BANK LENDING SURVEY JANUARY

2018

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-third round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2017 Q4 and their expectations in these areas for 2018 Q1. The survey was conducted between 18 November and 12 December 2017. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey.[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 and consumer credit unchanged. The tightening of credit standards for loans for house purchase continued to be due to macroprudential measures implemented by the CNB and by an increase in banks' cost of funds. At the same time, banks perceived risks regarding residential property market developments and the overall economic situation. Demand for loans rose in all segments. Corporations' demand for loans was affected mainly by financing of fixed investment and mergers and acquisitions. The increase in demand for consumer credit is due to improved households' confidence and a lower level of client interest rates. Following a previous decline, demand for house purchase loans increased again. Expectations of continued growth in residential property prices and consumer confidence had a favourable effect, outweighing the effect of gradually rising interest rates. In 2018 Q1, banks do not expect credit standards to change for corporate loans, but expect them to tighten for consumer credit and loans for house purchase. According to banks, demand for corporate loans will rise in 2018 Q1, while demand for loans for house purchase and consumer credit will remain unchanged.

[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 2017 Q4. An easing of standards was fostered by competitive pressure from other banks – in the segments of both loans to small and medium-sized enterprises and loans to large corporations. The perception of specific sectoral risks, especially for loans to large corporations, and also expectations of the overall economic situation acted in the opposite direction. Banks eased the terms and conditions for approving new loans, but not broadly (an NP of 10%). Margins on corporate loans showed mixed developments depending on the loan segment and banks' strategies. Margins grew on loans to large corporations, more broadly for riskier loans. By contrast, margins on loans to medium-sized and small corporations decreased. Corporations' demand for loans rose in 2017 Q4 (an NP of 39%). The main factor was demand for financing of fixed investment, mergers and acquisitions and corporate and debt restructuring. Part of the banking market also perceived a rise in demand for financing inventories and working capital. The growth in demand was also fostered by low interest rates. By contrast, demand for loans was reduced by the use of internal resources by corporations and newly also by issues of debt securities. Banks expect no change in credit standards and an increase in demand for loans (an NP of 18%) in 2018 Q1.

II.2 HOUSEHOLDS

Banks further tightened credit standards for **loans for house purchase** provided to households (an NP of 42%). This continued to be due to the completion of the implementation of the CNB's macroprudential measures in banks' internal regulations and to an increase in banks' cost of funds and balance sheet constraints. However, financing costs were not passed on fully to the price of lending – the growth in interest rates was partially absorbed in the interest rate margins of part of the banking market. The tightening of credit standards was also fostered by the perceived risk stemming from expected developments on the residential property market and expectations relating to the overall economic situation. Part of the banking market also tightened the DTI and DSTI requirements (an NP of 43%). Credit conditions showed mixed developments. On the one hand, the conditions were eased through interest rate margins, but on the other hand, the required LTV ratio continued to tighten, albeit not broadly. After a previous decline, households' demand for house purchase loans rose again in Q4. Demand was favourably affected by expectations of continued property price growth and good consumer confidence. It was adversely affected by rising loan rates. This indicates the high interest rate sensitivity of loans for house purchase. Banks expect credit standards for loans for house purchase to tighten further and demand for loans to remain roughly at its current level (NPs of 49% and 3% respectively) in 2018 Q1.

Credit standards for **consumer credit** to households were unchanged in 2017 Q4. Except for competition from other banks, which fostered an easing of standards, the effect of the other factors was neutral. Banks further eased their terms and condition for approving loans by lowering the average interest margin (an NP of 48%) and, less broadly, by reducing margins on riskier loans (an NP of 15%). Household demand for consumer credit rose in 2017 Q4 (an NP of 22%). Demand was positively affected mainly by consumer confidence and the level of interest rates in this credit market segment. Banks expect a tightening of credit standards (an NP of 25%) and flat demand in 2018 Q1.

Credit standards for **loans to sole traders** were virtually unchanged, and a similar situation is expected in 2018 Q1. Demand for loans was unchanged in this segment in 2017 Q4, and banks expect a similar situation in the outlook for 2018 Q1.

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that credit standards were unchanged in 2017 Q4 and demand in this credit market segment increased (an NP of 20%).

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)

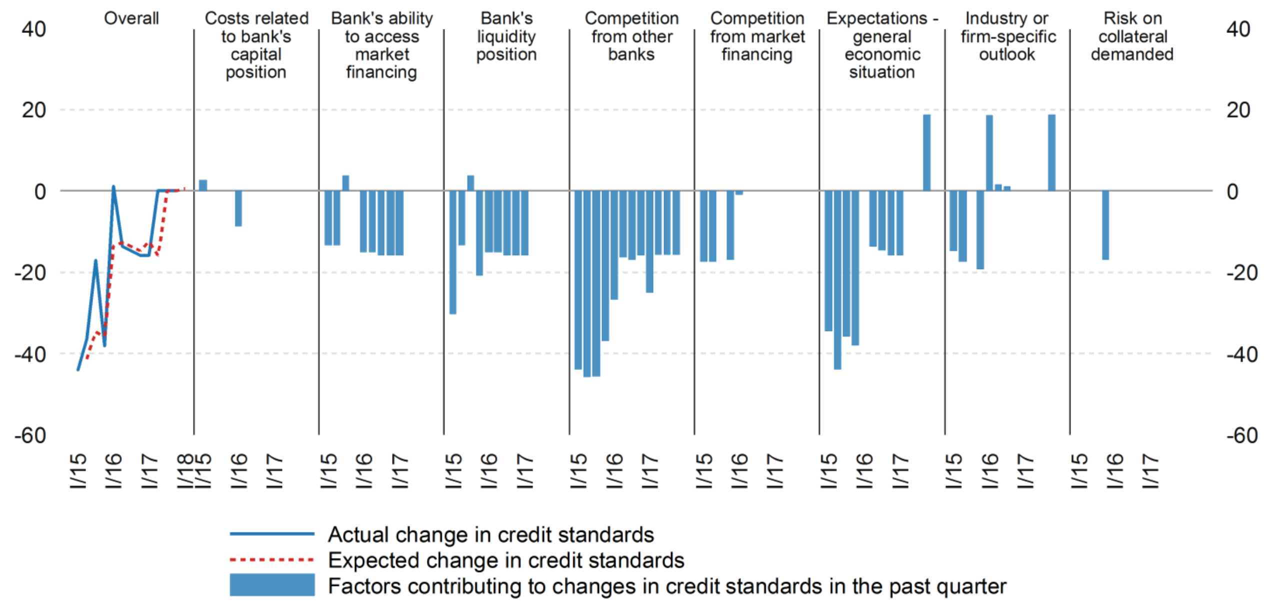


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

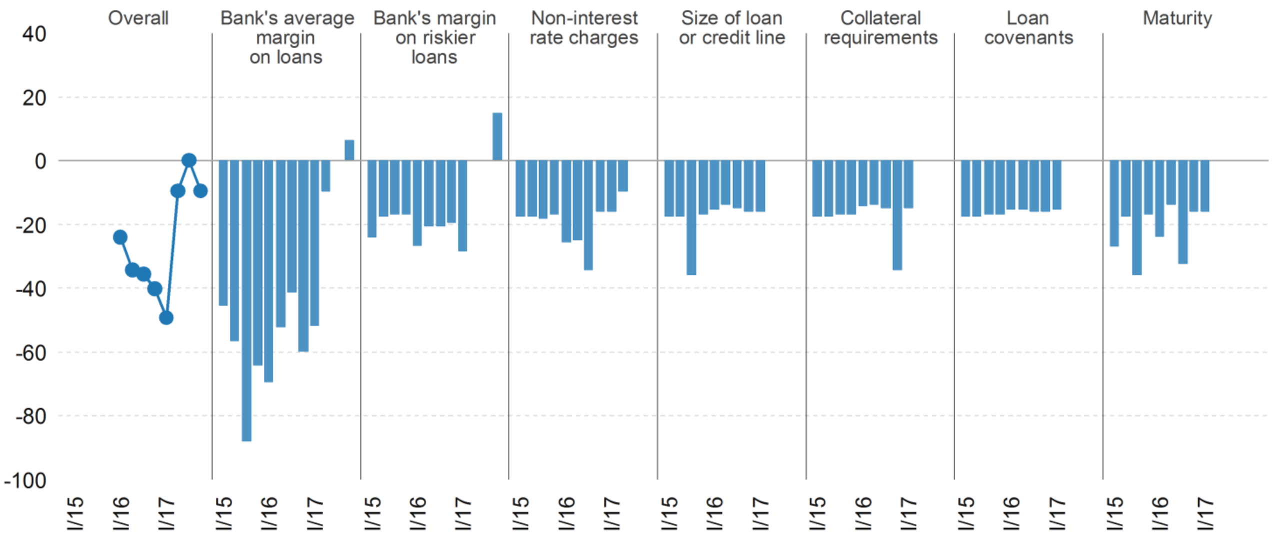
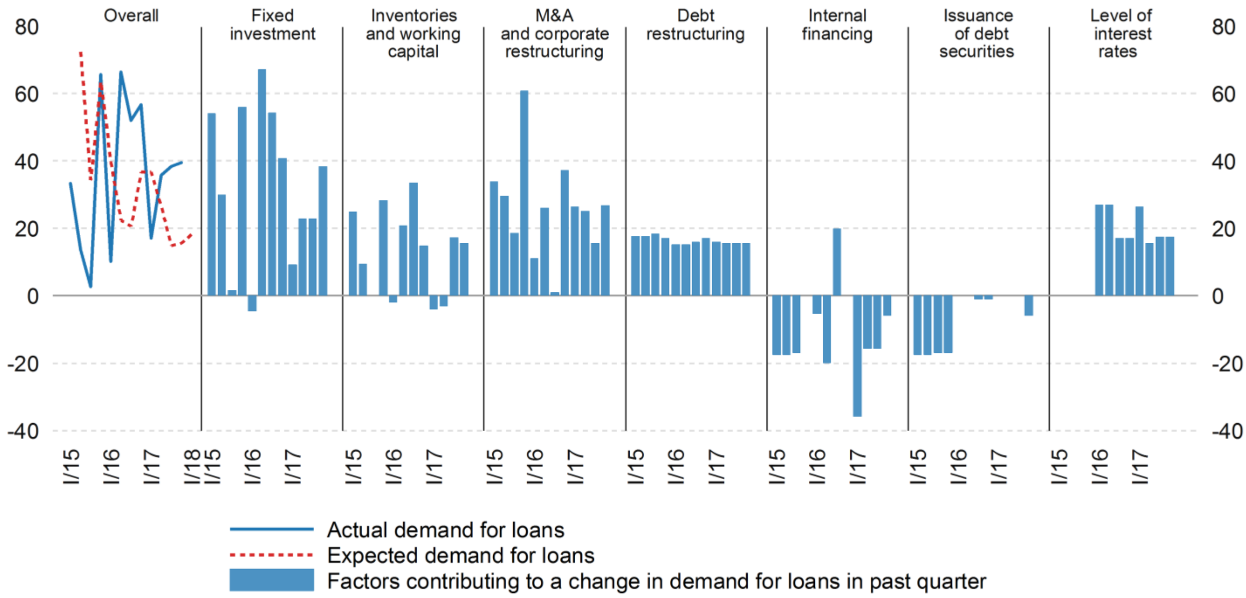


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

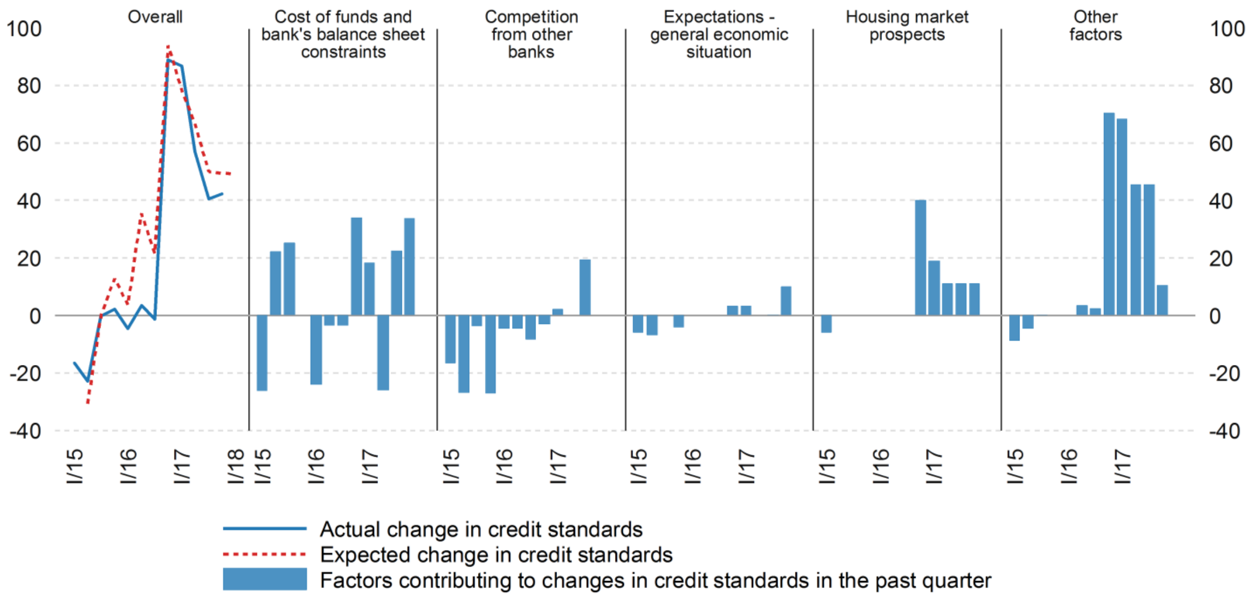


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

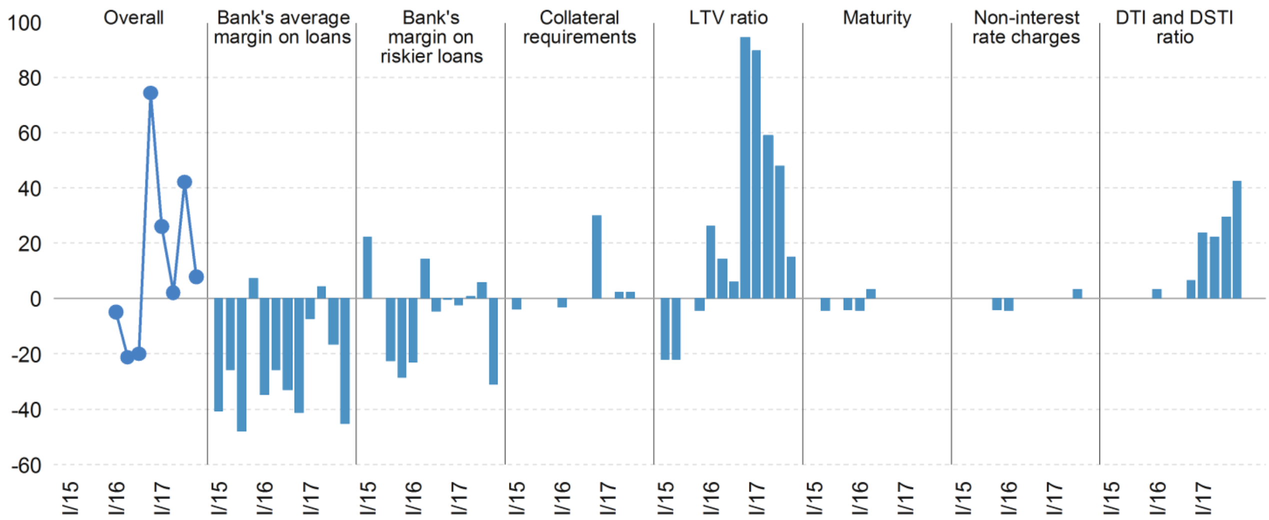
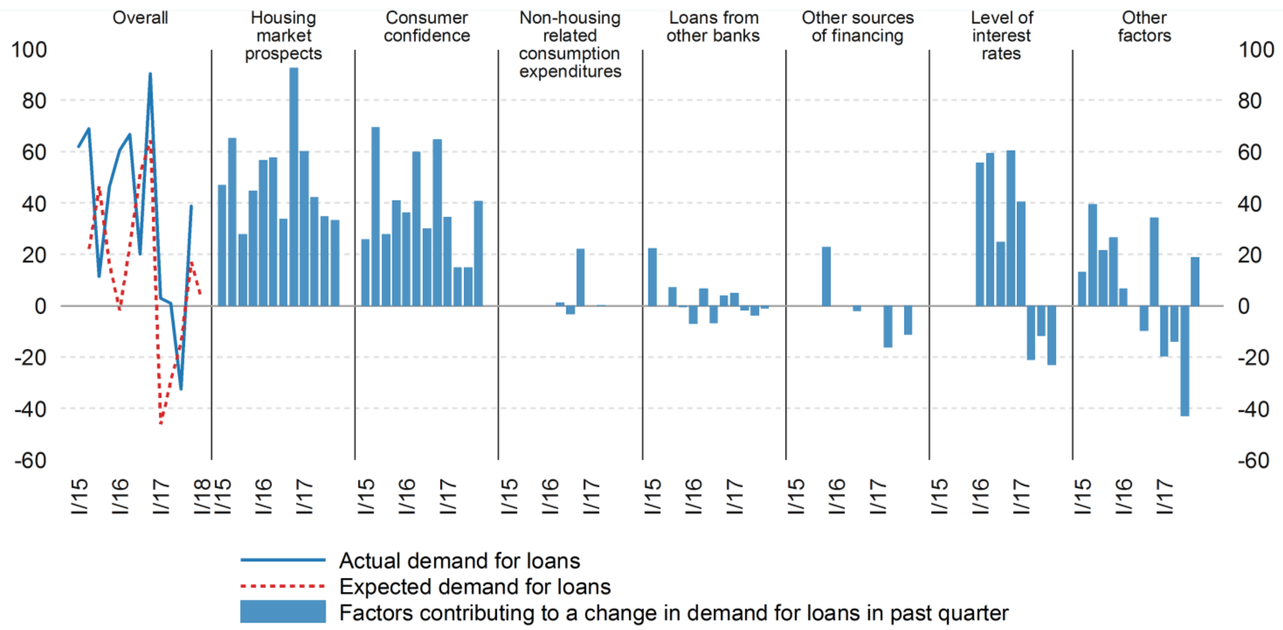


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

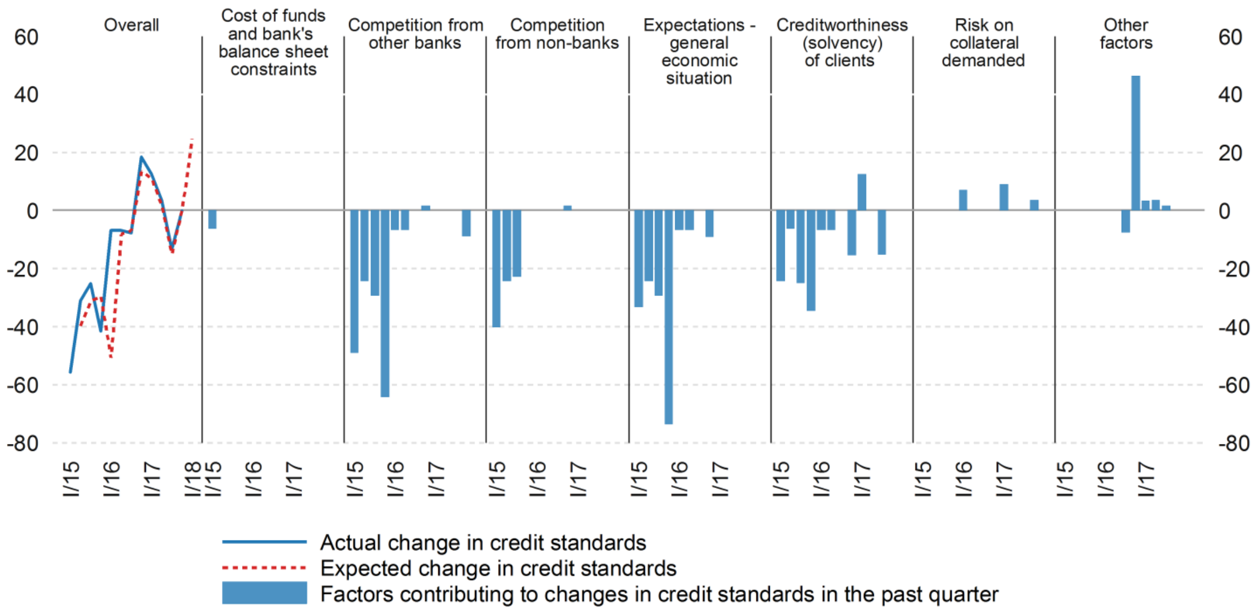


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

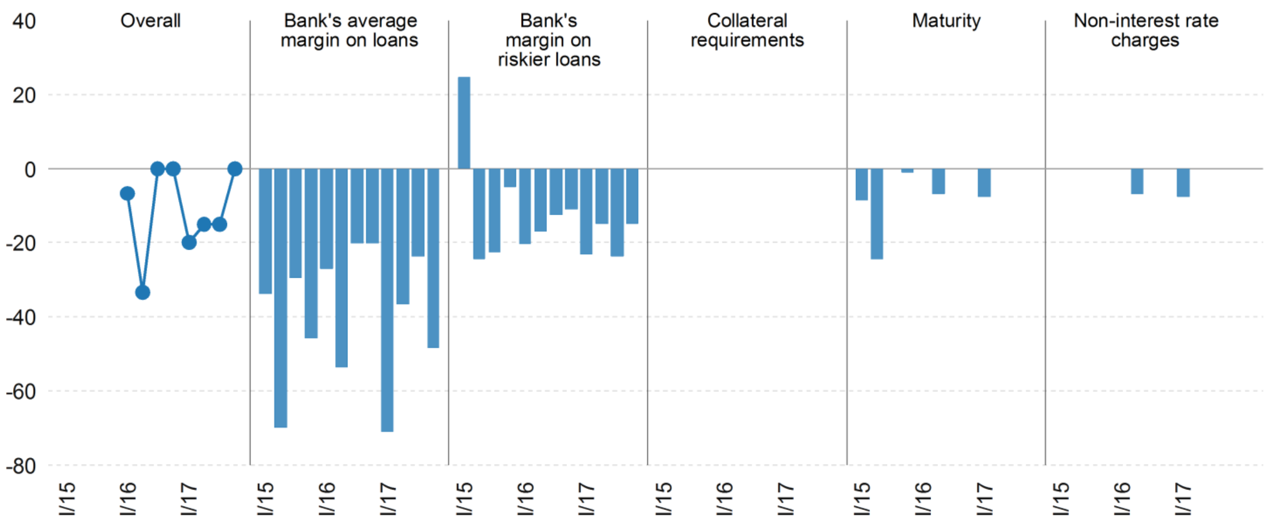


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)