Box 2

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

This box describes the main results of the July 2010 bank lending survey (BLS) for the euro area, which was conducted by the Eurosystem between 14 June and 2 July 2010.[1] The survey results point to a discontinuation in the second quarter of 2010 of the downward trend in the net tightening of credit standards on loans to enterprises observed in previous quarters. Also in the second quarter of 2010, the net tightening of credit standards remained broadly unchanged both for consumer credit and other lending to households and for loans to households for house purchase.

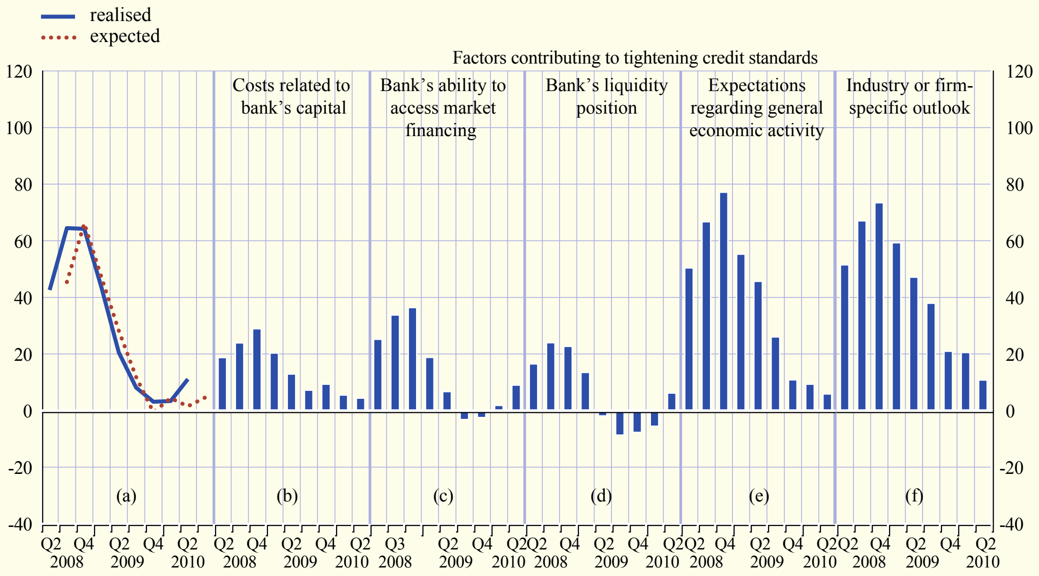
Loans and credit lines to enterprises

Credit standards: In the second quarter of 2010, the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises increased to 11% (see Chart A), thereby exceeding banks' expectations in the previous survey round (when it stood at 2%). The overall results for enterprises were consistent across firm size. The net percentage

1 The cut-off date of the survey was 2 July 2010. A comprehensive assessment of the results of the July 2010 bank lending survey for the euro area was published on 28 July 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.

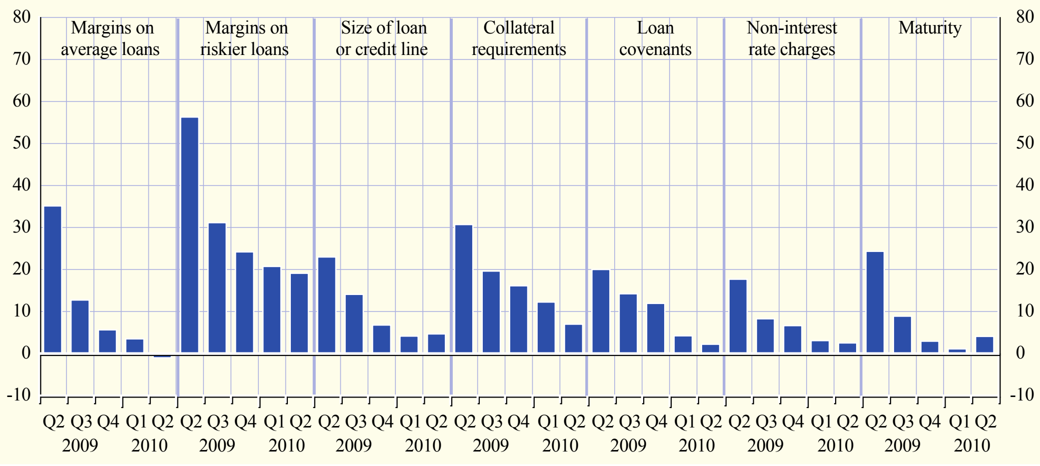
of credit standards increased to 14% for loans to small and medium-sized enterprises (SMEs) (compared with 4% in the first quarter of 2010) and to 12% for loans to large firms (compared with 3% in the previous quarter).

Looking at the factors contributing to the net tightening of credit standards, in the second quarter of 2010 banks reported stronger contributions from bank-specific factors, possibly indicating renewed financial market tensions. In particular, this was reflected in the fact that banks' liquidity position contributed to a tightening of credit standards (6%, against -6% in the first quarter of 2010), after contributing to an easing in the preceding four quarters. A stronger positive contribution pertaining to banks' ability to access market financing was reported (9%, compared with 2% in the first quarter of 2010). While still contributing to a net tightening of credit standards, costs related to banks' capital positions became somewhat less pronounced than before (4%, against 6% in the first quarter of 2010). By contrast, competition (by banks, non-banks and market financing) generally tended to ease credit standards on loans to enterprises in the second quarter of 2010. At the same time, following the trend observed in previous quarters, there was a further decline in the contributions from business cycle-related factors to the net tightening of credit standards, such as the industry or firm-specific outlook (11%, compared with 21% in the first quarter of 2010) and expectations regarding general economic activity (6%, against 9% in the first quarter of 2010).

Developments were mixed with respect to price and non-price terms and conditions through which the net tightening of credit standards on loans to enterprises was achieved in the second quarter of 2010 (see Chart B). Thus, while margins, loan covenants and collateral demanded eased somewhat, there was a slightly more restrictive attitude towards the size of loans granted and the length of loan maturity. As in the previous quarter, margins on average loans to large firms eased slightly in the second quarter of 2010 (to -2%, from -1% in the first quarter of 2010), whereas the net tightening of margins remained broadly unchanged (at 8%) for loans to SMEs.

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".

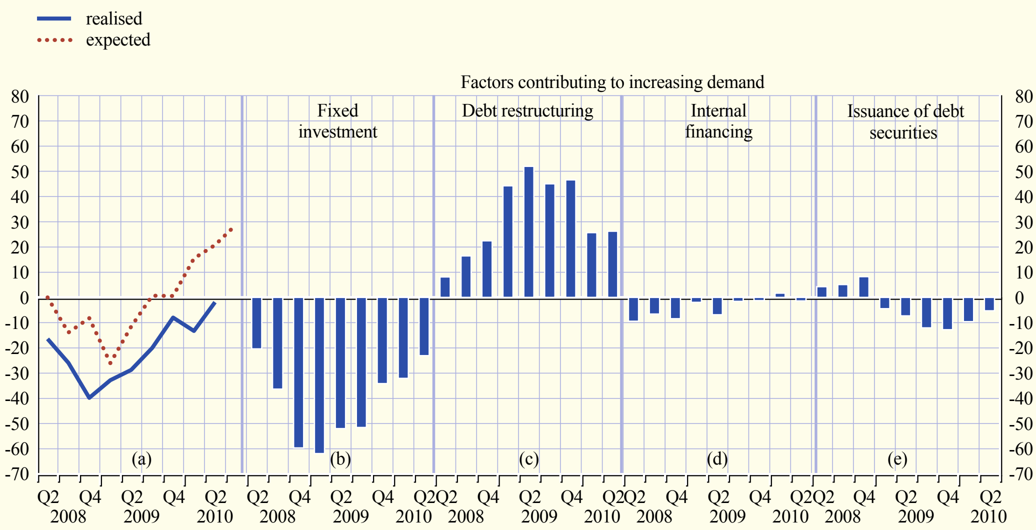
Looking ahead, banks expect a lower net tightening of credit standards in the third quarter of 2010 (at 5%; see Chart A).

Loan demand: Net demand for corporate loans[3], while remaining negative, increased to -2% in the second quarter of 2010 from -13% in the first quarter of 2010 (see Chart C), thus continuing the gradual recovery in net loan demand from enterprises that started in the first quarter of 2009. The net demand for loans became less negative both for loans to SMEs (-3%, compared with -9% in the first quarter of 2010) and for loans to large firms (-10%, compared with -20% in the previous quarter), but remained weaker overall in the case of the latter. Notably, while net demand for short-term loans remained in negative territory (at -3%) in the second quarter of 2010, net demand for long-term loans turned positive (at 3%) for the first time since the first quarter of 2008. The most important reason for the improvement in net demand for loans by enterprises was a less negative contribution from factors such as fixed investment (-23%, after -32% in the first quarter of 2010) and mergers and acquisitions (at -7%, after -18% in the first quarter of 2010). Moreover, the negative contribution from substitute sources of financing, debt securities issuance in particular, became somewhat less pronounced in the second quarter. At the same time, the positive contribution from debt restructuring (i.e. enterprises altering the terms and conditions of their outstanding debt obligations) remained unchanged compared with the previous survey round, and the contribution from inventories and working capital further increased somewhat (to 7%, up from 3% in the previous quarter).

3 The net demand for loans is calculated as the percentage difference between those banks reporting that demand for loans has increased and those reporting that demand for loans has decreased.

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.

Looking ahead, banks expect increased demand for loans. On a net basis, 29% of the banks surveyed (up from 21%) expect loan demand from enterprises to increase in the third quarter of 2010, but to a larger extent from SMEs (33% of banks) than from large firms (19%). Furthermore, banks expect a rebound in net demand for short-term lending from -3% to 30% in the third quarter of 2010.

Loans to households for house purchase

Credit standards: In the second quarter of 2010, the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase remained unchanged compared with the previous quarter at 10% (see Chart D). For the second consecutive quarter, banks' expectations from previous survey rounds underestimated the net tightening of credit standards. As in the case of loans to enterprises, factors related to cost of funds and balance sheet constraints contributed more strongly to the net tightening of credit standards for loans to households for house purchase (6% in the second quarter of 2010, compared with 1% in the first quarter). Likewise, banks reported a somewhat less pronounced contribution from risk-based factors, such as housing market prospects and the general economic outlook. Finally, as in previous survey rounds, competition between banks contributed to an easing of credit standards on housing loans.

Regarding terms and conditions for loans for house purchase, in the second quarter of 2010 margins on riskier loans (11%, compared with 16% in the first quarter of 2010), loan-to-value ratios (7%, against 11% in the first quarter) and collateral requirements (3%, against 4% in the first quarter) continued to be tightened by banks, although gradually less so compared with previous quarters. By contrast, banks tightened somewhat conditions related to the maturity of the loans (3%, against 1% in the first quarter) and also increased the margins on average loans (3%, against -3% in the first quarter).

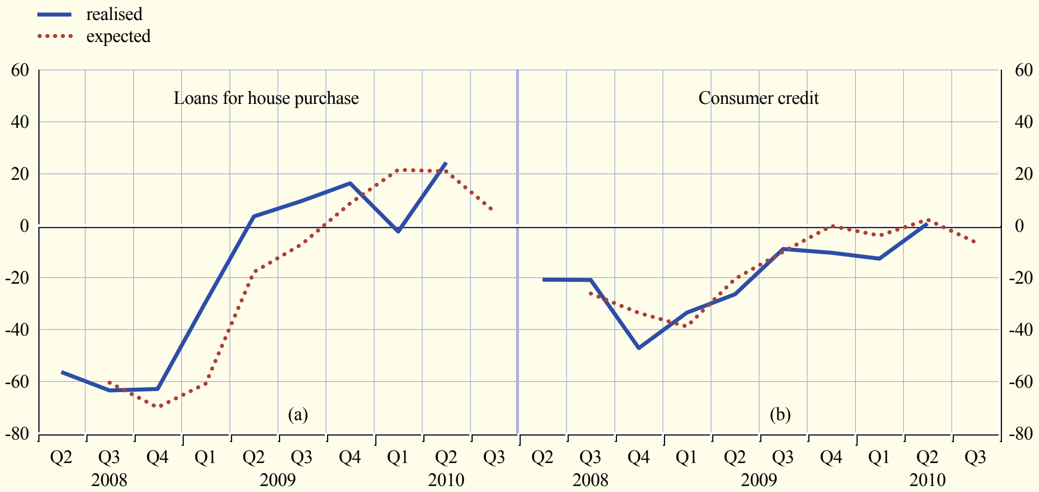
Chart D Changes in credit standards applied to the approval of loans to households for house purchase

(net percentages)

Note: See notes to Chart A.

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.

Looking ahead, banks expect a lower degree of net tightening of credit standards for loans to households for house purchase in the third quarter of 2010 (3%).

Loan demand: Net demand for housing loans increased significantly in the second quarter of 2010 (24%, against -2% in the first quarter of 2010), broadly in line with expectations in the previous survey round (see Chart E). The increase in housing-related loan demand can be explained in particular by a more positive contribution from housing market prospects (9%, compared with 3% in the first quarter of 2010) and a less negative contribution from consumer confidence (-6%, against -13% in the previous quarter).

Banks expect net demand for loans for house purchase to fall to 5% in the third quarter of 2010 from 24% in the second quarter.

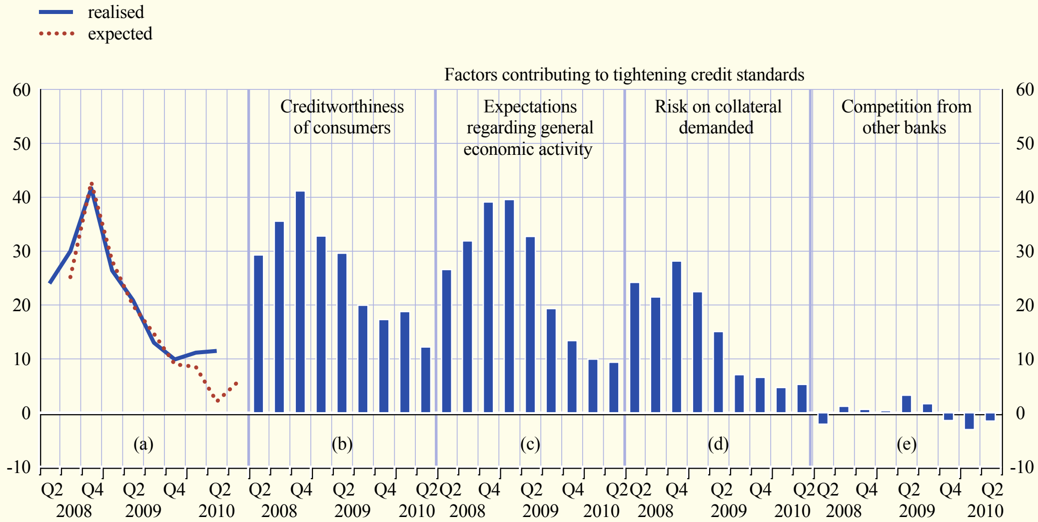
Consumer credit and other lending to households

Credit standards: The net percentage of banks reporting a tightening of credit standards for loans to households for consumer credit and other lending was positive in the second quarter of 2010 (12%; see Chart F). This was similar to the level observed in the previous quarter, but exceeded the expectations in the previous survey round. As with loans to households for house purchase, funding costs and banks' balance sheet positions contributed more strongly to the net tightening observed in the second quarter of 2010 (4%, against 1% in the first quarter). At the same time, a somewhat more benign outlook for credit risk was observed, notably through a less tightening contribution from consumer creditworthiness (12%, compared with 19% in the previous round).

Looking forward, banks still expect a net tightening, albeit somewhat less so, in the third quarter of 2010 (to 6%).

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.

Loan demand: Net demand for consumer loans increased in the second quarter of 2010 to 1%, from -13% in the first quarter of 2010 (see Chart E), broadly in line with expectations. The main factors behind the increase in net demand related to spending on consumer durables and consumer confidence.

Looking ahead, banks expect a slightly negative net demand for consumer credit and other lending to households in the third quarter of 2010 (-6%).

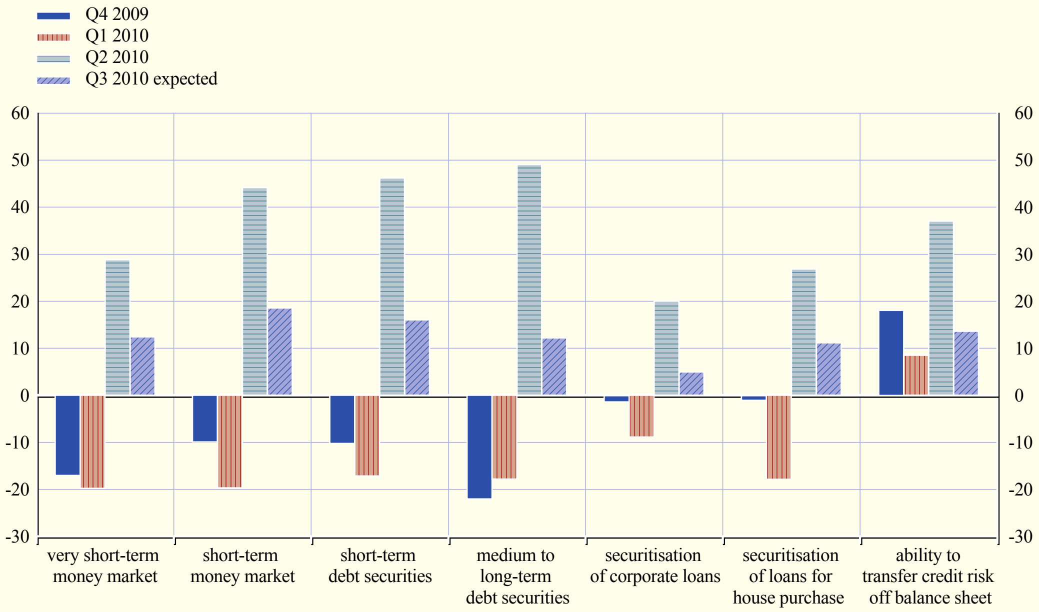
Ad hoc questions on the impact of the financial turmoil

As in previous survey rounds, the July 2010 survey also contained a set of ad hoc questions aimed at assessing the extent to which the financial market tensions affected banks' credit standards for loans and credit lines to enterprises and loans to households in the euro area in the second quarter of 2010 and the extent to which they might still have an effect in the third quarter of 2010.

For the second quarter of 2010, possibly reflecting the renewed financial market tensions following concerns about sovereign risk, banks generally reported a deterioration in their access to wholesale funding across all segments, but more intensely as regards access to short-term money markets and the markets for debt securities issuance (see Chart G). On balance, in the second quarter of 2010 around 30-40% of the banks surveyed (excluding the banks that replied "not applicable") reported deteriorated access to money markets and around 40-50% of the banks reported deteriorated access to debt securities markets. In addition, true-sale securitisation of corporate loans and loans to households for house purchase also became somewhat more difficult in the second quarter of 2010. Between 20% and 30% of the banks for which this business is relevant (around 60% of the sample group) reported deteriorated access to securitisation of corporate loans and mortgage loans. Moreover, according to 37% of the banks for which this

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".

business is relevant (which is the case for 40% of the sample group), synthetic securitisation, i.e. the ability to transfer credit risk off balance sheet, deteriorated.

Over the next three months, on a net basis, around 10-20% of the banks surveyed continue to expect a further deterioration across all wholesale funding markets. In particular, 20% of the banks expect a further deterioration in their access to short-term money markets.

Regarding the impact of the financial turmoil on banks' costs related to their capital positions and on their lending policy, there was only a very slight change between the first and the second quarters of 2010. In the second quarter of 2010, about 40% of the reporting banks indicated "some impact" or "considerable impact" on both capital and lending, broadly in line with the responses in the previous survey round. In addition, in the second quarter of 2010, 34% reported that there was basically no impact on their capital stemming from the financial turmoil (against 38% in the first quarter of 2010).