Box 1

THE RESULTS OF THE JANUARY 2006 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the January 2006 bank lending survey for the euro area carried out by the Eurosystem.[1] Overall, credit standards changed little for all categories of loans. In particular, the results showed a slight net easing[2] of credit standards for loans to enterprises in the fourth quarter of 2005, compared with the slight net tightening recorded in the previous quarter. At the same time, banks slightly tightened the credit standards applied to loans to households for house purchase, while credit standards for consumer credit and other loans to households remained broadly unchanged. During the fourth quarter of 2005, banks reported a strong increase in net demand[3] for loans to enterprises and households. For the first quarter of 2006, reporting banks expected that the credit standards applied to corporate loans

1 A comprehensive assessment of the results of the January 2006 bank lending survey for the euro area was released on 3 February 2006 and can be found on the ECB's website (www.ecb.int/stats/money/lend/html/index.en.html).
2 The 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 eased. A positive net percentage would indicate that banks have tended to tighten credit standards ("net tightening"), whereas a negative net percentage would indicate that banks have tended to ease credit standards ("net easing").
3 The term "net demand" refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.

and loans for house purchase would remain unchanged in net terms, while they expected a slight net easing of credit standards applied to consumer credit and other lending to households.

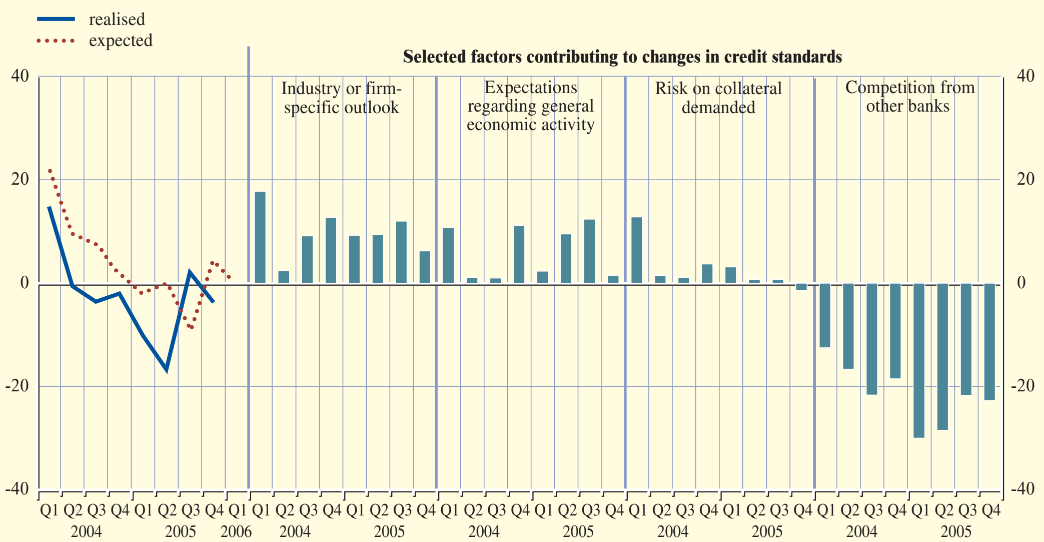
Loans or credit lines to enterprises

Credit standards: For the fourth quarter of 2005, banks reported a slight net easing of credit standards for loans or credit lines to enterprises (of -4%, following a net tightening of 2% in the previous quarter; see Chart A, first panel). This development reflected perceptions of decreased risk concerning the industry-specific outlook and, more significantly, concerning general economic activity, even though these factors still contributed marginally towards a net tightening (see Chart A, second and third panels). At the same time, competition from other banks and risk on collateral demanded contributed to a net easing (see Chart A, fourth and fifth panels). As regards the terms and conditions of credit, the net easing of credit standards was mainly attributable to a decrease in margins on average loans, as well as to a lengthening of the maturity of loans or credit lines. In terms of the borrower's size, banks reported a net easing of credit standards on loans to both small and medium-sized enterprises and to large enterprises. Regarding the maturity of loans, banks confirmed the net easing of credit standards applied to short-term loans and reported unchanged credit standards for long-term loans.

Loan demand: Net demand for loans to enterprises increased further to reach its highest level since the introduction of this survey (to 23% in January, from 17% in October; see Chart B, first panel). This development reflected, in particular, the strong increase in net demand for loans to small and medium-sized enterprises.

Chart A Changes in the credit standards applied to the approval of loans or credit lines to enterprises

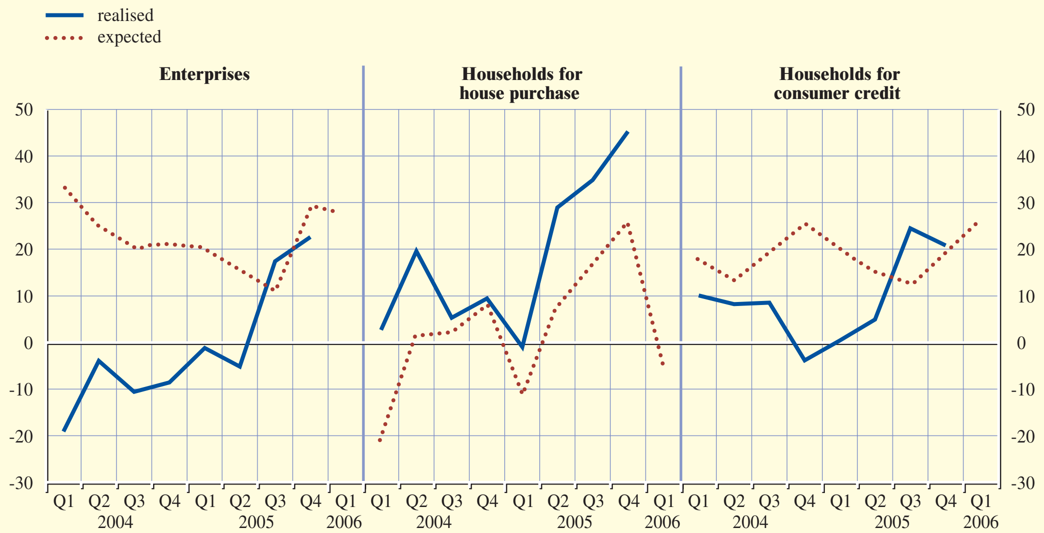
(net percentages)



Notes: 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 defined as 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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the first quarter of 2006 were reported by banks in the January 2006 survey.

Chart B Changes in the demand for loans or credit lines to enterprises and households

(net percentages)



Notes: The net percentage refers 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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the first quarter of 2006 were reported by banks in the January 2006 survey.

Factors contributing to the increase in net demand included, according to the responding banks, firms' increased financing needs for fixed investment, inventories and working capital. Mergers and acquisitions, and corporate restructuring activities, also continued to contribute to the increase in net demand. A lesser availability of internal finance to enterprises and lower equity issuance also contributed to the recent developments in the net demand for loans.

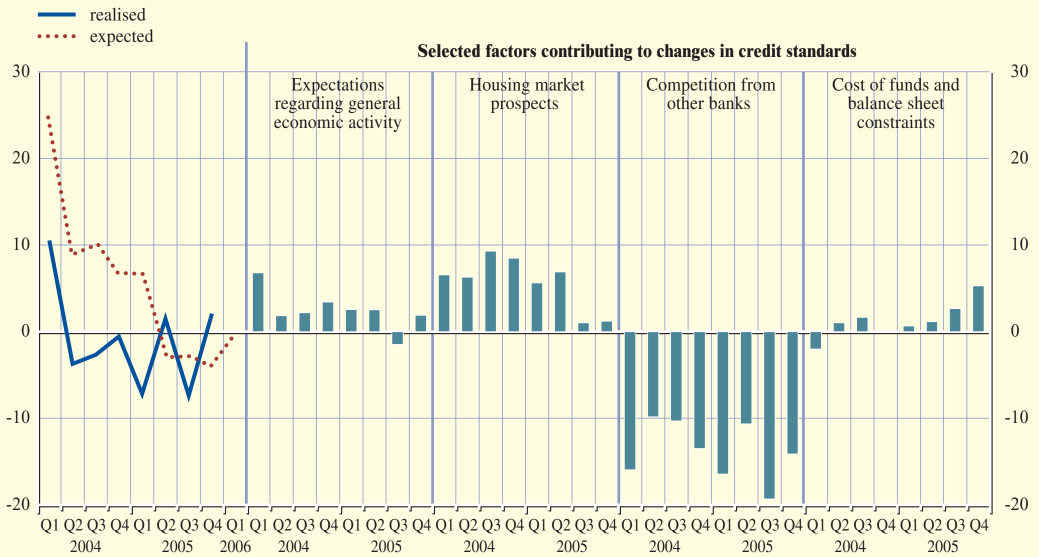
Expectations: Overall, for the first quarter of 2006, banks expected unchanged credit standards to be applied to the approval of loans or credit lines to enterprises (see Chart A, first panel), but a general improvement in those applied to loans to small and medium-sized enterprises. At the same time, banks expected a positive net demand for loans to enterprises (see Chart B, first panel), in particular to small and medium-sized enterprises.

Loans to households for house purchase

Credit standards: Banks reported a slight net tightening of the credit standards applied to households for the approval of loans for house purchase in the fourth quarter of 2005 (2% in January, from -7% in October; see Chart C, first panel). This development mainly reflected a smaller contribution to a net easing by competition and an increase in the contribution to a tightening by the cost of funds and balance sheet constraints (see Chart C, fourth and fifth panels). At the same time, housing market prospects contributed slightly to the tightening, as in the previous quarter (see Chart C, third panel). As regards the terms and conditions of credit, banks reported that the slight net tightening of credit standards applied to housing loans was achieved predominantly via an increase of margins on riskier loans. Developments in the loan-to-value ratio and margins on average loans contributed less to an easing of credit standards than in previous quarters.

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

(net percentages)



Notes: 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 defined as 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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the first quarter of 2006 were reported by banks in the January 2006 survey.

Loan demand: Net demand for housing loans to households continued to increase sharply in the fourth quarter of 2005 (to 45% in January, from 35% in October; see Chart B, second panel). This increase was considerably higher than what banks had expected in the October 2005 survey for the fourth quarter of 2005. The main factor underpinning this development was a significant improvement in the consumer confidence reported by banks. Another factor was the positive contribution from housing market prospects, which was broadly unchanged from the previous quarter. Furthermore, for the first time since the start of the survey, banks reported a positive impact of non-housing-related consumption expenditure on net demand.

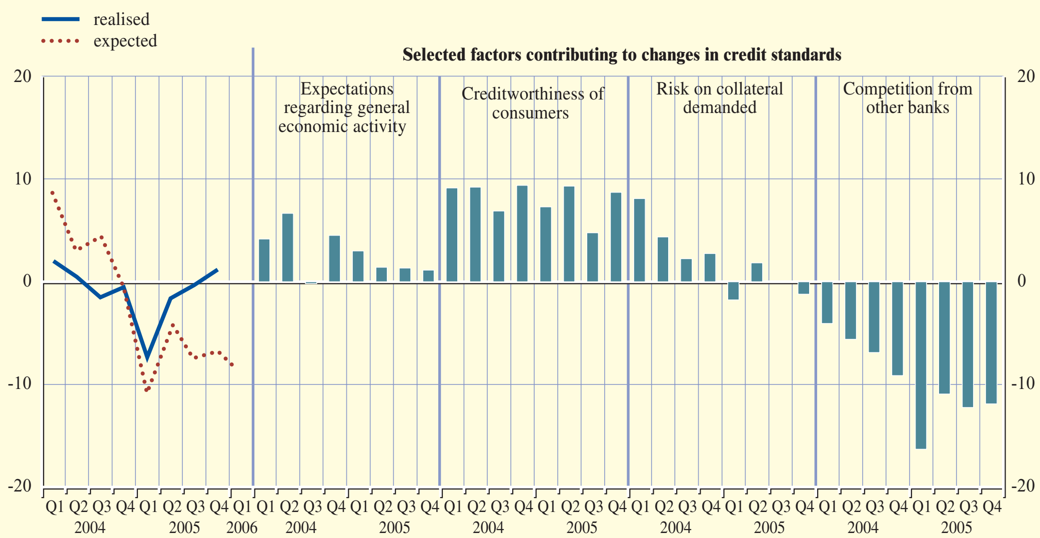
Expectations: For the first quarter of 2006, respondent banks expected broadly unchanged credit standards for housing loans (see Chart C, first panel) and a strong decrease in the net demand for such loans (see Chart B, second panel).

Loans for consumer credit and other lending to households

Credit standards: For loans to households for consumer credit, credit standards remained basically unchanged compared with the previous quarter (see Chart D, first panel). Banks reported that the contribution to net tightening from risks stemming from lower creditworthiness of consumers increased in comparison with the previous quarter and that competition from other banks contributed less to a net easing (see Chart D, third and fifth panels). As regards the terms and conditions of consumer credit, margins on riskier loans contributed to a tightening, while other factors such as collateral requirements and loan maturity contributed marginally to a net easing.

Chart D Changes in the credit standards applied to the approval of loans for consumer credit and other lending to households

(net percentages)



Notes: 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 defined as 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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the first quarter of 2006 were reported by banks in the January 2006 survey.

Loan demand: According to responding banks, net demand for consumer credit and other lending to households remained strong in the fourth quarter of 2005 (at 21%, after 25% in the previous quarter; see Chart B, third panel). The main factors behind this result were an improvement in consumer confidence and strong spending on durable consumer goods.

Expectations: For the first quarter of 2006, banks expected a net easing of credit standards (see Chart D, first panel) and an increase in the net demand for consumer credit and other lending to households (see Chart B, third panel).