BANK LENDING SURVEY
JULY

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Financial Stability Department

Monetary 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 twenty-fifth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2018 Q2 and their expectations in these areas for 2018 Q3. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 18 May and 11 June 2018.[1]

According to the survey results, banks further tightened credit standards for loans for house purchase while leaving standards for loans to non-financial corporations unchanged and easing standards for consumer credit. The tightening of credit standards for loans for house purchase continued to be affected in Q2 by the implementation of the CNB's macroprudential measures and individual adjustments to lending methodologies at the level of specific banks. According to banks, positive expectations regarding the economic situation and higher creditworthiness of clients fostered an easing of credit standards for consumer credit. Demand for loans grew in all segments except for loans to households for house purchase. Corporations' demand for loans was affected mainly by financing of fixed investment and mergers and acquisitions. Improved households' confidence and a lower level of client interest rates are fostering an increase in demand for consumer credit. Demand for loans for house purchase was unchanged. In 2018 Q3, banks do not expect credit standards to change for corporate loans and consumer credit, but do expect them to tighten for loans for house purchase. According to banks, demand for corporate loans will rise in 2018 Q3, while demand for loans for house purchase will decline. Banks do not expect demand for consumer credit to change.

[1] The survey contained 20 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: (http://www.cnb.cz/en/bank_lending_survey/index.html).

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (representing banks' internal criteria for approving loans) were unchanged for **loans to non-financial corporations** in 2018 Q2. Only competitive pressure from other banks fostered an easing of standards. The surveys also recorded a marginal effect of competition from market financing in large corporations. The terms and conditions for approving corporate loans were unchanged. Margins on corporate loans showed mixed developments depending on the loan segment and banks' strategies. Margins on loans to large corporations increased in part of the market, while those on loans to small and medium-sized corporations were broadly unchanged. Corporations' demand for loans rose in 2018 Q2 (an NP of 24%). Part of the banking market perceived an increase in demand for loans to finance fixed investment and mergers and acquisitions. The use of alternative forms of corporate financing, specifically issuance of debt securities, acted in the opposite direction. Banks expect no change in credit standards and an increase in demand for loans (an NP of 24%) in 2018 Q3.

II.2 HOUSEHOLDS

Banks further tightened credit standards for **loans for house purchase** provided to households (an NP of 29%). In Q2, this was again linked with the implementation of the CNB's macroprudential measures in banks' internal rules and with additional individual adjustments to lending methodologies at the level of specific banks. Costs of funds and balance sheet constraints also increased, albeit only marginally. Only a very small part of the banking market tightened the DTI and DSTI requirements (an NP of 5%). Credit conditions were mixed, remaining unchanged overall. On the one hand, the conditions eased through lower interest margins, but on the other hand, payments and maturities were adjusted in both direction at the individual bank level. Households' demand for loans for house purchase was unchanged in Q2. The factors were mixed in this case as well. Demand was positively affected by consumer confidence and still low or lowered interest rates. It was adversely affected mainly by higher residential property prices and LTV limits. A large part of the market expects a further tightening of credit standards for loans for house purchase in 2018 Q3 and a decrease in demand for loans (NPs of 48% and 64% respectively).

Credit standards for **consumer credit** to households eased in 2018 Q2. This was fostered by a combination of positive expectations regarding the overall economic situation and clients' creditworthiness. Some banks relaxed their terms and conditions for approving loans by lowering the average interest margin (an NP of 12%) and by extending maturity (an NP of 29%). Households' demand for consumer credit rose in 2018 Q2 (an NP of 34%). Perceived demand was positively affected mainly by consumer confidence and the level of interest rates in this credit market segment. Banks expect no change in credit standards or demand in 2018 Q3.

Credit standards for **loans to sole traders** were broadly unchanged and a similar situation is expected in 2018 Q3. Demand for loans in this segment decreased in 2018 Q2 (an NP of 25%). Banks expect no change in the outlook for perceived demand for 2018 Q3.

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that credit standards were unchanged in 2018 Q2 and demand in this credit market segment increased (an NP of 17%).

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)

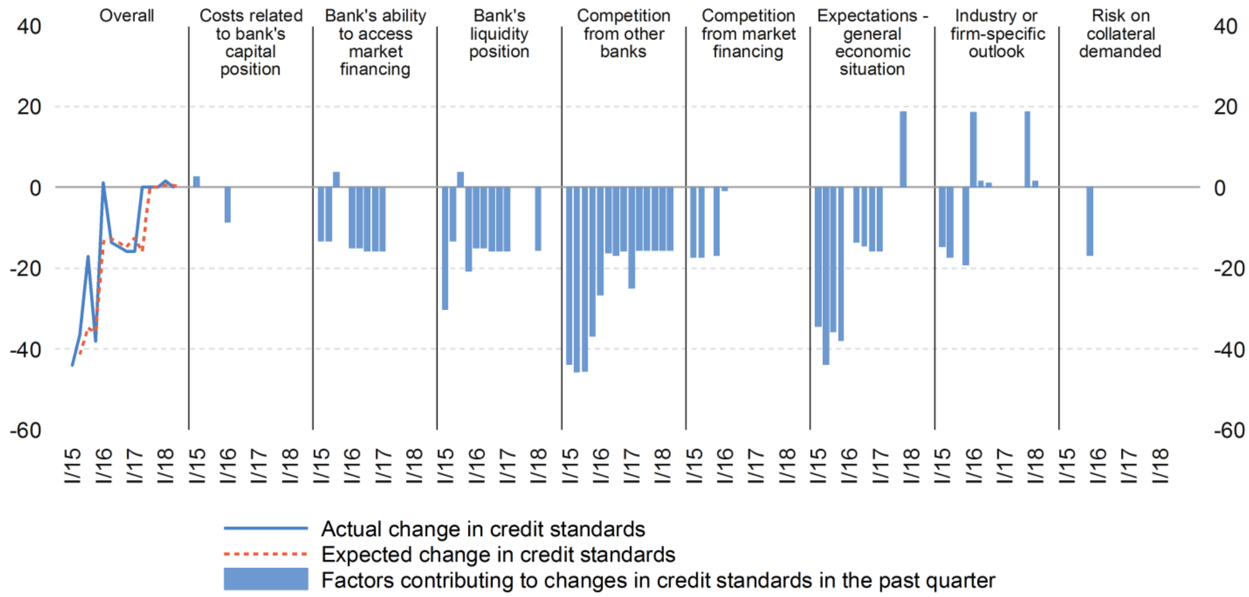


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)
(net percentages, positive value = tightening, negative value = easing)

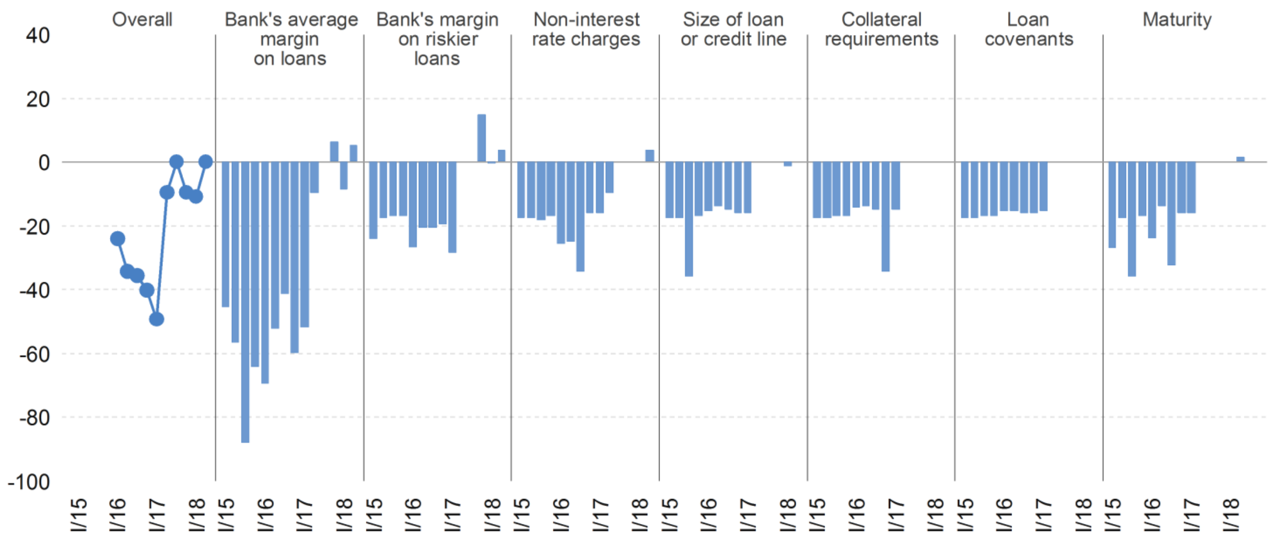
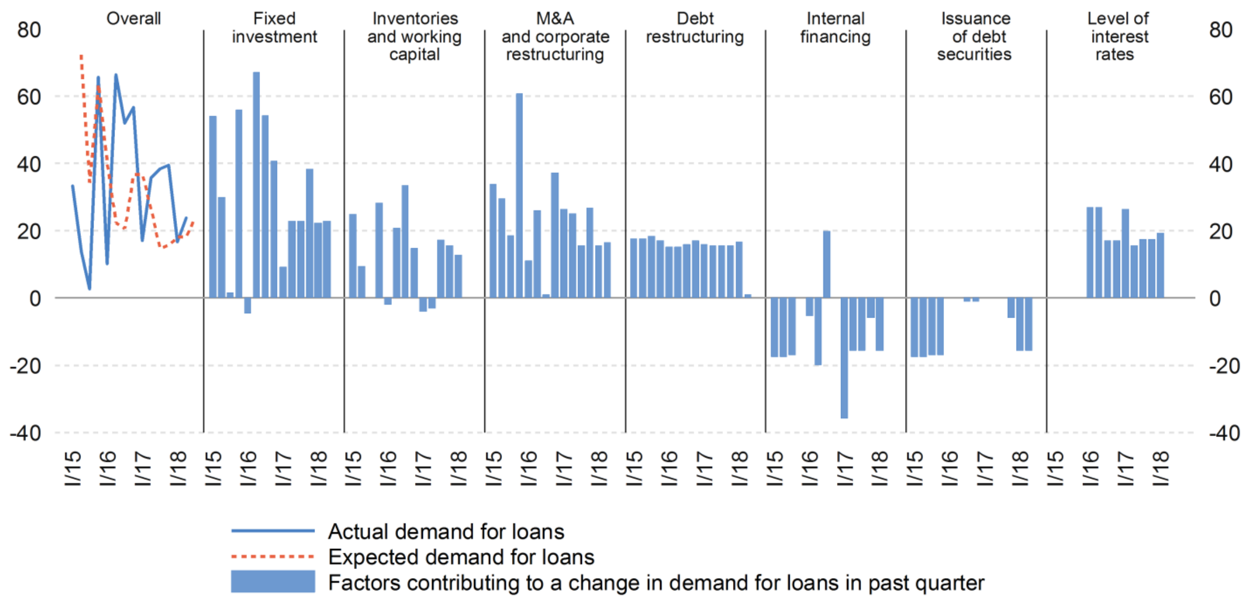


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

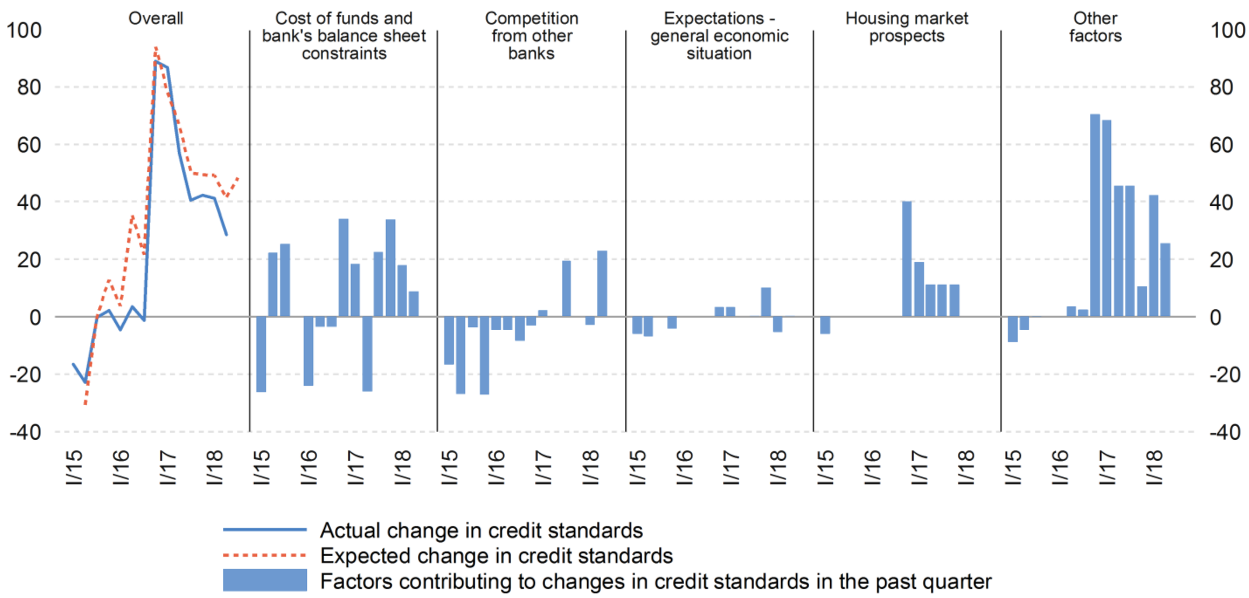


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

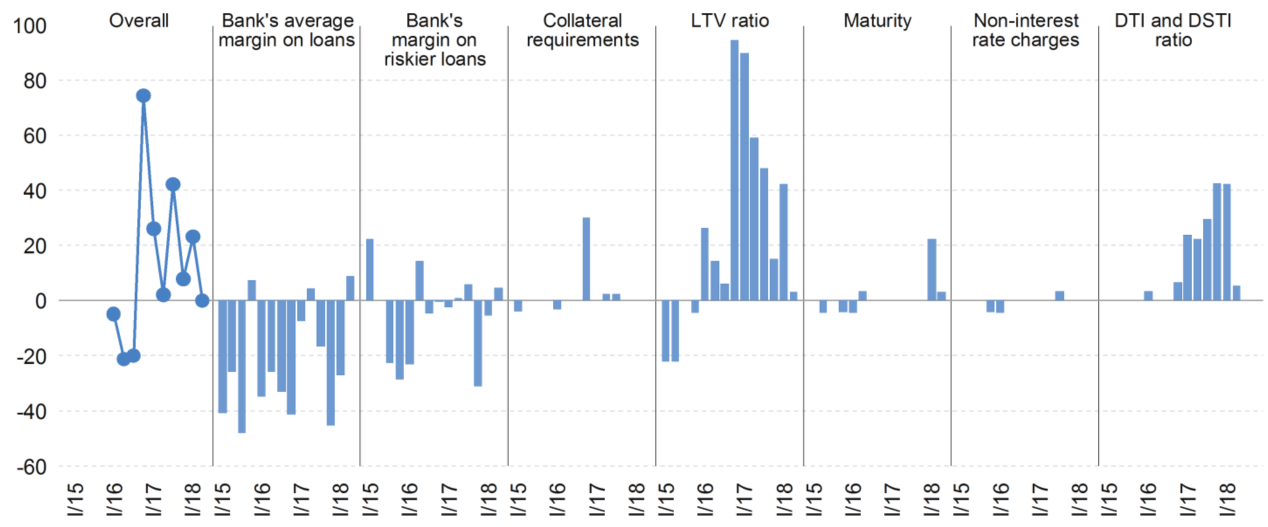
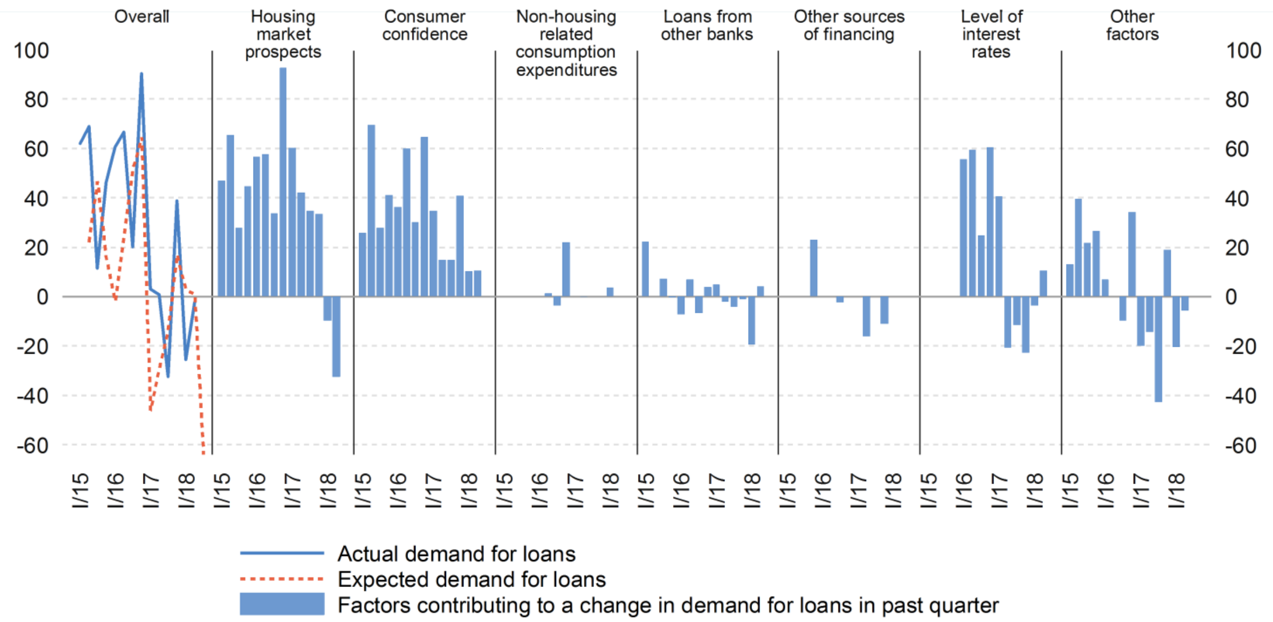


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

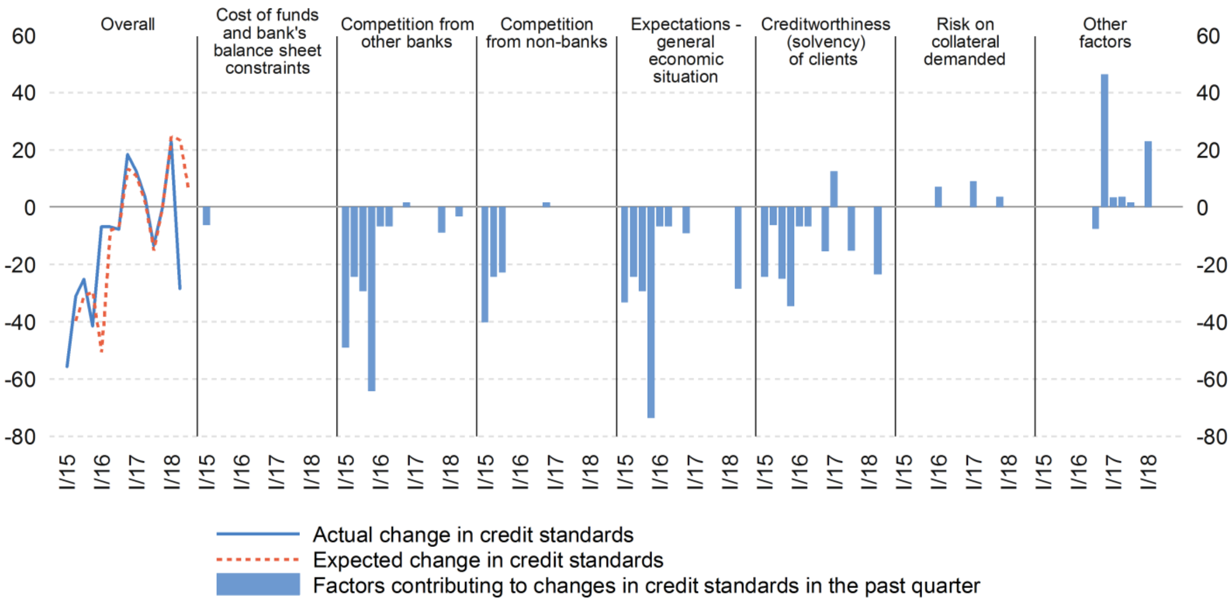


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

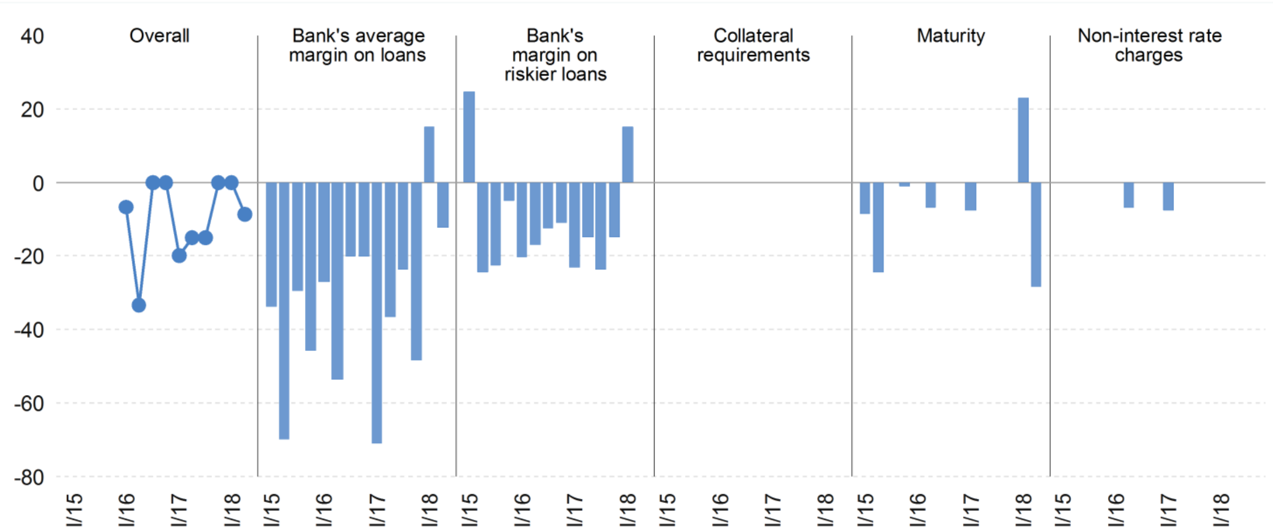


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)