Box 2

## THE RESULTS OF THE APRIL 2011 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the April 2011 bank lending survey for the euro area, which was conducted by the Eurosystem between 14 and 31 March 2011.[1] Overall, euro area banks slightly tightened their credit standards on loans to both enterprises and households in the first quarter of 2011. As regards the demand for loans, survey participants reported, on the one hand, a noticeable increase in net demand for corporate loans and, on the other hand, a decline in net demand for both mortgage and consumer credit.

1 The cut-off date of the survey was 31 March 2011. A comprehensive assessment of its results was published on 27 April 2011 on the ECB's website.

## Loans and credit lines to enterprises

**Credit standards:** In the first quarter of 2011 the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enteprises stood at 4%, compared with 0% in the previous quarter (see Chart A). This is broadly in line with what survey participants expected three months before (2%). In terms of maturity, credit standards on short-term loans continued to be loosened (-2%, compared with -3% in the previous survey round), while those on long-term loans were tightened.

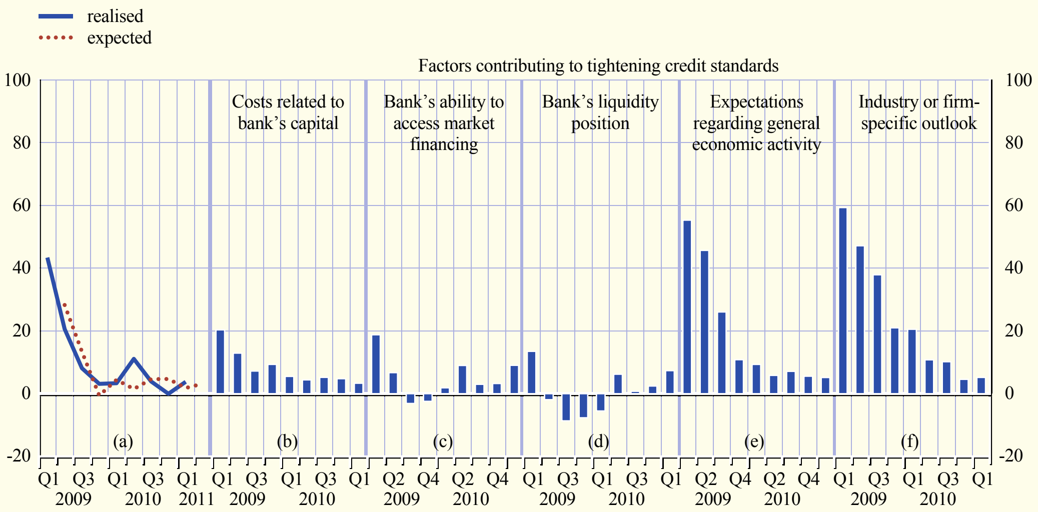
Looking at the factors underlying the overall developments in credit standards, banks' ability to access market financing (9%, after 3% in the last quarter of 2010) and banks' liquidity position (7% after 2%) were reported to have contributed more to a net tightening of credit standards than in the previous quarter. At the same time, the contribution of factors related to the perception of risks (in particular, expectations regarding general economic activity and the industry or firm-specific outlook) remained broadly unchanged, while competitive pressures in loan markets had an ongoing easing impact.

According to survey participants, most non-price terms and conditions were tightened, although marginally less than in the previous round. At the same time, margins on riskier loans were

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**

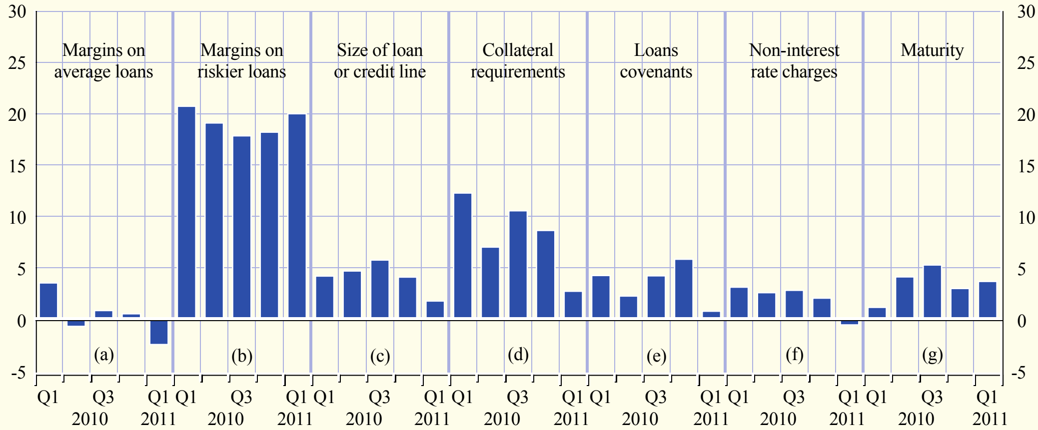
(net percentages)




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.

**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".

raised slightly (by 20% of banks in net terms compared with 18% in the last quarter of 2010), while margins on average loans were actually reduced (see Chart B).

Looking ahead, euro area banks still expect a slight net tightening of credit standards on loans to enterprises in the second quarter of 2011 (3%; see Chart A), which would affect both SMEs and large firms equally and would primarily affect long-term loans.

**Loan demand:** In the first quarter of 2011 net demand for loans[3] from enterprises increased to 19%, from 10% in the fourth quarter of 2010 (see Chart C). Similar developments were reported with respect to loans to large enterprises (16%, up from 11% in the previous round), while for loans to SMEs, net demand was still positive but slightly lower than what was reported in the January 2011 round (13%, after 19% in the previous three months). As regards maturities, net demand for both short and long-term loans stood at similar levels to what was indicated by survey participants three months ago (14% and 18% respectively).

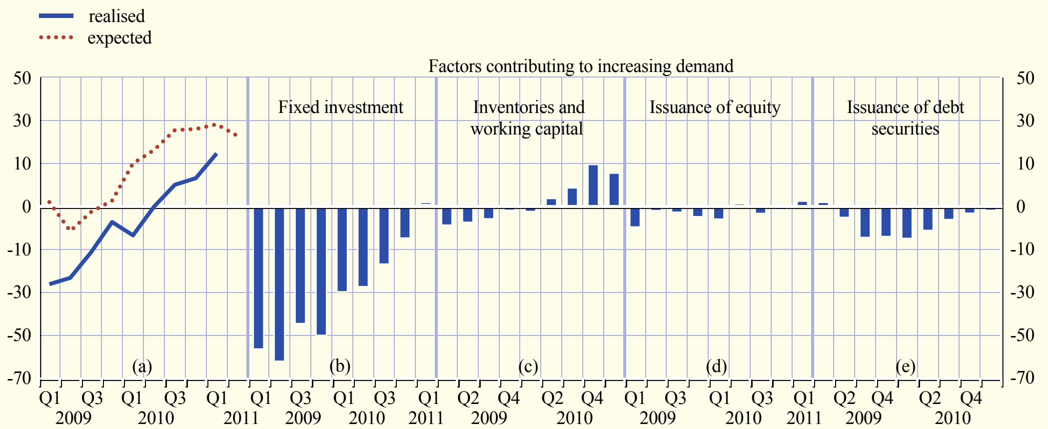
The improvement in overall net demand was mainly driven by a pick-up in needs for inventories and working capital (18%, up from 13% in the last quarter of 2010) and, for the first time in more than two years, positive developments in fixed investment (12%, after 0% in the January 2011 round). At the same time, euro area banks indicated that the influence of alternative sources of financing, either internal or external, became broadly neutral.

Looking ahead, on balance, euro area banks expect net loan demand from enterprises to increase in the second quarter of 2011 (to 26%). This increase is expected to apply to a larger extent to SMEs (24%) than to large firms (18%). Furthermore, banks expect an ongoing alignment of dynamics across maturities, with expected net demand for short and long-term loans converging further (25% and 22% respectively).

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

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

(net percentages)



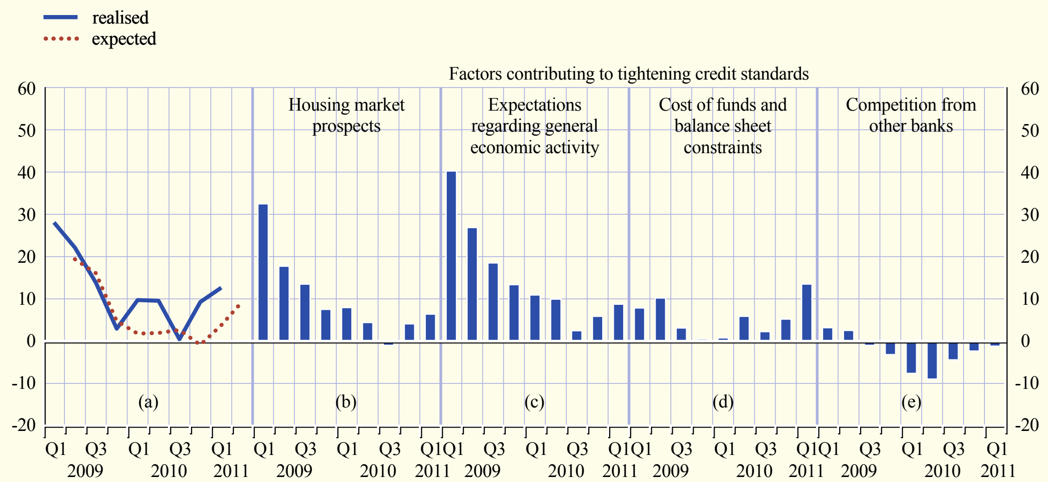

Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". The net percentages for the questions related to the factors 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.

## Loans to households for house purchase

**Credit standards:** In the first quarter of 2011 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase stood at 13%, compared with 9% in the previous quarter (see Chart D). The increase in the net tightening appears to be explained mainly by an increase in banks' cost of funds and balance sheet constraints (14%, after 5% in the fourth quarter of 2010), as well as a slight deterioration in risk perception (in particular

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

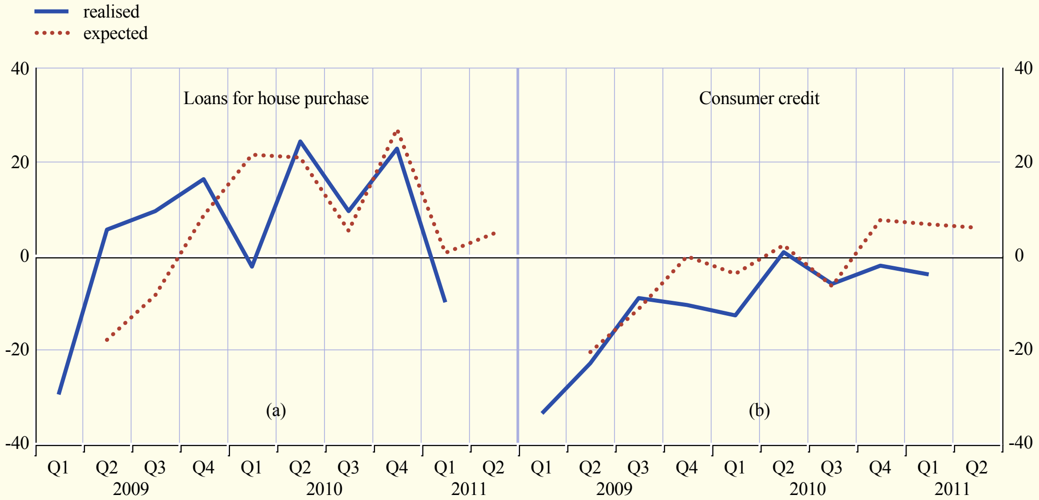
(net percentages)




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.

expectations regarding general economic activity, which stood at 9% compared with 6% in the previous survey round).

According to the survey respondents, most price and non-price terms and conditions were tightened overall in the first quarter of 2011. In particular, the net percentage of banks reporting a tightening of margins on riskier loans rose from 10% in the previous survey round to 19% in the first quarter of 2011. In the case of margins on average loans, this percentage turned positive, from -1% in the last quarter of 2010 to 11% in the first quarter of 2011. Euro area banks also reported a net tightening of the loan-to-value ratio (9%, after 1% in the previous survey round) and of maturity (6% after 0%).

Looking ahead, for the second quarter of 2011, banks still expect credit standards on loans to households for house purchase to be tightened in net terms (9%).

**Loan demand:** Net demand for housing loans contracted considerably in the first quarter of 2011, as the net percentage of banks reporting a decrease in demand for housing loans stood at -10% (after 23% in the previous quarter; see Chart E). This was mainly on account of a deterioration in housing market prospects as well as faltering consumer confidence.

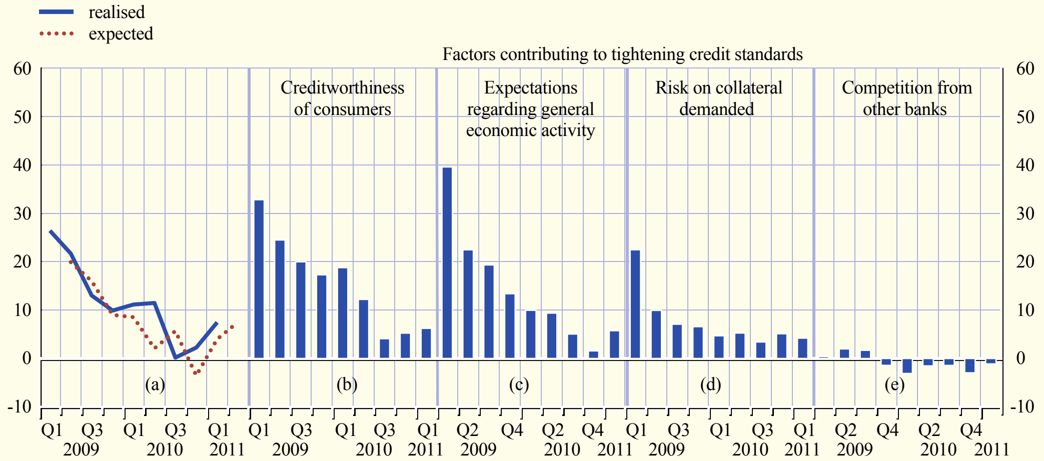
Looking forward, however, banks expect a mild increase in the demand for housing loans in the second quarter of the year (5% in net terms).

### Consumer credit and other lending to households

**Credit standards:** Broadly in line with expectations, the net percentage of banks reporting a tightening of credit standards on consumer credit and other lending to households stood at 7% in

**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.

the first quarter of 2011 (up from 2% in the previous quarter; see Chart F). Similarly to corporate and housing loans, banks' increased cost of funds and balance sheet constraints (9%, after 5% in the previous survey round), as well as a deterioration in expectations regarding general economic activity (6% after 2%), were the factors contributing the most to the net tightening of credit standards.

Looking ahead, banks still expect a net tightening of credit standards on consumer credit and other lending to households in the second quarter of 2011 (8%).

**Loan demand:** Contrary to expectations in the previous survey round, net demand for consumer credit was not positive in the first quarter of 2011, but instead slightly decreased to -4% (from -2% in the last quarter of 2010; see Chart E). It was mainly dampened by developments in consumer confidence.

Looking ahead, banks expect positive net demand for consumer credit and other lending to households in the second quarter of 2011 (6%).

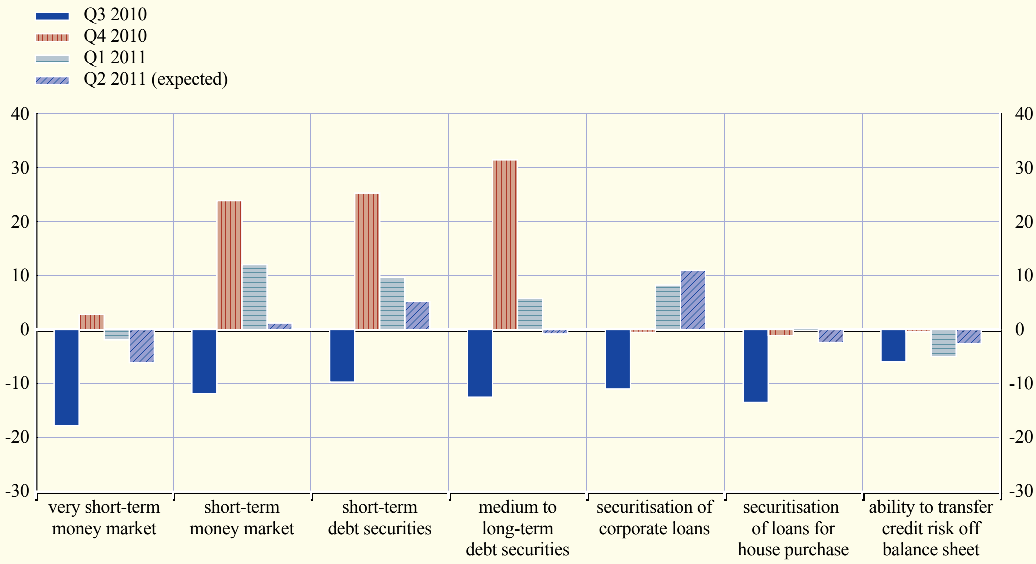
## Ad hoc question on the impact of the financial turmoil

As in previous survey rounds, the April 2011 survey also contained an ad hoc question aimed at assessing the extent to which the financial market tensions affected banks' access to the wholesale funding market in the first quarter of 2011, and the extent to which they might still have an effect in the second quarter of 2011.

For the first quarter of 2011 banks generally reported a deterioration in their access to short-term money markets and debt securities markets (although the deterioration was less pronounced than in the previous survey round), as well as in their access to true-sale securitisation of corporate loans (see Chart G). At the same time, they noted broadly unchanged conditions for the securitisation of housing loans and an improved ability to transfer risks off banks' balance

**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".

sheets. On balance, 12% of euro area banks (excluding banks replying "not applicable") reported deteriorated access to short-term money markets with maturities exceeding one week (contrasting with 24% in the previous survey round), whereas access to very short-term money markets slightly improved for 2% of the surveyed banks (compared with 3% indicating a deterioration in the previous round). Deteriorated access was reported for debt securities markets (by 6-10% of the banks compared with around 30% in the previous quarter) and for true-sale securitisation of corporate loans (by 8% of the banks). In net terms, conditions for the securitisation of loans to households remained broadly unchanged, while the ability to transfer risks off banks' balance sheets improved (according to 5% of the banks surveyed).

Looking ahead, euro area banks expect access to money markets to ease and possibly start to improve overall in the second quarter of 2011. By contrast, access to debt securities markets could still deteriorate, albeit less than in the first quarter. Conditions for the securitisation of corporate loans are also expected to continue to deteriorate in the second quarter.