

BANK LENDING SURVEY OCTOBER

Financial Stability Department

Monetary Department
Monetary Policy and Fiscal Analyses Division

2018

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 terms and conditions, and regarding the change in non-financial corporations' and households' demand for loans. This document summarises the results of the twenty-sixth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2018 Q3 and their expectations in these areas for 2018 Q4. The survey was conducted between 4 and 18 September 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 further tightened credit standards for loans for house purchase while leaving standards for loans to non-financial corporations unchanged in 2018 Q3. Credit standards for consumer credit were also unchanged following a previous easing. The tightening of credit standards for loans for house purchase was due to a rise in banks' cost of funds and a tightening of requirements for client creditworthiness. However, credit conditions for loans for house purchase eased owing to a decline in average interest margins. The unchanged credit standards for corporate loans correspond, among other things, to neutral risk perceptions by banks regarding the expected overall economic situation. Demand for loans for house purchase picked up before the October date of effect of changes in the CNB's recommendations. By contrast, corporations' demand for loans fell further. In 2018 Q4, banks expect credit standards for loans to households to be tightened across the board, whereas standards for corporate loans will remain unchanged. Banks expect a decrease in demand for loans for house purchase, unchanged demand for consumer credit and a slight increase in demand for corporate loans.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards representing banks' internal criteria for approving **loans to non-financial corporations** were unchanged in 2018 Q3. This reflected banks' unchanged risk perceptions mainly with regard to the expected overall economic situation and the outlook for individual sectors, and a neutral effect of banks' cost of funds. Competitive pressure from other banks fostered an easing of standards; in the case of large corporations, it was accompanied by competition from market-based financing in the form of bond issuance. The terms and conditions for approving corporate loans were also unchanged overall. Within corporate loans, average interest margins and margins on riskier loans increased for a relatively small part of the banking market, both in the segment of small and medium-sized enterprises and in the segment of large enterprises. Banks kept other terms and conditions (e.g. required collateral) unchanged.

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, is available on the CNB website: (http://www.cnb.cz/en/bank_lending_survey/index.html).

Corporations' demand for loans fell in 2018 Q3 (an NP of 20%). Part of the banking market thus saw a correction of the increase in demand seen a quarter earlier, with most of the banking market perceiving demand for loans as unchanged. Demand for short-term loans declined, whereas demand for long-term loans continued to rise. Part of the banking market perceived an increase in demand for financing of fixed investment and debt restructuring, whereas demand for financing of mergers and acquisitions and working capital saw no major changes. Corporations' demand for loans was positively affected by the still low interest rate level in this credit market segment. By contrast, demand for loans was partly dampened by the use of alternative forms of corporate financing. Banks expect no change in credit standards and an increase in demand (an NP of 24%) in 2018 Q4.

II.2 HOUSEHOLDS

Credit standards for **loans for house purchase** granted to households continued to be tightened in Q3 (an NP of 40%). This was due to a rise in banks' cost of funds and a tightening of requirements for client creditworthiness. By contrast, banks eased their terms and conditions for approving loans (an NP of 20%). This was reflected in a decline in average interest margins (an NP of 45%). Increased requirements of banks regarding the LTV ratio and an increase in margins on riskier loans fostered a tightening of credit conditions (NPs of 13% and 11% respectively).

Households' demand for house purchase loans increased, as perceived by 45% of the banking market in net terms. This was affected by the approaching October date of effect of changes in the CNB's recommendations, expectations of continued growth in residential property prices and strong consumer confidence. On the other hand, slightly higher interest rates on loans for house purchase are restricting households' demand for loans in this segment according to banks. Most banks expect a tightening of credit standards and a decrease in demand (NPs of 98% and 86% respectively) in 2018 Q4.

Credit standards for **consumer credit** to households were unchanged in Q3. Part of the banking market eased the terms and conditions for approving consumer credit via a decrease in average interest margins (an NP of 15%). However, this was accompanied by an increase in margins on riskier loans. Households' demand for consumer credit was unchanged in Q3, with most factors having a neutral effect. Most banks expect a tightening of credit standards also for consumer credit (an NP of 57%) and unchanged demand in 2018 Q4.

Credit standards and demand for **loans to sole traders** were broadly unchanged, and banks' outlook for this credit market segment in 2018 Q4 is similar.

Replies to additional questions regarding loans to non-resident non-financial corporations show that credit standards were tightened by a part of the banking market (an NP of 16%) in Q3, owing probably to increased demand from non-residents in the recent period.

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)

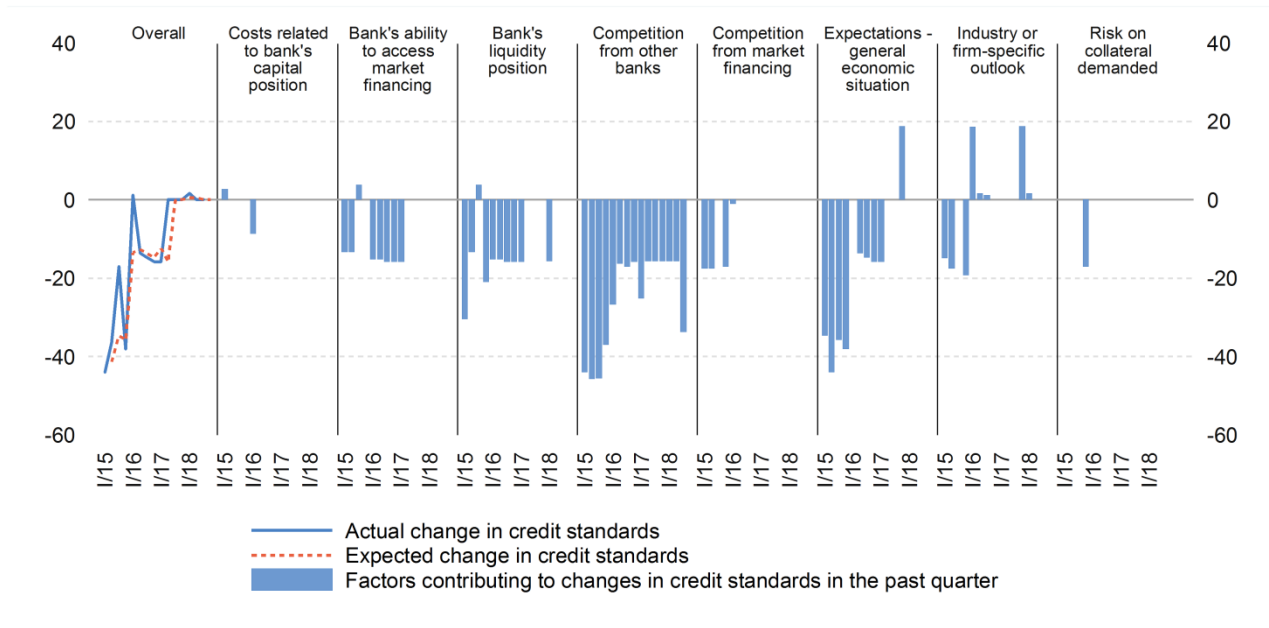


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

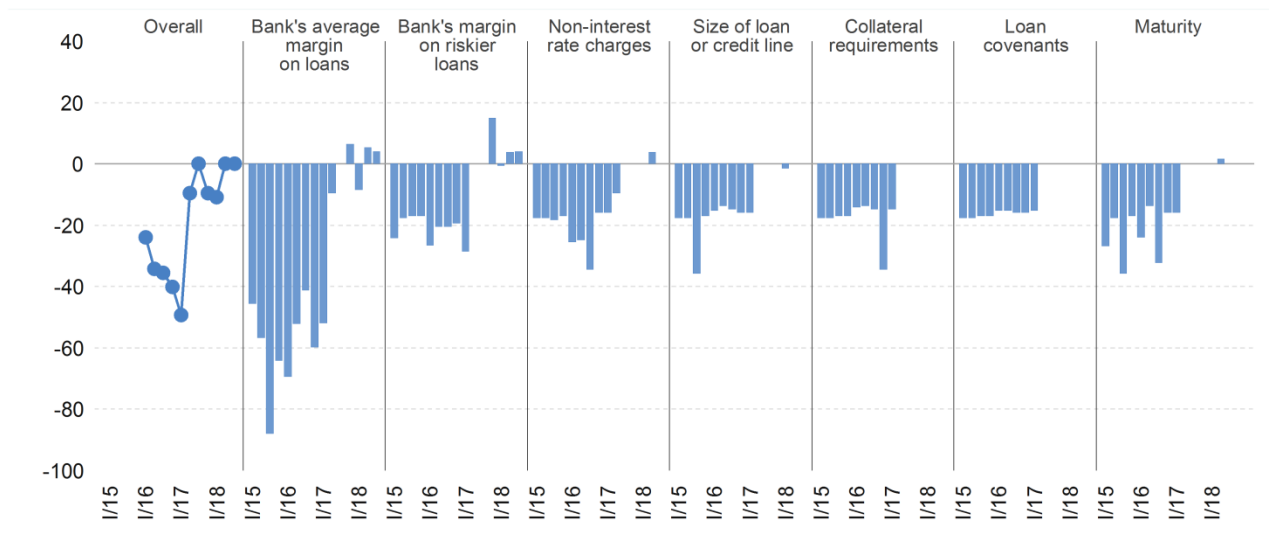
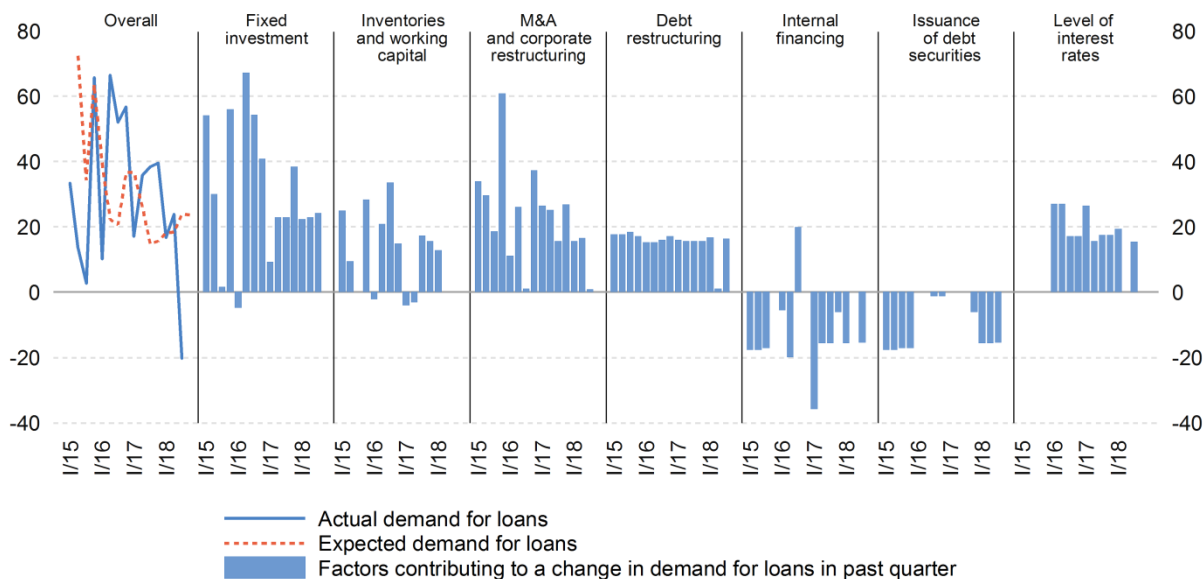
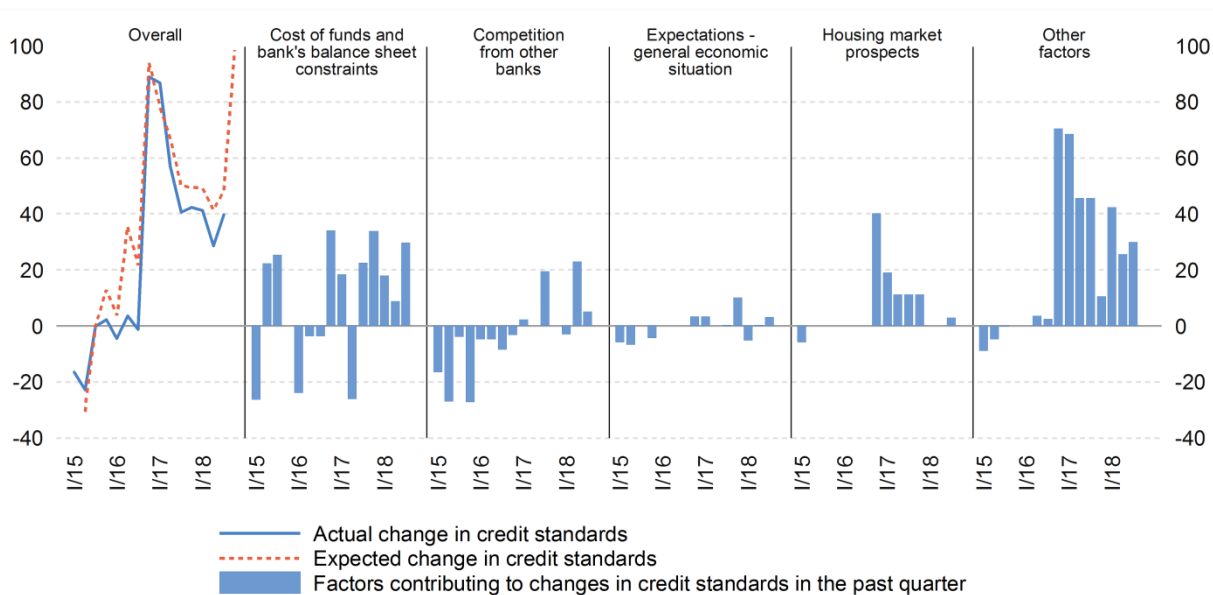


Chart 3 Changes in non-financial corporations' demand for loans ([questions 4, 5 and 7](#))
(net percentages, positive value = demand growth, negative value = demand decrease)



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)

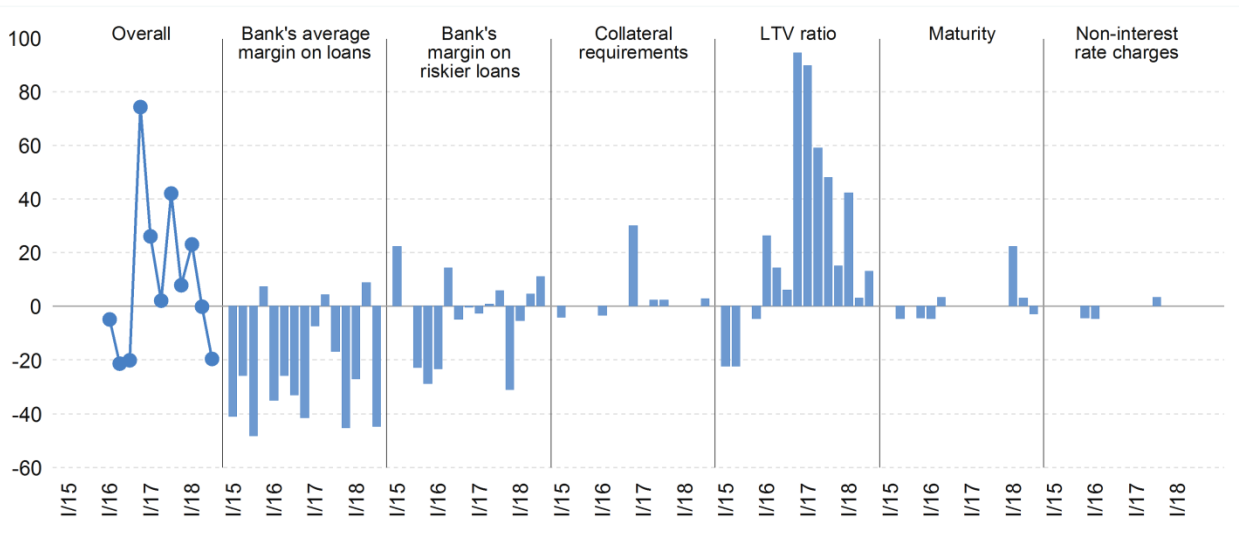
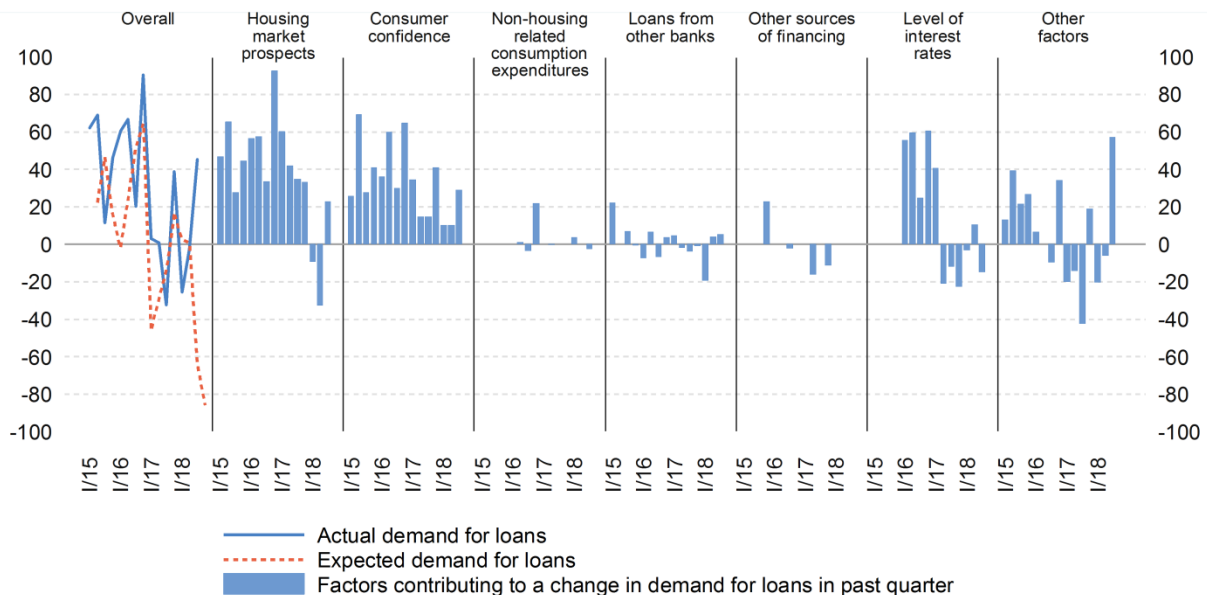
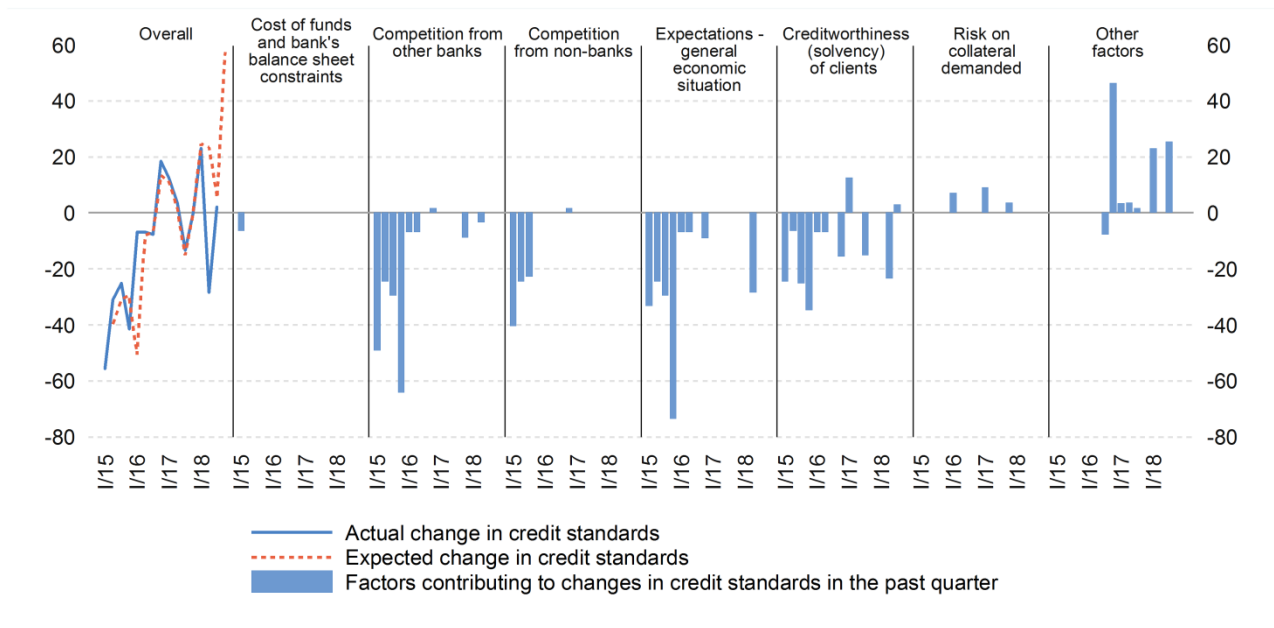


Chart 6 Changes in households' demand for loans for house purchase ([questions 13, 14 and 17](#))
(net percentages, positive value = demand growth, negative value = demand decrease)



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)

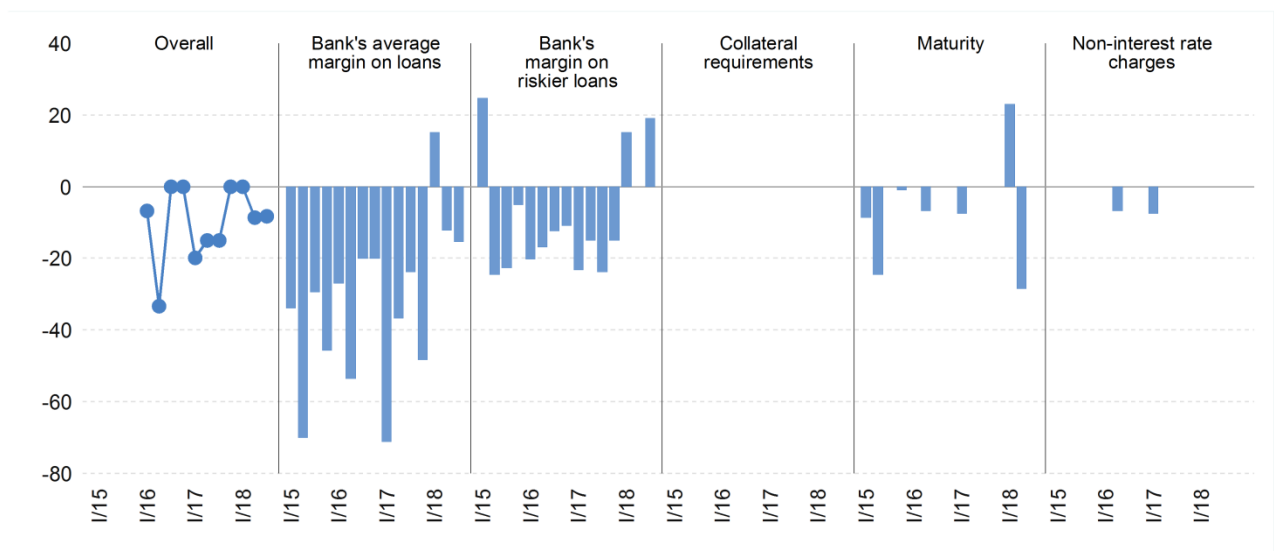


Chart 9 Changes in households' demand for consumer credit ([questions 13, 15 and 17](#))
 (net percentages, positive value = demand growth,
 negative value = demand decrease)

