Box 2

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

This box describes the main results of the April 2008 bank lending survey for the euro area conducted by the Eurosystem.[1] In this survey round, a number of changes were introduced. First, Cyprus and Malta participated for the first time in the survey. In addition, the samples for Germany and Italy were enlarged. This led to a new sample of 113 euro area banks, which can be expected to give a better overall picture of bank lending in the euro area. Second, for two further questions on enterprises, a breakdown into large firms and small and medium-sized enterprises (SMEs) was introduced. Third, the classification of banks into large and small banks was revised, leading to a more restrictive definition of large banks.

Respondent banks reported a further increase in the net tightening of credit standards for loans to enterprises in the first quarter of 2008, more for large firms than for SMEs, but expect a somewhat lesser tightening for the second quarter of 2008.[2] This picture was broadly confirmed by the replies to the ad hoc questions included in the April 2008 survey relating to the financial turmoil (see the last section of this box). With regard to the demand for loans, banks reported that net demand for loans to enterprises was negative in the first quarter of 2008, falling from a slight positive net demand in the previous quarter.[3] For the first quarter of 2008, banks also reported a further increase in the net tightening of credit standards for loans to households for house purchase. While the net tightening of credit standards for consumer credit and other lending to households also increased, the net percentage of tightening was considerably lower than for loans to households for house purchase. Net demand for loans to households for house purchase dropped further in the first quarter of 2008 and was significantly negative, while net demand for consumer credit and other lending to households was broadly unchanged.

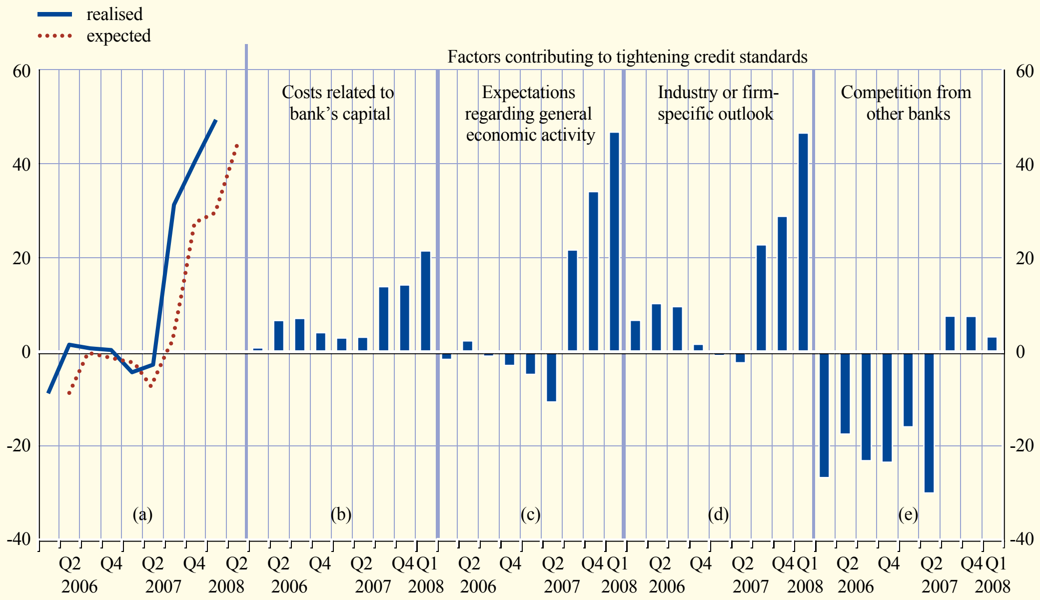
Loans or credit lines to enterprises

Credit standards: Reflecting the financial turmoil and the ongoing reappraisal of risk since the second half of 2007, the net tightening of credit standards for loans or credit lines to enterprises increased further in the first quarter of 2008 (49%, compared with 41% in the previous quarter; see Chart A).[4] With respect to the factors contributing to banks' tightening of credit standards, banks' risk perception regarding general economic activity, the industry or firm-specific outlook and all factors summarised in banks' cost of funds and balance sheet constraints (i.e. banks' ability to access market financing, banks' cost related to their capital position and banks' liquidity position) contributed to the increase in the net tightening.

1 The cut-off date for the receipt of data from the responding banks was 8 April 2008. A comprehensive assessment of the results of the April 2008 bank lending survey for the euro area was published on 9 May 2008 on the ECB's website.
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.
4 Based on the previous sample, the net tightening would have been somewhat more pronounced.

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

(net percentages)



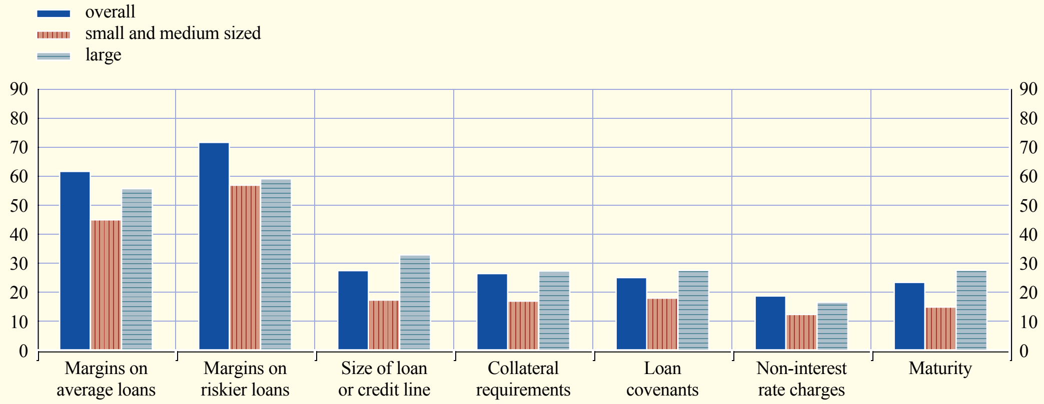
Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the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

Regarding the conditions and terms of credit, banks increased their tightening of credit standards in net terms, in particular by widening further their margins on both average loans (62%, from 38% in the previous round) and on riskier loans (72%, from 58% in the previous round). Non-price terms and conditions also increasingly contributed to the net tightening of credit standards in the first quarter of 2008, especially the size of loans or credit lines, but also collateral requirements and other terms and conditions.

In the first quarter of 2008, the net tightening of credit standards continued to be stronger for large enterprises (53%, after 44% in the fourth quarter of 2007) than for SMEs (35%, after 27% in the fourth quarter of 2007). For the first time, the factors behind and terms and conditions for the changes in credit standards can also be analysed across firm sizes in this survey. For both large enterprises and SMEs, the most important factors behind the net tightening are the deterioration in expectations regarding general economic activity and the industry or firm-specific outlook. At the same time, banks' cost of funds and balance sheet constraints and, in particular, banks' liquidity position, played a more important role for the net tightening for large firms than for SMEs. With respect to terms and conditions, the increase in banks' margins contributed most to the net tightening of credit standards for both loans to large firms and to SMEs, although it was somewhat more pronounced for large firms (see Chart B). Non-price terms and conditions contributed more strongly to the net tightening for large firms than for SMEs.

Chart B Terms and conditions contributing to changes in credit standards applied to the approval of loans or credit lines to enterprises

(net percentages in the first quarter of 2008)



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".

As regards loan maturities, the further increase in the net tightening was considerably more pronounced for long-term loans (57%, after 39% in the previous survey round) than for short-term loans (33%, after 28% in the previous survey round). This may reflect the increase in the cost of bond financing of banks, as well as the assessment by banks that their access to funding via medium and long-term debt securities continued to be hampered in the first quarter of 2008 (see Chart G).

Looking ahead to the second quarter of 2008, expectations point to a somewhat lesser net tightening of credit standards (44%), compared with the actual net tightening in the first quarter of 2008 (see Chart A).

Loan demand: In the first quarter of 2008, net demand for loans by enterprises was negative (-17%), falling from a slight positive net demand (2%) in the previous quarter (see Chart C).[5] The main factors behind the negative net demand were M&As and corporate restructuring as well as fixed investment. In addition, internal financing contributed to lowering the net demand for loans by enterprises, thus pointing to a continued sound profitability of enterprises. Debt securities issuance continued to contribute positively to the net demand for loans by enterprises as market conditions and, in particular, the increased cost of market-based debt financing may have led to some substitution of market-based financing by bank financing. For the second quarter of 2008, net demand for loans by enterprises is expected to be less negative (-12%) compared with the actual demand in the first quarter (see Chart C).

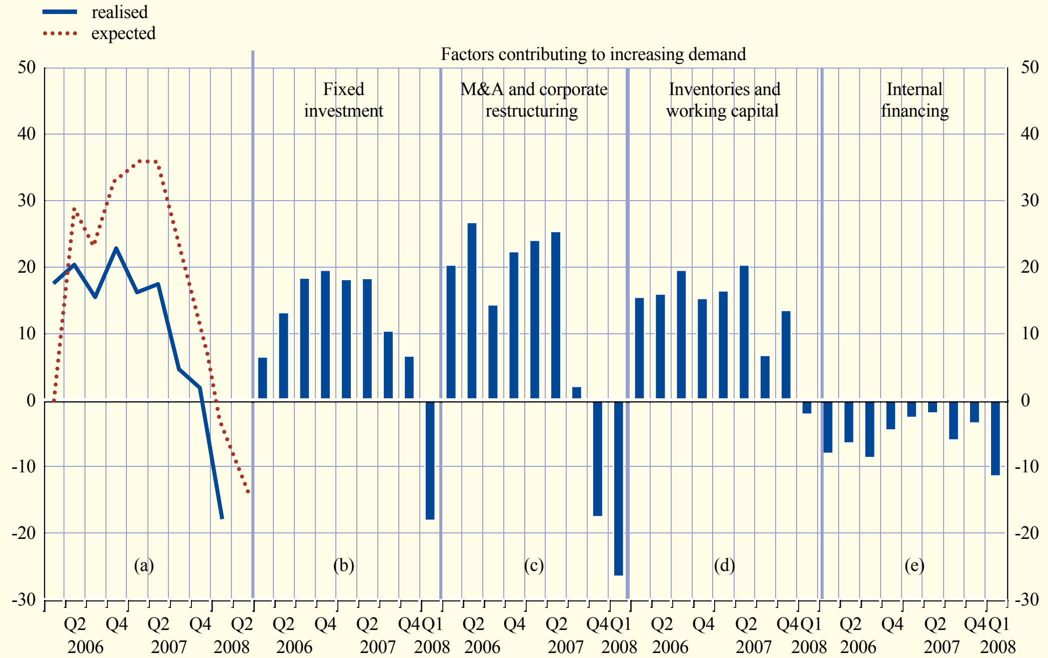
Loans to households for house purchase

Credit standards: In the first quarter of 2008, banks reported a further increase in the net tightening of credit standards for loans to households for house purchase (33%, after 21% in the fourth quarter of 2007; see Chart D). The main factors contributing to the further increase

5 Based on the previous sample, the fall in net demand for loans by enterprises would have been more pronounced.

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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the second quarter of 2008 were reported by banks in the April 2008 survey.

in the net tightening of credit standards were less favourable expectations regarding general economic activity and housing market prospects. Competition from other banks continued to contribute towards a net easing. Regarding the conditions and terms of credit, the net tightening for loans for house purchase was mainly implemented by means of widening the margins on both average loans and riskier loans. Non-price terms and conditions, especially a further tightening of loan-to-value ratios, also contributed to the net tightening. For the second quarter of 2008, respondent banks expect a continued net tightening of credit standards for loans to households for house purchase (29%), albeit slightly less than the actual net tightening in the first quarter of 2008.

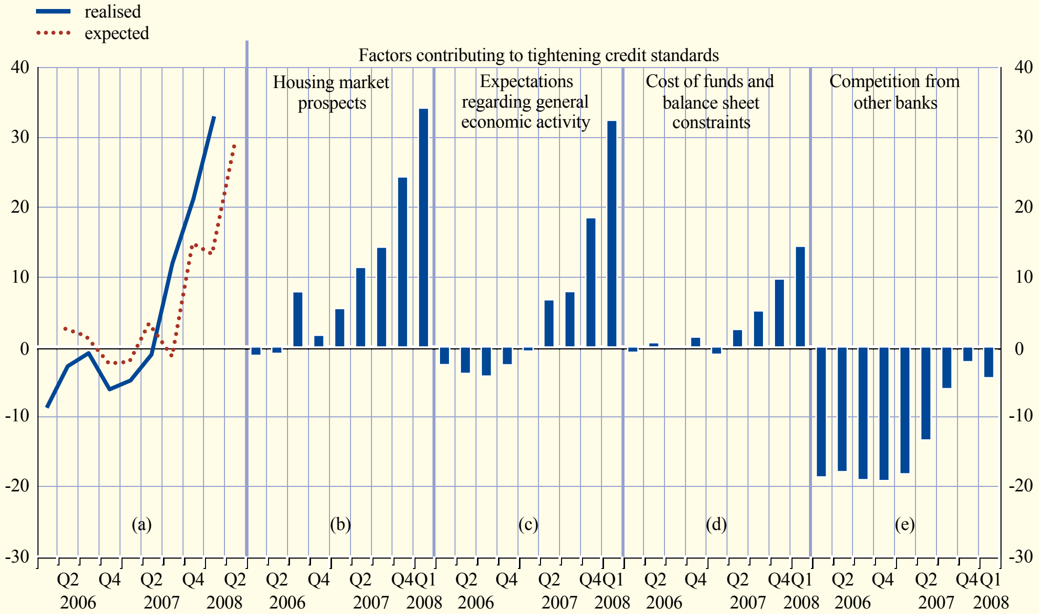
Loan demand: Net demand for loans to households for house purchase dropped further in the first quarter of 2008 (to -57% from -36% in the previous quarter; see Chart E). This mainly reflected deteriorating consumer confidence and worsened housing market prospects. Looking ahead to the second quarter of 2008, net loan demand is expected to be slightly less negative (-53%), compared with actual net demand in the first quarter of 2008.

Loans for consumer credit and other lending to households

Credit standards: In the first quarter of 2008, banks reported a further increase in the net tightening of credit standards for consumer credit and other lending to households

Chart D 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 second quarter of 2008 were reported by banks in the April 2008 survey.

(19%, after 10% in the previous quarter; see Chart F), although to a level that was considerably lower than for loans to households for house purchase. The main factor for the further net tightening was banks' perception of risk, related to less favourable expectations regarding general economic activity, the creditworthiness of consumers and the risk on the collateral demanded. The net tightening was mainly implemented by means of a widening of the margins on riskier loans, and to a lesser extent, on average loans. In addition, non-price terms and conditions were tightened compared with the previous quarter. For the second quarter of 2008, the net tightening of credit standards for consumer credit and other lending to households is expected to increase somewhat further (25%), compared with the actual net tightening in the first quarter.

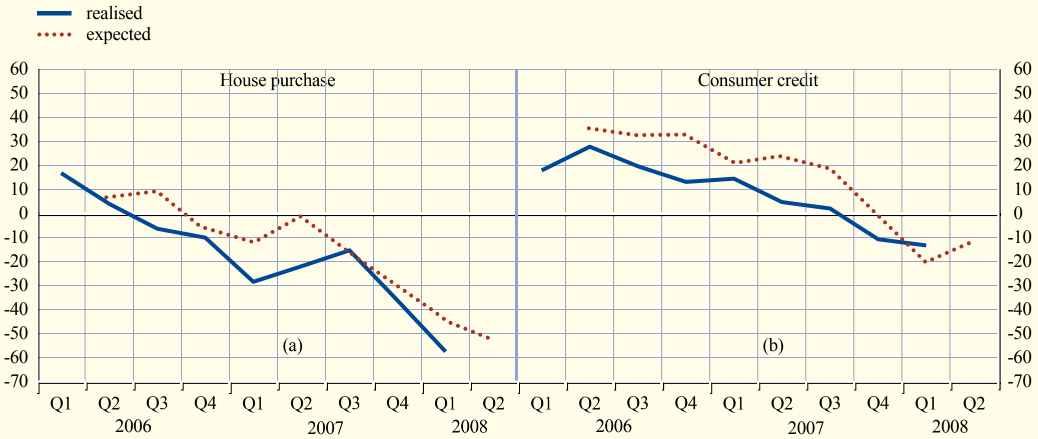
Loan demand: Banks reported that net demand for consumer credit and other lending to households was broadly unchanged in the first quarter of 2008 and remained negative (-13%, after -11% in the previous quarter; see Chart E). In particular, lower consumer confidence was seen as a dampening factor on the demand for consumer loans. In the second quarter of 2008, net demand is expected to remain negative (-12%), broadly unchanged compared with the first quarter.

Ad hoc questions on the financial turmoil

As a follow-up to the ad hoc questions included in the last two survey rounds, the April 2008 survey round also contained a set of questions addressing the impact of the financial market

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

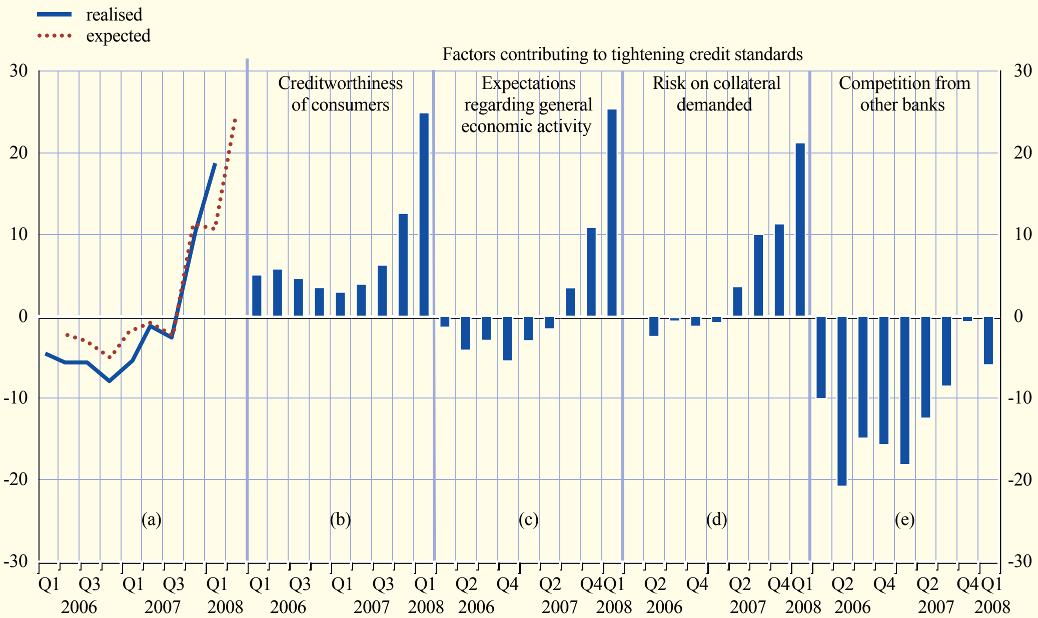
(net percentages)



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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, "expected" values for the second quarter of 2008 were reported by banks in the April 2008 survey.

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

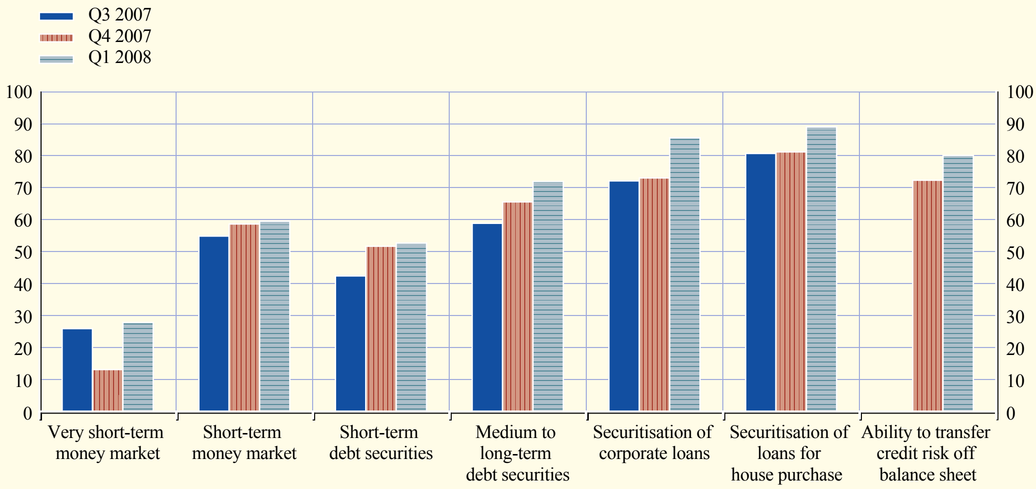
(net percentages)



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 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 second quarter of 2008 were reported by banks in the April 2008 survey.

Chart G Access to wholesale funding over the past three months

(percentages)



Note: Percentages have been calculated by adding together the shares of banks reporting "considerably hampered" and "somewhat hampered".

tensions experienced since the second half of 2007. The questions focus on their impact on credit standards, on access to wholesale funding and on bank lending.

Consistent with the regular questions in the survey, the situation in financial markets had a larger impact on loans to large enterprises than on loans to SMEs. This seems to be in line with the impact according to loan purpose, which shows that the impact of the turmoil on credit standards was especially strong for loans for financing M&As and corporate restructuring. At the same time, the effect was more limited, but increasing, for loans for financing fixed investment as well as for inventories and working capital.

Banks generally reported that the turmoil in financial markets had created more difficult conditions for accessing wholesale funding in the first quarter of 2008 compared with the fourth quarter of 2007 (see Chart G). In particular, banks reported that their securitisation activity continued to be hampered for the selling of loans for house purchase and for the selling of corporate loans. In addition, reporting banks considered their ability to transfer credit risk off balance sheet to have been hampered over the past three months. Banks also reported continued difficulties in accessing wholesale funds through the interbank unsecured money market in the first quarter of 2008. In addition, as in the last survey round, a larger proportion of the banks experienced more difficulties raising funds through medium to long-term bonds than through short-term debt securities over the past three months. Over the next three months, access to wholesale funding is expected to become slightly less hampered compared with the situation in the first quarter of 2008.

Difficulties in accessing wholesale funding in the first quarter of 2008 have also been reported as having an impact on the amounts that banks experiencing such difficulties were willing to lend and the margins at which funds were lent. Banks assessed the impact on lending of their hampered access to securitisation as being generally stronger than the impact of their hampered access to money markets, debt securities and other markets. In addition, as in the previous quarter, the impact of the hampered market access was generally stronger for the margins than for the amount of loans granted to borrowers. In contrast to the expectation for a slight relaxation of their access to wholesale funding, responding banks reported that they expect the impact of the hampered market access on their willingness to lend and on margins to increase further during the second quarter of 2008, compared with the actual impact in the first quarter of 2008. 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, around one-third of the banks reported an impact on their lending policy.

Finally, with regard to the impact of the change in banks' cost related to their capital position on their lending policy, in the first quarter of 2008, a larger percentage of responding banks reported that there had been a considerable impact on this cost and some impact on lending compared with the previous quarter.