Box 3

THE RESULTS OF THE JANUARY 2009 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the January 2009 bank lending survey for the euro area conducted by the Eurosystem.[1] In the fourth quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to enterprises broadly remained at the elevated level of the previous quarter.[2] The net tightening of credit standards was equally strong for large enterprises and for small and medium-sized enterprises (SMEs). Respondent banks also reported a further tightening in net terms of their credit standards for loans to households, with the net tightening for consumer credit and other lending reaching a level similar to the one for loans for house purchase. For the first quarter of 2009 banks expected a considerable decline in net tightening for all three categories compared with the actual net tightening in the fourth quarter of 2008. Regarding loan demand, banks noted that net demand for loans both to enterprises and to households for consumer credit and other lending declined further, while net demand for loans to households for house purchase remained at elevated negative levels in the fourth quarter of 2008.[3]

This survey round contained a set of additional ad hoc questions addressing the effect of the financial turmoil in part retaining some of the ad hoc questions included in previous survey rounds (see the last section of this box). Responses to a new ad hoc question indicate that governments' announcements of recapitalisation support and state guarantees for debt securities issued by banks already had some supportive impact on banks' access to wholesale funding in the fourth quarter of 2008 and are expected to further ease access to funding in the first quarter of 2009. Nevertheless, banks reported that their access to money markets and to securitisation

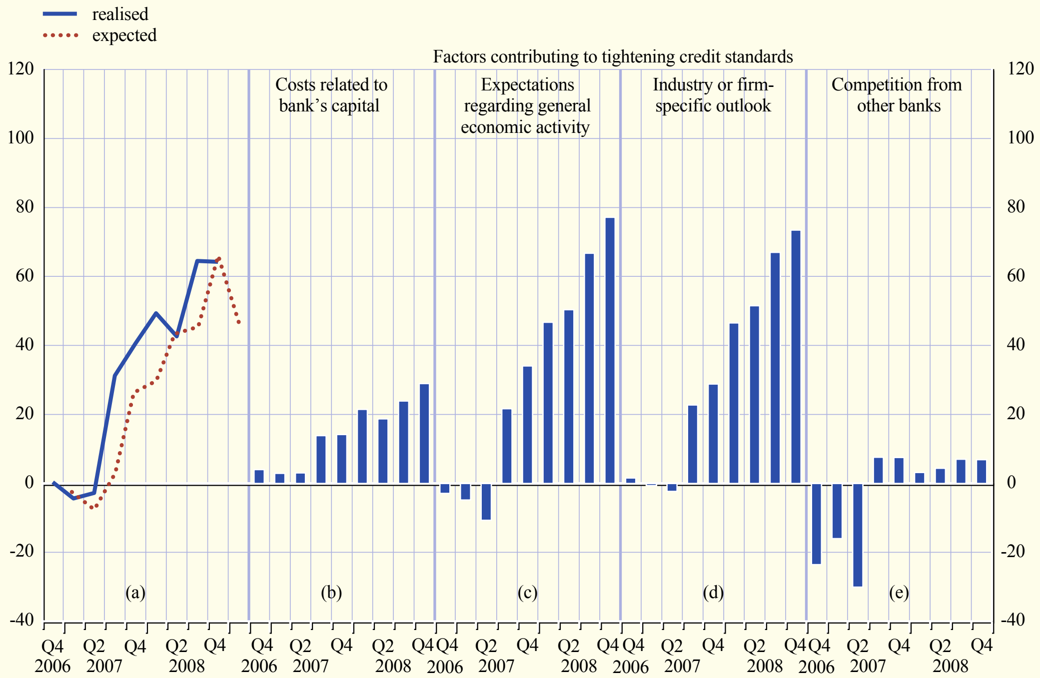
1 The cut-off date for the receipt of data from the responding banks was 7 January 2009. A comprehensive assessment of the results of the January 2009 bank lending survey for the euro area was published on 6 February 2009 on the ECB's website.

2 The reported net percentage refers to the difference between the proportion of banks reporting that credit standards have been tightened and the proportion of banks reporting that they have been eased. A positive net percentage indicates that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage indicates that banks have tended to ease credit standards ("net easing").

3 The term "net demand" refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.

Chart A Changes in credit standards applied to the approval of loans or credit lines to enterprises

(net percentages)



Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

broadly remained hampered at elevated levels and their access was more hampered for debt securities markets as a result of the turmoil in financial markets.

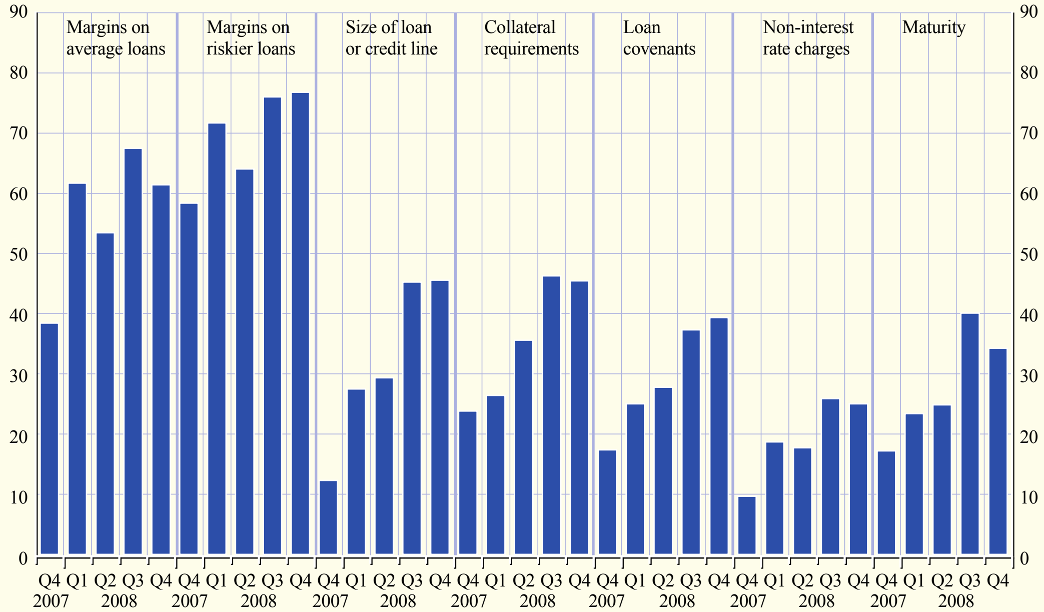
Loans or credit lines to enterprises

Credit standards: In the fourth quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to enterprises decreased by one percentage point (to 64%, from 65% in the third quarter of 2008; see Chart A); as in the previous quarter, this reflected the fact that most banks reported having "tightened somewhat" their credit standards, whereas only a minority stated that they had tightened them "considerably". The most important factors driving the net tightening continued to be expectations of future economic activity and the industry or firm-specific outlook, which further gained in importance. At the same time, the impact of banks' cost of funds and balance sheet constraints slightly increased, to remain at comparatively high levels, in particular banks' cost related to their capital position and banks' ability to access market financing, while banks' liquidity position broadly remained unchanged.

Regarding the terms and conditions of loans to enterprises, banks reported a continued widening of their margins on average loans and on riskier loans in the fourth quarter, in net terms 61% (against 68% in the third quarter) and 77% (against 76%) respectively (see Chart B). Moreover, the tightening in non-price terms and conditions remained high. As in the previous

Chart B Changes in terms and conditions for approving loans or credit lines to enterprises

(net percentages of banks reporting tightening terms and conditions)



Note: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

quarter, almost half of the banks tightened their credit standards by acting on the size of loans or credit lines and on collateral requirements.

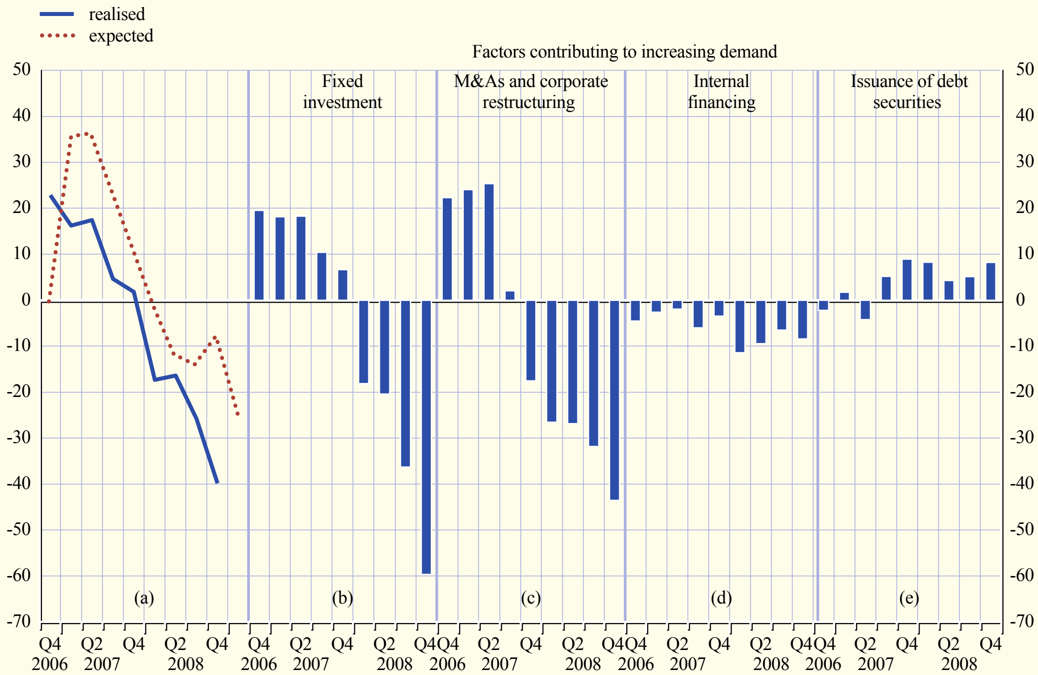
Unlike in the previous survey rounds, the net tightening of credit standards was equally strong for large enterprises (63%, compared with 68% in the third quarter) and for SMEs (63%, compared with 56% in the third quarter). While for large enterprises some stabilisation occurred, the net tightening increased further for SMEs in the fourth quarter of 2008. As regards the factors underlying the changes in credit standards, for both large enterprises and SMEs, expectations regarding general economic activity and the industry or firm-specific outlook continued to be the most important factors behind the tightening. In addition, banks' cost of funds and balance sheet constraints played a somewhat more important role in the net tightening for large firms than for SMEs, but they seem to have gained in importance for lending to SMEs.

For the first quarter of 2009 respondent banks expected a lower level of net tightening of credit standards for loans to enterprises (47%) compared with the actual net tightening in the fourth quarter of 2008 (see Chart A).

Loan demand: According to respondent banks, net demand for loans to enterprises again declined considerably and continued to be negative in the fourth quarter of 2008 (-40%, compared with -26% in the third quarter; see Chart C). The negative net demand was driven by a decline in the financing needs for fixed investment (to -60%, from -36% in the third quarter) and by a further fall in demand stemming from M&As and corporate restructuring (-44%, after -32% in the third quarter). Additionally, as in the previous quarter internal financing (i.e. cash flow)

Chart C Changes in demand for loans or credit lines to enterprises

(net percentages)



Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to an increase in demand and the percentage reporting that it contributed to a decline. "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

contributed somewhat to lowering net demand for loans to enterprises. By contrast, the issuance of debt securities continued to contribute positively, at slightly more elevated levels, to the net demand for loans by enterprises, reflecting difficult market conditions and the increased cost of market-based debt financing. In terms of borrower size, while net loan demand was negative for both large firms and SMEs, the decline was somewhat more pronounced for SMEs in the fourth quarter of 2008. Regarding the maturity spectrum, net demand decreased particularly for long-term loans.

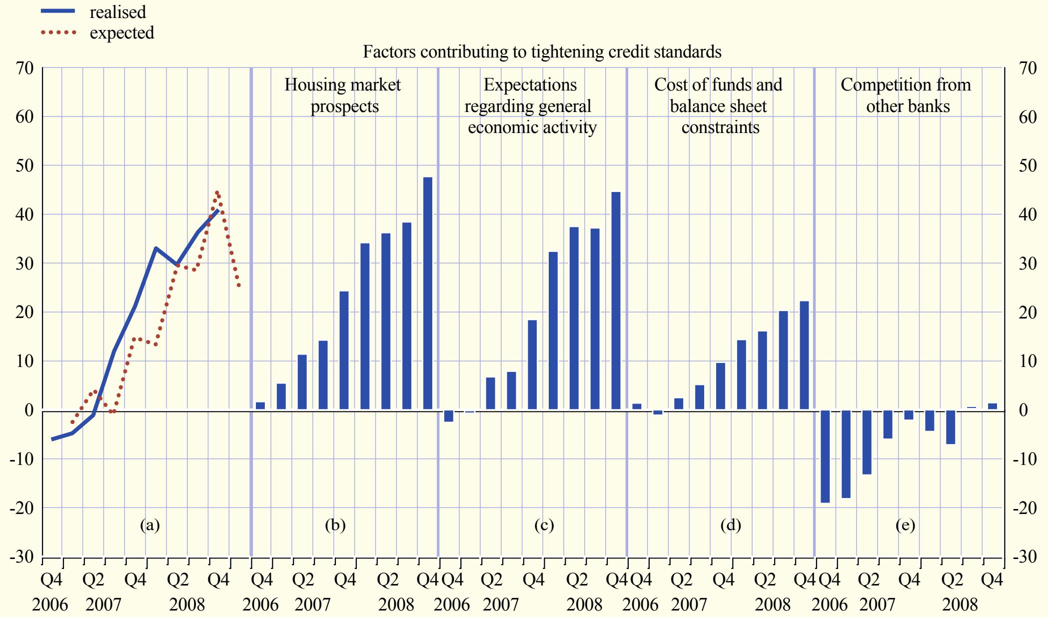
For the first quarter of 2009 the decline in net demand for loans to enterprises is expected to be less negative, at -26%, compared with the actual net demand in the fourth quarter of 2008 (see Chart C).

Loans to households for house purchase

Credit standards: In the fourth quarter of 2008 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase continued to increase somewhat (to 41%, from 36% in the third quarter; see Chart D). Expectations regarding general economic activity and housing market prospects continued to be the main factors contributing to the net tightening of credit standards. However, the cost of funds and balance sheet constraints also continued to put some strain on responding banks. As in the previous quarter, competition

Chart D Changes in credit standards applied to the approval of loans to households for house purchase

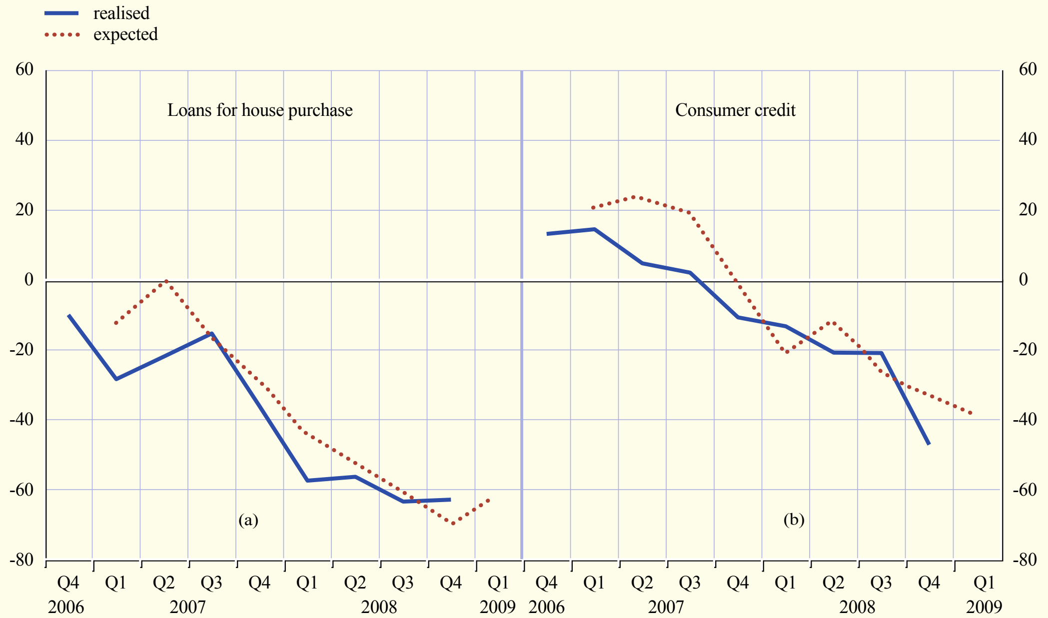
(net percentages)



Note: See footnote for Chart A.

Chart E Changes in demand for loans to households for house purchase and consumer credit

(net percentages)



Notes: The net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Realised" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

from other banks did not contribute to an easing of credit standards for loans to households for house purchase, but was broadly neutral.

As regards the terms and conditions for loans for house purchase, banks reported a further increase in net tightening via margins on average loans (45%, up from 35% in the third quarter). They also reported an increase in net tightening via margins on riskier loans, to 51% from 43% in the third quarter. In addition, non-price terms and conditions, such as collateral requirements and loan-to-value (LTV) ratios, were tightened further.

In the first quarter of 2009 credit standards for loans for house purchase are expected to tighten to a lesser extent (25%) compared with the actual net tightening in the fourth quarter of 2008 (see Chart D).

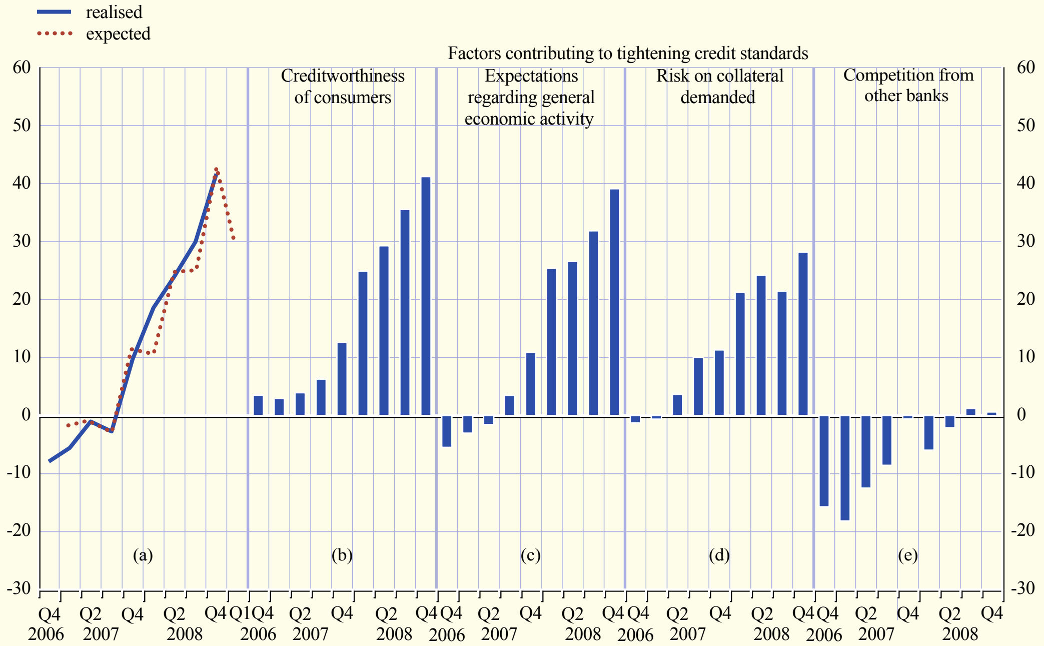
Loan demand: The net demand for housing loans remained at an elevated negative level in the fourth quarter of 2008 (-63%, after -64% in the third quarter of 2008; see Chart E). This mainly reflected worsened housing market prospects and deteriorating consumer confidence. For the first quarter of 2009 expectations point to a broadly unchanged negative level of net demand (-61%) compared with the actual net demand in the fourth quarter of 2008.

Loans for consumer credit and other lending to households

Credit standards: In the fourth quarter of 2008 the net percentage of banks reporting a tightening of credit standards for consumer credit and other lending to households continued

Chart F Changes in credit standards applied to the approval of consumer credit and other lending to households

(net percentages)



Note: See footnote for Chart A.

to increase (42%, compared with 30% in the previous quarter; see Chart F), reaching a level similar to the one for loans for house purchase. Banks' risk perceptions were again the main factor behind the further increase in net tightening, mainly related to expectations regarding general economic activity and the creditworthiness of consumers. With respect to terms and conditions for granting consumer credit, banks reported an increase in net tightening via margins on average loans and a basically unchanged level of tightening for riskier loans (37% for both).

For the first quarter of 2009 expectations point to a considerably lower level of tightening of credit standards for consumer credit and other lending to households (28%) compared with the actual net tightening in the fourth quarter of 2008 (see Chart F).

Loan demand: Net demand for consumer credit and other lending to households declined in the fourth quarter compared with the third quarter of 2008 (to -47%; see Chart E). The main factors dampening demand were deteriorated consumer confidence as well as lower financing needs for durable consumer goods according to reporting banks.

Ad hoc questions on the financial turmoil

The January 2009 survey round retained some of the ad hoc questions included in previous surveys addressing the impact of the financial market tensions experienced since the second half of 2007, and included a new ad hoc question on the impact of governments' announcements of recapitalisation support and state guarantees for debt securities issued by banks on banks' access to wholesale funding.

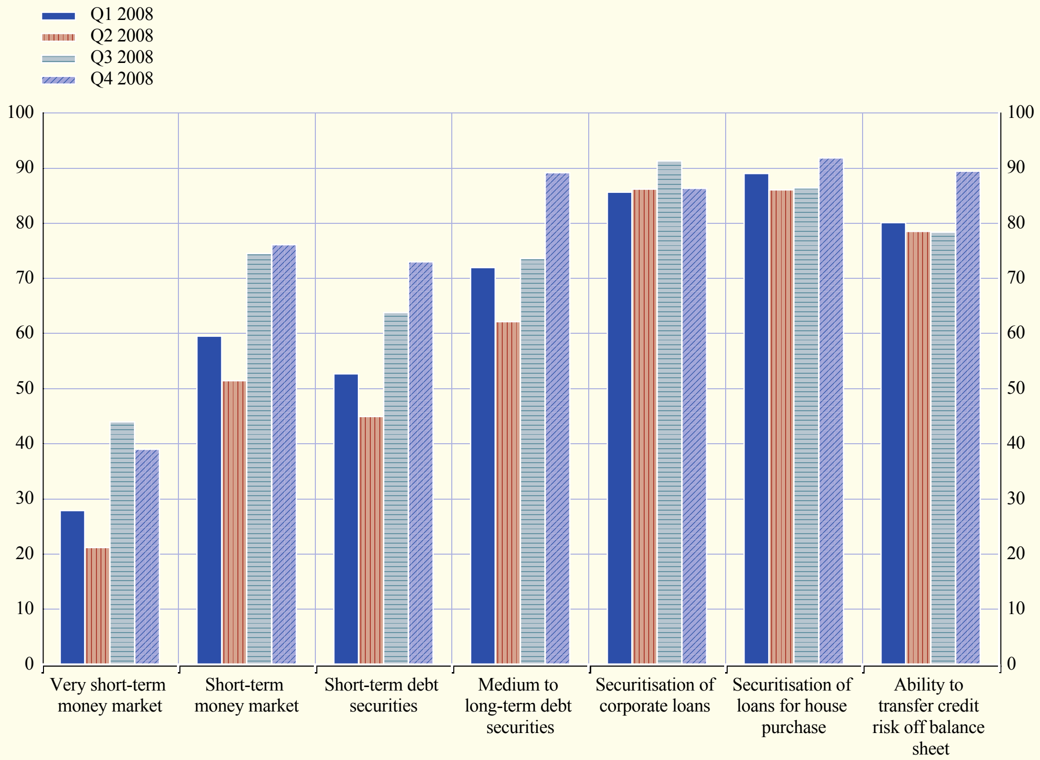
As regards banks' funding via wholesale markets, in the fourth quarter of 2008 banks reported that their access to money markets as a result of the turmoil in financial markets broadly remained hampered at elevated levels and their access was further hampered regarding debt securities markets compared with the third quarter (see Chart G). With 89% of the responding banks stating that they have been hampered in market access for medium to long-term debt issues, a similarly elevated level was reached as for access to securitisation, which continued to be similarly hampered as in the third quarter. 86% and 92% of the sub-set of responding banks for which securitisation activities were relevant reported that their access to securitisation was hampered for corporate loans and loans for house purchase, respectively. Over the next three months access to short-term funding is expected to improve; this holds true for money markets and, to some extent, the markets for short-term debt securities issues. At the same time, medium to long-term debt securities issues, as well as access to securitisation, are expected to broadly be hampered at similar levels to those reported in the fourth quarter of 2008.

In this regard, governments' announcements of recapitalisation support and state guarantees for debt securities issued by banks seem to have already supported to some extent banks' access to wholesale funding. This was indicated by banks in reply to the new ad hoc question.[4] Some improvement was felt by 34% of the replying banks for the fourth quarter of 2008. For

4 102 out of 112 banks responded, giving a response rate of 91%. 6% of responding banks reported "not applicable".

Chart G Access to wholesale funding

(percentages)



Notes: Figures indicate the percentage of banks reporting that access to particular sources of wholesale funding have been hampered. The figure for each column is calculated as the number of banks indicating that particular source as a percentage of the number of banks not replying "not applicable" in response to this question. These totals are weighted averages of country results.

the first quarter of 2009, 58% expected an improvement in their access to wholesale funding as a result of these measures.[5]

More or less in line with reported developments in the access to money markets and debt securities markets, banks described the impact on bank lending, for both quantities and margins, from these funding options as broadly unchanged at elevated levels. The impact continued to be stronger for margins than for the amount of loans granted to borrowers. With regard to the impact from the hampered access to securitisation on their lending, banks reported a somewhat lower impact on the amount of loans granted and a similar impact on margins compared with the previous quarter.

Finally, concerning the impact of the financial turmoil on their lending policy via changes in banks' costs related to their capital position, in the fourth quarter of 2008, 48% of the reporting banks indicated a considerable impact or some impact on capital and lending, a 5 percentage point increase compared with the third quarter.

5 Including banks reporting a "considerable improvement in market access" of 2% and 3% for the fourth quarter of 2008 and expectations for the first quarter of 2009, respectively.