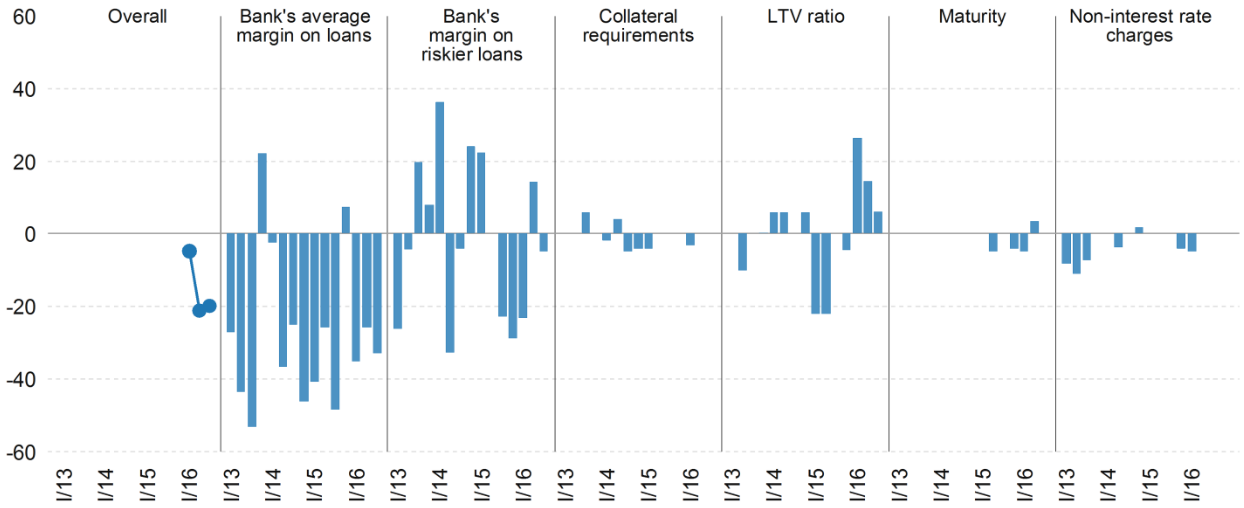
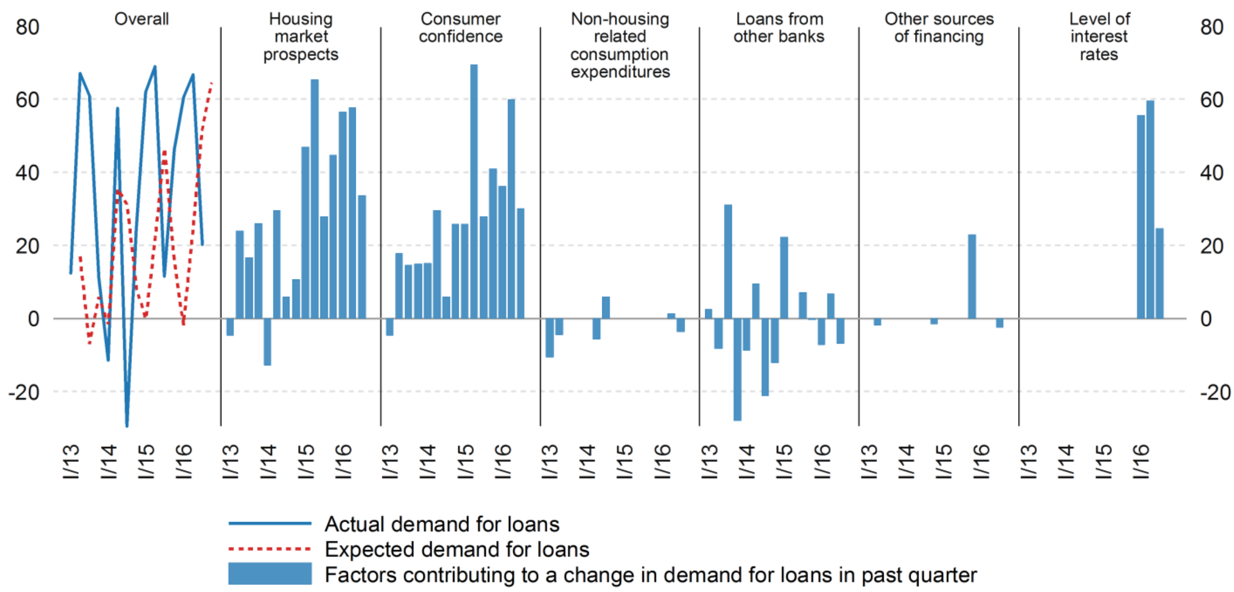


Chart 6 Changes in households' demand for loans for house purchase
([questions 13, 14 and 17](#))
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

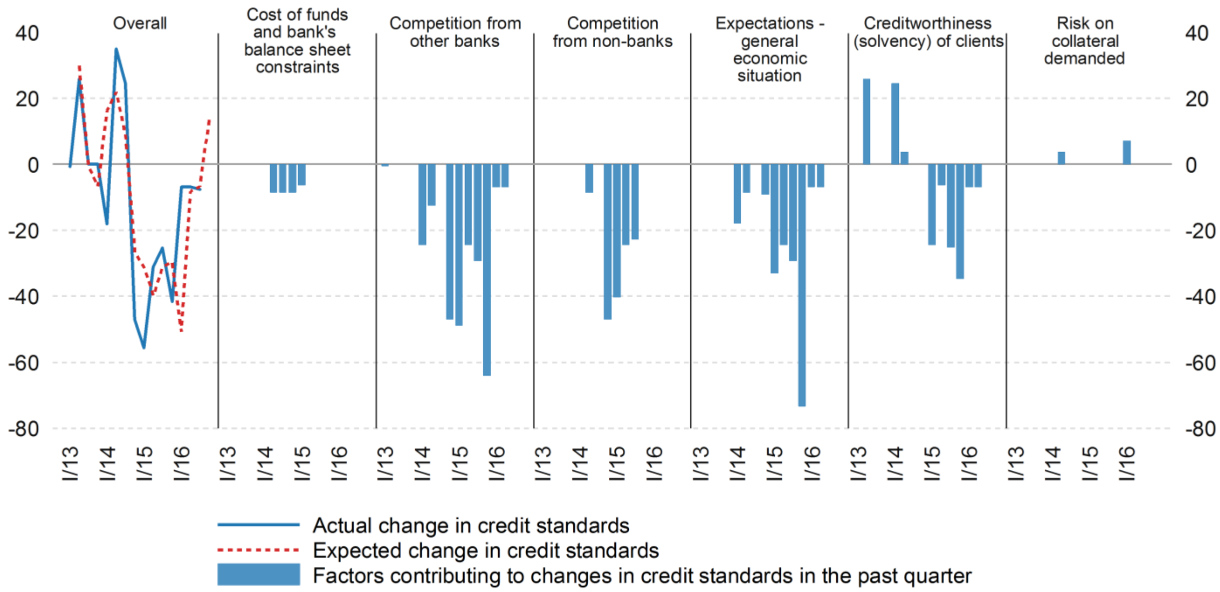


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

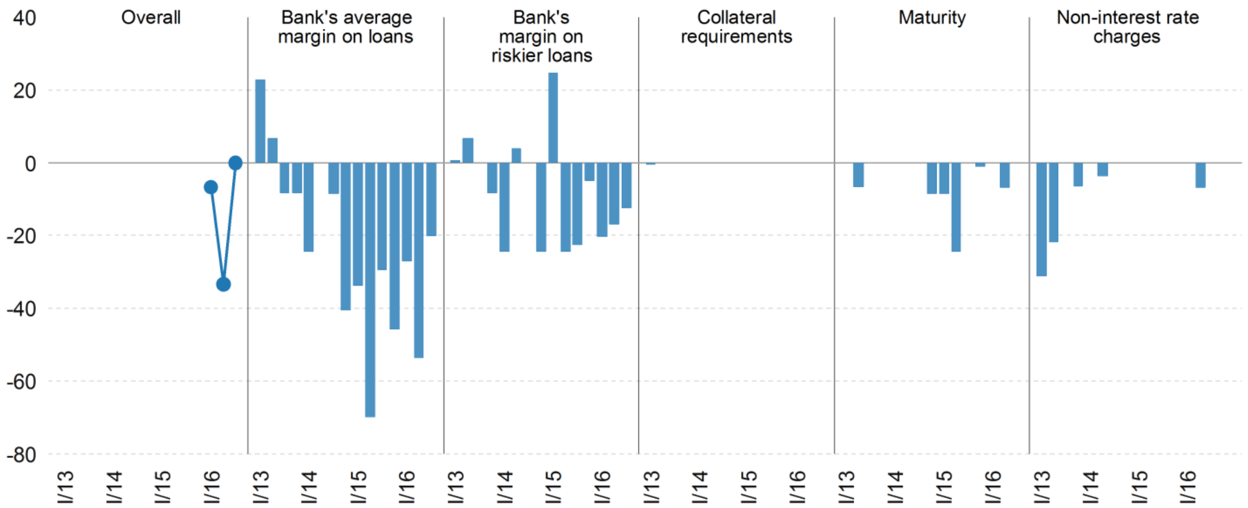


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)