BANK LENDING SURVEY APRIL

2014

Financial Stability Department

Monetary and Statistics 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 document summarises the results of the eighth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2014 Q1 and their expectations in these areas for 2014 Q2. 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 no broad changes to their credit standards in 2014 Q1. The terms and conditions for approving consumer credit were eased through a decline in average interest margins, while margins on riskier loans in the other segments of the credit market increased. Following an increase at the end of last year, corporate demand for loans fell overall in 2014 Q1. Household demand for loans for house purchase decreased as well, mainly due to this year's changes in the area of lien and entries in the property cadastre. By contrast, demand for consumer credit increased, thanks, among other things, to consolidation of existing loans. In 2014 Q2, for the first time in two years, banks expect credit standards to ease for corporate loans, but rather to tighten for loans to households. According to banks, loan demand will increase in all segments of the credit market.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

In 2014 Q1, banks' credit standards for approving **loans to non-financial corporations** were again unchanged in all categories of loans in terms of corporation size and maturity. For the first time in the two years since the introduction of the survey,[3] the easing of standards was fostered by risk perceptions associated with the outlook for certain sectors and the overall economic situation. A decrease in costs related to banks' capital position and a slightly better bank liquidity situation acted in the same direction. By contrast, part of the credit market perceived increased risks relating to collateral, mainly because of new legislation (the possibility of prioritisation of claims entered in the collateral register), which contributed to a tightening of credit standards. As regards the terms and conditions for approving corporate loans, the average interest margins of banks were unchanged, but margins on riskier loans increased. The terms and conditions for loans to large corporations were mostly easy

[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 eighth round of the survey was conducted between 13 and 25 March 2014. 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 perceived by banks, including the relevant factors. One ad hoc question on the interest rate spread on loans to small and medium-sized enterprises and large corporations was included. 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.

[3] The data on the results of the Bank Lending Survey are available as from 2012.

compared to loans to small and medium-sized enterprises. This was reflected in a decrease in average interest margins and a relaxation of bank's loan size limits, collateral requirements and loan covenants.

Following a very broad-based increase, non-financial corporations' demand for loans decreased overall in 2014 Q1 (but probably only temporarily; an net percentage - NP of 26%). At the same time, only a relatively small part of the market reported an overall decrease in demand for long-term loans (8%). The lower demand for the monitored types of loans was chiefly due to a decline in financing of inventories and working capital and increased issuance of corporate bonds. On the other hand, demand for loans to finance fixed investment continued rising, albeit less broadly than at the end of last year (an NP of 11% in 2014 Q1 compared to 32% in 2013 Q4). Demand for loans to finance mergers and acquisitions continued rising as well.

In 2014 Q2, for the first time in the two years since the introduction of the survey, banks expect credit standards for approving corporate loans to ease overall (for all types of loans). According to banks, corporate demand for loans will rise again (an NP of 54%).

II.2 HOUSEHOLDS

Banks' credit standards for approving **loans to households for house purchase** remained broadly unchanged after having eased in the previous period, mainly as a result of increased competition. Most of the monitored factors had a neutral effect. The easing of standards was aided by a reduction in funding costs and a relaxing of constraints in some banks' balance sheet items. As regards the terms and conditions for approving loans for house purchase, the average interest margins of banks were virtually unchanged, while margins on riskier loans increased. Household demand for loans for house purchase saw probably only a temporary decrease (an NP of 11%). According to banks, the perceived reduction in demand for loans for house purchase is associated above all with changes in the area of lien and entries in the property cadastre resulting from the entry into force of the new Civil Code and the Cadastral Act. Banks seem to be reacting to the above changes by changing their procedures. By contrast, an increase in consumer confidence had a favourable effect on household demand for loans for house purchase. In 2014 Q2, banks expect household demand for loans for house purchase to rise (an NP of 35%) amid a generally only modest tightening of credit standards.

Credit standards for **consumer credit** to households were eased in 2014 Q1 (an NP of 18%). The easing was due to bank competition and improved expectations regarding the overall economic situation. By contrast, increased risks relating to client creditworthiness were a new factor fostering tighter standards. The terms and conditions for approving consumer credit eased thanks to a decline in average interest margins and margins on riskier loans. Household demand for consumer credit rose in a significant part of the market (an NP of 76%). This was due to consolidation of existing loans accompanied in some banks by growth in lending. The higher interest in consumer credit reflected an improvement in consumer confidence and higher spending on durable goods. In 2014 Q2, banks expect credit standards to tighten overall and demand for consumer credit to go up further.

The responses to the **ad hoc question on the interest rate spread on loans to small and medium-sized enterprises and large corporations** reveal that this spread decreased in some banks in 2013, but most banks expect it to be generally stable in 2014.

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)

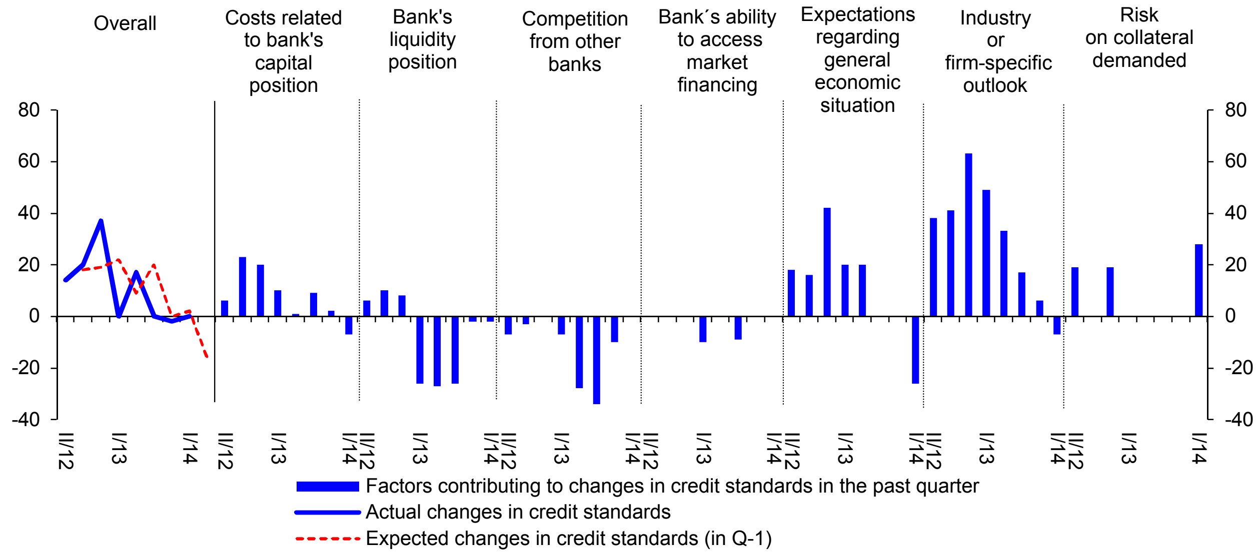


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)
(net percentages, positive value = tightening, negative value = easing)

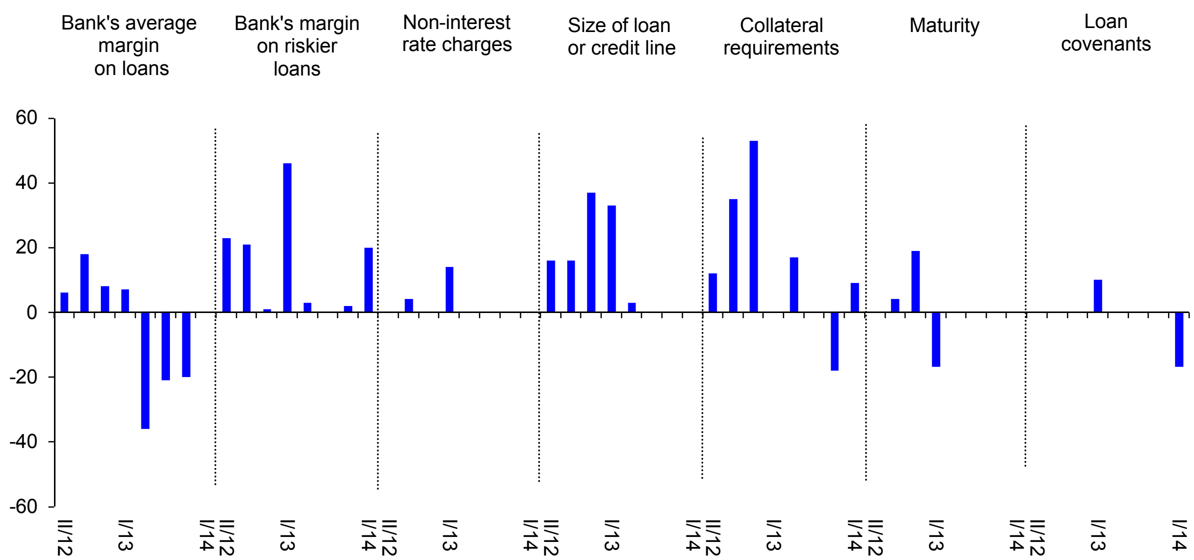
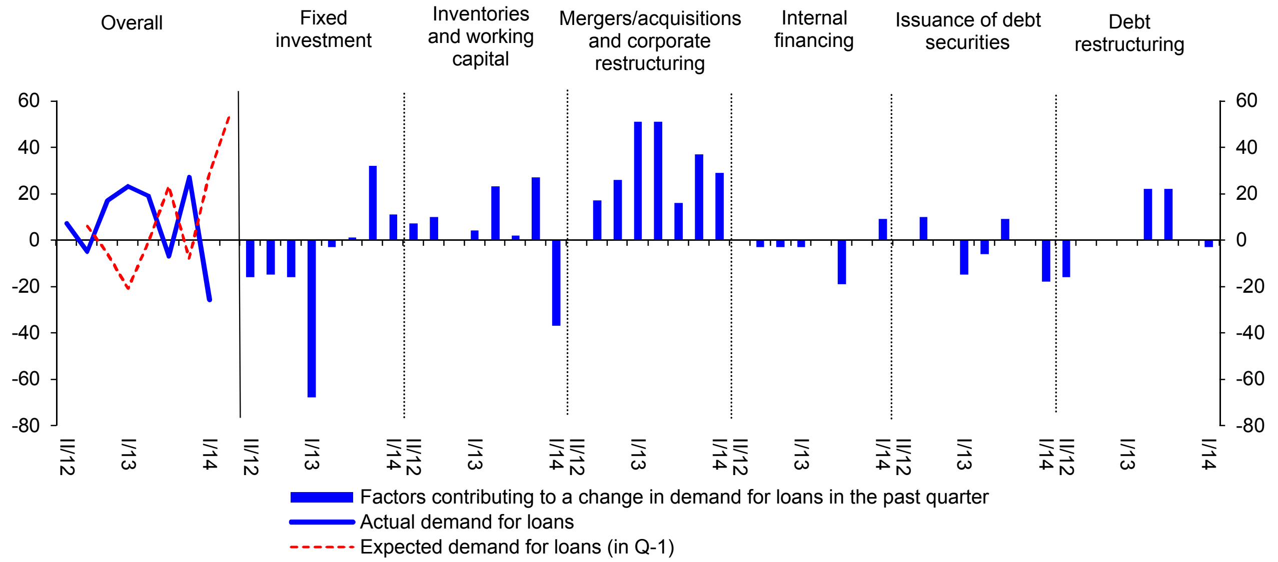


Chart 3 Changes in non-financial corporations' demand for loans ([questions 4, 5 and 7](#))
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

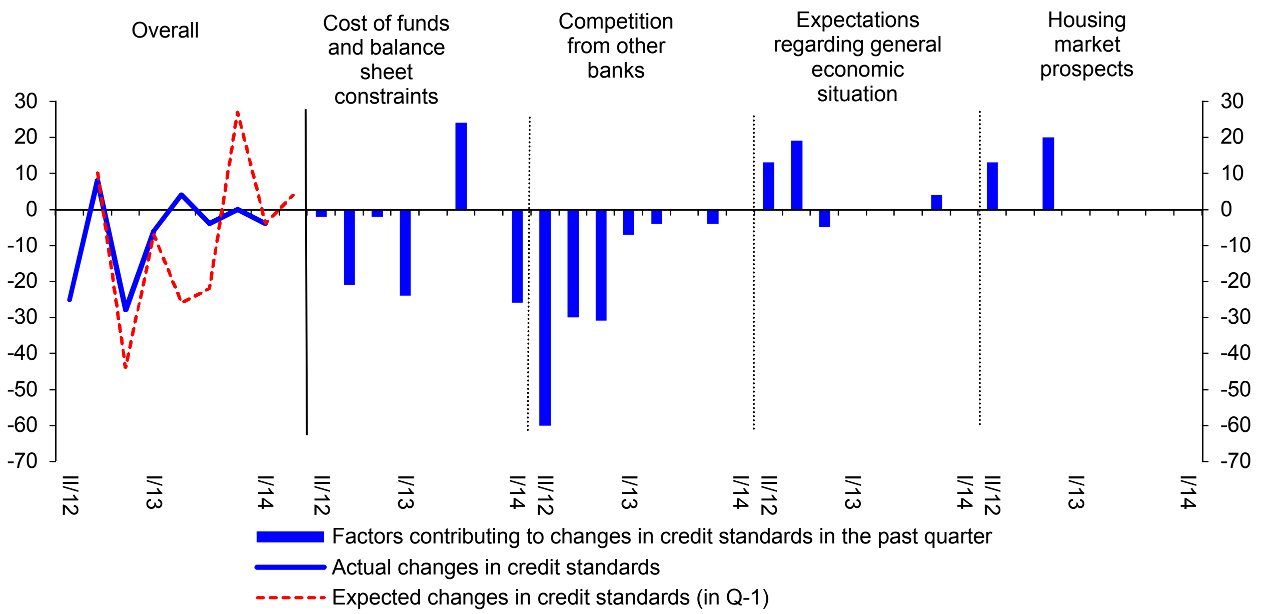


Chart 5 Changes in terms and conditions for approving loans for house purchase ([question 10](#))
(net percentages, positive value = tightening, negative value = easing)

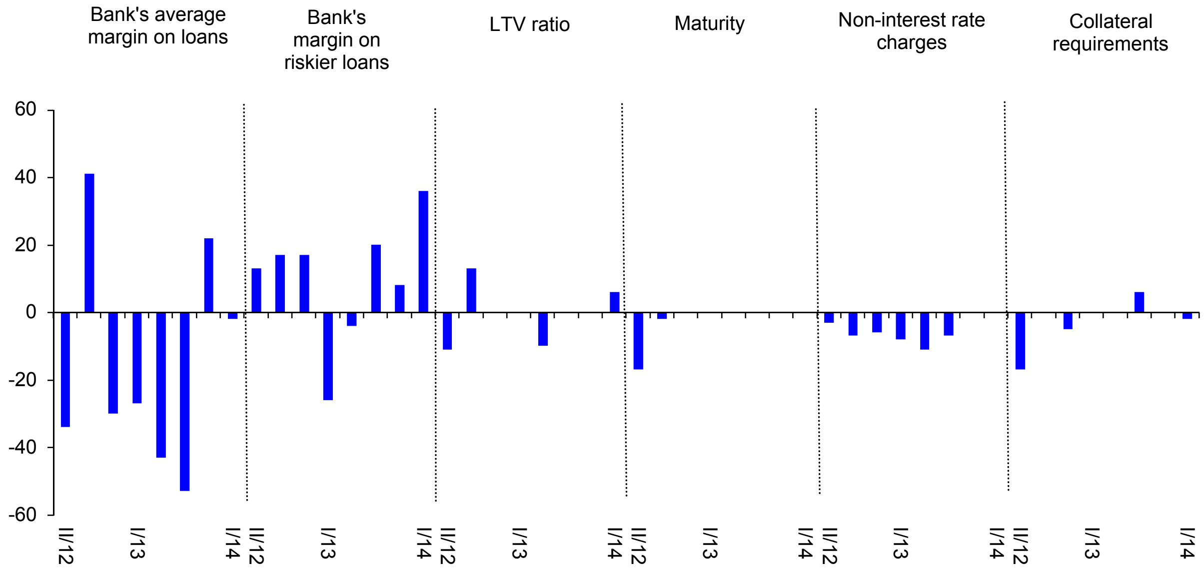
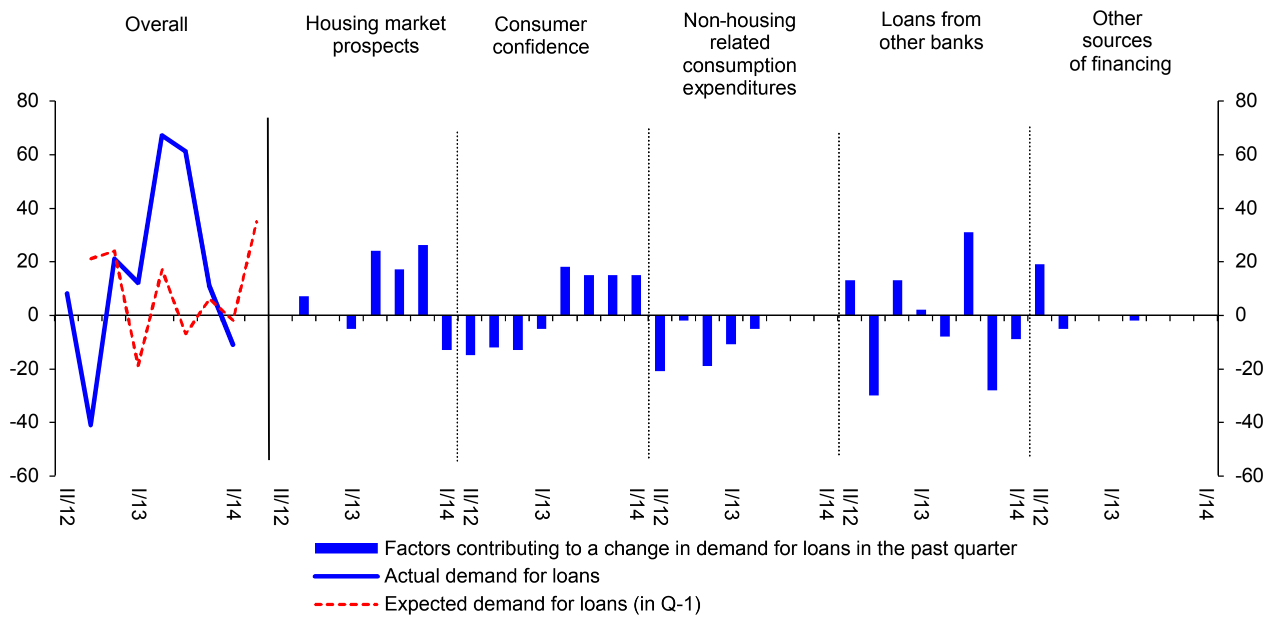


Chart 6 Changes in households' demand for loans for house purchase ([questions 13, 14 and 17](#))
(net percentages, positive value = demand growth, negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR 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)

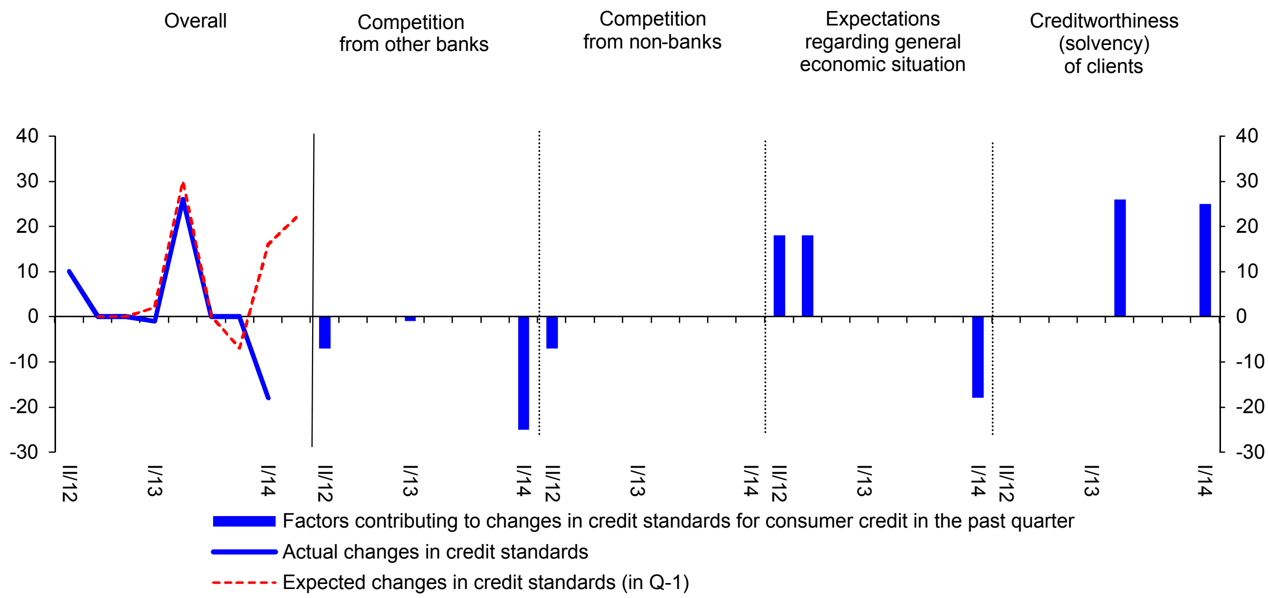


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

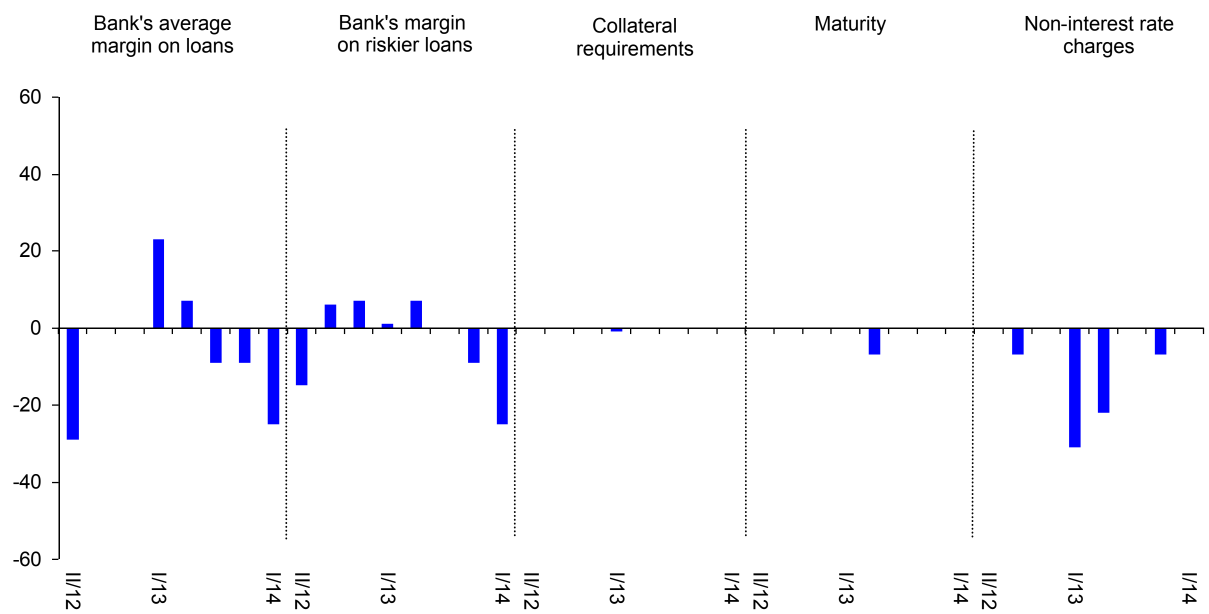


Chart 9 Changes in households' demand for consumer credit ([questions 13, 15 and 17](#))
(net percentages, positive value = demand growth,
negative value = demand decrease)