

## Box 2

## THE RESULTS OF THE APRIL 2005 BANK LENDING SURVEY FOR THE EURO AREA

This box describes the main results of the bank lending survey for the euro area carried out by the Eurosystem in April 2005.<sup>1</sup> Overall, the survey showed a significant further relaxation of credit standards as applied to loans to enterprises and households in the first quarter of 2005. Thus, the results indicated a consolidation of past trends in the lending policies of banks located in the euro area. For the second quarter of 2005, reporting banks expected corporate credit standards to remain broadly unchanged, while they anticipated an easing of standards for loans to households.

**Loans or credit lines to enterprises**

**Credit standards:** For the first quarter of 2005, banks reported a further net easing<sup>2</sup> of credit standards for loans or credit lines to enterprises. That net easing was significantly more

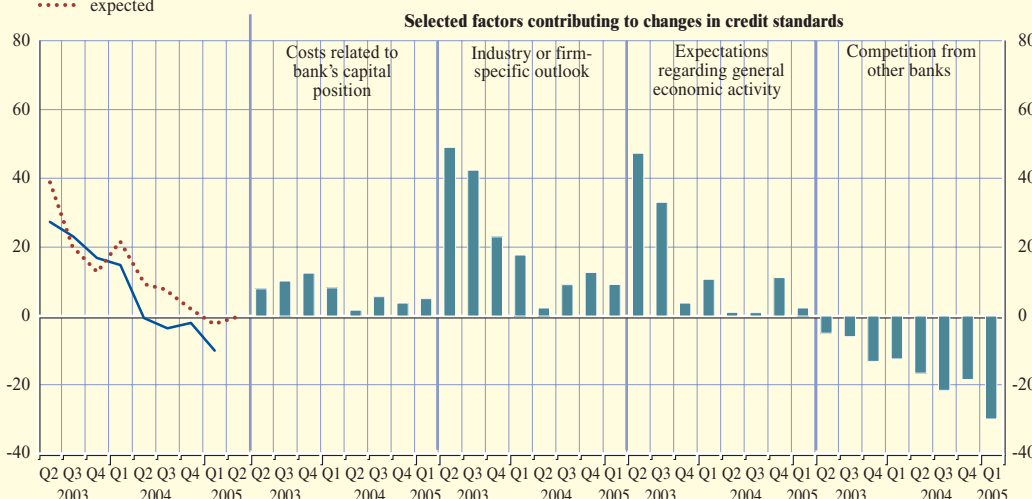
1 A comprehensive assessment of the results of the April 2005 bank lending survey for the euro area was released on 6 May 2005 and can be found on the ECB's website ([www.ecb.int/stats/money/lend/html/index.en.html](http://www.ecb.int/stats/money/lend/html/index.en.html)).

2 The term "net easing" reflects the fact that the proportion of banks reporting that credit standards have been eased is greater than the proportion of banks reporting that they have tightened.

**Chart A Changes in credit standards applied to the approval of loans or credit lines to enterprises**

(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 the percentage reporting that it contributed 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 second quarter of 2005 were reported by banks in the April 2005 survey.

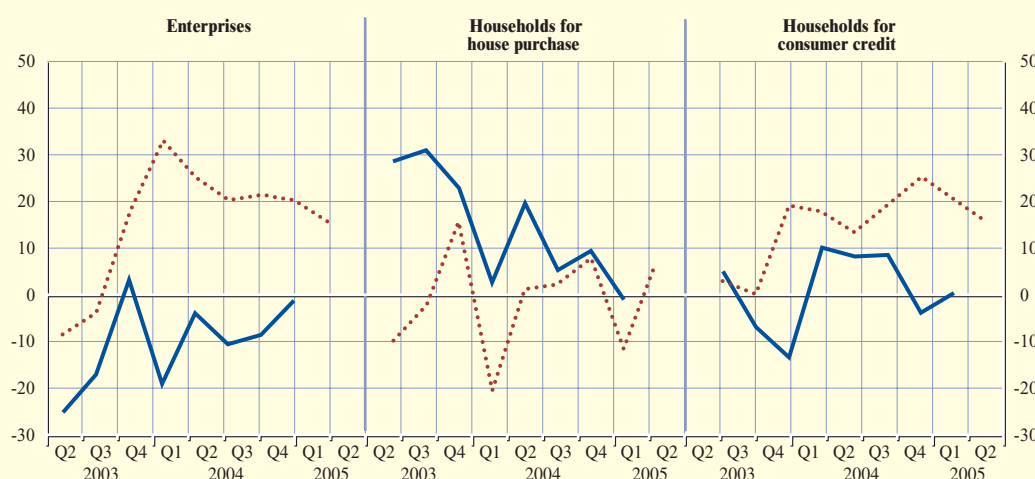
pronounced than had been reported in the previous quarter (-10%, compared with -2%). This was the fourth consecutive quarter that a net easing of credit standards had been recorded, thereby continuing the downward trend registered since the launch of the bank lending survey (see Chart A, first panel). Among the factors explaining changes in credit standards, competition from other banks contributed most to the looser credit standards (see Chart A, fifth panel). At the same time, risk perceptions regarding general economic activity – despite continuing to act as a countervailing factor – decreased to very low levels. As regards the terms and conditions of credit, the further easing of credit standards was effected mainly through a strong decline in margins on average loans and, for the first time since the launch of the survey, through reductions in non-interest rate charges. In terms of the borrower’s size, banks reported a net easing of credit standards for small and medium-sized enterprises, as well as for large enterprises.

**Loan demand:** Net demand<sup>3</sup> for loans to enterprises improved slightly, but remained negative in the first quarter of 2005 (see Chart B, first panel). This development mainly reflected an increase in net demand for loans on the part of small and medium-sized enterprises, and this was the second consecutive quarter that banks had reported such an increase. The major factors contributing to the continued negative net demand were, according to reporting banks, the fact that fixed investment remained weak, the use of alternative sources of corporate financing (primarily internal finance related to improved profitability) and increased competition from other banks. However, banks reported an increase in firms’ financing needs for inventories,

<sup>3</sup> The term “net demand” refers to the difference between the proportion of banks reporting an increase in loan demand and the proportion of banks reporting a decline.

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

(net percentages)

— realised  
... expected

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 second quarter of 2005 were reported by banks in the April 2005 survey.

working capital and merger and acquisition activity as being an important factor behind the relative improvement in corporate loan demand in the first three months of 2005.

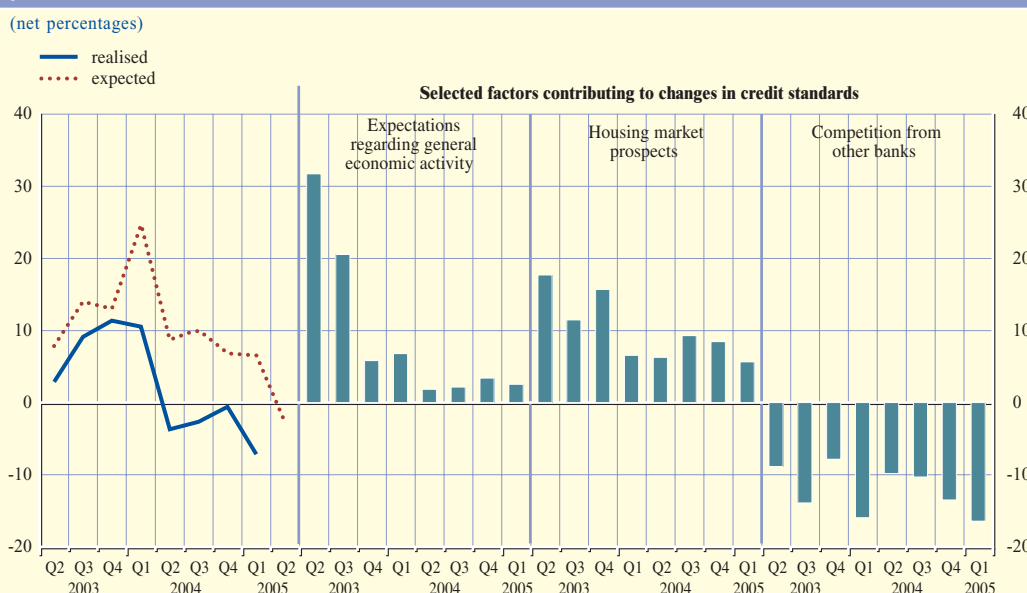
**Expectations:** Overall, for the second quarter of 2005, banks expected broadly unchanged corporate credit standards (see Chart A, first panel). At the same time, banks expected a substantial increase in net demand for corporate loans (see Chart B, first panel). This anticipated positive net demand was expected to be more pronounced for small and medium-sized enterprises than for large enterprises.

### Loans to households for house purchase

**Credit standards:** Banks reported a slight net easing of credit standards applied to the approval of loans to households for house purchase in the first quarter of 2005 (see Chart C, first panel). This net easing partly reflected a further increase in competition from other banks (see Chart C, fourth panel), while the banks’ perceptions of risks in terms of expectations regarding general economic activity and housing market prospects contributed somewhat less to a net tightening in the first quarter of 2005 than in previous quarters (see Chart C, second and third panels). As regards the terms and conditions of credit, banks reported that the net easing of credit standards applied to housing loans was achieved predominantly by a substantial narrowing of margins on average loans and, to a lesser extent, by a lengthening of the maturity of new loans.

**Loan demand:** Net demand for housing loans decreased in the first quarter of 2005 and, for the first time since the launch of the bank lending survey, became negative (see Chart B, second

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



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 the percentage reporting that it contributed 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 second quarter of 2005 were reported by banks in the April 2005 survey.

panel). The main factors behind this development were a fall in consumer confidence and an increase in non-housing-related consumption expenditure.

**Expectations:** For the second quarter of 2005, respondent banks predicted a slight net easing of credit standards for housing loans (see Chart C, first panel). This was the first time that banks expected a net easing of credit standards, as credit conditions tended to be looser than predicted. Banks also expected net demand for housing loans to recover and become positive again in the second quarter of 2005 (see Chart B, second panel).

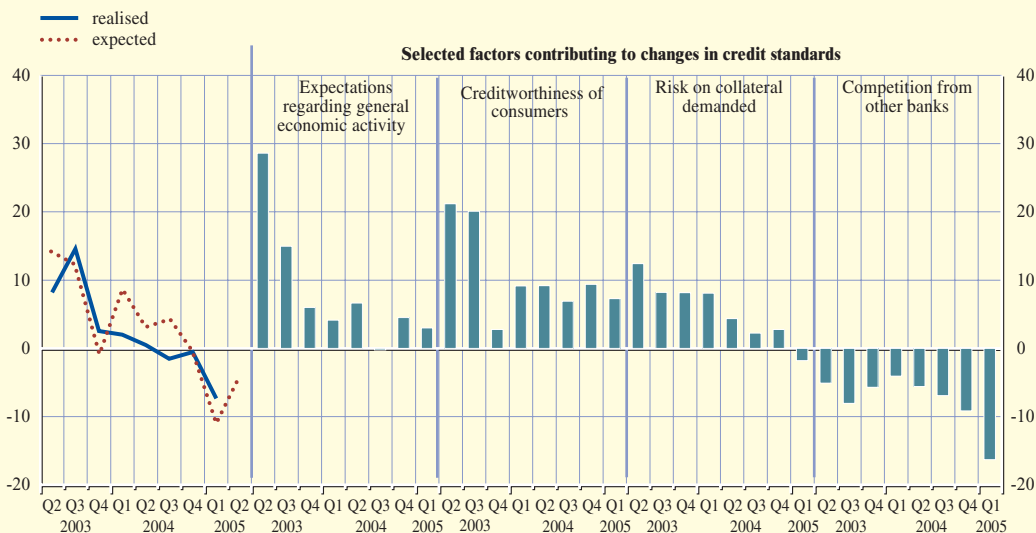
#### Loans to households for consumer credit and other lending

**Credit standards:** For loans to households for consumption purposes, credit standards showed a further net easing in the first quarter of 2005 (see Chart D, first panel). A strong increase in competition from non-banks and other banks was the main factor contributing to this development (see Chart D, fifth panel). Significant perceived risks regarding the creditworthiness of consumers and concerns regarding general economic activity continued to act as countervailing factors, though to a lesser extent than in the previous quarter (see Chart D, second and third panels). Banks eased the terms and conditions of consumer credit mainly through lower margins on average loans.

**Loan demand:** According to responding banks, net demand for consumer credit and other lending to households remained broadly unchanged in the first quarter of 2005 (see Chart B, third panel). This may reflect opposing factors. On the one hand, net demand in the first three

**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 the percentage reporting that it contributed 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 second quarter of 2005 were reported by banks in the April 2005 survey.

months of 2005 was depressed in particular by a worsening of consumer confidence. On the other hand, however, banks reported that reduced household savings contributed to an overall net increase in demand for such loans in the first quarter of 2005.

**Expectations:** For the second quarter of 2005, banks expected a net easing of credit standards (see Chart D, first panel) and an increase in net demand for consumer credit (see Chart B, third panel).