Box 2

THE RESULTS OF THE JULY 2011 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the July 2011 bank lending survey for the euro area, which was conducted by the Eurosystem between 17 June and 1 July 2011.[1] Overall, euro area banks generally reported a slight decline in the net tightening of credit standards in comparison with the first quarter of 2011. This held true for both loans to non-financial corporations and loans to households for house purchase. In the case of consumer credit, banks generally reported an unchanged degree of slight net tightening. As regards demand for loans, survey participants reported a smaller increase in net demand from enterprises than in the previous quarter. For housing loans, by contrast, they noted a slower pace of decline than in the previous quarter, while demand for consumer credit was reported to have declined slightly more sharply.

Loans and credit lines to enterprises

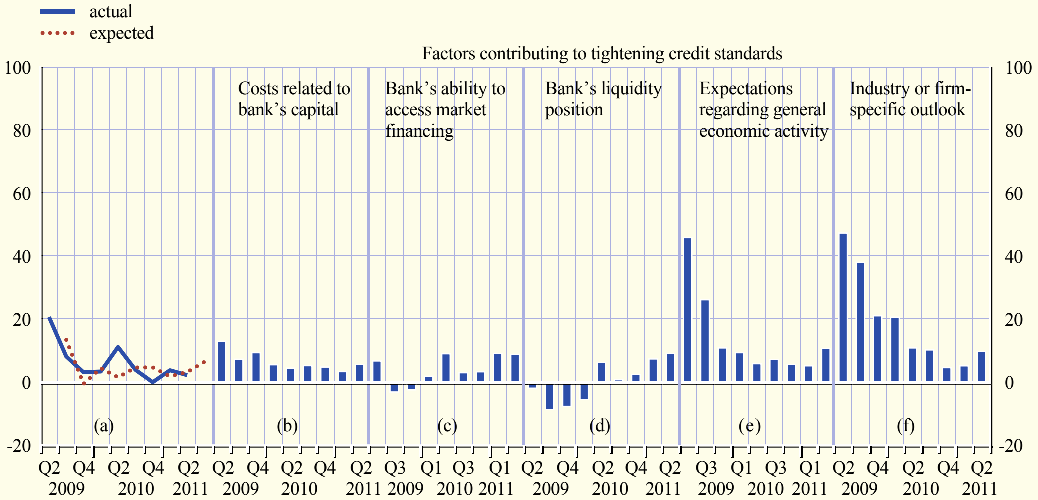
Credit standards: In the second quarter of 2011, the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises declined slightly, to 2% (compared with 4% in the previous quarter), indicating broadly unchanged credit standards (see Chart A). This was

1 The cut-off date of the survey was 1 July 2011. A comprehensive assessment of its results was published on the ECB's website on 28 July 2011.

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. "Actual" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

also broadly in line with what survey participants had expected three months earlier (3%). Across maturities, credit standards on short-term loans continued to be eased slightly (-3%, compared with -2% in the previous survey round), while those on long-term loans were tightened somewhat more strongly (8%, compared with 4% in the previous survey round).

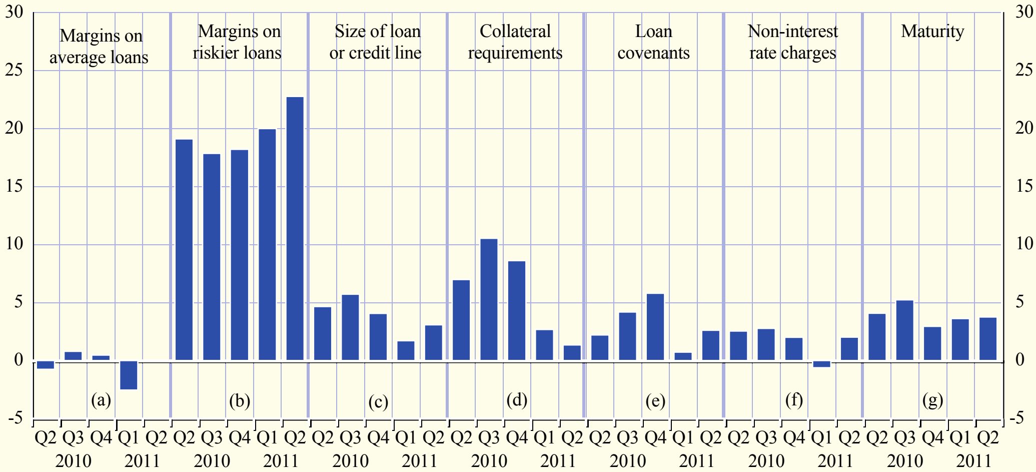
Looking at the factors underlying overall developments in credit standards, factors related to the perception of risks, in particular expectations regarding overall economic activity and the industry or firm-specific outlook, were reported to have contributed more to the tightening of credit standards (11% and 10% respectively, from 5% in the first quarter). At the same time, the overall contributions of banks' costs of funds and balance sheet constraints remained broadly unchanged, with the cost of capital (6%, from 3%) and banks' liquidity positions (9%, from 7%) gaining somewhat in importance. By contrast, as counterbalancing factors, competitive pressures from other banks were reported to have increasingly had an easing impact (-9%, after -7%).

Meanwhile, developments in the lending terms and conditions reported by euro area banks did not change visibly in the second quarter of 2011, as compared with the previous quarter (see Chart B). The widening of margins on riskier loans appears to have continued (23%, from 20%), while margins on average loans remained unchanged, after the slight narrowing reported in the previous quarter (0%, compared with -3% in the first quarter of 2011). Other terms and conditions (e.g. non-interest charges, size and maturity, and collateral requirements) only changed slightly at overall marginal levels.

Looking forward, on balance, euro area banks expect a slight increase in the net tightening of credit standards for loans to non-financial corporations in the third quarter of 2011 (to 6% in net terms). This is expected to affect primarily large firms, as well as long-term loans.

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

(net percentages of banks reporting tightening terms and conditions)

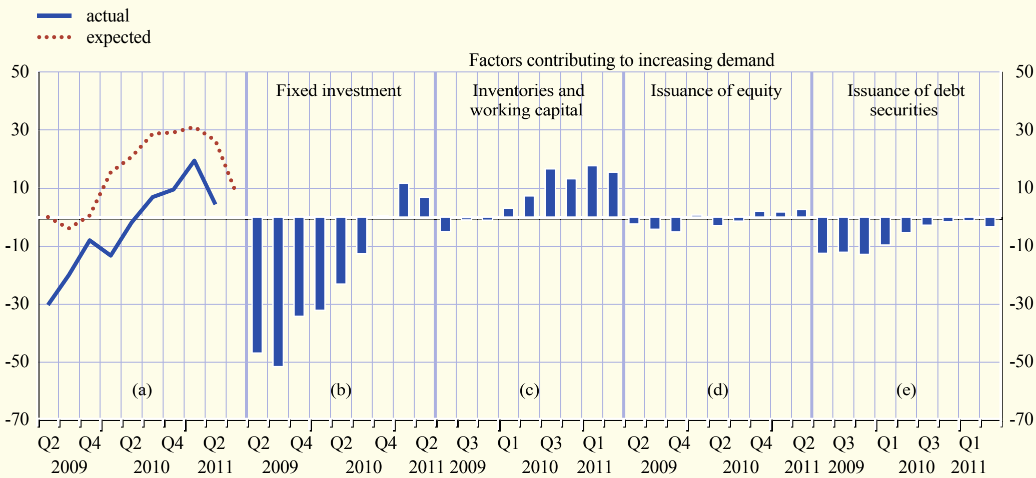


Note: The net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

Loan demand: In the second quarter of 2011, net demand for loans on the part of enterprises increased significantly less than in the first quarter (4%, from 19% in previous quarter; see Chart C). This development was somewhat more pronounced for loans to large enterprises (0%, down from 16% in the previous round) than for loans to small and medium-sized enterprises (6%, down from 13% in the previous round). As regards maturities, the increase in net demand was weaker for long-term loans (7%, down from 18%) than for short-term loans (9%, down from 14%).

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. "Actual" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

According to participants, the less marked increase in net demand appeared to be driven mainly by less pronounced financing needs for fixed investment (7%, down from 12%), as well as for inventories and working capital, albeit only to a very limited extent in the case of the latter (16%, down from 18% in the previous quarter). In addition, the issuance of debt securities was reported to have curbed demand for loans slightly (-3%, from -1%).

Looking forward, banks expect demand for corporate loans to rise at a higher pace than in the second quarter of 2011 (8% in net terms), but more moderately than in previous quarters. That would apply to both small and medium-sized enterprises and large firms. As regards maturities, the increase would affect short-term loans somewhat more markedly.

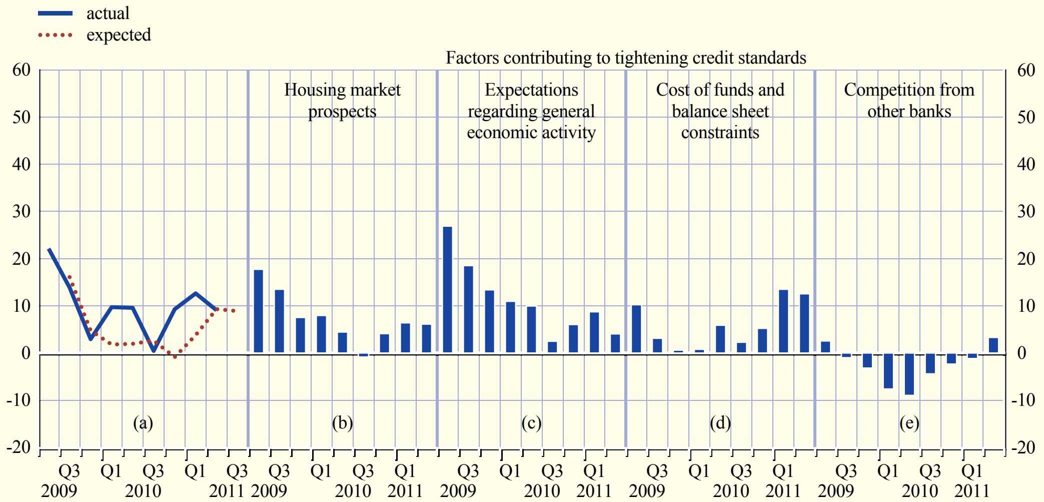
Loans to households for house purchase

Credit standards: In the second quarter of 2011, the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase dropped slightly, to 9%, from 13% in the previous quarter (see Chart D). The decline in the degree of net tightening was mainly related to less negative expectations with respect to general economic activity (4%, down from 9% in the first quarter of 2011). The cost of funding and balance sheet constraints, by contrast, continued to contribute most to the overall level of net tightening, which remained unchanged at 13%.

In line with the less negative expectations regarding general economic activity, banks reported, in net terms, a marginal decrease in the tightening of risk-related terms and conditions (such as margins on riskier loans, collateral required, maturity, "loan-to-value" ratios, etc.) in comparison with the previous round, while indicating a slight rise in the widening of margins on average loans as well as in the increase in non-interest rate charges.

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

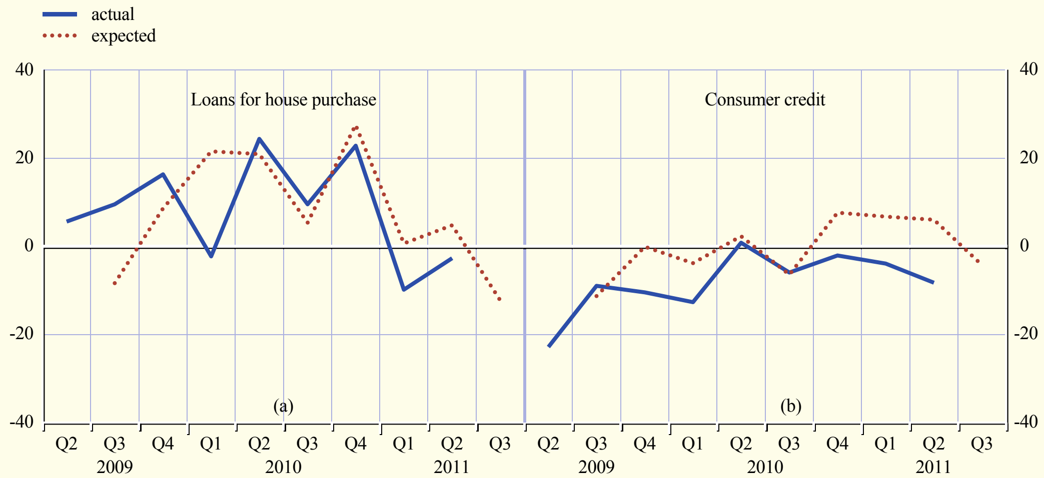
(net percentages)



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, at 9% for the third quarter of 2011, banks expect an unchanged degree of net tightening of credit standards on loans for house purchase.

Loan demand: After the contraction in loan demand reported in the previous quarter, euro area banks reported a lower pace of decline in demand for mortgage loans in the second quarter of 2011 (-3% in net terms, from -10% in the previous quarter; see Chart E). This appears to have been mainly related to substantially less negative housing market prospects.

Looking forward, however, banks expect a further decrease in demand for housing loans (-12% in net terms) in the third quarter of the year.

Consumer credit and other lending to households

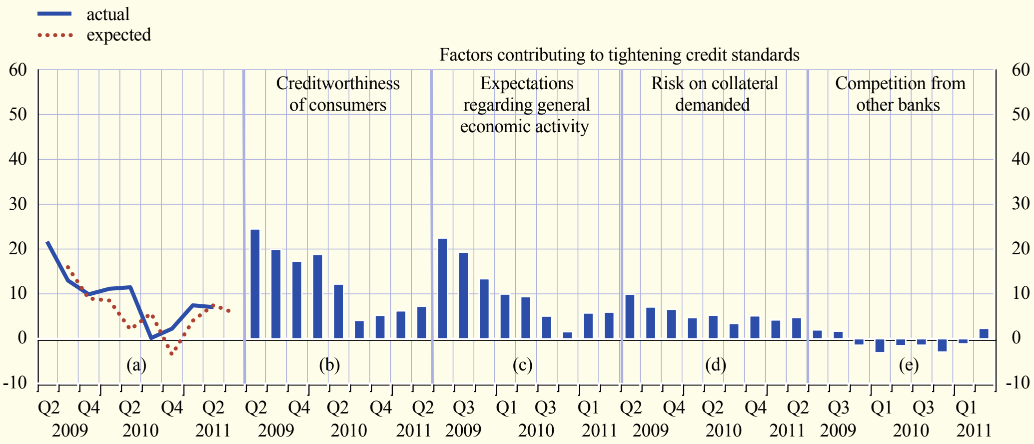
Credit standards: Broadly in line with expectations, euro area banks reported an unchanged degree of slight tightening of credit standards (7%) for the second quarter of 2011 (see Chart F). Factors contributing to this net tightening were again a combination of both credit supply-side factors and risk perceptions. Price-related terms and conditions on consumer credit (notably margins on both average and riskier loans) were raised further, while other non-price terms and conditions remained broadly unchanged.

Looking forward, in net terms, 6% of banks expect a further tightening of credit standards for consumer credit and other lending to households in the third quarter of 2011.

Loan demand: In the second quarter of 2011, the decline in demand for consumer credit was reported to have accelerated (at -8% in net terms, from -4% in the last quarter of 2010; see Chart E), mainly on account of lower spending on durable consumer goods.

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.

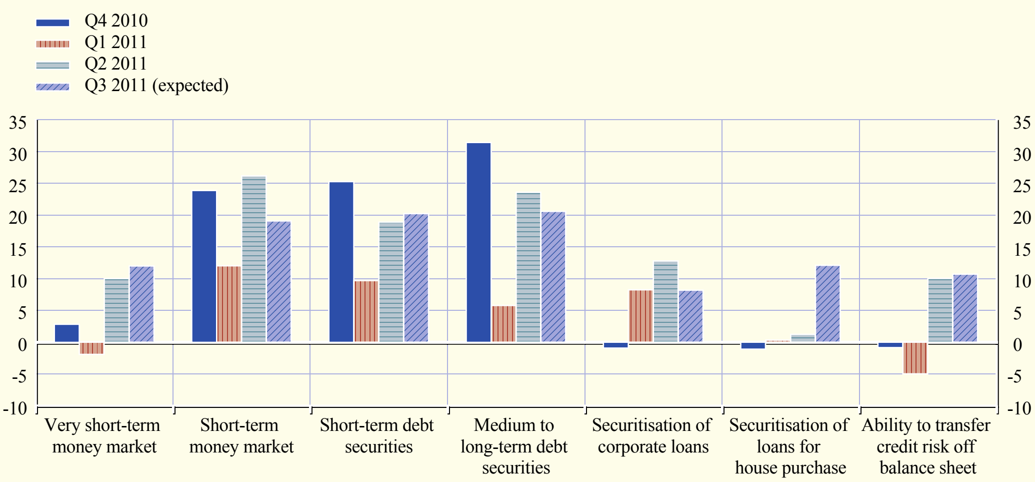
Looking ahead, banks expect the decline in demand for consumer credit to moderate in the third quarter of 2011 (to -4% in net terms).

Ad hoc questions on the impact of the financial turmoil

As in previous survey rounds, the July 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 second quarter of 2011, and the extent to which they might still have an effect in the third quarter of 2011.

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".

On balance, euro area banks reported a deterioration in their access to money markets, both for very short maturities (less than one week) and for maturities of more than one week (see Chart G). At the same time, euro area banks continued to report, in net terms, an overall deterioration in their ability to access debt securities markets, which was more pronounced than in the previous survey. Finally, still in net terms, conditions for access to securitisation remained broadly unchanged for loans to households, but deteriorated further for loans to enterprises. Likewise, the ability to transfer risks off their balance sheets was judged to have deteriorated, after the improvement that had been reported in the previous quarter.

Looking forward, euro area banks expect their access to the money market to deteriorate slightly less markedly in the third quarter of the year. By contrast, the issuance of debt securities, as well as the securitisation of loans, is expected to remain limited.

Ad hoc questions on the impact of Basel III and other changes in bank regulation

The questionnaire for the July 2011 survey also included two new ad hoc questions that aimed at assessing the extent to which the new regulatory capital requirements set out in "Basel III"[3] (or any other specific national regulations concerning banks' capital that have recently been approved, or are expected to be approved in the near future) affect banks' lending policies via the potential impact on their capital position and the credit standards they apply to loans.

According to banks' replies, in net terms,[4] 20% of the banks reported a decline in their risk-weighted assets over the past six months and expected a further decline in the next six months as a result of compliance with the capital requirements set out in "Basel III" (or any other specific national regulations concerning banks' capital that have recently been approved or are expected to be approved in the near future). This decline was and is expected to remain focused on riskier, as opposed to average, loans. For 2012, a net percentage of 13% of banks currently expect a further decline in their risk-weighted assets, with an even stronger focus on riskier loans. As regards the effect on their capital position, on balance, 40% of the banks noted an increase in their capital position for the past six months, 32% expect one in the next six months and 37% for 2012. In the last six months, the rise in banks' capital positions was achieved mainly through retained earnings and, albeit to a lesser degree, through the issuance of new shares. This focus on retained earnings in building up their capital is expected to strengthen further in the next six months, as well as in 2012.

Participating banks indicated that their credit standards for, in particular, loans to large enterprises were tightened as a result of adjustments implemented in view of the new capital requirements set out in "Basel III" (or any other specific national regulations concerning banks' capital that have recently been approved or are expected to be approved in the near future) over the past six months (22% in net terms). By contrast, credit standards for loans to small and medium-sized enterprises and for housing or consumer loans were affected only slightly. Looking forward, in the next six months, as well as in 2012 as a whole, banks expect the effects to continue to be strongest for loans to large enterprises (18% and 35% respectively in net terms), but also expect other loan categories – in particular loans to small and medium-sized enterprises – to be increasingly affected.

3 See Basel Committee on Banking Supervision, *Basel III: A global regulatory framework for more resilient banks and banking systems*, Bank for International Settlements, 16 December 2010 (available at: http://www.bis.org/publ/bcbs189.pdf).

4 The results shown are calculated as a percentage of the number of banks that did not reply "not applicable".