BANK LENDING SURVEY OCTOBER

2012

Financial Stability Department

Monetary and Statistics Department
Monetary Policy and Fiscal Analyses Division

CZECH NATIONAL BANK

I. INTRODUCTION AND SUMMARY

The 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 second 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 Q3 and banks' expectations in these areas for 2012 Q4. The second round was conducted at the end of September. 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 Q3 banks tightened credit standards overall for corporate loans and loans for house purchase, while leaving them unchanged for consumer credit.[2] The tightening of standards for both corporate loans and loans for house purchase was due mainly to perceptions of the risks relating to expected general economic activity and manifested itself during the approval of loans chiefly via a higher collateral requirement for corporate loans and a rise in margins. Demand for corporate loans and loans for house purchase declined. By contrast, demand for consumer credit increased. In 2012 Q4, banks expect credit standards to tighten for corporate loans and to ease for loans for house purchase. According to banks, demand for corporate loans should continue to fall. On the other hand, banks expect demand for loans to households to rise.

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 an overall tightening in 2012 Q3 corresponding to a *net percentage* (NP)[3] of 20% of the credit market (see Chart 1). This was reflected both in loans to large enterprises (NP 20%) and in loans to small and medium-sized enterprises (NP 20%). A tightening was reported for both short-term and long-term loans (NP 16% and 20% respectively). This was in line with banks' expectations in the previous round of the survey. The tightening of standards was due chiefly to perceptions of the risks relating to the outlook for some industries and corporations (NP 41%) and general economic activity (NP 16%). It also reflected costs associated with banks' capital position (NP 23%) and, to a lesser extent, risks associated with banks' liquidity position (NP 10%). The terms and conditions for approving loans tightened above all due to a higher collateral requirement (NP 35%, see Chart 2), a higher average margin and margin for risky

[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). Questions regarding the survey can be e-mailed to bls@cnb.cz.

[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.

[3] A positive (negative) net percentage indicates an overall tightening (easing) of standards/conditions or an overall increase (decrease) in demand.

loans (NP 18% and 21% respectively) and more careful monitoring of loan size connected with the assessment of concentration risk (NP 16%).

Demand for corporate loans declined slightly (NP -5%, see Chart 3). Demand for long-term loans fell (NP -15%) as a result of a drop in fixed investment financing needs. In part of the corporate loan market, by contrast, demand for short-term loans increased (NP 10%), as did demand for financing of mergers and acquisitions and corporate restructuring (NP 17%). As regards the size of borrowing enterprises, lower demand was recorded for large enterprises (NP -5%) and higher demand was recorded for small and medium-sized enterprises (NP 4%).

Roughly 19% of the market is expecting standards to tighten further in 2012 Q4, especially in the large enterprises segment (NP 19%). Both short-term and long-term loans should see a tightening of standards (NP 16% and 19% respectively). Unlike in the previous quarter, banks expect an overall decline in demand for loans (NP -6%). The expected decline will pertain mainly to demand for loans to small and medium-sized enterprises (NP -20%) and long-term loans (NP -19%).

II.2 HOUSEHOLDS

On the supply side, credit standards applied to **loans for house purchase** eased overall in 2012 Q3, but not across the board (NP 8%, see Chart 4). The tightening was caused above all by higher perceived risks associated with expected economic activity (NP 19%). Counteracting this were competition from other banks (NP -30%) and lower risk linked with the cost of funds and balance sheet constraints (NP -21%). The effect of housing market prospects was neutral. Turning to the terms and conditions for approving loans, both the average margin on loans for house purchase and the margin on riskier loans increased (NP 41% and 17% respectively, see Chart 5). An easing was recorded for non-interest charges and to a small extent also for loan maturity.

Demand for loans for house purchase decreased in 2012 Q3 (NP -41%, see Chart 6). This was mainly due to migration of clients to other banks for refinancing (NP -30%) and an overall worsening of consumer confidence (NP -12%). By contrast, housing market prospects had a positive effect (NP 7%). Banks expect an easing of credit standards in 2012 Q4 (NP -44%) amid higher demand for loans for house purchase (NP 24%).

Credit standards applied to **consumer credit** were unchanged overall in 2012 Q3 (see Chart 7). Banks perceive higher risks associated with expected economic activity in this segment as well (NP 18%). As regards the terms and conditions for approving loans, the margin on riskier loans edged up (NP 6%) while non-interest charges fell (NP -7%, see Chart 8).

The perceived demand for consumer credit increased (NP 24%), thanks primarily to higher financing needs for spending on durable consumer goods (NP 22%, see Chart 9). By contrast, demand was reduced by weaker consumer confidence (NP -29%) and migration of clients to competing banks (NP -7%). For 2012 Q4, banks expect credit standards applied to consumer credit to remain unchanged and demand for such credit to rise in a small part of the market (NP 7%).

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 percentage, positive value = tightening, negative value = easing)

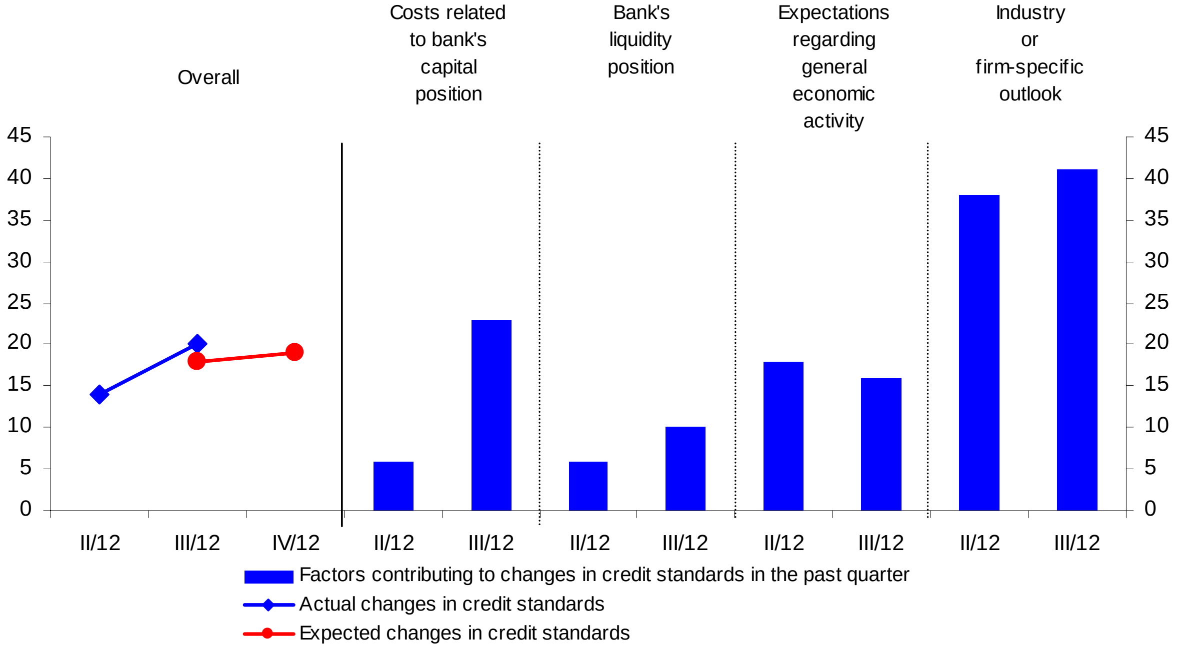


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)
(net percentage, positive value = tightening, negative value = easing)

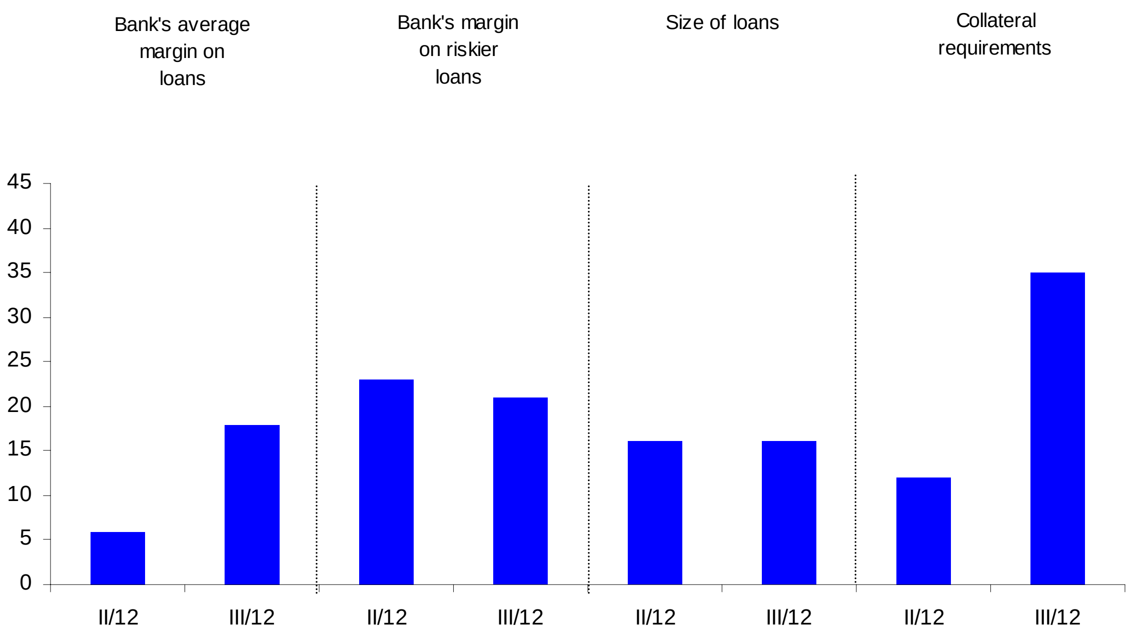
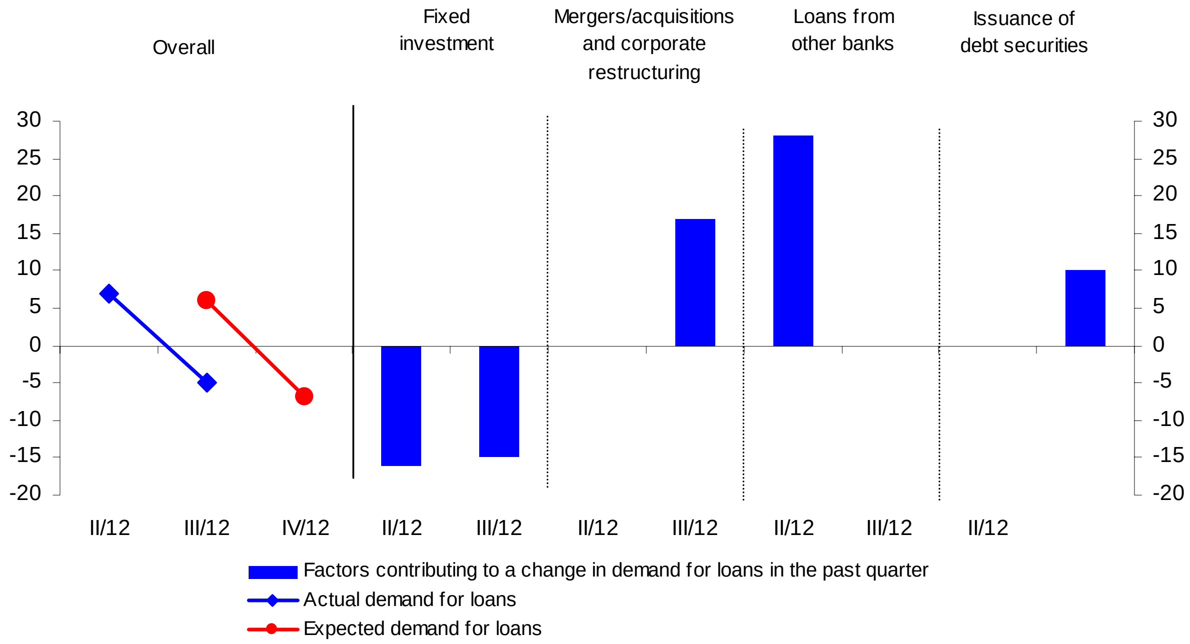


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentage, positive value = demand growth, negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR LOANS FOR HOUSE PURCHASE

Chart 4 Changes in credit standards applied to loans for house purchase (questions 8, 9 and 16)
(net percentage, positive value = tightening, negative value = easing)

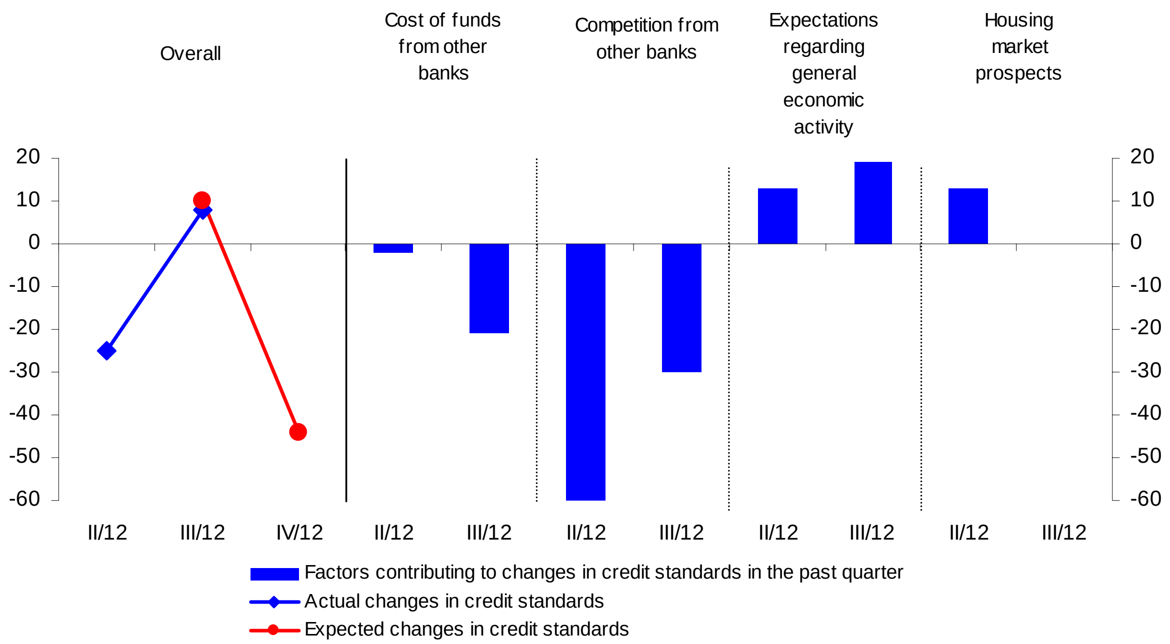


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentage, positive value = tightening, negative value = easing)

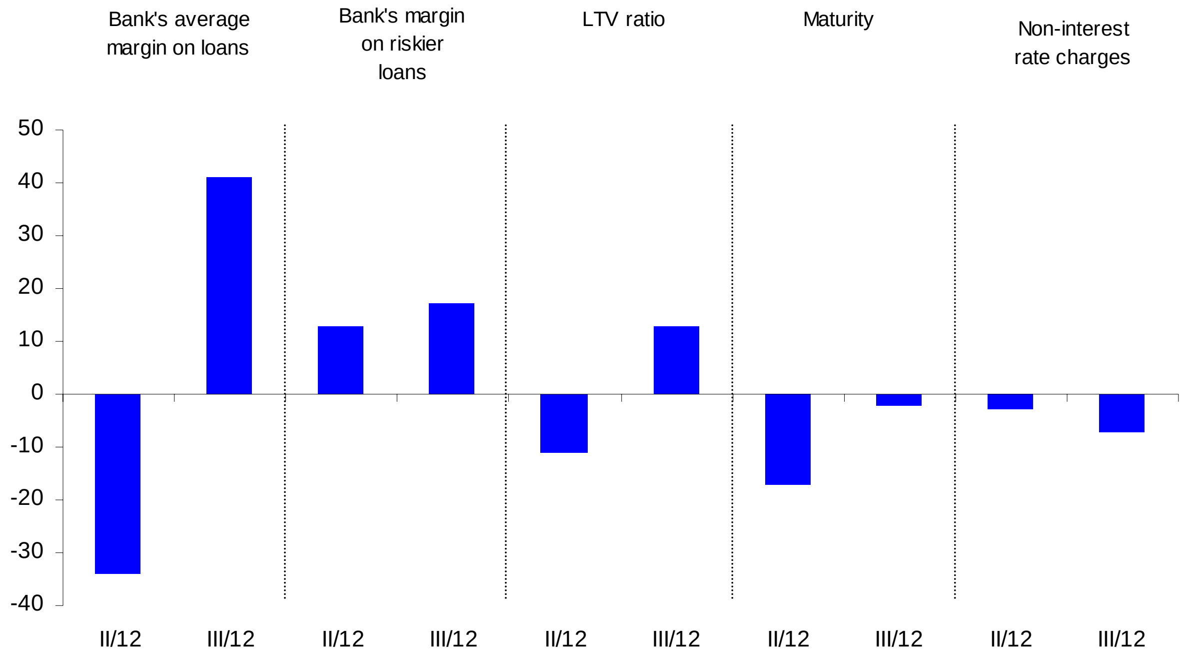
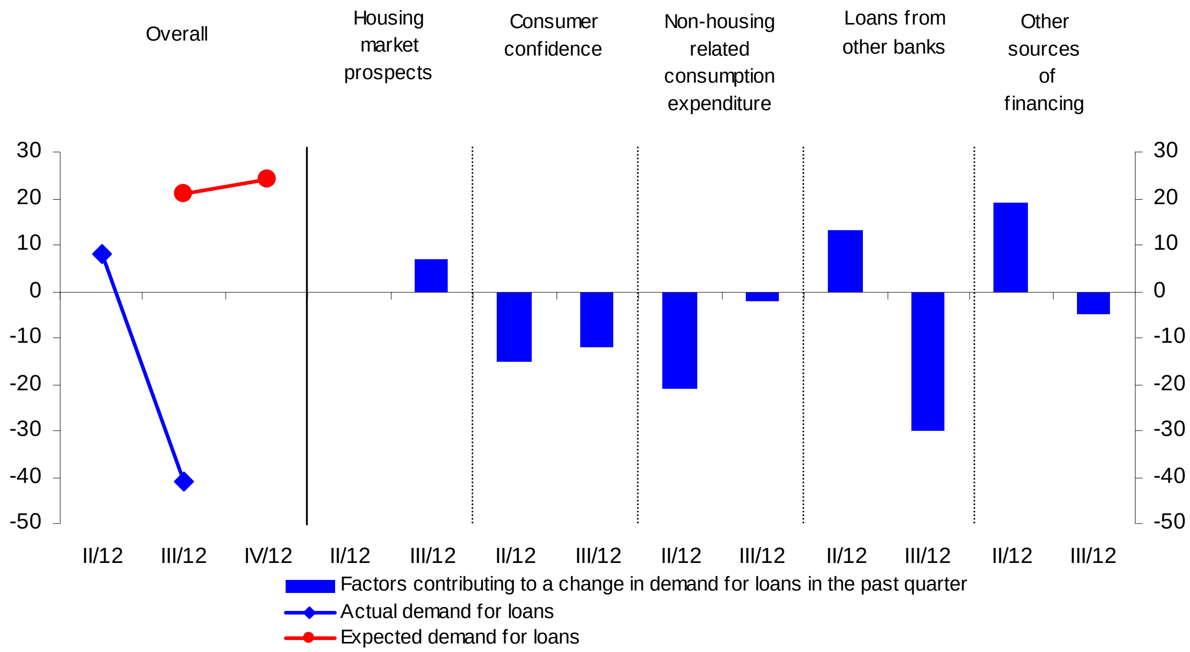


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentage, positive value = demand growth,
negative value = demand decrease)



SUPPLY AND DEMAND CONDITIONS FOR CONSUMER CREDIT

Chart 7 Changes in credit standards applied to consumer credit (questions 8, 11 and 16)
(net percentage, positive value = tightening, negative value = easing)

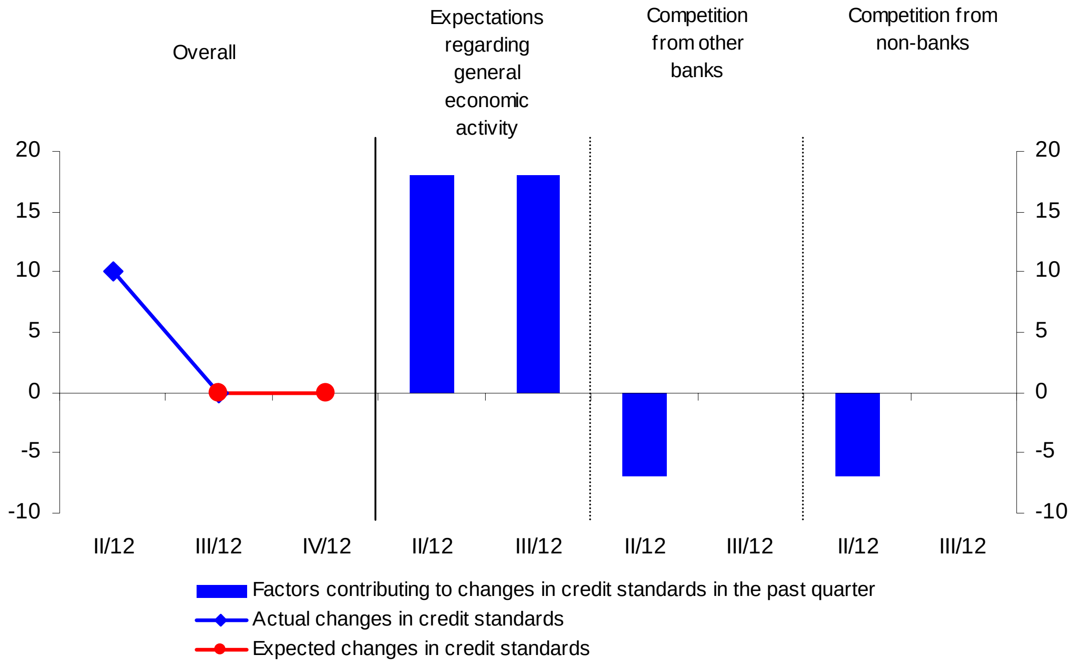


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentage, positive value = tightening, negative value = easing)

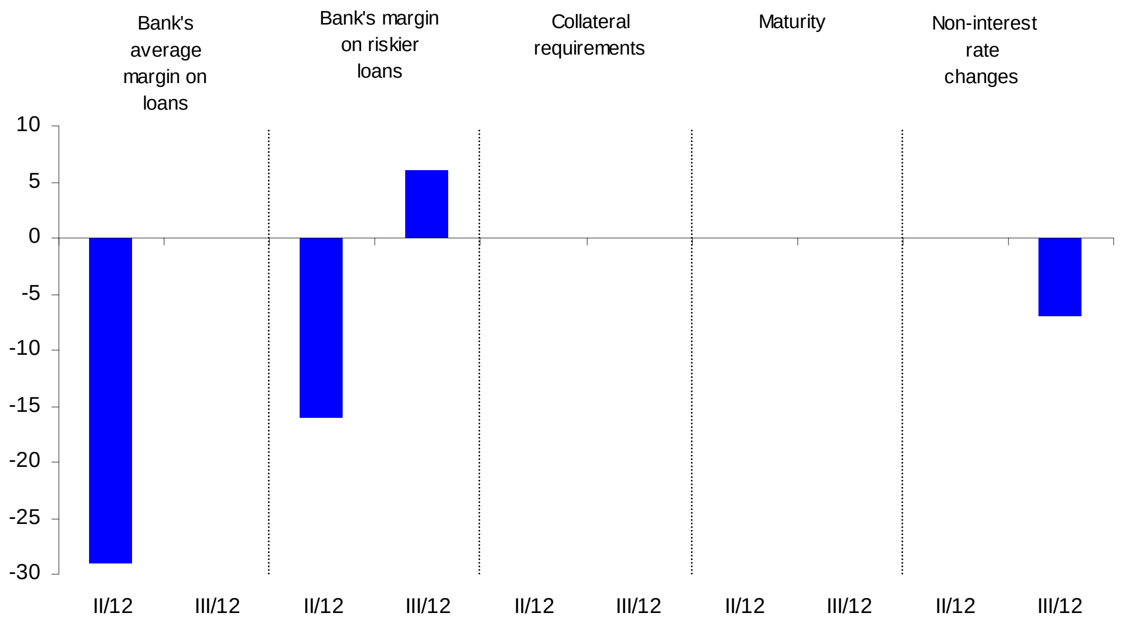


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentage, positive value = demand growth,
negative value = demand decrease)