BANK LENDING SURVEY OCTOBER

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Financial Stability Department

Monetary and Statistics Department
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CNB 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 document summarises the results of the sixth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2013 Q3 and their expectations in these areas for 2013 Q4. Eighteen banks, accounting for a major share of the bank credit market, took part in the survey.[1,2]

The survey reveals that banks made virtually no changes to their credit standards in 2013 Q3 in any of the main credit market segments monitored. The terms and conditions for approving loans to both non-financial corporations and households were eased through a decline in average interest margins. Net corporate demand for loans decreased in a small part of the market. Household demand for loans for house purchase increased, whereas demand for consumer credit went down. In 2013 Q4, banks expect credit standards to remain unchanged for corporate loans, but to tighten for loans provided to households for house purchase. Net demand for loans will not change significantly in either credit market segment.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks' credit standards for approving **loans to non-financial corporations** were unchanged overall in 2013 Q3. This applied to all categories of loans except loans to large enterprises, where the standards were eased. The easing of standards in this loan segment was fostered by increased competition from other banks, a more favourable liquidity situation of banks and a better ability to access market financing. By contrast, an unfavourable outlook for some branches and corporations and increased costs associated with banks' capital position contributed to a tightening of credit standards, although the effect of the former factor has decreased in recent quarters. Unlike in previous quarters, when expectations regarding the overall economic situation had fostered a tightening of credit standards, this factor had a neutral effect on the change in credit standards in the last quarter. As regards the terms and conditions for approving corporate loans, the average interest margins of banks decreased.

Non-financial corporations' overall demand for loans decreased (a net percentage – NP – of only 7% of the credit market). Net demand for loans showed more noticeable declines for small and medium-sized enterprises and short-term loans. Corporations' efforts to use internal

[1] Four large banks, four medium-sized banks, two small banks, three foreign bank branches and five building societies took part in the survey. The sixth round of the survey was conducted between 12 and 24 September 2013. 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). Questions regarding the survey can be e-mailed to bls@cnb.cz.

[2] The questionnaire contained 17 questions regarding banks' credit standards, terms and conditions for approving loans and demand for loans as perceived by banks, including the relevant factors. The responses to the questions are expressed in the text and charts 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 for loans.

funds to a larger extent contributed to the decline in loan demand in the market as a whole. These effects were offset by rising demand for loans to finance mergers, acquisitions and restructuring of businesses, although this factor has been fading in recent quarters. The decline in corporate demand for loans continued to be slowed by corporate debt restructuring and reduced issuance of debt securities by corporations. The contribution of the need for fixed investment financing to the net change in demand for loans was roughly neutral.

For 2012 Q4, banks expect credit standards for corporate loans to remain unchanged overall and net corporate demand for loans to continue falling.

II.2 HOUSEHOLDS

Banks' credit standards for approving **loans to households for house purchase** eased overall only in a very small part of the credit market in 2013 Q3 (an NP of 4%). According to banks, an easing of standards in a larger part of the market was prevented by increased bank financing costs (an NP of 24% of the credit market) due to rising long-term financial market interest rates. As regards the terms and conditions for approving loans, the average interest margins of banks showed a broad decline (an NP of 53% of the credit market). A smaller part of the market also recorded a decrease in non-interest charges. By contrast, interest margins on riskier loans and collateral requirements increased. Demand for loans for house purchase continued rising (an NP of 61%). However, this was chiefly due to migration of clients from other banks also in connection with the refinancing of old mortgages, so the impact on the stock of loans to households for house purchase was limited. An improvement in consumer confidence and housing market prospects also had a favourable effect on household demand in this segment.

In 2013 Q4, banks expect credit standards to tighten (an NP of 27% of the housing credit market) and household demand for loans to increase (an NP of 6% of the market).

In line with banks' expectations, credit standards for **consumer credit** to households were unchanged. All the factors monitored had a neutral effect. As regards the terms and conditions for approving consumer credit, average interest margins decreased in a small part of the credit market. Household demand for consumer credit was lower than in the previous quarter (an NP of 34% of the credit market). According to banks, the weaker demand was due to lower spending on consumer durables. The lower interest in consumer credit also reflected the termination of some marketing campaigns that had been running in the first half of this year. On the other hand, demand for consolidation of old consumer credit increased.

For 2013 Q4, a small part of the credit market expects credit standards to ease overall, while demand for consumer credit is expected to remain virtually unchanged.

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 percentage, positive value = tightening, negative value = easing)

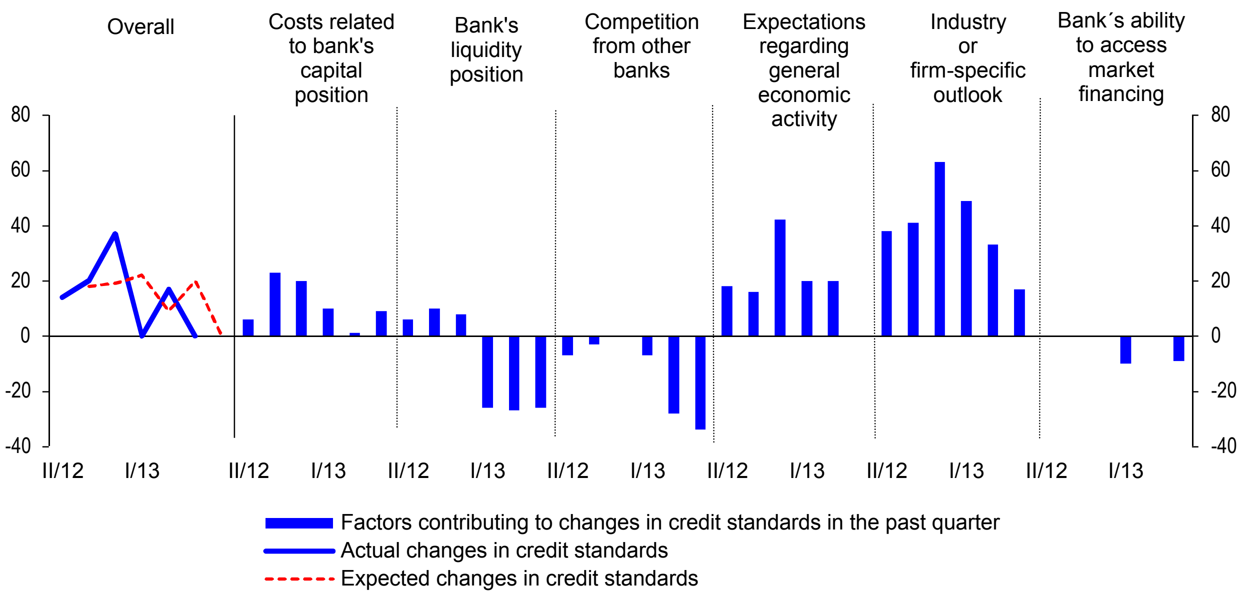


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentage, positive value = tightening, negative value = easing)

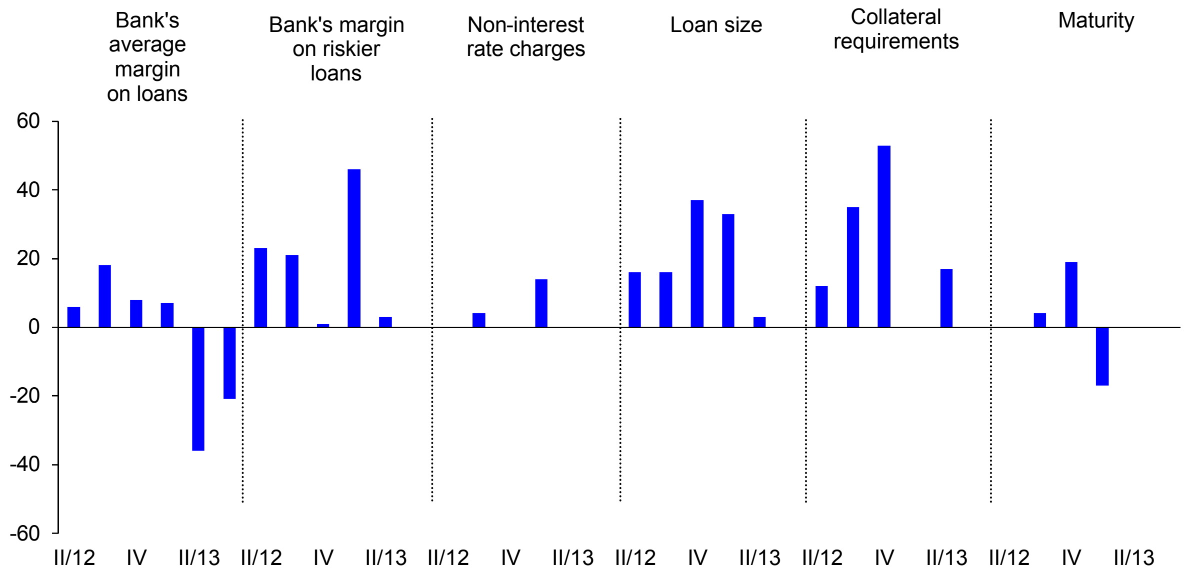
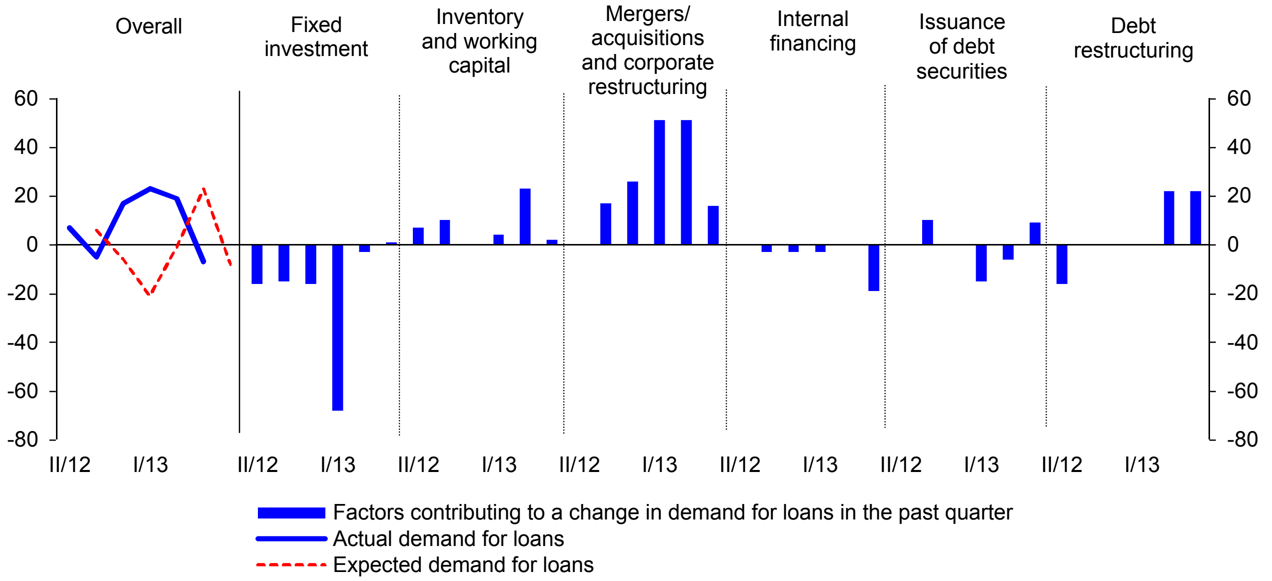


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentage, positive value = demand growth, negative value = demand decrease)



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 percentage, positive value = tightening, negative value = easing)

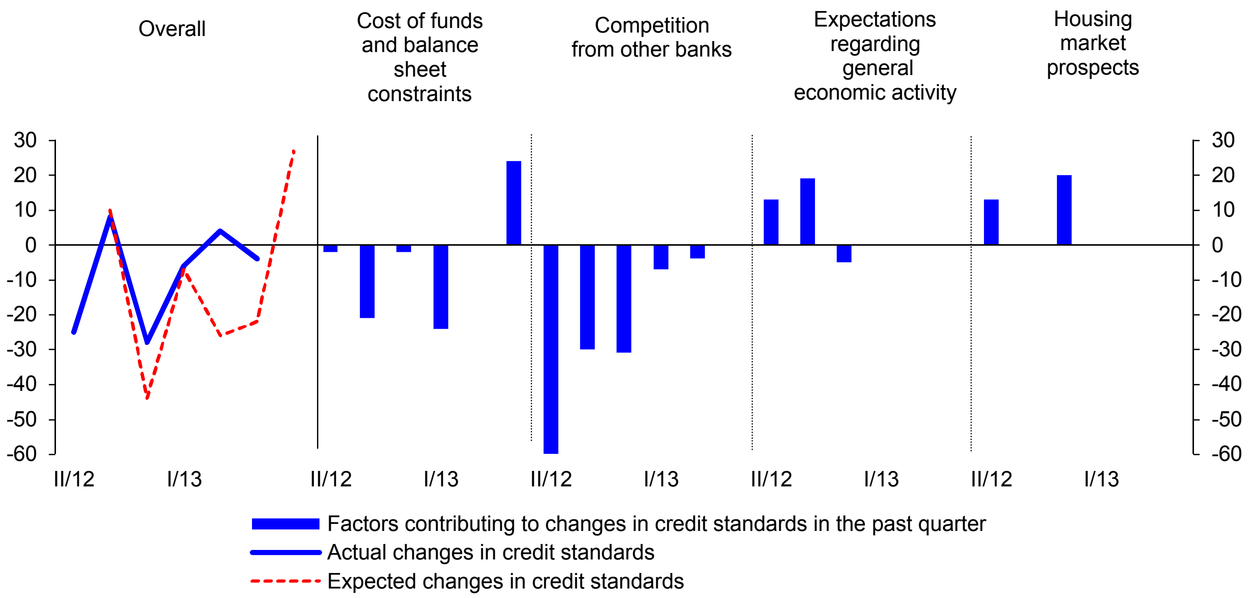


Chart 5 Changes in terms and conditions for approving loans for house purchase ([question 10](#))
(net percentage, positive value = tightening, negative value = easing)

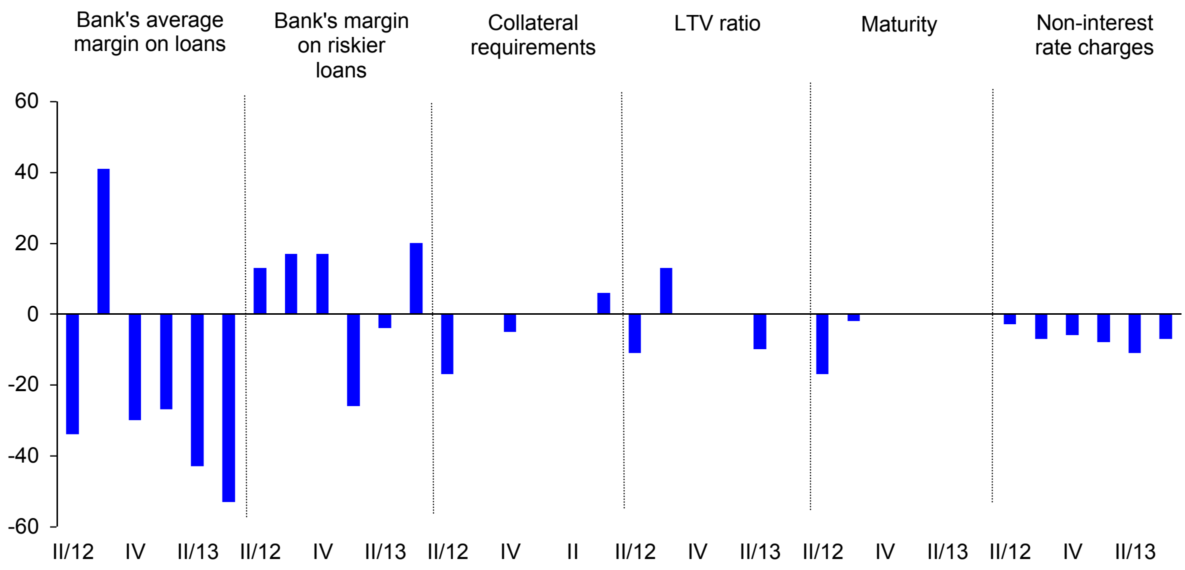
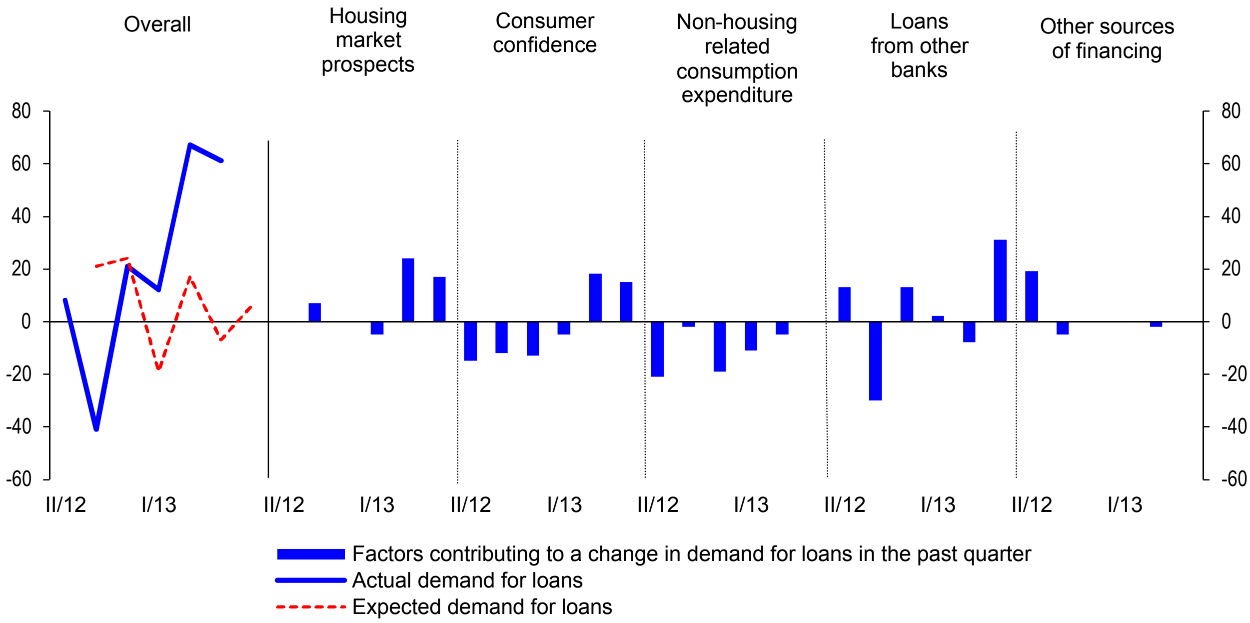


Chart 6 Changes in households' demand for loans for house purchase
([questions 13, 14 and 17](#))
(net percentage, positive value = demand growth, negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR CONSUMER CREDIT

Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)
(net percentage, positive value = tightening, negative value = easing)

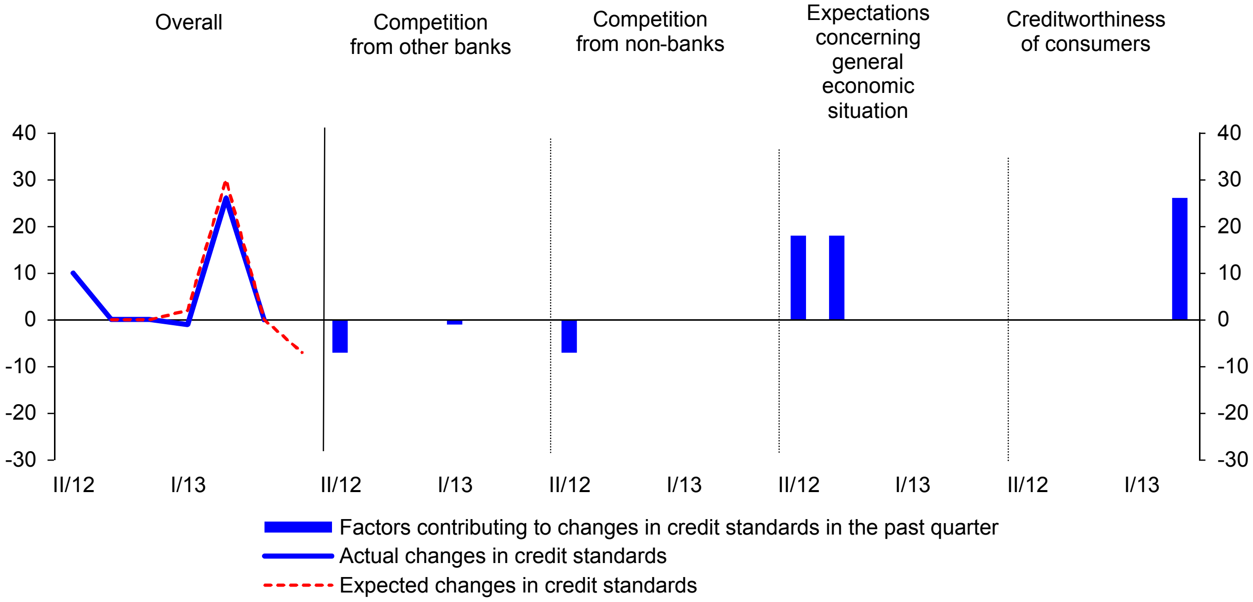


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentage, positive value = tightening, negative value = easing)

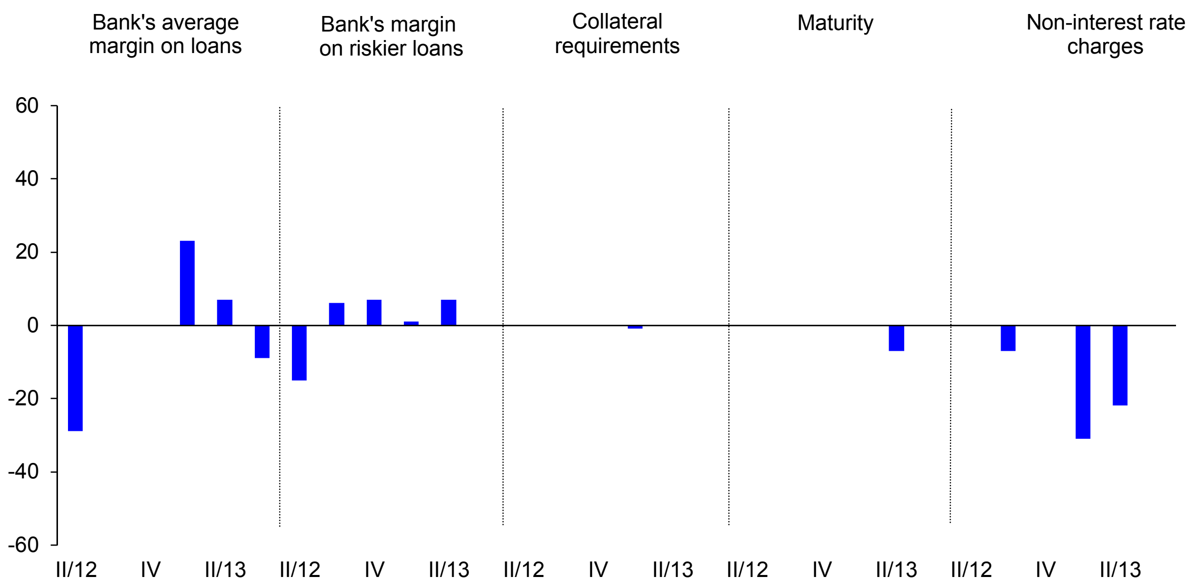


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentage, positive value = demand growth, negative value = demand decrease)