Box 3

## THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE THIRD QUARTER OF 2013

This box summarises the main results of the October 2013 euro area bank lending survey (BLS), conducted by the Eurosystem between 25 September and 10 October 2013[1], for the third quarter of 2013. Overall, it confirmed the ongoing stabilisation in credit conditions for firms and households in the context of loan demand remaining weak.

### Summary of the main results

Net tightening of credit standards for loans to enterprises edged down marginally in the third quarter of 2013, remaining at a level below the historical average calculated over the period since the survey's inception in 2003. The net tightening of credit standards applied to housing loans decreased somewhat further to a level below the historical average, while euro area banks reported a marginal net tightening of credit standards on loans for consumer credit at a level below the historical average.

Among the factors underlying the above-mentioned developments, the contribution from the cost of funds and balance sheet constraints had, on average, an easing impact on bank lending conditions for enterprises and only a marginal tightening effect on lending to households. Besides, euro area banks' risk perceptions contributed less to the net tightening of loans, although such risks remained their main concerns in setting their lending policies. Finally, the contribution from competition pointed on average to a net easing of credit standards.

As regards demand for loans, the net decrease in demand for loans to enterprises was smaller in the third quarter of 2013 than in the preceding quarter (thereby approaching the historical average for this indicator). In addition, the net demand for both loans to households for house purchase and consumer credit turned positive, reaching levels above the respective long-term averages.

1 The cut-off date for completion of the survey was 10 October 2013. A comprehensive assessment of its results was published on the ECB's website on 30 October 2013.

Looking ahead, the banks participating in the survey expect a net easing of credit standards for both corporate and consumer credit loans in the fourth quarter of 2013, but anticipate unchanged credit standards for housing loans. They also expect positive net demand for all loan categories.

### Loans and credit lines to enterprises

In the third quarter of 2013 the net percentage[2] of euro area banks reporting a net tightening of credit standards stood at 5%, down from 7% in the previous survey round (see Chart A). At the time of the previous survey round, participating banks expected a slightly smaller degree of net tightening in credit standards (1%).

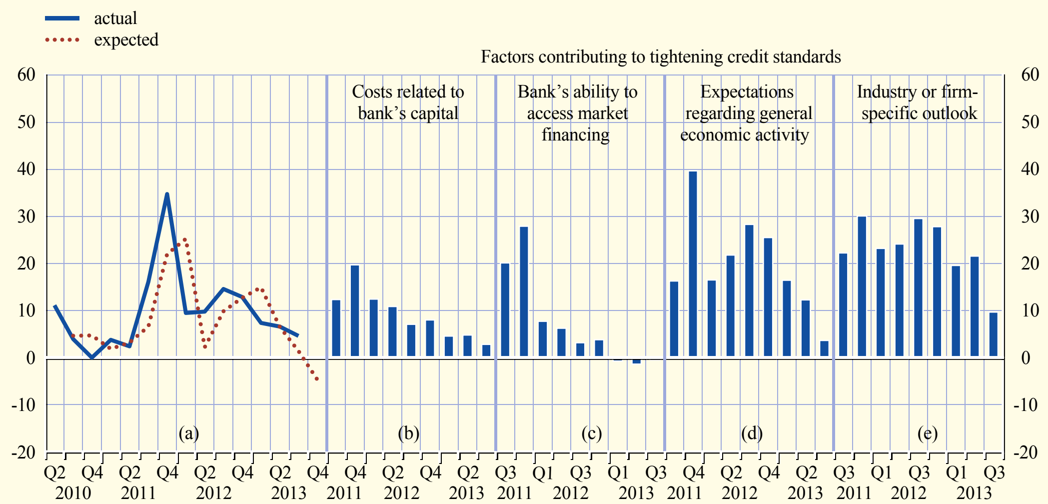
With regard to developments by firm size, in the third quarter of 2013 overall net tightening of credit standards was broadly unchanged for both loans to large firms (5%, compared with 3% in the second quarter) and loans to small and medium-sized enterprises (SMEs) (4%, compared with 5% in the second quarter). In terms of maturity, net tightening of credit standards remained broadly unchanged for short-term loans in the third quarter of 2013 (3%, compared with 4% in the second quarter), but declined considerably for long-term loans (to 5%, down from 10%).

Looking at the underlying factors, for the first time since the third quarter of 2009 euro area banks reported that, on average, cost of funds and balance sheet constraints had contributed to a slight net easing of credit standards. This resulted from a lower contribution of the net tightening of costs related to banks' capital positions (3%, down from 5% in the second quarter of 2013), as well as

2 The net percentage refers to the difference between the proportion of banks reporting that credit standards have been tightened and the proportion 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**

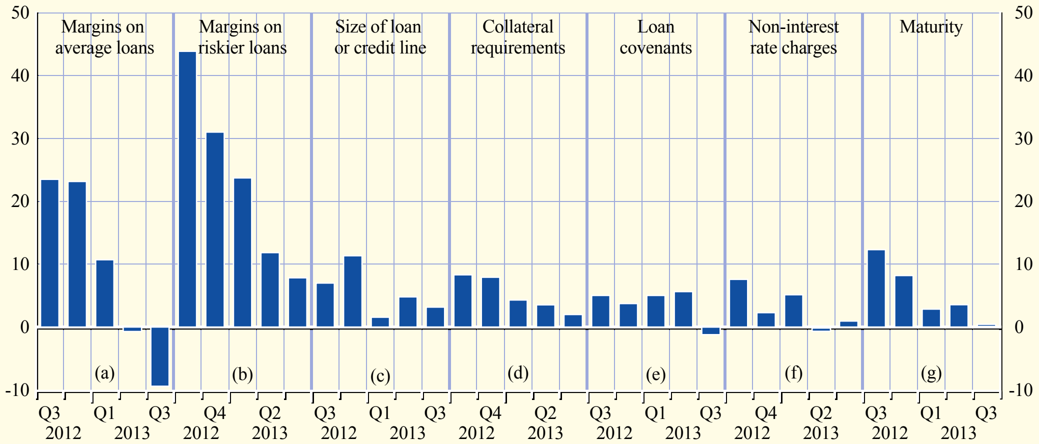
(net percentages)




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.

**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".

an easing contribution from banks' access to market funding (-1%, unchanged from the previous quarter) and, in particular, from their liquidity positions (-7%, down from -3% in the July round). In addition, the impact of risk perceptions on the tightening of credit standards was reported to have considerably declined, on average, despite remaining the main factor behind the net tightening. Specifically, the decline in the impact of risk perceptions was mainly caused by banks having less pessimistic expectations regarding general economic activity (a net percentage of 4%, down from 12%) and regarding the industry or firm-specific outlook (10%, down from 22%). For the risk on collateral demanded, banks reported a small decrease in the tightening impact on credit standards (to 4%, down from 6%). Finally, competitive pressures were reported to have contributed to a net easing of credit standards in the third quarter of 2013, broadly unchanged from the previous survey round.

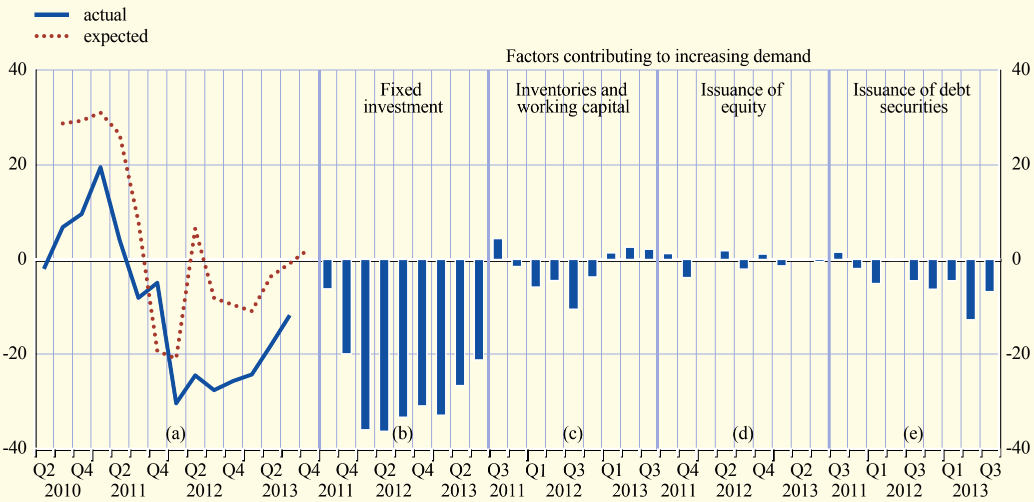
The developments in the net tightening of credit standards on loans to enterprises in the third quarter of 2013 translated into a further narrowing of margins on average-risk loans and a smaller widening of margins on riskier loans (see Chart B). For most of the non-price credit terms and conditions, euro area banks reported reduced net tightening, whereas for loan covenants they reported marginal net easing for the first time since the second quarter of 2007.

Looking ahead to the fourth quarter of 2013, on balance, euro area banks expect an easing of credit standards for loans to enterprises (-5%) for the first time since the fourth quarter of 2009. Looking at firm size, euro area banks expect a slight net easing of credit standards for loans to SMEs (-3%) and a marginal net easing for loans to large firms (-1%). Looking at loan maturity, banks expect a net easing of credit standards for short-term loans (-6%) and unchanged credit standards for long-term loans (0%).

Turning to demand, in the third quarter of 2013 the net decline in demand for loans to enterprises abated in comparison with that reported in the previous survey round (to -12%, compared with -18%; see Chart C). Similar developments were also recorded across loan sizes and maturities.

**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 driven mainly by the negative impact of reduced fixed investment (-21%, from -27%) on financing needs. Other financing needs, such as those arising from mergers and acquisitions (-1%, compared with -2% in the second quarter of 2013), continued to contribute to the net decline in demand, while financing needs for inventories and working capital, as well as for debt restructuring, had a positive impact on loan demand (2% and 16% respectively, compared with 3% and 15% respectively in the second quarter of 2013). On average, the contribution from the use of alternative sources of finance to the net decline in demand remained broadly unchanged in comparison with the previous survey round.

Looking ahead, banks expect a net increase in demand for loans to enterprises in the fourth quarter of 2013 (2%). Similarly, a net increase in demand is expected for loans to SMEs (2%), loans to large firms (3%), and for short-term loans (6%), while a net decline in demand is expected for long-term loans (-3%).

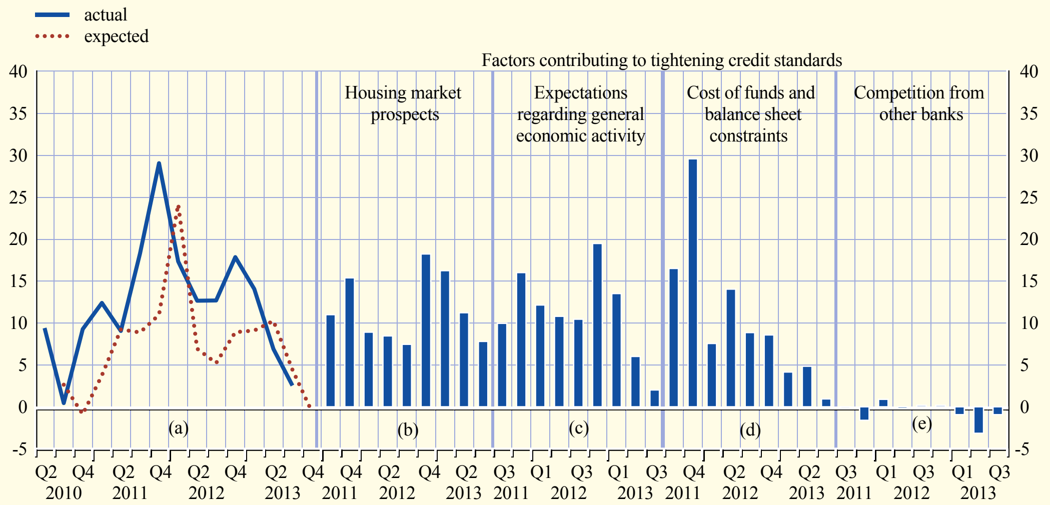
### Loans to households for house purchase

The net percentage of banks reporting a tightening of credit standards on loans to households for house purchase declined to 3% in the third quarter of 2013, from 7% in the second quarter (see Chart D). This decrease was in line with what respondents expected in the previous survey round (4%).

Banks' cost of funds and balance sheet constraints had a marginal net tightening effect on credit standards for loans to households for house purchase in the third quarter of 2013 (1%, down from 5% in the second quarter). At the same time, the net tightening impact of the general

**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.

economic outlook (2%, down from 6%) and housing market prospects (8%, down from 11%) on credit standards for housing loans decreased further in the third quarter of 2013. Finally, competitive pressures were reported, all in all, to have contributed to unchanged credit standards.

Most price and non-price terms and conditions applied to housing loans were tightened less, or even eased, in the third quarter of 2013. Euro area banks reported an easing of margins on average loans in net terms (-7%, compared with 1% in the second quarter), while margins on riskier loans were still tightened in net terms, but to a considerably lower degree than in the second quarter (4%, down from 13%). Responses regarding non-price terms and conditions pointed to a decline in the net tightening for collateral requirements, loan maturity and non-interest rate charges, whereas banks reported a small net increase in tightening for loan-to-value ratios.

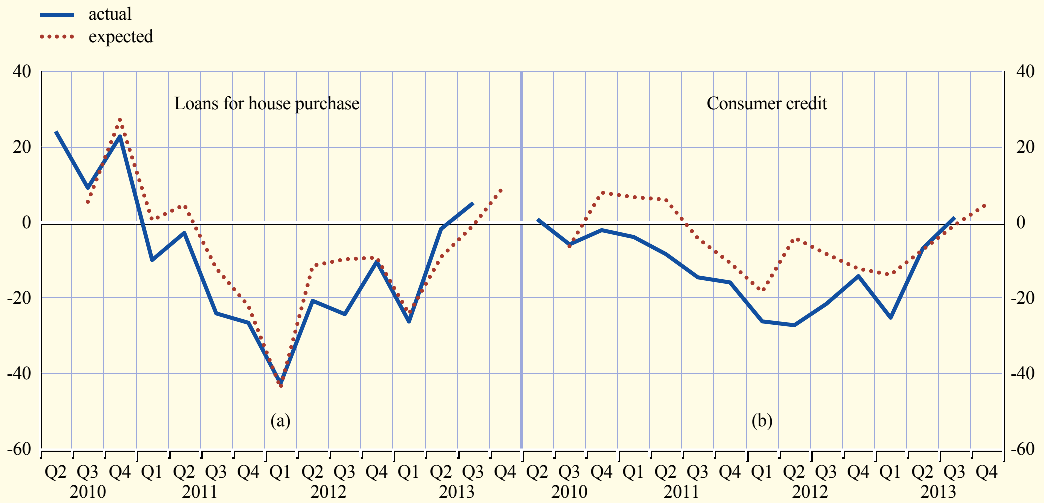
Looking ahead, banks expect broadly unchanged credit standards for loans for house purchase in net terms in the fourth quarter of 2013.

Turning to loan demand, euro area banks reported a net increase in demand for housing loans (5%, compared with -2% in the second quarter of 2013; see Chart E) for the first time since the fourth quarter of 2010. Regarding the factors affecting demand in the third quarter, housing market prospects contributed positively to the net demand (3%, from -6% in the second quarter), while all other factors – such as consumer confidence (-5%, compared with -21%), non-housing-related consumption (-6%, compared with -7%) and the use of household savings as an alternative source of finance (-5%, compared with -10%) – continued to contribute to a net decrease. At the same time, these negative contributions declined.

Looking ahead, banks continue to expect demand for housing loans to remain positive (10%).

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

(net percentages)



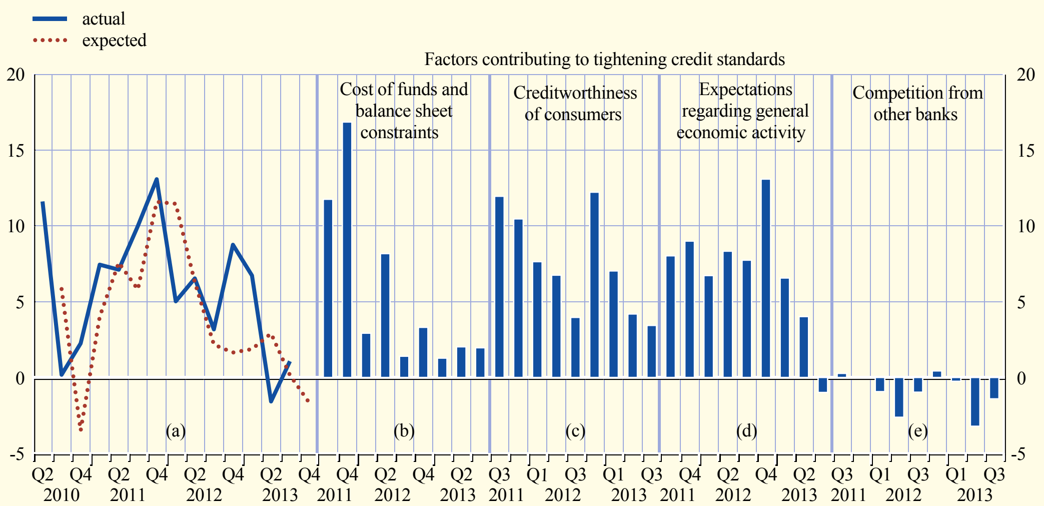

Notes: The net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Actual" values refer to the period in which the survey was conducted. "Expected"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

### Consumer credit and other lending to households

After a slight net easing in the previous round, euro area banks reported a marginal net tightening of credit standards for consumer credit in the third quarter of 2013 (1%, from -2%; see Chart F). Pressures emerging from the cost of funds and balance sheet constraints remained broadly

## 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.

unchanged in the third quarter. At the same time, on average, banks' risk perceptions contributed less to the net tightening, while competitive pressures continued to contribute to a net easing.

Turning to the terms and conditions for approving consumer credit, euro area banks reported unchanged margins on average loans, following a narrowing of margins in the second quarter (0%, up from -3% in the second quarter of 2013), and a continued small net widening of margins on riskier loans (3%, compared with 2% in the second quarter). In addition, the net tightening of non-price terms and conditions on consumer credit remained mostly unchanged.

Looking ahead, euro area banks expect a slight net easing in credit standards on consumer credit and other lending to households for the fourth quarter of 2013.

In the third quarter of 2013, the banks surveyed reported a marginal net increase in demand for consumer credit (1%, up from -7% in the previous quarter; see Chart E). The developments in demand for consumer credit were driven mainly by household spending on durable goods, consumer confidence and household saving all having a smaller negative impact.

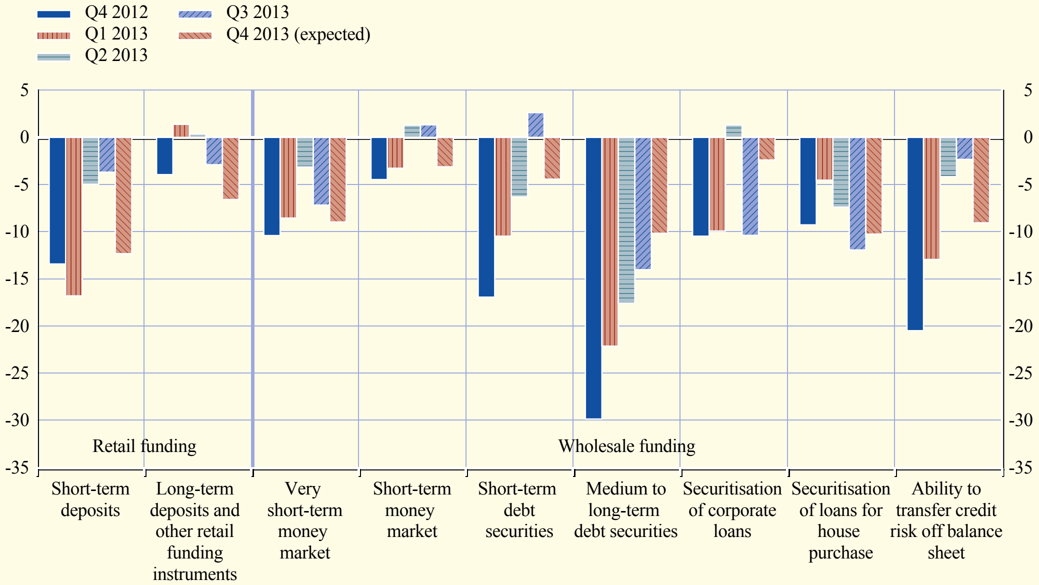
Looking ahead to the fourth quarter, euro area banks expect a further net increase in demand for consumer credit (to 5%).

### Ad hoc question on the impact of market tensions

As in previous survey rounds, the October 2013 BLS also contained an ad hoc question on banks' access to retail and wholesale funding.

**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".

On balance, euro area banks continued to report an improvement across all funding categories in net terms in the third quarter of 2013. In most categories, this was somewhat stronger than in the previous quarter (see Chart G). In particular, euro area banks reported a net easing in their access to retail funding (-3%, compared with -2% in the second quarter of 2013), money markets (-3%, compared with -1%), debt securities (-6%, compared with -12%) and securitisation (-8%, compared with -3%). With the exception of debt securities funding, the net easing was more pronounced in the third quarter than in the second.

The further improvement in banks' access to wholesale funding markets was stronger than expected at the time of the previous survey round, particularly for debt securities and securitisation. For retail funding, the improvement was broadly in line with expectations overall.

Looking ahead to the fourth quarter of 2013, euro area banks expect a stronger easing in their access for most categories, with the exception of securitisation.

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

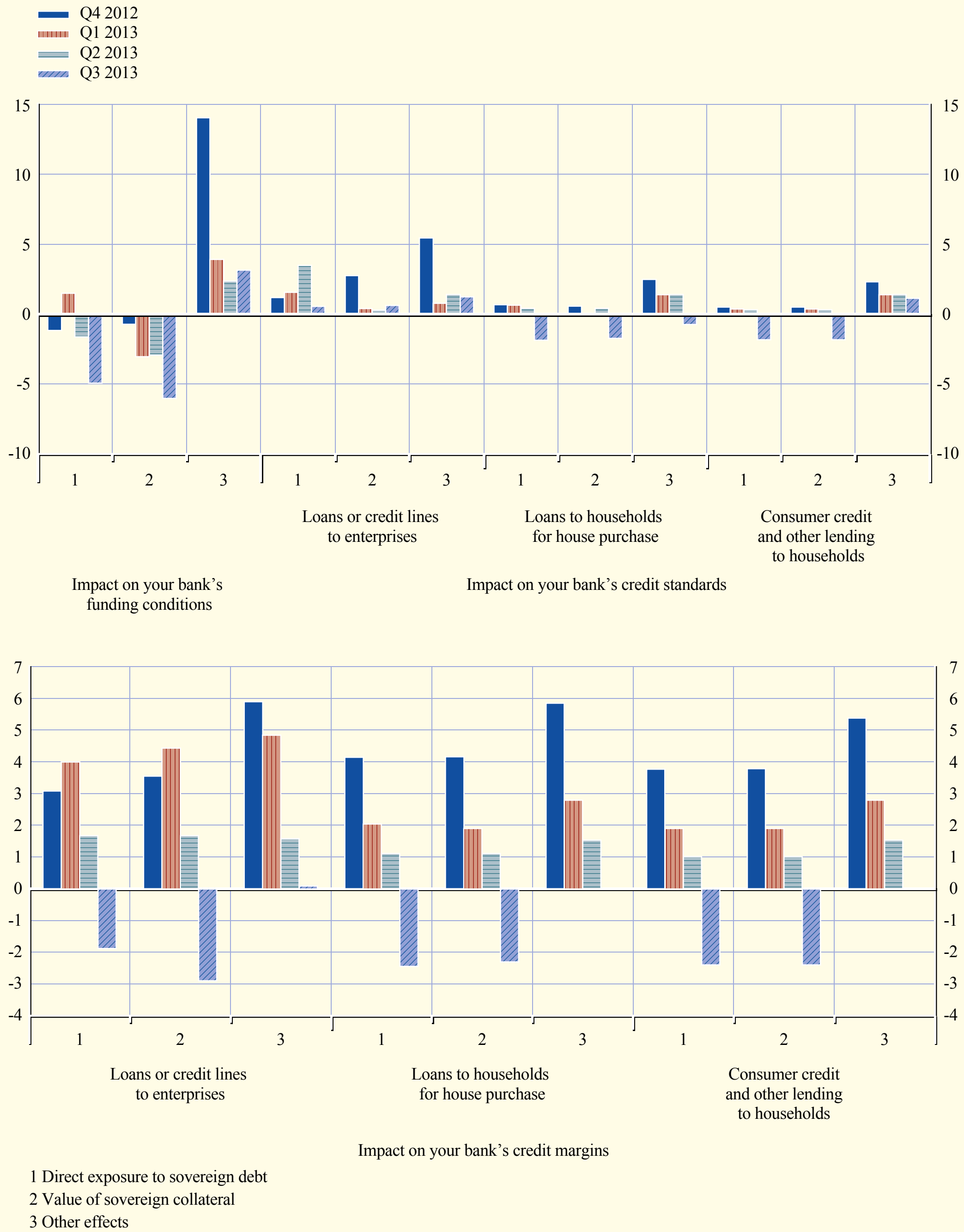
As in previous survey rounds, the questionnaire for the October 2013 survey also included an ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions, credit standards and credit margins over the three previous months.

Responses to the October 2013 survey indicated that developments in sovereign debt markets contributed on average to an easing of banks' funding conditions in the third quarter of 2013 (see Chart H). Specifically, on balance, 5% and 6% respectively of euro area banks reported that their direct exposure to sovereign debt and the value of their sovereign collateral contributed to an easing in funding conditions (compared with a net easing of 2% and 3% respectively in the second quarter), whereas 3% of the banks signalled that "Other effects" contributed to a net tightening impact (compared with 2% in the previous quarter).

Compared with the previous quarter, the impact of the sovereign debt crisis on banks' credit standards receded further in the third quarter of 2013. While there continued to be a marginal net tightening impact on credit standards for loans to enterprises (1% on average, down from 2% in the second quarter), there has been a marginal net easing impact for loans to households for house purchase and for consumer credit (both -1% on average, down from 1%) for the first time since the introduction of this ad hoc question in the fourth quarter of 2011. At the same time, banks reported that the sovereign debt crisis had an easing impact on their loan margins across all loan categories.

## 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)




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".