BANK LENDING SURVEY
APRIL

2018

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 (i.e. banks' internal criteria for approving loans) and terms and conditions, and regarding the change in non-financial corporations' and households' demand for loans. This document summarises the results of the twenty-fourth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2018 Q1 and their expectations in these areas for 2018 Q2. The survey was conducted between 2 and 19 March 2018. 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 tightened credit standards for loans to households while leaving standards for loans to non-financial corporations broadly unchanged in 2018 Q1. The continued tightening of credit standards for loans to households was due mainly to the completion of the implementation of CNB macroprudential measures and, in the case of loans for house purchase, also to an increase in banks' cost of funds. Demand for loans for house purchase declined owing to a rise in residential property prices, macroprudential measures and an increase in interest rates. Demand for consumer credit rose in a relatively small part of the banking market. As regards non-financial corporations, banks perceived an increase in loan demand, but less broadly than in the past. Financing of fixed investment and working capital was an important factor. However, corporations also used alternative forms of financing. In 2018 Q2, banks expect a further tightening of credit standards for loans to households and no change in standards for corporate loans. According to banks, households' demand for house purchase loans will not change much in 2018 Q2 and demand for consumer credit will pick up in a relatively small part of the banking market. Non-financial corporations' demand for loans will increase to a similar extent as in early 2018.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards remained broadly unchanged for **loans to non-financial corporations** in 2018 Q1. Most factors had a neutral impact. An easing of standards was fostered by competitive pressure and a good liquidity situation of banks. The terms and conditions for approving corporate loans were eased. Average interest margins declined, but much less broadly than in the past. The recent broad decrease in interest margins on corporate loans thus halted. The easing of terms and conditions was more marked for large corporations, occurring mainly through lower collateral and maturity requirements.

Corporations' demand for loans rose in 2018 Q1 (an NP of 17%). Financing of fixed investment and working capital was an important factor. Part of the banking market perceived a rise in demand for financing of mergers and acquisitions and corporate and debt restructuring. The still low interest

[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 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).

rates also had a favourable effect. By contrast, demand for loans was reduced by the use of alternative forms of financing by corporations, i.e. generation of internal funds and issuance of debt securities. Banks expect no change in credit standards and an increase in demand for loans (an NP of 18%) in 2018 Q2.

II.2 HOUSEHOLDS

Credit standards for **loans for house purchase** provided to households continued to be tightened in 2018 Q1 (an NP of 41%). This was due to the completion of the implementation of the CNB's macroprudential measures in banks' internal rules and changes in the internal lending policies of some banks stemming from client creditworthiness assessments. An increase in banks' cost of funds acted in the same direction. However, it was not fully reflected in the price of loans, so a small decline in interest margins was recorded. Along with credit standards, the overall terms and conditions for approving loans for house purchase were tightened further (an NP of 23%). This applied particularly to the required LTV ratio and loan maturity (NPs of 42% and 22% respectively). Part of the banking market also tightened the DTI and DSTI requirements (an NP of 42%). By contrast, banks' average interest margins continued to fall for 27% of the banking market.

Households' demand for house purchase loans decreased in 2018 Q1, as perceived by 25% of the banking market in net terms. Demand was adversely affected by residential property prices, CNB macroprudential measures and an increase in interest rates. Good consumer confidence acted in the opposite direct, but much less broadly than in the past. Banks expect a further tightening of credit standards for loans for house purchase (an NP of 41%) and unchanged demand in 2018 Q2.

Credit standards for **consumer credit** to households were also tightened in 2018 Q1 (an NP of 23%). Changes to internal lending criteria in a part of the market fostered a tightening of standards. The other factors were neutral. Banks' terms and conditions for approving consumer credit were broadly unchanged. Within these terms and conditions, however, average interest margins increased (an NP of 15%) and loan maturity requirements were tightened for the first time in a long time. Households' demand for consumer credit rose in 2018 Q1 (an NP of just 5%). Demand was positively affected by financing of consumption spending. Other factors were neutral, unlike in the past. In 2018 Q2, banks expect a further tightening of credit standards and an increase in demand comparable to Q1 (NPs of 23% and 5% respectively).

Credit standards for **loans to sole traders** were unchanged and demand for such loans fell further (an NP of 6%).

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that credit standards and demand segment were unchanged in this credit market in 2018 Q1.

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)

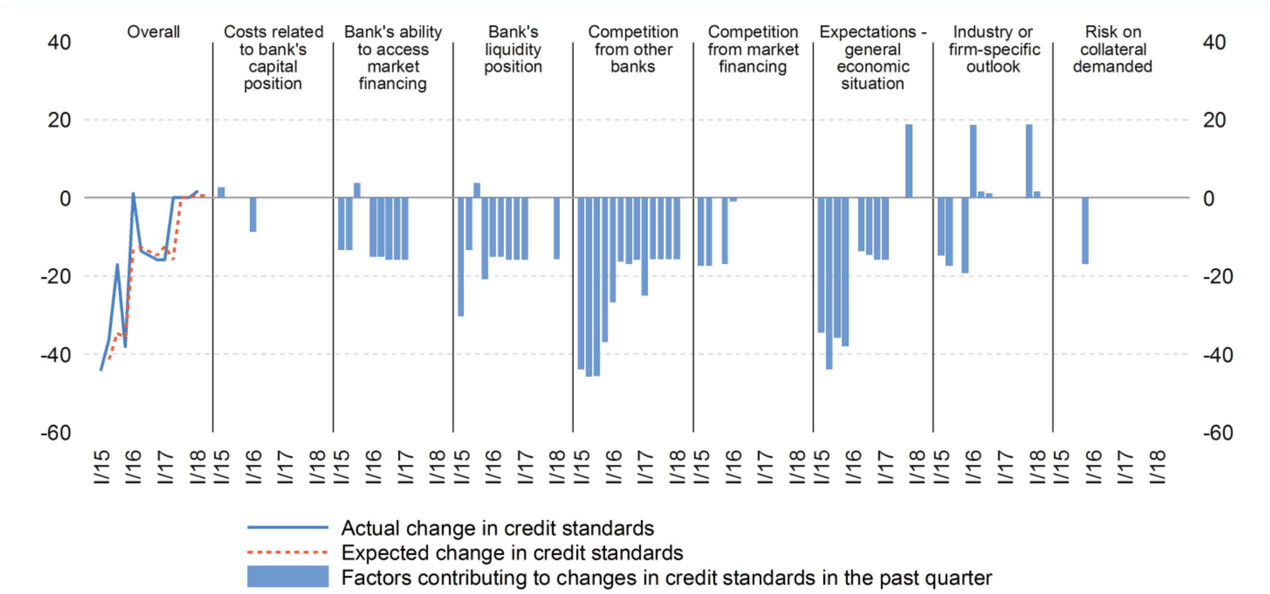


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

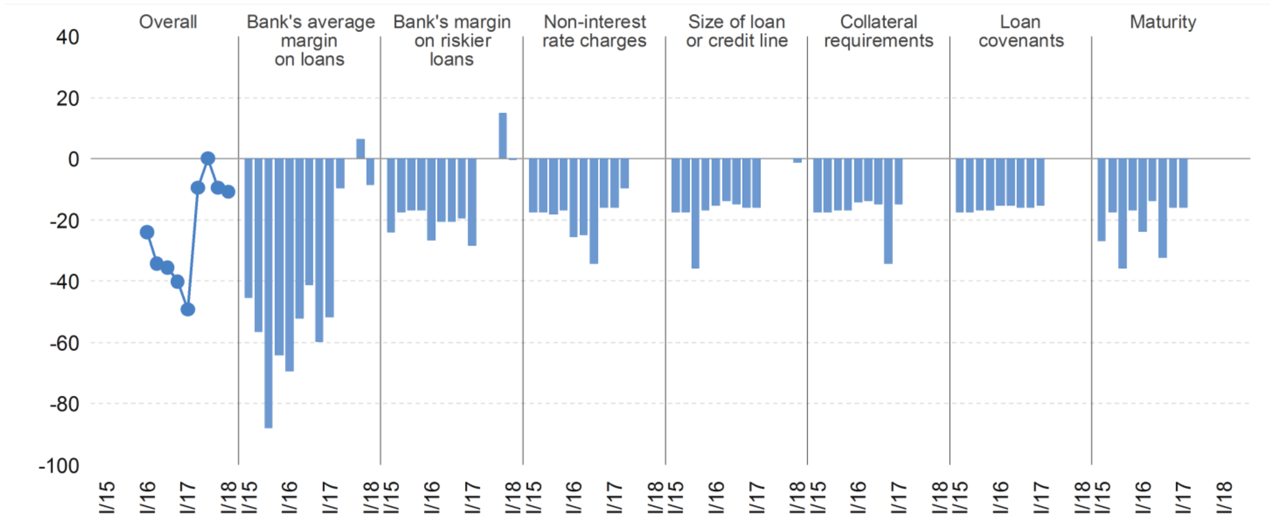
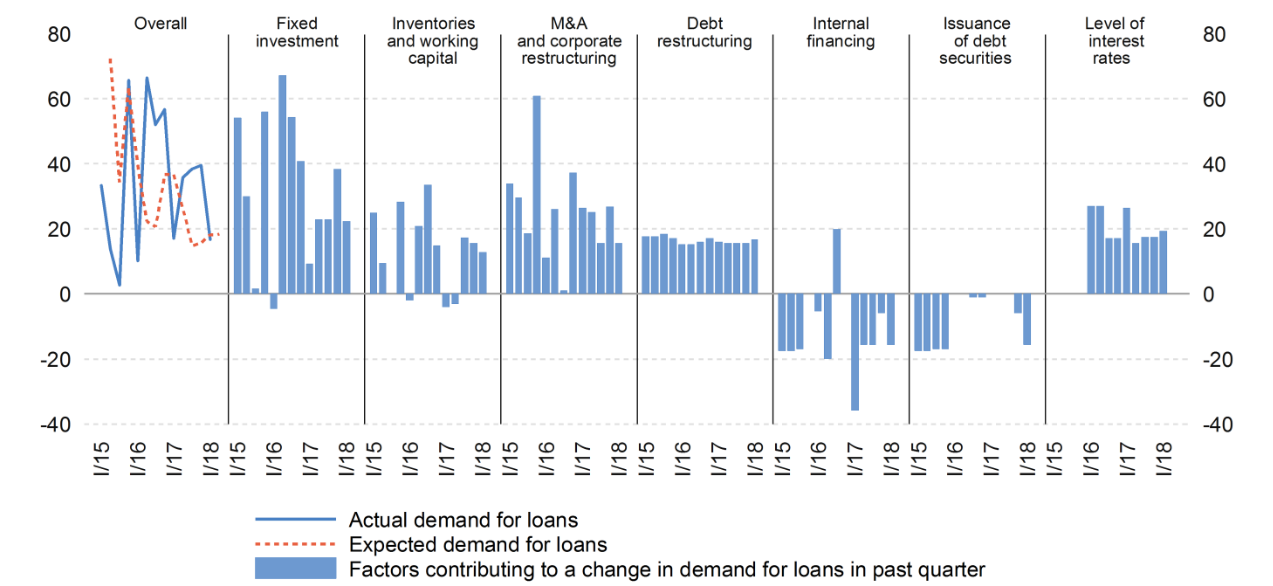
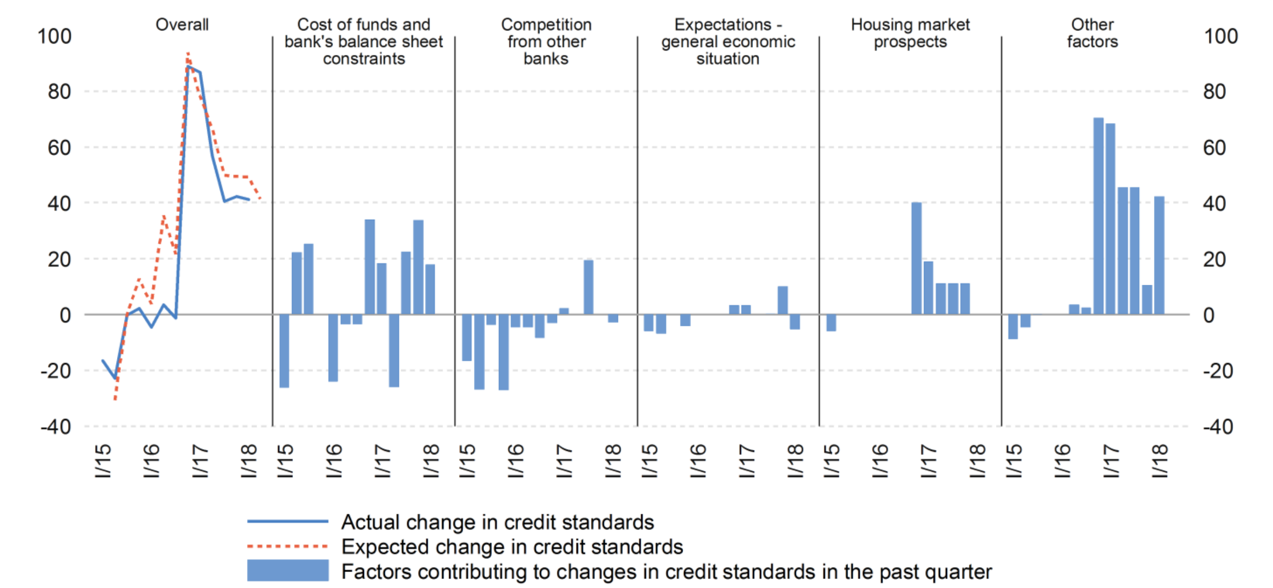


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

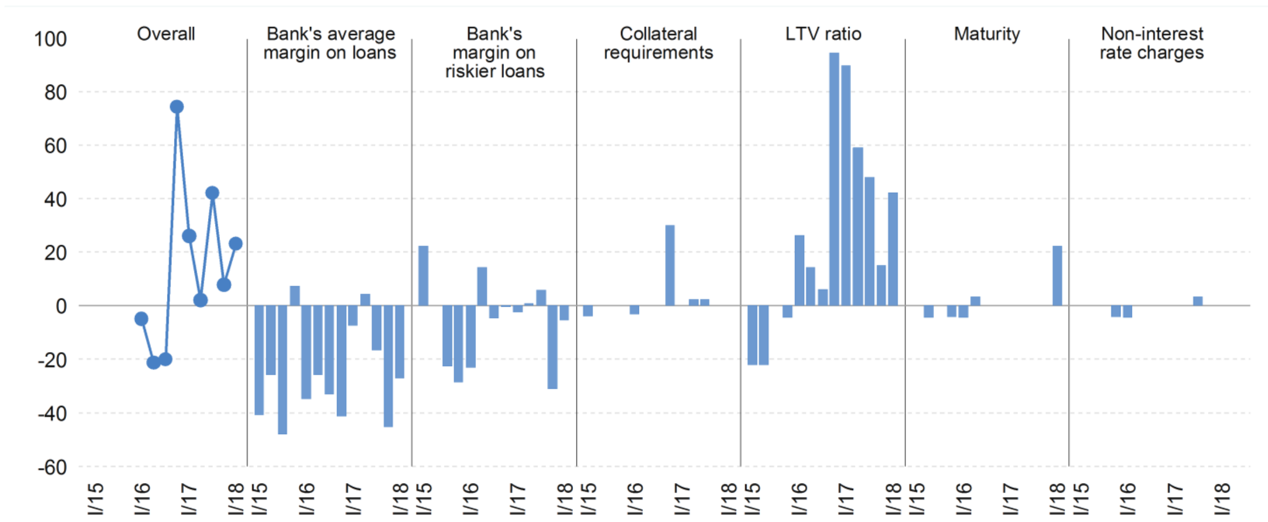
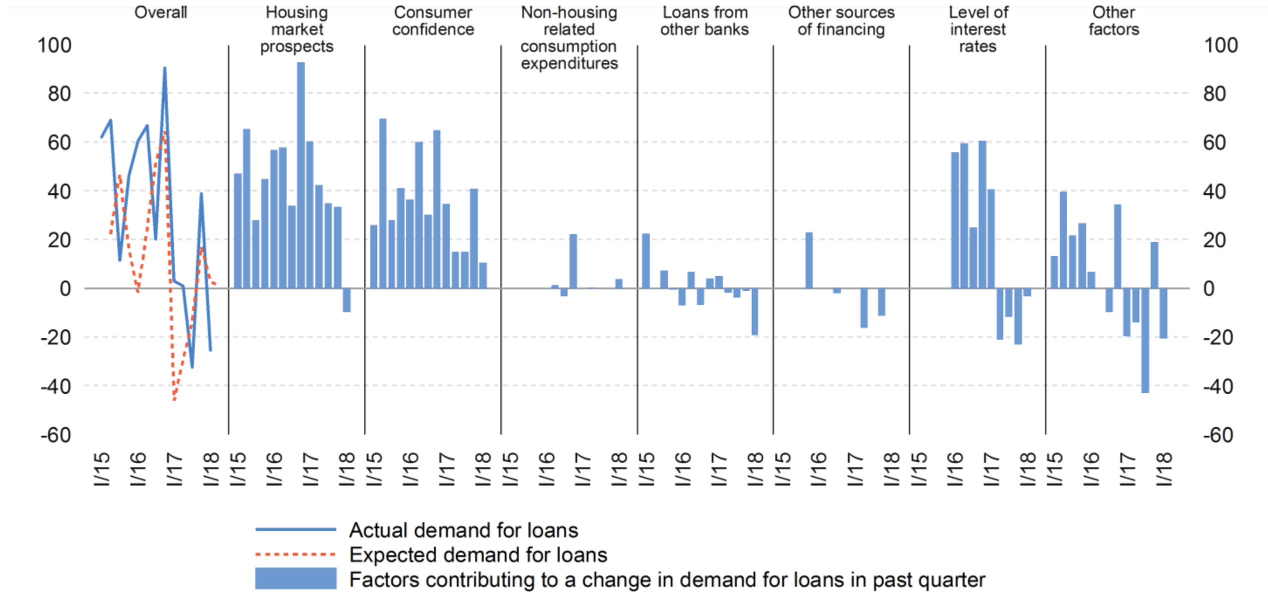
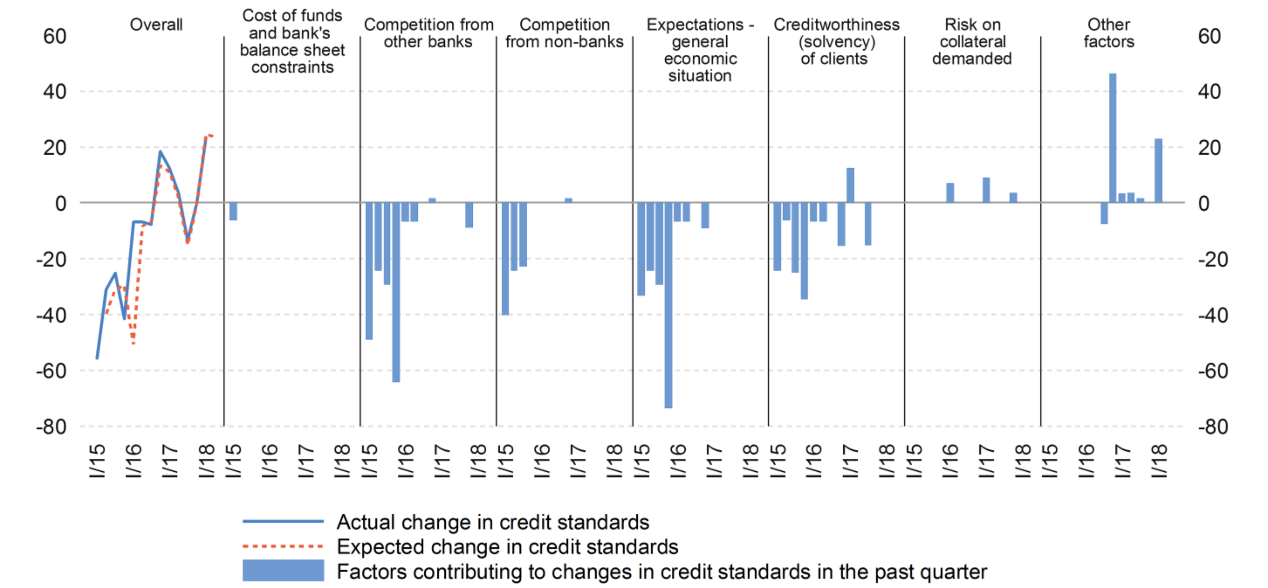


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

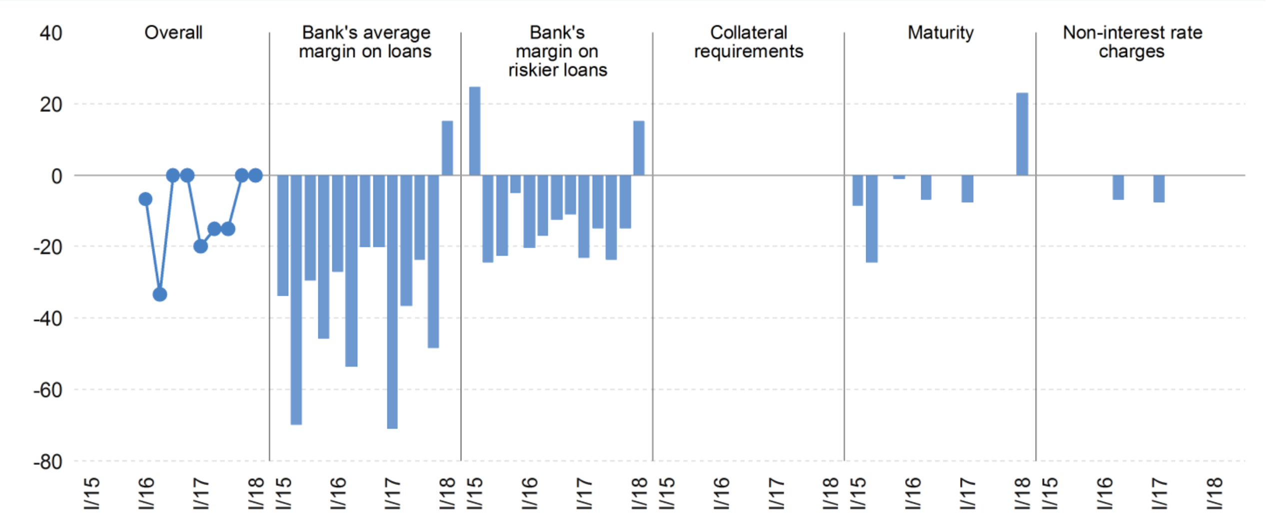


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)