BANK LENDING SURVEY
JULY

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Financial Stability Department

Monetary and Statistics Department
Monetary Policy and Fiscal Analyses Division

CZECH NATIONAL BANK

I. INTRODUCTION AND SUMMARY

The new quarterly CNB survey of credit terms and conditions (Bank Lending Survey) captures banks' perceptions about credit standards, terms and conditions for approving loans, and non-financial corporations' and households' demand for loans including the main underlying factors.

The first round of the survey, the results of which are summarised in this document, covers the evolution of the above aspects of the credit market from banks' perspective in 2012 Q2 and banks' expectations in these areas for 2012 Q3. The first round was conducted at the end of June. Eighteen banks, accounting for more than 90% of the bank credit market, took part in the survey.[1]

In general, the survey reveals that in 2012 Q2 banks tightened credit standards overall for corporate loans and consumer credit, while easing them for loans for house purchase.[2] *As regards corporate loans, the tightening of standards was due mainly to perceptions of the risks relating to the outlooks for some industries, and in the case of consumer credit it was linked to expected general economic activity. The easing of standards applied to loans for house purchase was due to stronger competition from other banks. In aggregate terms, demand for loans increased in all segments. In 2012 Q3, banks expect credit standards to tighten for corporate loans and loans for house purchase. According to banks, demand for corporate loans will increase (although not across the board), demand for loans for house purchase will rise, and demand for consumer credit will decrease.*

II. DEVELOPMENTS IN CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

On the supply side, credit standards applied to loans to non-financial corporations recorded a tightening overall in Q2, with 14% of the credit market heading in that direction (see Chart 1). Banks tightened their credit conditions for loans to large enterprises (NP 14%), whereas loans to small and medium-sized enterprises recorded an easing (NP -4%). A tightening was reported for both short-term and long-term loans (NP 14% and 18% respectively). This was due to perceptions of the risks relating to the outlook for some industries and corporations (NP 38%) and general economic activity (NP 18%). The tightening also reflected risks relating to collateral (NP 19%) and, to a lesser extent, costs associated with banks' capital position and liquidity position (NP 6% for each factor). Competition from other banks fostered an easing of standards (NP -7%). Turning to the terms and conditions for approving corporate loans, there was an increase in margins on riskier loans (NP 23%, see Chart 2).

[1] Four large banks, three medium-sized banks, three small banks, three foreign bank branches and five building societies took part in the survey. The questionnaire contained 17 standard questions. 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).

[2] In the text and charts of this publication, 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 percentage share of loans provided by banks reporting that standards/conditions have been tightened (or demand increased) and the percentage share of loans provided by banks reporting that standards/conditions have been eased (or demand decreased). The individual responses are thus weighted by the volumes of loans of a given type. A positive (negative) net percentage indicates an overall tightening (easing) of standards/conditions or an overall increase (decrease) in demand.

Demand for corporate loans increased overall (NP 7%, see Chart 3). Higher demand was recorded for both large and smaller enterprises (NP 10% and 7% respectively) and for short-term loans (NP 16%), while demand for long-term loans was unchanged. This was a result of financing of inventories and working capital (NP 7%) and of increased demand from clients taking loans from other banks (NP 28%). By contrast, demand for loans to finance fixed investment (NP -16%) and debt restructuring (NP -16%) decreased.

According to banks' expectations, about 18% of the credit market expects a further tightening of standards in Q3 – both for loans to large enterprises (NP 18%) and now also for loans to small and medium-sized enterprises (NP 16%). Standards will be tightened on both short-term and long-term loans (NP 18% and 20% respectively). As in the previous quarter, banks expect demand for loans to increase overall, although not across the board (NP 6%), but demand for long-term loans will decrease (NP -31%).

II.2 HOUSEHOLDS

On the supply side, credit standards applied to **loans for house purchase** eased overall in 2012 Q2 (NP -25%, see Chart 4). Increased competition from other banks was the main factor behind the easing (NP -60%). On the other hand, part of the credit market perceived an increased risk relating to expected economic activity and housing market prospects, which fostered a tightening of credit standards (NP 13% for each factor). Turning to the terms and conditions for approving loans, the average margin on loans for house purchase decreased (NP -34%), while the margin on riskier loans increased (13%, see Chart 5). An easier approach was also recorded for collateral requirements, the LTV ratio, maturity, and non-interest rate charges and other conditions.

Demand for loans for house purchase increased in 8% of the credit market in 2012 Q2 (see Chart 6). This was mainly due to migration of clients from other banks (NP 13%) and a fall in other sources of financing (NP 19%). By contrast, weaker consumer confidence and higher non-housing related consumption expenditure by households acted in the opposite direction (NP -15% and -21% respectively). Banks expect a tightening of credit standards in 2012 Q3 (NP 10%) amid higher demand for loans for house purchase (NP 21%).

Credit standards applied to **consumer credit** tightened in 2012 Q2 (NP 10%, see Chart 7) owing to perceptions of higher risk relating to expected general economic activity (NP 18%), which was weakened by higher competition from other banks and non-banks (NP -7% for both factors). The terms and conditions for approving loans eased. The average margin and the margin on riskier loans both decreased (NP -29% and -15% respectively, see Chart 8).

The perceived demand for consumer credit increased (NP 26%), thanks primarily to migration of clients from other banks and higher spending on durable consumer goods (see Chart 9). By contrast, demand was reduced by weaker consumer confidence (NP -22%). For 2012 Q3, banks expect credit standards applied to consumer credit to remain unchanged and demand for such credit to fall (NP -29%).

SUPPLY AND DEMAND CONDITIONS FOR LOANS TO NON-FINANCIAL CORPORATIONS

Chart 1 Changes in credit standards applied to loans to non-financial corporations
(net percentage, positive value = tightening, negative value = easing)

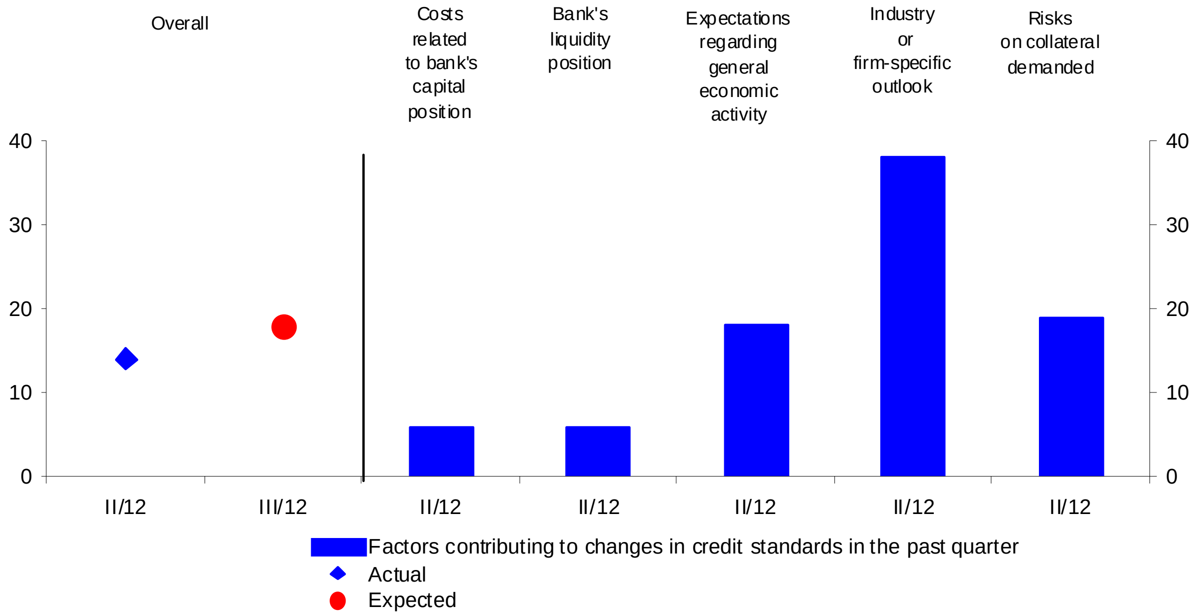


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(net percentage, positive value = tightening, negative value = easing)

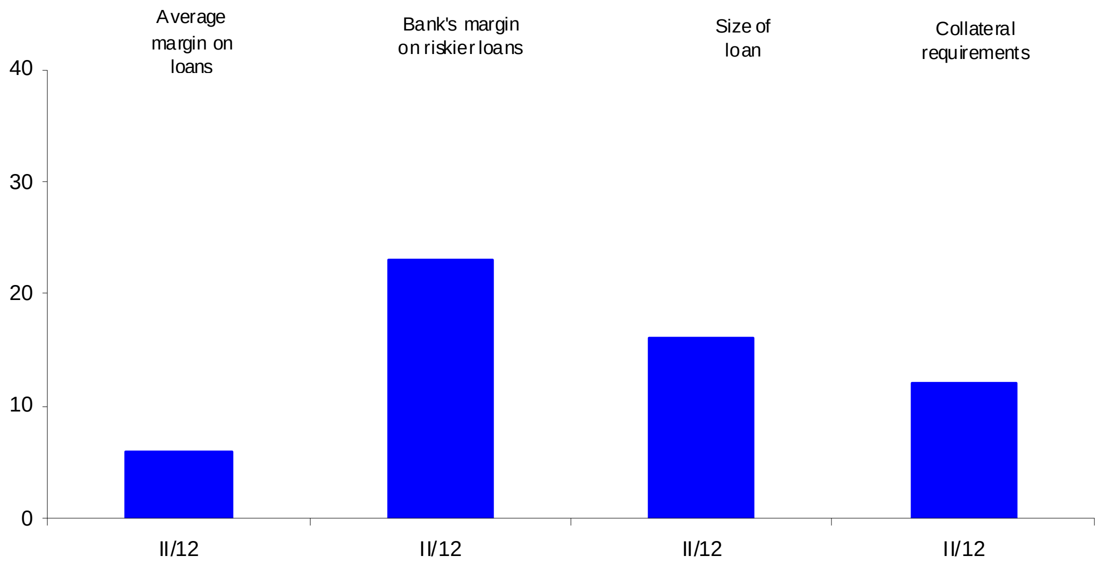
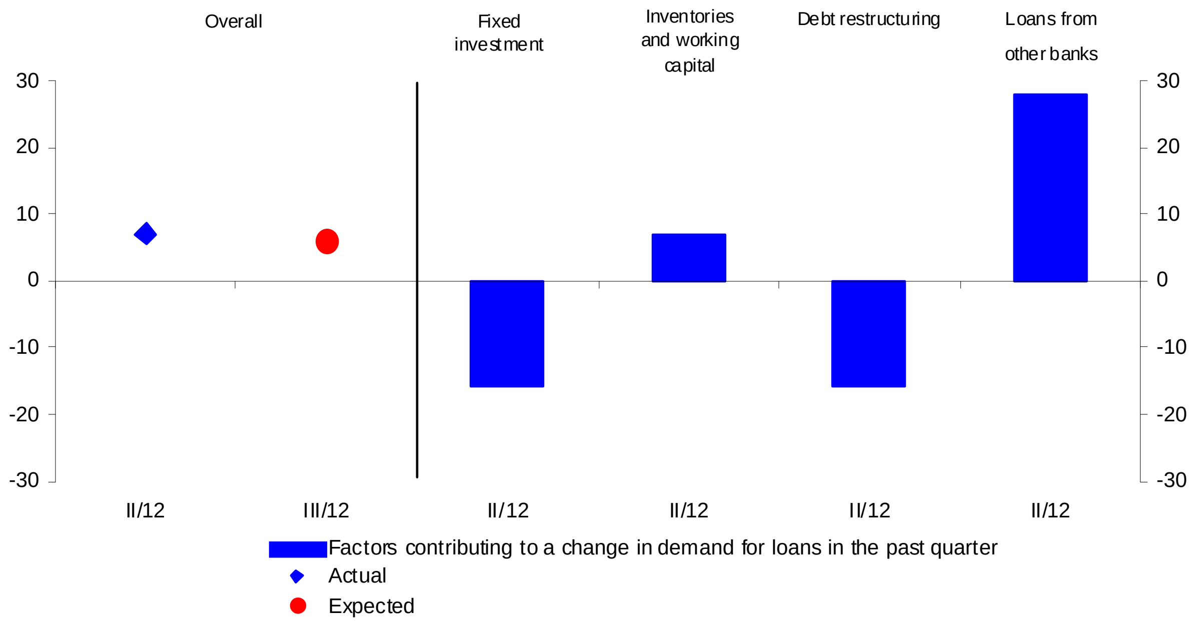


Chart 3 Changes in non-financial corporations' demand for loans
(net percentage, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR LOANS FOR HOUSE PURCHASE

Chart 4 Changes in credit standards applied to loans for house purchase
(net percentage, positive value = tightening, negative value = easing)

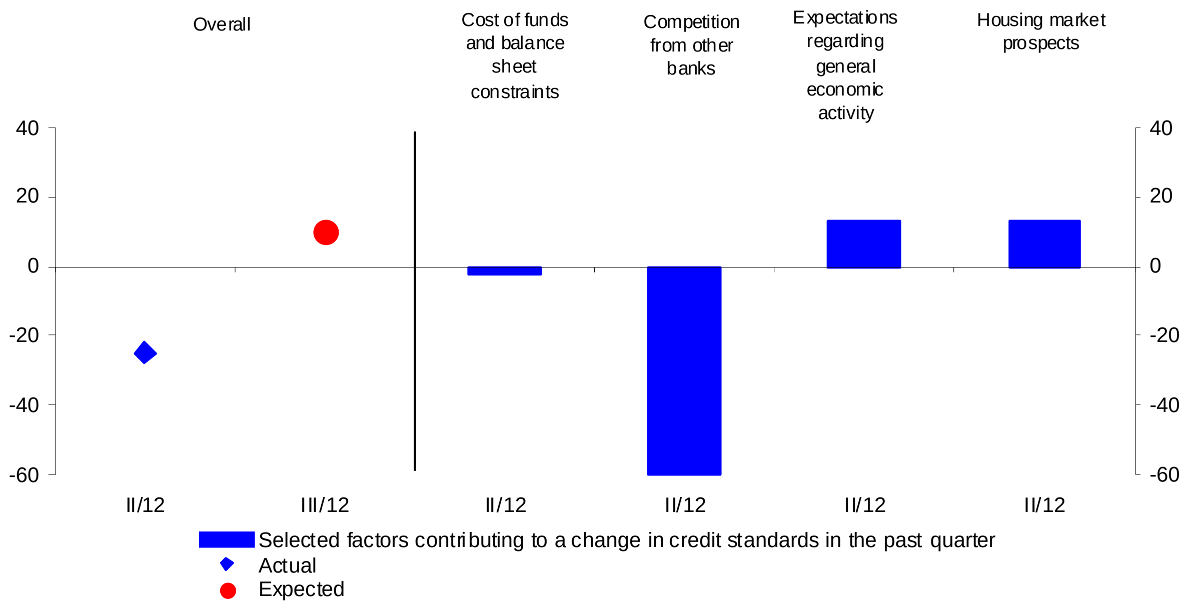


Chart 5 Changes in terms and conditions for approving loans for house purchase
(net percentage, positive value = tightening, negative value = easing)

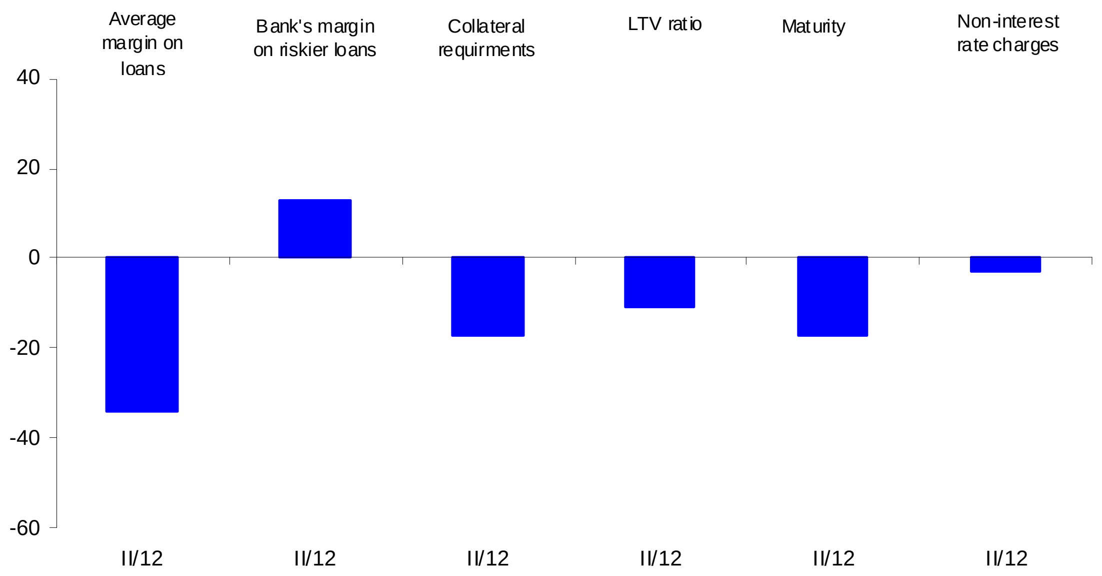
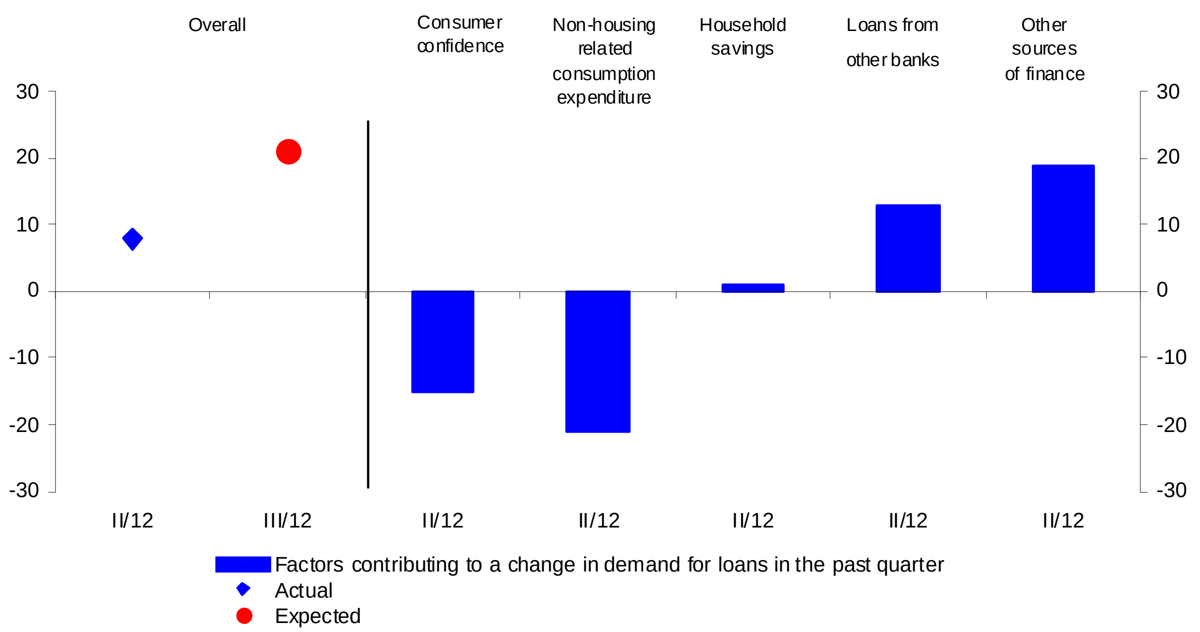


Chart 6 Changes in households' demand for loans for house purchase
(net percentage, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR CONSUMER CREDIT

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

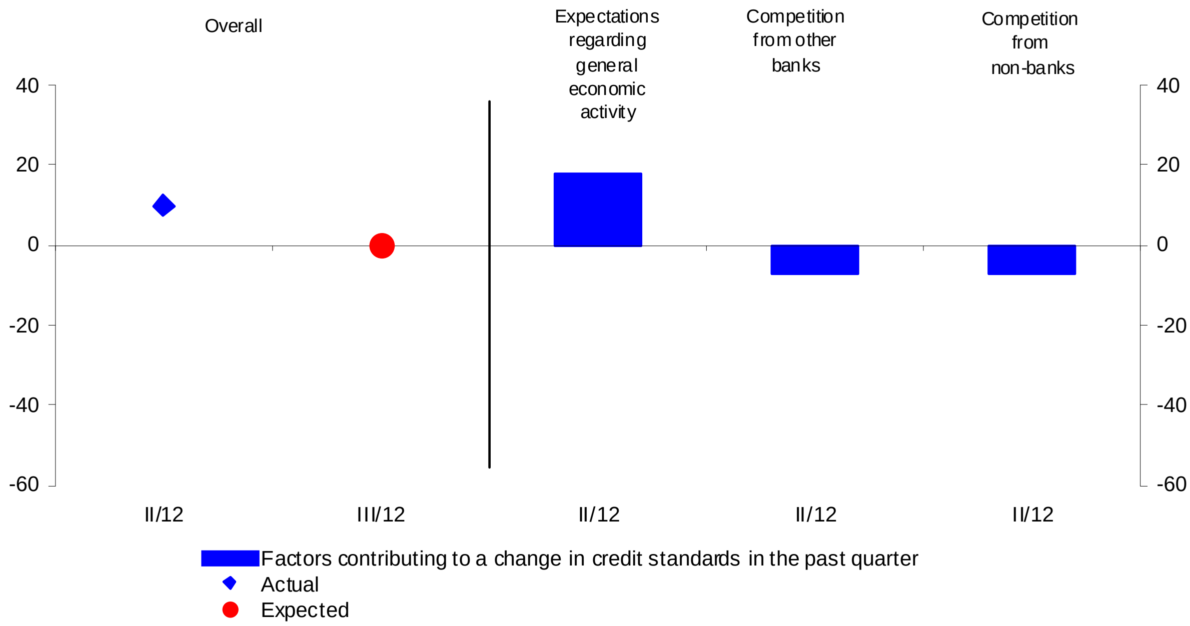


Chart 8 Changes in terms and conditions for approving consumer credit
(net percentage, positive value = tightening, negative value = easing)

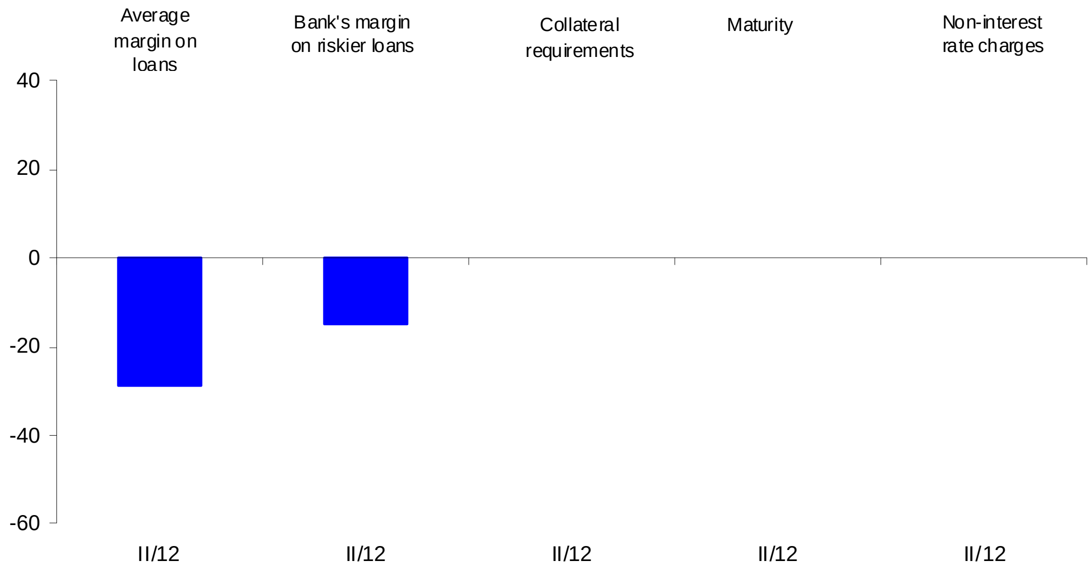


Chart 9 Changes in households' demand for consumer credit
(net percentage, positive value = demand growth,
negative value = demand decrease)