Bank Lending Survey

III/2023

Czech National Bank —— Bank Lending Survey —— III/2023

CZECH NATIONAL BANK

www.cnb.cz

Introduction

The Bank Lending Survey captures banks' opinions regarding the change in supply and demand for loans to non-financial corporations and households. This document summarises the results of the forty-fifth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2023 Q2 and their expectations in these areas for 2023 Q3. Nineteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 June and 15 June 2023.[1] The CNB's Bank Lending Survey is performed by a team made up of representatives of the Monetary Department and the Financial Stability Department.

[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, is available on the CNB website:

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

I. SUMMARY

Banks left credit standards and overall credit conditions for loans to non-financial corporations unchanged in Q2. Demand for loans to non-financial corporations as perceived by banks decreased, though less broadly than in the previous quarter. More than one-third of the banking market perceived an increase in demand for loans for house purchase in Q2. Demand in this segment is expected to rise almost across the board in Q3. Part of the banking market tightened credit standards for housing loans and consumer credit in Q2. Almost half of the banking market indicated an increase in households' demand for consumer credit. This was partly due to higher expenditure by households on durable goods. Banks' expected credit losses recorded a shift compared with the previous period, as a small proportion of banks now expect them to drop across the segments of the credit market over the next three months.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (banks' internal lending policy criteria) **for loans to non-financial corporations were unchanged in 2023 Q2**, nor do banks expect them to change in 2023 Q3. Neither did standards change across the individual credit segments. **The overall lending conditions** (the arrangements between lender and borrower) **were also unchanged**. In the structure of lending conditions, however, one-fifth of the banking market tightened the conditions relating to non-interest charges, while almost one-third of the market eased those relating to the maturity of loans. Average interest margins decreased in almost one-fifth of the banking market, while margins on riskier loans increased to a similar extent.

Corporate demand for loans declined again in Q2 (an NP of 37%). The fall in perceived demand was less broad than in Q1 (an NP of 77%). A drop in demand was recorded for both short-term loans (an NP of 56%) and long-term loans (an NP of 17%). More than half of the banking market considers the level of domestic interest rates to be a factor reducing demand. Demand is also being dampened by a reduced need to finance fixed investment (an NP of 48%) and mergers and acquisitions and corporate restructuring (an NP of 15%). Demand for financing inventories and working capital also decreased (an NP of 19%) amid a gradual decline in the high growth in input prices. The only factor fostering growth in demand for loans was a drop in the interest of some corporations in financing debt through bond issues (an NP of 17%). More than one-third of the banking market expects overall demand for loans to decline in 2023 Q3. According to banks, demand for loans to small and medium-sized enterprises will decrease to the same extent, as will demand for long-term loans, albeit to a somewhat smaller extent. A smaller part of the market expects demand for loans to large corporations and demand for short-term loans to fall as well.

II.2 HOUSEHOLDS

Credit standards for loans to households for house purchase were tightened in 2023 Q2 (an NP of 27%). This was due mainly to changes in banks' internal methodologies. By contrast, almost half of the banking market perceived stronger competition between banks, which thus fostered an easing of credit standards. One-fifth of the market indicated an easing of standards due to a decline in the cost of funds and balance sheet constraints. For 2023 Q3, the banking market generally expects credit standards to ease following the deactivation of the upper limit on the DSTI ratio with effect from 1 July 2023. **The overall credit conditions were unchanged, according to banks**. One-fifth of the banking market indicated an increase in the average interest margin on loans for house purchase. More than one-third of the banking market perceived **an increase in demand for housing loans** in Q3. In the last six quarters or so, banks had mostly indicated a decline in this demand. The increase in perceived demand was fostered by more favourable prospects for the housing market, where property prices are now dropping slightly, and by the level of interest rates, with a small part of the market probably affected by the modest decline in long-term market rates. However, banks indicated that weaker consumer confidence, increased household consumption expenditure reflecting high living costs, and a drop in households' savings continued to dampen demand. For 2023 Q3, almost the entire banking market expects demand for housing loans to grow.

Overall, banks tightened the credit standards applied to consumer credit in 2023 Q2 (an NP of 34%). This reflected banks' higher cost of funds and balance sheet constraints and, to a lesser extent, stricter calculation of clients' living costs and stricter assessment of the creditworthiness of clients in higher-risk categories. **According to banks, the overall lending conditions were unchanged**. As regards the structure of lending conditions, almost one-fifth of the banking market indicated a reduction in the average interest margin. Stricter calculation of clients' living costs was indicated as having the opposite effect, i.e. fostering a tightening of credit conditions, by more than one-fifth of the banking market. **Households' demand for consumer credit rose** (an NP of 45%). According to a smaller section of the market (an NP of 14%), this was due to higher expenditure by households on durable goods, consumer confidence and the level of interest rates. According to part of the market, the higher demand also reflected migration of loans from other banks and the range of products offered (a section of the market also mentioned the low unemployment rate and moderate growth in wages). For 2023 Q3, only a small proportion of the banking market expects credit standards to tighten, and almost one-third of the market expects demand for consumer credit to increase.

More than one-third of the banking market eased credit standards for **loans to sole proprietors**. Banks do not expect these standards to change in 2023 Q3. Sole proprietors' demand for loans as perceived by banks decreased in more than half of the banking market. For 2023 Q3, banks indicated a further drop in perceived demand, albeit smaller in extent.

Some banks now expect **expected credit losses to drop** across credit market segments over the next three months. Specifically, such a decrease is expected by 9% of the banking market in the case of corporate loans, 14% of the market in the case of consumer credit and 20% of the market in the case of housing loans.

III. GRAPHICAL PRESENTATION OF SUPPLY AND DEMAND CONDITIONS IN SEGMENTS

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)

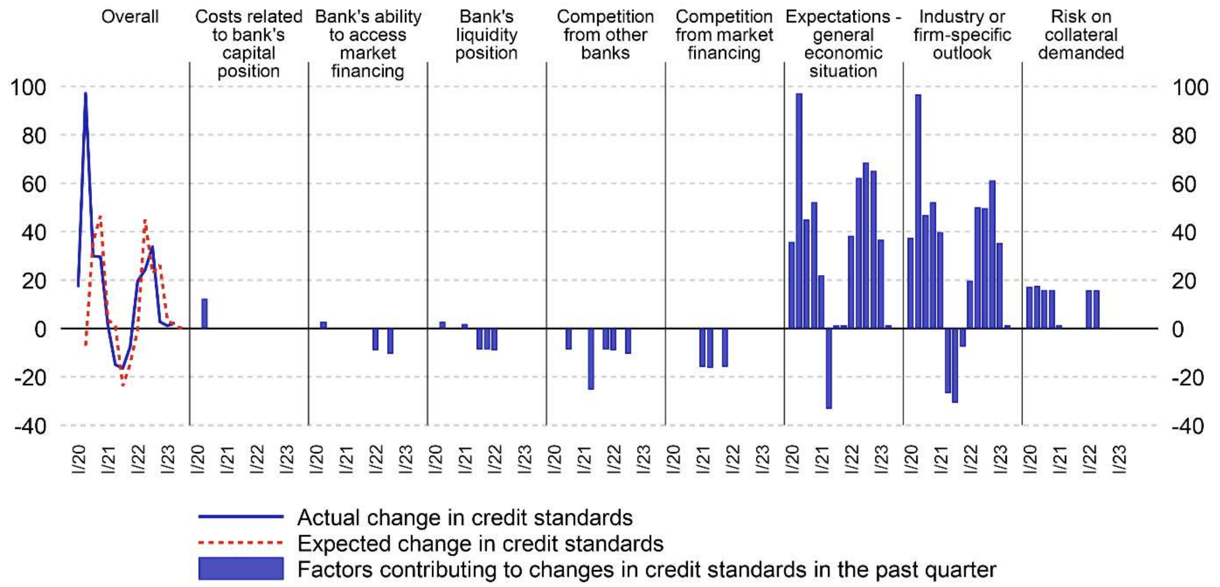


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

(net percentages, positive value = tightening, negative value = easing)

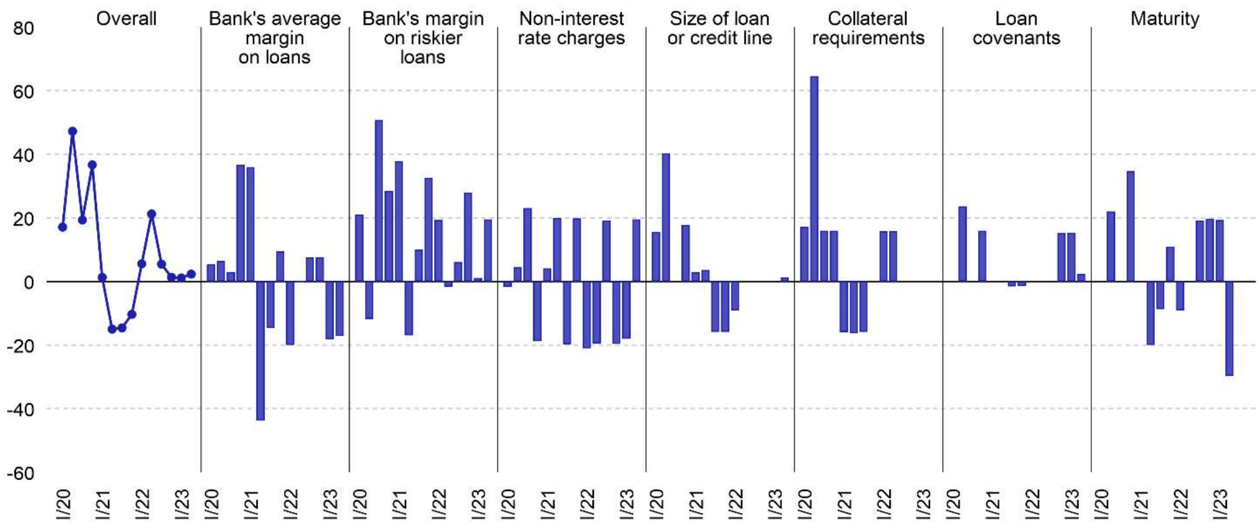


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

(net percentages, positive value = demand growth, negative value = demand decrease)

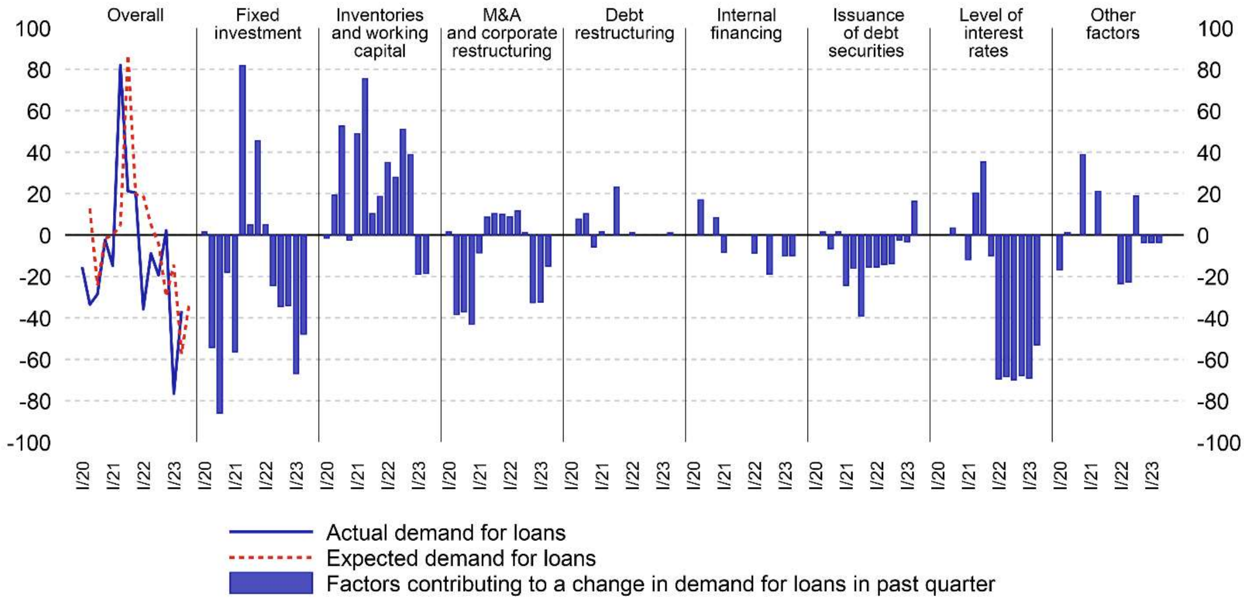


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

(net percentages, positive value = tightening, negative value = easing)

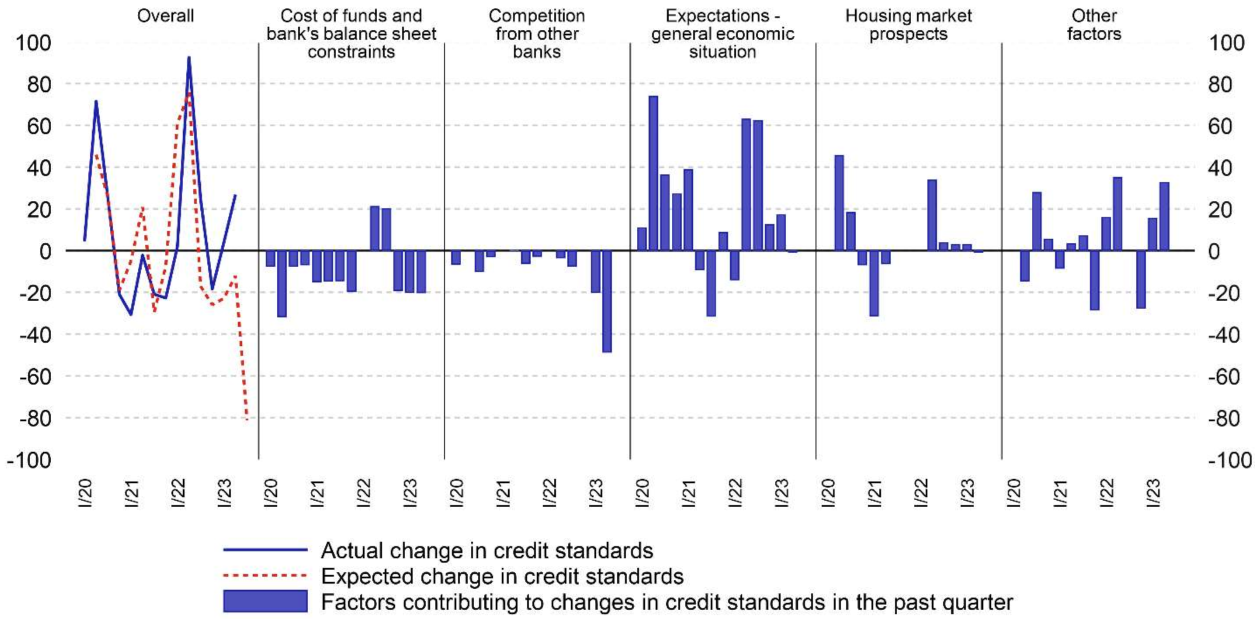


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

(net percentages, positive value = tightening, negative value = easing)

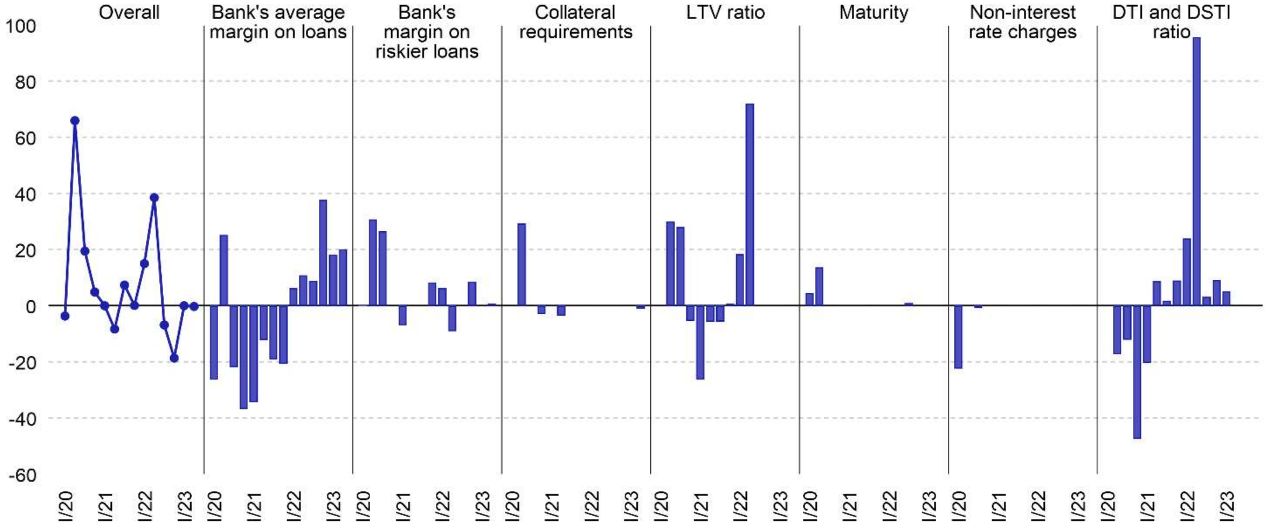


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

(net percentages, positive value = demand growth, negative value = demand decrease)

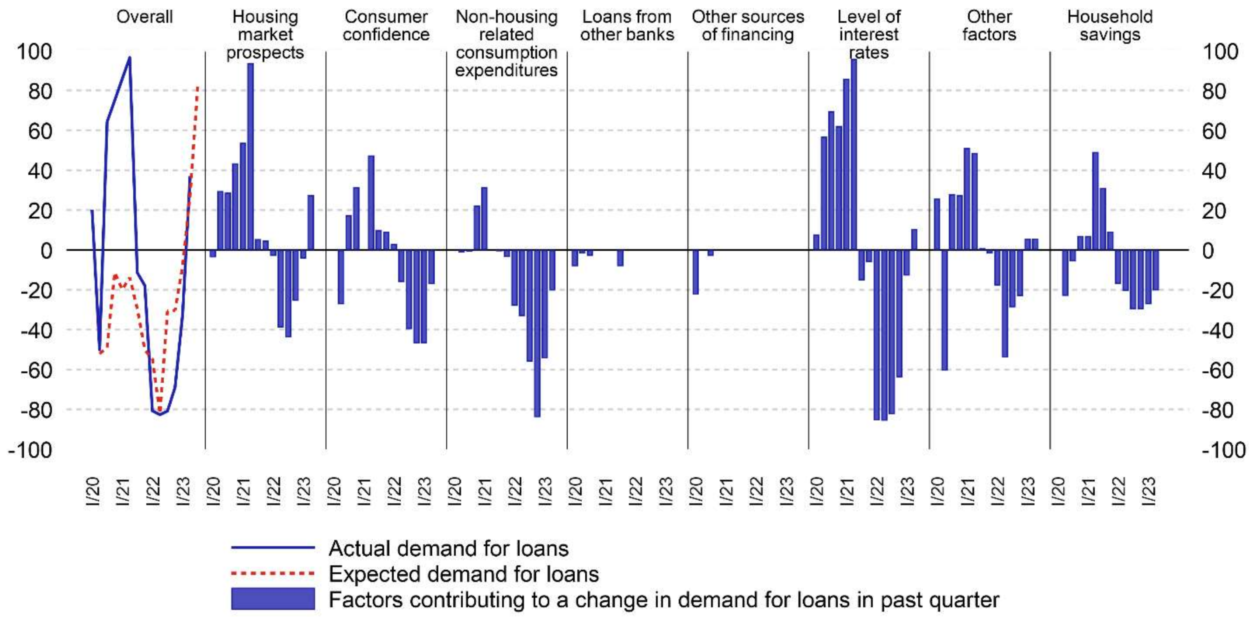


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

(net percentages, positive value = tightening, negative value = easing)

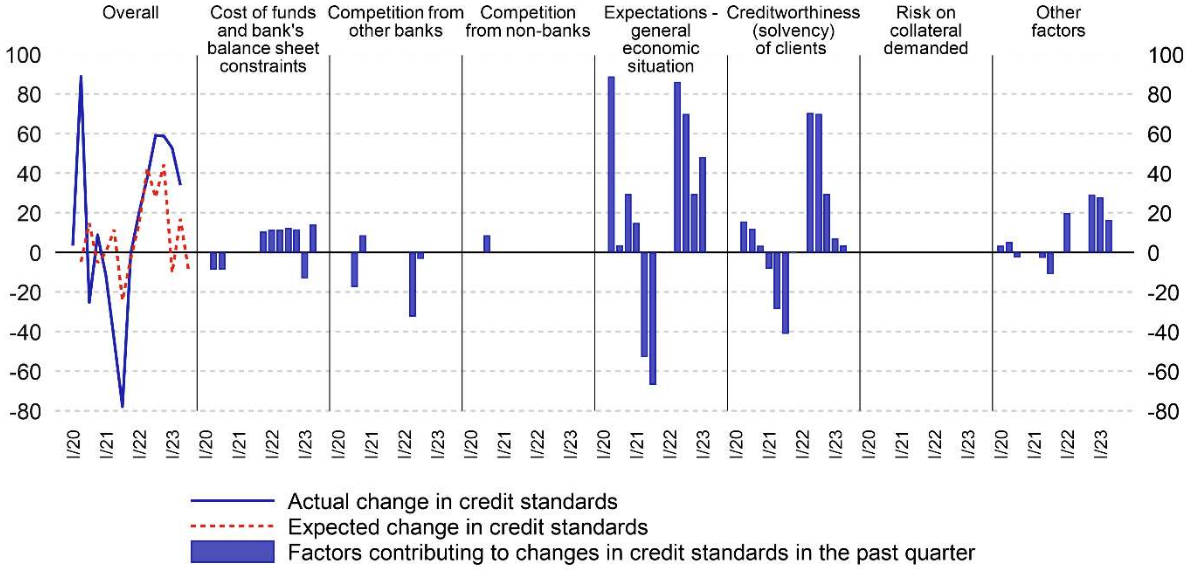


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

(net percentages, positive value = tightening, negative value = easing)

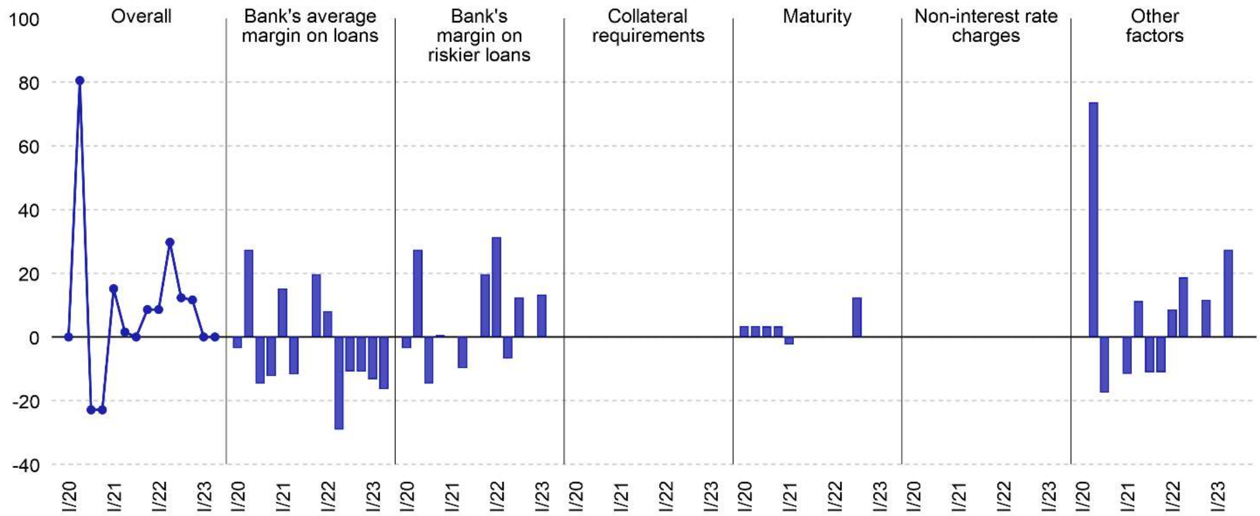
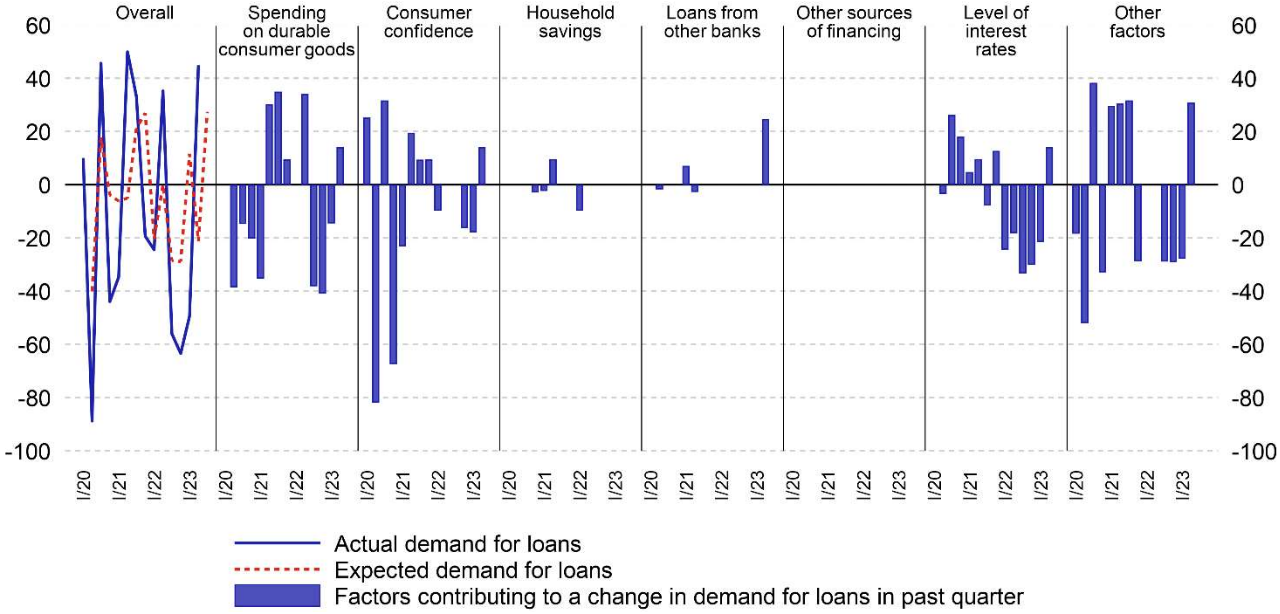


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

(net percentages, positive value = demand growth, negative value = demand decrease)



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