Box 1

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE FOURTH QUARTER OF 2011

This box summarises the main results of the euro area bank lending survey for the fourth quarter of 2011, which was conducted by the Eurosystem between 19 December 2011 and 9 January 2012.[1] Overall, euro area banks reported a sharp increase in the net tightening of credit standards in comparison with the third quarter of 2011, which was stronger than expected

1 The cut-off date of the survey was 9 January 2012. A comprehensive assessment of its results was published on the ECB's website on 1 February 2012.

by survey participants three months earlier. The increase in net tightening was particularly pronounced for loans to non-financial corporations and loans to households for house purchase and largely reflected respondents' perceptions of increased risks to the outlook for the economy, as well as renewed strains on banks' funding and capital positions. As regards loan demand, survey participants reported a decline in net demand from enterprises and for loans to households for house purchase. Expectations of survey participants point to a further deterioration in credit standards and in net demand for both loans to enterprises and loans to households in the first quarter of 2012.

Loans and credit lines to enterprises

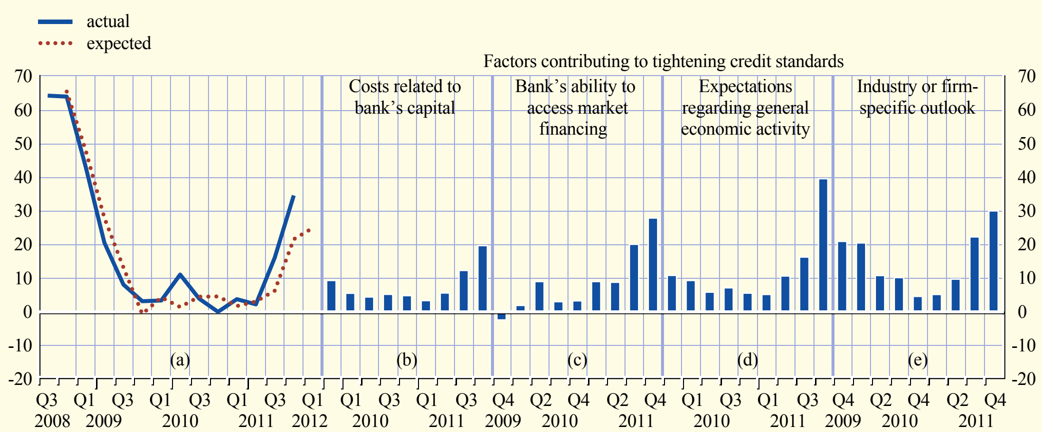
Credit standards: In the fourth quarter of 2011, the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises surged to 35%, from 16% in the previous quarter (see Chart A). The observed net tightening was stronger than anticipated by survey participants three months earlier (22%). Credit standards were tightened in net terms on both short-term loans (24%, up from 11% in the previous quarter) and long-term loans (42%, up from 20%). In addition, the increase in the net tightening of credit standards was stronger for loans to large firms (44%, up from 19%) than for loans to small and medium-sized enterprises (SMEs) (28%, up from 14%).

Among the factors underlying the overall net tightening in credit standards, those related to the perception of risks surrounding the general economic outlook and the industry or firm-specific outlook were reported to have contributed to a large extent to the higher net tightening of credit

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

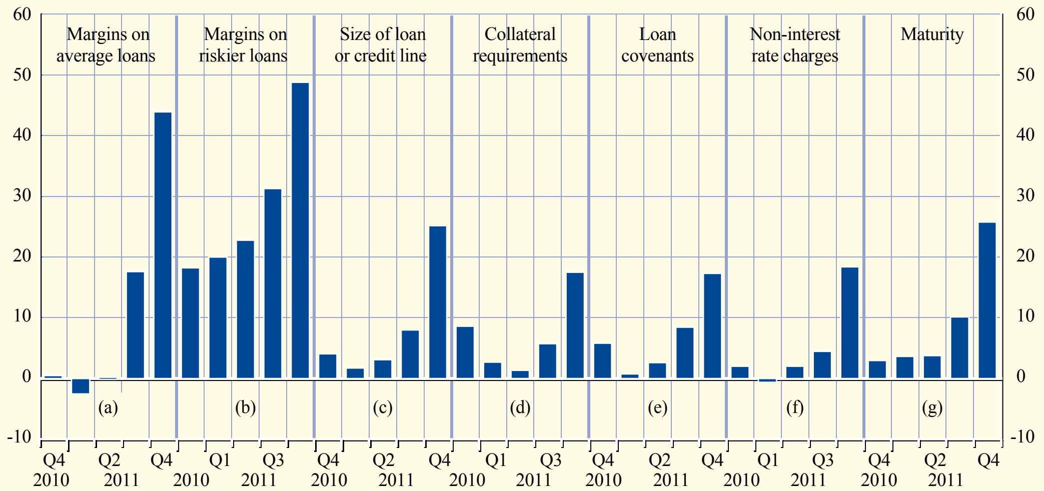
(net percentages)



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".

standards (40% and 30% respectively, up from 16% and 22% in the third quarter). Furthermore, against the backdrop of heightened financial market tensions and bank funding difficulties, banks reported that the cost of funds and balance sheet constraints contributed more strongly to the net tightening of credit standards than in the third quarter. This held true for all three components of this factor, namely, banks' costs related to their capital position (20%, up from 12%), banks' ability to access market financing (28%, after 20%) and banks' liquidity positions (27%, up from 14%). By contrast, other factors, such as competitive pressures exerted by other banks and non-banks, remained broadly unchanged for the second consecutive quarter.

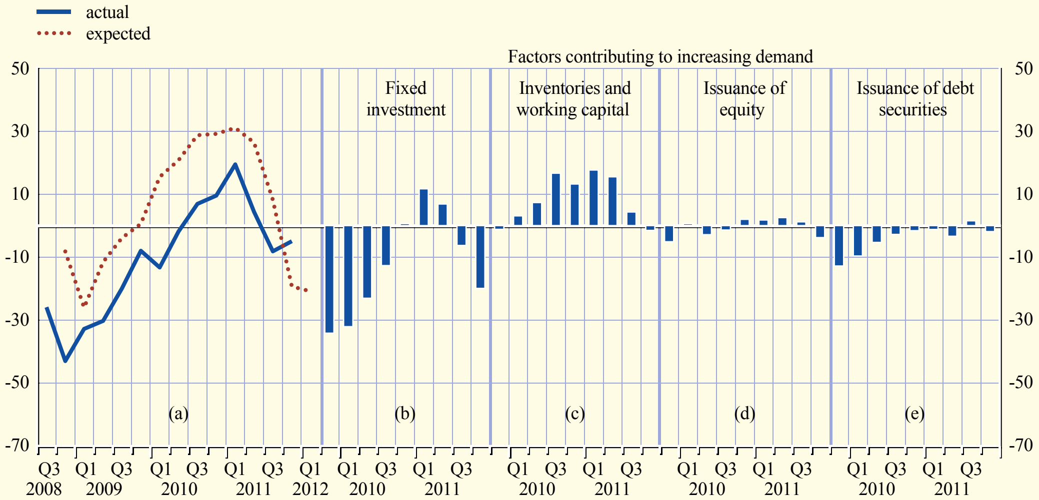
The tighter lending terms and conditions reported by euro area banks accompanied the developments in credit standards during the fourth quarter of 2011 (see Chart B). The widening of margins visibly affected both average loans (44%, up from 18%) and riskier loans (49%, up from 31%). Other terms and conditions (e.g. non-interest rate charges, loan size and maturity, and collateral requirements) were also tightened further in the fourth quarter of 2011.

Looking forward, on balance, euro area banks expect a further, though moderate, increase (to 25%) in the net tightening of credit standards for loans to enterprises in the first quarter of 2012. This is expected to affect primarily large firms and long-term loans.

Loan demand: In the fourth quarter of 2011, net demand for loans from enterprises was in negative territory for the second consecutive quarter (see Chart C), although declining at a slower pace (-5%, up from -8%). Moreover, the net demand for loans was lower for SMEs than for large firms in the fourth quarter (-7% and -2% respectively), whereas the decline in net demand was similar across firm sizes in the third quarter (both -3%). While the net demand for long-term loans stabilised around 0, the net demand for short-term loans was reported to have declined at the same pace as in the past quarter (-4%).

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.

According to survey participants, the decline in net demand appeared to be driven mainly by lower financing needs for fixed investment (-20%, down from -6% in the previous quarter), as well as for mergers and acquisitions (-18%, down from -4%), and was thus in line with overall weaker economic growth expectations. Furthermore, financing needs for inventories and working capital turned negative for the first time since end-2009 (-1%, down from 4%). Respondents also reported that non-financial corporations may have turned somewhat to alternative sources of finance, such as internal financing.

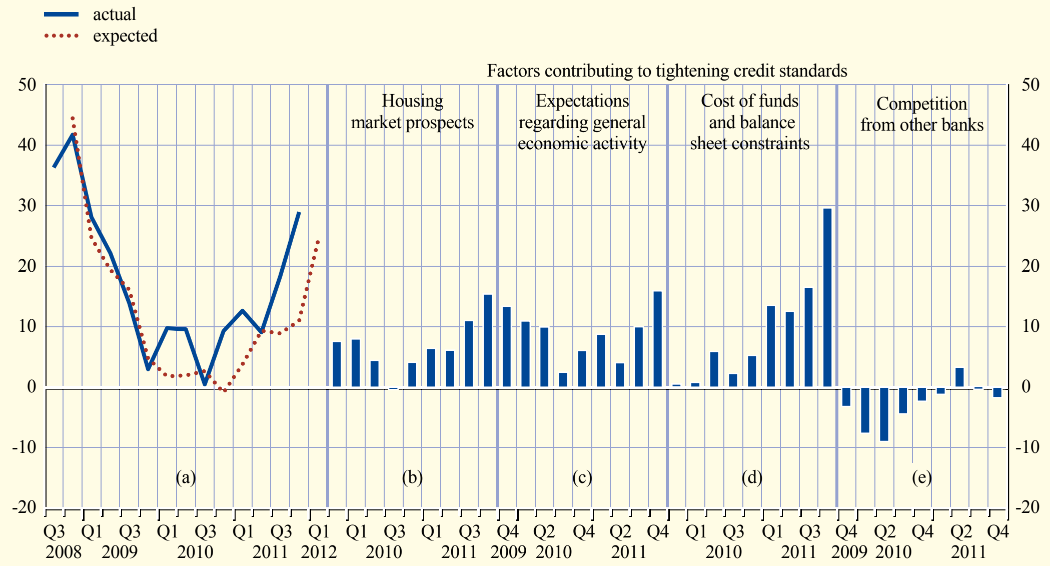
Looking forward, banks expect demand for corporate loans to decline further in the first quarter of 2012 (-21% in net terms). That would apply to a greater extent to large firms (-21%) than to SMEs (-14%). As regards maturities, it is expected that this decline would affect long-term loans (-27%) more markedly than short-term loans (-10%).

Loans to households for house purchase

Credit standards: As in the case of loans to enterprises, the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase increased significantly to 29% in the fourth quarter of 2011, up from 18% in the previous quarter (see Chart D) and by more than expected at that time (11%). According to survey participants, the increase in the degree of net tightening in the fourth quarter was again mainly driven by banks' cost of funds and balance sheet constraints (with a net percentage of 30% of the survey participants reporting a contribution from this factor to the tightening of credit standards, up from 17% in the previous quarter). In addition, banks' risk perceptions regarding the outlook for general economic activity (16%, up from 10%) and housing market prospects (15%, up from 11%) contributed to the higher net tightening of credit standards on housing loans.

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.

The significant increase in the net tightening of credit standards on housing loans also led to a marked widening of bank margins, on average loans (29%, up from 10%, in net terms) and on riskier loans (33%, up from 14%), as well as a stronger net tightening of most non-price terms and conditions, compared with the third quarter.

Looking ahead, banks expect a somewhat lower degree of net tightening of credit standards on loans for house purchase (24%) for the first quarter of 2012.

Loan demand: In parallel to the decline in net loan demand by firms and reflecting the moderation in economic growth, participating banks reported a further, though moderate, decline in the net demand for housing loans (-27%, down from -24%; see Chart E). This decline appeared to be driven mainly by an ongoing deterioration of housing market prospects (-27%, down from -23%) and consumer confidence (-34%, down from -24%).

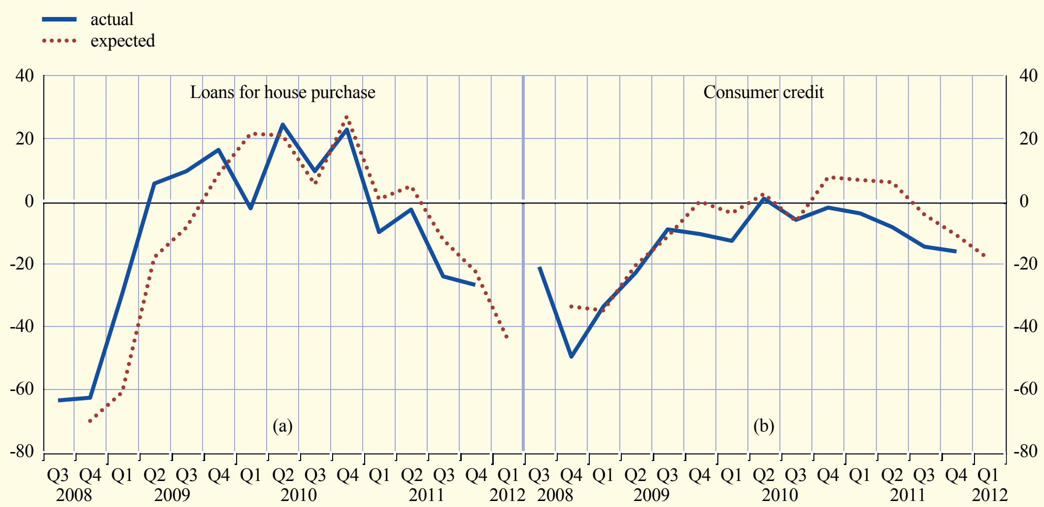
Looking forward, banks expect a sharp fall in demand for housing loans (-44% in net terms) in the first quarter of 2012.

Consumer credit and other lending to households

Credit standards: For the fourth quarter of 2011 euro area banks reported a moderate increase in the degree of net tightening of credit standards (13%, up from 10%; see Chart F). The increase was smaller than for other loan categories. The main factors driving this net tightening were the cost of funds and balance sheet constraints, whereas risk perceptions related to the economic outlook and consumers' creditworthiness remained broadly unchanged. The increase in the net tightening translated into an increase in price terms and conditions. The net percentage of

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

(net percentages)



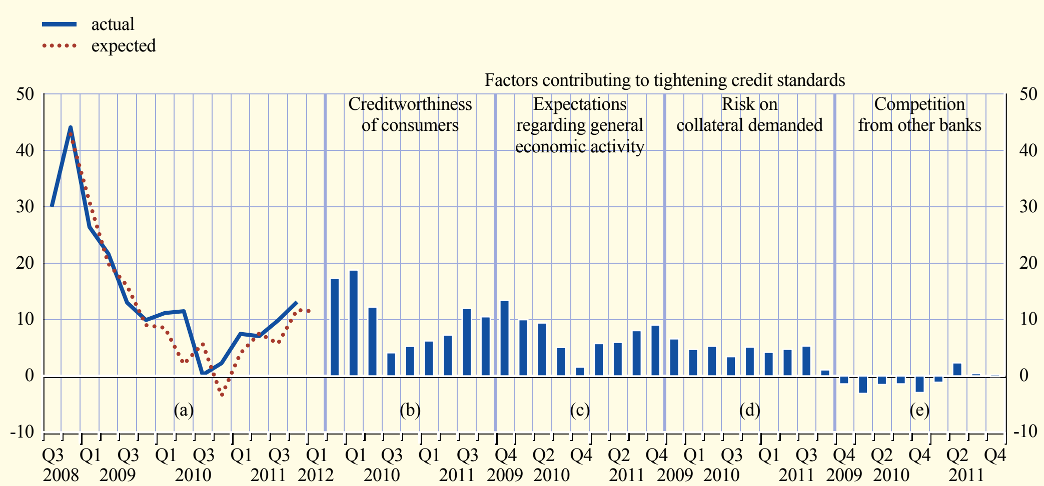
Notes: The net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Realised" values refer to the period in which the survey was conducted. "Expected"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

banks reporting an increase in their margins increased slightly in the fourth quarter, while the contribution of non-price terms and conditions hardly changed compared with the previous survey round.

Looking forward, in net terms, 11% of banks expect a further tightening of credit standards for consumer credit and other lending to households in the first quarter of 2012.

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: In the fourth quarter of 2011, net demand for consumer credit was reported to have declined slightly further (-16% in net terms, down from -15% in the previous quarter; see Chart E). This was mainly explained by lower consumer confidence and spending on durable consumer goods.

Looking ahead, banks expect the decline of net demand for consumer credit to continue in the first quarter of 2012 (-18% in net terms).

Ad hoc questions on the access to funding

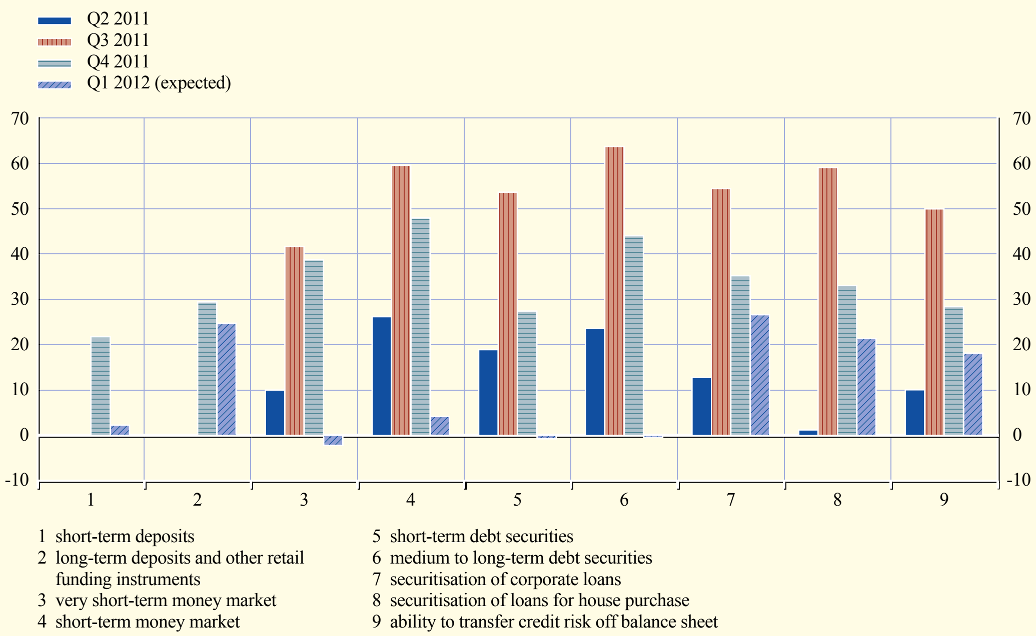
As in previous survey rounds, the January 2012 survey contained an ad hoc question aimed at assessing the extent to which the financial market tensions affected banks' access to the wholesale funding market in the fourth quarter of 2011, and the extent to which they might still have an effect in the first quarter of 2012. For the first time, the question also assessed access to retail funding.

On balance, euro area banks reported a slight improvement in their access to money markets, both for very short maturities[3] and for maturities of more than one week, as well as a slight improvement in their issuance of debt securities across all maturities (see Chart G). In addition, conditions for securitisation appeared to have considerably improved in the fourth quarter of 2011, both for true-sale securitisation and for banks' ability to transfer risks off their balance

3 Maturities of less than one week.

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 (synthetic securitisation). As regards the access to retail funding, banks pointed to a challenging environment in the fourth quarter of 2011, albeit less so, on average, than for access to wholesale funding.

Looking forward, euro area banks expect a stabilisation in the conditions of access to wholesale market funding in the first quarter of 2012. By contrast, the securitisation of loans is expected to remain limited. Furthermore, banks anticipate only mild relief in retail funding conditions.

Ad hoc questions on the impact of the sovereign debt crisis on banks' funding conditions and credit standards

The January 2012 survey questionnaire also included a new ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions and their credit standards. Banks indicated that sovereign market tensions led to a substantial deterioration of funding conditions through balance sheet and liquidity management constraints and also through other more indirect channels. Roughly 30% of respondents – in net terms – attributed the deterioration of funding conditions to the sovereign debt crisis through direct exposure to sovereign debt, the reduced collateral value of government bonds or other effects.

Banks also reported that vulnerabilities related to the sovereign crisis have significantly contributed to the tightening of credit standards, although part of the banking system was in a position to shield lending policies from the impact of the crisis. Indeed, a smaller number of banks – in net terms – actually acknowledged an impact on the tightening of their credit standards, reaching about 27% on average for loans to non-financial corporations and about 15% for loans to households.

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

The questionnaire for the January 2012 survey also included two ad hoc questions that aimed at assessing the extent to which the new regulatory capital requirements set out in "Basel III"[4] or any other specific national regulations concerning capital requirements may affect banks' lending policies.

According to banks' replies, in net terms,[5] 34% of the banks reported a decline in their risk-weighted assets over the past six months and 43% expect 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. As regards the effect on their capital position, on balance, 42% of the banks noted an increase in their capital position for the past six months, whereas 34% expect one in the first half of 2012. In the last six months, the rise in banks' capital positions was achieved mainly through the issuance of new shares rather than through retained earnings. A comparison with the replies in the July 2011 bank lending survey shows a clear acceleration of the process of adjustment to the new regulatory requirements via the reduction of risk-weighted assets in the second half of 2011.

4 See *Basel III: A global regulatory framework for more resilient banks and banking systems*, Basel Committee on Banking Supervision, Bank for International Settlements, 16 December 2010 (available at: http://www.bis.org/publ/bcbs189.pdf).
5 The results shown are calculated as a percentage of the number of banks that did not reply "not applicable".

About a third of responding banks indicated that their credit standards for loans to large enterprises were tightened as a result of adjustments implemented in view of the new national regulations and/or capital requirements set out in Basel III. Credit standards for loans to SMEs and for housing or consumer loans were affected to a lesser extent, though by more than expected in the July 2011 bank lending survey. For the first half of 2012 banks expect an increase in the net tightening of credit standards due to regulatory pressures which should affect primarily large firms and house purchase financing.