Box 2

THE RESULTS OF THE JANUARY 2011 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the January 2011 bank lending survey for the euro area, which was conducted by the Eurosystem between 6 December 2010 and 10 January 2011.[1] Overall, credit standards on loans to non-financial corporations and to households for consumption purposes were broadly unchanged in the last quarter of 2010, while those on loans to households for house purchase tightened somewhat further. At the same time, euro area banks reported that net demand for corporate and for household mortgage loans continued to increase, while net demand for consumer credit contracted by a significantly smaller amount than in the previous three months.

Loans and credit lines to enterprises

Credit standards: In the fourth quarter of 2010 the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises declined to 0%, from 4% in the previous quarter (see Chart A). This is a slight positive surprise compared with the expectations formulated by survey participants three months previously (5%). It reflects a further slight net tightening of 2% for loans to small and medium-sized enterprises (SMEs) (compared with 7% in the third quarter of 2010) as well as unchanged credit standards for loans to large firms (0%, compared with 5% in the previous quarter).

Looking at the factors underlying the overall developments in credit standards, banks' risk perceptions, and notably their industry or firm-specific outlooks (5%, after 10% in the third quarter of 2010), contributed less to a net tightening of credit standards than in the previous quarter. Competitive pressures in loan markets had an ongoing easing impact. By contrast, banks' balance sheet constraints, namely their cost of capital, their ability to access market financing and their liquidity position, continued to contribute to a net tightening of credit standards at broadly unchanged levels.

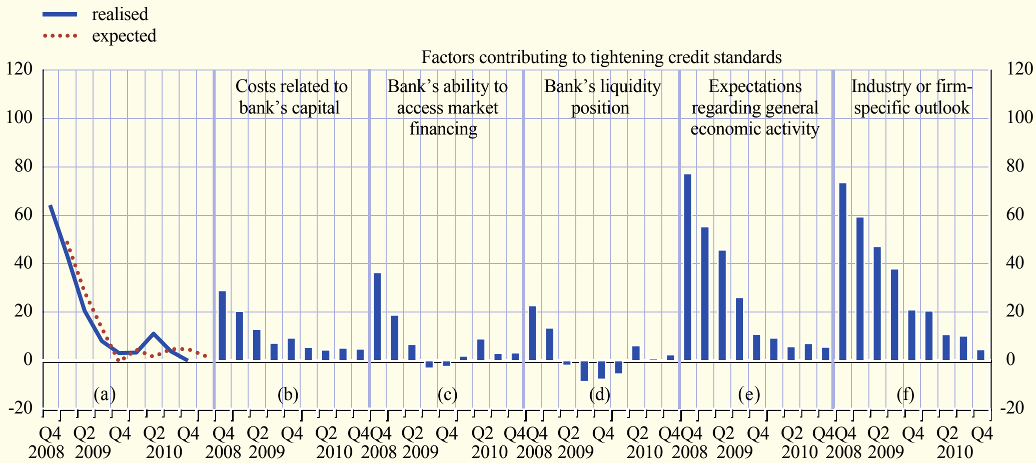
As regards price and non-price terms and conditions, an overall slight decline in the net tightening was observed in the last quarter of 2010 (Chart B), although there were slight further increases in the already significant widening of margins on riskier loans as well as in the net tightening of conditions on loan covenants. Comparing across firm size, margins on average loans to large

1 The cut-off date of the survey was 10 January 2011. A comprehensive assessment of its results was published on 27 January 2011 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").

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

(net percentages)



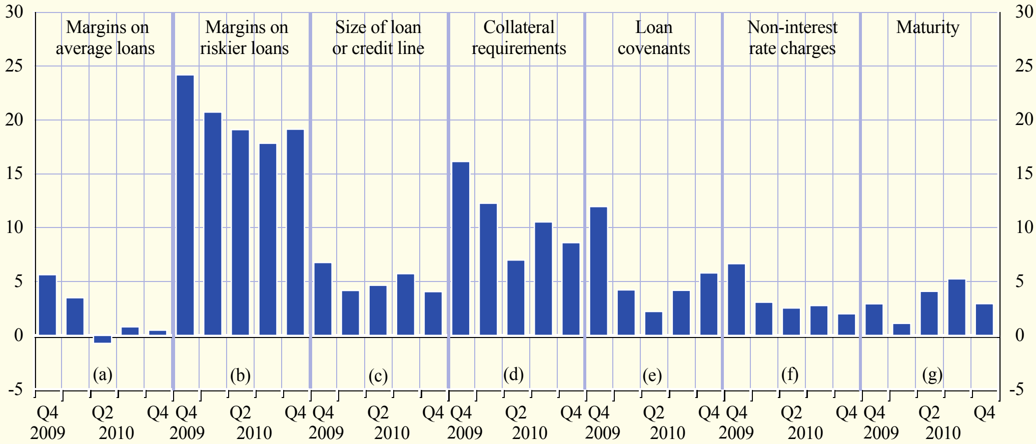
Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the 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.

firms were broadly unchanged, whereas there was a further slight widening of margins for loans to SMEs. For riskier loans, the reported substantial widening of margins was broadly evenly spread across firm size categories.

Looking ahead, euro area banks expect a slight net tightening of credit standards on loans to enterprises in the first quarter of 2011 (2%; see Chart A), which would be concentrated on large

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".

firms. This tightening is expected to primarily affect longer-term loans, while for short-term loans virtually no changes are envisaged.

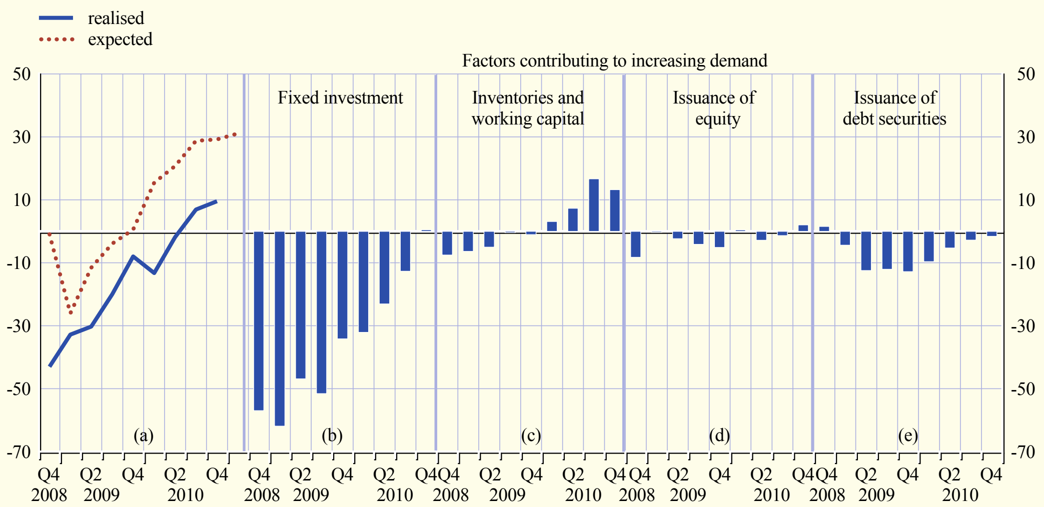
Loan demand: In the fourth quarter of 2010, net demand for loans[3] from enterprises increased further (to 10%, from 7% in the third quarter of 2010 and -2% in the second quarter), thereby confirming the turnaround recorded in the previous quarter (see Chart C). Similar developments were reported across firm size. Banks reported increasing positive net demand of 19% for loans to SMEs (up from 10% in the previous round) and of 11% for loans to large enterprises (up from 3% three months previously). As regards maturities, net demand was particularly dynamic for long-term loans (21%, compared with 6% in the third quarter of 2010) but also increased further for short-term loans (to 15% from 12%).

The improvement in overall net demand was mainly driven by a halt in the decrease in financing needs for fixed investment (0% after -13% in the third quarter of 2010). In addition, a pick-up in the financing of mergers and acquisitions (8% after -3%) impacted positively, while the contribution of financing needs for inventories and working capital declined (13% after 17%). As regards alternative funding, internal funds further dampened firms' financing needs (-6% after -3% in the third quarter of 2010). At the same time, the limited availability of loans from other banks and non-banks contributed again to the improvement in net demand. The issuance of equity became less of an alternative for banks' customers, while the slightly dampening impact of debt issuance declined only marginally.

3 The net demand for loans is calculated as the difference between the percentage of banks reporting that demand for loans has increased and the percentage reporting that demand for loans has decreased.

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.

Looking ahead, euro area banks expect net loan demand from enterprises to increase further in the first quarter of 2011 (to 31%). This rise is expected to apply to a larger extent to SMEs (33%) than to large firms (22%). Furthermore, banks expect an ongoing alignment in dynamics across maturities, with expected net demand for short and long-term loans converging further (28% and 24% respectively).

Loans to households for house purchase

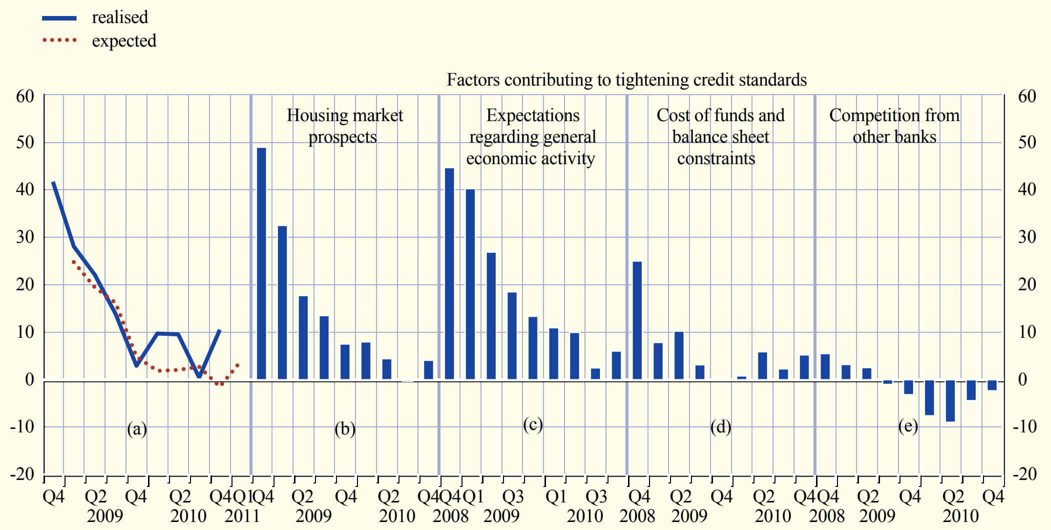
Credit standards: In the fourth quarter of 2010, the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase bounced back to 11%, from 0% in the previous quarter (see Chart D). The increase in the net tightening of credit standards on housing loans appears to be explained mainly by an increase in banks' perception of risks linked to the housing market (4%, from 0% in the third quarter of 2010) and to developments in general economic activity (6%, from 2% in the previous quarter), as well as by slightly higher costs of funding and more stringent balance sheet constraints (5%, compared with 2% in the previous survey round). Finally, competition between banks contributed slightly less to an easing of credit standards on housing loans than in the previous survey round.

In general, terms and conditions on loans for house purchase were broadly unchanged, although margins on riskier loans continued to widen (10%, unchanged from the previous round). At the same time, survey participants reported a decline in the net tightening of conditions as regards loan-to-value ratios (1%, compared with a net tightening of 4% in the third quarter of 2010).

Looking ahead, banks expect this rebound in the net tightening of credit standards to be softened somewhat, with 4% in net terms expecting a further tightening in the first quarter of 2011.

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

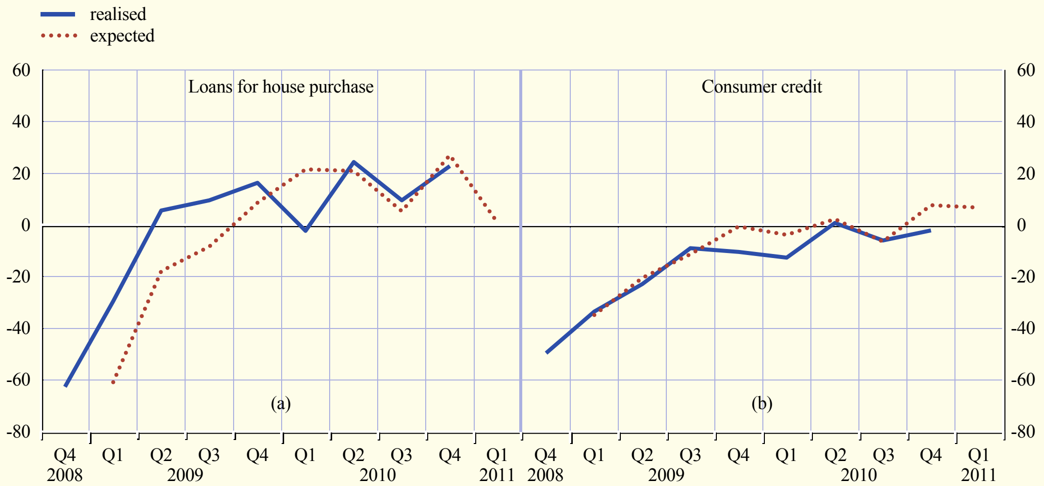
(net percentages)



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: Broadly in line with expectations, net demand for housing loans increased in the fourth quarter of 2010, as the net percentage of banks reporting an increase in demand for housing loans rose to 23% (from 10% in the previous quarter; see Chart E). The positive net demand for housing loans was supported by improved housing market prospects as perceived by households and a significantly less negative contribution from consumer confidence.

Looking ahead, euro area banks expected demand for loans to be broadly unchanged in the first quarter of 2011.

Consumer credit and other lending to households

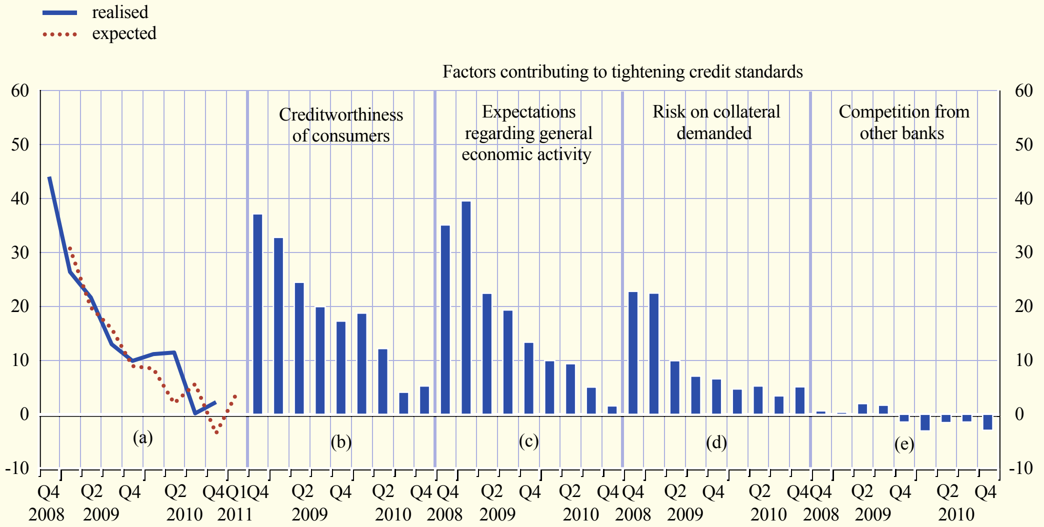
Credit standards: The net percentage of banks reporting a tightening of credit standards on loans to households for consumption purposes and on other lending increased slightly to 2% in the fourth quarter of 2010 (from 0% in the previous quarter; see Chart F). The tightening observed in the last quarter of the year was stronger than anticipated by banks in the previous quarter, and factors related to the perception of risk seem to have played a role in the increase. More precisely, banks indicated a marginally higher contribution from both the creditworthiness of consumers (5%, compared with 4% in the previous survey round) and risks on collateral demanded (5%, compared with 3% in the previous survey round), while the contribution of expectations regarding the general economic outlook decreased further (2%, compared with 5% in the previous survey round).

Looking ahead, banks expect a further net tightening of credit standards on consumer credit and other lending to households (4%) in the first quarter of 2011.

Loan demand: Contrary to what was expected, net demand for consumer credit and other lending to households did not turn positive in the fourth quarter of 2010, but it did draw closer

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.

to positive values (at -2%, compared with -6% in the previous quarter; see Chart E). Net demand was dampened by developments in consumer confidence and household savings.

Looking ahead, banks expect positive net demand for consumer credit and other lending to households in the first quarter of 2011 (7%).

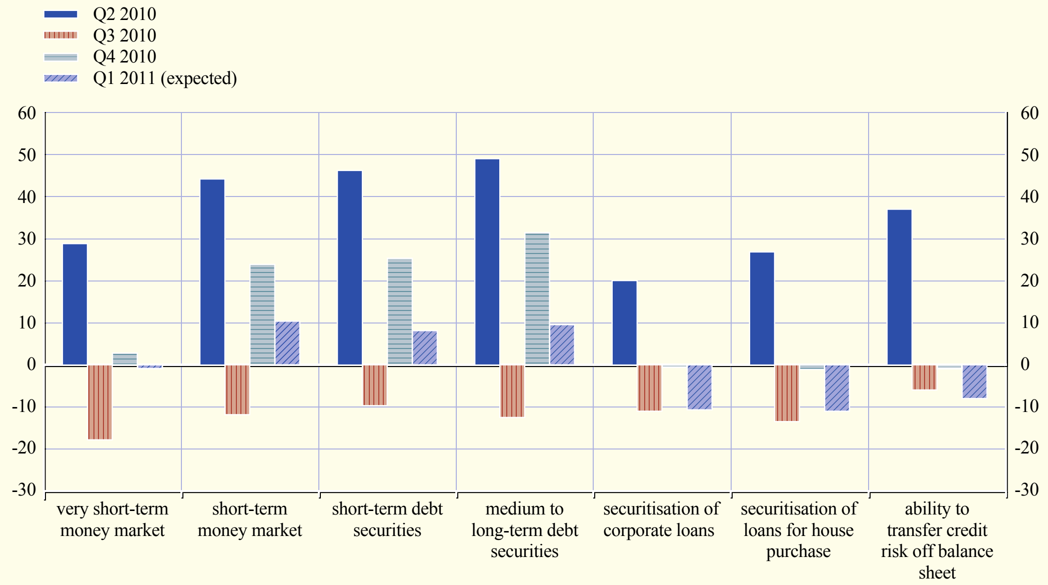
Ad hoc questions on the impact of the financial turmoil

As in previous survey rounds, the January 2011 survey also contained a set of ad hoc questions aimed at assessing the extent to which the financial market tensions affected banks' credit standards on loans to enterprises and households in the euro area in the last quarter of 2010, and the extent to which they might still have an effect in the first quarter of 2011.

For the fourth quarter of 2010, possibly reflecting the renewed financial market tensions stemming from concerns about sovereign risk, banks generally reported a deterioration in their access to short-term money markets and the markets for debt securities issuance (Chart G), while they noted broadly unchanged conditions for their access to true-sale securitisation of corporate and housing loans as well as to synthetic securitisation, i.e. their ability to transfer credit risk off the balance sheet. On balance, 24% of banks surveyed (excluding banks replying "not applicable") reported deteriorated access, in the fourth quarter of 2010, to short-term money markets with maturities exceeding one week (contrasting with 12% reporting improved access in the previous survey round), whereas access to very short-term money markets worsened for only 3% (compared with 18% indicating an improvement in the previous round). For debt securities markets, between around 25% and 30% of banks, in net terms, reported deteriorated access (against around 10% reporting better access in the third quarter). By contrast, for true-sale securitisation of corporate loans and loans to households for house purchase, as well as for synthetic securitisation, access

Chart G Change in the access to wholesale funding

(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”.

was, in net terms, broadly unchanged (compared with improvements reported by between 6% and 14% of banks in the previous round).

Over the next three months, banks expect similar, albeit mitigated, patterns of difficulties in accessing wholesale funding. On a net basis, around 10% of banks expect a further deterioration as regards their access to short-term money markets (except for the very short-term segment) and debt securities markets, while also around 10% expect an improvement in access to securitisation.

Regarding the impact of the financial turmoil on costs related to capital positions and on lending policy, banks reported hardly any changes in the fourth quarter of 2010 against the third quarter. About 37% of banks indicated “some” or a “considerable” impact on both capital and lending (as in the previous quarter). At the same time, 32% (against 37% in the third quarter) reported that there was basically no impact on their capital resulting from the financial turmoil.