BANK LENDING SURVEY
OCTOBER

Financial Stability Department

Monetary Department
Monetary Policy and Fiscal Analyses Division

2017

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 twenty-second round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2017 Q3 and their expectations in these areas for 2017 Q4. The survey was conducted between 5 and 19 September 2017. 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 further tightened credit standards for loans for house purchase while easing standards for consumer credit and leaving them unchanged for loans to non-financial corporations. The tightening of credit standards for loans for house purchase was due to macroprudential measures implemented by the CNB and by an increase in banks' cost of funds. The risk stemming from expected residential property market developments acted in the same direction. The easing of standards for consumer credit, by contrast, reflected lower perceived risk regarding the creditworthiness of clients. Demand for loans showed mixed trends according to banks. The record-high demand for loans for house purchase recorded in previous quarters due to frontloading of the market fell during the course of the summer according to banks' perceptions. Households' demand for consumer credit was unchanged in Q3, while demand for loans to non- financial corporations rose further. Banks expect a further tightening of credit standards for loans for house purchase and no change in standards for consumer credit and loans to non-financial corporations. According to banks' perceptions, demand for loans will increase in all segments of the credit market in 2017 Q4.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (representing banks' internal criteria for approving loans) were unchanged for **loans to non-financial corporations** in 2017 Q3. Most factors had a neutral effect. An easing of standards was fostered only by competitive pressure from other banks – in the segments of both loans to small and medium-sized enterprises and loans to large corporations. After having been relaxed over the last two years, the terms and conditions for approving new loans were also broadly unchanged, with only part of the banking market reducing interest margins on riskier loans to large corporations due to competition.

Corporations' demand for loans rose in 2017 Q3 (a net market share of 38%). The main factor was demand for financing of fixed investment and working capital. Part of the banking market also perceived a rise in demand for financing of corporate and debt restructuring (firms use loans to optimise their financial costs and overall balance sheets) and financing of mergers and acquisitions. The growth in demand was also fostered by low interest rates. By contrast, demand for loans was reduced by the use of internal funding sources by corporations. Banks expect no change in credit standards and an increase in demand for loans (a net market share of 16%) in 2017 Q4.

[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 market shares on the aggregate level. Net market shares 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 market share 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.

II.2 HOUSEHOLDS

Credit standards for **loans for house purchase** continued to be tightened (a net market share of 40%). This was due predominantly to ongoing implementation of the CNB's macroprudential measures in banks' internal regulations. An increase in banks' cost of funds resulting from rising financial market interest rates acted in the same direction, as did the risk stemming from expected residential property market developments. Along with credit standards, the overall terms and conditions for approving loans for house purchase were also tightened further (a net market share of 42%). This applied particularly to the required LTV ratio (a net market share of 48%). Part of the banking market also continued to tighten the DTI and DSTI requirements (a net market share of 30%). However, banks' average interest margins continued to fall moderately due to a competitive market environment. Banks expect a further tightening of credit standards in the quarter ahead (a net market share of 49%).

In line with banks' expectations, the record-high household demand for loans for house purchase observed in previous quarters fell in Q3 for the first time since 2014. This was perceived by 32% of the banking market in net terms. Demand was reduced by the CNB's macroprudential measures, an increase in interest rates and by frontloading of the market. Expectations regarding residential property market developments and favourable consumer confidence acted in the opposite direction. However, part of the banking market expects demand for loans for house purchase to rebound in 2017 Q4 (a net market share of 17%).

Credit standards for **consumer credit** were eased again in 2017 Q3 (a net market share of 13%). Favourable assessment of clients' creditworthiness fostered an easing of standards. Banks also eased their terms and condition for approving new loans, most notably by lowering average interest margins and margins on riskier loans (a net market share of 24% in both categories). Household demand for consumer credit was unchanged in 2017 Q3. Demand was positively affected by consumer confidence and a decline in interest rates in this credit market segment. Banks expect no change in credit standards and an increase in demand (a net market share of 31%) in 2017 Q4.

Credit standards for **loans to sole traders** were eased (a net market share of 22%). Demand for such loans decreased (a net market share of 5%).

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that credit standards and demand in this credit market segment remained essentially unchanged in 2017 Q3.

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)

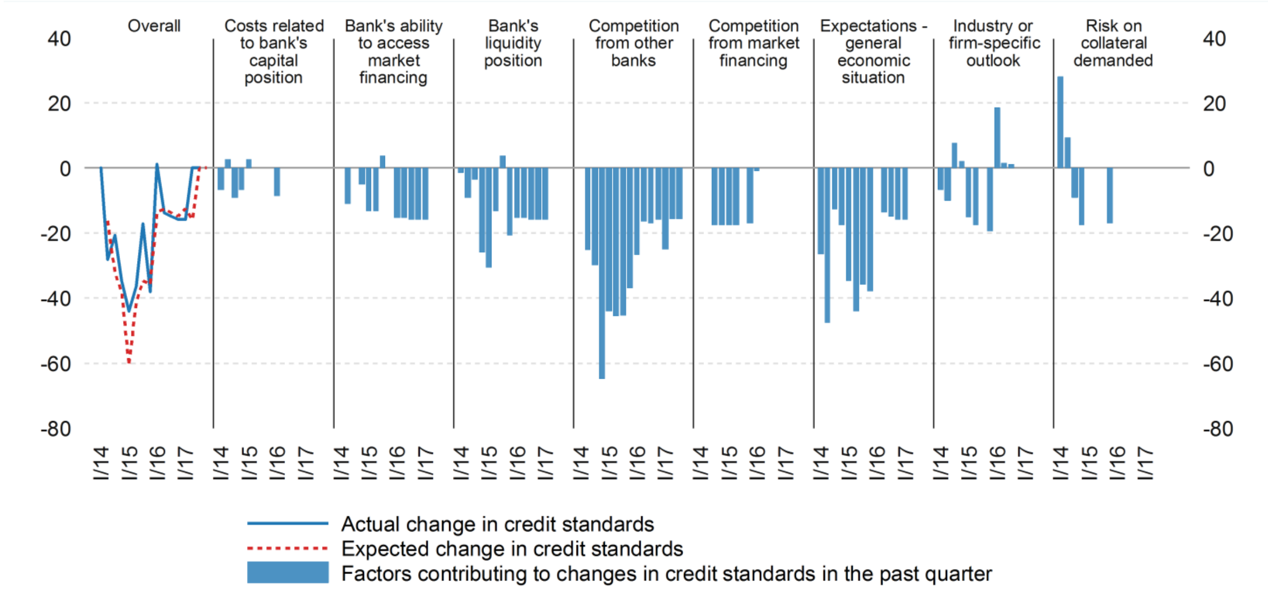


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

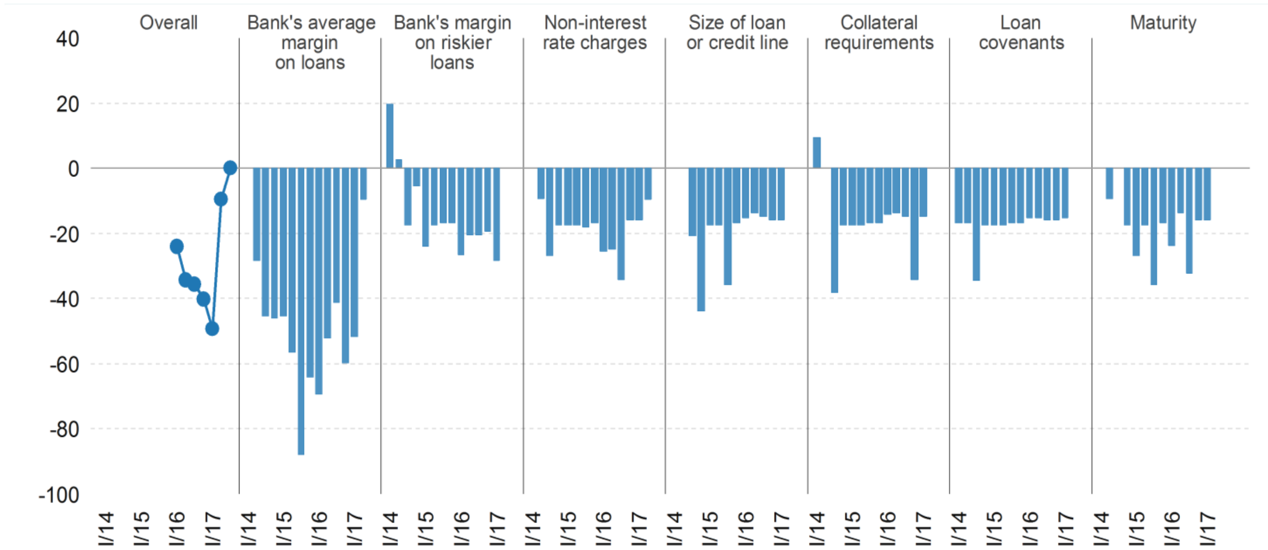
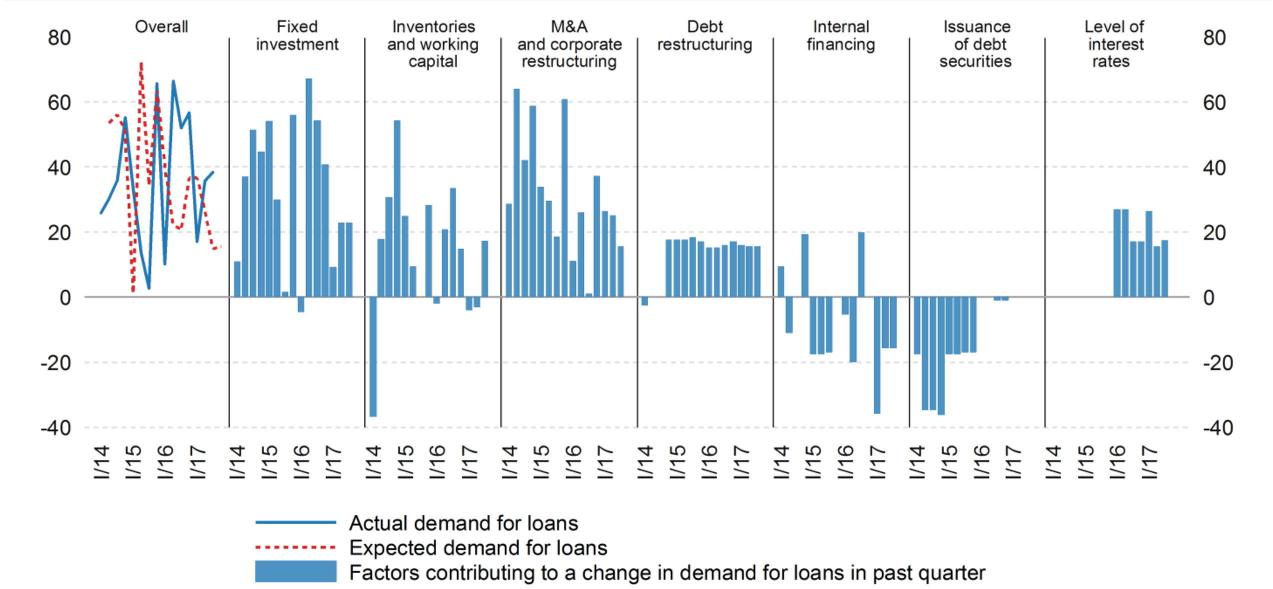
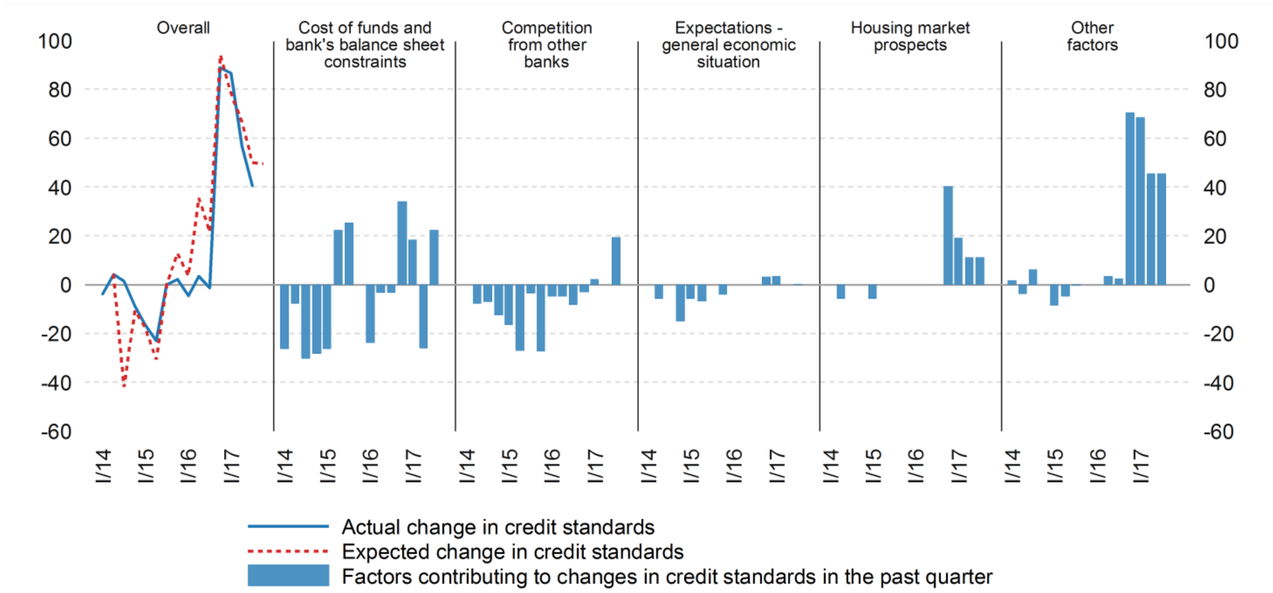


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)



Note: In the recent period, other factors include mainly implementation of the CNB´s macroprudential measures.

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

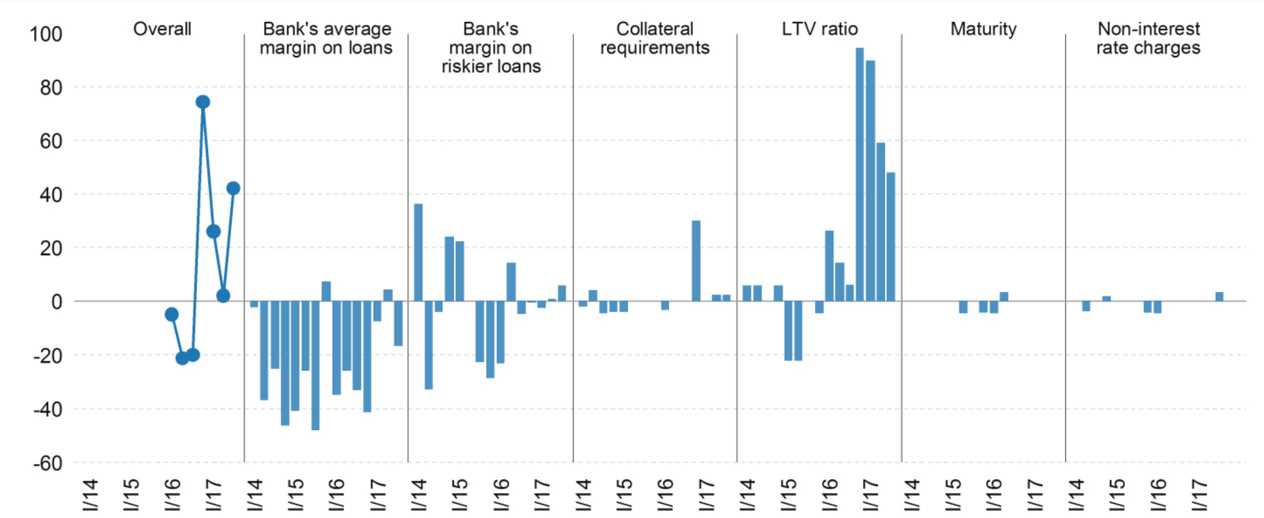
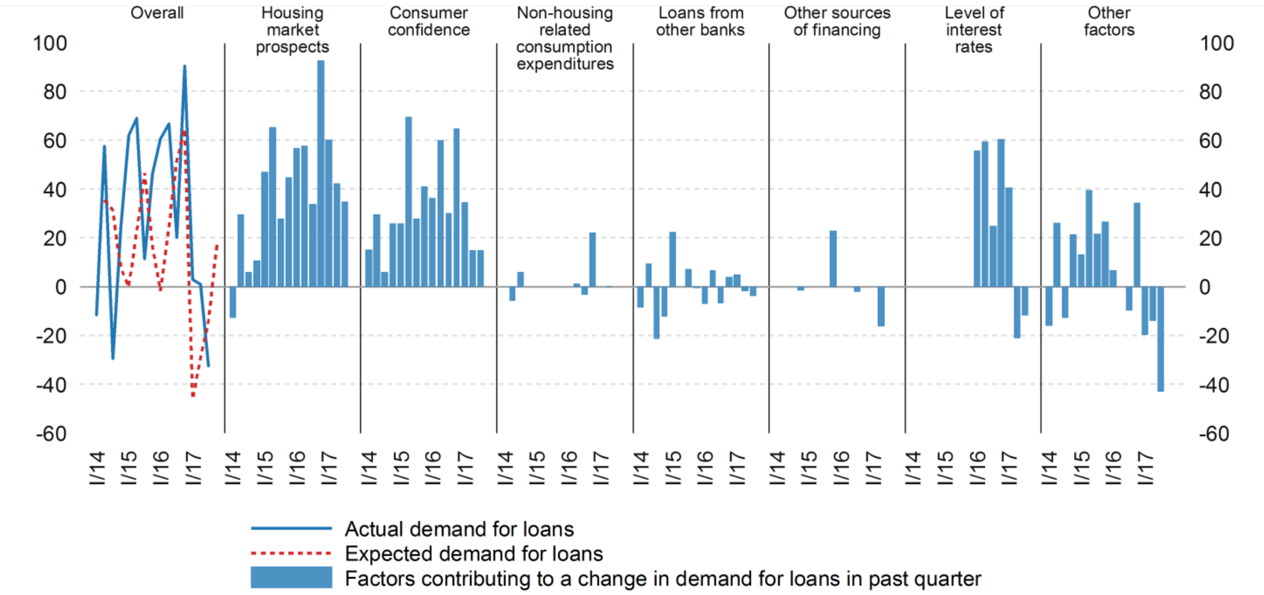
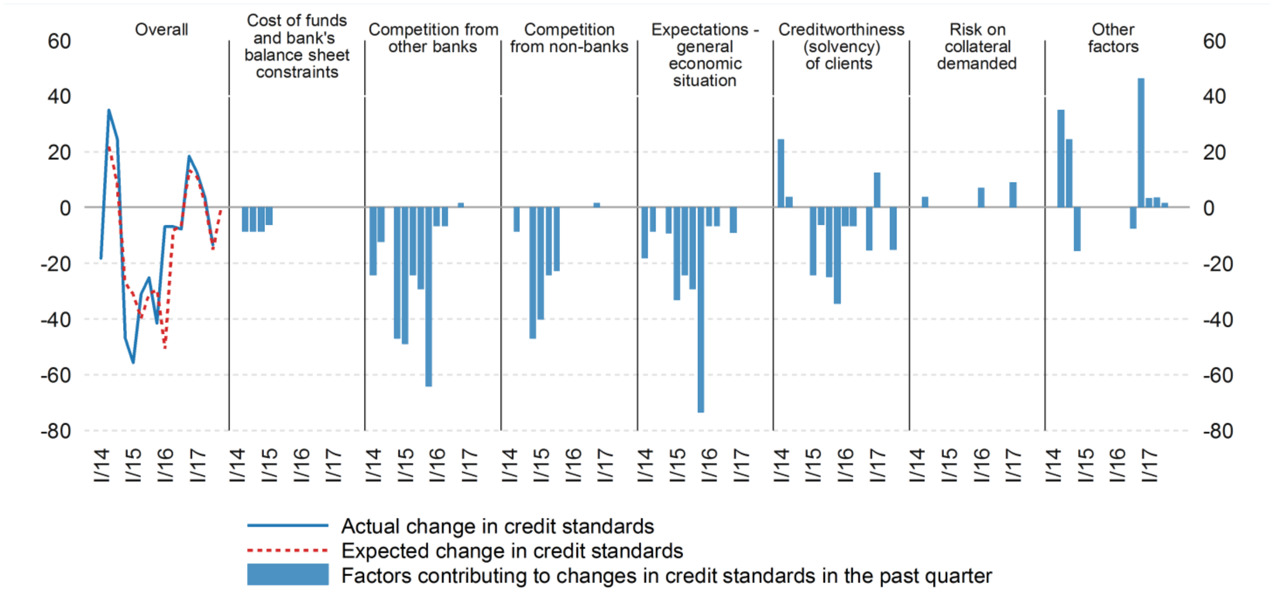


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)



Note: In the recent period, other factors include mainly changes in the legislation.

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

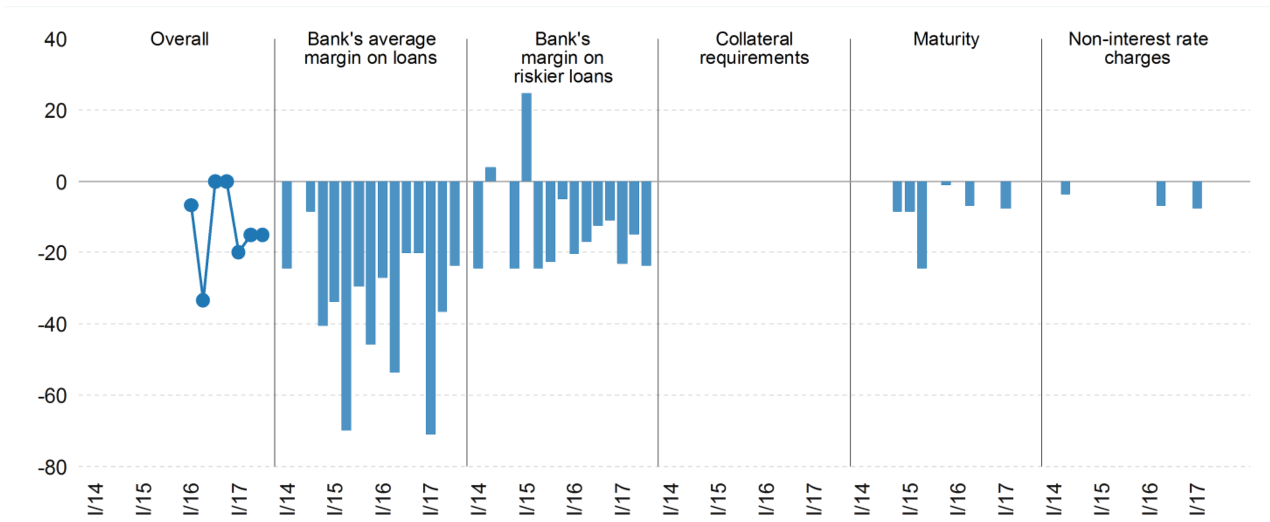


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)