Box 2

THE RESULTS OF THE EURO AREA BANK LENDING SURVEY FOR THE SECOND QUARTER OF 2014

This box summarises the main results of the euro area bank lending survey conducted by the Eurosystem between 26 June and 11 July 2014 for the second quarter of 2014.[1] Overall, euro area banks reported a net easing of credit standards and a net increase in demand for all loan categories.

Summary of the main results

In the second quarter of 2014, euro area banks reported a net easing of credit standards applied to both loans to enterprises and loans to households. At the same time, it has to be kept in mind that credit standards are still relatively tight. In the second quarter of 2014, net loan demand continued to be positive and stood above its historical average for loans to enterprises and loans to households. Looking ahead to the third quarter of 2014, banks expect a net easing of credit standards and a net increase in demand for all loan categories.

Loans and credit lines to enterprises

For the first time since the second quarter of 2007, euro area banks reported a net easing of credit standards on loans to enterprises in the second quarter of 2014 (-3%, compared with 1% in the previous quarter; see Chart A). Looking at the underlying factors, euro area banks reported that, on average, banks' cost of funds and balance sheet constraints and banks' risk perceptions both contributed to a slight net easing of credit standards (the latter for the second quarter in a row). The development in banks' risk perceptions was mainly due to banks' improved

1 A comprehensive assessment of the results of the euro area bank lending survey for the second quarter of 2014 was published on the ECB's website on 30 July 2014.

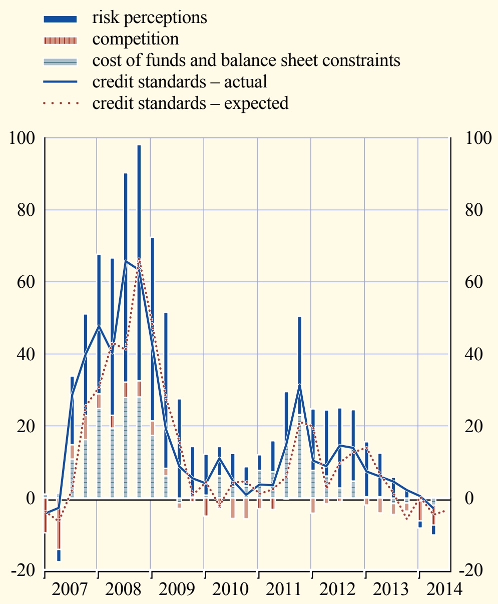
expectations regarding the macroeconomic and firm-specific outlook, in line with the moderate economic recovery in the euro area. By contrast, banks' assessment of the risk on collateral demanded had a marginal tightening impact on credit standards. Finally, competitive pressures were reported to have contributed to a net easing of credit standards.

Banks further relaxed the terms and conditions for new loans to enterprises substantially in the second quarter of 2014. In net terms, margins on average loans were further narrowed (-26%, compared with -16% in the previous quarter; see Chart B), and, for the first time since the start of the survey, banks also reported a narrowing of margins on riskier loans to enterprises (-4%, compared with 5% in the previous quarter). Moreover, in net terms, euro area banks reported that all components of other terms and conditions became more favourable in the second quarter of 2014.

Looking ahead, euro area banks expect a net easing of credit standards for loans to enterprises in the third quarter of 2014 (-3%).

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

(net percentages and average net percentages per category)

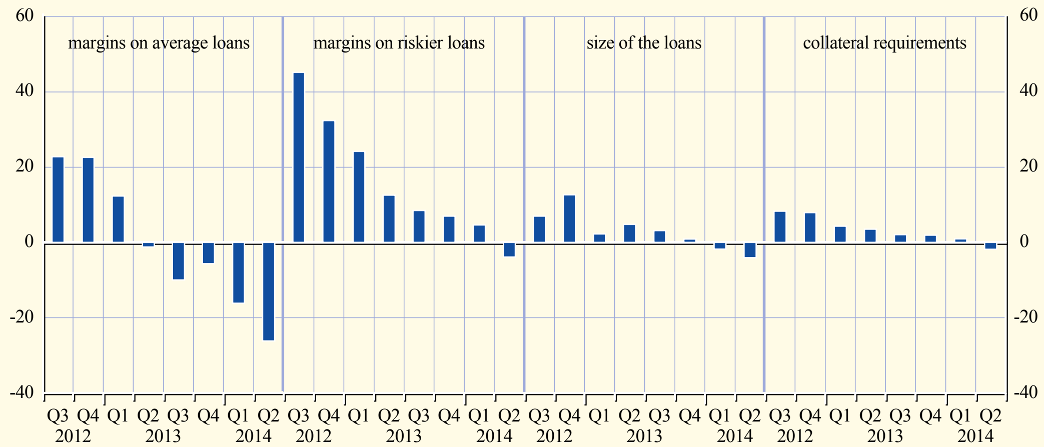


Source: ECB.
Notes: Cost of funds and balance sheet constraints as unweighted average of "capital position", "access to market financing" and liquidity position"; risk perception as unweighted average of "expected economic activity", "industry-specific risk" and "risk on collateral demanded"; competition as "bank competition", "non-bank competition" and "competition by market financing".

Net demand for loans to enterprises continued to be positive and recovered further in the second quarter of 2014 (4%, following 2% in the previous quarter; see Chart C). According to

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

(net percentages of banks reporting tightening terms and conditions)



Source: ECB.

participating banks, this development was mainly driven by increased financing needs related to fixed investment (which made a marginally positive contribution to loan demand for the first time since the second quarter of 2011) as well as inventories and working capital. On average, the contribution to the net increase in demand from the use of alternative sources of finance was neutral in the second quarter of 2014.

Looking ahead, in net terms, a significant share of banks expect an increase in demand for loans to enterprises in the third quarter of 2014 (25%).

Loans to households for house purchase

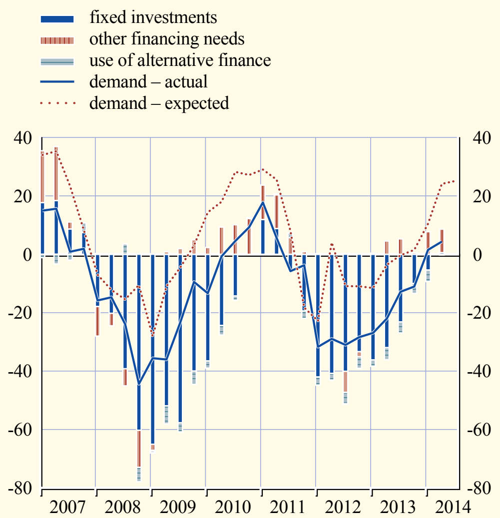
In the second quarter of 2014, euro area banks again reported a net easing of credit standards on loans to households for house purchase (-4%, broadly similar to the previous quarter; see Chart D). On average, all underlying factors, i.e. banks' cost of funds and balance sheet constraints, banks' risk perceptions, and competitive pressures, contributed to the net easing of credit standards for housing loans.

Banks' further relaxed the price terms and conditions for housing loans considerably in the second quarter of 2014, while there was less change in non-price terms and conditions. More specifically, euro area banks reported, in net terms, a significant narrowing of margins on average housing loans (-30%, compared with -21% in the previous quarter), while margins on riskier loans remained unchanged (0%) following a net widening of margins on riskier loans throughout the financial crisis. Responses regarding non-price terms and conditions pointed to little change overall, with a small net tightening related to loan maturity and a marginal net easing related to non-interest rate charges.

Looking ahead, euro area banks expect a marginal net easing of credit standards for housing loans in the third quarter of 2014 (-1%).

Chart C Changes in demand for loans or credit lines to enterprises and contributing factors

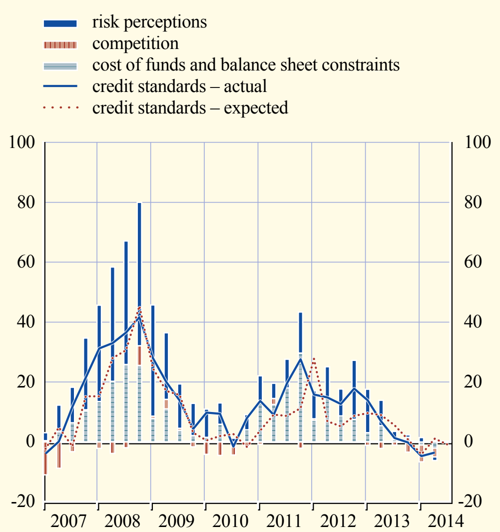
(net percentages and average net percentages per category)



Source: ECB.
Notes: Other financing needs as unweighted average of "inventories and working capital", "M&A and corporate restructuring" and "debt restructuring"; use of alternative finance as unweighted average of "internal financing", "loans from other banks", "loans from non-banks", "issuance of debt securities" and "issuance of equity".

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

(net percentages and average net percentages per category)



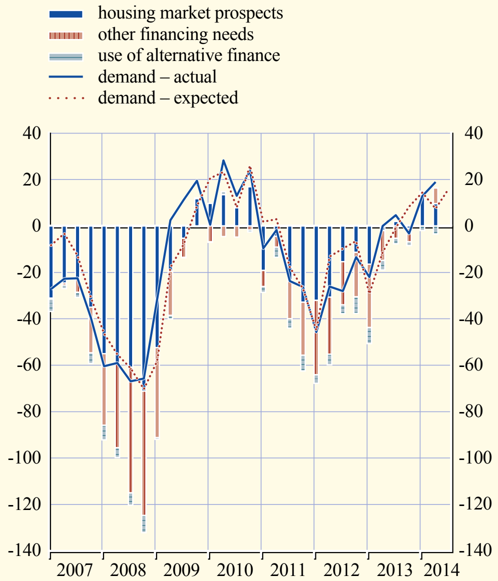
Source: ECB.
Notes: Risk perception as unweighted average of "expected economic activity" and "housing market prospects"; competition as unweighted average of "competition from other banks" and "competition from non-banks".

Turning to loan demand, euro area banks reported a further net increase in demand for housing loans in the second quarter (19%, compared with 13% in the previous quarter; see Chart E). Regarding the underlying factors, the positive net contributions from housing market prospects and consumer confidence were the main drivers behind the net increase in demand for housing loans. By contrast, the contribution related to the use of alternative financing remained slightly negative.

Looking ahead, banks expect a net increase in demand for housing loans (16%) in the third quarter of 2014.

Chart E Changes in demand for loans to households for house purchases and contributing factors

(net percentages and average net percentages per category)



Source: ECB.
Notes: Other financing needs as unweighted average of "consumer confidence" and "non-housing related consumption expenditure"; use of alternative finance as unweighted average of "household savings", "loans from other banks" and "other sources of finance".

Consumer credit and other lending to households

In the second quarter of 2014, euro area banks reported a net easing of credit standards for consumer credit and other lending to households (-2%, broadly similar to the previous quarter). This development was driven by a marginal net easing impact from banks' risk perceptions and banks' cost of funds and balance sheet constraints (the latter being reported for the first time since the first quarter of 2007, i.e. since before the outbreak of the financial crisis) as well as a continued net easing impact from competition.

Turning to terms and conditions, banks reported a narrowing of margins on average loans (-14%, compared with -3% in the previous survey round), while those on riskier loans widened slightly (2%, broadly similar to the previous quarter).

Looking ahead, euro area banks expect a further net easing of credit standards applied to consumer credit and to other lending to households in the third quarter of 2014 (-2%).

In the second quarter of 2014, surveyed banks reported a further net increase in demand for consumer credit (17%, compared with 4% in the first quarter of 2014). Looking ahead, euro area banks expect a continued net increase in the demand for consumer credit in the third quarter of 2014 (16%).

Ad hoc questions

The July 2014 bank lending survey contained a number of ad hoc questions.

First, it contained – as in previous survey rounds – an ad hoc question on banks' access to retail and wholesale funding. On average, in the second quarter of 2014, euro area banks reported a net easing in their access to funding for all main market instruments, i.e. for retail funding, money market instruments, issuance of bank debt securities and securitisation (see Chart F). Looking ahead to the third quarter of 2014, euro area banks expect a continued net easing in their access to all wholesale market instruments, but overall unchanged access to retail funding.

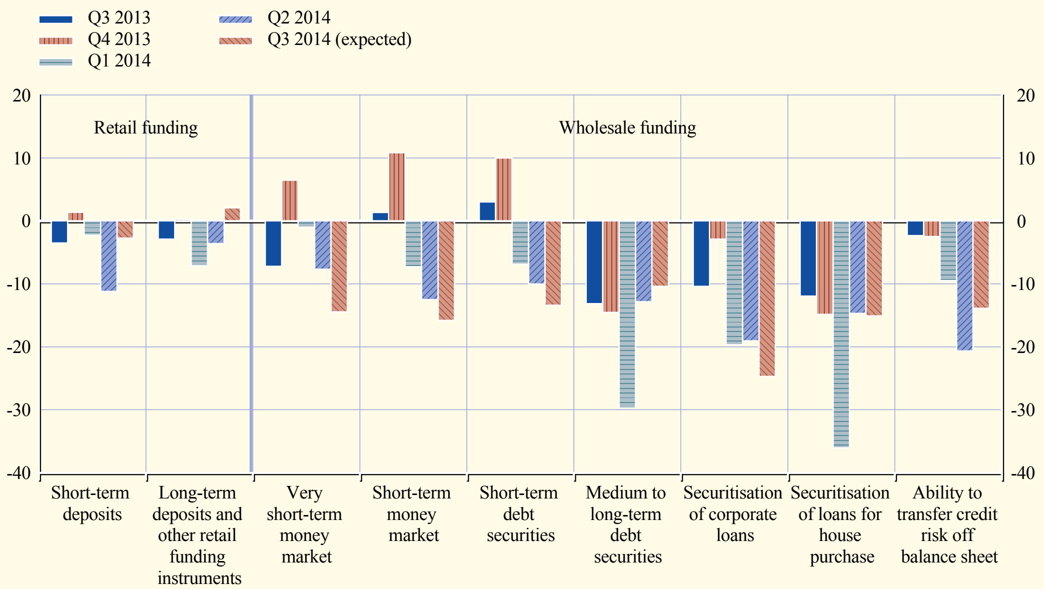
Second, the July 2014 survey included – as in previous survey rounds – an ad hoc question aimed at assessing the impact of the sovereign debt tensions on banks' funding conditions, credit standards and credit margins over the previous three months. The banks' replies indicated that reduced sovereign debt tensions had contributed on average to a further and considerable net easing of banks' funding conditions in the second quarter of 2014, while the reduced sovereign debt tensions had no impact on changes in banks' credit standards for all loan categories. At the same time, euro area banks reported that the reduced sovereign debt tensions had contributed to a further small narrowing of margins for all loan categories in the second quarter of 2014.

Third, the July 2014 survey also included two biannual ad hoc questions aimed at assessing the extent to which new regulatory and supervisory actions (including the comprehensive assessment of banks in the euro area) have affected banks' lending policies, both via the potential impact on their capital position and via the credit standards they apply to loans.

Euro area banks replied that, in response to regulatory and supervisory actions, their risk-weighted assets slightly increased in net terms during the first half of 2014, which was the first such

Chart F Changes in access to funding over the past three months

(net percentages of banks reporting deteriorated market access)



Source: ECB.
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".

increase since the introduction of the question in the July 2011 round. At the same time, banks' riskier loans and, marginally, average loans both decreased further, although by less than in the second half of 2013. Euro area banks also reported a further net strengthening of their capital position, through both retained earnings and capital issuance, as well as eased funding conditions in net terms.

Euro area banks indicated that regulatory and supervisory actions had a net tightening impact on their credit standards on loans to both large firms and SMEs in the first half of 2014. In addition, euro area banks reported a net easing impact on credit standards for loans to households for house purchase and a neutral impact on consumer credit and other lending to households. Finally, regulatory and supervisory actions had a narrowing (i.e. easing) impact on margins on loans to large enterprises and on loans to households for house purchase in the first half of 2014, but a small net widening (i.e. tightening) impact on credit margins for loans to SMEs and on consumer credit and other lending to households.