Box 1

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE THIRD QUARTER OF 2012

This box summarises the main results of the euro area bank lending survey for the third quarter of 2012, which was conducted by the Eurosystem between 25 September and 9 October 2012.[1]

For the euro area as a whole, the net tightening of banks' credit standards on loans to enterprises increased in the third quarter of 2012, compared with the previous survey round. By contrast, credit standards remained broadly stable for housing loans and eased slightly for consumer loans. Risk perceptions contributed more to the net tightening of credit standards on loans to enterprises, whilst remaining broadly unchanged in the case of loans to households. By contrast, the impact of banks' cost of funds and balance sheet constraints declined somewhat in the case of lending to enterprises, while easing more markedly in the case of lending to households. As regards demand for loans to enterprises, a somewhat more pronounced decline in net terms was reported for the third quarter of 2012. This net fall was not related to fixed investment as in the previous rounds, but was rather driven by a decline in mergers and acquisitions, inventories and working capital, as well as by the use of other external sources of finance like the issuance of debt securities and equity. In net terms, the demand for loans to households for house purchase declined at a faster pace in the third quarter than in the second quarter, whereas the net contraction in the demand for consumer credit abated somewhat. Looking ahead, survey participants expect a similar degree of net tightening of credit standards for loans to enterprises and housing loans, and some moderation in the case of consumer credit. The net decline in the demand for loans to both enterprises and households is expected to slow down in the fourth quarter of 2012.

Loans and credit lines to enterprises

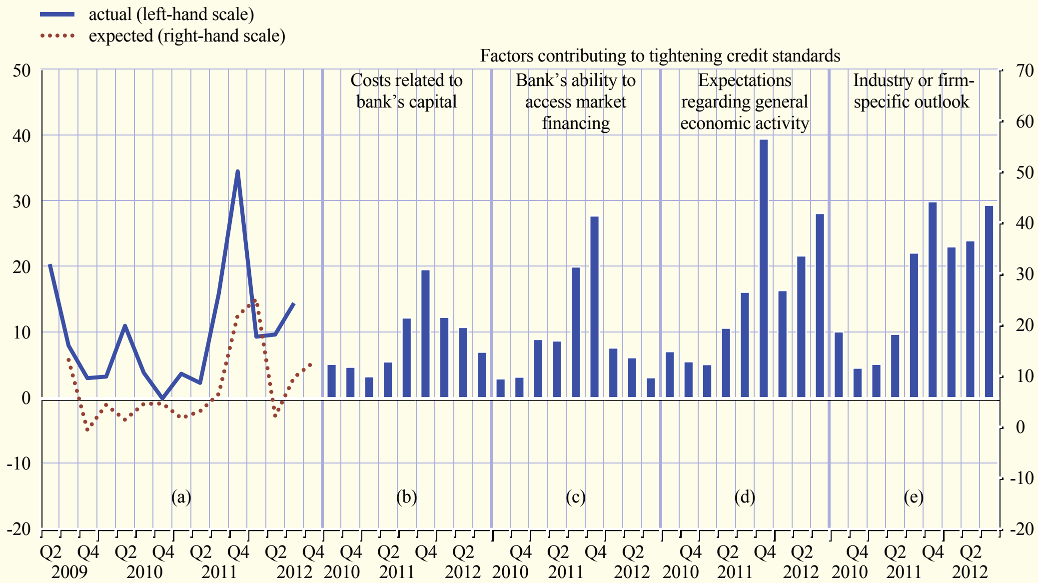
In the third quarter of 2012 the net percentage[2] of banks reporting a tightening of credit standards on loans and credit lines to enterprises increased to 15% (compared with 10% in the previous

1 The cut-off date of the survey was 9 October 2012. A comprehensive assessment of its results was published on the ECB's website on 31 October 2012.

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.

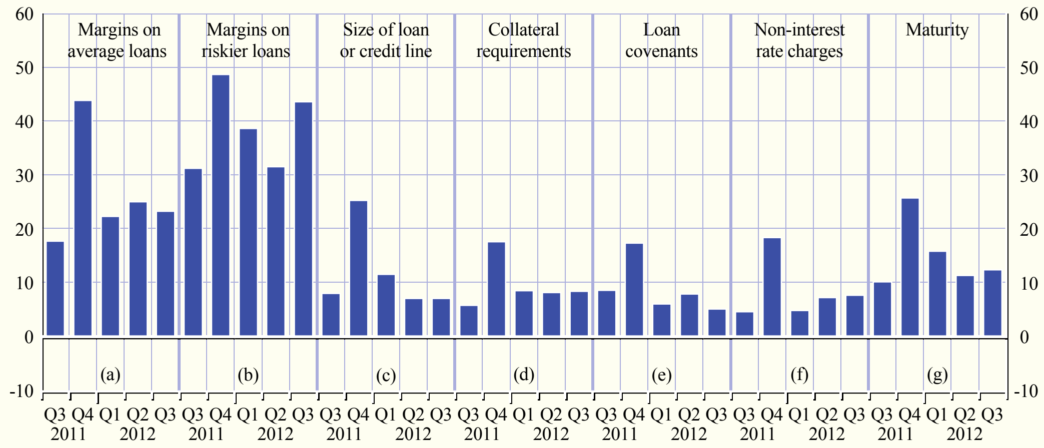
quarter; see Chart A). The tightening of credit standards was stronger than expected in the survey three months earlier (10%). It increased in net terms both on short-term loans and on long-term loans. In addition, the net tightening of credit standards for loans to small and medium-sized enterprises (SMEs) increased, whereas it remained broadly stable for loans to large firms.

Looking at the underlying factors, the net percentage of euro area banks reporting that cost of funds and balance sheet constraints contributed to a tightening of credit standards declined to 3% in the third quarter of 2012 from 7% in the second quarter. On balance, there was some moderation in the contribution of banks' capital positions (7%, down from 11% in the second quarter), banks' access to market funding (3%, after 6% in the previous quarter) and banks' liquidity positions (-2%, down from 3%). At the same time, the tightening impact from banks' capital positions remained larger than for the other two factors, indicating banks' ongoing need for balance sheet adjustment. By contrast, the impact of risk perceptions on the tightening of credit standards increased, driven mainly by more negative expectations regarding general economic activity (28%, after 22% in the second quarter of 2012) and industry-specific risks (30%, after 24% in the second quarter). The impact of collateral risk moderated somewhat, whereas other factors, such as competitive pressures from other banks and non-banks, even contributed to a net easing of credit standards in the third quarter of 2012.

The increase in net tightening reported by euro area banks was reflected in an increase in the widening of margins on riskier loans (see Chart B), while other lending terms and conditions

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".

remained broadly unchanged. The widening of margins on average loans changed little compared with the second quarter (23%, after 25%), while margins on riskier loans increased strongly after having decreased for two consecutive rounds (to 44%, up from 32%), suggesting a more pronounced degree of risk-related price differentiation by banks across borrowers. The net tightening for other terms and conditions (e.g. non-interest charges, loan size and maturity, and collateral requirements) remained broadly unchanged.

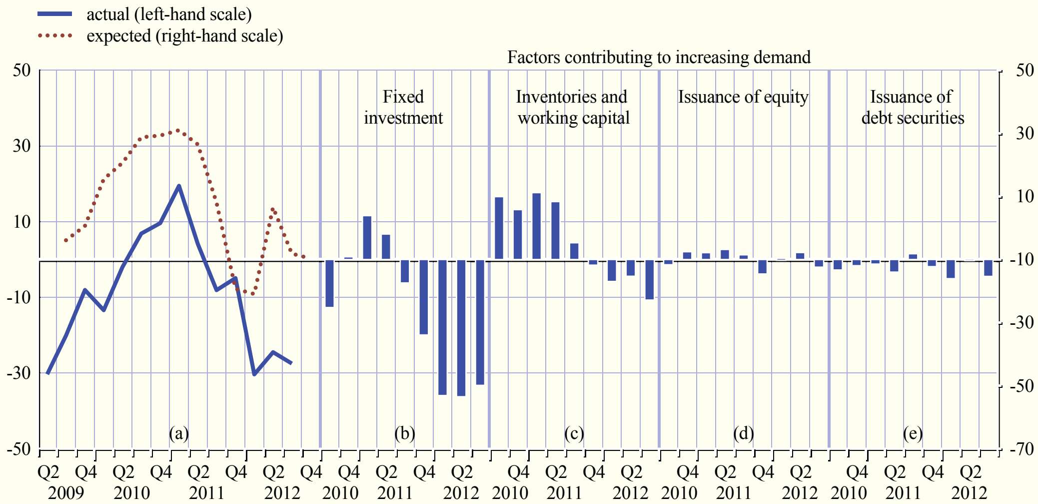
Looking ahead, on balance, euro area banks expect a similar degree of net tightening of credit standards for loans to enterprises in the fourth quarter of 2012 (at 13%). Some further tightening is expected to affect large firms (10%) more than SMEs (7%), as well as primarily long-term loans.

In the third quarter of 2012 the net decline in the demand for loans from enterprises was stronger than in the second quarter (-27%, after -25%). The decline was stronger than expected by respondents in the previous survey round (-8%). Moreover, the net decline in the demand for loans appeared to have been broadly similar for large firms and for SMEs (-24% and -23% respectively), but stronger for long-term loans than for short-term loans (-24% and -17% respectively).

According to survey participants, the net fall in demand was mainly driven by a substantial negative impact from mergers and acquisitions (-17%, down from -13%) and inventories and working capital (-11%, down from -4%). The use of other external sources of finance also contributed to the more pronounced net decline in demand for loans. On balance, euro area banks reported a stronger contribution to the net decline in demand stemming from issuance of debt securities (-5%, after 0% in the second quarter of 2012), issuance of equity (-2%, after 2% in the second quarter) and loans from non-banks (-2%, after -1%). By contrast, the negative impact on the financing needs of firms from fixed investment and from internal sources of financing contributed somewhat less to the net decline in demand for loans.

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, banks expect a considerably smaller net decline in the demand for corporate loans in the fourth quarter of 2012 (-10%). The net decline in demand is expected to apply to a somewhat greater extent to large firms (-9%) than to SMEs (-6%) and to affect long-term loans (-11%) more markedly than short-term loans (-4%).

Loans to households for house purchase

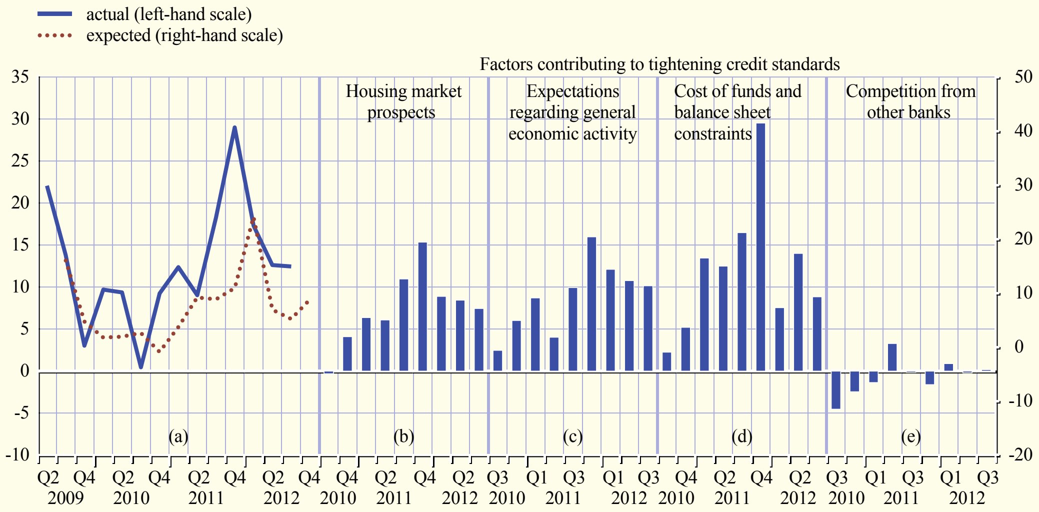
In the third quarter of 2012 the net percentage of banks reporting a tightening of credit standards for loans to households for house purchase decreased slightly to 12% from 13% in the second quarter (see Chart D). This decline was smaller than anticipated in the previous survey round. According to survey participants, the moderate decrease in net tightening in the third quarter was mainly driven by a marked easing in pressures from cost of funds and balance sheet constraints (to 9% in net terms, from 14% in the second quarter), whereas the impact of both the general economic outlook and housing market prospects remained broadly unchanged. As in the previous round, competitive pressures were reported to have remained neutral.

Terms and conditions on housing loans exhibited a mixed behaviour across price and non-price categories in the third quarter of 2012. While margins on average loans remained broadly stable (14%, after 15% in the second quarter of 2012), margins on riskier loans declined slightly (19%, down from 21%). Responses regarding non-price terms and conditions point to a slight tightening in the case of loan-to-value ratios and non-interest rate charges, and some moderation for the maturity of loans (3%, down from 5%).

Looking ahead, banks expect a somewhat lower degree of net tightening of credit standards for loans for house purchase (9%) for the fourth quarter of 2012.

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

(net percentages)

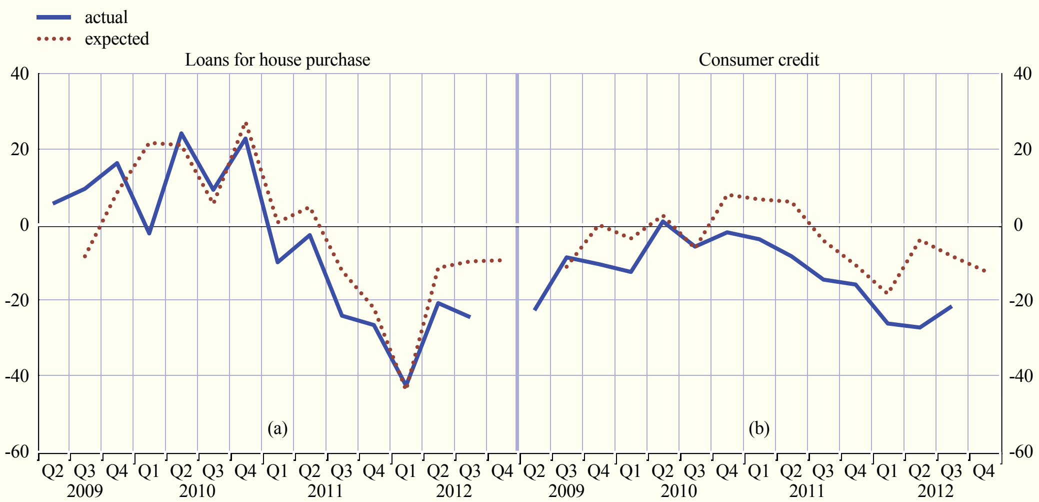


Note: See notes to Chart A.

As for loans to enterprises, euro area banks reported in net terms a more pronounced contraction in the demand for housing loans (-25%, after -21% in the second quarter of 2012; see Chart E). While the ongoing deterioration of housing market prospects (-14%, after -25%) and consumer confidence (-23%, after -27%) contributed to this net decline to a lesser extent than in the

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.

previous round, the use of household savings as an alternative source of finance contributed somewhat more strongly to the net decline in demand for housing loans (-9%, after -8%).

Looking ahead, banks expect a further net decline in the demand for housing loans (-9%) for the fourth quarter of 2012, albeit at a slower pace than in the third quarter of the year.

Consumer credit and other lending to households

For the third quarter of 2012 euro area banks reported a mild decline in the net tightening of credit standards (3%, down from 7%; see Chart F). Pressures from cost of funds and balance sheet constraints on credit standards eased to 1%, from 8% in the second quarter of 2012. While risk perceptions related to the economic outlook remained broadly unchanged, those related to consumers' creditworthiness declined (to 4%, from 7%). With regard to terms and conditions on consumer credit, banks reported, on balance, that the widening of margins on both riskier and average consumer loans increased slightly (to 14% and 13% respectively). The contribution of non-price terms and conditions on consumer credit remained broadly neutral.

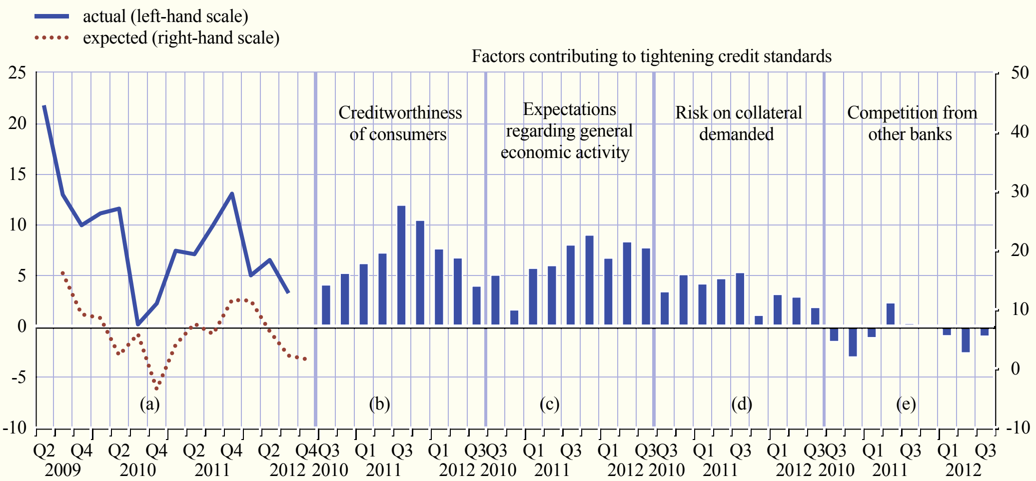
Looking ahead, in net terms, only 2% of banks expect a further tightening of credit standards on consumer credit and other lending to households in the fourth quarter of 2012.

In the third quarter of 2012 the demand for consumer credit continued to decline in net terms, albeit at a slower pace than in the previous round (-22%, after -27% in the previous quarter; see Chart E). This was mainly explained by a deceleration in the decline of household spending on durable consumer goods (-18%, after -28% in the second quarter) and in the decrease in consumer confidence (-22%, after -26%).

Looking ahead, banks expect a substantial slowdown in the net decline in demand for consumer credit in the fourth quarter of 2012 (-12%).

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

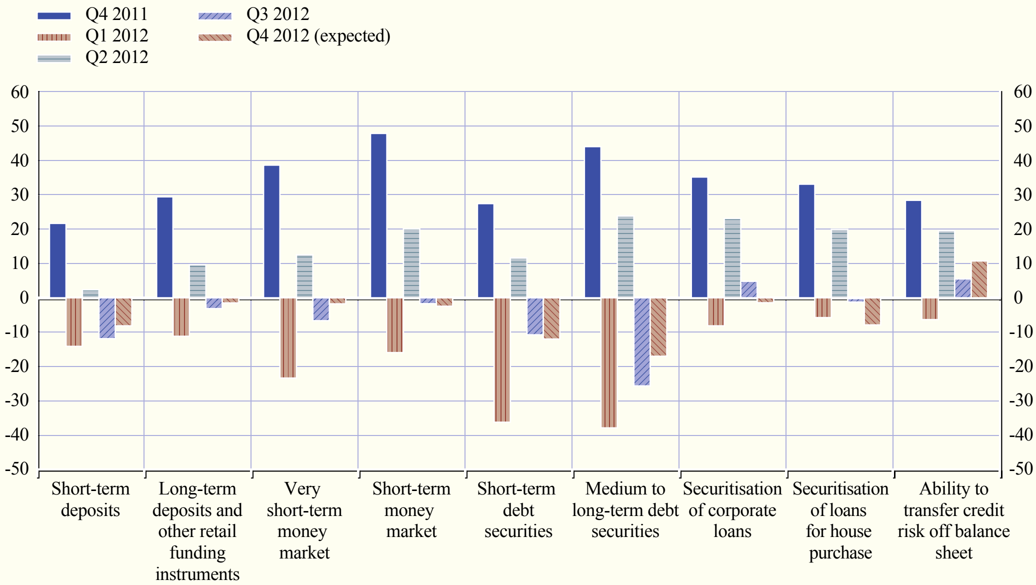
(net percentages)



Note: See notes to Chart A.

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".

Ad hoc question on the impact of the financial turmoil

As in previous survey rounds, the October 2012 bank lending survey contained an ad hoc question aimed at assessing the extent to which the financial market tensions affected banks' access to retail and wholesale funding markets in the third quarter of 2012, and the extent to which they might still have an effect in the fourth quarter of the year.

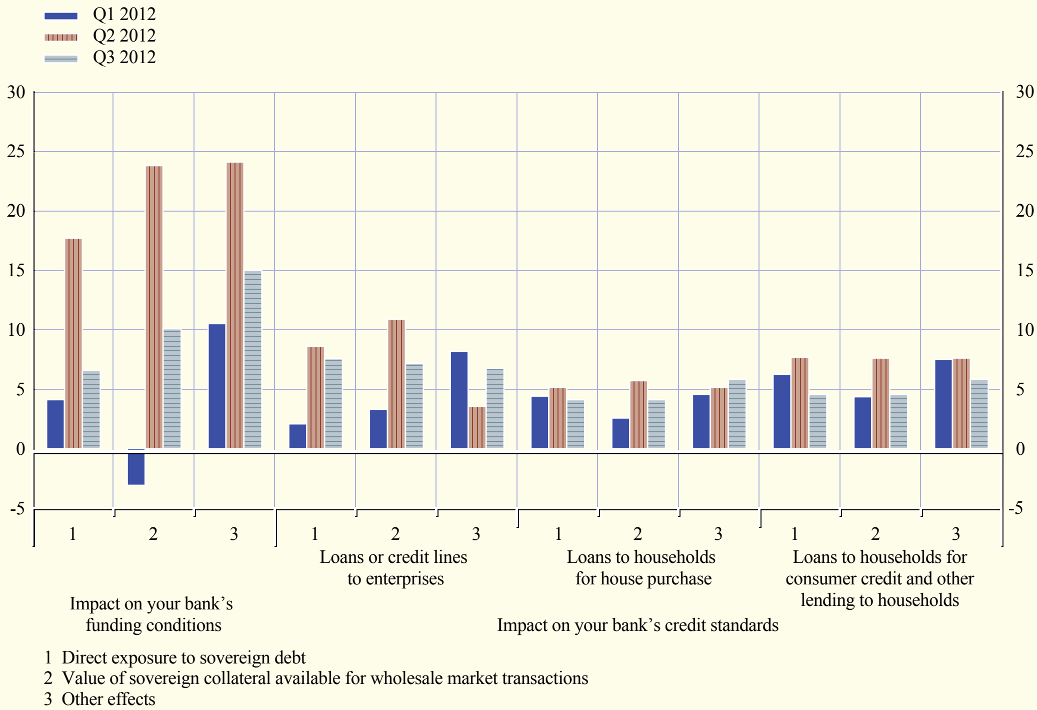
On balance, euro area banks reported an improvement in their access to retail and wholesale funding across most categories compared with the second quarter of 2012. Banks reported a net easing in their access to retail funding, money markets and debt securities (see Chart G). In addition, conditions for securitisation appeared to have deteriorated considerably less in the third quarter of 2012, both for true-sale securitisation and for banks' ability to transfer risks off their balance sheets (synthetic securitisation). Looking ahead, euro area banks expect a further net easing in market access in the case of retail funding, money markets and debt securities, whereas for securitisation they expect a further net deterioration in market access in the fourth quarter of 2012.

Ad hoc question on the impact of the sovereign debt crisis on banks' funding conditions and credit standards

The October 2012 survey also included an ad hoc question aimed at assessing the impact of the sovereign debt crisis on banks' funding conditions and their credit standards. On average, only 11% of euro area banks in net terms – compared with 22% in the second quarter of 2012 – attributed the deterioration in funding conditions to the sovereign debt crisis through either direct

Chart H Impact of the sovereign debt crisis on banks' funding conditions and credit standards

(net percentages of banks reporting an impact on funding conditions or on the tightening of credit standards)



Note: The net percentages are defined as the difference between the sum of the percentages for "contributed to a deterioration of funding conditions/tightening of credit standards considerably" and "contributed somewhat" and the sum of the percentages for "contributed to an easing of funding conditions/easing of credit standards somewhat" and "contributed considerably".

exposure to sovereign debt (7% compared with 18% in the second quarter), reduced collateral value of government bonds (10% compared with 24% in the previous round) or other effects (15% compared with 24%). These results suggest that the negative impact of the sovereign debt crisis on banks' funding conditions diminished substantially in the course of the third quarter of 2012. Compared with the previous quarter, the impact of the crisis on euro area banks' credit standards also decreased somewhat (to 6% on average, for both loans to non-financial corporations and loans to households; see Chart H). This development is broadly in line with the decline in the impact of the cost of funds and balance sheet constraints on banks' credit standards for loans to enterprises and households.