

Box 1

THE RESULTS OF THE JANUARY 2005 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the January 2005 bank lending survey for the euro area carried out by the Eurosystem.¹ Overall, the survey showed a further slight relaxation of credit standards as applied to loans to enterprises and households in the fourth quarter of 2004. Thus, the results indicate a consolidation of past improvements in lending policies of banks located in the euro area. For the first quarter of 2005, reporting banks expect most credit standards to remain broadly unchanged from the previous quarter.

Loans or credit lines to enterprises

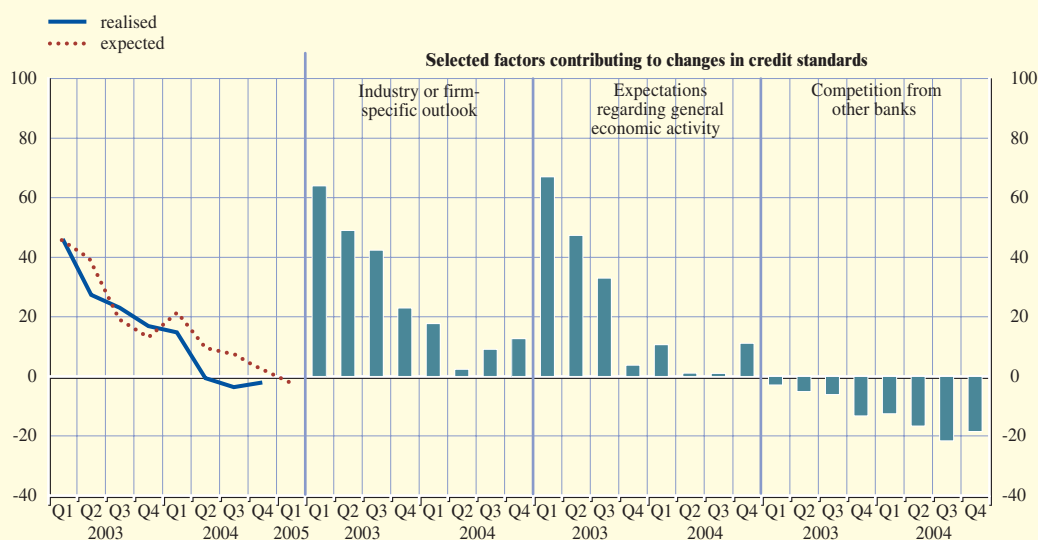
Credit standards: For the fourth quarter of 2004, banks reported a further slight net easing of credit standards,² indicating a continuation of the relatively favourable lending policies of banks in the euro area. This is in line with the gradual relaxation of credit standards for loans or

1 A comprehensive assessment of the results of the January 2005 bank lending survey for the euro area was released on 4 February 2005 and can be found on the ECB's website (www.ecb.int/stats/money/lend/html/index.en.html).

2 The "net easing" refers to the net percentage which is defined as 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 first quarter of 2005 were reported by banks in the January 2005 survey.

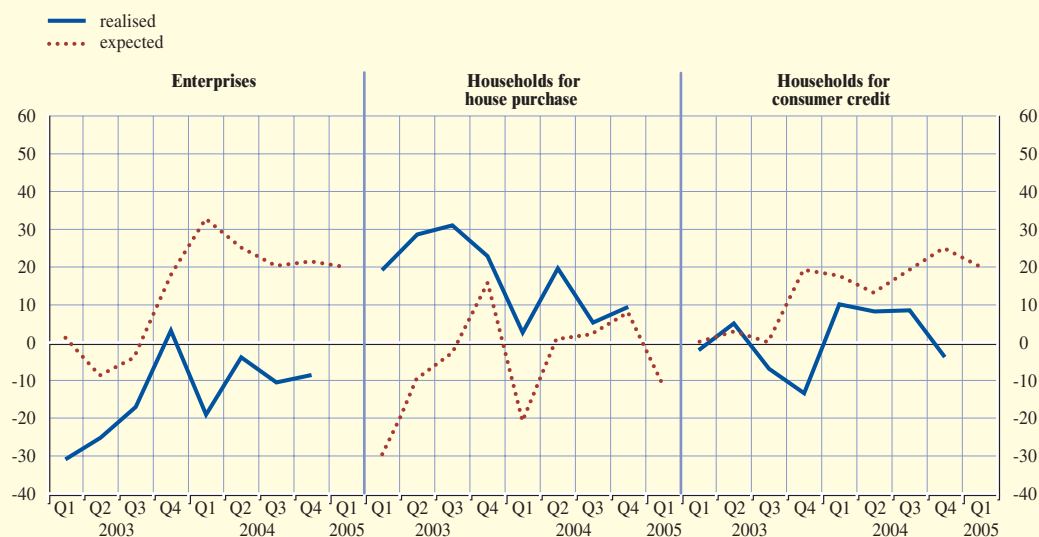
credit lines to enterprises that has been observed since the start of the survey in January 2003 (see Chart A, first panel). Among the factors explaining changes in credit standards, increased competition from other banks was the main factor that contributed to the easing of credit standards (see Chart A, fourth panel). By contrast, banks were more negative in their perceptions regarding the industry or firm-specific outlook and their expectations regarding general economic activity, which both weighed slightly more towards a net tightening of credit standards than in the previous quarter (see Chart A, second and third panels). Regarding the terms and conditions of credit, the slight easing of credit standards was effected mainly through a decline in margins on loans. In terms of borrower size, banks shifted to a net easing of credit standards for small and medium-sized enterprises, from a net tightening in the previous quarter, whereas lending policies continued to be slightly tighter for large enterprises.

Loan demand: Net demand³ for loans by enterprises continued to decline slightly in the fourth quarter of 2004 (see Chart B, first panel). This was due to a decline in the demand for loans by large enterprises, whereas in fact loan demand by small and medium-sized enterprises increased in the January 2005 survey. The major factors contributing to the overall decline in net demand were, according to reporting banks, weak fixed investment, as well as the increased use of alternative sources of corporate financing.

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 first quarter of 2005 were reported by banks in the January 2005 survey.

Expectations: For the first quarter of 2005, banks generally 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 demand is predicted to be more pronounced for small and medium-sized enterprises than for large enterprises.

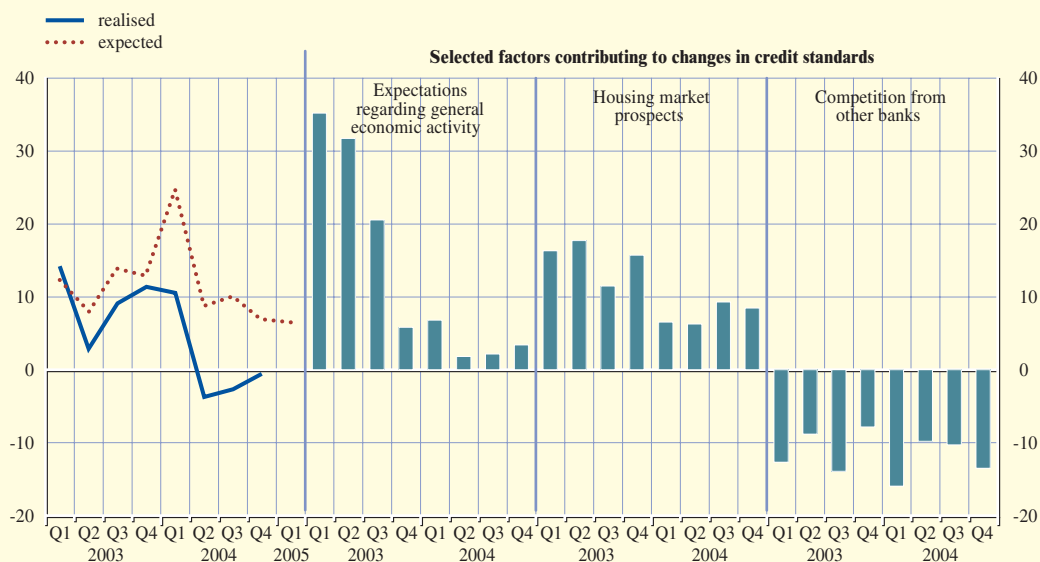
Loans to households for house purchase

Credit standards: Banks continued to report a slight net easing of credit standards applied to the approval of loans to households for house purchase for the fourth quarter of 2004 (see Chart C, first panel). The factors behind this development changed only little from the previous quarter. The net easing partly reflected a slight increase in competition from other banks (see Chart C, fourth panel), while expectations of general economic activity contributed slightly more to a net tightening (see Chart C, second panel). At the same time, banks reported that housing market prospects continued to contribute somewhat less to a net tightening (see Chart C, third panel). As regards the terms and conditions of credit, banks reported that the slight net easing of credit standards applied to housing loans was achieved predominantly via lower margins on average loans. Compared with the previous quarter, margins on riskier loans contributed less to a net tightening of credit standards in the fourth quarter of 2004.

Loan demand: According to reporting banks, the net demand for housing loans increased in the fourth quarter of 2004 (see Chart B, second panel). The main factor that was mentioned as

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 first quarter of 2005 were reported by banks in the January 2005 survey.

contributing to this increase was an improvement in housing market prospects, as perceived by those taking out housing loans.

Expectations: For the first quarter of 2005, reporting banks expect a net tightening of credit standards for housing loans, compared with the slight net easing in the fourth quarter (see Chart C, first panel). Banks also expect the net demand for housing loans to decrease over the next three months, as compared with the previous quarter (see Chart B, second panel).

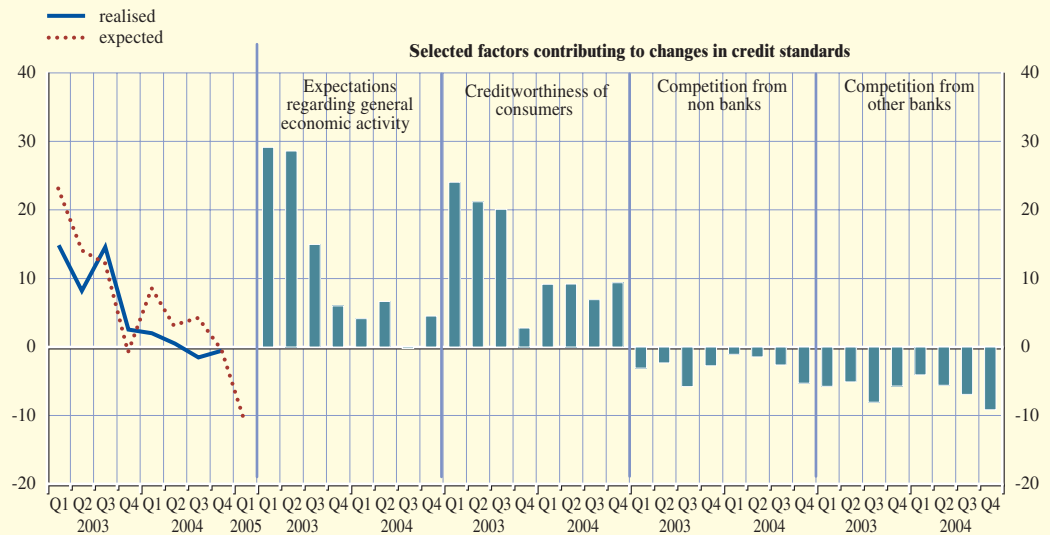
Loans to households for consumer credit and other lending

Credit standards: For loans to households for consumer credit, credit standards showed a further slight net easing in the fourth quarter of 2004 (see Chart D, first panel). Increased competition from non-banks and other banks were the main factors contributing to this development during the fourth quarter of 2004 (see Chart D, fourth and fifth panels). At the same time, banks reported that expectations regarding general economic activity and the creditworthiness of consumers contributed slightly more to a net tightening of their lending policies (see Chart D, second and third panels). Banks modified their terms and conditions of consumer credit mainly through changes in margins on average loans.

Loan demand: According to responding banks, net demand for consumer credit and other lending to households declined significantly in the fourth quarter of 2004, and turned negative (see Chart B, third panel). Banks reported that weaker consumer confidence and improved household savings were mainly responsible for this development.

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 first quarter of 2005 were reported by banks in the January 2005 survey.

Expectations: For the first quarter of 2005, banks expect a net easing of credit standards compared with the previous quarter (see Chart D, first panel). Reporting banks also predict a significant increase in net demand for consumer credit over the next three months (see Chart B, third panel).