

Box I**The results of the October 2003 bank lending survey for the euro area**

The ECB conducted its fourth bank lending survey at the beginning of October. The survey provides information on demand and supply conditions in the euro area credit markets and is designed to complement other statistics on bank retail interest rates and credit.¹ This box contains the main results for the third quarter of 2003 and compares them with those of the previous quarter (the July 2003 survey). A more extensive report is published on the ECB's website.

The results of the October 2003 bank lending survey (which are based on the responses of all 86 banks in the sample) show a continued fall in the net percentage of banks reporting a tightening of the credit standards applied to the approval of loans or credit lines to enterprises over the past three months. However, the net percentage remained above 20%, and only few banks reported an overall easing of credit standards. The net percentage of banks reporting a tightening of the credit standards applied to the approval of loans to households remained low.

As regards loans to enterprises, in October a net 23% of banks reported a tightening of credit standards for the period from July to September (see Table A, upper panel). This was slightly above what banks expected in July for the same period (19%), but lower than what was reported in the period April-June (27%) and beforehand (see the first section of the chart). For the first time, a small percentage of banks (3%) reported an overall easing of credit standards. In the third quarter of 2003, the decline in the net percentage of banks reporting a tightening of credit standards was evident for loans to large as well as small and medium-sized enterprises. As regards the original maturity of loans, the net tightening of credit standards continued to decrease for all maturities of loans.

Table A: Changes in credit standards applied to enterprises*(percentages)*

| | Overall | | Loans to small and medium-sized enterprises | | Loans to large enterprises | | Short-term loans | | Long-term loans | |
|--------------------------------------|-----------|-----------|---|-----------|----------------------------|-----------|------------------|-----------|-----------------|-----------|
| | July | October | July | October | July | October | July | October | July | October |
| a) Over the past three months | | | | | | | | | | |
| Tightened considerably | 0 | 2 | 0 | 2 | 0 | 2 | 0 | 2 | 2 | 2 |
| Tightened somewhat | 27 | 24 | 32 | 23 | 25 | 18 | 19 | 17 | 28 | 24 |
| Remained basically unchanged | 73 | 72 | 65 | 70 | 75 | 77 | 82 | 78 | 68 | 73 |
| Eased somewhat | 0 | 3 | 3 | 5 | 0 | 3 | 0 | 3 | 2 | 1 |
| Eased considerably | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Net percentage¹⁾ | 27 | 23 | 30 | 20 | 25 | 17 | 19 | 16 | 28 | 25 |
| Number of banks responding | 83 | 83 | 81 | 81 | 80 | 80 | 82 | 82 | 83 | 82 |
| a) Over the next three months | | | | | | | | | | |
| Tightened considerably | 0 | 0 | 0 | 0 | 2 | 2 | 0 | 2 | 2 | 1 |
| Tightened somewhat | 23 | 14 | 23 | 14 | 24 | 16 | 11 | 13 | 22 | 19 |
| Remained basically unchanged | 72 | 85 | 68 | 82 | 73 | 80 | 82 | 83 | 74 | 78 |
| Eased somewhat | 4 | 1 | 9 | 4 | 1 | 2 | 7 | 1 | 1 | 1 |
| Eased considerably | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Net percentage¹⁾ | 19 | 13 | 14 | 11 | 24 | 16 | 5 | 14 | 21 | 19 |
| Number of banks responding | 83 | 83 | 81 | 81 | 80 | 80 | 81 | 83 | 82 | 83 |

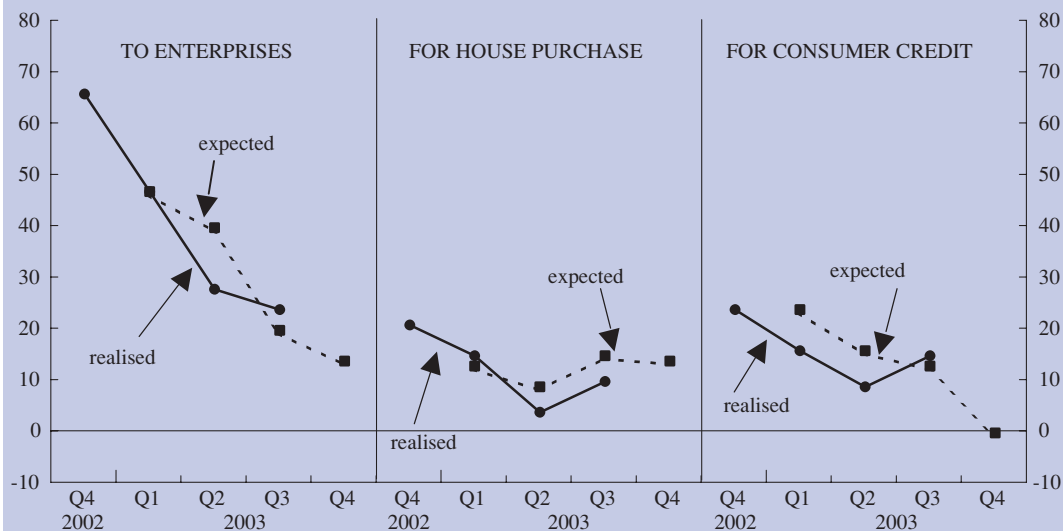
1) The net percentage refers to the difference between the sum of the percentages for "tightened considerably" and "tightened somewhat" and the sum of the percentages for "eased somewhat" and "eased considerably".

As in July, the factor cited as contributing most to the continued overall net tightening of credit standards in the third quarter was risk perception, in particular in terms of the industry or firm-specific outlook, closely

¹ See the article entitled "A bank lending survey for the euro area" in the April 2003 issue of the Monthly Bulletin.

Credit standards applied to the approval of loans or credit lines

(net percentages of banks reporting tightening standards)



Notes: The net percentage refers 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”.

“Realised” values refer to the period in which the survey was conducted. “Expected” values are the percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2003 were reported by banks in the July survey.

followed by expectations regarding general economic activity. The terms and conditions for approving loans or credit lines to enterprises that tended to be tightened most were interest rate margins, the size of the loan or credit line and collateral requirements.

Turning to expectations in respect of credit standards for the fourth quarter of 2003, the net percentage of banks expecting a tightening of credit standards declined to 13% in the October survey, from 19% in the July survey (see Table A, lower panel).

As regards loan demand by enterprises, banks reported a smaller net decrease than before. On balance 17% of respondents indicated in October that they had experienced weaker demand for loans or credit lines to enterprises over the preceding three-month period (down from 25% in the July survey) (see Table B). The main reasons given for the weaker demand were lower financing needs on the part of corporations for fixed investments. At the same

Table B: Changes in demand for loans or credit lines to enterprises over the past three months

(percentages)

| | Overall | | Loans to small and medium-sized enterprises | | Loans to large enterprises | | Short-term loans | | Long-term loans | |
|------------------------------------|------------|------------|---|-----------|----------------------------|------------|------------------|------------|-----------------|------------|
| | July | October | July | October | July | October | July | October | July | October |
| Decreased considerably | 2 | 1 | 2 | 2 | 4 | 2 | 2 | 1 | 3 | 2 |
| Decreased somewhat | 33 | 29 | 30 | 27 | 25 | 31 | 20 | 26 | 38 | 34 |
| Remained basically unchanged | 54 | 57 | 52 | 51 | 57 | 54 | 61 | 60 | 47 | 39 |
| Increased somewhat | 10 | 13 | 16 | 18 | 12 | 13 | 16 | 13 | 10 | 25 |
| Increased considerably | 0 | 0 | 0 | 3 | 2 | 0 | 0 | 0 | 2 | 0 |
| Total | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Net percentage¹⁾ | -25 | -17 | -17 | -9 | -15 | -20 | -6 | -13 | -30 | -11 |
| Number of banks responding | 83 | 83 | 81 | 81 | 80 | 80 | 81 | 82 | 82 | 83 |

1) The net percentages for the questions on demand for loans are defined as 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”.

time, almost a third of responding banks referred to debt restructuring as a factor leading to higher demand.

Turning to households, a net 9% of banks reported a tightening of the credit standards applied to the approval of loans for house purchase. This net percentage was higher than in July (3%) (see Table C, upper panel) but below earlier expectations for the third quarter of 2003 (14%) (see the second section of the chart). As regards credit standards applied to consumer credit and other loans to households, in October a net 14% of respondents reported a tightening for the period July-September (up from 8% in July), which was slightly above what had been expected for the third quarter (12%) (see the third section of the chart).

As in the previous survey, the factor that contributed most to the slight overall tightening of the credit standards applied to loans to households over the three-month period July to September was expectations for general economic activity. Tighter lending policies, where they occurred, were predominantly expressed via the higher margins applied to riskier loans. At the same time, banks reported a net reduction in their margins on average loans.

As regards expectations for the period from October to December 2003, the expected net tightening for loans to house purchase remains at the same level as in the July survey (13%). However, banks expect a slight easing of the credit standards applied to loans for consumer credit and other lending (see Table C, lower panel).

At the same time, on the demand side, the October 2003 survey showed that on balance 31% of banks reported an increase in the demand for loans for house purchase, as compared with 29% in July (see Table D). By contrast, the demand for consumer credit and other loans to households fell in the same period (net percentage of -7%, down from 5% in the July survey).

Overall, the results of the October 2003 survey point to some signs of improvement in credit conditions for loans to enterprises and to a stabilisation in those applied to households. However, given the newness of the survey, the results should be interpreted with a high degree of caution. It will take some time before it is possible to give a reliable interpretation of these results and determine the relationship between them and actual economic and financial developments.

Table C: Changes in credit standards applied to households

(percentages)

| | Loans for house purchase | | Consumer credit and other lending | |
|--------------------------------------|--------------------------|-----------|-----------------------------------|-----------|
| | July | October | July | October |
| a) Over the past three months | | | | |
| Tightened considerably | 1 | 0 | 0 | 0 |
| Tightened somewhat | 12 | 18 | 13 | 19 |
| Remained basically unchanged | 77 | 72 | 82 | 76 |
| Eased somewhat | 8 | 9 | 5 | 5 |
| Eased considerably | 2 | 0 | 0 | 0 |
| Total | 100 | 100 | 100 | 100 |
| Net percentage ¹⁾ | 3 | 9 | 8 | 14 |
| Number of banks responding | 80 | 80 | 78 | 78 |
| b) Over the next three months | | | | |
| Tightened considerably | 0 | 0 | 0 | 0 |
| Tightened somewhat | 14 | 19 | 16 | 13 |
| Remained basically unchanged | 85 | 76 | 80 | 72 |
| Eased somewhat | 1 | 6 | 4 | 14 |
| Eased considerably | 0 | 0 | 0 | 0 |
| Total | 100 | 100 | 100 | 100 |
| Net percentage ¹⁾ | 14 | 13 | 12 | -1 |
| Number of banks responding | 80 | 80 | 78 | 78 |

1) See footnote to Table A.

Table D: Changes in demand for loans to households over the past three months

(percentages)

| | Loans for house purchase | | Consumer credit and other lending | |
|-------------------------------------|--------------------------|-----------|-----------------------------------|-----------|
| | July | October | July | October |
| Decreased considerably | 0 | 0 | 1 | 1 |
| Decreased somewhat | 14 | 7 | 18 | 22 |
| Remained basically unchanged | 44 | 56 | 58 | 61 |
| Increased somewhat | 30 | 28 | 21 | 14 |
| Increased considerably | 12 | 10 | 2 | 2 |
| Total | 100 | 100 | 100 | 100 |
| Net percentage ¹⁾ | 29 | 31 | 5 | -7 |
| Number of banks responding | 80 | 80 | 78 | 78 |

1) See footnote to Table B.