Box 3

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE THIRD QUARTER OF 2011

This box summarises the main results of the euro area bank lending survey for the third quarter of 2011, which was conducted by the Eurosystem between 15 September and 27 September 2011.[1] Overall, euro area banks reported a considerable increase in the net tightening of credit standards in comparison with the second quarter of 2011. The increase was stronger than expected by survey participants three months earlier. This held true for both loans to non-financial corporations and loans to households for house purchase, while credit standards on consumer credit and other lending to households increased only modestly. As regards demand for loans, survey participants reported a significant decline in net demand from enterprises and an even stronger decrease in demand for loans to households for house purchase. The deterioration in both credit standards and loan demand largely reflects respondents' perceptions of increased risks to the outlook for the economy, as well as renewed strains on banks' access to funding. While expectations by survey participants point to a further deterioration in credit standards and net demand for loans to enterprises in the fourth quarter of 2011, participants in the survey do not expect any further deterioration in the case of loans to households.

Loans and credit lines to enterprises

Credit standards: In the third quarter of 2011 the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises rebounded markedly to 16% (compared with 2% in the previous quarter; see Chart A). The observed net tightening was stronger than expected by survey participants three months earlier (6%). At the same time, when comparing the change in the degree of net tightening with the third quarter of 2008, the period in which Lehman Brothers collapsed (64%, from 43% in the second quarter of 2008), the degree of net tightening appears more moderate, both in terms of level and in terms of change. Across maturities, credit standards on both short-term loans (11%, up from -3% in the previous quarter) and long-term loans (20%, from 8%) were tightened in net terms. In addition, the increase in the net tightening of credit standards applied both to loans to small and medium-sized enterprises (SMEs; 14%, from 3%) and to loans to large firms (19%, from 3%).

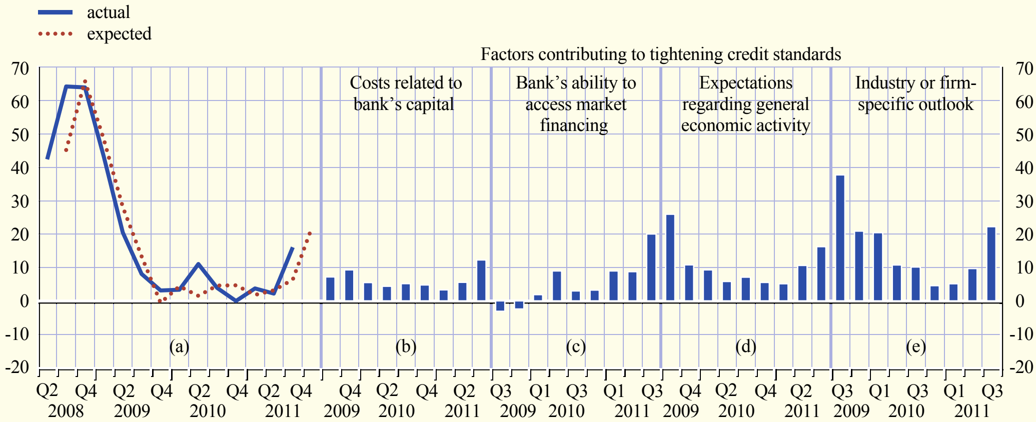
Looking at the factors underlying the overall net tightening in credit standards, factors related to the perception of risks, in particular regarding the general economic outlook and the industry or firm-specific outlook, were reported to have contributed significantly to the tightening of credit standards (16% and 22% respectively, from 11% and 10% in the second quarter). This mainly reflects the moderation in the pace of economic growth and business confidence observed in the third quarter of 2011. In addition, reflecting renewed strains on banks' access to funding, banks' cost of funds and balance sheet constraints contributed more strongly to the net tightening of credit standards than in the second quarter. This held true for all three components of this factor, namely banks' costs related to their capital position (12%, from 6%), banks' ability to access market financing (20%, after 9%) and banks' liquidity positions (14%, from 9%). By contrast,

1 The cut-off date of the survey was 27 September 2011. A comprehensive assessment of its results was published on the ECB's website on 6 October 2011.

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)



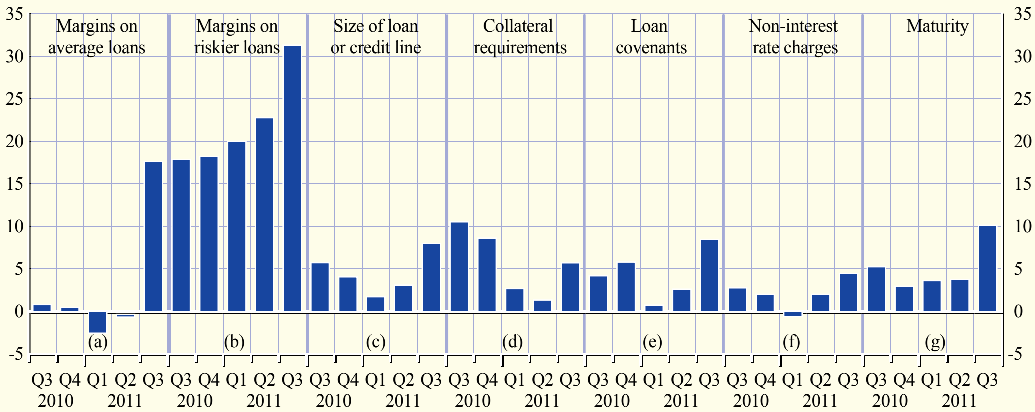
Notes: In panel (a), the net percentages refer to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably". The net percentages for the questions related to the factors are the difference between the percentage of banks reporting that the given factor contributed to tightening and the percentage reporting that it contributed to easing. "Actual" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

as counterbalancing factors, competitive pressures from other banks and non-banks were reported to have had an easing effect and a broadly unchanged impact respectively (-3% and 1% respectively, after -9% and -1%).

The developments in lending terms and conditions reported by euro area banks generally reflect the net tightening of credit standards in the third quarter of 2011 (see Chart B). The widening of margins visibly affected average (18%, from 0%) but also riskier loans (31%, from 23%), whereas only the margins on riskier loans had been widened in the second quarter. Other terms and conditions (e.g. non-interest charges, size and maturity, and collateral requirements) were also tightened in the third quarter of 2011, but to a smaller extent than margins.

Chart B Changes in terms and conditions for approving loans or credit lines to enterprises

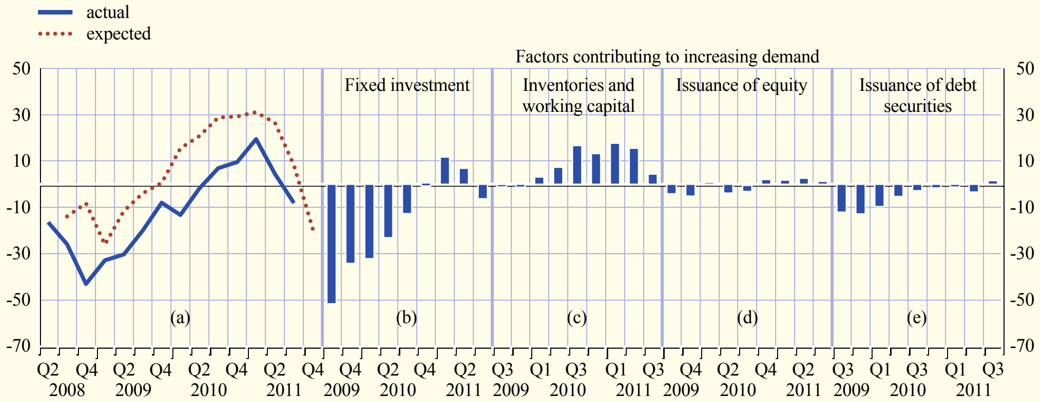
(net percentages of banks reporting tightening terms and conditions)



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".

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. "Actual" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

Looking forward, on balance, euro area banks expect a further increase in the net tightening of credit standards for loans to enterprises in the fourth quarter of 2011 (to 22%). This is expected to affect primarily loans to large firms, as well as long-term loans.

Loan demand: In the third quarter of 2011 enterprises' net demand for loans declined for the first time since the second quarter of 2010. The decline in net demand was significant (-8%, from 4% in previous quarter; see Chart C) and largely reflected the moderation in the pace of economic growth in the euro area and perceptions of increased risks to the overall and sector-specific situation. Moreover, it appeared to be balanced across firm size (-3% for both SMEs and large firms), whereas net demand from SMEs had been stronger than that from large firms in the second quarter (6% and 0% respectively). The decline in net demand for loans was broad-based across loan maturities (-4% for short-term and long-term loans) according to reporting banks.

According to survey participants, the decline in net demand appeared to be driven mainly by lower financing needs for fixed investment (-6%, down from 7% in the previous quarter), as well as for mergers and acquisitions (-4%, from 5%), and was thus in line with generally more modest economic growth prospects. Financing needs for inventories and working capital were also lower (4%, from 16%), but continued to contribute to an increase in demand for loans.

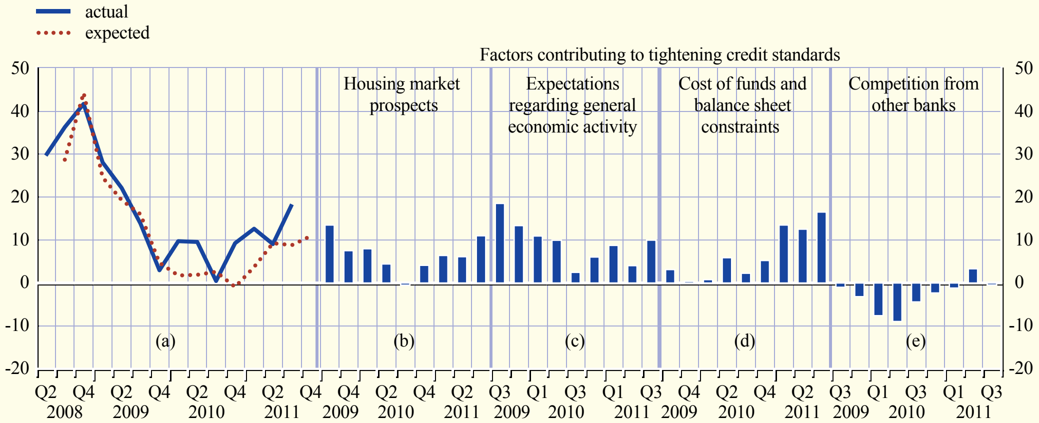
Looking forward, banks expect demand for corporate loans to decline further in the fourth quarter of 2011 (-19% in net terms). That would apply to both SMEs and large firms. As regards maturities, it is expected that this decline would affect long-term loans (-22%) more markedly than short-term loans (-11%).

Loans to households for house purchase

Credit standards: In the third quarter of 2011 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase increased significantly, to 18%,

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.

from 9% in the previous quarter (see Chart D), and by more than expected at that time (9%). According to survey participants, the increase in the degree of net tightening in the third quarter was again driven largely by banks' cost of funds and balance sheet constraints (a net percentage of 17% of the survey participants reported a contribution to the tightening of credit standards that stemmed from this factor, up from 13% in the previous quarter). In addition, banks' risk perceptions regarding the outlook for general economic activity (10%, from 4%) and for housing market prospects (11%, from 6%) contributed considerably to the net tightening of credit standards on housing loans.

The significant increase in the degree of net tightening of credit standards on housing loans is only partly reflected in the reported factors underlying this development. The net percentage of banks reporting an increase in margins on average loans declined to 10% (from 13% in the second quarter). Similarly, the net percentage of euro area banks reporting an increase in margins on riskier loans decreased to 14% (from 18%). At the same time, non-price terms and conditions, notably the maturity of the loans (7%, up from 1% in the second quarter), appear to have contributed to the further tightening of credit standards.

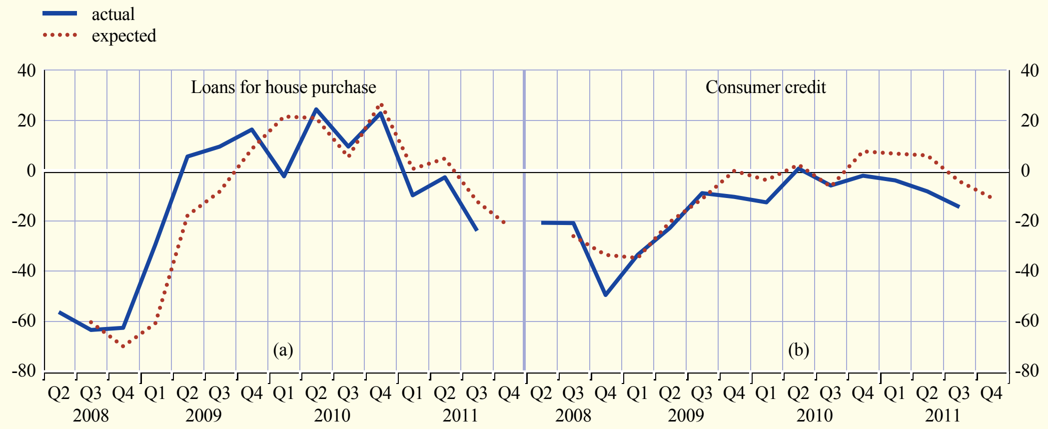
Looking ahead, banks expect a somewhat lower degree of net tightening of credit standards on loans for house purchase in the fourth quarter of 2011 (11%).

Loan demand: In parallel to the decline in net loan demand by firms and reflecting the moderation in economic growth, participating banks reported a substantial decline in the net demand for housing loans (-24%, from -3%; see Chart E). This decline appeared to be driven mainly by a deterioration of both housing market prospects (-23%, from -5%) and consumer confidence (-24%, from -4%).

Looking forward, banks expect demand for housing loans to continue to decrease on a similar scale in the fourth quarter (-22% in net terms).

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

(net percentages)



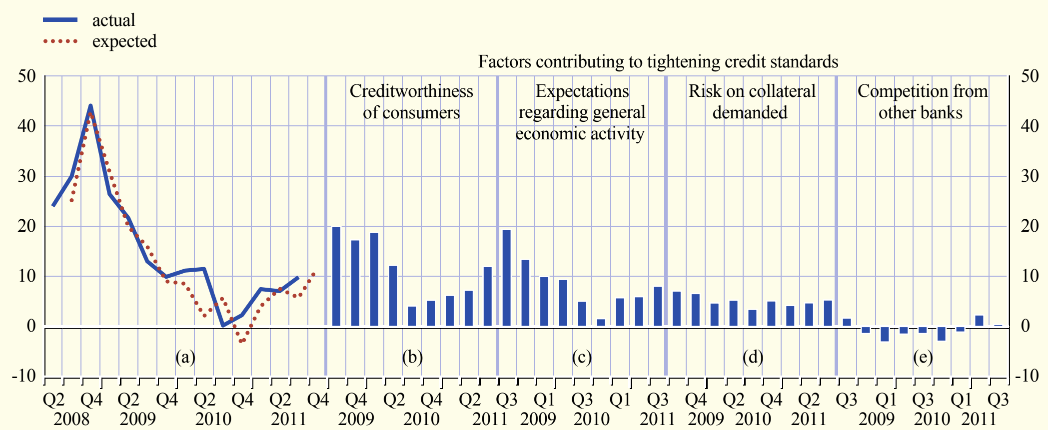
Notes: The net percentages refer to the difference between the sum of the percentages for "increased considerably" and "increased somewhat" and the sum of the percentages for "decreased somewhat" and "decreased considerably". "Actual" values refer to the period in which the survey was conducted. "Expected" values refer to the expected changes over the next three months.

Consumer credit and other lending to households

Credit standards: For the third quarter of 2011, euro area banks reported a moderate increase in the degree of net tightening of credit standards (10%, from 7%; see Chart F). Factors driving this net tightening were a combination of supply-side factors (i.e. cost of funding and balance sheet constraints) and risk perceptions (related to the economic outlook and consumers' creditworthiness). As for housing loans, the increase in the net tightening did not translate into an increase in price terms and conditions. The net percentage of banks reporting an increase in their margins actually decreased slightly in the third quarter, while the contribution of non-price terms and conditions has hardly changed in comparison with the previous survey round.

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.

Looking forward, in net terms, 12% of the banks expect credit standards on consumer credit and other lending to households to tighten somewhat further in the fourth quarter of 2011.

Loan demand: In the third quarter of 2011 net demand for consumer credit was reported to have declined further (-15% in net terms, from -8% in the previous quarter; see Chart E). This was mainly due to lower consumer confidence and spending on durable consumer goods.

Looking ahead, banks expect the decline in demand for consumer credit to continue in the fourth quarter of 2011 (at -11% in net terms).

Ad hoc questions on the impact of the financial turmoil

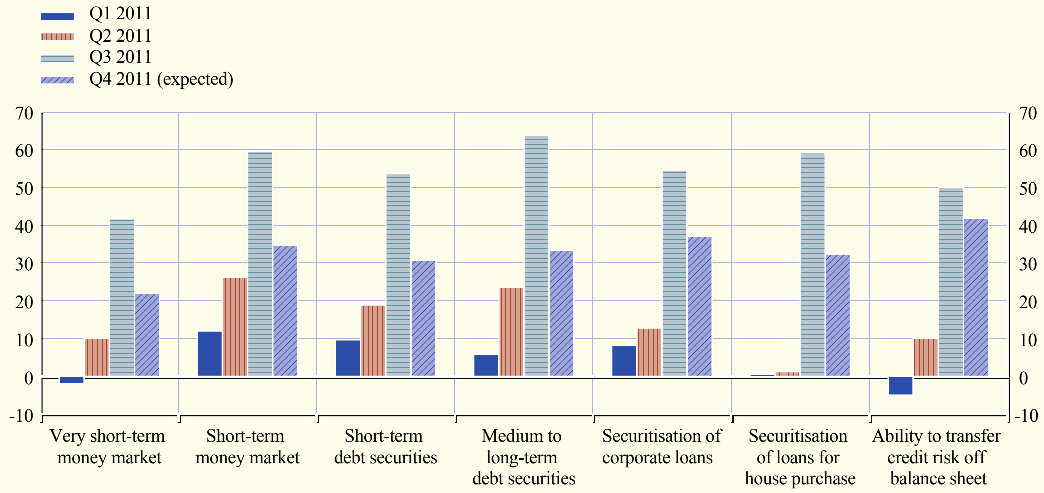
As in previous survey rounds, the October 2011 survey contained an ad hoc question aimed at assessing the extent to which the financial market tensions affected banks' access to the wholesale funding market in the third quarter of 2011, and the extent to which they might still have an effect in the fourth quarter.

On balance, euro area banks reported a substantial deterioration of their access to money markets, both for very short maturities[3] and for maturities of more than one week, as well as in their issuance of debt securities across all maturities (see Chart G). In addition, conditions for securitisation appeared to have deteriorated considerably in the third quarter of 2011, both for true-sale securitisation and for banks' ability to transfer risks off their balance sheets (synthetic securitisation). At the same time, looking forward, euro area banks expect their access to wholesale funding to deteriorate less markedly in the fourth quarter of the year.

3 Maturities of less than one week.

Chart G Change in the access to wholesale funding over the past three months

(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".