Box 2

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE FIRST QUARTER OF 2013

This box summarises the main results of the euro area bank lending survey conducted by the Eurosystem between 20 March and 4 April 2013[1] for the first quarter of 2013. Overall, the results suggest that while the net tightening of the credit standards applied by banks to loans to enterprises and households has continued to moderate, the net decline in demand for loans has intensified, in particular for households.

Summary of the main results

In the first quarter of 2013, for the euro area as a whole, the net tightening of credit standards applied by banks to loans to enterprises declined, reaching a level below the historical average over the period since the survey's inception in 2003. The net tightening of credit standards applied to housing loans also decreased, albeit remaining slightly above its historical average. The level of net tightening remained broadly in line with its historical average in the case of consumer credit.

Among the factors underlying these developments, both banks' risk perception and the cost of funds and balance sheet constraints contributed less to net tightening for loans to both enterprises and households compared with the previous survey round. Borrowers' risks and macroeconomic uncertainty are still the main concerns of euro area banks when setting their lending policies.

As regards demand for loans to enterprises, euro area banks reported a broadly unchanged net decline in the first quarter of 2013, with net demand remaining substantially lower than its historical average. According to the reporting banks, the net decline in corporate loan demand mainly reflected the unchanged negative contribution of fixed investment. The ongoing net decline in demand for loans to households for house purchase and consumer credit strengthened substantially in the first quarter of 2013, which means that the net fall in demand has now returned to levels similar to those reported in 2012.

For the second quarter of 2013 the banks participating in the survey expect a similar degree of net tightening for loans to enterprises and a further decrease in the net tightening of credit standards for loans to households for house purchase and consumer credit. At the same time, euro area banks expect a weaker net decline in demand for all loan categories.

Loans and credit lines to enterprises

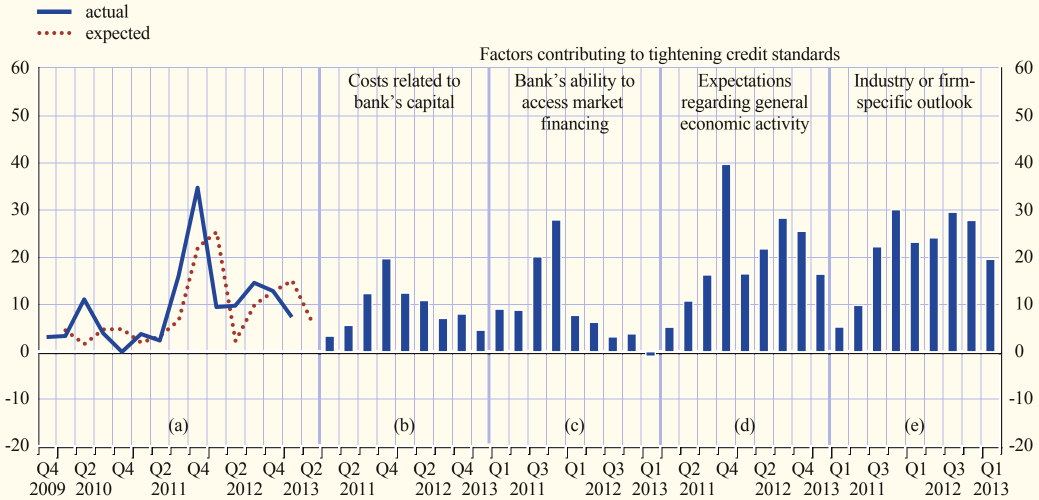
Regarding credit standards, in the first quarter of 2013 the net percentage[2] of banks reporting a tightening for loans and credit lines to enterprises declined (to 7%, compared with 13% in the

1 The cut-off date for completion of the survey was 4 April 2013. A comprehensive assessment of its results was published on the ECB's website on 24 April 2013.

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.

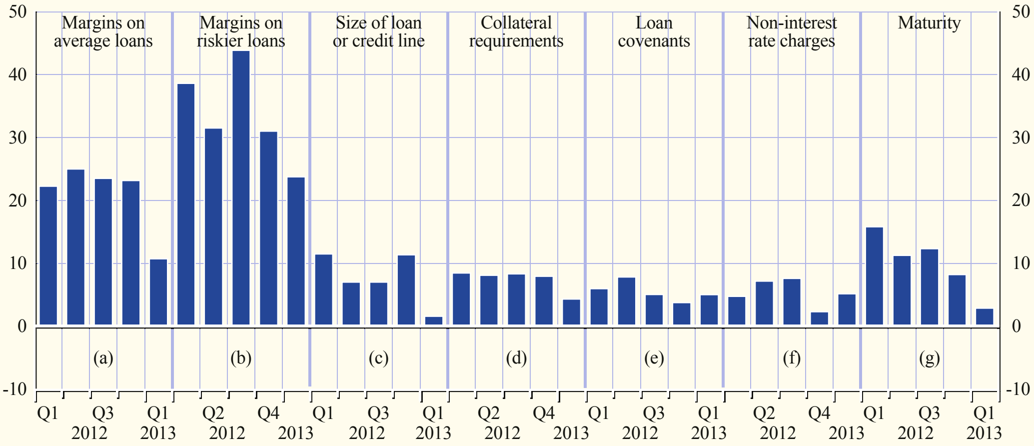
previous quarter; see Chart A), reaching a level below the historical average since the start of the survey in 2003. At the time of the previous survey round, participating banks had expected a higher degree of net tightening in the first quarter of 2013 (15%).

In the first quarter of 2013 the net tightening of credit standards declined across maturities and borrowers. More specifically, euro area banks reported net tightening of credit standards on loans to small and medium-sized enterprises (SMEs) and large firms of 7% and 4% respectively (compared with 12% and 15% in the fourth quarter of 2012), thus suggesting that the overall net tightening of credit standards was applied slightly more to small and medium-sized enterprises than to large firms. The surveyed banks also reported that the net tightening of credit standards declined for both short-term loans (5%, compared with 10% in the fourth quarter of 2012) and long-term loans (11%, compared with 15%).

Looking at the underlying factors, the net percentage of euro area banks reporting that the cost of funds and balance sheet constraints contributed to a tightening of credit standards declined moderately in the first quarter of 2013. More specifically, the reported contribution of costs related to banks' capital positions decreased (to 5%, from 8% in the fourth quarter of 2012), while the reported contributions of banks' access to market funding (-1%, compared with 4% in the fourth quarter of 2012) and banks' liquidity positions (-3%, compared with 0% in the fourth quarter of 2012) both pointed to a marginal easing of credit standards. Similarly, the impact of risk perceptions on the tightening of credit standards was also reported to have declined, albeit remaining at a relatively high level. Finally, competitive pressures were reported to have contributed to a net easing of credit standards in the first quarter of 2013.

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".

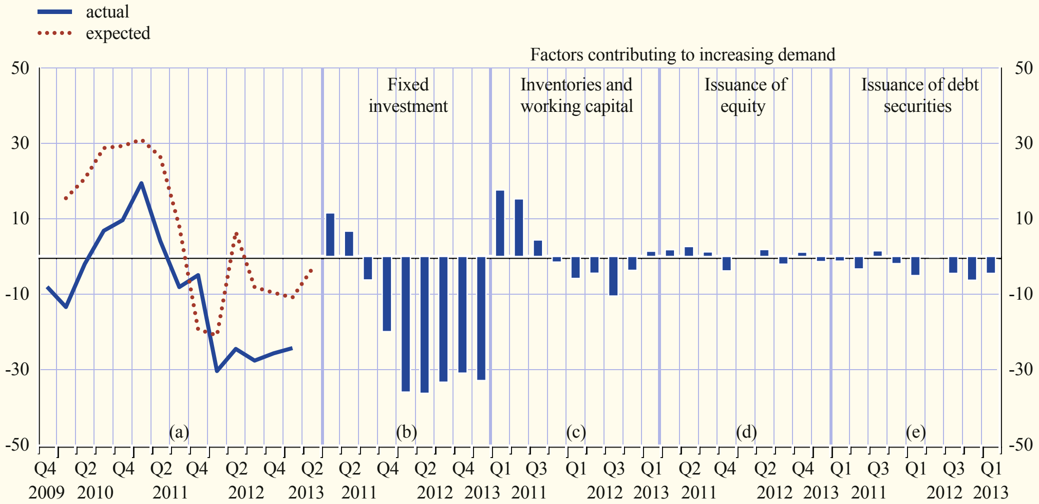
The decline in the net tightening of credit standards in the first quarter of 2013 was reflected in the developments for most lending terms and conditions (see Chart B). In particular, in the first quarter of 2013 the widening of margins decreased for average loans (to 11%, from 23% in the fourth quarter of 2012), as well as for riskier loans (to 24%, from 31% in the fourth quarter of 2012). Banks also reported a decline in the tightening impact of both restrictions on the size of loans (to 2%, from 11% in the fourth quarter of 2012) and collateral requirements (to 4%, from 8% in the fourth quarter of 2012). By contrast, the tightening contribution of non-interest rate charges increased slightly (to 5%, from 2% in the fourth quarter of 2012).

Looking ahead, on balance, euro area banks expect a similar degree of net tightening in the credit standards applied to loans to enterprises in the second quarter of 2013 (7%). The net tightening of credit standards is also expected to remain broadly unchanged in the case of loans to SMEs (6%, compared with 7% in the first quarter of 2013) and to increase somewhat for loans to large firms (to 9%, from 4% in the first quarter of 2013). Across maturities, the net tightening of credit standards is expected to remain broadly stable for both short-term loans (4%, compared with 5% in the first quarter of 2013) and long-term loans (10%, compared with 11% in the first quarter of 2013).

Turning to demand, in the first quarter of 2013 the net decline in reported demand for loans to enterprises remained broadly unchanged compared with the previous survey round (-24%, compared with -26%; see Chart C), with net demand remaining substantially lower than the historical average. Moreover, the decline was more pronounced than had been expected by respondents in the previous survey round (-11%). The net decline in demand for loans was broadly stable across borrowers and maturities, with the exception of short-term loans. Regarding the latter, participating banks reported a net decline of -8% in the first quarter of 2013, compared with -16% in the last quarter of 2012. More generally, the net decline in demand appears to have been relatively similar for large firms and SMEs (-26% for both categories), but stronger for long-term loans than for short-term loans (-32% and -8% respectively).

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.

As in the previous quarter, the net fall in demand was mainly driven by the substantial negative impact of reduced fixed investment (-33%, compared with -31%) on financing needs. Similarly, mergers and acquisitions (-10%, compared with -15% in the fourth quarter of 2012) continued to contribute to a decrease in loan demand, but to a lesser extent. By contrast, inventories and working capital (1%, compared with -4% in the fourth quarter of 2012) made a slight positive contribution to net demand. The use of most alternative sources of finance contributed to the net decline in demand for loans, with the exception of loans from non-banks, which made a positive contribution to net demand (1%, compared with -3% in the fourth quarter of 2012).

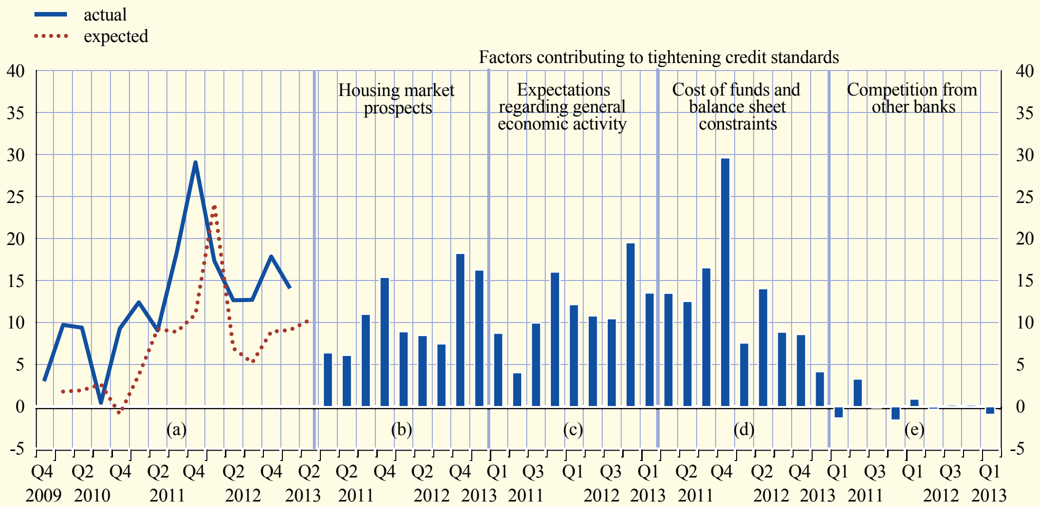
Looking ahead, banks expect a considerably smaller net decline in demand for loans to enterprises in the second quarter of 2013 (-4%). The net decline in demand is expected to apply to loans to both large firms and SMEs (-5% and -1% respectively) and to affect long-term loans (-11%) more markedly than short-term loans, where a net increase is foreseen (3%).

Loans to households for house purchase

With regard to credit standards, in the first quarter of 2013 the net percentage of banks reporting a tightening for loans to households for house purchase declined slightly (14%, compared with 18% in the last quarter of 2012; see Chart D), while remaining above its historical average. This decline was less pronounced than had been anticipated in the previous survey round (9%). As in the case of loans to enterprises, the decline in net tightening in the first quarter of 2013 was mainly driven by reduced pressures from the cost of funds and balance sheet constraints (4%, compared with 9% in the fourth quarter of 2012), as well as a decline in the contribution from banks' risk perceptions. The tightening impact of the general economic outlook declined (to 14%, from 20%

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.

in the fourth quarter of 2012), while that of housing market prospects remained broadly unchanged (16%, compared with 18% in the fourth quarter of 2012). Competitive pressures were reported to have remained broadly unchanged.

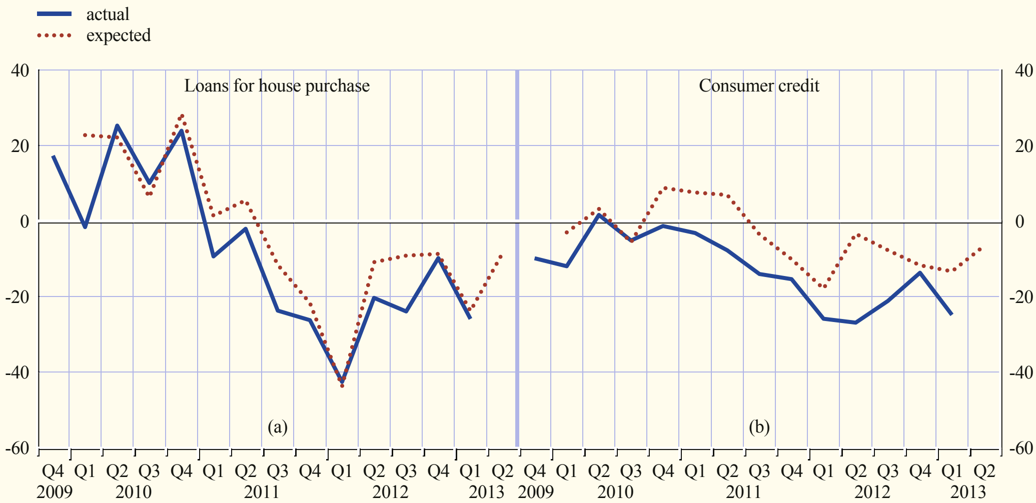
Most terms and conditions on housing loans were tightened to a lesser degree in the first quarter of 2013. More specifically, margins on average loans were reported to have narrowed (-1%, compared with 8% in the fourth quarter of 2012), while the net percentage of banks reporting a widening of margins on riskier loans declined (10%, compared with 24% in the fourth quarter of 2012). In addition, responses regarding non-price terms and conditions pointed to a slight moderation in the contributions made to net tightening by collateral requirements (5%, compared with 8% in the fourth quarter of 2012) and the maturities of loans and non-interest rate charges (6% and 2% respectively, compared with 9% and 3% in the fourth quarter of 2012), while indicating an increase in the case of loan-to-value ratios (to 8%, from 4% in the fourth quarter of 2012).

Looking ahead, banks expect a somewhat lower degree of net tightening for loans for house purchase (10%) in the second quarter of 2013.

Turning to loan demand, euro area banks reported a contraction in net terms in demand for housing loans (-26%, compared with -11% in the fourth quarter of 2012; see Chart E), with net demand standing well below its historical average. Regarding the underlying factors, the contributions made to the net decline in demand were particularly pronounced in the case of non-housing-related consumption (-19%, compared with -10% in the fourth quarter of 2012) and, to a lesser extent, housing market prospects (-17%, compared with -13% in the fourth quarter of 2012) and consumer confidence (-29%, compared with -20% in the fourth quarter of 2012). By contrast, the contribution made to the net decline in demand by the use of household savings as

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

an alternative source of finance remained broadly unchanged (at -13%, compared with -15% in the fourth quarter of 2012).

Looking ahead, banks expect a more contained net decline in demand for housing loans (-9%) for the second quarter of 2013.

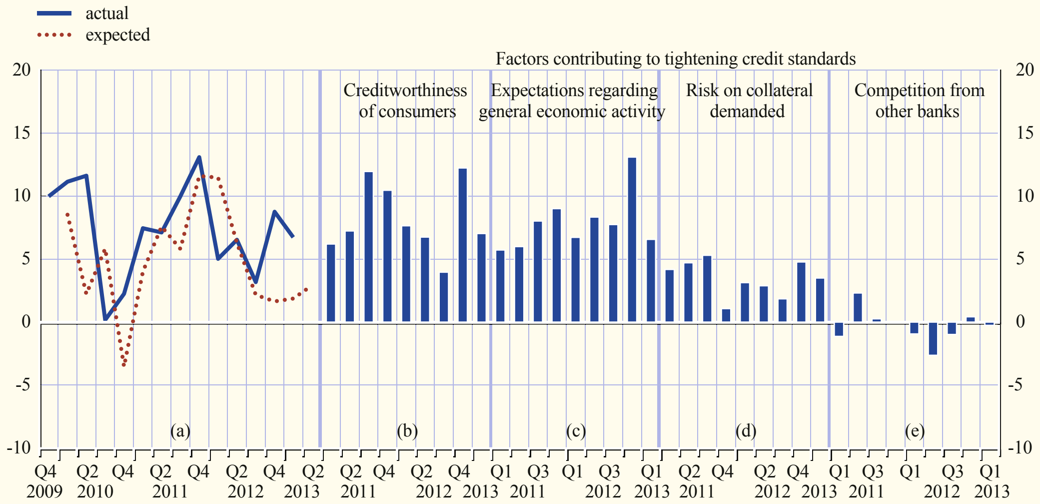
Consumer credit and other lending to households

For the first quarter of 2013 euro area banks reported broadly unchanged net tightening of credit standards for consumer credit (7%, down from 9%; see Chart F), in line with its historical average. As with loans to enterprises and housing loans, pressures stemming from the cost of funds and balance sheet constraints receded in the first quarter of 2013, albeit only very marginally (to 1%, from 3% in the fourth quarter of 2012). At the same time, the net percentage of banks reporting that expectations regarding the economic outlook and the creditworthiness of loan applicants affected credit standards for consumer credit declined in the first quarter of 2013 (to 7%, from 13% in the fourth quarter of 2012, in the case of expectations regarding the economic outlook; and to 7%, from 12% in the fourth quarter of 2012, in the case of the creditworthiness of loan applicants).

With regard to the terms and conditions for approving consumer credit, banks reported a narrowing of margins on average loans (-2%, compared with 12% in the previous survey round), whereas margins on riskier loans were widened, albeit to a lesser degree (4%, compared with 17% in the fourth quarter of 2012). In addition, the net tightening of non-price terms and conditions on consumer credit reached a neutral stance.

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, in net terms, only 3% of banks expect a further tightening of credit standards on consumer credit and other lending to households in the second quarter of 2013.

In the first quarter of 2013 the surveyed banks reported a strengthening, in net terms, in the decline of demand for consumer credit (-25%, compared with -14% in the previous quarter; see Chart E). This was mainly explained by reduced household spending on durable goods (-27%, down from -17% in the fourth quarter of last year) and a decrease in consumer confidence (-25%, compared with -22% in the last quarter of 2012).

Looking ahead to the second quarter of 2013, euro area banks expect a moderation in the net decline of demand for consumer credit (-7%).

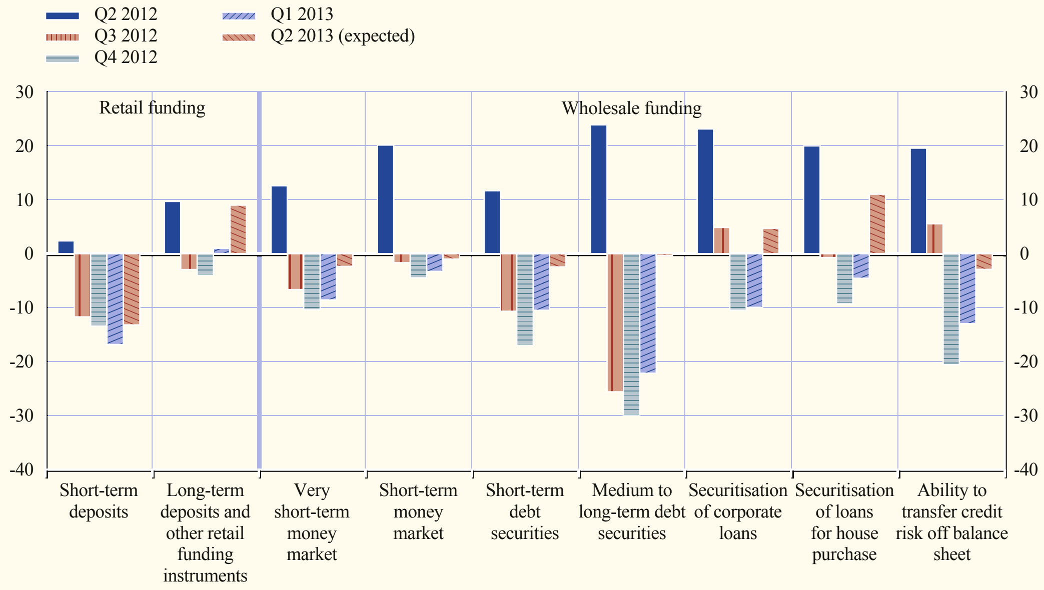
Ad hoc question on the impact of market tensions

As in previous survey rounds, the April 2013 bank lending survey contained an ad hoc question aimed at assessing the extent to which financial market tensions affected banks' access to retail and wholesale funding in the first quarter of 2013, and the extent to which they might still have an effect in the second quarter of 2013.

On balance, in the first quarter of 2013 euro area banks reported a further, albeit less pronounced, improvement in their access to retail and wholesale funding across most funding categories compared with the previous quarter (see Chart G). Looking ahead, for the second quarter of 2013 banks expect improvements in funding conditions to moderate further for most funding segments (except for securitisation, where a deterioration is expected).

Chart G Changes in access to 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".

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

As in previous survey rounds, the questionnaire for the April 2013 survey included an ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions, credit standards and credit margins.

Replies to the April 2013 survey indicated that the impact of sovereign debt tensions on banks' funding conditions abated slightly in some segments in the first quarter of 2013 (see Chart H). On balance, around 1% and 4% of euro area banks respectively reported that their direct exposure to sovereign debt and "other effects" contributed to unchanged, or a marginal tightening of, funding conditions (compared with a net easing impact of -1% and a net tightening impact of 14% respectively in the previous quarter). By contrast, the value of sovereign collateral contributed to a marginal net easing of funding conditions (-3%, compared with -1% in the fourth quarter of 2012).

Compared with the January survey round, the reported impact of the sovereign debt crisis on euro area banks' credit standards receded in the first quarter of 2013. The decline was broadly based across lending categories and transmission channels, but particularly strong for loans to enterprises and only marginal in the case of loans to households. At the same time, banks reported that the impact of the sovereign debt crisis on their credit margins had declined for loans to households, but increased marginally for loans to enterprises.

Chart H Impact of the sovereign debt crisis on banks' funding conditions, credit standards and lending margins

(net percentages of banks reporting an impact on funding conditions, on the tightening of credit standards or on the widening of lending margins)

1 Direct exposure to sovereign debt
2 Value of sovereign collateral
3 Other effects

Note: The net percentages are defined as the difference between the sum of the percentages for "contributed considerably to a deterioration of funding conditions/tightening of credit standards/widening of lending margins" and "contributed somewhat" and the sum of the percentages for "contributed somewhat to an easing of funding conditions/easing of credit standards/narrowing of lending margins" and "contributed considerably".