Box 2

THE RESULTS OF THE JANUARY 2008 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the January 2008 bank lending survey for the euro area conducted by the Eurosystem.[1] Respondent banks reported that the net tightening of credit standards for loans to enterprises increased further in the case of both small and medium-sized enterprises (SMEs) and large enterprises in the fourth quarter of 2007.[2] The tightening reflects the deterioration of financial market conditions since the start of the financial turmoil last summer and a worsening of banks' situation. This was confirmed by the replies to the ad hoc questions relating to the financial turmoil included in the January 2008 survey (see the last section of this box). With regard to demand, banks reported that net demand for loans to enterprises changed little and remained slightly positive in the fourth quarter of 2007.[3] According to the respondent banks, the item "mergers/acquisitions and corporate restructuring" was the key factor behind the decline in net loan demand, which was broadly offset by other factors, however. For the first quarter of 2008, banks expect a continued, only slightly smaller net tightening of credit standards for loans to enterprises in comparison with the fourth quarter. Enterprises' net demand for loans is expected to fall slightly.

As regards loans to households for house purchase, banks reported that the net tightening of credit standards increased in the fourth quarter of 2007. However, this tightening was far more limited than in the case of loans to enterprises. According to respondent banks, households' net demand for loans for house purchase dropped considerably in the fourth quarter of 2007, mainly as a result of the perception of deteriorating housing market prospects and worsening consumer confidence. For the first quarter of 2008, banks expect a continued tightening of the credit standards applied to loans for house purchase, albeit to a lesser extent than the net tightening actually recorded in the previous quarter, and a further deterioration in the net demand for such loans.

1 Note that, on account of the financial turmoil experienced since last summer, the January 2008 survey was brought forward by around one month. The cut-off date for the receipt of data from the responding banks was 8 January 2008. A comprehensive assessment of the results of the January 2008 bank lending survey for the euro area was published on the ECB's website on 18 January 2008.
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").
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.

With regard to credit standards for consumer credit and other lending to households, banks reported a slight net tightening of credit standards in the fourth quarter of 2007, compared with a net easing of standards in the previous quarter. Net demand for consumer credit and other lending, as indicated by responding banks, fell in the fourth quarter. Looking ahead, for the first quarter of 2008, banks expect a continued slight net tightening of credit standards on loans for consumer credit and other lending to households and a further fall in the net demand for such loans.

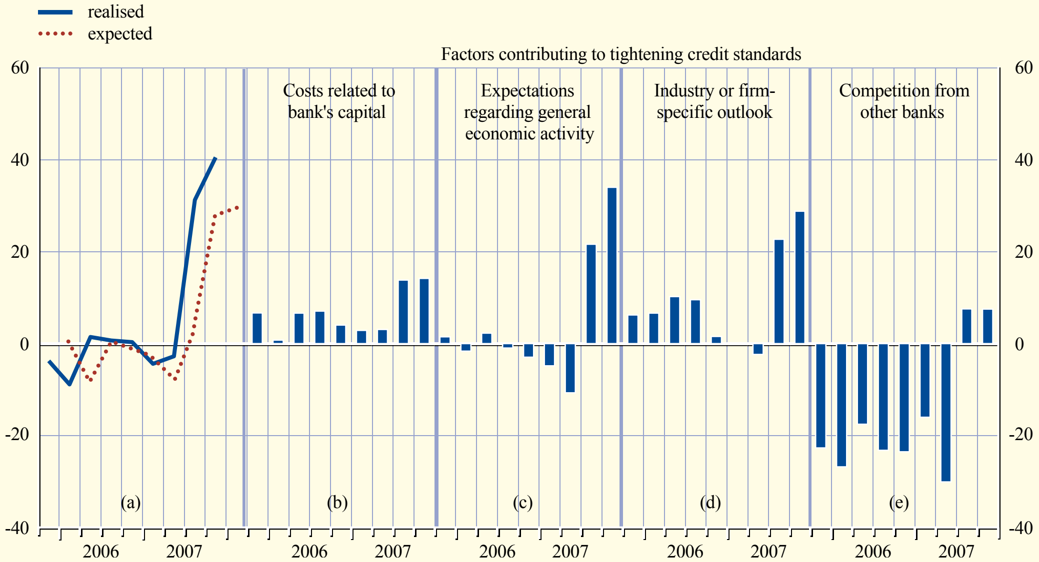
Loans or credit lines to enterprises

Credit standards: Reflecting the financial turmoil in the second half of 2007, the net tightening of credit standards for loans or credit lines to enterprises increased further in the fourth quarter of 2007 (41%, compared with 31% in the previous quarter; see Chart A, panel (a)). Banks' risk perceptions regarding general economic activity and the industry or firm-specific outlook contributed to the further net tightening (see Chart A, panels (c) and (d)). In addition, the cost related to banks' capital positions, their liquidity positions and their access to market funding continued to contribute moderately to the net tightening of credit standards, thus reflecting a possible but limited impact of the financial turmoil on bank lending (see Chart A, panel (b)).

As regards the terms and conditions of credit, banks tightened their credit standards, especially by widening their margins both on average loans (38%, from 11% in the previous round) and on riskier loans (58%, from 37% in the previous round). However, non-price terms and conditions, such as shortening the maturity of loans or credit lines and/or demanding more loan covenants and collateral, also contributed to the tightening of credit standards in the fourth quarter of 2007.

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 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 2008 were reported by banks in the January 2008 survey.

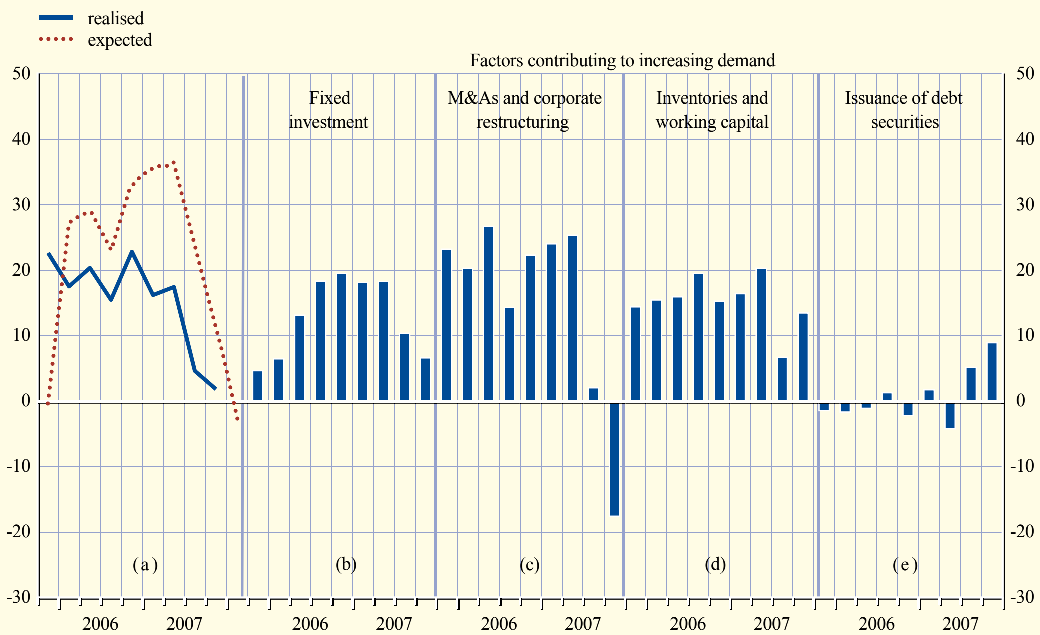
The net tightening of the credit standards affected both SMEs (27%, from 15% in the previous quarter) and, in particular, large enterprises (44%, from 33% in the previous quarter). The particularly strong net tightening of credit standards for loans to large enterprises is likely to be related somewhat to the financing of M&As. In fact, according to respondent banks, loans related to M&As were affected particularly strongly by the net tightening of credit standards in reaction to the financial turmoil (see the last section on the ad hoc questions). In addition, the worsening of conditions for securitisation in the wake of the financial turmoil probably had an impact on, especially, loans to large enterprises (see also the last section). As regards loan maturities, the net tightening was somewhat more pronounced for long-term loans (39%, from 30% in the previous survey) than for short-term loans (28%, from 16% in the previous survey).

Looking ahead to the first quarter of 2008, banks expect a continued, only slightly smaller net tightening of credit standards for loans to enterprises in comparison with the net tightening actually recorded in the fourth quarter (see Chart A, panel (a)).

Loan demand: In the fourth quarter of 2007, the net demand for loans by enterprises changed little and remained slightly positive (2%, compared with 5% in the previous round) (see Chart B, panel (a)). According to respondent banks, the item "mergers/acquisitions and corporate restructuring" was the key factor behind the decline in net loan demand. Inventories and working capital, as well as fixed investment, supported loan demand – albeit, at least in the case of

Chart B 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 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 2008 were reported by banks in the January 2008 survey.

the latter, less than in the previous quarter (see Chart B, panels (b) to (d)). Other factors that contributed positively to loan demand were, above all, the decline in the issuance of debt securities as well as, to a more modest extent, loans from other banks and non-banks, and the issuance of equity. This may suggest that some firms were confronted with less accessible markets or worsened financing conditions, in particular when tapping the corporate debt market for funding, in the past few months. By contrast, internal financing continued to contribute negatively to the demand for loans by enterprises. In terms of borrower size, net loan demand by SMEs was unchanged according to reporting banks, whereas net loan demand by large enterprises declined (0% and -7% respectively). Finally, net demand was positive across the maturity spectrum, with demand for long-term loans broadly equal to that for short-term loans (2% and 3% respectively), after higher demand for long-term loans than for short-term loans in previous quarters.

In the first quarter of 2008, enterprises' demand for loans is expected to fall slightly in comparison with the previous quarter (see Chart B, panel (a)). Specifically, banks expect the demand for loans to SMEs to increase, albeit less than in the previous quarter, whereas they expect net loan demand by large enterprises to decline considerably. With respect to loan maturities, banks expect a slight net increase in the demand for short-term loans, but a net decrease in the demand for long-term loans to enterprises in the first quarter of 2008.

Loans to households for house purchase

Credit standards: In the fourth quarter of 2007, banks reported a further increase in the net tightening of credit standards for loans to households for house purchase (21%, from 12% in the previous survey round; see Chart C, panel (a)). The main factors behind the net tightening were worsened expectations regarding general economic activity and deteriorating housing market prospects, relative to the previous quarter (see Chart C, panels (b) and (c)). Competition from other banks continued to contribute towards a net easing, although to a less pronounced extent than in previous quarters (see Chart C, panel (e)).

The net tightening of credit standards for loans for house purchase was implemented mainly by considerably widening the margins on both average loans and riskier loans, as well as via tighter non-price terms and conditions, such as higher collateral requirements and loan-to-value ratios.

For the first quarter of 2008, respondent banks expect a decline in the net tightening of credit standards for loans to households for house purchase in comparison with the fourth quarter of 2007 (see Chart C, panel (a)).

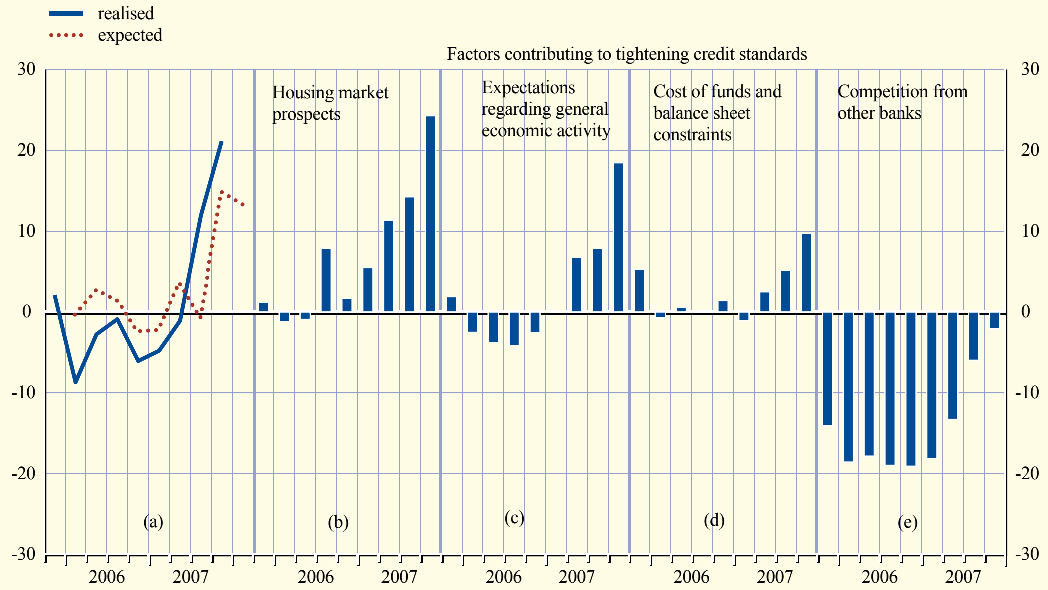
Loan demand: Net demand for loans to households for house purchase dropped considerably in the fourth quarter of 2007 (to -36%, from -15% in the previous round; see Chart D, panel (a)). Essentially, this reflected the perception of deteriorating housing market prospects and worsening consumer confidence. Looking ahead to the first quarter of 2008, banks expect net demand to drop further in comparison with the net demand actually recorded in the fourth quarter of 2007 (see Chart D, panel (a)).

Loans for consumer credit and other lending to households

Credit standards: In the fourth quarter of 2007, banks reported a net tightening of the credit standards applied for the approval of consumer credit and other lending to households, after

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

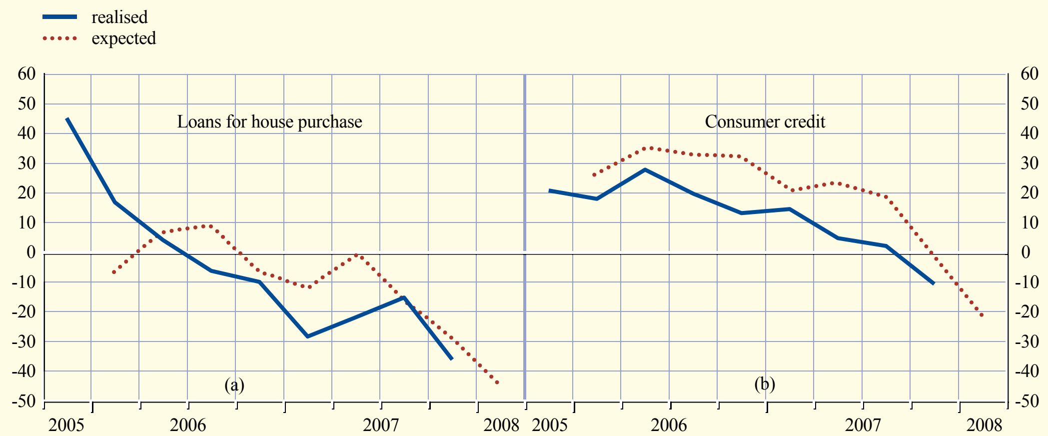
(net percentages)



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 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 2008 were reported by banks in the January 2008 survey.

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

(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 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 2008 were reported by banks in the January 2008 survey.

a slight net easing in the previous quarter (10%, from -3% in the previous round; see Chart E, panel (a)). Worsening expectations regarding general economic activity and the creditworthiness of consumers were the most important factors reported by banks for the net tightening (see Chart E, panels (b) and (c)). In addition, the risk on collateral demanded continued to contribute towards the net tightening (see Chart E, panel (d)). The net tightening was mainly implemented via a widening of the margins on average and riskier loans. For the first quarter of 2008, responding banks expect a continued net tightening of credit standards for consumer credit and other lending to households (11%), broadly unchanged in comparison with actual net tightening in the fourth quarter (see Chart E, panel a).

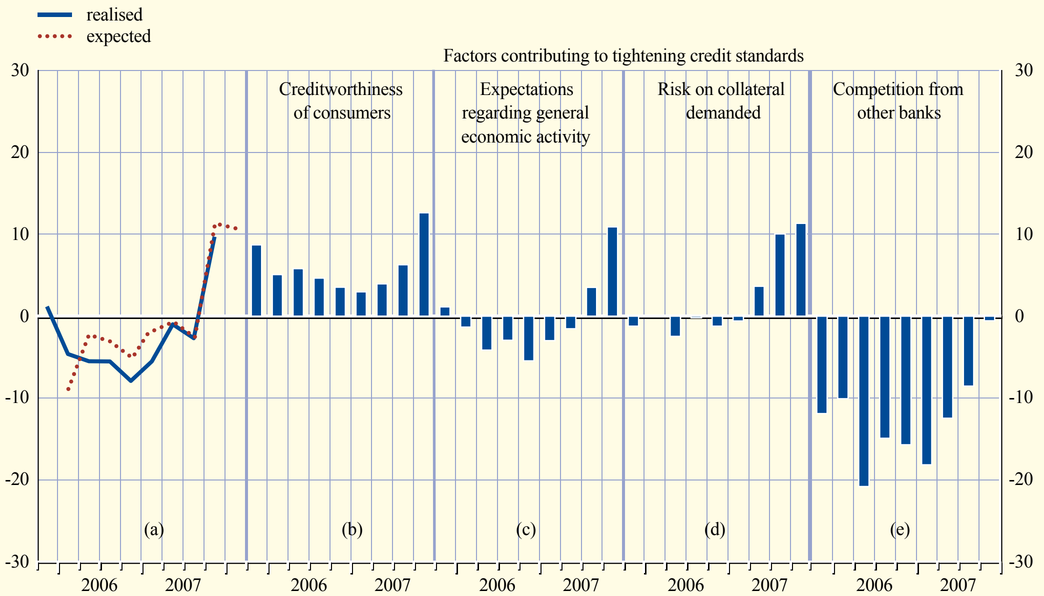
Loan demand: Banks reported that net demand for consumer credit and other lending to households fell considerably in the fourth quarter, after slightly positive demand in the previous quarter (-11%, compared with 2% in the previous round). For the first quarter of 2008, banks expect net demand for consumer credit and other lending to households to fall further.

Ad hoc questions on the financial turmoil

As a follow-up to the ad hoc questions included in the October 2007 survey, the January 2008 survey also included a set of ad hoc questions addressing the impact of the financial market tensions experienced since the second half of 2007. The questions focused, first, on the impact on credit standards and then on access to wholesale funding.

Chart E Changes in credit standards applied to the approval of consumer credit and other lending to households

(net percentages)



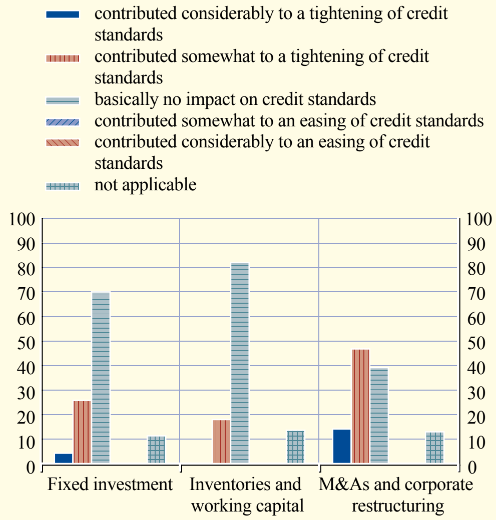
Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the 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 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 2008 were reported by banks in the January 2008 survey.

Consistent with the regular questions in the survey, the ad hoc questions suggest that the turmoil in the financial markets had a different impact across loan segments. Banks reported that credit standards for loans to both SMEs and, especially, large enterprises were affected more markedly by the turmoil than credit standards on loans to households. This seems to be in line with the impact according to loan purpose (see Chart F), which shows that the financial turmoil has contributed to the tightening of credit standards over the past three months, in particular those for loans to enterprises related to M&As and corporate restructuring: 47% of the banks reported some tightening and a further 14% reported a considerable tightening for these loans. The tightening of credit standards was somewhat less pronounced for loans to finance fixed investment.

As regards banks' expectations regarding the impact of the financial turmoil on credit standards in the first quarter of 2008, most banks expect this turmoil to have a greater effect than was seen over the past three months.

Chart F Effect of the recent turmoil in the credit markets on banks' credit standards for the approval of loans and credit lines to enterprises over the past three months

(percentages of banks)



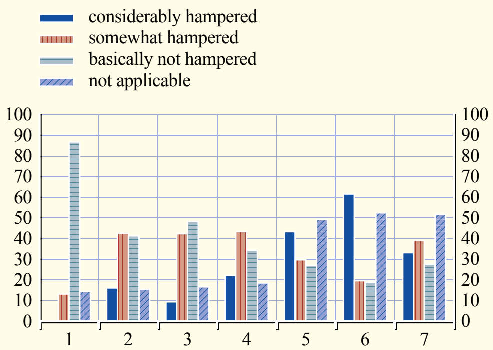
Note: The column "not applicable" is calculated as the number of banks replying "not applicable" as a percentage of the total number of banks participating in the survey. All the other columns are calculated as the number of banks choosing a particular reply as a percentage of the number of banks not replying "not applicable". Euro area figures are weighted averages of country results.

Banks generally reported that the tensions in financial markets in the second half of 2007 created more difficult conditions for accessing wholesale funding (see Chart G).[4] In particular, securitisation activity was hampered considerably with respect to the selling of both loans for house purchase and corporate loans in the fourth quarter of 2007. In addition, one-third of the reporting banks considered their ability to transfer credit risk off the balance sheet to be significantly impaired. Banks also reported the persistence of considerable difficulties in accessing wholesale funds through the unsecured interbank money market in the fourth quarter of 2007, although to a lesser extent at very short-term maturities. In addition, as in the last survey, banks had more difficulties in raising funds through medium to long-term bonds than through short-term debt securities. Access to the wholesale funding market is not expected to become generally easier over the next three months. While access to the unsecured short-term interbank money market and to the medium to long-term debt securities markets is expected to continue to be hampered over the next three months, broadly as much as over the past three months, access to the market for short-term debt securities is expected to become somewhat less impaired in the first quarter of 2008. In addition, securitisation activity is expected to become slightly less hampered in the first quarter of 2008.

4 It should be noted that not all funding methods are relevant for the banks in the various euro area countries.

Chart G Access to wholesale funding over the past three months

(percentages of banks)



1 Very short-term money market
2 Short-term money market
3 Short-term debt securities
4 Medium to long-term debt securities
5 Securitisation of corporate loans
6 Securitisation of loans for house purchase
7 Ability to transfer credit risk off balance sheet

Note: The column "not applicable" is calculated as the number of banks replying "not applicable" as a percentage of the total number of banks participating in the survey. All the other columns are calculated as the number of banks choosing a particular reply as a percentage of the number of banks not replying "not applicable". Euro area figures are weighted averages of country results.

Difficulties in accessing wholesale funding also had an impact on the amounts that banks were willing to lend and/or the margin at which funds were lent over the past three months. Banks expect this effect to continue in the first quarter of 2008. Banks' willingness to lend seems to have been somewhat further affected by the cost related to the bank's capital position over the past three months and may continue to be affected also over the next three months.

Finally, as regards the impact of banks' need to fund draw-downs on commitments to asset-backed commercial paper programmes issued by conduits or structured investment vehicles (SIVs) on banks' lending policies,[5] some 30-40% of the banks for which the business has been relevant replied that such funding obligations had some or a considerable impact on their lending policy, either on the quantity or on the margin over the past three months. Over the next three months, banks expect this effect to continue. While these percentages are sizeable, it needs to be taken into account that, for around 60% of the reporting banks, this business was not considered relevant.

5 This ad hoc question was not included in the October 2007 bank lending survey.