Box 3

THE RESULTS OF THE APRIL 2010 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the April 2010 bank lending survey (BLS) for the euro area, which was conducted by the Eurosystem between 15 March and 1 April 2010.[1] Overall, with respect to loans to enterprises, the survey results point to an unchanged net tightening of credit standards. The net tightening remained broadly unchanged also for consumer credit and other lending to households. By contrast, there was some increase in the net tightening of credit standards on loans to households for house purchase in the first quarter of 2010.

Loans and credit lines to enterprises

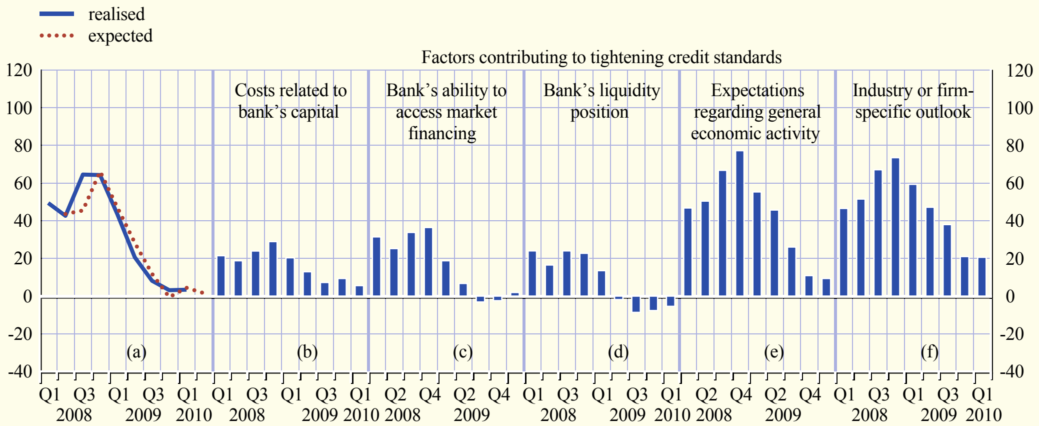
In the first quarter of 2010 the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises remained unchanged at 3% (see Chart A), broadly in line with banks' expectations in the previous survey round (which stood at 4%). The overall results for enterprises were consistent across firm size classes. The net percentage of credit

1 The cut-off date of the survey was 1 April 2010. A comprehensive assessment of the results of the April 2010 bank lending survey for the euro area was published on 28 April 2010 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").

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.

standards remained broadly unchanged and stood at similar levels both for loans to small and medium-sized enterprises (at 4%, unchanged from the fourth quarter of 2009) and loans to large firms (3%, compared with 4% in the fourth quarter of 2009).

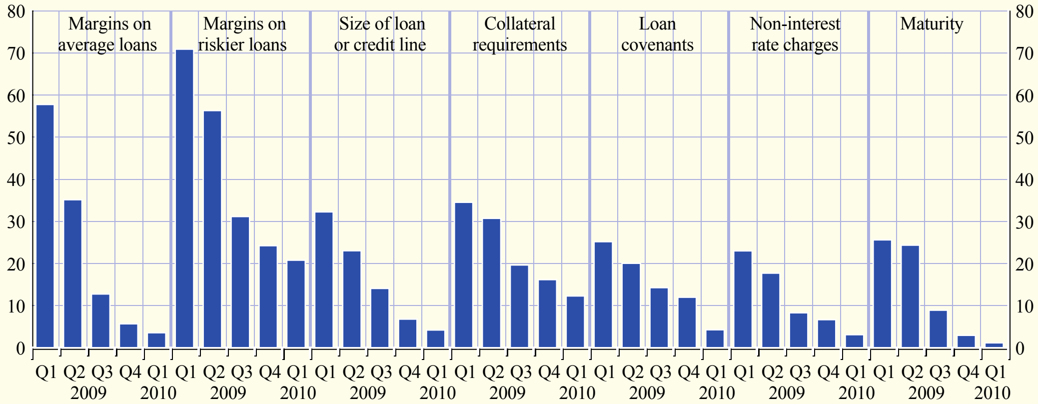
Looking at the factors contributing to the net tightening of credit standards, the contributions of the industry or firm-specific outlook (21%), as well as of the expectations regarding general economic activity (9%), remained broadly unchanged compared with the fourth quarter of 2009, whereas the contribution of the risk on collateral demanded has declined (4%, down from 12%). Hence, the decline in the factors related to banks' risk perception in 2009 slowed down in the first quarter of 2010. With respect to the bank-specific factors, the picture remained mixed. Costs related to banks' capital position continued to contribute to the tightening of credit standards, although slightly less than before (6%, as against 9% in the fourth quarter of 2009). Banks' ability to access market financing also contributed slightly to the tightening of credit standards, after an easing contribution in the two previous quarters. By contrast, banks' liquidity position, helped by the non-standard monetary policy operational measures of the ECB, continued to contribute to an easing of credit standards (-6%, as against -8% in the fourth quarter of 2009).

The net tightening of the price and non-price terms and conditions on loans to enterprises continued to decline in the first quarter of 2010 (see Chart B). This decline was broadly based across all types of terms and conditions, with, in particular, a reduction in the net tightening of loan covenants (4%, as against 12% in the fourth quarter of 2009). Across the firm size dimension, margins on average loans to large firms eased slightly (-1%, from 6% in the fourth quarter of 2009) for the first time since this breakdown became available in the first quarter of 2009, whereas the net tightening of margins remained broadly unchanged (8%, as against 7% in the fourth quarter of 2009) for SME loans.

Looking forward, euro area banks expect the net tightening of credit standards on loans to enterprises to remain broadly unchanged in the second quarter of 2010 (at 2%; see Chart A).

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

(net percentages of banks reporting tightening terms and conditions)



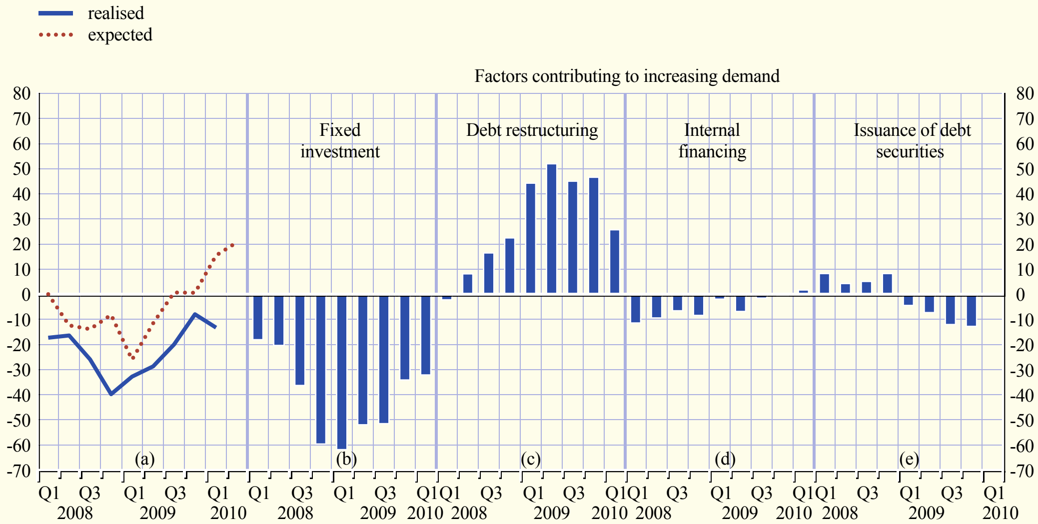
Note: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

Loan demand: Net demand[3] for loans from enterprises declined in the first quarter of 2010 (to -13%, as against -8% in the fourth quarter of 2009; see Chart C). Hence, the gradual recovery in loan demand by enterprises that had started in the first quarter of 2009 seems to have weakened in the first quarter of 2010. Net demand for loans weakened for both loans to SMEs

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 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.

(-9%, from -4%) and loans to large firms (-20%, from -18%). It remained overall weaker for large firms. The most important reason for the weakening in net demand for loans by enterprises appears to be a lower positive contribution of debt restructuring (i.e. altering the terms and conditions of outstanding debt obligations of enterprises; 26%, as against 47% in the fourth quarter of 2009), coming down from exceptionally high previous levels. Favourable market conditions, leading to some substitution of bank-based financing by market-based financing, also lowered loan demand by enterprises, as indicated in particular by the negative contribution of debt securities issuance (-10%, as against -13% in the fourth quarter of 2009). By contrast, the negative contribution of fixed investment remained broadly unchanged at depressed levels (-32%, as against -34% in the fourth quarter of 2009), related to subdued investment expenditures, while the contribution of inventories and working capital turned positive (to 3%, as against -1% in the fourth quarter of 2009) for the first time since the third quarter of 2008.

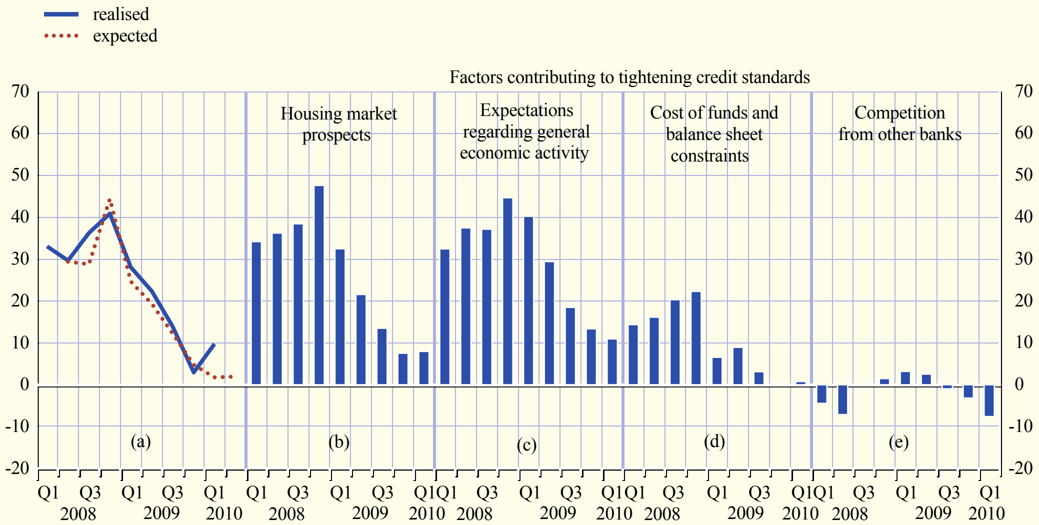
Looking forward, banks continue to be relatively optimistic regarding loan demand by enterprises. On balance, 21% (up from 16%) expect net loan demand from enterprises to turn positive in the second quarter of 2010, and, in line with the current pattern of loan demand, it is expected to be more positive for SMEs (+24% in the second quarter of 2010) than for large firms (+9%).

Loans to households for house purchase

Credit standards: In contrast with developments over previous quarters and the situation for loans to enterprises, there has been an increase in the net percentage of banks reporting a tightening of credit standards on loans to households for house purchase in the first quarter of 2010 (to 10%, from 3% in the fourth quarter of 2009; see Chart D). This is also somewhat in contrast with banks' expectations in the previous round, when they foresaw a similarly low net tightening as in the fourth quarter of 2009. In addition, the increase in net tightening in the first quarter of 2010 did not seem to be reflected in the underlying factors, which either

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

(net percentages)



Note: See notes to Chart A.

remained broadly unchanged (for instance housing market prospects) or contributed less to the net tightening of credit standards (for instance the general economic outlook) in the first quarter of 2010. At the same time, part of the explanation for the increase in the net tightening of credit standards may be related to other factors, such as changes in banks' risk management. As in the previous survey round and unlike for corporate loans, banks' cost of funds and balance sheet constraints, seen as pure supply-side factors with respect to the provision of loans, remained neutral (1%, as against 0% in the fourth quarter of 2009).

Regarding terms and conditions on loans for house purchase, margins on riskier loans (16%), loan-to-value ratios (11%) and collateral requirements (4%) continued to be tightened by banks, although moderately compared with levels one year ago. By contrast, loan maturity (1%) remained broadly neutral and the margins on average loans (-3%) declined in the first quarter of 2010 for the first time since the third quarter of 2007.

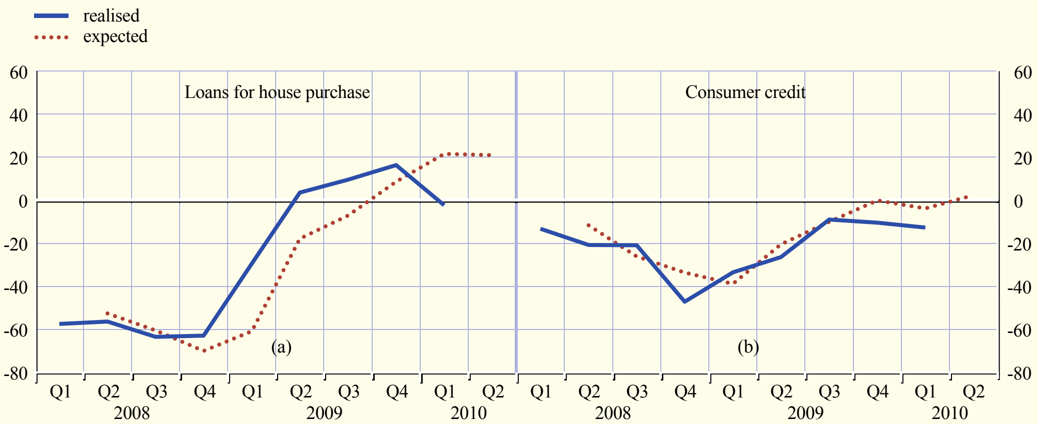
Looking forward, banks expect a renewed decrease in the net tightening of credit standards for housing loans in the second quarter of 2010 (to 2%).

Loan demand: Net demand for housing loans declined significantly in the first quarter of 2010 (-2%, as against 16% in the fourth quarter of 2009), after an increase for three consecutive quarters and in contrast to the positive net demand banks had expected in the previous survey round (see Chart E). The fall in net demand can be explained in particular by a less positive contribution of housing market prospects (3%, as against 8% in the fourth quarter of 2009) and a more negative contribution of consumer confidence (-13%, as against -2% in the fourth quarter of 2009). In addition, competition from other banks contributed negatively to the demand for housing loans (-6%, from 0%).

Looking forward, banks expect the net demand for housing loans to increase in the second quarter of 2010 (to 21%).

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.

Consumer credit and other lending to households

Credit standards: The net percentage of banks reporting a tightening of credit standards for consumer credit and other lending to households remained broadly unchanged in the first quarter of 2010 (11%, as against 10% in the fourth quarter of 2009; see Chart F), broadly in line with expectations in the previous survey round. While banks' expectations regarding general economic activity (10%, as against 13% in the fourth quarter of 2009) and the creditworthiness of consumers (19%, as against 17% in the fourth quarter of 2009) were the main factors underlying the net tightening, competition between banks contributed to an easing of credit standards (-3%, compared with -1% in the fourth quarter of 2009). In addition, as for housing loans, banks' cost of funds and balance sheet constraints were broadly neutral for the provision of consumer credit and other lending to households (1%, as against 4% in the fourth quarter of 2009).

Looking forward, banks expect the net tightening to decline in the second quarter of 2010 (to 2%).

Loan demand: Developments in the demand for consumer loans appear to have been somewhat more sluggish in the first quarter of 2010 (-13%, as against -10% in the fourth quarter of 2009; see Chart E). Banks had expected a smaller decline for the first quarter of 2010. While most factors having an impact on consumer loans remained broadly unchanged in the first quarter of 2010, competition from other banks dampened somewhat the net demand for loans.

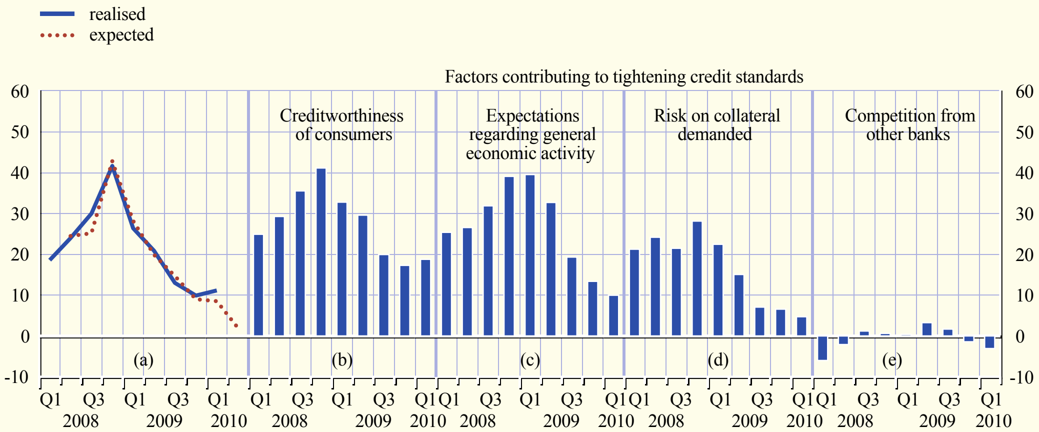
Looking ahead, in contrast with the previous survey round, banks expect a slightly positive net demand for consumer credit and other lending to households in the second quarter of 2010 (2%).

Ad hoc questions on the impact of the financial turmoil

As in previous survey rounds, the April 2010 survey also contains a set of ad hoc questions, which aim at assessing the extent to which the financial market tensions have affected banks'

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

(net percentages)



Note: See notes to Chart A.

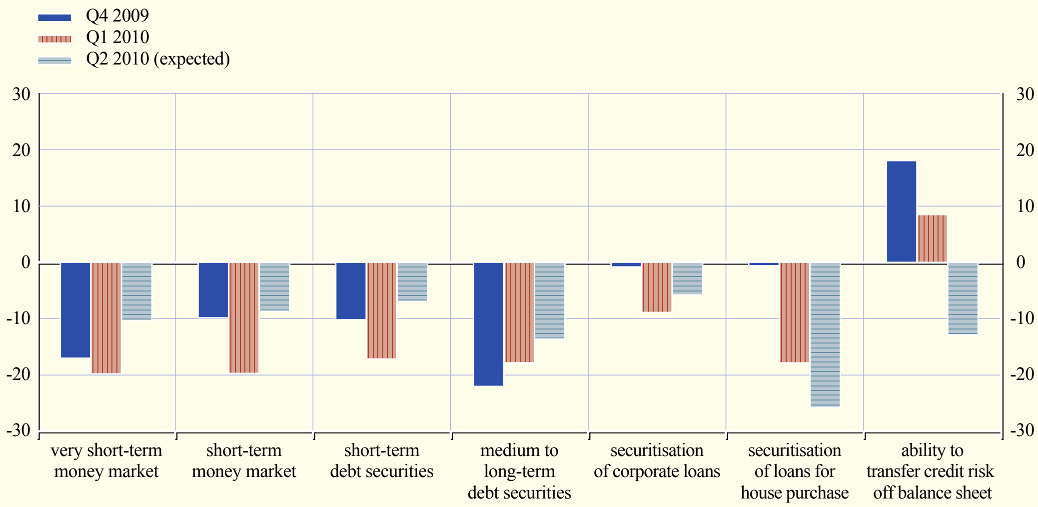
credit standards for loans and credit lines to enterprises and loans to households in the euro area in the first quarter of 2010 and the extent to which they might still exert an effect in the second quarter.

For the first quarter of 2010 banks generally reported that their access to wholesale funding became easier, with the exception of their ability to transfer credit risk off their balance sheets (see Chart G). On balance, around 17-20% of the banks (excluding the banks that replied "not applicable") reported an easier access to money markets and debt securities markets in the first quarter of 2010. In addition, after a broadly neutral assessment of true-sale securitisation access for corporate and housing loans in the fourth quarter of 2009, banks for which this business is relevant (i.e. around 60% of the banks) assessed the situation as being clearly more positive, in particular for the securitisation of housing loans. On balance, 18% of these banks reported an easier access to this type of securitisation. By contrast, according to 9% of the banks for which this business is relevant (i.e. 40% of the banks), synthetic securitisation, i.e. the ability to transfer credit risk off balance sheet, still deteriorated, but banks reported a decreased difficulty in transferring risk than in the previous quarter. For the second quarter of 2010 banks expect a further improvement in the access to wholesale funding. In particular, on balance, 13% of the banks for which this business is relevant expect that also their access to synthetic securitisation will become easier.

Regarding the impact of the financial turmoil on banks' costs related to their capital position and on their lending policy, there was limited change between the fourth quarter of 2009 and the first quarter of 2010. In the first quarter of 2010 about 40% of the reporting banks indicated "some" or a "considerable" impact on both capital and lending, broadly in line with replies from the previous survey round. In addition, 38% (as against 32% in the fourth quarter of 2009) reported that there was basically no impact on their capital in the first quarter of 2010 resulting from the financial turmoil.

Chart G Change in the access to wholesale funding over the past three months

(net percentages of banks reporting deteriorated market access)



Note: The net percentages are defined as the difference between the sum of the percentages for "deteriorated considerably" and "deteriorated somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".