

Box 2

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

This box describes the main results of the October 2004 bank lending survey for the euro area carried out by the Eurosystem.¹ Overall, the survey showed a further slight relaxation in credit standards for enterprises and households in the third quarter of 2004, as compared with the second quarter. In the fourth quarter of 2004, most credit standards are expected to remain broadly unchanged from the previous quarter.

Loans or credit lines to enterprises

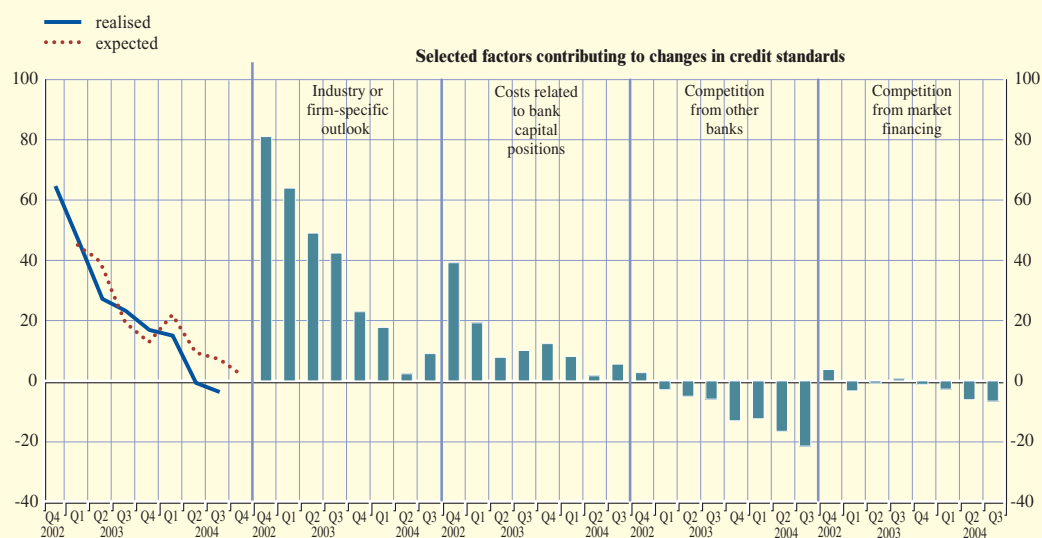
Credit standards: For the third quarter of 2004, banks reported a further slight net easing of credit standards. This continued a downward movement in the net percentage² of credit standards for loans or credit lines to enterprises (see Chart A, first panel). The factors contributing to the further net easing of credit standards included increased competition both from other banks and, to a lesser extent, from market financing sources (see Chart A, fourth and

1 A comprehensive assessment of the results of the October 2004 bank lending survey for the euro area can be found on the ECB's website (www.ecb.int/stats/money/lend/html/index.en.html).

2 The "net percentage" refers to the difference between the proportion of banks reporting that credit standards have been tightened and that of 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 fourth quarter of 2004 were reported by banks in the October 2004 survey.

fifth panels). By contrast, more negative perceptions regarding the industry or firm-specific outlook as well as a slight increase in the cost relating to banks’ capital positions contributed slightly towards tighter credit standards (see Chart A, second and third panels). Regarding the terms and conditions of credit, the slight easing of credit standards was effected mainly through the size and maturity conditions of loans as well as through a decline in margins.

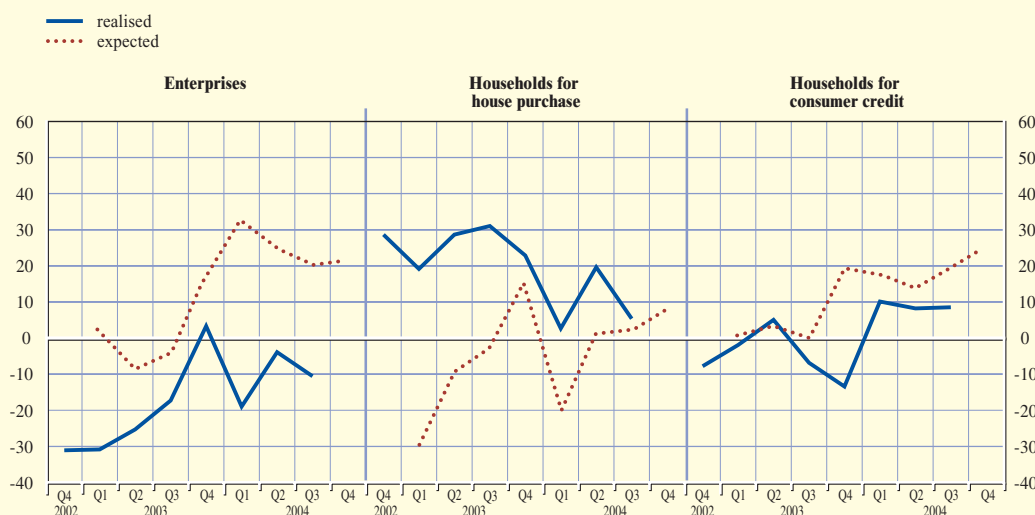
Loan demand: There was a slight decline in net demand³ for loans to enterprises between the second and third quarters of 2004 (see Chart B, first panel), so that enterprises’ net demand for loans was negative and below banks’ expectations for the third successive quarter. In terms of the size of the borrower, this decline affected both loans to small and medium-sized enterprises and loans to large enterprises. The major factors contributing to the decline in net demand were, according to banks, weak fixed investment, as well as the increased use of non-bank sources of external financing (such as corporate bonds or trade credit) and the enhanced availability of internal finance by enterprises (i.e. lower external financing needs).

Expectations: For the fourth quarter of 2004, banks expect broadly unchanged credit standards for loans or credit lines to enterprises as compared with the previous quarter (see Chart A, first panel). At the same time, banks expect a substantially higher net demand for corporate loans than in the previous quarter (see Chart B, first panel). This increase in net demand for loans is predicted to be stronger in the case of small and medium-sized enterprises than in that of large enterprises.

³ The term “net demand” refers to the difference between the proportion of banks reporting an increase in loan demand and that of 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 fourth quarter of 2004 were reported by banks in the October 2004 survey.

Loans to households for house purchase

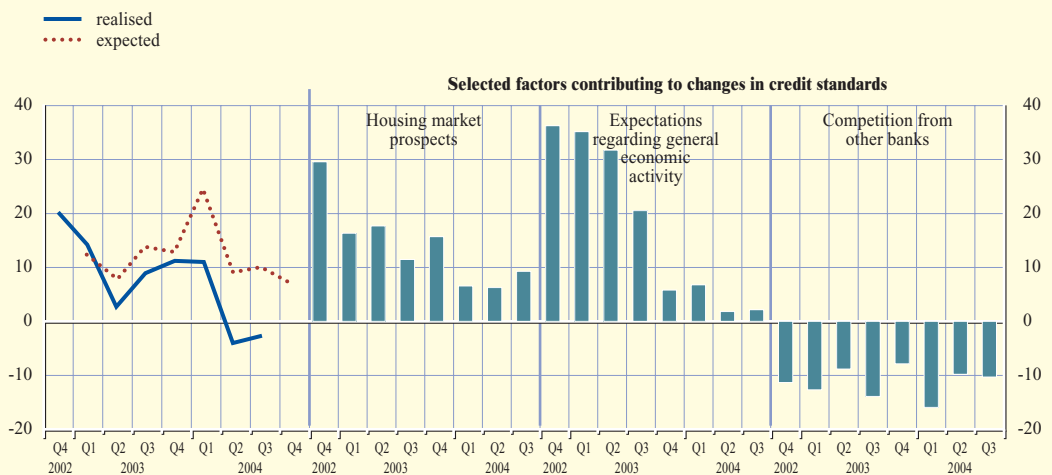
Credit standards: Between the second and third quarters of 2004, there continued to be a slight net easing in credit standards applied to the approval of loans to households for house purchase (see Chart C, first panel). The contribution to credit standards from competition among banks (see Chart C, fourth panel) and expectations of general economic activity (see Chart C, third panel) were regarded by banks as broadly unchanged. At the same time, banks reported that housing market prospects contributed somewhat more than in the second quarter to slightly tighter standards (see Chart C, second panel). As regards the terms and conditions of credit, the net percentage of banks that tightened their credit standards by widening their margins on riskier loans increased slightly from the previous quarter. By contrast, there was an increase in the net percentage of banks that eased the conditions on housing loans to households via the maturity of loans.

Loan demand: The net demand for housing loans to households declined considerably between the second and third quarters of 2004 (see Chart B, second panel). The main factors that were mentioned as contributing to this decline were consumer confidence, non-housing-related expenditure and housing market prospects.

Expectations: For the fourth quarter of 2004, respondent banks expect a net tightening in the credit conditions for housing loans to households compared with the net easing recorded in the third quarter (see Chart C, first panel). Banks also expect the net demand for housing loans to households to increase slightly over the next three months, as compared with the previous quarter (see Chart B, second panel).

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 fourth quarter of 2004 were reported by banks in the October 2004 survey.

Loans to households for consumer credit and other lending

Credit standards on loans to households for consumer credit shifted from a slight net tightening in the second quarter of 2004 to a net easing in the third quarter (see Chart D, first panel). This is the first time since the first bank lending survey of January 2003 that a net easing of credit standards for consumer credit and other lending to households has been reported. Better expectations regarding general economic activity as well as increased competition from other banks were the main factors contributing to a net easing of credit standards in the third quarter of 2004 (see Chart D, fourth and fifth panels). There was also a more positive assessment from reporting banks regarding the creditworthiness of consumers.

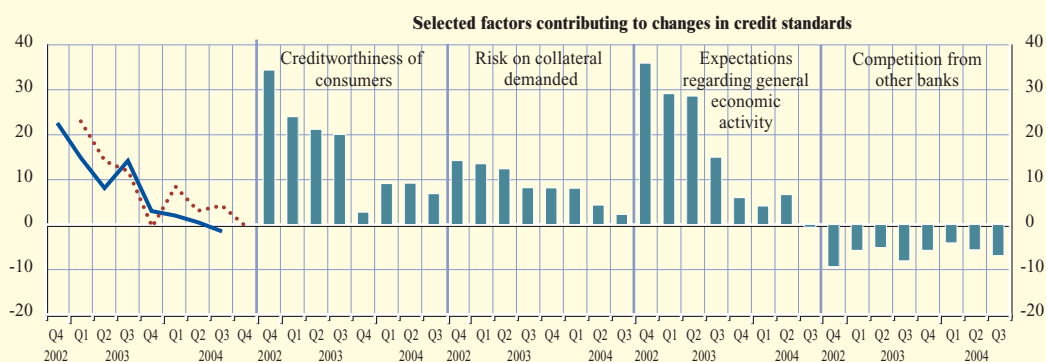
Loan demand: Net demand for consumer credit and other lending to households remained broadly unchanged from the two preceding quarters (see Chart B, third panel). Banks reported that consumer confidence and net spending on durable consumer goods contributed negatively to net demand for consumer credit.

Expectations: For the fourth quarter of 2004, banks expect credit standards similar to those in the previous quarter (see Chart D, first panel). The reporting banks also predict a significant increase in net demand for consumer credit over the next three months (see Chart B, third panel).

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

(net percentages)

— realised
..... expected



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 fourth quarter of 2004 were reported by banks in the October 2004 survey.