

Box 1

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

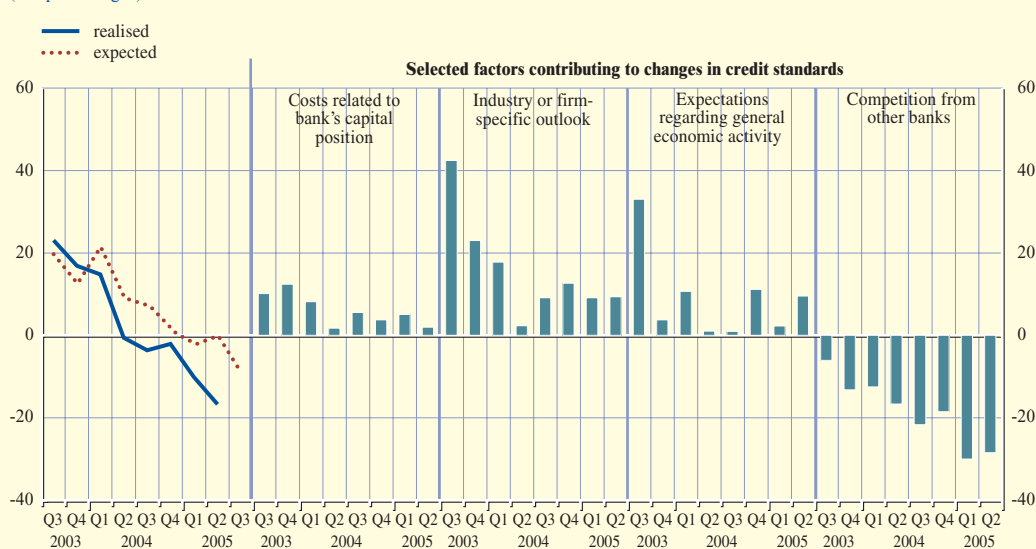
This box describes the main results of the July 2005 bank lending survey for the euro area carried out by the Eurosystem.¹ The results showed a stronger net easing² of credit standards for loans to enterprises in the second quarter of 2005 as compared with the previous quarter. At the same time, however, banks slightly tightened the credit standards applied to loans to households for housing loans, while the degree of net easing of credit standards for consumer credit and other loans to households declined. Nevertheless, for the third quarter of 2005, reporting banks expected a net easing of credit standards applied to both corporate and household loans.

1 A comprehensive assessment of the results of the July 2005 bank lending survey for the euro area was released on 5 August 2005 and 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 the proportion of banks 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 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 third quarter of 2005 were reported by banks in the July 2005 survey.

Loans or credit lines to enterprises

Credit standards: For the second quarter of 2005, banks reported a stronger net easing of credit standards for loans or credit lines to enterprises. This net easing was more pronounced than had been reported in the previous quarter (-17%, compared with -10%). This was the fifth consecutive quarter in which a net easing of credit standards was recorded and was in line with the downward trend recorded 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 the most to the looser credit standards (see Chart A, fifth panel). At the same time, but acting as a countervailing factor, risk perceptions regarding general economic activity contributed more strongly to tighter credit standards than in the previous quarter (see Chart A, fourth panel). 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, followed by a lengthening of loan maturity. In terms of the borrower’s size, banks reported a net easing of credit standards for small and medium-sized enterprises, as well as a significant increase in the net easing of credit standards for large enterprises.

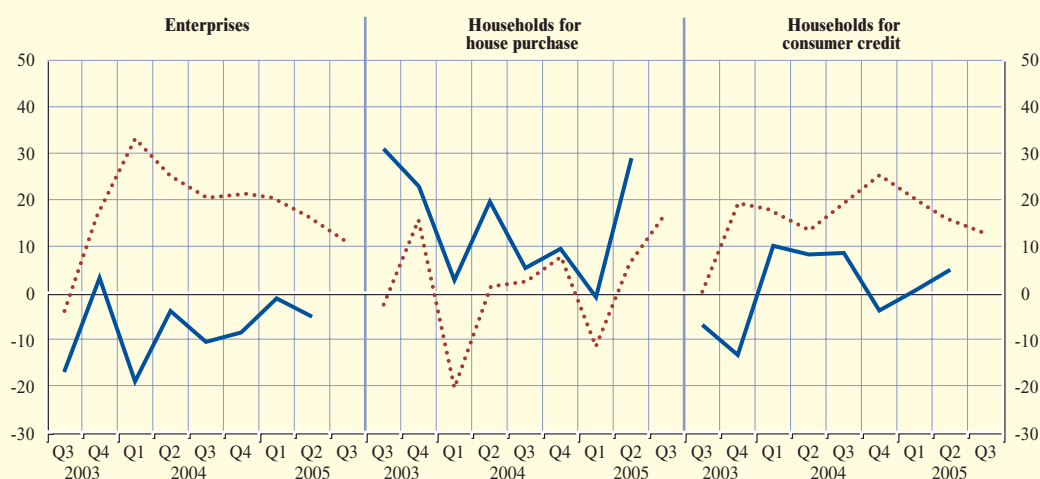
Loan demand: Net demand³ for loans to enterprises remained in negative territory and declined slightly compared with the previous quarter (to -5%, from -1%; see Chart B, first panel). This result was heavily influenced by developments in one country. The decline in net

³ 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 third quarter of 2005 were reported by banks in the July 2005 survey.

demand affected loans to both small and medium-sized enterprises and large enterprises. 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 finance – in particular the availability of internal finance (related to improved profitability) by enterprises – and the use of loans from other banks. However, banks reported that debt restructuring, mergers and acquisitions and corporate restructuring activities were important countervailing factors contributing to a net increase in corporate loan demand in the second quarter of 2005.

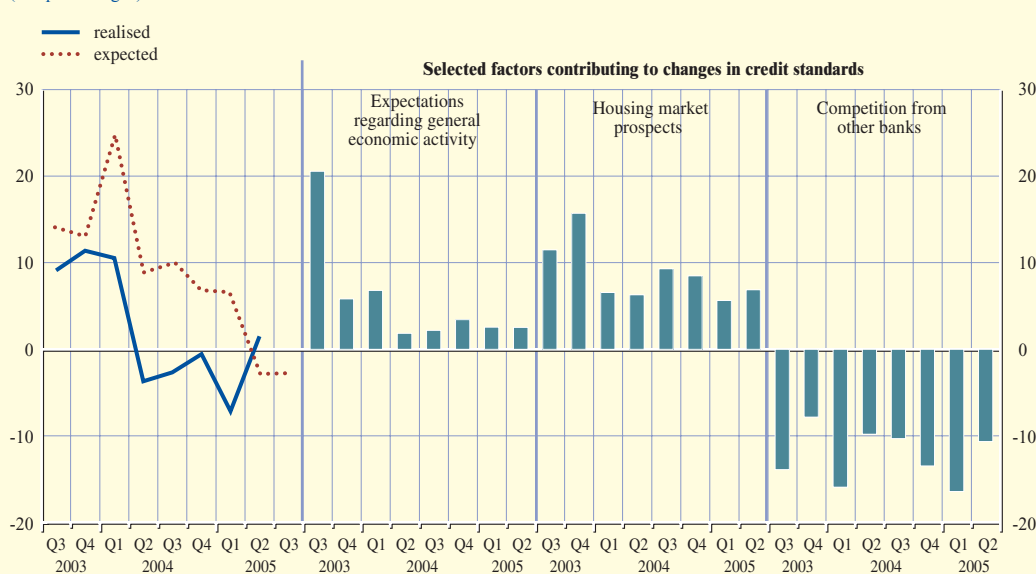
Expectations: Overall, for the third quarter of 2005, banks expected a stronger net easing of credit standards applied to the approval of loans or credit lines to enterprises (see Chart A, first panel). At the same time, banks expected an increase in net demand for corporate loans (see Chart B, first 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 tightening of credit standards applied to households for the approval of loans for house purchase in the second quarter of 2005 (2%, from -7% in the first quarter). This was the first time since the first quarter of 2004 that banks reported a net tightening of these credit standards (see Chart C, first panel). The slight net tightening reflected, in particular, banks’ growing perception of risk, particularly in terms of worsening housing market prospects (see Chart C, third panel), but also in terms of risk perceptions regarding general economic activity (see Chart C, second panel). At the same time,

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 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 third quarter of 2005 were reported by banks in the July 2005 survey.

competition from other banks continued to contribute to a net easing, although at a lower level than in the previous quarter (see Chart C, fourth panel). As regards the terms and conditions of credit, banks reported that the slight net tightening of credit standards applied to housing loans was achieved predominantly via more stringent collateral requirements and larger margins on riskier loans.

Loan demand: Net demand for housing loans to households increased strongly in the second quarter of 2005 (to 29%, from -1% in the previous quarter) (see Chart B, second panel). The main factor underpinning this development was a more positive contribution from housing market prospects of households.

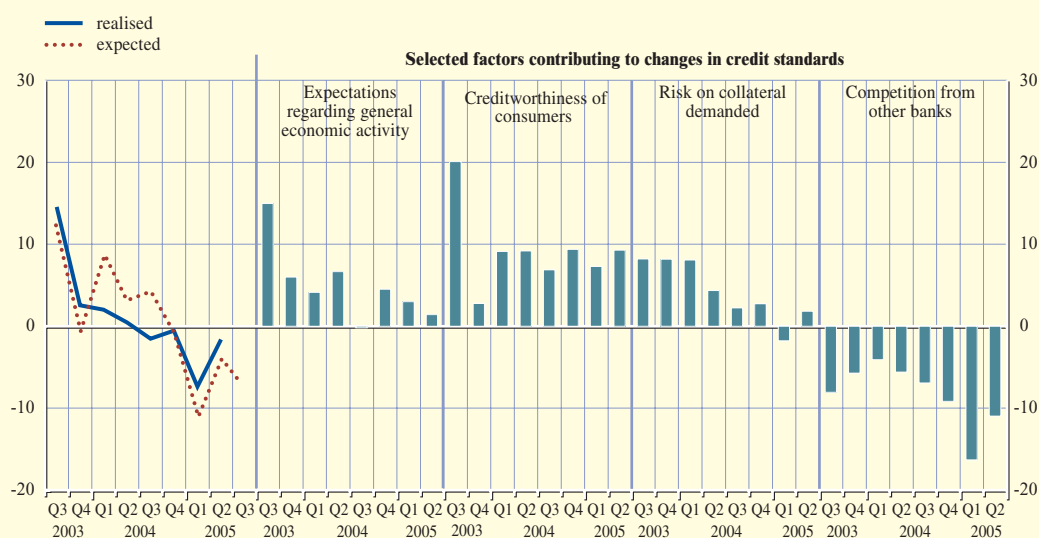
Expectations: For the third quarter of 2005, respondent banks predicted a slight net easing of credit standards for housing loans (see Chart C, first panel). This was only the second time that banks had expected a net easing of credit standards, as credit conditions have tended to be looser than banks have predicted. Banks continued to expect that net demand for housing loans would increase again in the third quarter of 2005 (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 slightly lower net easing in the second quarter of 2005 (to -2%, from -7% in the first quarter) (see Chart D, first panel). The main factor contributing to this net easing was increased

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 third quarter of 2005 were reported by banks in the July 2005 survey.

competition from other banks (see Chart D, fifth panel). Expectations regarding general economic activity were perceived as somewhat less negative than in the previous quarter, but continued to contribute slightly to a net tightening of credit standards (see Chart D, second panel). Other countervailing factors to the slight net easing were increases in the perception of risks stemming from lower creditworthiness on the part of consumers and of risks on collateral demanded (see Chart D, third and fourth panels). Banks modified the terms and conditions of consumer credit primarily through lower margins on average loans.

Loan demand: According to responding banks, net demand for consumer credit and other lending to households increased slightly in the second quarter of 2005 (see Chart B, third panel). The main factor contributing to this development was increased spending on durable consumer goods.

Expectations: For the third 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 and other lending to households (see Chart B, third panel).