BANK LENDING SURVEY APRIL

2019

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 terms and conditions, and regarding the change in non-financial corporations' and households' demand for loans. This publication summarises the results of the twenty-eighth round of the survey for 2019 Q1 and banks' expectations in these areas for 2019 Q2. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 4 and 19 March 2019.[1]

According to the survey results, credit standards for loans for house purchase, consumer credit and loans to non-financial corporations were broadly unchanged. Demand for loans declined in all segments of the credit market. Demand for loans for house purchase fell across the board in 2019 Q1 (an NP of 72%). This was due, among other factors, to frontloading of the market in 2018 Q3 connected with the CNB's macroprudential measures, which since October 2018 have included recommended DTI and DSTI limits. Demand was also dampened by perceived high prices of residential property and higher interest rates on loans for house purchase. Demand for consumer credit decreased as well. As regards non-financial corporations, part of the banking market perceived a drop in demand for financing fixed investment and demand was also partly dampened by greater use of alternative financing. In 2019 Q2, part of the banking market expects a further decline in demand for loans for house purchase and only a small part of the market expects credit standards to be tightened. In the case of loans to corporations and consumer credit, banks' outlooks indicate unchanged standards and demand.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards – representing banks' internal lending policy criteria – were unchanged for **loans to non-financial corporations** in 2019 Q1. Competition between banks fostered an easing of standards; in the case of large corporations, this was accompanied by competition from market financing. Conversely, for the second consecutive quarter, part of the banking market perceived risks in the direction of a tightening of standards connected with the outlook for some sectors, both in the segment of small and medium-sized enterprises and in the segment of large corporations. Credit terms and conditions – representing the contractual obligations agreed upon by the lender and the borrower – were also unchanged overall. Average interest rate margins stayed at the level of the previous period. Part of the banking market reduced the interest margins on riskier loans to large corporations and eased the loan maturity conditions. Banks kept the other terms and conditions (e.g. required collateral) broadly unchanged.

---

[1] The survey contained 22 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, are available on the CNB website: (http://www.cnb.cz/en/bank_lending_survey/index.html).

Corporations' demand for loans fell in 2019 Q1 (an NP of 31%), even though banks had not expected any changes in demand in the previous round of the survey. Demand for long-term loans declined, especially among small and medium-sized enterprises, while demand for short-term loans rose. Part of the banking market perceived a decline in demand for loans to finance fixed investment. By contrast, demand for financing of working capital and mergers and acquisitions increased. Demand was partly dampened by the use of alternative financing, in particular loans from non-bank institutions and bond issues. Banks expect no change in credit standards or demand in 2019 Q2.

II.2 HOUSEHOLDS

Following a previous tightening, credit standards and credit terms and conditions for **loans to households for house purchase** saw no major changes. Only a very small fraction of the banking market recorded an easing of standards (an NP of 6%). An easing of credit standards was fostered by a decrease in banks' cost of funds owing to a decline in long-term financial market interest rates and, for a small part of the market, competitive pressure. Households' demand for loans for house purchase in 2019 Q1 fell across the board (an NP of 72%), the broadest decrease since the start of the survey in 2012. This reflected a tightening of credit standards and credit terms and conditions at the close of last year as a result of the CNB's macroprudential measures regarding DTI and DSTI limits and related frontloading of the market in 2018 Q3. Demand for loans for house purchase was also dampened by perceived high prices of residential property and higher interest rates on loans for house purchase. In 2019 Q2, part of the banking market expects a further decline in demand for loans for house purchase (an NP of 33%); only a small part of the market expects credit standards to be tightened (an NP of 11%).

As regards **consumer credit**, credit standards were unchanged in 2019 Q1 following a previous tightening due to the CNB's macroprudential measures (DTI and DSTI). Bank also left their credit terms and conditions unchanged overall. However, part of the banking market further reduced both average interest margins and margins on riskier loans (NPs of 38% and 15% respectively). Households' demand for consumer credit declined (an NP of 17%), owing among other factors to a decrease in consumer confidence (an NP of 8%) and the effect of the DTI and DSTI limits on clients with mortgages (an NP of 9%). Banks expect credit standards and demand for consumer credit to remain unchanged in 2019 Q2.

Credit standards in the segment of **loans to sole traders** were unchanged and banks expect a similar pattern in Q2. Sole traders' demand for loans was also unchanged, but part of the banking market expects it to rise in Q2.

Replies to **additional questions** regarding **loans to non-resident non-financial corporations** show that credit standards and demand were unchanged in 2019 Q1. Additional questions on **banks' expected credit losses** indicate that part of the banking market expects the rate of expected credit losses for corporate loans and consumer credit to increase in 2019 Q2. In the loans for house purchase segment, by contrast, part of the banking market indicates a decline in the rate of expected credit losses.

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)

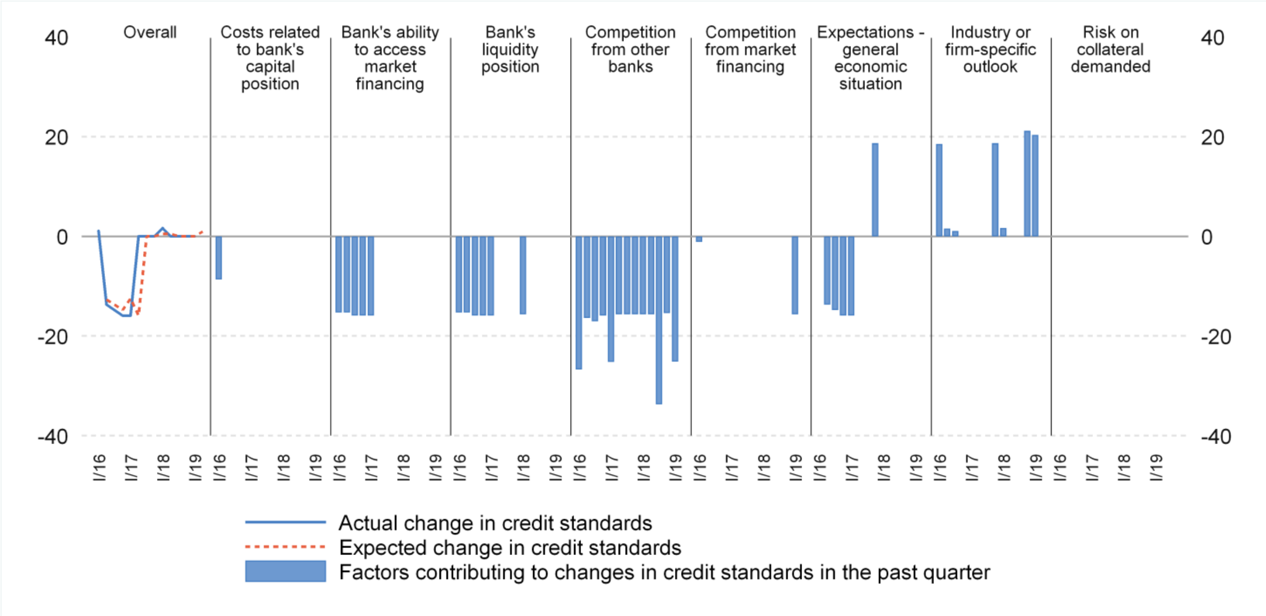


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

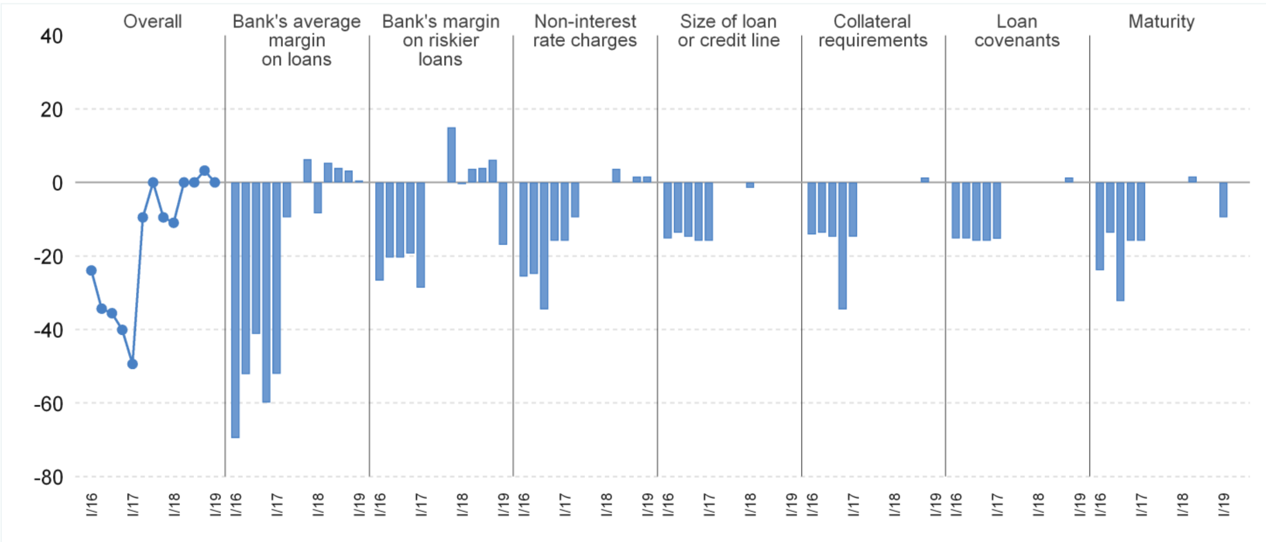
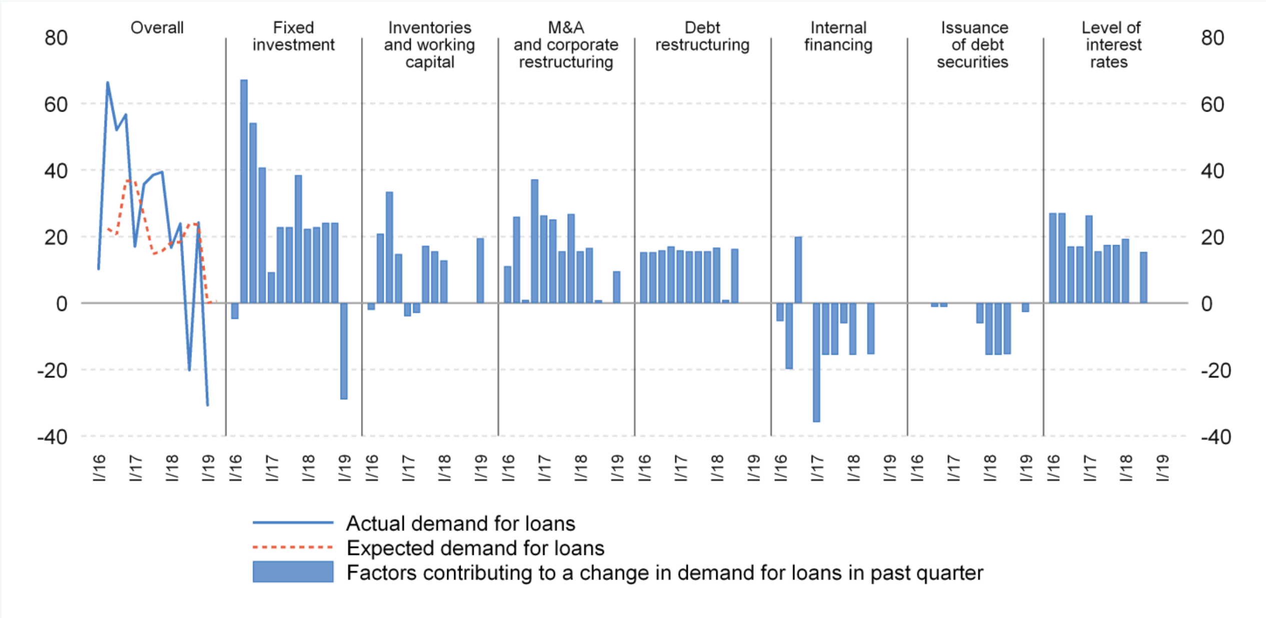
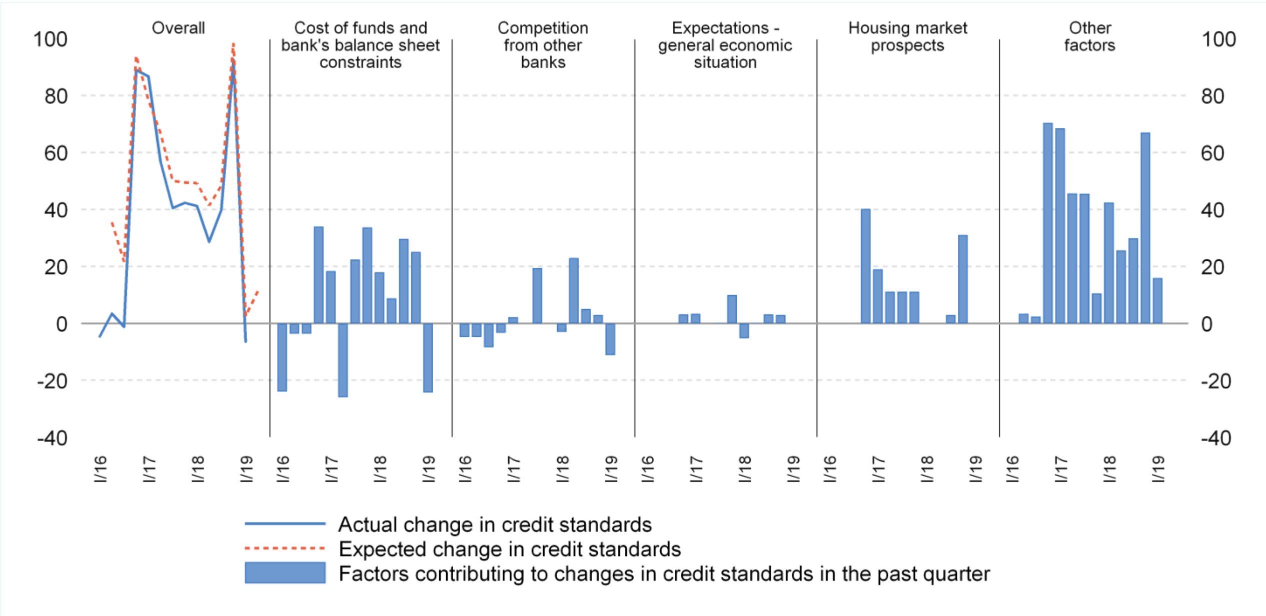


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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 mainly include the 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)

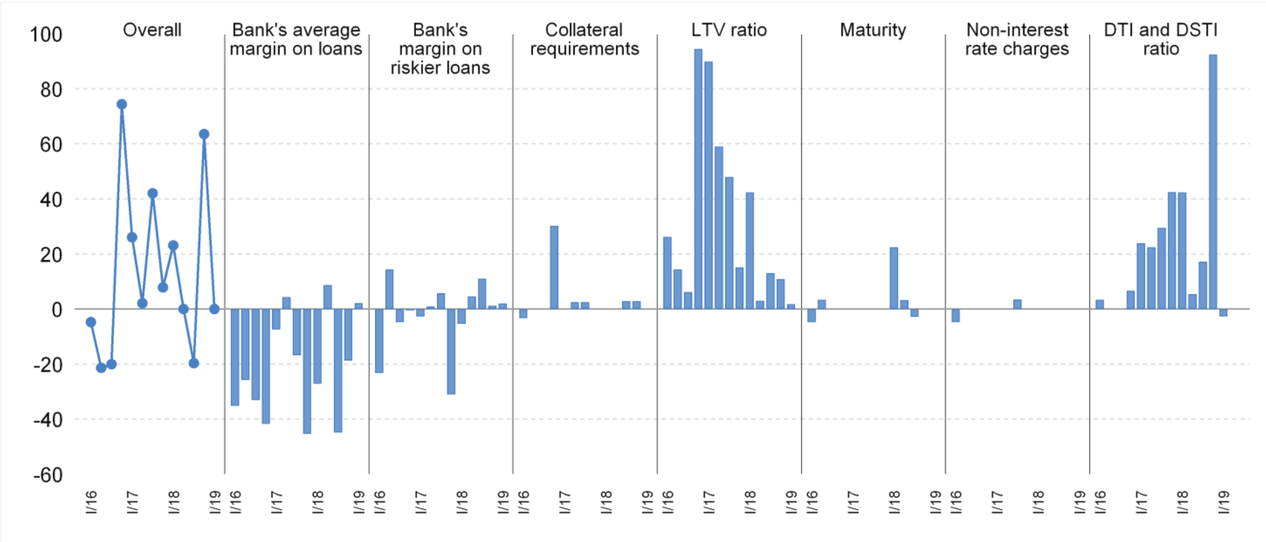
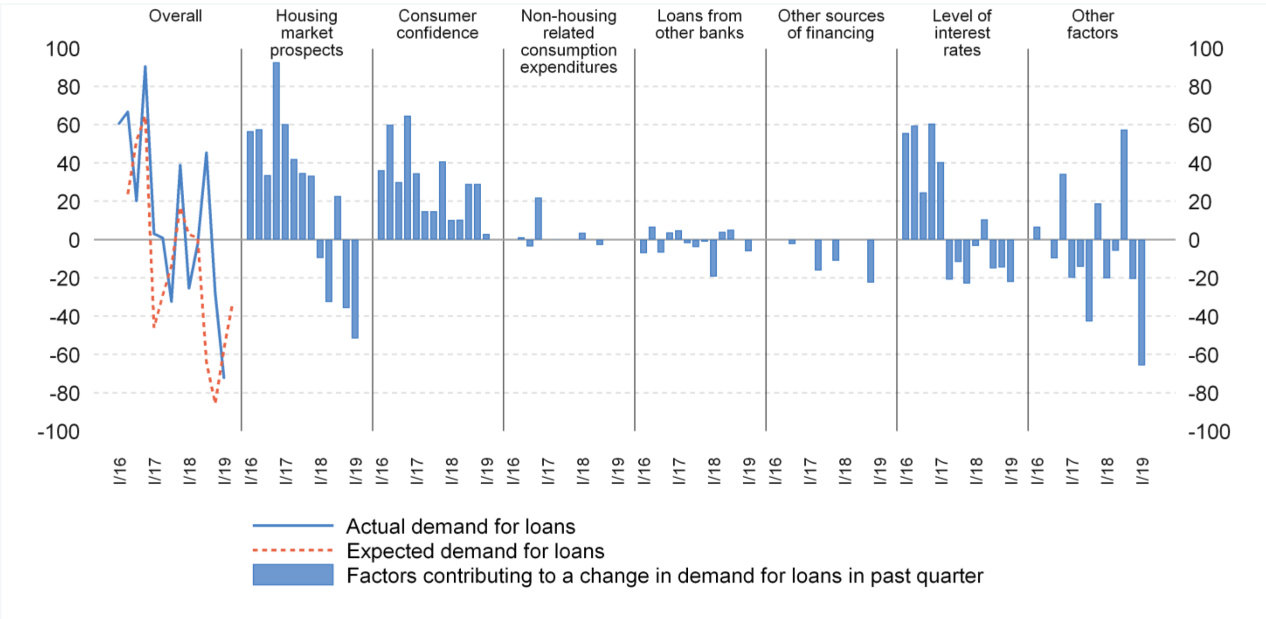
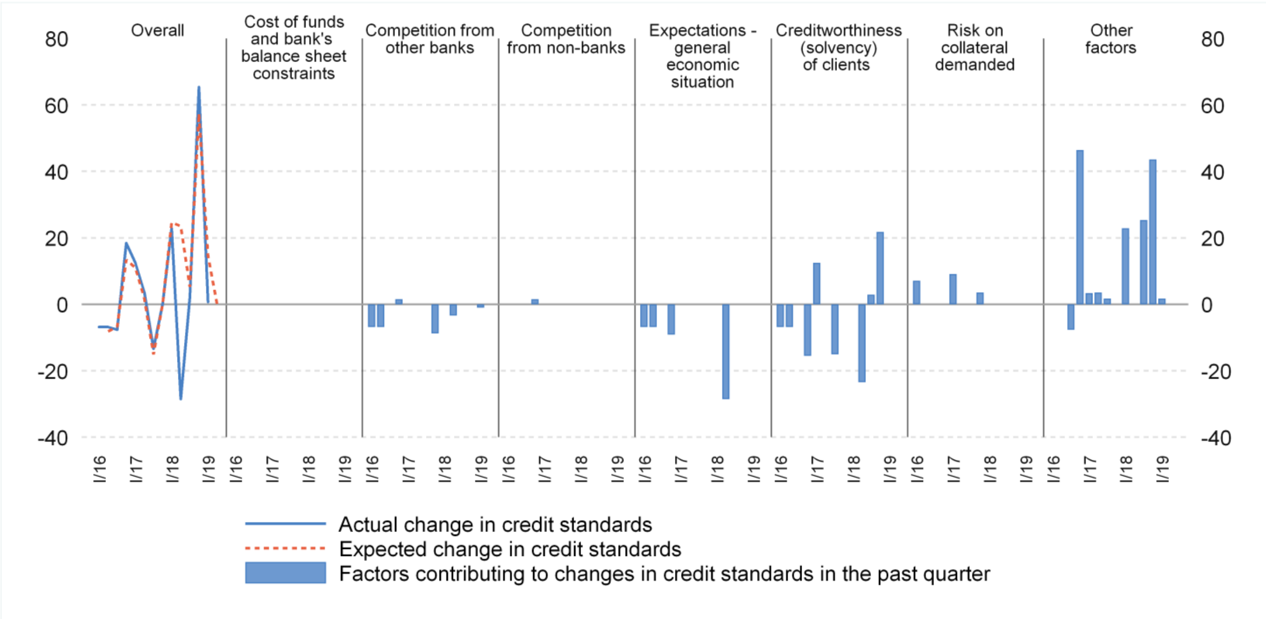


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR LOANS 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 mainly include changes in legislation and the implementation of the CNB's macroprudential measures.

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

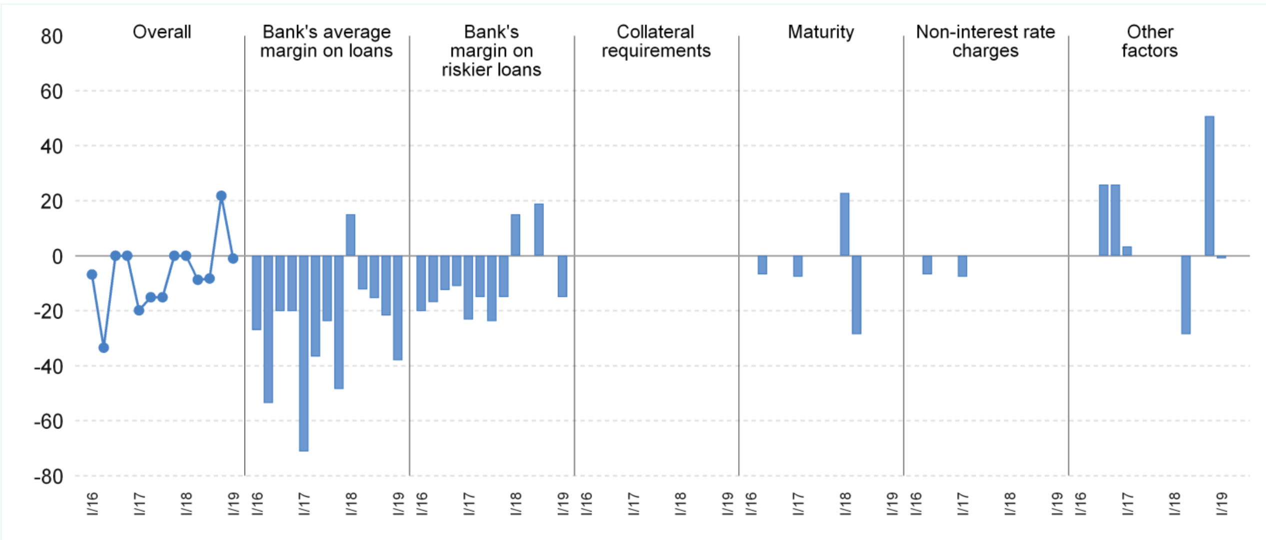


Chart 9 Changes in households' demand for loans for consumer credit ([questions 13, 15 and 17]) (net percentages, positive value = demand growth, negative value = demand decrease)