Box 2

THE RESULTS OF THE JULY 2009 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the July 2009 bank lending survey for the euro area. This survey is conducted on a quarterly basis by the Eurosystem.[1] It shows that in the second quarter of 2009 the net percentage of banks reporting a tightening of credit standards applied to loans and credit lines to enterprises broadly halved, falling to 21% from 43% in the first quarter of 2009. Notably, this was below the high level of tightening seen in the third and fourth quarters of 2008.[2] This development confirms a turning-point in the tightening cycle observed in the April survey round. Nevertheless, the cumulated net tightening during the past quarters still constitutes a significant degree of net tightening of credit standards in a context where net flows of credit are subdued and partly negative. All factors contributed to the decline in the net tightening of credit standards, but particularly supply-side factors, such as banks' access to market financing and

1 The cut-off date for the receipt of data from the responding banks was 3 July 2009. A comprehensive assessment of the results of the July 2009 bank lending survey for the euro area was published on 29 July 2009 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").

banks' liquidity position. Respondent banks also reported a decline in the net tightening of credit standards for loans to households for house purchase and for consumer credit to 22% (from 28% in the first quarter) and to 21% (from 26% in the first quarter), respectively, in the second quarter of 2009, and down from their historical peaks in the fourth quarter of 2008. For the third quarter of 2009, banks expected a further decline in net tightening for all three loan categories. Regarding loan demand, banks noted that net demand for loans to enterprises still declined, but to a lower extent than in the first quarter, whereas net demand for housing loans turned slightly positive in the second quarter.[3]

As in recent survey rounds, the July 2009 survey likewise contained a set of ad hoc questions, mainly addressing the effect of the financial turmoil on credit standards and lending (see the last section of this box).

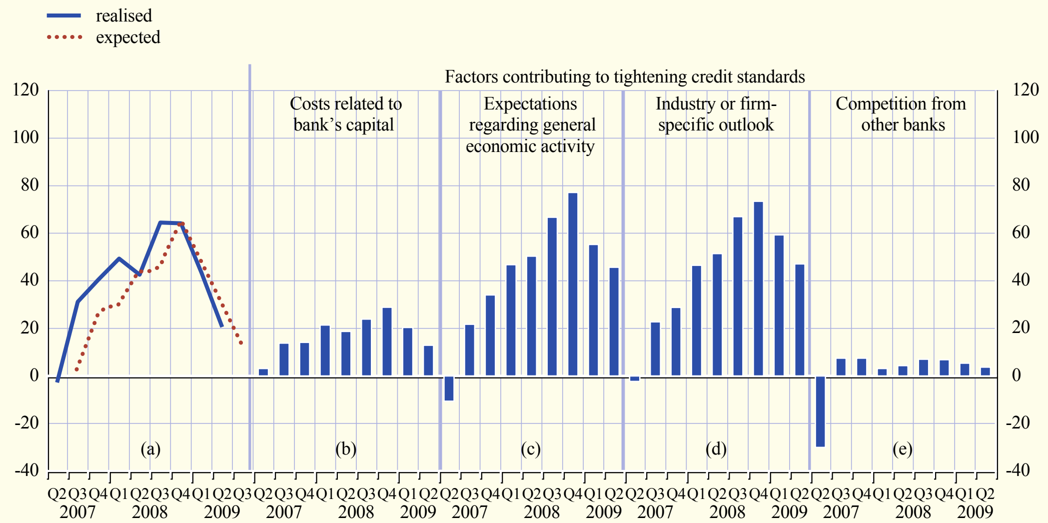
Loans or credit lines to enterprises

Credit standards: In the second quarter of 2009, the net percentage of banks reporting a tightening of credit standards for loans to enterprises broadly halved, falling to 21% from 43% in the first quarter of 2009 (see Chart A) and down from the high level seen in the third and fourth quarters of 2008 (64%). This development confirms a turning-point in the tightening cycle observed in the April survey round, although the cumulated net tightening during the past quarters still represents a significant degree of net tightening of credit standards. All factors contributed to the decline in the net tightening of credit standards, but particularly supply-side factors, such as banks' access

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.

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 refer to the expected changes over the next three months.

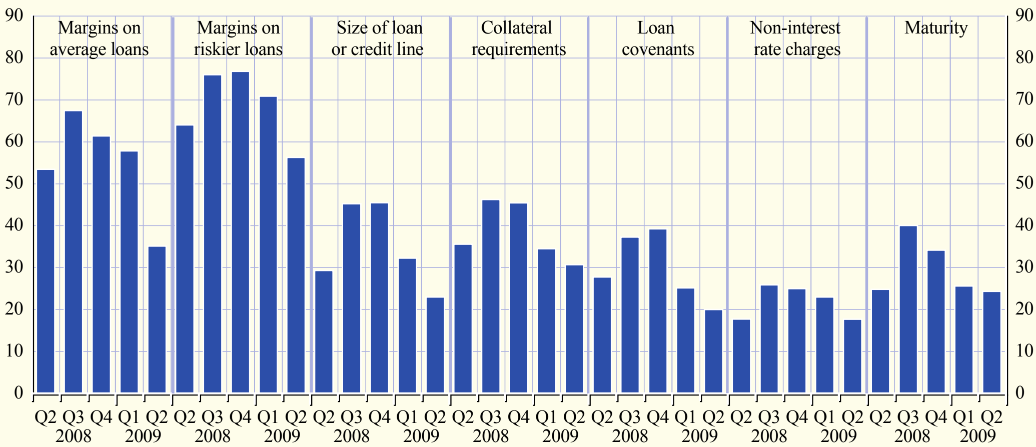
to market financing (7%, after 19% in the first quarter) and banks' liquidity position (-2%, after 14% in the first quarter). The most important forces driving the net tightening of credit standards on loans to enterprises continued to be expectations regarding general economic activity (46%, after 55%) and the industry or firm-specific outlook (47%, after 59%), for which however the net tightening also declined considerably in the second quarter of 2009.

Regarding the terms and conditions applied to loans to enterprises, banks continued to report a net tightening in the second quarter of 2009, which however declined. In particular, the net tightening of the margins on average loans was reduced significantly, to 35%, from 58% in the first quarter of 2009, reaching its lowest level since the third quarter of 2007 (see Chart B). Overall, the degree of net tightening was lower for the non-price terms and conditions than for the price terms and conditions.

The decline in the net tightening of credit standards on loans to enterprises was reflected in both loans to large enterprises and loans to small and medium-sized enterprises (SMEs). As in most of the previous survey rounds, the net tightening of credit standards was somewhat stronger in the second quarter of 2009 for loans to large enterprises (25%, after 48% in the first quarter of 2009) than for loans to SMEs (21%, after 42% in the previous quarter). Both the cost of funds and balance sheet constraints factor and the risk perception factor (i.e. mainly expectations regarding general economic activity and the industry or firm-specific outlook) contributed considerably to the more moderate net tightening of loans to large enterprises and SMEs. At the same time, expectations regarding general economic activity and the industry or firm-specific outlook continued to be the most important factors in explaining the degree of net tightening of credit standards on loans to both large firms and SMEs. Costs related to the banks' capital position still played a somewhat more important role in the net tightening for large firms than for SMEs. At the same time, large firms have profited somewhat more than SMEs from banks' improved liquidity position (in the sense that banks' liquidity position contributed to an easing of credit standards for large firms). The lower net tightening for loans to enterprises in the second quarter of 2009 was also reflected in the terms and conditions for both loans to large enterprises and

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".

to SMEs. Overall, the degree of net tightening of terms and conditions was mostly higher for large firms than for SMEs.

Expectations regarding credit standards applied to loans and credit lines to enterprises for the third quarter of 2009 point to a further lessening of the net tightening (12%; see Chart A).

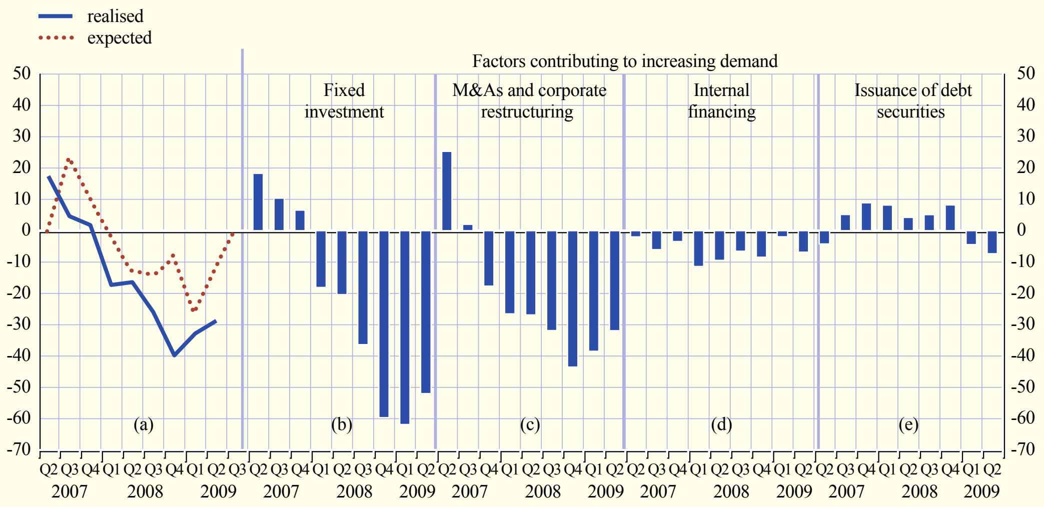
Loan demand: According to respondent banks, net demand for loans by enterprises continued to decline in the second quarter of 2009, reaching a net percentage level of -29% (after -33% in the first quarter; see Chart C). The fall in net demand was driven by a strong decrease in the financing needs for fixed investment (-52%, after -62% in the first quarter) and mergers and acquisitions (M&As) and corporate restructuring (-32%, after -39% in the previous quarter). With respect to the use of alternative finance, while loans from other banks or non-banks supported the net demand for corporate loans, internal finance contributed moderately negatively to enterprises' net demand for loans. The issuance of debt securities and equity also contributed negatively to the net demand for loans, to a somewhat larger extent than in the first quarter. This may reflect improved market conditions for issuing debt securities and equity in the second quarter of 2009.

In terms of borrower size, based on the diffusion index[4], the somewhat less negative net loan demand was driven by both large firms and SMEs. Regarding the maturity spectrum, net demand for long-term corporate loans was considerably less negative in the second quarter, whereas net demand for short-term corporate loans continued to decline.

4 The diffusion index is defined as the net percentage weighted according to the intensity of the response, giving lenders who have answered "considerably" a weight twice as high (score of 1) as lenders having answered "somewhat" (score of 0.5).

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 refer to the expected changes over the next three months.

For the third quarter of 2009, net demand for loans by enterprises is expected to turn positive (1%), which would be the case for the first time since the fourth quarter of 2007 (see Chart C).

Loans to households for house purchase

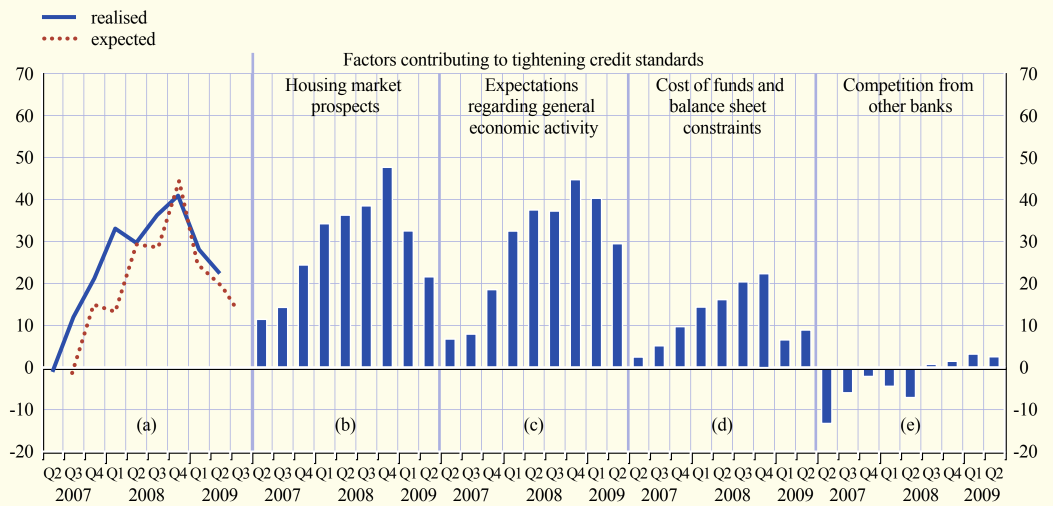
Credit standards: In the second quarter of 2009, the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase decreased further to 22% (see Chart D), after 28% in the first quarter of 2009 and down from its historical peak in the fourth quarter of 2008 (at 41%). Expectations regarding general economic activity (29%, after 40% in the first quarter) and housing market prospects (22%, after 33% in the previous quarter) remained the main factors contributing to the net tightening of credit standards. By contrast with loans to enterprises, banks' cost of funds and balance sheet constraints contributed to a slight further tightening of credit standards for housing loans in the second quarter of 2009 (9%, after 7% in the previous quarter).

As regards the terms and conditions for loans for house purchase, the net tightening of margins was reduced considerably in the second quarter, in particular for average loans (10%, after 38%), but also for riskier loans (35%, after 52% in the first quarter). By contrast, for non-price terms and conditions, the net tightening was hardly reduced in the second quarter. In particular, the net tightening of loan-to-value ratios remained constant at a still relatively high level by historical standards of 25%. In addition, the net tightening of collateral requirements remained broadly unchanged at 18% (after 19% in the previous quarter).

Looking ahead to the third quarter of 2009, credit standards for loans for house purchase are expected to tighten somewhat less (12%; see Chart D).

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

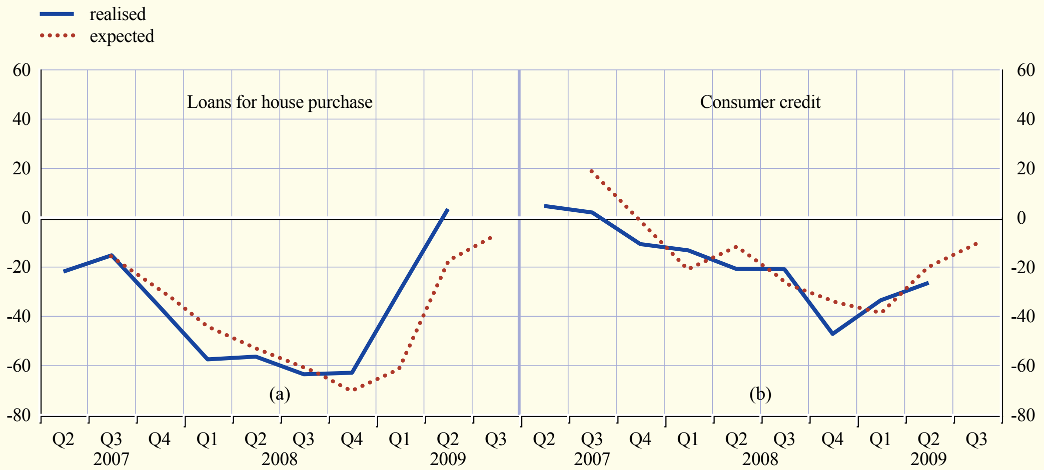
(net percentages)



Note: See notes to Chart A.

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 refer to the expected changes over the next three months.

Loan demand: The net demand for housing loans turned positive in the second quarter of 2009 (4%, after -30% in the first quarter; see Chart E) for the first time since the second quarter of 2006 when the moderation of the annual rate of growth of housing loans started. The increase in the net demand for housing loans was driven in particular by a considerably less negative assessment of housing market prospects and of consumer confidence compared with the first quarter. For the third quarter of 2009, net demand for housing loans is expected to decline (-7%).

Consumer credit and other lending to households

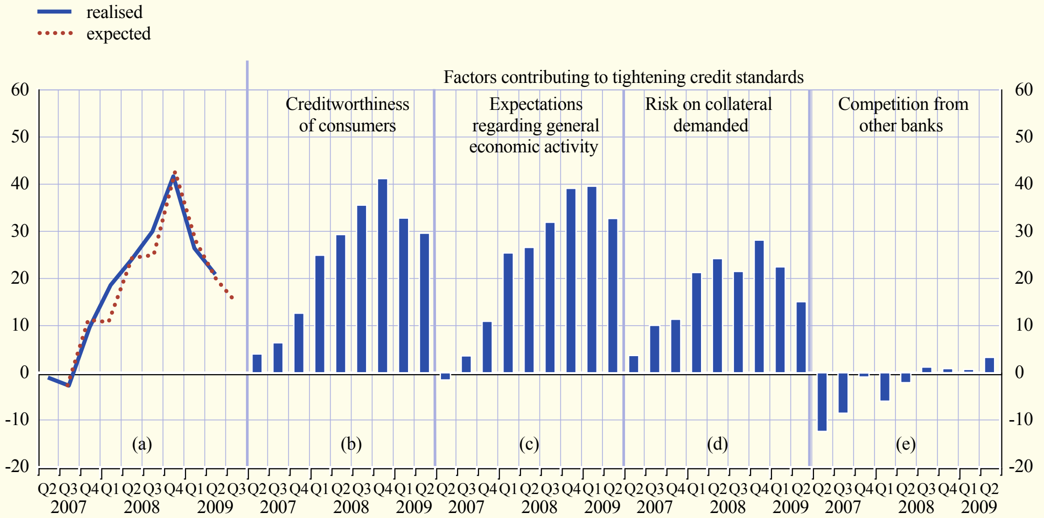
Credit standards: In the second quarter of 2009, the net percentage of banks reporting a tightening of credit standards for consumer credit and other lending to households declined further to 21% (see Chart F), from 26% in the first quarter and down from its historical peak of 42% observed in the fourth quarter of 2008. The main factor behind the net tightening was banks' perception of risk, mainly related to expectations regarding general economic activity and the creditworthiness of consumers. As regards the terms and conditions on consumer credit and other lending to households, banks continued to increase the margins on both average and riskier loans, but to a considerably lower extent than in the first quarter.

For the third quarter of 2009, the net tightening of credit standards for consumer credit and other lending to households is expected to decline further to 15% (see Chart F).

Loan demand: In the second quarter of 2009, net demand for consumer credit and other lending to households remained negative, although somewhat less so compared with the previous quarter (-26%, from -34% in the previous quarter; see Chart E). The two main factors dampening demand continued to be consumer confidence as well as lower spending on durable consumer goods.

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.

For the third quarter of 2009, net demand for consumer credit and other lending to households is expected to become less negative (-10%).

Ad hoc questions on the financial turmoil

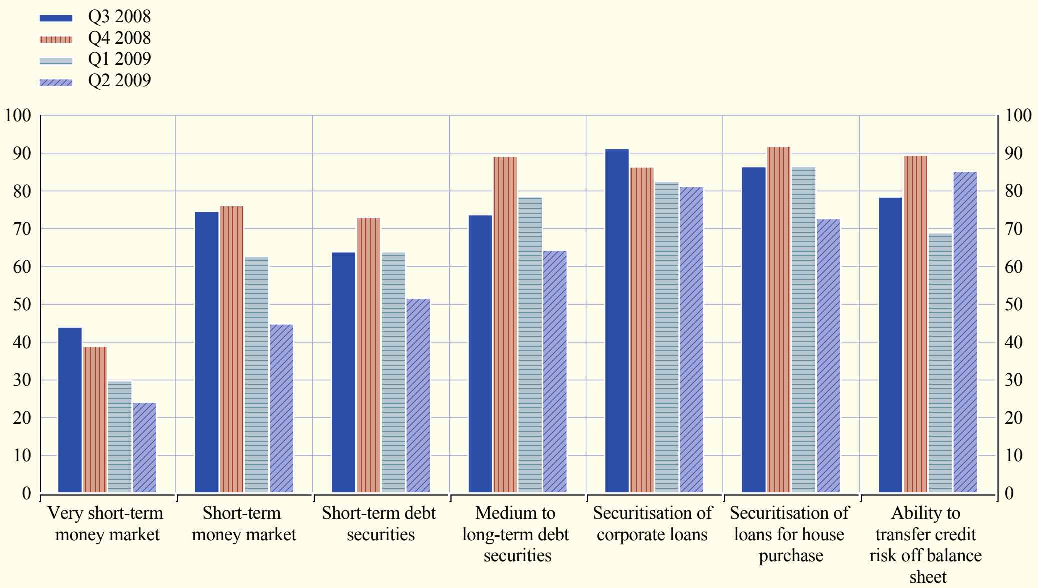
In line with the ad hoc questions included in the previous survey rounds, the July 2009 survey contained a set of ad hoc questions addressing the impact of the financial market tensions experienced since the second half of 2007. It was supplemented by a new ad hoc question on the impact of the introduction of the Basel II capital adequacy framework on bank credit standards.

In the second quarter of 2009, banks reported that their access to wholesale funding was less impaired compared with the first quarter in most markets and categories shown in Chart G. For the access to funding in the money market, less than 50% of the responding banks indicated that market access, in particular to the very short-term money market, was hampered as a result of the financial turmoil. While the percentage of banks reporting a hampered access to short-term and medium to long-term debt securities markets (52% and 64% respectively) was more elevated, this percentage was considerably lower than in the first quarter. With respect to true-sale securitisation, there was some improvement in market access with respect to housing loans, whereas this was hardly the case for corporate loans. Access to securitisation continued to be hampered according to 70-85% of the responding banks. Over the next three months, banks expect a further improvement in the access to money and debt securities markets, but a broadly unchanged hampered access to securitisation markets compared with the second quarter of 2009.

According to responding banks, access to wholesale funding has improved partly owing to governments' announcements and introduction of recapitalisation support and state guarantees for debt securities issued by banks. 60% of the responding banks (up from around 50% in the

Chart G Access to wholesale funding

(percentages)



Notes: Figures indicate the percentage of banks reporting that access to particular sources of wholesale funding have been hampered. The figure for each column is calculated as the number of banks indicating that particular source as a percentage of the number of banks not replying "not applicable" in response to this question. These totals are weighted averages of country results.

first quarter) reported "some" or a "considerable" impact from the government support schemes on their access to funding in the second quarter of 2009. For the next three months, they expect a broadly stable support by such government schemes for their access to wholesale funding.

In line with the improved access to money markets and debt securities markets, banks reported that the impact on bank lending, as regards margins and in particular as regards quantities, resulting from hampered market access declined in the second quarter of 2009. The impact continued to be stronger for the margins than for the amount of loans granted to borrowers. With respect to the next three months, banks reported that they expect a similar impact on their willingness to lend and on margins resulting from the still hampered access to funding from money markets, debt securities markets and securitisation compared with the impact over the past three months.

Finally, a new ad hoc question addressed the extent to which the introduction of the more risk-sensitive Basel II capital adequacy framework (Capital Requirements Directive; CRD) has affected, via its potential impact on banks' capital position, banks' lending policies since the first quarter of 2008. The CRD was implemented from January 2007 onwards and EU banks started reporting CRD-based capital ratios as from January 2008. According to the majority of responding banks, the transition to the CRD has had basically no impact on credit standards for loans to enterprises and households since the first quarter of 2008. Nonetheless, the impact has been somewhat higher for loans to enterprises than for loans to households. With regard to loans to enterprises, large enterprises were somewhat more affected than SMEs.