Bank Lending Survey

III/2020

Czech National Bank —— Bank Lending Survey —— III/2020

CZECH NATIONAL BANK

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Introduction

The Bank Lending Survey captures banks' opinions regarding the change in supply and demand for loans to non-financial corporations and households. This issue summarises the results of the thirty-third round of the survey, i.e. banks' views on the evolution of credit conditions in 2020 Q2 and their expectations in these areas for 2020 Q3. The survey was conducted between 25 May and 9 June 2020. Twenty-one banks, accounting for a major share of the bank credit market, participated in the survey.[1] The CNB's Bank Lending Survey is performed by a team made up of representatives of the Financial Stability Department and the Monetary 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, are available on the CNB website:

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

I. SUMMARY

In 2020 Q2, banks perceived markedly increased risks linked with the disruption to economic activity caused by the coronavirus pandemic, to which they responded by tightening credit standards across all credit market segments. The latest survey results revealed that banks tightened credit standards for ***loans to non-financial corporations*** *across the board and about a half of the market also tightened lending conditions. Non-financial corporations' demand for loans decreased in part of the banking market, due mainly to a decline in demand for financing fixed investment. However, banks perceived an increased need for operational funding of corporations. The increased perceptions of risks regarding the overall economic situation were also reflected in a tightening of credit standards and lending conditions for* ***loans to households for house purchase*** *by most banks. Around half of the banking market indicated a decline in demand for loans in this segment.* ***Loans to households for consumption*** *recorded a nearly across-the-board tightening of credit standards and lending conditions. Demand for loans fell across the board in this segment due mainly to a decrease in consumer confidence. The banking market is indicating across the board an increase in expected credit losses in all segments of the credit market for 2020 Q3.*

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks tightened **credit standards for loans to non-financial corporations** across the board in 2020 Q2. The tightening of standards was largely due to increased perceptions of risks linked with the disruption of economic activity caused by the coronavirus pandemic. In particular, banks perceived increased risks associated with expectations regarding the general economic situation and the prospects for individual sectors. The tightening of credit standards affected all the categories monitored – small and medium-sized enterprises (SMEs), large corporations, and also short-term and long-term loans. About one-third of the banking market expects credit standards to tighten further in Q3. The lending conditions (representing the arrangements between the lender and the borrower in specific loan agreements) were also tightened for around half of the banking market in Q2. This mainly reflected tighter conditions applying to collateral requirements together with a decrease in the size of loans and credit lines. Banks' responses in the form of change in the interest margin, due among other things to a currently observed or expected increased cost of risk, was mixed. Overall, banks increased average margins mainly for SMEs (an NP of 26%).

Corporations' demand for loans decreased in Q2 (an NP of 34%), due mainly to subdued fixed investment and also to mergers and acquisitions and corporate restructuring. However, banks perceived an increased need for operational funding of corporations. Overall, banks expect demand to decline in 2020 Q3 (an NP of 24%). Some banks indicated an expected decline in demand for large corporations and an increase for SMEs (NPs of 27% and 16% respectively). Banks indicated an expected increase in demand for short-term loans (an NP of 42%) and again a decline in demand for long-term loans (an NP of 25%).

II.2 HOUSEHOLDS

Most of the banking market tightened **credit standards for loans for house purchase** in 2020 Q2 (an NP of 72%). The tightening of standards was fundamentally affected by perceptions of increased risks associated with the expected outlook for the general economic situation and, to a lesser extent, the housing market prospects. Conversely, in part of the market (an NP of 32%) there was a reduction in banks' cost of funds due to a decline in long-term financial market interest rates. Some banks indicated a tightening of the overall credit standards (an NP of 66%). Part of the banking market recorded an increase in interest margins and a tightening of collateral requirements, the LTV ratio and recognition of income. The DTI and DSTI ratios acted in the opposite direction. In both categories of limits (LTV and DTI/DSTI), the market's approach was not unified. **Households' demand for loans for house purchase** fell in 2020 Q2 (an NP of 50%). This was due mainly to adverse consumer confidence and negative expectations regarding the economic impacts of the pandemic. This negative outlook was partly offset by favourable interest rates on house purchase loans and also, in part of the banking market, perceived better housing market prospects. About a quarter of the banking market expects credit standards to tighten further in 2020 Q3 and about half of the market expects demand for house purchase loans to decrease.

Most of the banking market tightened the **credit standards for loans for consumption** in Q2. Banks also tightened the overall lending conditions to a similar extent. Part of the market increased interest margins (an NP of 27%), and, at the same time, banks cautiously assessed the nature of loan applicants' income and the riskiness of their employers. Almost all banks indicated a fall in demand for consumer credit, stating that this was due to a decline in consumer confidence and willingness to purchase durable consumer goods. By contrast, a smaller proportion of the banking market expects demand for loans to increase in 2020 Q3 amid a tightening of credit standards.

Credit standards in the **loans to sole proprietors** segment tightened across the board in Q2, with a smaller proportion of the banking market also expecting a tightening in the period ahead. Sole proprietors' demand for loans decreased across the board and a smaller part of the market (an NP of 25%) was expecting demand to fall in the next quarter as well.

Replies to **additional questions** regarding **loans to non-resident non-financial corporations** showed that credit standards were tightened in Q2 (an NP of 79%) and demand for loans decreased (an NP of 55%). This broadly mirrors developments in the segment of loans to resident non-financial corporations.

Additional questions on **banks' expected credit losses** indicated that almost the entire banking market was expecting the credit loss rate to increase in all segments of the credit market in 2020 Q3.

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)

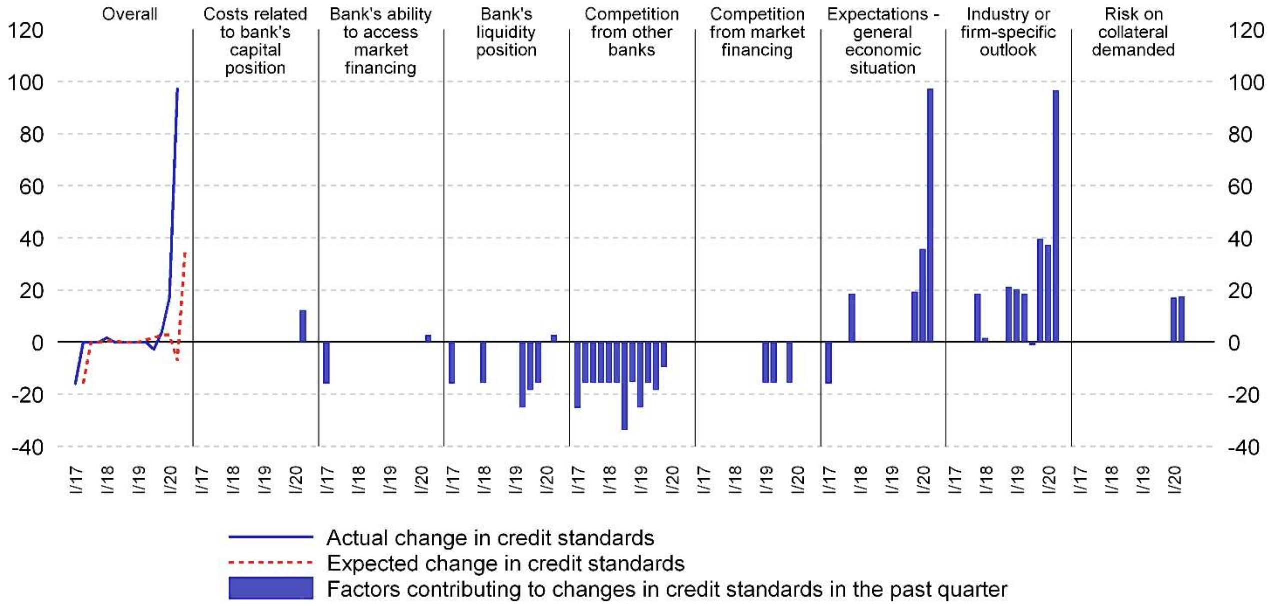


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)

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

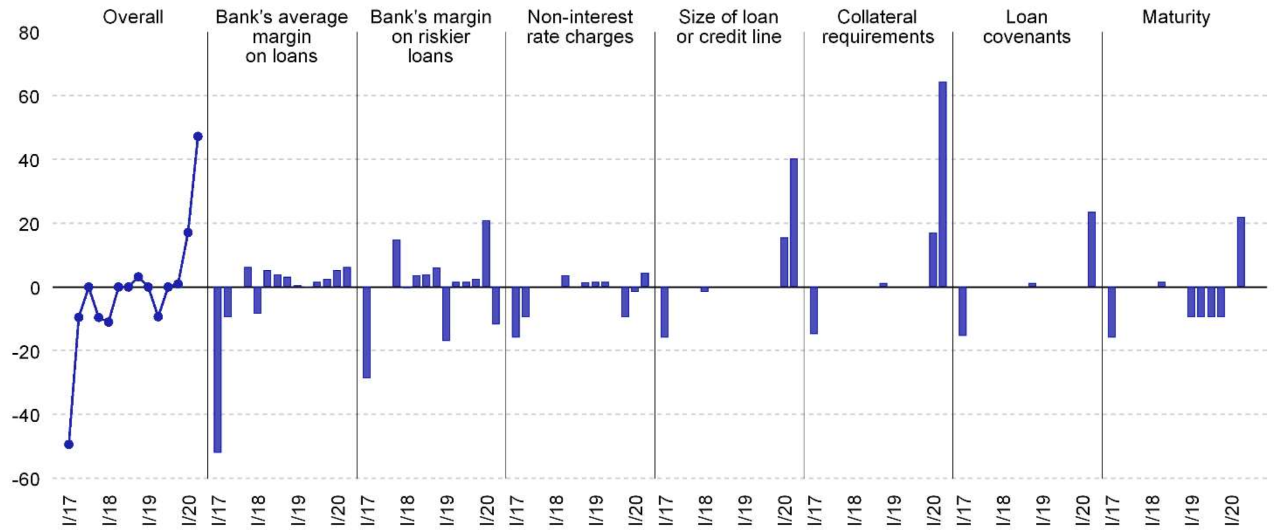


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)

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

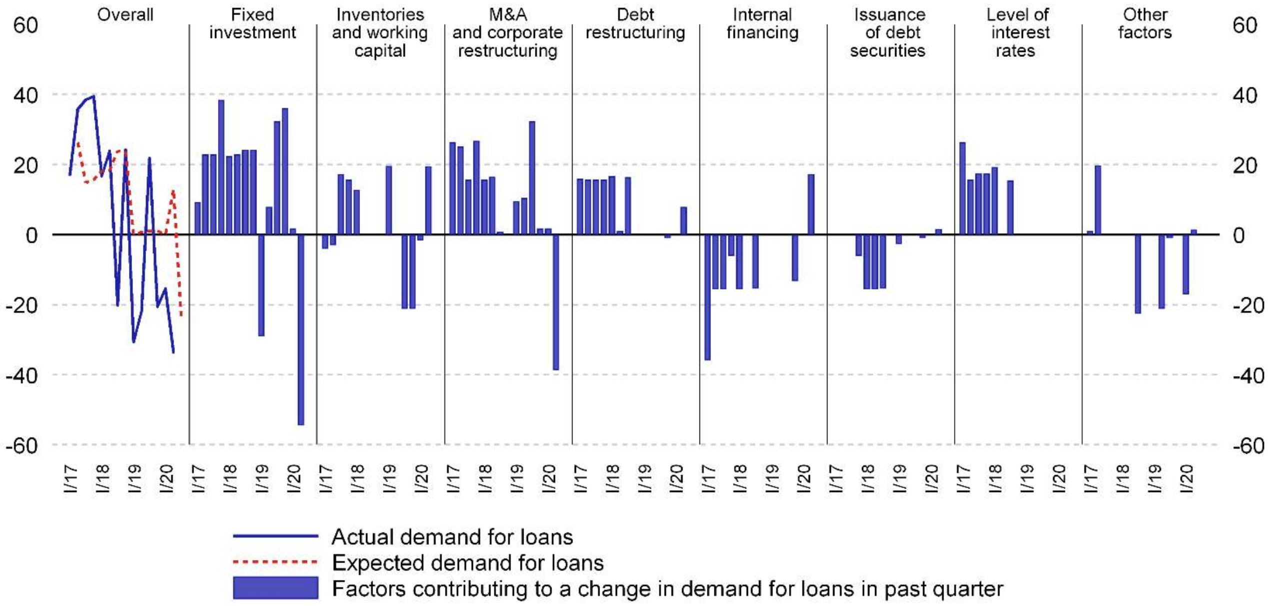


Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)

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

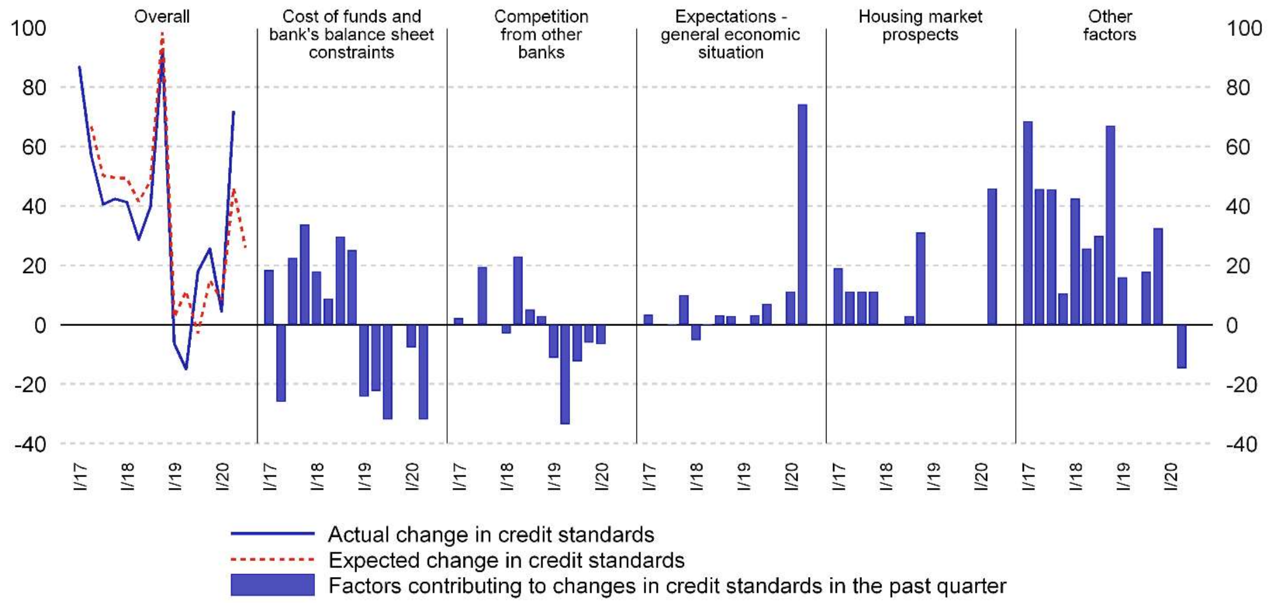


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)

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

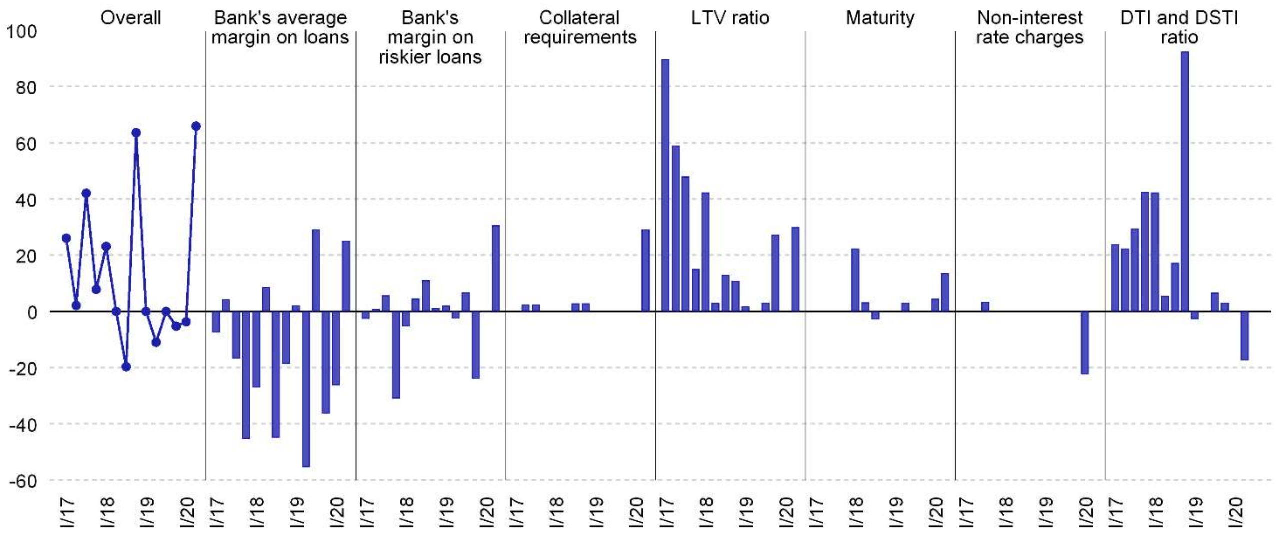


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)

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

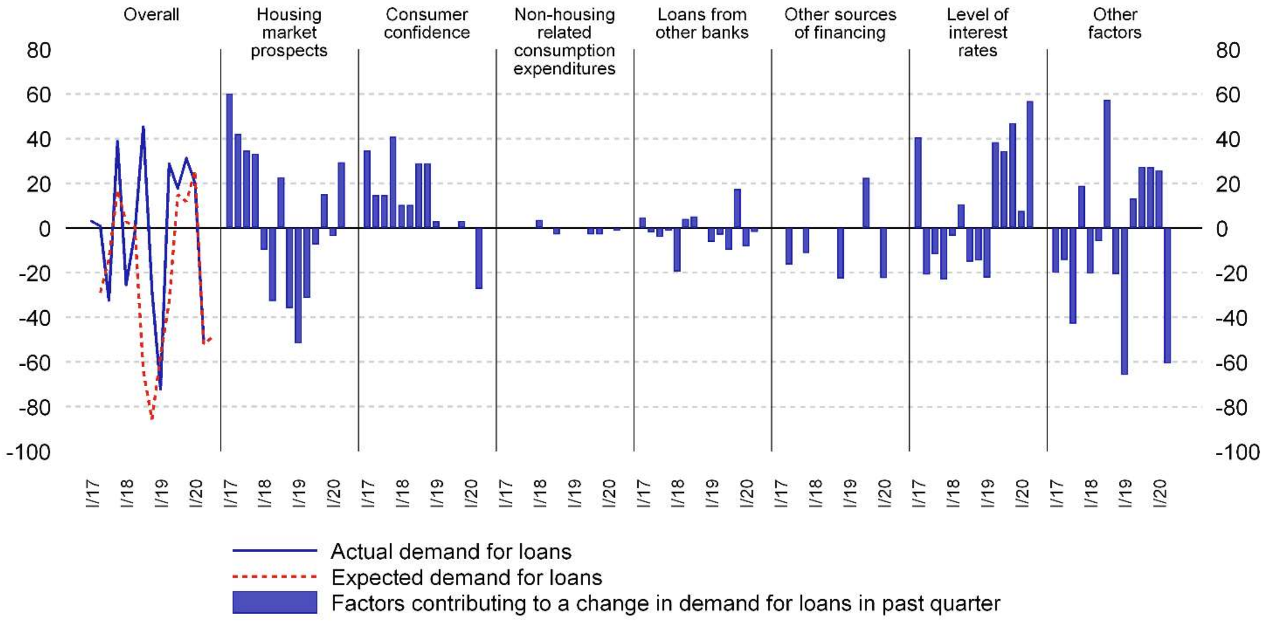


Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)

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

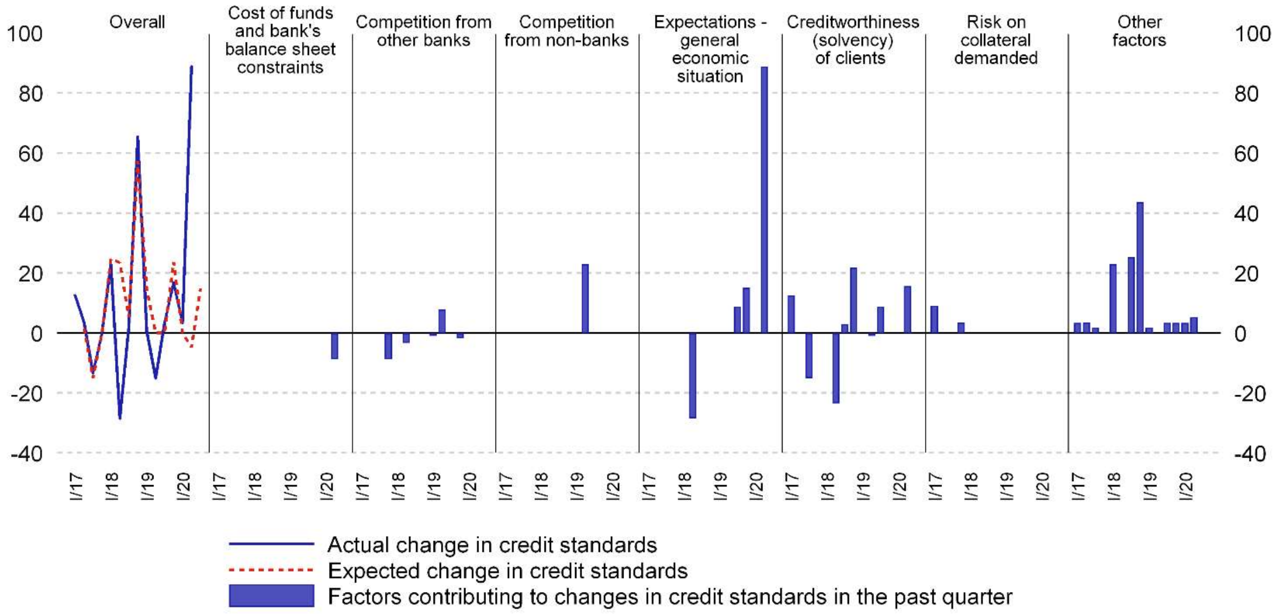


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)

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

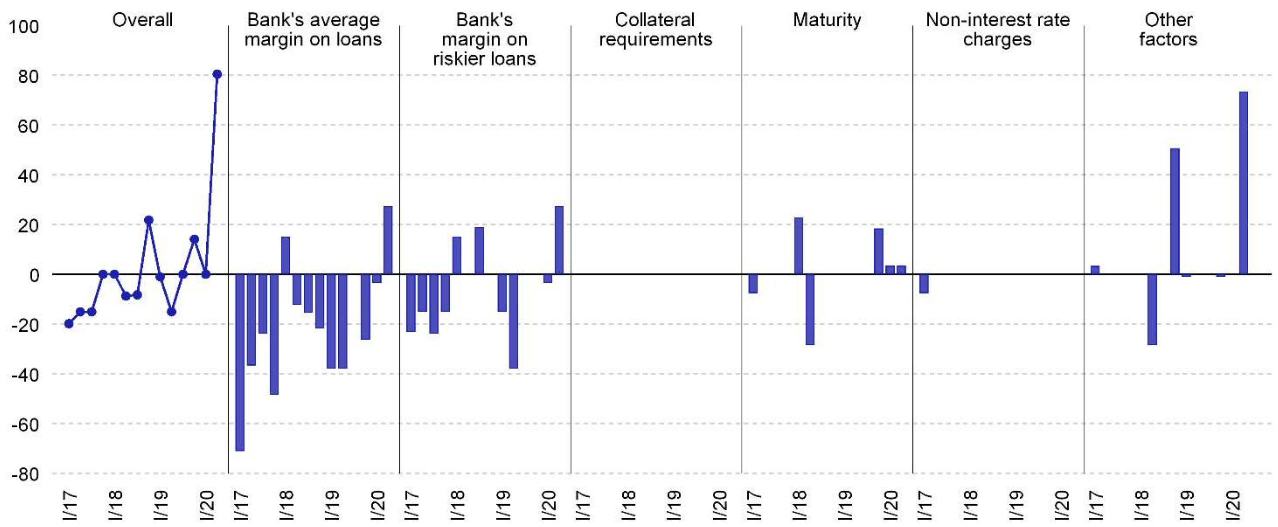
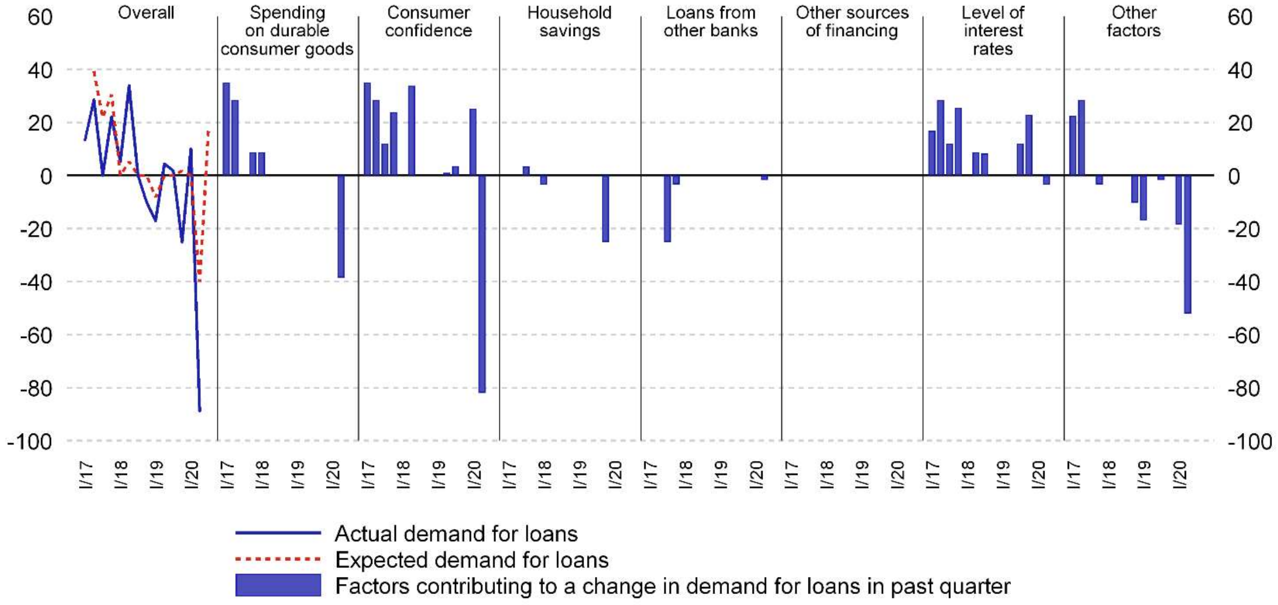


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)

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



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