BANK LENDING SURVEY
JULY

Financial Stability Department

Monetary Department
Monetary Policy and Fiscal Analyses Division

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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 seventeenth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2016 Q2 and their expectations in these areas for 2016 Q3.[1] Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 1 and 14 June 2016.

According to the survey results, in part of the banking market credit standards were relaxed further in the segments of loans to non-financial corporations and consumer credit to households, while credit standards for house purchase loans were almost unchanged, as in the previous period. The easing of standards was fostered by competition, low financing costs, a good liquidity situation of banks and positive perceptions of risks associated with the future overall economic situation. Banks continued to ease credit conditions for approving loans mainly through lower average interest margins. Nevertheless, part of the banking market further tightened the conditions for house purchase loans by reducing the LTV (loan-to-value) ratio and increasing interest margins on riskier loans. Demand for loans rose in all segments of the credit market. Part of the banking market expects credit standards for loans to households for house purchase to tighten and those for corporate loans and consumer credit to ease further in 2016 Q3. According to banks' perceptions, demand for loans will increase further in Q3.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks' credit standards for approving **loans to non-financial corporations** were relaxed further in 2016 Q2 (an NP of 14% of the market; the remainder of the market left standards unchanged). Standards were eased for loans to all corporations in terms of size and for all types of loans in terms of maturity. The easing of standards was fostered by competition, low financing costs, a good liquidity situation of banks and positive perceptions of risks associated with the expected evolution of the overall economic situation. Banks further relaxed credit conditions for approving corporate loans (an NP of 34%). The average interest margins of banks decreased the most. A smaller proportion of the banking market also lowered interest margins on riskier loans and eased non-interest conditions (fees, loan maturity, etc.).

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[1] The survey contained 17 standard and 3 additional questions. The standard questions related to banks' credit standards, terms and conditions for approving loans and demand for loans perceived by banks, including the relevant factors. The additional questions related to loans to non-resident non-financial corporations and the LTI (loan-to-income) ratio for loans to households for house purchase. 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, will be available on the CNB website on Monday, 18 July 2016: (http://www.cnb.cz/en/bank_lending_survey/index.html).

Corporations' demand for loans rose in 2016 Q2 (an NP of 66%, i.e. more broadly than banks had expected in the previous round of the survey). The main factor was demand for fixed investment financing, which increased for an NP of almost 67% in Q2 following a decline at the start of 2016. Part of the banking market also perceived growth in demand for financing of mergers and acquisitions, working capital and corporate and debt restructuring. Growth in demand was still fostered by low interest rates. By contrast, demand for loans was reduced by the use of internal resources of corporations.

In 2016 Q3, part of the banking sector expects credit standards for approving corporate loans to ease further and demand to rise (NPs of 14% and 21% respectively).

II.2 HOUSEHOLDS

Credit standards for **loans for house purchase** were broadly unchanged for the fourth consecutive quarter, or tightened for a very small proportion of the market (an NP of 3%), due mainly to regulatory measures. Conversely, low bank financing costs and competition continued to foster an easing of standards. Credit conditions for approving loans for house purchase were relaxed further overall (an NP of 21%). This reflected a decline in average interest margins. On the other hand, part of the banking market further tightened credit conditions by lowering the LTV ratio for new loans and increasing interest margins on riskier loans. As regards the LTI (loan-to-income) ratio, banks' requirements were unchanged in 2016 Q2.

Household demand for loans for house purchase continued to rise across the board in 2016 Q2 (an NP of 67%). Its growth again exceeded what banks had expected in 2016 Q1. Demand was positively affected by low interest rates, the prospects for the residential property market and improved consumer confidence accompanied by a favourable labour market situation.

In 2016 Q3, part of the banking market expects credit standards for house purchase loans to tighten (an NP of 22%), due mainly to the entry into effect of a new consumer credit act. According to banks' perceptions, demand for loans will rise quite broadly (an NP of 52% of the market).

Credit standards for **consumer credit** to households were relaxed in 2016 Q2 (an NP of 7%). The easing of standards was fostered by favourable perceptions of risks associated with the expected evolution of the overall economic situation and the creditworthiness of clients and also by competition. Banks also eased the total credit conditions (an NP of 33%). Household demand for consumer credit rose further in 2016 Q2 (an NP of 49%). Demand was positively affected by an increase in the consumer expenditure of households, improved consumer confidence and a decline in interest rates in this credit market segment.

Banks expect similar trends for credit standards for consumer credit as before and a further increase in demand in 2016 Q3.

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that part of the banking market eased credit standards in this segment in 2016 Q2. According to banks' perceptions, demand for these loans was 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 percentages, positive value = tightening, negative value = easing)

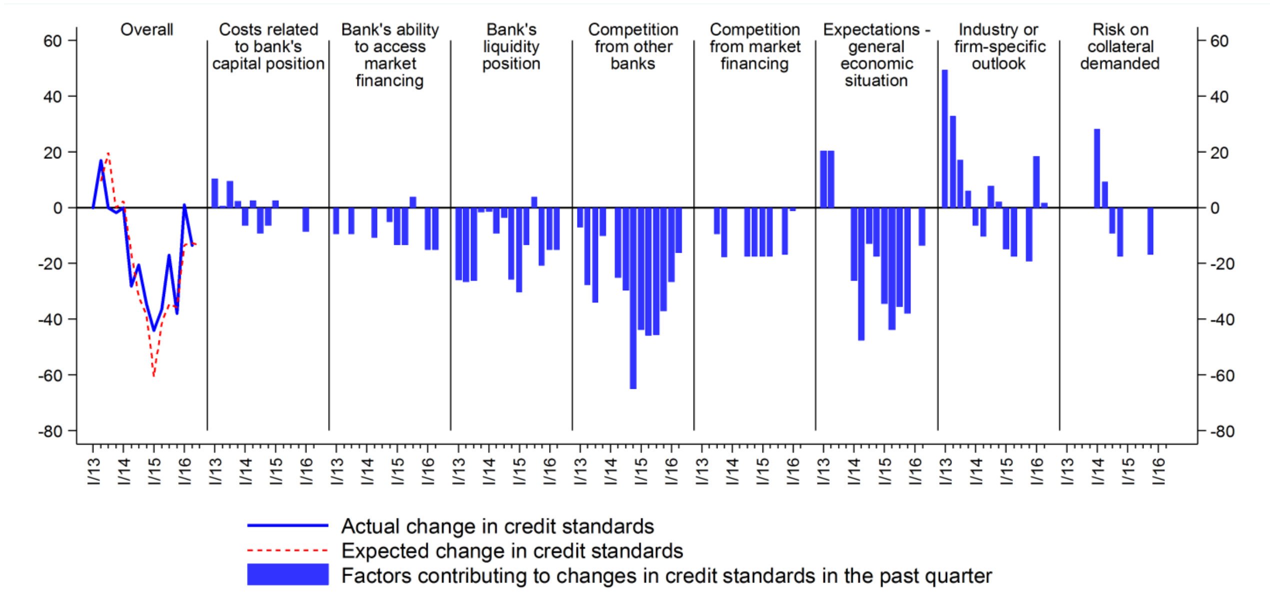
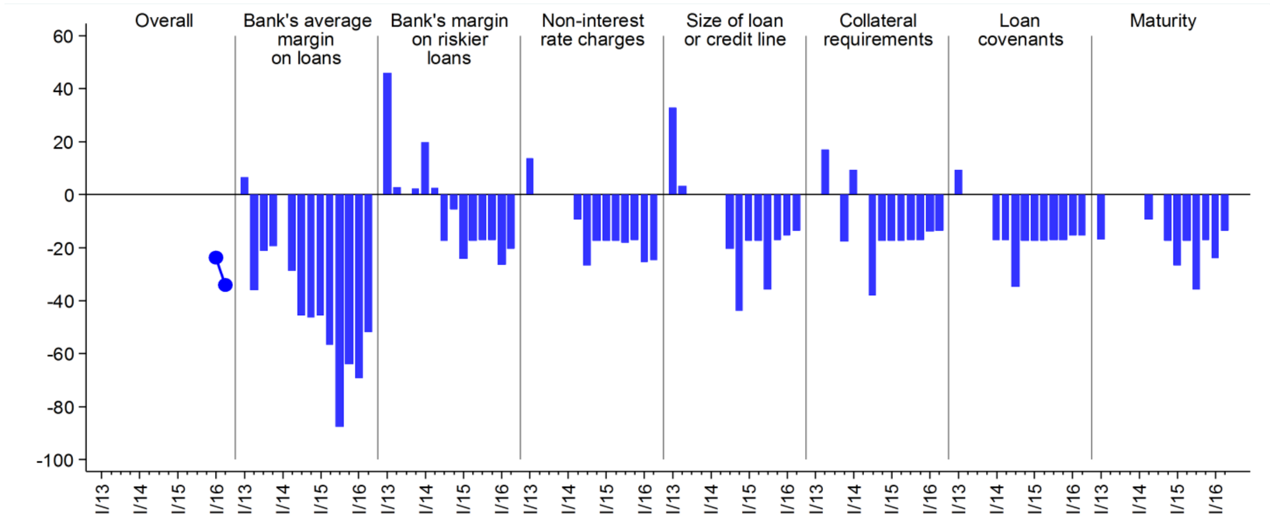
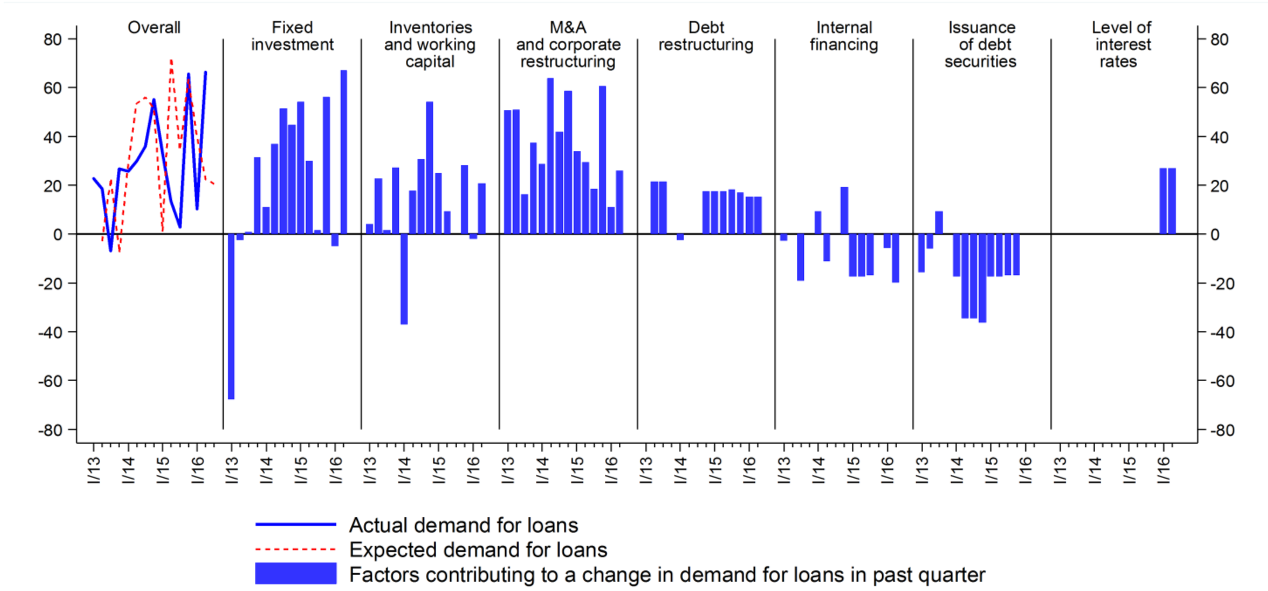


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)
(net percentages, positive value = tightening, negative value = easing)



Note: Banks have been asked about the change in total credit conditions since 2016 Q1.

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)

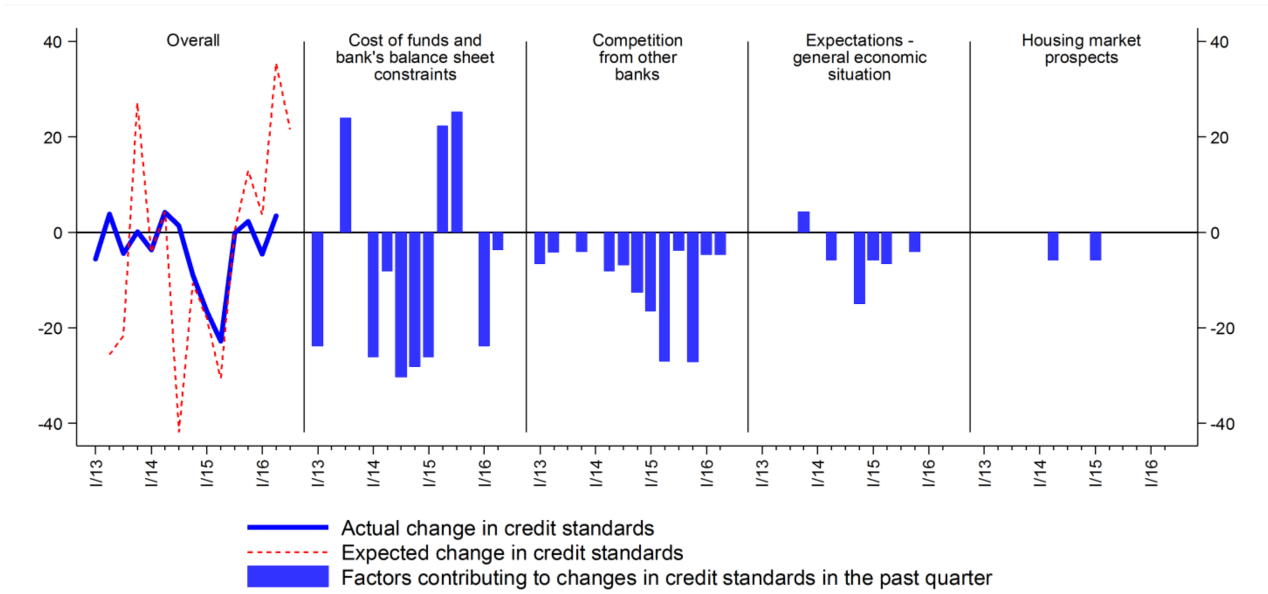
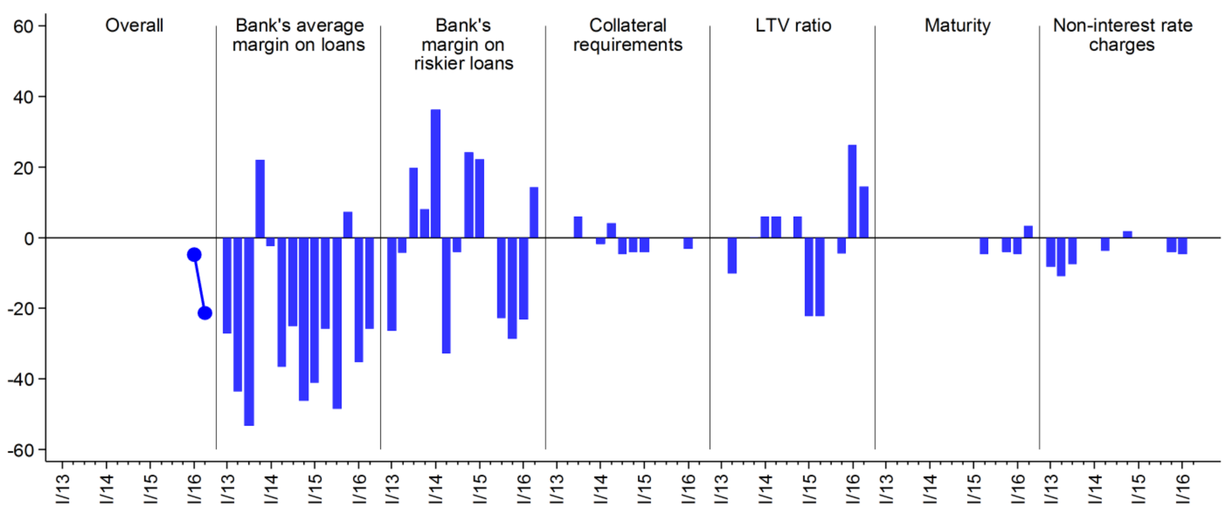
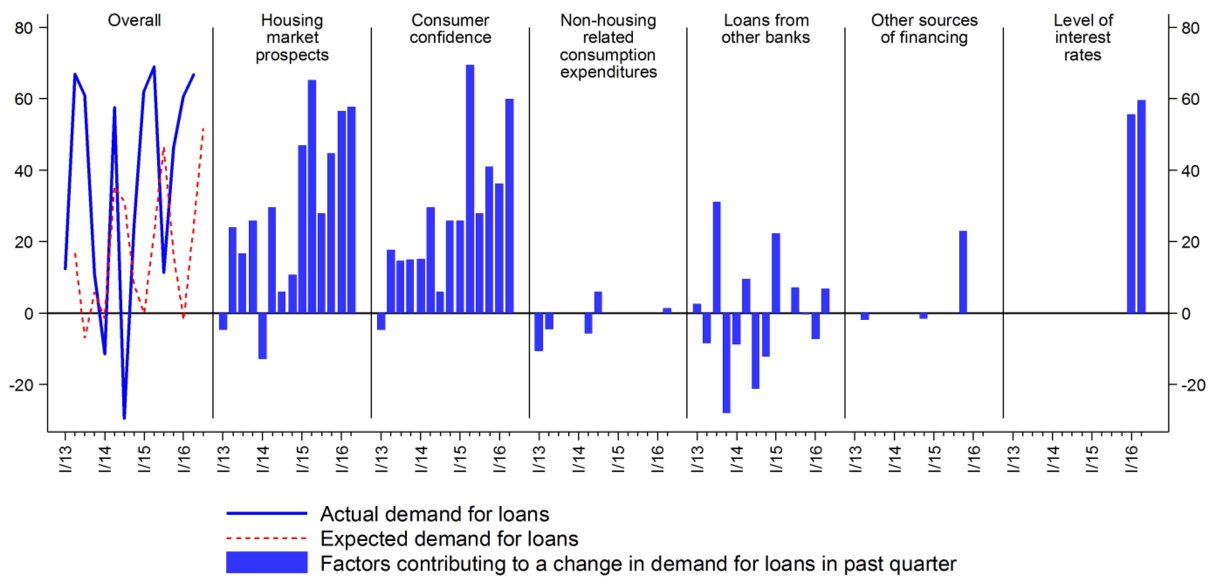


Chart 5 Changes in terms and conditions for approving loans for house purchase ([question 10](#))
(net percentages, positive value = tightening, negative value = easing)



Note: Banks have been asked about the change in total credit conditions since 2016 Q1.

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)

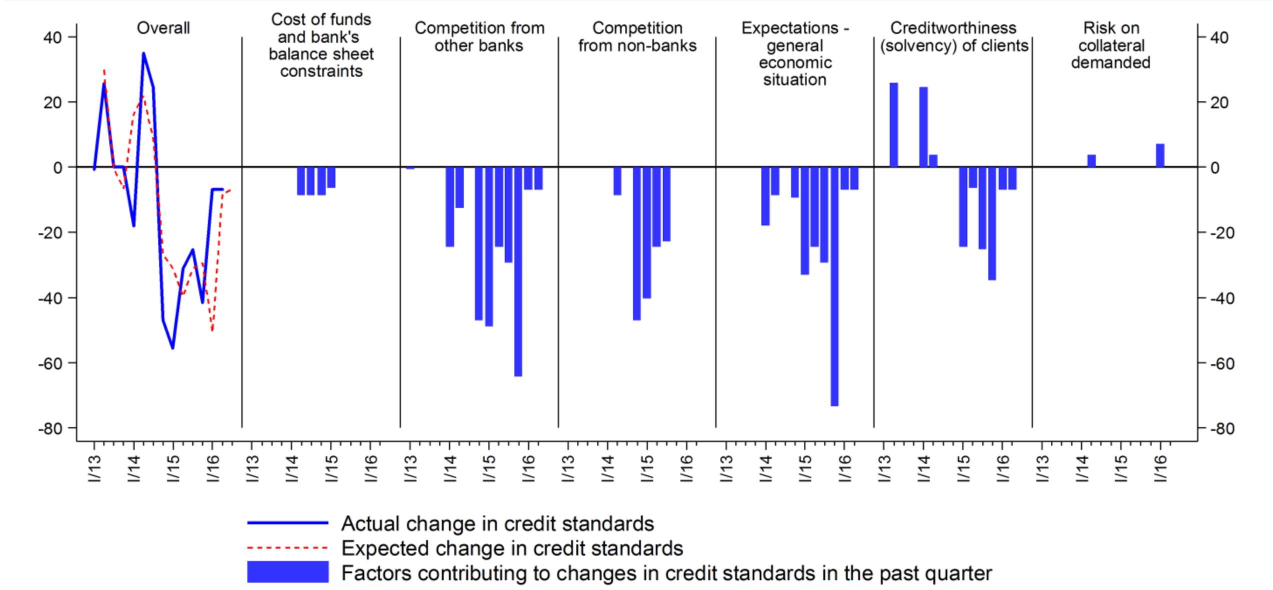
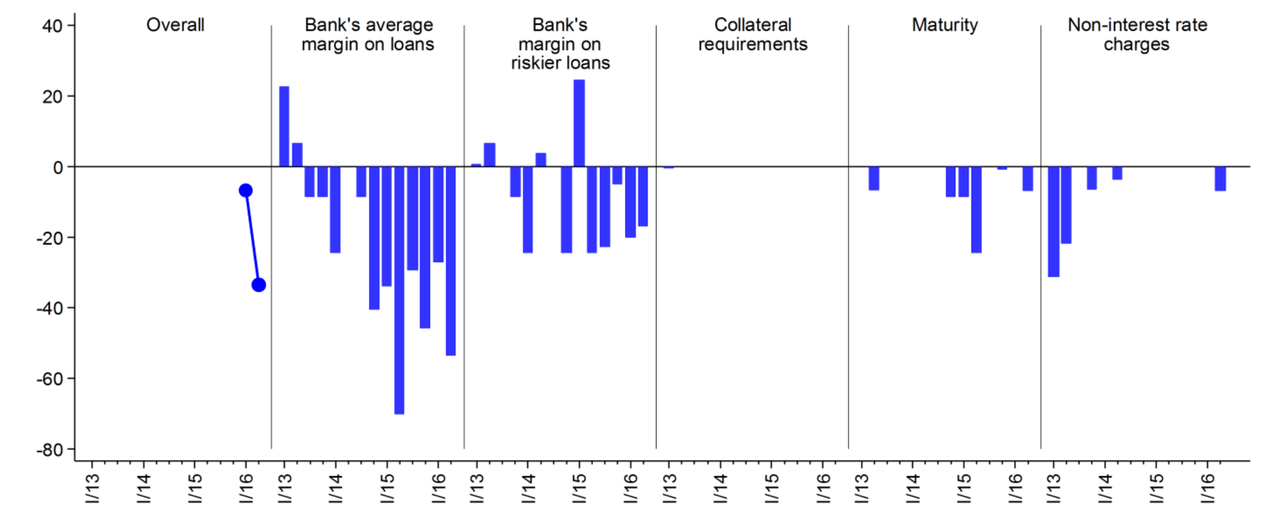


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)



Note: Banks have been asked about the change in total credit conditions since 2016 Q1.

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