BANK LENDING SURVEY JANUARY

2019

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-seventh round of the survey, i.e. banks' views on the evolution of the standards and conditions in 2018 Q4 and their expectations in these areas for 2019 Q1. Twenty-one banks, accounting for a major share of the bank credit market, took part in the survey, which was conducted between 26 November and 11 December 2018[1].

According to the survey results, banks tightened credit standards for loans for house purchase and consumer credit. They left credit standards for loans to non-financial corporations unchanged. The tightening of credit standards for loans for house purchase and consumer credit in 2018 Q4 was largely due to the implementation of the CNB's macroprudential measures regarding DTI and DSTI limits. These measures also fostered a decline in demand for loans to households. Conversely, non-financial corporations' demand increased, with banks indicating that this growth was due to demand for financing fixed investment. In 2019 Q1, banks expect credit standards for consumer credit to tighten and households' demand for loans, most notably for house purchase, to decline further.

II. CREDIT STANDARDS AND DEMAND FOR LOANS

II.1 NON-FINANCIAL CORPORATIONS

Credit standards (representing internal criteria reflecting a bank's lending policy) were unchanged overall for **loans to non-financial corporations** in 2018 Q4. Only competitive pressure from other banks fostered an easing of standards. The survey also recorded a marginal effect of competition from market financing in large corporations. Part of the banking market perceived risks associated with the outlook for a certain sector or corporation, especially for loans to large corporations, which contributed to a tightening of credit standards. There was also an increase in margins on riskier loans (an NP of 25%) in this segment of loans in part of the banking sector. Margins on other categories of loans to non-financial corporations rose in only a very small section of the banking market. Banks left the overall credit conditions (reflecting the contractual obligations agreed upon by the lender and the borrower) for approving new loans almost unchanged. Corporations' demand for loans rose in 2018 Q4 (an NP of 24%). Part of the banking market perceived an increase in demand for loans to finance fixed investment. The banking market expects no change in credit standards or demand for loans in 2019 Q1.

[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.2 HOUSEHOLDS

Credit standards for **loans for house purchase** provided by banks to households tightened across the board (an NP of 92%). This was due mainly to the implementation of the CNB's macroprudential measures in banks' internal rules regarding DTI and DSTI limits (an NP of 67%). Risk perceptions regarding the outlook for the residential property market in part of the banking market together with the cost of funds and balance sheet constraints acted in the same direction. Banks indicated a tightening of credit conditions due to the introduction of DTI and DSTI limits (an NP of 84%) – see the column "Other factors" in the chart "Changes in terms and conditions for approving loans for house purchase". Conversely, part of the banking market eased the terms and conditions via lower average interest margins (an NP of 19%). Households' demand for loans for house purchase fell in 2018 Q4 (an NP of 28%). It was adversely affected by a combination of factors: the introduction of DTI and DSTI limits, the perceived high property prices and the related property market outlooks, a higher required household saving rate necessary for financing loans, and increasing interest rates. Conversely, only consumer confidence had a favourable effect on demand. Although the banking market does not expect credit standards for loans for house purchase to change in 2019 Q1, part of the market expects demand for loans to decrease further (an NP of 57%).

Credit standards for **consumer credit** to households tightened in 2018 Q4 (an NP of 65%). This was fostered by the introduction of DTI and DSTI limits and the assessment of creditworthiness of clients. Some banks also tightened the overall credit conditions for approving loans (an NP of 22%). On the one hand, the tightening reflected the set DTI and DSTI limits, and on the other hand, a decline in the average interest margin fostered an easing. Households' demand for consumer credit dropped in only a small section of the market in 2018 Q4 (an NP of 10%) due to the above-mentioned macroprudential measures. In 2019 Q1, only a small section of the banking market expects credit standards to tighten and demand to go down.

Part of the banking market tightened credit standards for **loans to sole traders** in 2018 Q4 (an NP of 24%), and similar developments are expected in 2019 Q1. Demand for loans in this segment increased in 2018 Q4 (an NP of 19%). Banks expect no change in the outlook for perceived demand for 2019 Q1.

Replies to **additional questions** regarding loans to non-resident non-financial corporations show that credit standards and demand were unchanged in 2018 Q4.

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)

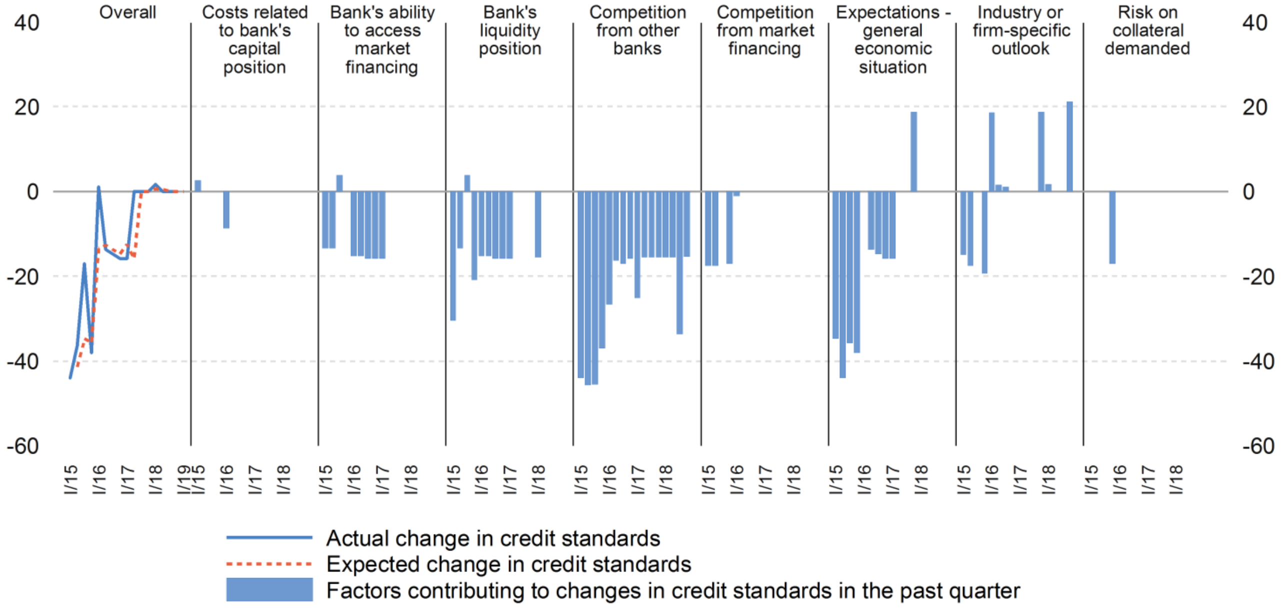


Chart 2 Changes in terms and conditions for approving loans to non-financial corporations (question 3)
(net percentages, positive value = tightening, negative value = easing)

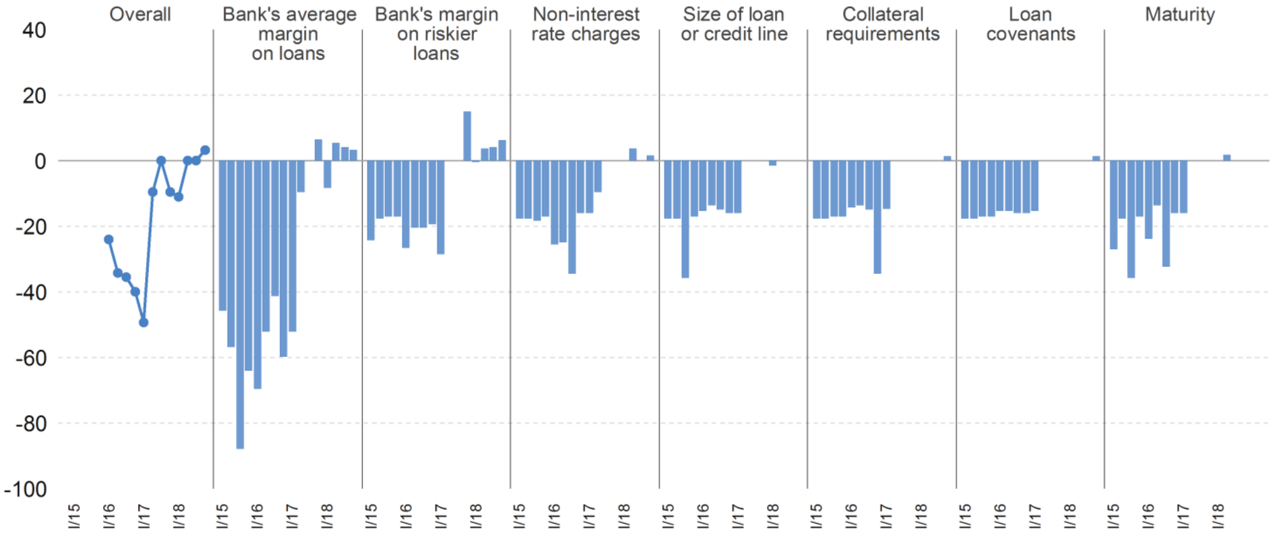
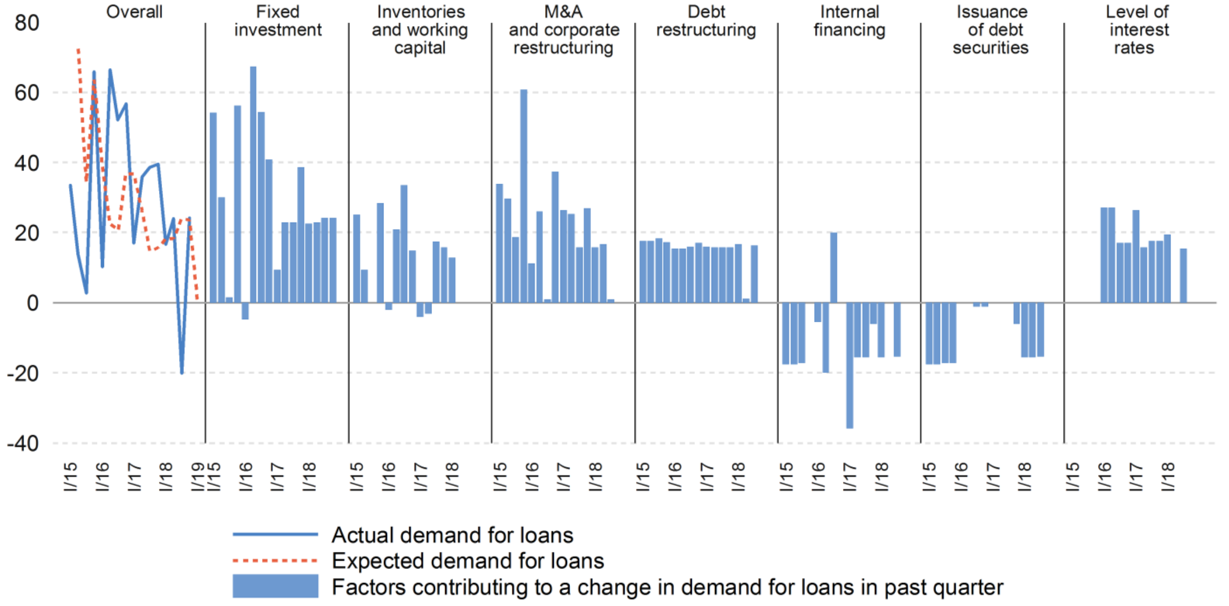


Chart 3 Changes in non-financial corporations' demand for loans (questions 4, 5 and 7)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

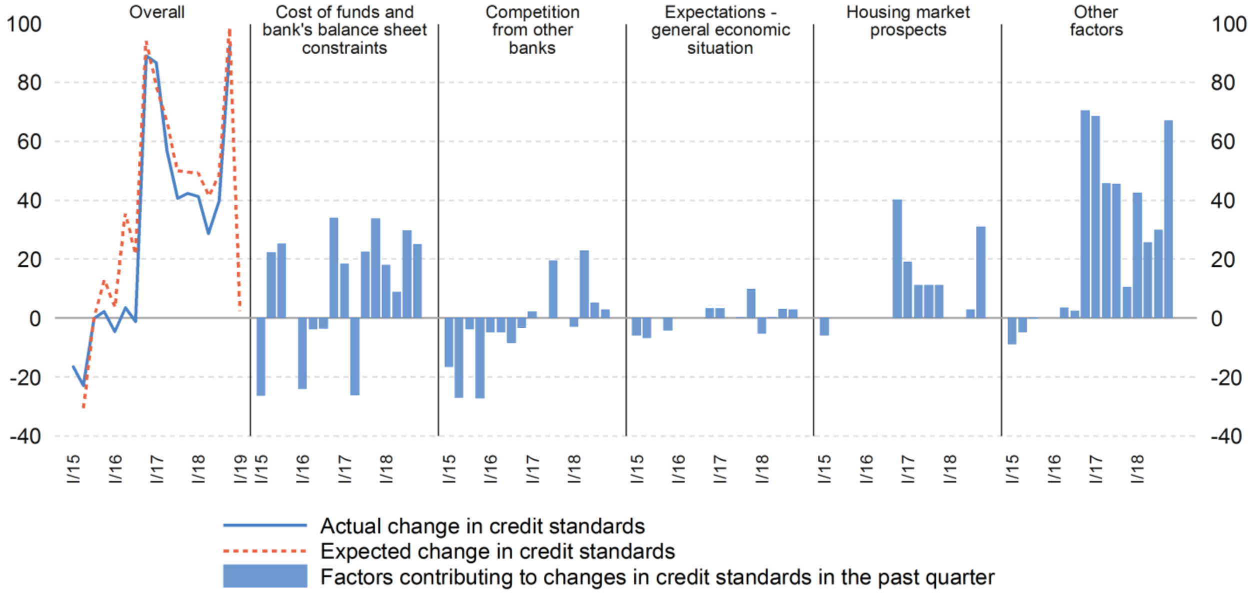


Chart 5 Changes in terms and conditions for approving loans for house purchase (question 10)
(net percentages, positive value = tightening, negative value = easing)

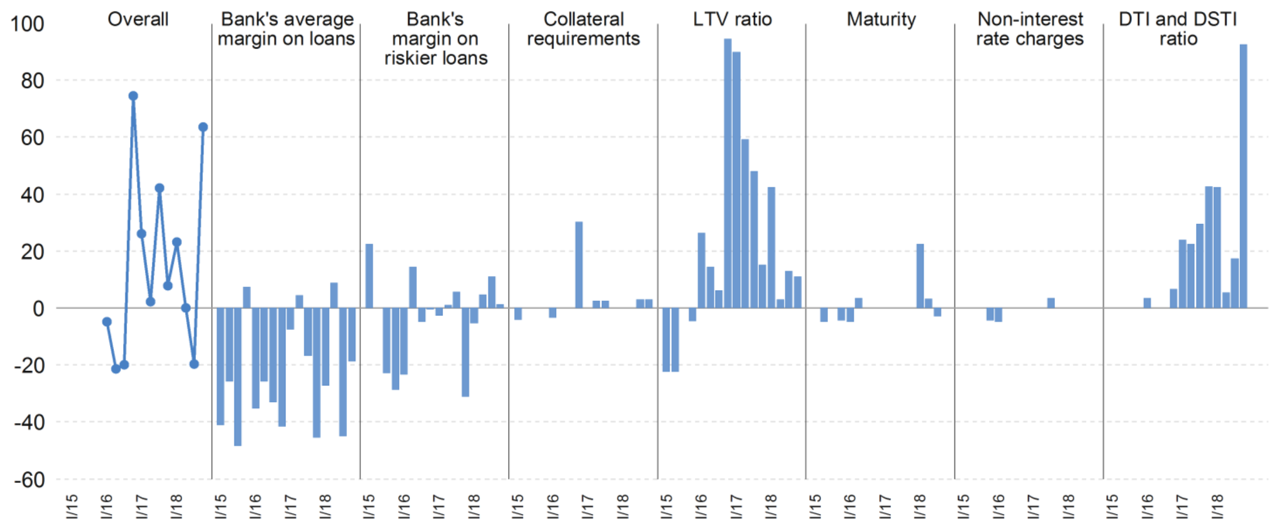
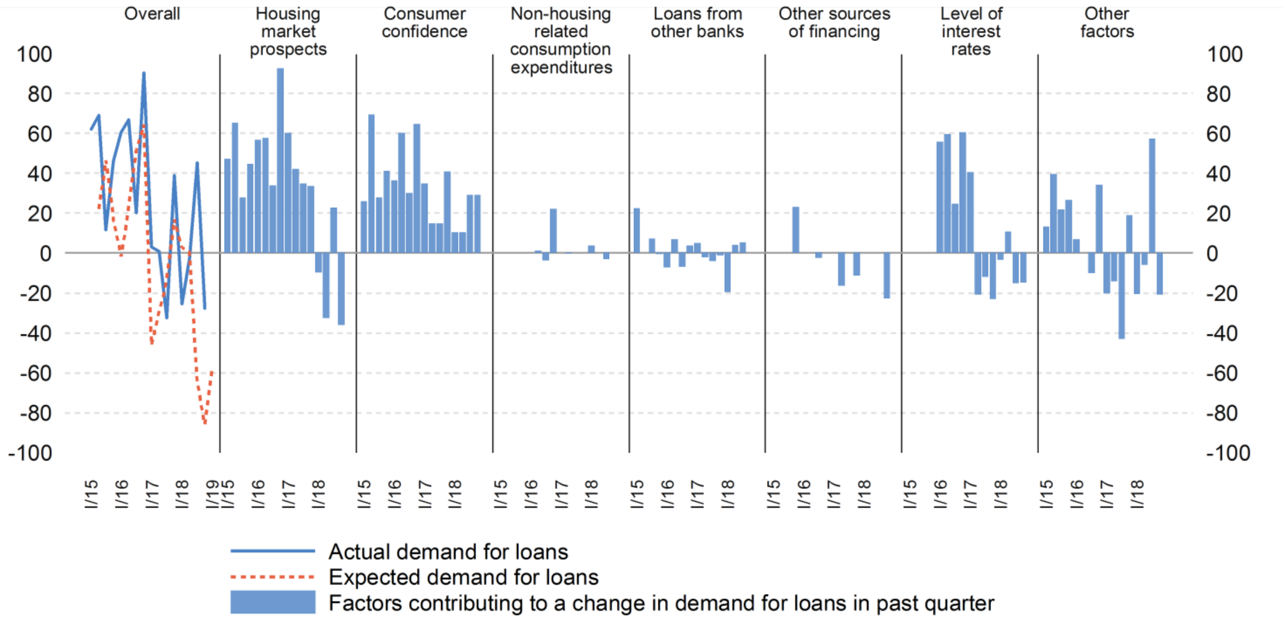


Chart 6 Changes in households' demand for loans for house purchase (questions 13, 14 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)



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)

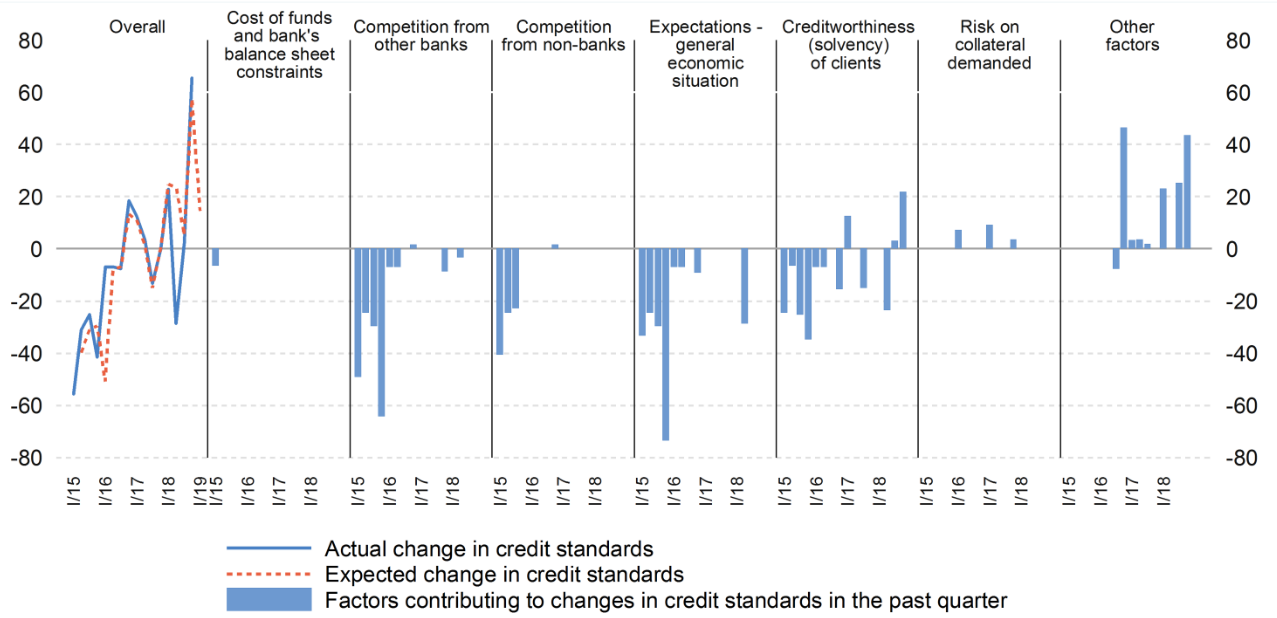


Chart 8 Changes in terms and conditions for approving consumer credit (question 12)
(net percentages, positive value = tightening, negative value = easing)

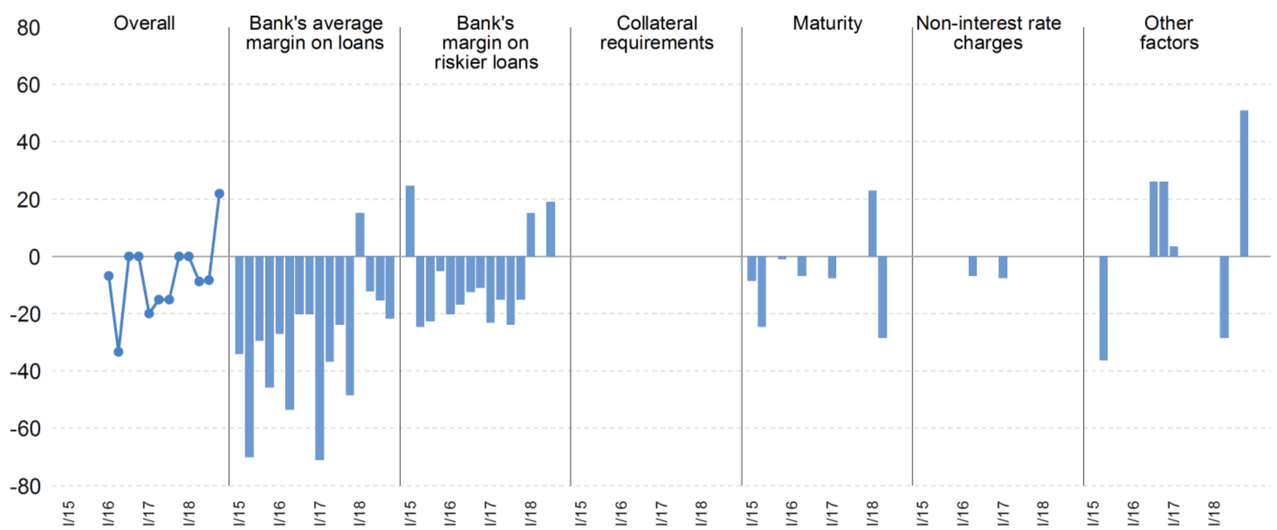


Chart 9 Changes in households' demand for consumer credit (questions 13, 15 and 17)
(net percentages, positive value = demand growth,
negative value = demand decrease)