

Box 1

THE RESULTS OF THE JULY 2004 BANK LENDING SURVEY FOR THE EURO AREA

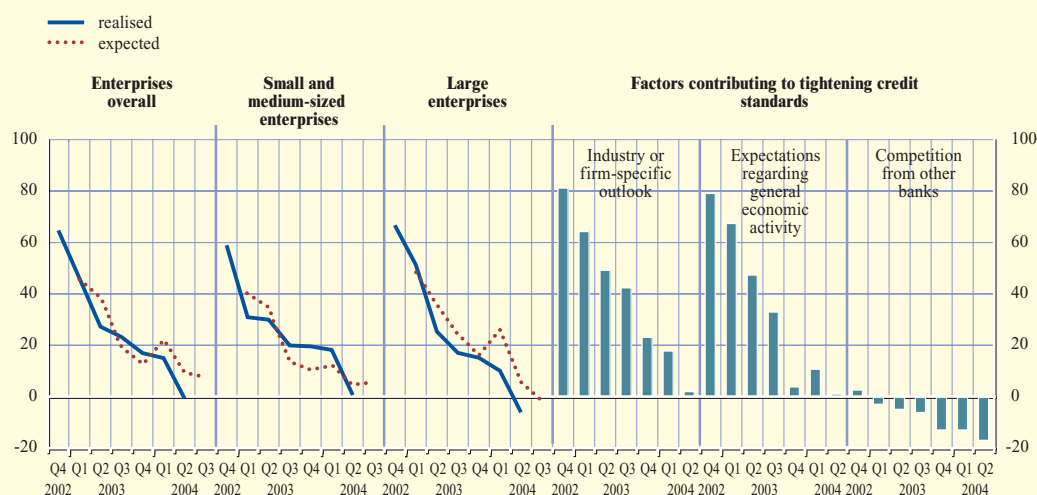
This box describes the main results of the July 2004 bank lending survey for the euro area conducted by the Eurosystem.¹ The survey shows that the net percentage² of banks tightening credit standards for loans and credit lines to enterprises and housing loans to households declined significantly in the second quarter of 2004, resulting, for the first time since the bank lending survey began in January 2003, in a slight net easing in such credit standards. Overall, the results of the survey point to a general improvement in bank financing conditions at a time of an economic upswing.

1 A comprehensive assessment of the results of the July 2004 euro area bank lending survey was released on 12 August 2004 and can be found on the ECB's website (www.ecb.int/stats/money/html/index.en.html).

2 The net percentage refers to the difference ("net percentage") between the share of banks reporting that credit standards have been tightened and those reporting that they have eased. A positive net percentage would indicate that banks have tended to tighten credit standards ("net tightening") whereas a negative net percentage would indicate 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: 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 defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2004 were reported by banks in the July 2004 survey. The euro area results are the aggregation of the national outcomes weighted by the share of the total amounts outstanding of national lending in the total amount outstanding of euro area lending to euro area residents.

Loans or credit lines to enterprises

Credit standards. For the second quarter of 2004, banks reported a slight net easing in credit standards for loans or credit lines to enterprises after a net tightening was witnessed in the first quarter. This continues a downward trend in the net percentage for credit standards for loans or credit lines to enterprises (see Chart A, first panel). It is the first time since the bank lending survey began in January 2003 that a net easing in credit standards has been reported. Conditions remained slightly tighter for loans to small and medium-sized enterprises than for loans to large enterprises.

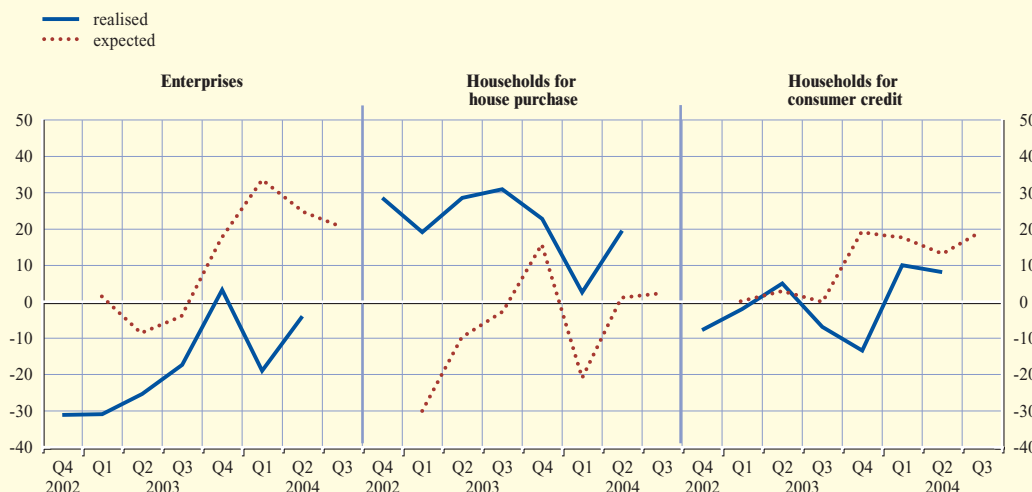
Among the factors explaining changes in credit standards, an improvement in the risk perceptions related to the industry or firm-specific outlook and general economic activity, as well as in the costs related to banks’ capital, contributed positively to the shift from a net tightening to a slight net easing (see Chart A). At the same time, competition from other banks continued to work in favour of easing credit standards. As regards the terms and conditions of credit, there was a significant decline in the net percentage of banks tightening credit standards through collateral requirements and loan covenants, resulting in a net easing in such standards for the latter.

Loan demand. There was a significant increase in net demand³ for loans to enterprises in the second quarter of 2004 (see Chart B, first panel). The increase in net demand was more

³ The term “net demand” refers to the difference between the share of banks reporting an increase in loan demand and those reporting a decline.

Chart B Changes in the demand for loans or credit lines to enterprises and households

(net percentages)



Notes: The net percentage refers 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 are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2004 were reported by banks in the July 2004 survey. The euro area results are the aggregation of the national outcomes weighted by the share of the total amounts outstanding of national lending in the total amount outstanding of euro area lending to euro area residents.

pronounced for small and medium-sized enterprises, where net demand became positive, than for large enterprises. According to reporting banks, a major factor contributing negatively to net demand is the increased use of internal financing by enterprises (meaning that less external financing is needed).

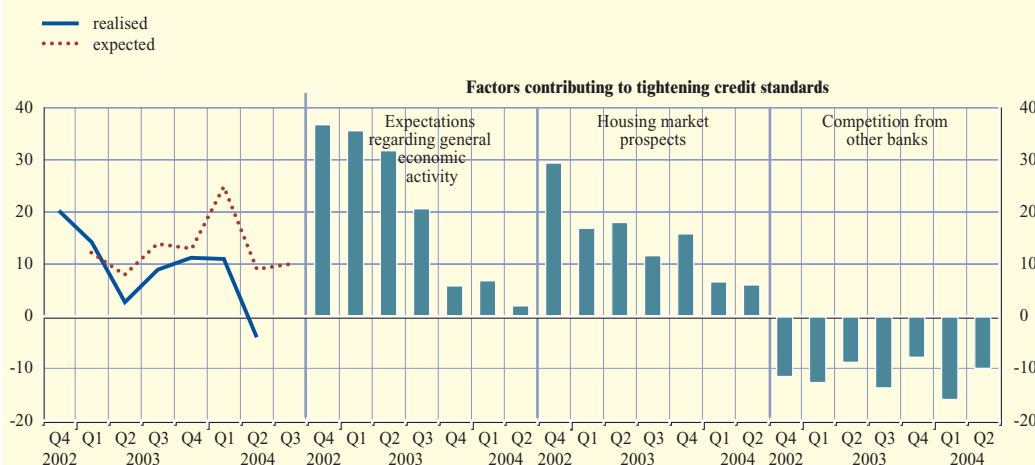
Expectations. For the third quarter of 2004, banks expected a slight net tightening for loans or credit lines to enterprises, compared with the slight net easing seen in the previous quarter (see Chart A, first panel). At the same time, banks expected a substantially higher net demand for corporate loans in the third quarter than had been reported for the second quarter (see Chart B, first panel).

Loans to households for house purchase

Credit standards. Banks reported a shift from net tightening in the first quarter of 2004 to a small net easing in credit standards applied to the approval of loans for house purchase in the second quarter of 2004. This is the first time since the bank lending survey began in January 2003 that a net easing in credit standards for housing loans to households has been reported (see Chart C, first panel). The net easing partly reflected lower perceptions of risk regarding general economic activity (see Chart C, second panel). Banks’ assessment of housing market prospects remained largely unchanged. As regards the terms and conditions of housing loans to households, banks eased credit standards mainly through lower margins on average loans and less stringent collateral requirements.

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

(net percentages)



Notes: 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 defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2004 were reported by banks in the July 2004 survey. The euro area results are the aggregation of the national outcomes weighted by the share of the total amounts outstanding of national lending in the total amount outstanding of euro area lending to euro area residents.

Loan demand. In the second quarter of 2004, net demand for loans for house purchase increased substantially (see Chart B, second panel). A slight increase in net demand for non-housing-related expenditure, households’ assessment of housing market prospects as well as the low level of interest rates continued to support the demand for housing loans.

Expectations. For the third quarter, respondent banks expected a slight net tightening as compared with the slight net easing reported in the previous quarter (see Chart C, first panel). Banks also expected lower net demand for housing loans in the third quarter (see Chart B, second panel).

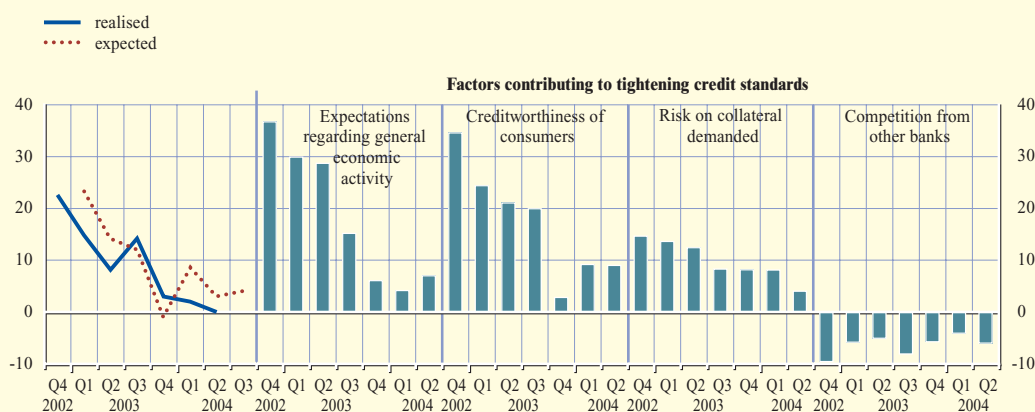
Loans to households for consumer credit and other lending

Credit standards. In the second quarter of 2004 credit standards for loans to households for consumer credit remained broadly unchanged, with the net tightening close to zero (see Chart D, first panel). Underlying this were broadly unchanged net percentages for banks’ expectations regarding the general economic activity and creditworthiness of consumers. As regards terms and conditions, banks eased credit conditions through margins on average loans and collateral requirements. However, banks also reported net tightening through wider margins on riskier loans.

Loan demand. Net demand for consumer credit and other lending to households remained slightly positive in the second quarter and was broadly unchanged from the previous quarter

Chart D Changes in credit standards applied to the approval of loans to households for consumer credit and other lending

(net percentages)



Notes: 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 defined as the difference between the percentage of banks reporting that the given factor contributed to tightening and to easing. “Realised” values refer to the period in which the survey was conducted. “Expected” values are the net percentages calculated from the responses given by the banks in the previous survey. For instance, “expected” values for the third quarter of 2004 were reported by banks in the July 2004 survey. The euro area results are the aggregation of the national outcomes weighted by the share of the total amounts outstanding of national lending in the total amount outstanding of euro area lending to euro area residents.

(see Chart B, third panel). The main factor contributing positively to net loan demand was spending on durable consumer goods, which increased significantly.

Expectations. For the third quarter of 2004 broadly unchanged credit standards for loans to households for consumer credit were expected (see Chart D, first panel). The reporting banks also expected a slight increase in net demand for consumer credit over the next quarter (see Chart B, third panel).