BANK LENDING SURVEY
JULY

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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 publication summarises the results of the twenty-ninth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2019 Q2 and their expectations in these areas for 2019 Q3. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 27 May and 11 June 2019.[1]

Only a small section of the banking market eased credit standards for loans for house purchase and consumer credit in 2019 Q2. Banks left credit standards for loans to non-financial corporations unchanged overall. Competition from other banks and lower bank financing costs fostered an easing of credit standards for loans for house purchase. Competitive pressure contributed to an easing of credit standards for consumer credit. The credit terms and conditions of a significant part of the bank market also eased via a decline in the average interest margin, particularly on loans for house purchase and to a lesser extent on consumer credit. Demand for loans for house purchase increased in part of the market, thus showing a slight recovery after a sharp fall observed in the previous quarter. Demand for consumer credit was broadly unchanged in Q2. Non-financial corporations' demand declined overall. In 2019 Q3, the banks expect no change in credit standards or demand for loans in the segments under review, with the exception of loans for house purchase, where part of the banking market expects a slight increase in demand.

[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: (https://www.cnb.cz/en/statistics/bank-lending-survey/).

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (representing banks' internal lending policy criteria) were unchanged overall for **loans to non-financial corporations** in 2019 Q2. Competitive pressure from both other banks and market financing and banks' favourable liquidity situation fostered an easing of standards. Part of the banking market perceived risks associated with the outlook for certain sectors or corporations, especially for loans to large corporations, which contributed to a tightening of credit standards. The overall credit conditions (reflecting the contractual obligations agreed upon by the lender and the borrower) for approving new loans eased in part of the market (an NP of 9%) due to an extension of loan maturity. Corporations' demand for loans decreased overall in Q2 (an NP of 22%). The drop was due to a one-off, temporary factor reported by only part of the market. A small section of the banking market conversely perceived growth in demand for loans for financing fixed investment, mergers and acquisitions and corporate restructuring. The banking market expects no change in credit standards or demand for loans in 2019 Q3.

II.2 HOUSEHOLDS

Following an across-the-board tightening in 2018 Q4, a small section of the banking market eased credit standards for **loans to households for house purchase** in 2019 Q2 (an NP of 15%). A decrease in banks' cost of funds, due in part to a decline in long-term market rates coupled with competition from other banks, fostered an easing of standards in 2019 Q2. Banks indicated an easing of conditions via lower average interest margins (an NP of 55%). Households' demand for loans for house purchase rose in Q2 (an NP of 29%). This indicates a partial recovery in demand after a sharp fall observed in 2019 Q1 caused by higher lending activity particularly in 2018 Q3, i.e. before the introduction of the CNB's new macroprudential instruments. According to banks, demand was adversely affected in 2019 Q2 by perceived high property prices and related property market outlooks. By contrast, demand is being favourably affected by the slight decline in client interest rates recorded in the quarter under review. The banking market does not expect credit standards for loans for house purchase to change in 2019 Q3, although part of the market expects demand for loans to increase (an NP of 15%).

As regards **consumer credit** provided to households, credit standards in part of the bank market eased in 2019 Q2 (an NP of 15%), mainly as a result of competitive pressure. However, the effect of this factor on credit standards is perceived differently by individual banks. A minority of banks eased the overall credit conditions for approving loans (an NP of 15%). Credit conditions in part of the market were also eased by a decrease in both the average and risk margin (an NP of 38% in both cases). Households' demand for consumer credit remained broadly unchanged in Q2. Banks expect no change in credit standards or demand in Q3.

Credit standards for **loans to sole traders** were unchanged, while demand for loans increased (an NP of 32%). Banks expect no change in the outlooks for perceived demand and standards for 2019 Q3.

Replies to **additional questions regarding loans to non-resident non-financial corporations** show that credit standards and demand were unchanged in Q2.

Additional questions on banks' expected credit losses indicate that part of the banking market expects the rate of expected credit losses for corporate loans to increase in 2019 Q3. In the loans for house purchase and consumer credit segments, 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)

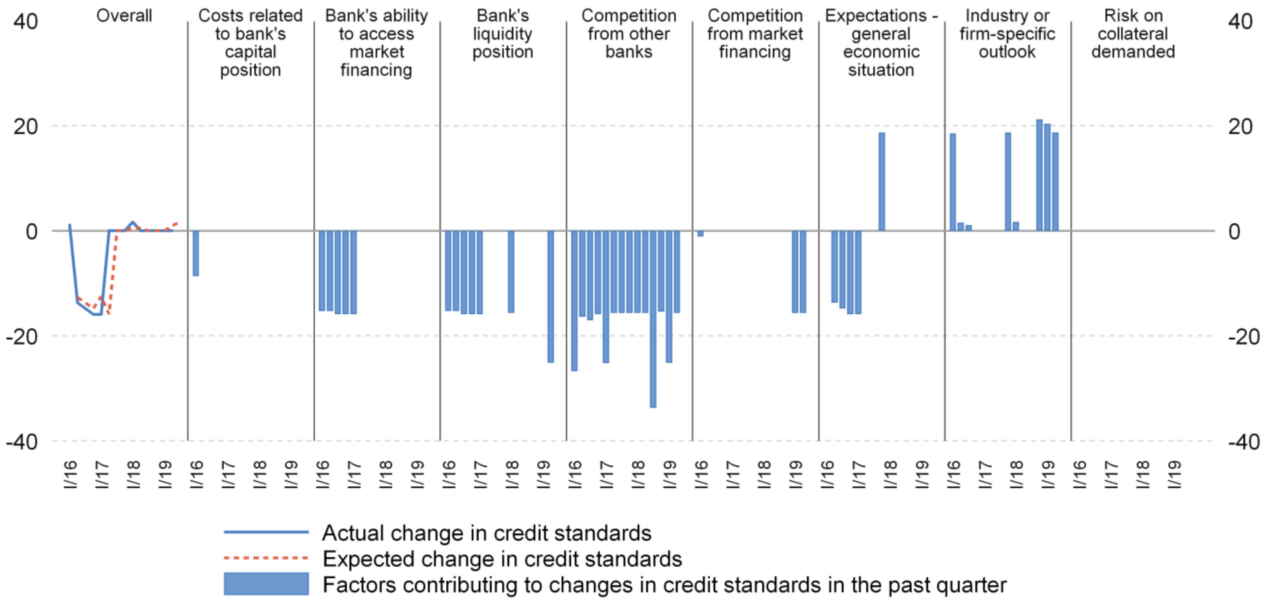


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

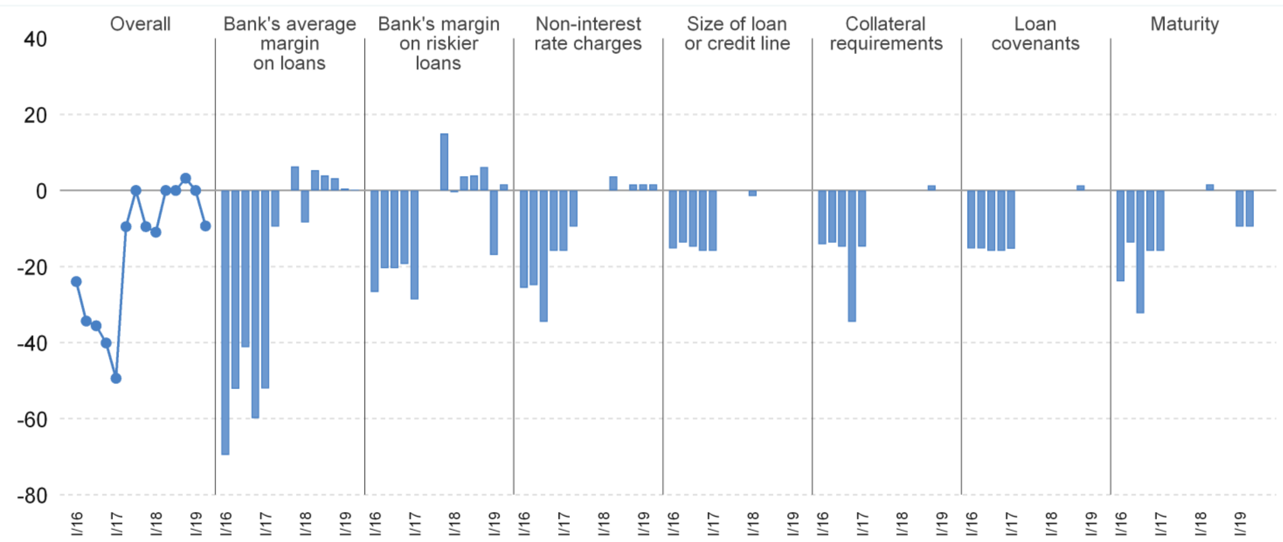
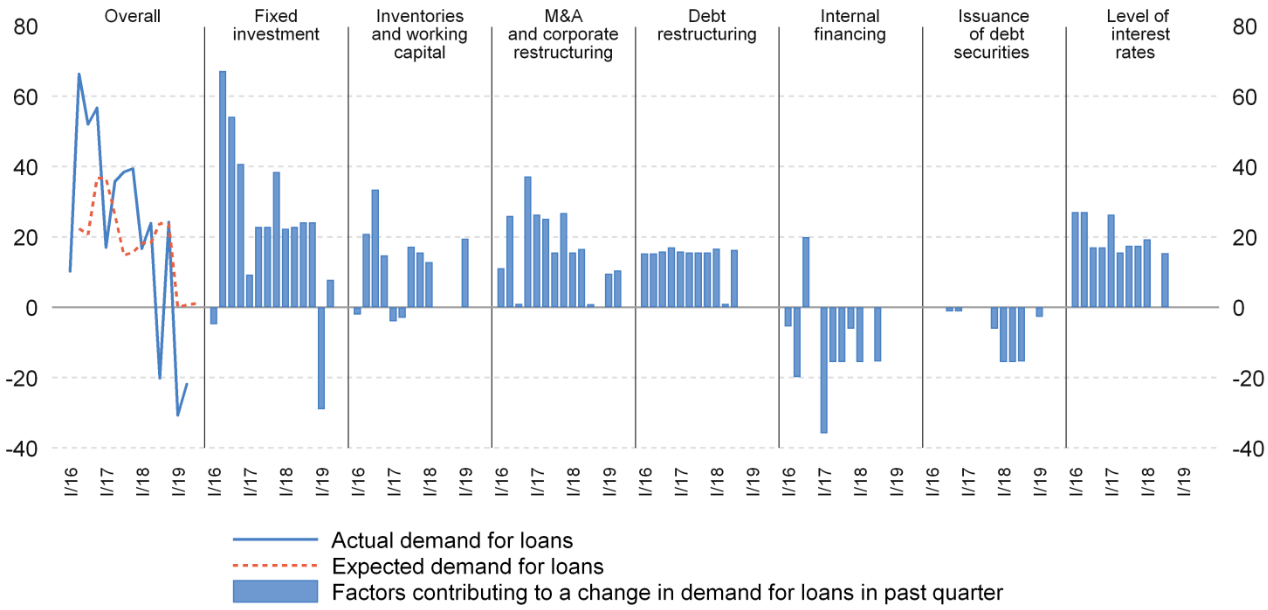


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

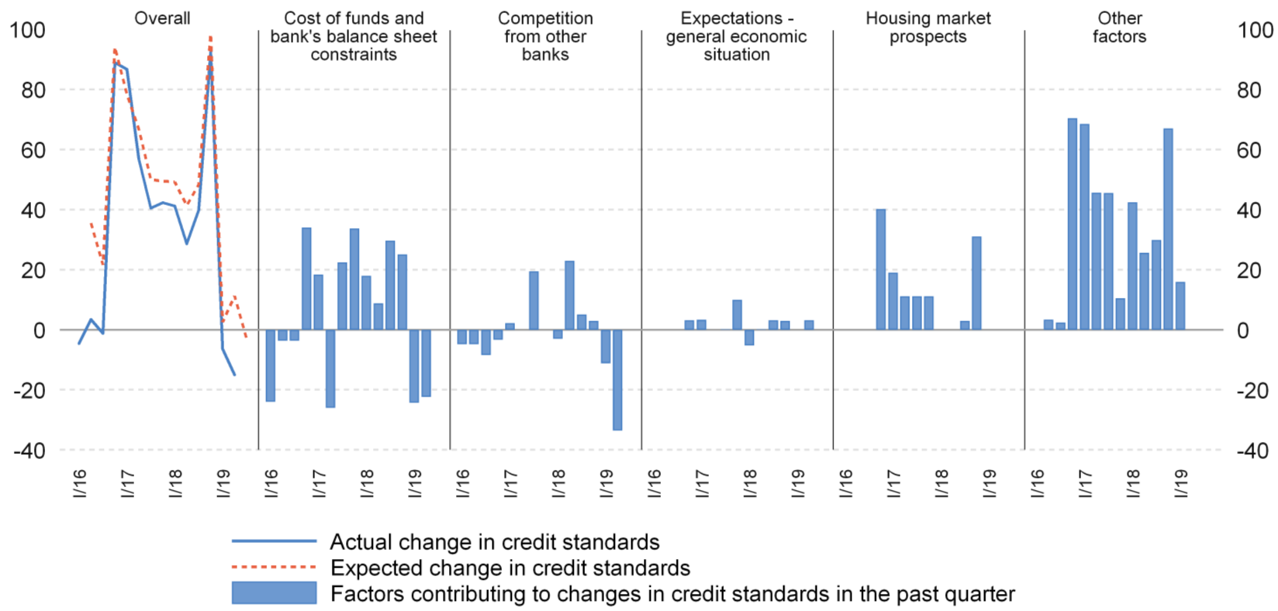


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

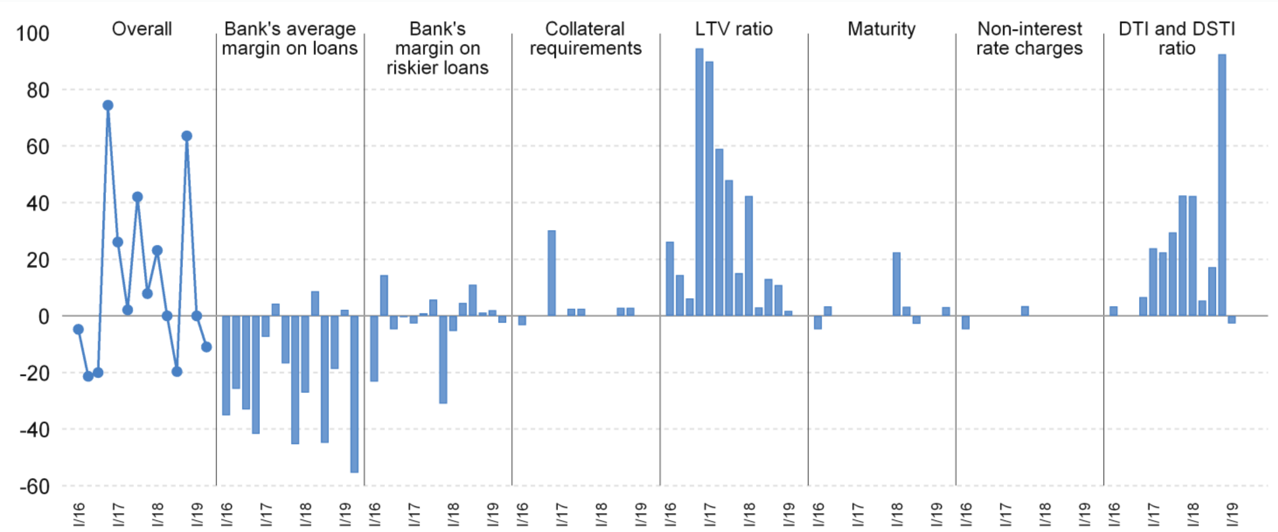
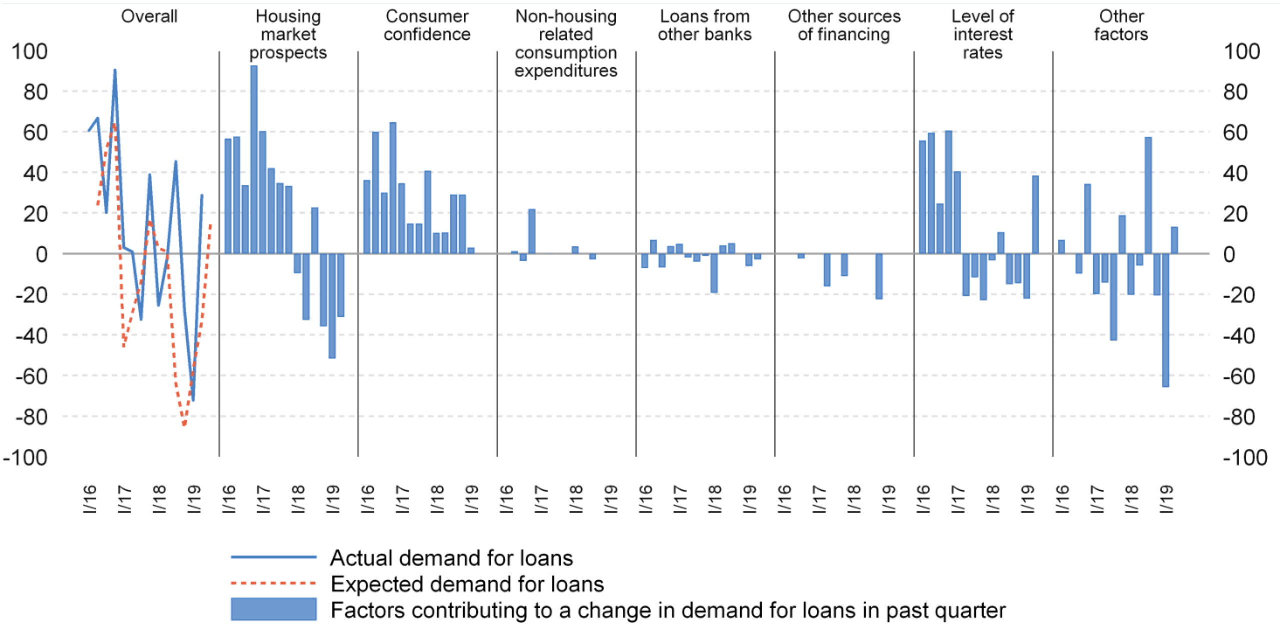


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

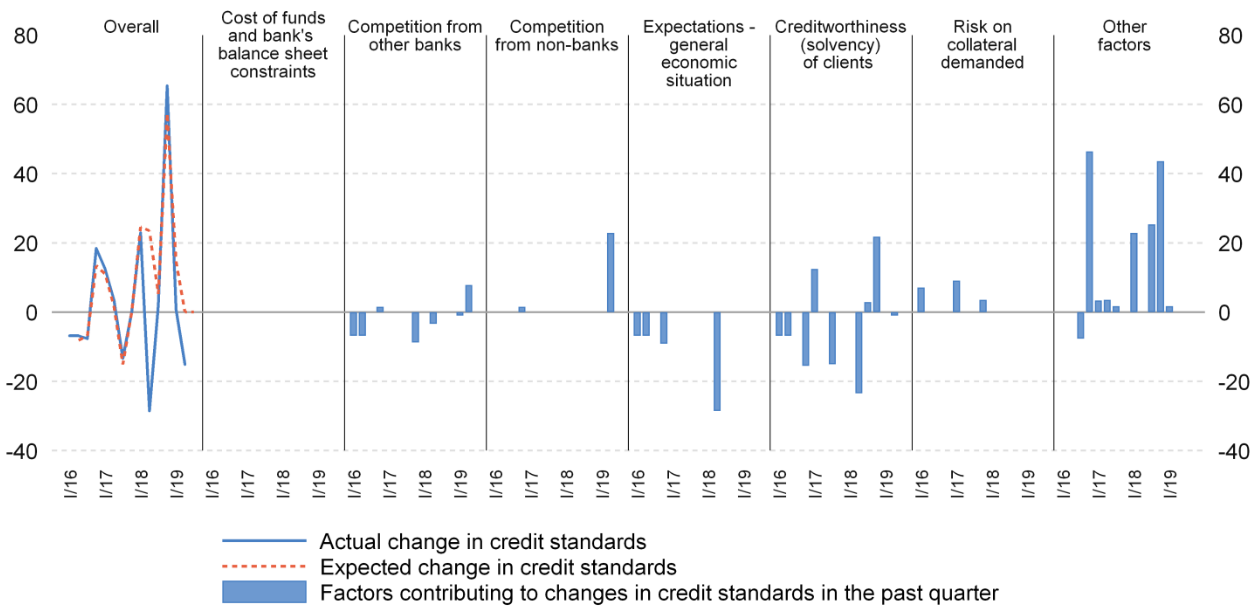


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

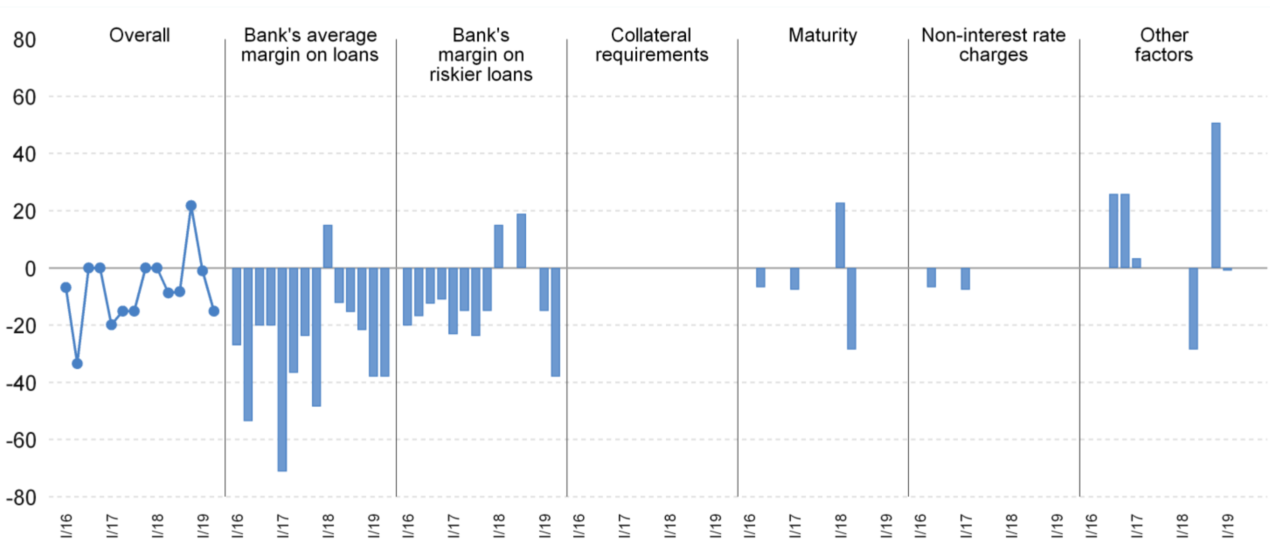


Chart 9 Changes in households' demand for consumer credit ([questions 13, 15 and 17]) (net percentages, positive value = demand growth, negative value = demand decrease)