BANK LENDING SURVEY OCTOBER

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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 fourteenth round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2015 Q3 and their expectations in these areas for 2015 Q4. Eighteen banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 8 and 22 September 2015.[1,2]

The survey reveals that banks further eased their credit standards for loans to non-financial corporations and for consumer credit in 2015 Q3. Credit standards for loans to households for house purchase were unchanged following a previous easing. The easing of standards was fostered by competitive pressure and improved risk perceptions regarding expected economic developments, whereas increased bank financing costs acted in the opposite direction. Average interest margins continued to decrease across the board. Corporate demand for loans was almost unchanged in 2015 Q3. Household demand for loans for house purchase increased, while demand for consumer credit declined. In 2015 Q4, banks expect credit standards to ease further for all types of corporate loans and consumer credit, but part of the market expects credit standards to tighten for loans for house purchase. According to banks, loan demand will increase in all segments of the credit market in Q4.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Banks' credit standards for **loans to non-financial corporations** were eased further in 2015 Q3 (an NP of 17% of the market). The easing of standards concerned all types of loans in terms of maturity, as well as loans to large corporations. Credit standards were unchanged for loans to small and medium-sized corporations. The easing was due to competitive pressure and improved risk perceptions regarding the future overall economic situation. This was also reflected in more favourable terms and conditions applied by banks to loans. Average interest margins decreased across the board (an NP of 88%). Part of the banking market also lowered interest margins on riskier loans and eased the non-interest conditions (e.g. loan size and maturity requirements). More favourable credit conditions were recorded for both smaller and larger corporations.

Non-financial corporations' demand for loans increased in only a very small proportion of the market in 2015 Q3 (an NP of 3%). Banks recorded increased corporate demand for loans for financing mergers and acquisitions and corporate and debt restructuring. The use

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

of alternative forms of financing, e.g. debt securities, and the use of internal resources of corporations, again had an adverse impact on demand for loans. Corporations' demand for loans to finance fixed investment and working capital saw no major changes in 2015 Q3 after increasing in the previous period. Demand for loans grew most strongly among small and medium-sized corporations and in the case of long-term loans.

Banks expect credit standards for all types of corporate loans to ease further in 2015 Q4 (an NP of 36% of the market). According to banks, total corporate demand for loans will rise (an NP of 63% of the market).

II.2 HOUSEHOLDS

Banks' credit standards for **loans to households for house purchase** were unchanged in 2015 Q3. Increased bank financing costs fostered a tightening of standards, whereas competitive pressure acted in the opposite direction. As regards the terms and conditions for approving loans, average interest margins decreased further and part of the market also lowered margins on riskier loans. Unlike in the first half of this year, banks did not further ease credit conditions through the LTV (loan-to-value) ratio.

Household demand for loans for house purchase continued to rise in 2015 Q3, albeit less broadly than in the first half of this year (an NP of 11% of the market). Demand was favourably affected by improved prospects for the residential property market, stronger consumer confidence and increases in mortgage interest rates announced by some banks. In 2015 Q4, the banking market expects credit standards to tighten for the first time since early 2014 (although not across the board) and predicts a rise in demand (an NP of just under one-sixth of the market).

Credit standards for **consumer credit** to households were relaxed further in 2015 Q3 (an NP of 25% of the market). This was due to competitive pressure from other banks and non-banks and more favourable risk perceptions regarding the future overall economic situation and the creditworthiness of clients. As regards the terms and conditions for approving loans, some banks reduced their average interest margins and margins on riskier loans.

Household demand for consumer credit has been volatile recently. In 2015 Q3, demand decreased for an NP of 15% of the market. In 2015 Q4, however, banks expect household demand for consumer credit to rebound amid a further easing of credit standards. Demand is being favourably affected by higher spending on durable goods and improved consumer confidence.

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)

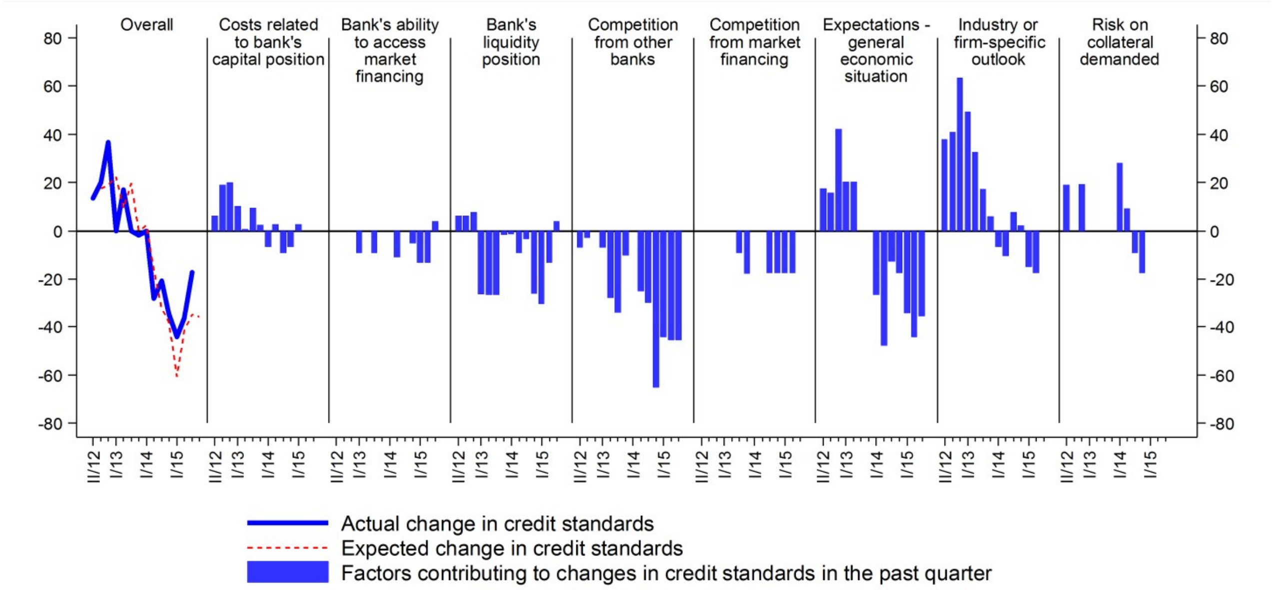


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations
(question 3)
(net percentages, positive value = tightening, negative value = easing)

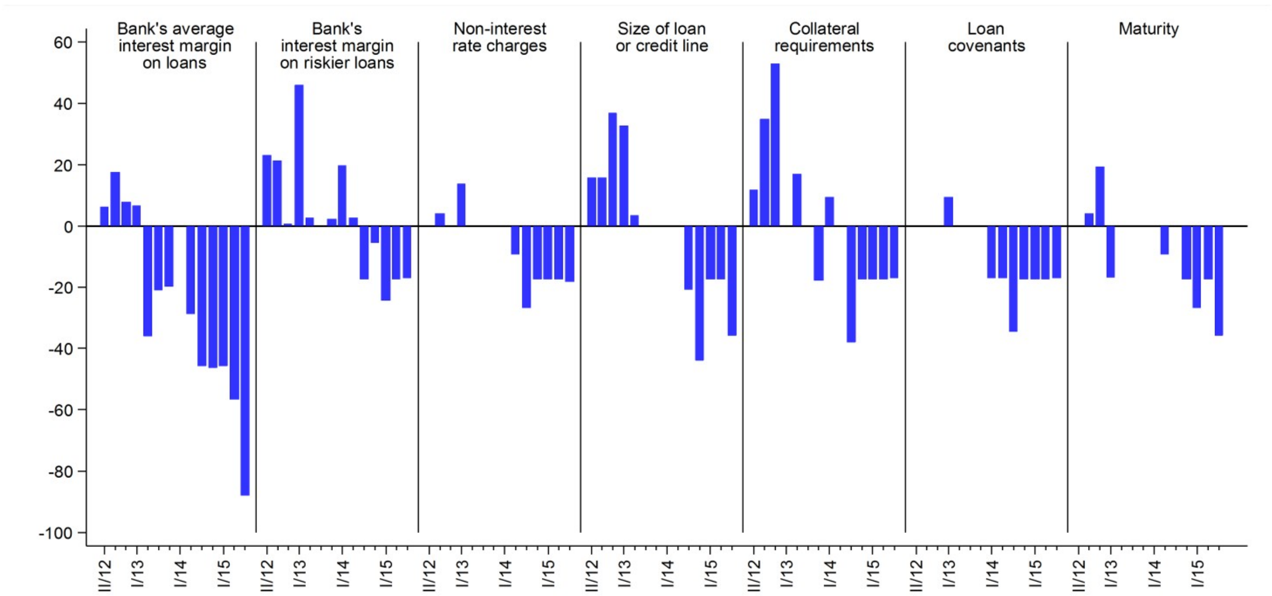
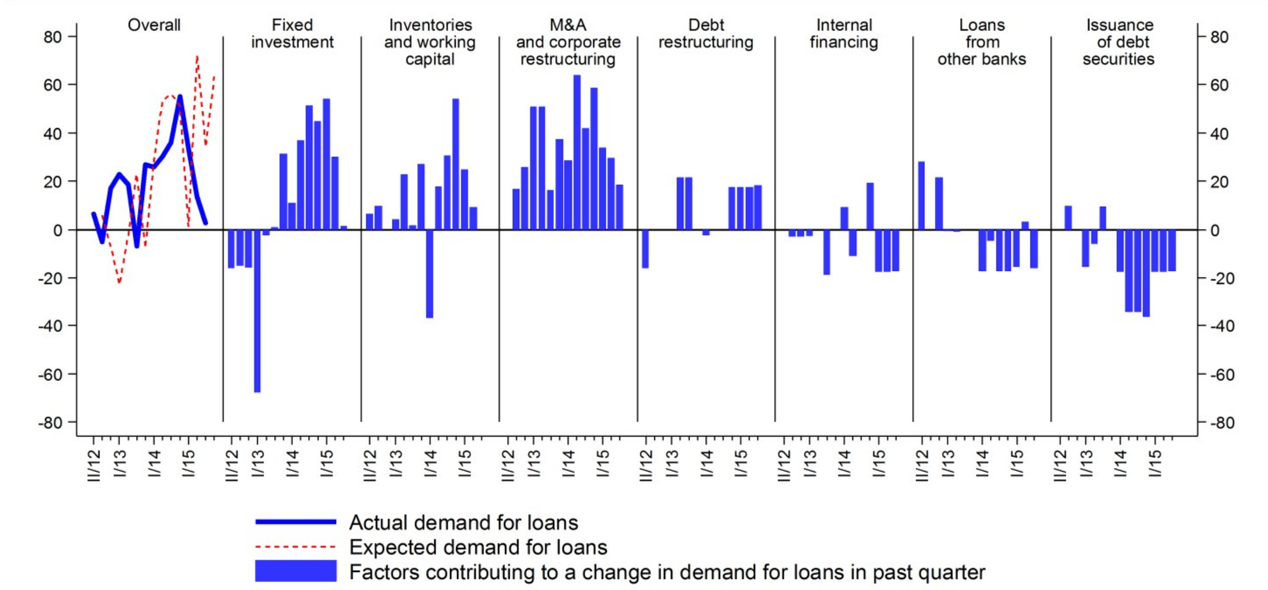


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

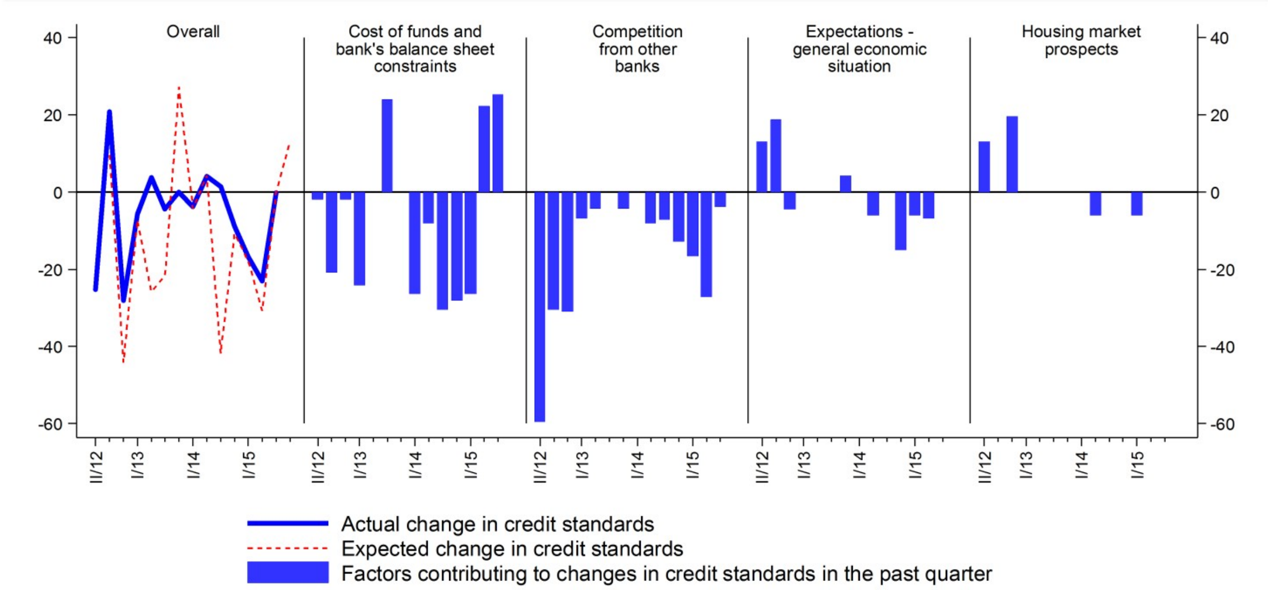


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

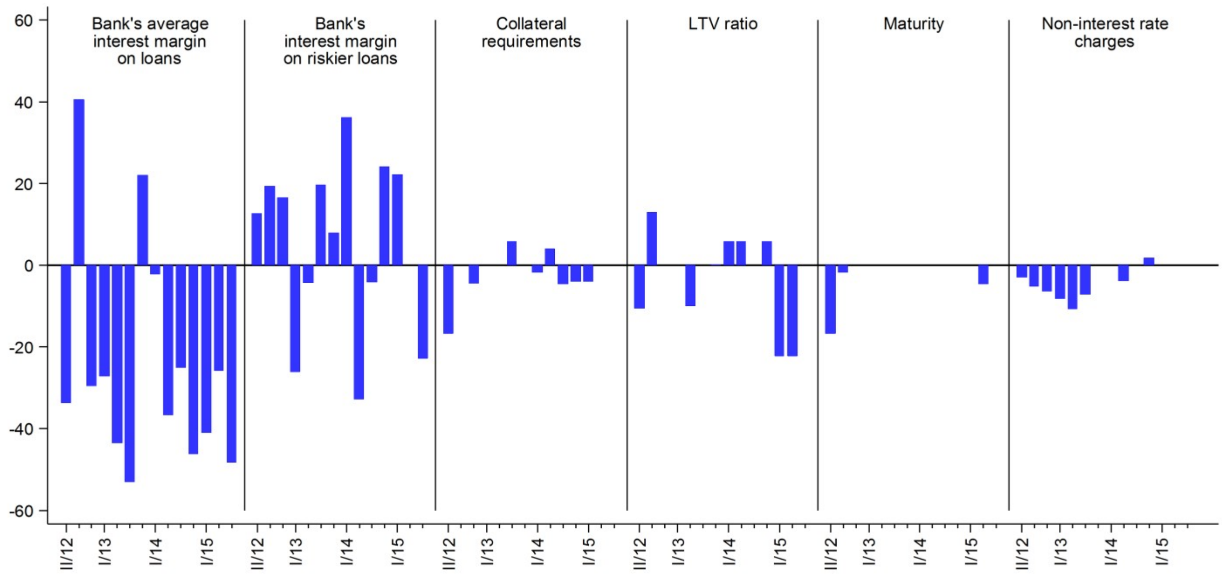
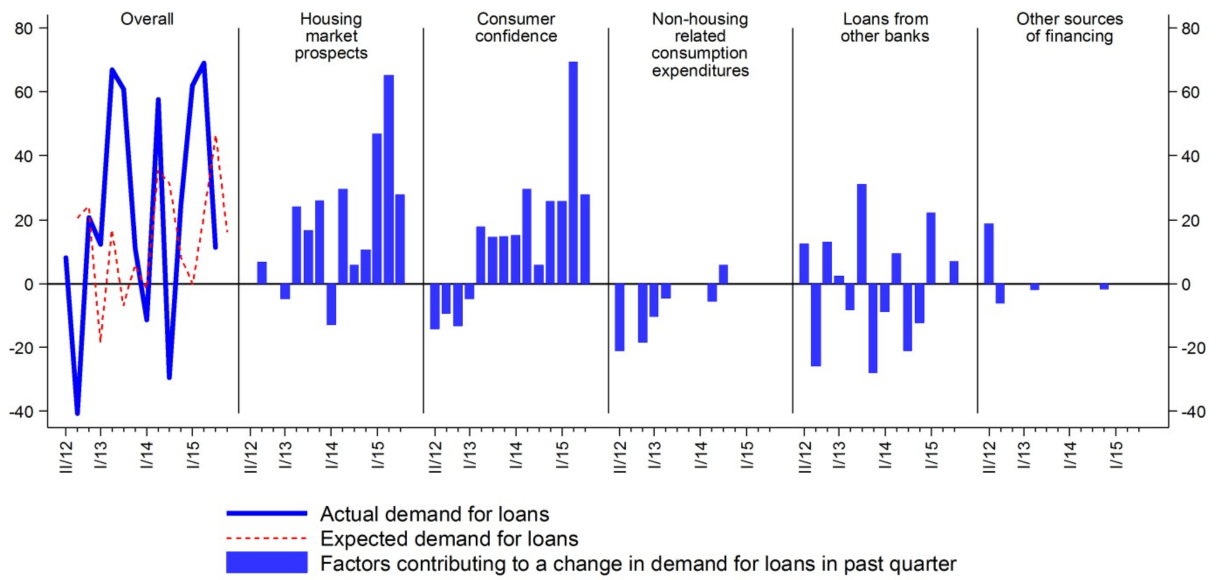


Chart 6 Changes in households' demand for loans for house purchase
(questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

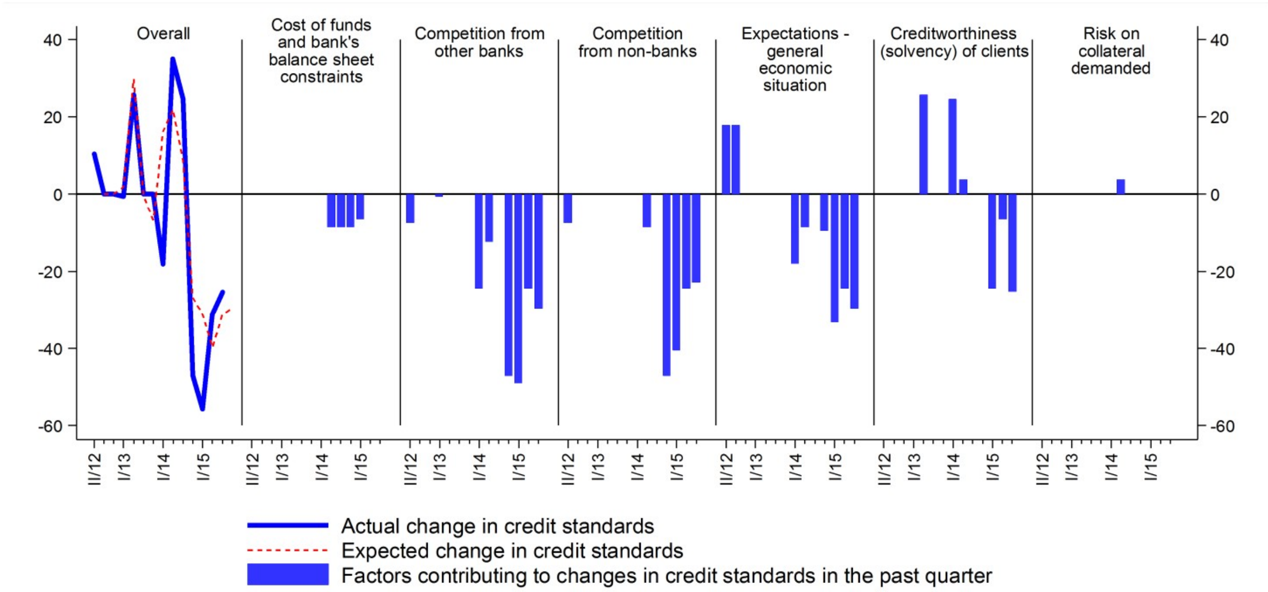


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

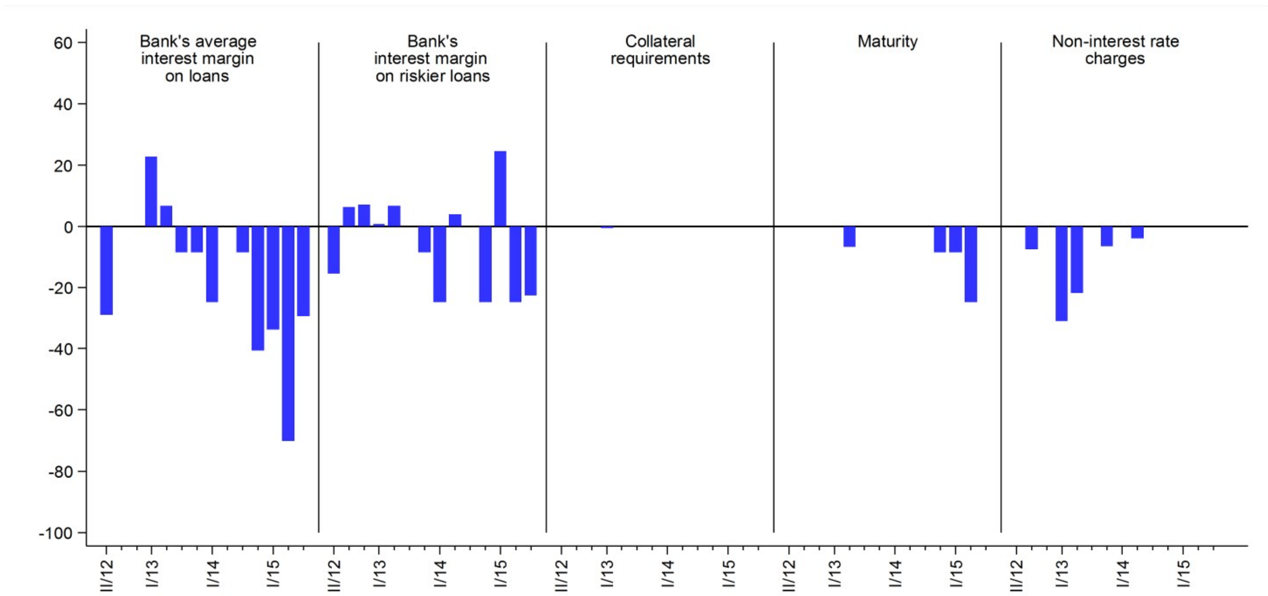


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)